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

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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

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

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

Class	August 3, 2012
Common Stock, $0.01 Par Value	94,035,513 Shares

BankUnited, Inc.

Form 10-Q

For the Quarter Ended June 30, 2012

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PART I — FINANCIAL INFORMATION
Item 1. Financial Statements

BANKUNITED, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS — UNAUDITED
(In thousands, except share and per share data)

	June 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks:		
Non-interest bearing	$ 41,691	$ 39,894
Interest bearing	22,038	13,160
Interest bearing deposits at Federal Reserve Bank	97,830	247,488
Federal funds sold	2,585	3,200
Cash and cash equivalents	164,144	303,742
Investment securities available for sale, at fair value (including covered securities of $227,028 and $232,194)	4,758,509	4,181,977
Non-marketable equity securities	154,376	147,055
Loans held for sale	2,970	3,952
Loans (including covered loans of $2,182,133 and $2,422,811)	5,078,698	4,137,058
Allowance for loan and lease losses	(55,635)	(48,402)
Loans, net	5,023,063	4,088,656
FDIC indemnification asset	1,711,526	2,049,151
Bank owned life insurance	205,842	204,077
Other real estate owned, covered by loss sharing agreements	93,724	123,737
Deferred tax asset, net	88,187	19,485
Goodwill and other intangible assets	70,142	68,667
Other assets	157,478	131,539
Total assets	$ 12,429,961	$ 11,322,038
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Demand deposits:		
Non-interest bearing	$ 1,134,689	$ 770,846
Interest bearing	518,883	453,666
Savings and money market	3,948,350	3,553,018
Time	2,624,692	2,587,184
Total deposits	8,226,614	7,364,714
Securities sold under repurchase agreements and short-term borrowings	42,581	206
Federal Home Loan Bank advances	2,226,978	2,236,131
Income taxes payable	82,061	53,171
Advance payments by borrowers for taxes and insurance	36,151	21,838
Other liabilities	123,325	110,698

Total liabilities	10,737,710	9,786,758
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.01 per share 400,000,000 shares authorized; 94,024,521 and 97,700,829 shares issued and outstanding	940	977
Preferred stock, 100,000,000 shares authorized 5,415,794 shares of Series A, $0.01 par value per share issued and outstanding at June 30, 2012	54	—
Paid-in capital	1,298,201	1,240,068
Retained earnings	340,470	276,216
Accumulated other comprehensive income	52,586	18,019
Total stockholders' equity	1,692,251	1,535,280
Total liabilities and stockholders' equity	$ 12,429,961	$ 11,322,038

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

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BANKUNITED, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS — UNAUDITED
(In thousands, except per share data)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Interest income:				
Loans	$ 142,621	$ 122,243	$ 278,918	$ 236,894
Investment securities available for sale	34,059	29,237	67,098	61,786
Other	1,235	617	2,189	1,623
Total interest income	177,915	152,097	348,205	300,303
Interest expense:				
Deposits	17,047	19,024	34,007	39,330
Borrowings	15,071	15,751	30,592	31,324
Total interest expense	32,118	34,775	64,599	70,654
Net interest income before provision for (recovery of) loan losses	145,797	117,322	283,606	229,649
Provision for (recovery of) loan losses (including $(1,484) $(6,443), $116 and $3,574 for covered loans)	2,725	(2,892)	11,492	8,564
Net interest income after provision for (recovery of) loan losses	143,072	120,214	272,114	221,085
Non-interest income:				
Accretion of discount on FDIC indemnification asset	4,294	14,873	11,081	34,443
Income from resolution of covered assets, net	14,803	3,076	22,085	2,366
Net gain (loss) on indemnification asset	(12,537)	11,312	(12,403)	37,634
FDIC reimbursement of costs of resolution of covered assets	3,333	8,241	9,849	18,741
Service charges and fees	3,229	2,648	6,345	5,332
Gain on sale of investment securities available for sale, net	880	100	896	103
Mortgage insurance income	2,649	6,784	6,339	8,085
Investment services income	1,091	2,110	2,223	4,515
Other non-interest income	3,924	3,714	11,649	5,901
Total non-interest income	21,666	52,858	58,064	117,120
Non-interest expense:				
Employee compensation and benefits	43,951	41,364	90,576	190,670
Occupancy and equipment	13,229	8,791	25,051	16,396
Impairment of other real estate owned	3,048	8,187	6,595	17,786
Foreclosure expense	3,892	6,057	6,611	10,527
(Gain) loss on sale of other real estate owned	(1,490)	12,264	(89)	24,474
Other real estate owned expense	1,161	2,589	3,437	6,932
Deposit insurance expense	1,946	2,329	3,096	6,518
Professional fees	3,953	3,507	7,602	6,736
Telecommunications and data processing	3,121	3,418	6,351	6,866
Other non-interest expense	10,220	7,383	17,919	13,323
Total non-interest expense	83,031	95,889	167,149	300,228
Income before income taxes	81,707	77,183	163,029	37,977
Provision for income taxes	32,778	33,188	63,828	61,642
Net income (loss)	48,929	43,995	99,201	(23,665)
Preferred stock dividends	921	—	1,841	—
Net income (loss) available to common stockholders	$ 48,008	$ 43,995	$ 97,360	$ (23,665)
Earnings (loss) per common share, basic and diluted (see Note 2)	$ 0.48	$ 0.44	$ 0.96	$ (0.25)
Cash dividends declared per common share	$ 0.17	$ 0.14	$ 0.34	$ 0.28

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 (LOSS) — UNAUDITED
(In thousands)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income (loss)	$ 48,929	$ 43,995	$ 99,201	$ (23,665)
Other comprehensive income (loss), net of tax:				
Unrealized gains on investment securities available for sale:				
Net unrealized holding gain arising during the period	10,243	8,547	34,858	8,057
Reclassification adjustment for net securities gains realized in income	(540)	(61)	(550)	(63)
Net change in unrealized gains on securities available for sale	9,703	8,486	34,308	7,994
Unrealized losses on derivative instruments:				
Net unrealized holding loss arising during the period	(4,567)	(10,309)	(5,198)	(8,577)
Reclassification adjustment for net losses realized in income	2,736	2,928	5,457	5,816
Net change in unrealized losses on derivative instruments	(1,831)	(7,381)	259	(2,761)
Other comprehensive income	7,872	1,105	34,567	5,233
Comprehensive income (loss)	$ 56,801	$ 45,100	$ 133,768	$ (18,432)

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

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BANKUNITED, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS — UNAUDITED
(In thousands)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Cash flows from operating activities:		
Net income (loss)	$ 99,201	$ (23,665)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Accretion of fair values of assets acquired and liabilities assumed	(233,739)	(226,294)
Amortization of fees, discounts and premiums, net	6,164	(4,203)
Provision for loan losses	11,492	8,564
Accretion of discount on FDIC indemnification asset	(11,081)	(34,443)
Income from resolution of covered assets, net	(22,085)	(2,366)
Net (gain) loss on indemnification asset	12,403	(37,634)
Net gain on sale of loans	(509)	(252)
Increase in cash surrender value of bank owned life insurance	(1,765)	(2,036)
Gain on sale of investment securities available for sale	(896)	(103)
(Gain) loss on sale of other real estate owned	(89)	24,474
Equity based compensation	17,015	126,195
Depreciation and amortization	6,893	3,108
Impairment of other real estate owned	6,595	17,786
Deferred income taxes	(78,384)	35,801
Proceeds from sale of loans held for sale	22,652	14,536
Loans originated for sale, net of repayments	(21,224)	(12,777)
Realized tax benefits from dividend equivalents and equity based compensation	(511)	(200)
Gain on acquisition	(5,288)	—
Other:		
Increase in other assets	(15,313)	(7,112)
Increase (decrease) in other liabilities	38,103	(2,385)
Net cash used in operating activities	(170,366)	(123,006)
Cash flows from investing activities:		
Net cash paid in business combination	(1,626)	—
Purchase of investment securities available for sale	(815,844)	(1,057,582)
Proceeds from repayments of investment securities available for sale	296,321	274,668
Proceeds from sale of investment securities available for sale	139,254	69,347
Maturities and calls of investment securities available for sale	16,305	—
Purchase of non-marketable equity securities	(33,208)	—
Proceeds from redemption of non-marketable equity securities	28,173	34,769
Purchases of loans	(341,664)	(157,550)
Loan originations, repayments and resolutions, net	(140,272)	292,729
Decrease in FDIC indemnification asset for claims filed	336,303	486,558
Purchase of bank owned life insurance	—	(12,500)

Bank owned life insurance proceeds	—	51,406
Purchase of office properties and equipment, net	(15,395)	(17,792)
Proceeds from sale of other real estate owned	110,860	210,624
Net cash provided by (used in) investing activities	(420,793)	174,677

(Continued)

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

BANKUNITED, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS — UNAUDITED
(In thousands)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Cash flows from financing activities:		
Net increase (decrease) in deposits	426,741	(334,405)
Additions to Federal Home Loan Bank advances	1,015,000	—
Repayments of Federal Home Loan Bank advances	(1,015,000)	—
Increase in short-term borrowings	42,375	1,673
Settlement of FDIC warrant liability	—	(25,000)
Increase in advances from borrowers for taxes and insurance	13,572	14,210
Issuance of common stock	—	98,620
Dividends paid	(32,401)	(27,998)
Realized tax benefits from dividend equivalents and equity based compensation	511	200
Exercise of stock options	763	14
Net cash provided by (used in) financing activities	451,561	(272,686)
Net decrease in cash and cash equivalents	(139,598)	(221,015)
Cash and cash equivalents, beginning of period	303,742	564,774
Cash and cash equivalents, end of period	$ 164,144	$ 343,759
Supplemental disclosure of cash flow information:		
Interest paid on deposits and borrowings	$ 74,897	$ 84,754
Income taxes paid	$ 112,839	$ 26,831
Supplemental schedule of non-cash investing and financing activities:		
Transfers from loans to other real estate owned	$ 87,353	$ 187,927
Dividends declared, not paid	$ 17,412	$ 14,399
Reclassification of PIU liability to equity	$ —	$ 44,964
Receivable for proceeds of surrender of bank owned life insurance	$ —	$ 26,243
Rescission of surrender of bank owned life insurance	$ —	$ 20,846
Unsettled securities trades	$ —	$ 112,560
Exchange of common stock for Series A preferred stock	$ 54	$ —
Equity consideration issued in business combination	$ 39,861	$ —

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

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, 2011	97,700,829	$ 977	—	$ —	$ 1,240,068	$ 276,216	$ 18,019	$ 1,535,280
Comprehensive income	—	—	—	—	—	99,201	34,567	133,768
Exchange of common shares for preferred shares	(5,415,794)	(54)	5,415,794	54	—	—	—	—
Equity consideration issued in acquisition	1,676,060	17	—	—	39,844	—	—	39,861
Dividends	—	—	—	—	—	(34,947)	—	(34,947)
Equity based compensation	7,745	—	—	—	17,015	—	—	17,015
Exercise of stock options	55,681	—	—	—	763	—	—	763
Tax benefits from dividend equivalents and equity based compensation	—	—	—	—	511	—	—	511
Balance at June 30, 2012	94,024,521	$ 940	5,415,794	$ 54	$ 1,298,201	$ 340,470	$ 52,586	$ 1,692,251

	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, 2010	92,971,850	$ 930	—	$ —	$ 950,831	$ 269,781	$ 31,966	$ 1,253,508
Comprehensive loss	—	—	—	—	—	(23,665)	5,233	(18,432)
Proceeds from issuance of common stock net of direct costs of $3,979	4,000,000	42	—	—	98,578	—	—	98,620
Dividends	—	—	—	—	—	(28,396)	—	(28,396)
Reclassification of PIU liability to equity	—	—	—	—	44,964	—	—	44,964
Equity based compensation	276,790	—	—	—	126,195	—	—	126,195
Exercise of stock options	1,234	—	—	—	14	—	—	14
Tax benefits from dividend equivalents and equity based compensation	—	—	—	—	200	—	—	200
Balance at June 30, 2011	97,249,874	$ 972	—	$ —	$ 1,220,782	$ 217,720	$ 37,199	$ 1,476,673

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

BANKUNITED, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
June 30, 2012

Note 1 Basis of Presentation

BankUnited, Inc. ("BankUnited, Inc." or "BKU") is a bank holding company with three wholly-owned subsidiaries: BankUnited, National Association ("BankUnited"), Herald National Bank ("Herald"), and BankUnited Investment Services, Inc. (collectively, the "Company"). BankUnited, a national banking association headquartered in Miami Lakes, Florida, provides a full range of banking and related services to individual and corporate customers through 95 branches located in 15 Florida counties. Herald is a national banking association with 2 branch locations in the New York metropolitan area.

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." In connection with the FSB Acquisition, BankUnited entered into Loss Sharing Agreements with the FDIC ("Loss Sharing Agreements") that cover single family residential mortgage loans, commercial real estate, commercial and industrial and consumer loans, certain investment securities and other real estate owned ("OREO"), collectively referred to as the "covered assets." Pursuant to the terms of the Loss Sharing Agreements, the covered assets are subject to a stated loss threshold whereby the FDIC will reimburse BankUnited for 80% of losses 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, 2011 filed with the SEC. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2012 are not necessarily indicative of the results that may be expected in future periods.

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 as well as disclosures of contingent assets and liabilities. Management has made significant estimates in certain areas, such as the allowance for loan and lease losses, the amount and timing of expected cash flows from covered assets and the FDIC indemnification asset, the valuation of OREO, the valuation of deferred tax assets, the value of equity based compensation, the evaluation of investment securities for other than-temporary impairment and the fair values of financial instruments. Actual results could differ from these estimates.

The Company's presentation of other comprehensive income has been revised retrospectively to comply with newly applicable guidance requiring that the components of net income and other comprehensive income be presented either in a single statement of comprehensive income (loss) or in two separate but consecutive statements. Previously, the components of other comprehensive income were presented in the consolidated statements of stockholders' equity.

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

Note 2 Earnings Per Share

Basic earnings per common share is calculated by dividing income (loss) allocated to common stockholders for basic earnings (loss) per common share by the weighted average number of common shares outstanding for the period, reduced by average unvested stock awards. Unvested stock awards and stock option awards with non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, and participating preferred stock are considered participating securities and are included in the computation of basic earnings per common share using the two class method. Diluted earnings (loss) per common share is computed by dividing income (loss) allocated to common stockholders for basic earnings (loss) per common share, adjusted for earnings reallocated from participating securities, by the weighted average number of common shares outstanding for the period increased for the dilutive effect of unexercised stock options, warrants and unvested stock awards using the treasury stock method and by the dilutive effect of convertible preferred stock using the if-converted method.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Basic earnings (loss) per common share:				
Numerator:				
Net income (loss)	$ 48,929	$ 43,995	$ 99,201	$ (23,665)
Preferred stock dividends	(921)	—	(1,841)	—
Net income (loss) available to common stockholders	48,008	43,995	97,360	(23,665)
Distributed and undistributed earnings allocated to participating securities	(3,687)	(2,216)	(6,968)	—
Income (loss) allocated to common stockholders for basic earnings (loss) per common share	$ 44,321	$ 41,779	$ 90,392	$ (23,665)
Denominator:				
Weighted average common shares outstanding	93,994,226	97,243,931	95,190,558	96,432,334
Less average unvested stock awards	(1,168,872)	(1,785,151)	(1,405,036)	(1,547,363)
Weighted average shares for basic earnings (loss) per common share	92,825,354	95,458,780	93,785,522	94,884,971
Basic earnings (loss) per common share	$ 0.48	$ 0.44	$ 0.96	$ (0.25)
Diluted earnings (loss) per common share:				
Numerator:				
Income (loss) allocated to common stockholders for basic earnings (loss) per common share	$ 44,321	$ 41,779	$ 90,392	$ (23,665)
Adjustment for earnings reallocated from participating securities	2,583	2	10	—
Income (loss) used in calculating diluted earnings (loss) per common share	$ 46,904	$ 41,781	$ 90,402	$ (23,665)
Denominator:				
Average shares for basic earnings (loss) per common share	92,825,354	95,458,780	93,785,522	94,884,971
Dilutive effect of stock options and preferred shares	5,626,620	166,601	189,209	—
Weighted average shares for diluted earnings (loss) per common share	98,451,974	95,625,381	93,974,731	94,884,971
Diluted earnings (loss) per common share	$ 0.48	$ 0.44	$ 0.96	$ (0.25)

For the three and six months ended June 30, 2012 and 2011, the following potentially dilutive securities were outstanding but excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Unvested shares	654,165	1,281,297	654,165	1,281,297
Stock options and warrants	6,979,788	4,534,970	6,979,788	5,471,627
Convertible preferred shares	—	—	5,415,794	—

Note 3 Acquisition Activity

On February 29, 2012, BKU completed the acquisition of Herald for a purchase price of $65.0 million consisting of cash of $25.2 million, 1,676,060 shares of common stock valued at $38.6 million and stock options and warrants valued at $1.2 million. Common stock issued was valued at the closing price of BKU common stock for the ten trading days preceding acquisition date. The options and warrants were valued using a Black-Scholes option pricing model. The acquisition of Herald 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 acquisition of Herald allowed the Company to expand its banking operations to the New York metropolitan area.

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

Assets:	
Cash and cash equivalents	$ 23,538
Investment securities available for sale	160,971
Loans	305,954

Deferred tax asset, net	12,023
Intangible assets	1,780
Other assets	4,141
Total assets	508,407
Liabilities:	
Deposits	435,500
Other liabilities	2,594
Total liabilities	438,094
Estimated fair value of net assets acquired	70,313
Consideration issued	65,025
Excess of fair value of net assets acquired over consideration issued	$ 5,288

The Company recognized a gain of $5.3 million on the acquisition of Herald, representing the excess of the fair value of net assets acquired over the value of consideration issued. Pursuant to the terms of the merger agreement between BKU and Herald, the determination of the final purchase price was dependent on the price of BKU's common stock for the ten trading days preceding the merger. A decline in the stock price between the execution of the agreement and consummation of the acquisition led to this gain, which is included in the consolidated statement of operations line item "other non-interest income". Transaction costs of $1.2 million related to the acquisition of Herald are included in the consolidated statement of operations line item "professional fees" for the six months ended June 30, 2012. The results of operations of Herald have been included in the Company's consolidated financial statements from the date of acquisition and are not material. Financial statements of Herald and pro forma financial information are not required to be presented due to the immateriality of this acquisition to the Company's consolidated financial position and results of operations.

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

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- Loans were valued using a discounted cash flow technique incorporating market based probability of default, loss severity given default, recovery lag and appropriately risk weighted discount rate assumptions.

- Investment securities were valued using the same methodologies employed to estimate the fair value of the Company's investment securities available for sale summarized in Note 11.

- Demand, savings and money market deposits were valued at the amount due on demand at the valuation date. Time deposits were valued using a discounted cash flow technique incorporating discount rates based on current market rates for deposits with similar maturities.

- Intangible assets consist of a core deposit intangible asset, valued using an after tax cost savings methodology.

The gross contractual amount receivable related to acquired loans is approximately $395.2 million. The estimated amount not expected to be collected based on probability of default and loss severity given default assumptions applied in estimating fair value is $12.1 million. No loans were specifically identified as impaired at the acquisition date.

Deferred tax assets and liabilities have been recorded for the tax effects of differences between the tax bases of assets acquired and liabilities assumed and the fair values assigned to those assets and liabilities. The most significant component of the net deferred tax asset is an acquired net operating loss carryforward.

Note 4 Investment Securities Available for Sale

Investment securities available for sale at June 30, 2012 and December 31, 2011 consisted of the following (in thousands):

	June 30, 2012							
	Covered Securities				Non-Covered Securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agency securities	$ —	$ —	$ —	$ —	$ 52,517	$ 106	$ —	$ 52,623
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	—	—	—	—	2,007,780	55,278	(158)	2,062,900
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities	—	—	—	—	114,697	1,355	—	116,052
Resecuritized real estate mortgage investment conduits ("Re-Remics")	—	—	—	—	666,589	6,578	(2,145)	671,022
Private label residential mortgage-backed securities and CMOs	156,122	47,479	(266)	203,335	281,031	3,684	(60)	284,655
Private label commercial mortgage-backed securities	—	—	—	—	357,111	12,023	—	369,134
Non-mortgage asset-backed securities	—	—	—	—	337,667	3,281	(1,334)	339,614
Mutual funds and preferred stocks	16,382	875	(420)	16,837	238,024	11,854	—	249,878
State and municipal obligations	—	—	—	—	24,216	282	(3)	24,495
Small Business Administration securities	—	—	—	—	347,736	4,526	(129)	352,133
Other debt securities	3,893	2,963	—	6,856	9,098	—	(123)	8,975
	$ 176,397	$ 51,317	$ (686)	$ 227,028	$ 4,436,466	$ 98,967	$ (3,952)	$ 4,531,481

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	December 31, 2011							
	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	$ —	$ —	$ —	$ —	$ 1,952,095	$ 34,823	$ (1,205)	$ 1,985,713
Re-Remics	—	—	—	—	544,924	4,972	(3,586)	546,310
Private label residential mortgage-backed securities and CMO's	165,385	44,746	(310)	209,821	177,614	1,235	(983)	177,866
Private label commercial mortgage-backed securities	—	—	—	—	255,868	6,694	—	262,562
Non-mortgage asset-backed securities	—	—	—	—	414,274	2,246	(5,635)	410,885
Mutual funds and preferred stocks	16,382	491	(556)	16,317	235,705	3,071	(1,276)	237,500
State and municipal obligations	—	—	—	—	24,994	278	(2)	25,270
Small Business Administration securities	—	—	—	—	301,109	2,664	(96)	303,677
Other debt securities	3,868	2,188	—	6,056	—	—	—	—
	$ 185,635	$ 47,425	$ (866)	$ 232,194	$ 3,906,583	$ 55,983	$ (12,783)	$ 3,949,783

At June 30, 2012, investment securities available for sale by contractual maturity, adjusted for anticipated prepayments of mortgage-backed and other pass-through securities are shown below (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$ 668,957	$ 690,658
Due after one year through five years	1,856,252	1,915,990
Due after five years through ten years	1,291,272	1,327,228
Due after ten years	541,976	557,918
Mutual funds and preferred stocks with no stated maturity	254,406	266,715
	$ 4,612,863	$ 4,758,509

Based on the Company's proprietary model and prepayment assumptions, the estimated weighted average life of the investment portfolio as of June 30, 2012 was 4.9 years. The effective duration of the investment portfolio as of June 30, 2012 was 1.8 years. The model results are based on assumptions that may differ from actual results.

The carrying value of securities pledged as collateral for Federal Home Loan Bank ("FHLB") advances, public deposits, interest rate swaps, securities sold under agreements to repurchase and to secure borrowing capacity at the Federal Reserve Bank totaled $1.0 billion and $1.2 billion at June 30, 2012 and December 31, 2011, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Proceeds from sale of investment securities available for sale	$ 133,406	$ 66,401	$ 139,254	$ 69,347
Gross realized gains	$ 1,176	$ 102	$ 1,194	$ 106
Gross realized losses	(296)	(2)	(298)	(3)
Net realized gain	$ 880	$ 100	$ 896	$ 103

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The following tables present the aggregate fair value and the aggregate amount by which amortized cost exceeds fair value for investment securities that are in unrealized loss positions at June 30, 2012 and December 31, 2011, aggregated by investment category and length of time that individual securities had been in continuous unrealized loss positions (in thousands):

	June 30, 2012					
	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	$ 34,988	$ (158)	$ —	$ —	$ 34,988	$ (158)
Re-Remics	303,769	(2,014)	17,618	(131)	321,387	(2,145)
Private label residential mortgage-backed securities and CMOs	804	(50)	6,658	(276)	7,462	(326)

Non-mortgage asset-backed securities	81,106	(280)	49,905	(1,054)	131,011	(1,334)
Mutual funds and preferred stocks	20	(93)	15,116	(327)	15,136	(420)
State and municipal obligations	1,324	(3)	—	—	1,324	(3)
Small Business Administration securities	60,355	(129)	—	—	60,355	(129)
Other debt securities	8,975	(123)	—	—	8,975	(123)
	$ 491,341	$ (2,850)	$ 89,297	$ (1,788)	$ 580,638	$ (4,638)

	December 31, 2011					
	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	$ 211,168	$ (830)	$ 70,049	$ (375)	$ 281,217	$ (1,205)
Re-Remics	254,826	(3,344)	19,491	(242)	274,317	(3,586)
Private label residential mortgage-backed securities and CMO's	114,915	(1,120)	6,469	(173)	121,384	(1,293)
Non-mortgage asset-backed securities	221,904	(5,590)	8,772	(45)	230,676	(5,635)
Mutual funds and preferred stocks	77,811	(1,371)	14,982	(461)	92,793	(1,832)
State and municipal obligations	1,002	(2)	—	—	1,002	(2)
Small Business Administration securities	29,774	(96)	—	—	29,774	(96)
	$ 911,400	$ (12,353)	$ 119,763	$ (1,296)	$ 1,031,163	$ (13,649)

The Company monitors its investment securities available for sale for other than temporary impairment ("OTTI") on an individual security basis. No securities were determined to be other than temporarily impaired during the three and six months ended June 30, 2012 and 2011. The Company does not intend to sell securities that are in significant unrealized loss positions and it is not more likely than not that the Company will be required to sell these securities before recovery of the amortized cost basis, which may be at maturity. At June 30, 2012, 61 securities were in unrealized loss positions. The amount of impairment related to 15 of these securities was considered insignificant, totaling approximately $64.4 thousand and no further analysis with respect to these securities was considered necessary. The basis for concluding that impairment of the remaining securities is not other-than-temporary is further described below:

Small Business Administration securities:

At June 30, 2012, two Small Business Administration securities were in unrealized loss positions. Both of these securities had been in unrealized loss positions for less than twelve months. The amount of impairment of each of the individual securities was less than 1% of amortized cost. The timely payment of principal and interest on these securities is 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 are considered to be temporary.

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

At June 30, 2012, four U.S. Government agency and sponsored enterprise residential mortgage-backed securities were in unrealized loss positions. All of these securities had been in unrealized loss positions for less than twelve months. The amount of impairment of each of the individual securities was less than 2% 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 are considered to be temporary.

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

At June 30, 2012, 25 private label residential mortgage-backed securities and Re-Remics were in unrealized loss positions. These securities were assessed for OTTI using third-party developed credit and prepayment behavioral models and CUSIP level constant default rates, voluntary prepayment rates and loss severity and delinquency assumptions. The results of this evaluation were not indicative of credit losses related to any of these securities as of June 30, 2012. The majority of these securities had been in unrealized loss positions for less than twelve months and evidenced unrealized losses less than 2% of amortized cost. Given the generally limited duration and severity of impairment and the expectation of timely recovery of outstanding principal, the impairments are considered to be temporary.

Non-mortgage asset-backed securities:

At June 30, 2012, ten non-mortgage asset-backed securities were in unrealized loss positions. Five of these securities had been in continuous unrealized loss positions for less than twelve months at June 30, 2012. The amount of impairment of each of the individual securities was less than 3% of amortized cost. These securities were assessed for OTTI using a third-party developed credit and prepayment behavioral model and CUSIP level constant default rates, voluntary prepayment rates and loss severity and delinquency assumptions. The results of this evaluation were not indicative of credit losses related to these securities as of June 30, 2012. Most of the unrealized losses in this portfolio sector were largely driven by the impact of recent events on spreads for student loan-backed securities, which management believes to be temporary. Given the limited severity and duration of impairment and the expectation of timely recovery of outstanding principal, the impairments are considered to be temporary.

Other debt securities:

At June 30, 2012, three corporate debt securities were in unrealized loss positions. These securities had been in unrealized loss positions for less than 12 months and aggregate unrealized losses were not material. These securities are rated "AAA". Given the limited duration and severity of impairment, the impairment is considered to be temporary.

Mutual funds:

At June 30, 2012, one mutual fund investment was in an unrealized loss position and had been in a continuous unrealized loss position for twenty-two months. The majority of the underlying holdings of the mutual fund are either explicitly or implicitly guaranteed by the U.S. Government. Impairment has been driven primarily by intermediate term interest rates and lack of liquidity in the market for the security. The unrealized loss related to this security is approximately 2% of its cost basis. Given the limited severity, the impairment is considered to be temporary.

Preferred stocks:

At June 30, 2012, one position in agency preferred stock was in an unrealized loss position. This security traded above the Company's cost basis during June 2012. Given the limited duration and immaterial amount of impairment, this impairment is considered to be temporary.

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Note 5 Loans and Allowance for Loan and Lease Losses

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

At June 30, 2012 and December 31, 2011, loans consisted of the following (dollars in thousands):

	June 30, 2012					
	Covered Loans		Non-Covered Loans			
	ACI	Non-ACI	ACI	New Loans	Total	Percent of Total
Residential:						
1-4 single family residential	$ 1,527,179	$ 104,218	$ —	$ 712,259	$ 2,343,656	45.9%
Home equity loans and lines of credit	62,809	168,759	—	1,611	233,179	4.6%
	1,589,988	272,977	—	713,870	2,576,835	50.5%
Commercial:						
Multi-family	56,941	754	—	243,417	301,112	5.9%
Commercial real estate	200,582	21,946	4,159	587,852	814,539	16.0%
Construction	3,782	—	—	28,957	32,739	0.6%
Land	26,099	159	—	23,766	50,024	1.0%
Commercial loans and leases	17,526	16,796	—	1,274,439	1,308,761	25.7%
	304,930	39,655	4,159	2,158,431	2,507,175	49.2%
Consumer	2,654	—	—	10,847	13,501	0.3%
Total loans	1,897,572	312,632	4,159	2,883,148	5,097,511	100.0%
Premiums, discounts and deferred fees and costs, net	—	(28,071)	—	9,258	(18,813)	
Loans net of premiums, discounts, deferred fees and costs	1,897,572	284,561	4,159	2,892,406	5,078,698	
Allowance for loan and lease losses	(11,085)	(9,878)	—	(34,672)	(55,635)	
Loans, net	$ 1,886,487	$ 274,683	$ 4,159	$ 2,857,734	$ 5,023,063	

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	December 31, 2011					
	Covered Loans		Non-Covered Loans			
	ACI	Non-ACI	ACI	New Loans	Total	Percent of Total
Residential:						
1-4 single family residential	$ 1,681,866	$ 117,992	$ —	$ 461,431	$ 2,261,289	54.1%
Home equity loans and lines of credit	71,565	182,745	—	2,037	256,347	6.1%
	1,753,431	300,737	—	463,468	2,517,636	60.2%
Commercial:						
Multi-family	61,710	791	—	108,178	170,679	4.1%
Commercial real estate	219,136	32,678	4,220	311,434	567,468	13.6%

Construction	4,102	—	—	23,252	27,354	0.7%
Land	33,018	163	—	7,469	40,650	1.0%
Commercial loans and leases	24,007	20,382	—	799,978	844,367	20.2%
	341,973	54,014	4,220	1,250,311	1,650,518	39.6%
Consumer	2,937	—	—	3,372	6,309	0.2%
Total loans	2,098,341	354,751	4,220	1,717,151	4,174,463	100.0%
Premiums, discounts and deferred fees and costs, net	—	(30,281)	—	(7,124)	(37,405)	
Loans net of premiums, discounts, deferred fees and costs	2,098,341	324,470	4,220	1,710,027	4,137,058	
Allowance for loan and lease losses	(16,332)	(7,742)	—	(24,328)	(48,402)	
Loans, net	$ 2,082,009	$ 316,728	$ 4,220	$ 1,685,699	$ 4,088,656	

At June 30, 2012 and December 31, 2011, the unpaid principal balance ("UPB") of ACI loans was $4.8 billion and $5.3 billion, respectively.

During the three and six months ended June 30, 2012 and 2011, the Company purchased 1-4 single family residential loans totaling $175.8 million, $341.7 million, $124.1 million, and $157.6 million, respectively.

At June 30, 2012, the Company had pledged real estate loans with UPB of approximately $5.0 billion and carrying amounts of approximately $2.7 billion as security for FHLB advances.

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

	For the Three Months Ended							
	June 30, 2012				June 30, 2011			
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Beginning balance	$ 14,706	$ 41,725	$ 43	$ 56,474	$ 20,503	$ 40,925	$ 129	$ 61,557
Provision for (recovery of) loan losses:								
ACI loans	—	(1,771)	—	(1,771)	(6,961)	398	—	(6,563)
Non-ACI loans	852	(565)	—	287	(28)	148	—	120
New loans	2,170	2,049	(10)	4,209	128	3,512	(89)	3,551
Total provision	3,022	(287)	(10)	2,725	(6,861)	4,058	(89)	(2,892)
Charge-offs:								
ACI loans	—	(1,735)	—	(1,735)	—	(1,382)	—	(1,382)
Non-ACI loans	(1,397)	(37)	—	(1,434)	(479)	(834)	—	(1,313)
New loans	—	(533)	—	(533)	—	(565)	—	(565)
Total charge-offs	(1,397)	(2,305)	—	(3,702)	(479)	(2,781)	—	(3,260)
Recoveries:								
ACI loans	—	—	—	—	—	1,212	—	1,212
Non-ACI loans	—	110	—	110	14	—	—	14
New loans	—	27	1	28	—	8	—	8
Total recoveries	—	137	1	138	14	1,220	—	1,234
Ending balance	$ 16,331	$ 39,270	$ 34	$ 55,635	$ 13,177	$ 43,422	$ 40	$ 56,639

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	For the Six Months Ended							
	June 30, 2012				June 30, 2011			
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Beginning balance	$ 10,175	$ 38,176	$ 51	$ 48,402	$ 28,649	$ 29,656	$ 55	$ 58,360
Provision for (recovery of) loan losses:								
ACI loans	—	(2,782)	—	(2,782)	(14,799)	12,080	—	(2,719)
Non-ACI loans	4,642	(1,744)	—	2,898	784	5,509	—	6,293
New loans	3,412	7,983	(19)	11,376	163	4,842	(15)	4,990
Total provision	8,054	3,457	(19)	11,492	(13,852)	22,431	(15)	8,564
Charge-offs:								
ACI loans	—	(2,465)	—	(2,465)	—	(8,442)	—	(8,442)
Non-ACI loans	(1,900)	(140)	—	(2,040)	(1,634)	(834)	—	(2,468)
New loans	—	(1,116)	—	(1,116)	—	(615)	—	(615)
Total charge-offs	(1,900)	(3,721)	—	(5,621)	(1,634)	(9,891)	—	(11,525)
Recoveries:								
ACI loans	—	—	—	—	—	1,212	—	1,212
Non-ACI loans	2	1,276	—	1,278	14	—	—	14
New loans	—	82	2	84	—	14	—	14
Total recoveries	2	1,358	2	1,362	14	1,226	—	1,240
Ending balance	$ 16,331	$ 39,270	$ 34	$ 55,635	$ 13,177	$ 43,422	$ 40	$ 56,639

Increases (decreases) in the FDIC indemnification asset of $(0.9) million and $0.7 million were reflected in non-interest income for the three and six months ended June 30, 2012, respectively, and $(5.8) million and $0.8 million for the three and six months ended June 30, 2011, respectively, related to the provision for loan losses on covered loans, including both ACI and non-ACI loans.

The following table presents information about the balance of the ALLL and related loans as of June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012				December 31, 2011			
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Allowance for loan and lease losses:								
Ending balance	$ 16,331	$ 39,270	$ 34	$ 55,635	$ 10,175	$ 38,176	$ 51	$ 48,402
Ending balance: non-ACI and new loans individually evaluated for impairment	$ 876	$ 500	$ —	$ 1,376	$ 593	$ —	$ —	$ 593
Ending balance: non-ACI and new loans collectively evaluated for impairment	$ 15,455	$ 27,685	$ 34	$ 43,174	$ 9,582	$ 21,844	$ 51	$ 31,477
Ending balance: ACI	$ —	$ 11,085	$ —	$ 11,085	$ —	$ 16,332	$ —	$ 16,332
Ending balance: Non-ACI	$ 8,886	$ 992	$ —	$ 9,878	$ 6,142	$ 1,600	$ —	$ 7,742
Ending balance: New loans	$ 7,445	$ 27,193	$ 34	$ 34,672	$ 4,033	$ 20,244	$ 51	$ 24,328
Loans:								
Ending balance (1)	$ 2,576,835	$ 2,507,175	$ 13,501	$ 5,097,511	$ 2,517,636	$ 1,650,518	$ 6,309	$ 4,174,463
Ending balance: non-ACI and new loans individually evaluated for impairment (1)	$ 4,273	$ 33,271	$ —	$ 37,544	$ 1,937	$ 6,728	$ —	$ 8,665
Ending balance: non-ACI and new loans collectively evaluated for impairment (1)	$ 982,574	$ 2,164,815	$ 10,847	$ 3,158,236	$ 762,268	$ 1,297,597	$ 3,372	$ 2,063,237
Ending balance: ACI loans	$ 1,589,988	$ 309,089	$ 2,654	$ 1,901,731	$ 1,753,431	$ 346,193	$ 2,937	$ 2,102,561

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

Credit quality information

New and non-ACI loans

The tables below present information about new and non-ACI loans identified as impaired as of June 30, 2012 and December 31, 2011. Commercial relationships on non-accrual status with internal risk ratings of substandard or doubtful and with committed balances greater than or equal to $500,000 as well as loans that have been modified in troubled debt restructurings are individually evaluated for impairment. If determined to be impaired, they are reflected as impaired loans in the tables below. Also included in total impaired loans are loans that have been placed on non-accrual status and loans that are 90 days or more delinquent and still accruing for

which impairment is measured collectively. These include 1-4 single family residential, home equity, smaller balance commercial and commercial real estate, and consumer loans (in thousands):

	June 30, 2012			
	Recorded Investment in Impaired Loans	Unpaid Principal Balance	Related Specific Allowance	Non-Accrual Loans Included in Impaired Loans
New loans:				
With no specific allowance recorded:				
1-4 single family residential	$ 78	$ 79	$ —	$ —
Multi-family	5,562	5,562	—	—
Construction	3	3	—	3
Land	295	287	—	295
Commercial loans and leases	3,159	3,151	—	2,434
With a specific allowance recorded:				
Commercial loans and leases	3,108	3,110	500	3,108
Total:				
Residential	$ 78	$ 79	$ —	$ —
Commercial	12,127	12,113	500	5,840
	$ 12,205	$ 12,192	$ 500	$ 5,840

	December 31, 2011			
	Recorded Investment in Impaired Loans	Unpaid Principal Balance	Related Specific Allowance	Non-Accrual Loans Included in Impaired Loans
New loans:				
With no specific allowance recorded:				
Home equity loans and lines of credit	$ 27	$ 27	$ —	$ 27
Construction	3	3	—	3

Land	332	332	—	332
Commercial loans and leases	2,469	2,469	—	2,469
With a specific allowance recorded:	—	—	—	—
Total:				
Residential	$ 27	$ 27	$ —	$ 27
Commercial	2,804	2,804	—	2,804
	$ 2,831	$ 2,831	$ —	$ 2,831

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	June 30, 2012			
	Recorded Investment in Impaired Loans	Unpaid Principal Balance	Related Specific Allowance	Non-Accrual Loans Included in Impaired Loans
Non-ACI:				
With no specific allowance recorded:				
1-4 single family residential	$ 4,388	$ 5,682	$ —	$ 4,255
Home equity loans and lines of credit	9,458	9,649	—	9,458
Commercial real estate	162	162	—	162
Commercial loans and leases	5,705	5,898	—	5,665
With a specific allowance recorded:				
1-4 single family residential	3,300	4,273	876	111
Total:				
Residential	$ 17,146	$ 19,604	$ 876	$ 13,824
Commercial	5,867	6,060	—	5,827
	$ 23,013	$ 25,664	$ 876	$ 19,651

	December 31, 2011			
	Recorded Investment in Impaired Loans	Unpaid Principal Balance	Related Specific Allowance	Non-Accrual Loans Included in Impaired Loans
Non-ACI:				
With no specific allowance recorded:				
1-4 single family residential	$ 7,671	$ 9,766	$ —	$ 7,296
Home equity loans and lines of credit	10,451	10,670	—	10,451
Commercial real estate	295	295	—	295
Commercial loans and leases	6,695	6,887	—	6,695
With a specific allowance recorded:				
1-4 single family residential	1,521	1,937	593	114
Total:				
Residential	$ 19,643	$ 22,373	$ 593	$ 17,861
Commercial	6,990	7,182	—	6,990
	$ 26,633	$ 29,555	$ 593	$ 24,851

Impaired loans include new and non-ACI loans contractually delinquent by 90 days or more and still accruing totaling $2.1 million and $0.4 million at June 30, 2012 and December 31, 2011, respectively.

The following tables summarize new and non-ACI loans that were modified in troubled debt restructurings ("TDRs") during the three and six months ended June 30, 2012 and 2011 as well as new and non-ACI loans modified during the twelve months preceding June 30, 2012 and 2011 that experienced payment defaults during the periods indicated (dollars in thousands):

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	Three Months Ended June 30, 2012				Three Months Ended June 30, 2011			
	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 loans and leases	1	$ 42	1	$ 245	—	$ —	—	$ —
	1	$ 42	1	$ 245	—	$ —	—	$ —

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011

	Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period		Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period	
	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment
New loans:								
Multi-family	1	$ 3,676	—	$ —	—	$ —	—	$ —
Commercial loans and leases	3	1,011	1	245	—	—	—	—
	4	$ 4,687	1	$ 245	—	$ —	—	$ —

	Three Months Ended June 30, 2012				Three Months Ended June 30, 2011			
	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
Non-ACI:								
1-4 single family residential	2	$ 1,832	—	$ —	1	$ 45	—	$ —
Commercial real estate	—	—	—	—	1	69	—	—
Commercial loans and leases	1	10	—	—	1	44	—	—
	3	$ 1,842	—	$ —	3	$ 158	—	$ —

	Six Months Ended June 30, 2012				Six Months Ended June 30, 2011			
	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
Non-ACI:								
1-4 single family residential	2	$ 1,832	—	$ —	1	$ 45	—	$ —
Commercial real estate	—	—	—	—	1	69	—	—
Commercial loans and leases	1	10	—	—	1	44	—	—
	3	$ 1,842	—	$ —	3	$ 158	—	$ —

Modifications during the three and six months ended June 30, 2012 and 2011 included restructuring of the amount and timing of required periodic payments. Because of the immateriality of the amount of loans modified 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 for the three and six months ended June 30, 2012 and 2011.

The following table presents the average recorded investment in impaired new and non-ACI loans for the three and six months ended June 30, 2012 and 2011 (in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012		2011		2012		2011	
	New	Non-ACI	New	Non-ACI	New	Non-ACI	New	Non-ACI
Residential:								
1-4 single family residential	$ 110	$ 8,133	$ —	$ 9,133	$ 73	$ 8,486	$ —	$ 9,566
Home equity loans and lines of credit	—	10,652	—	10,325	9	10,585	—	10,202
	110	18,785	—	19,458	82	19,071	—	19,768
Commercial:								
Multi-family	4,625	—	—	271	3,083	—	—	116
Commercial real estate	—	209	—	519	—	237	—	296
Construction	3	—	2	—	3	—	2	—
Land	318	—	332	—	322	—	166	—
Commercial loans and leases	6,110	5,835	3,275	10,644	4,896	6,121	3,233	6,230
	11,056	6,044	3,609	11,434	8,304	6,358	3,401	6,642
	$ 11,166	$ 24,829	$ 3,609	$ 30,892	$ 8,386	$ 25,429	$ 3,401	$ 26,410

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

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. 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 $250,000 are re-evaluated at least annually and more frequently if circumstances indicate that a change in risk rating may be warranted. Loans exhibiting potential credit weaknesses that deserve management’s close attention and that if left uncorrected may result in deterioration of the repayment capacity of the borrower are categorized as special mention. Loans with well defined credit weaknesses, including payment defaults, declining collateral values, frequent overdrafts, operating losses, increasing balance sheet leverage, inadequate cash flow, project cost overruns, unreasonable construction delays, past due real estate taxes or exhausted interest reserves, are assigned an internal risk rating of substandard. A loan with a weakness so severe that collection in full is highly questionable or improbable will be assigned an internal risk rating of doubtful.

The following tables summarize key indicators of credit quality for the Company's new and non-ACI loans as of June 30, 2012 and December 31, 2011. Amounts are net of premiums, discounts, deferred fees and costs (in thousands):

Residential credit exposure, based on delinquency status:

	June 30, 2012		December 31, 2011	
	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	$ 721,322	$ 1,611	$ 450,661	$ 1,996
Past due less than 90 days	3,609	—	15,932	14
Past due 90 days or more	78	—	—	27
	725,009	1,611	466,593	2,037
Non-ACI:				
Current	74,028	149,958	83,075	164,367
Past due less than 90 days	2,455	6,010	2,972	6,807
Past due 90 days or more	3,998	9,458	6,624	7,825
	80,481	165,426	92,671	178,999
	$ 805,490	$ 167,037	$ 559,264	$ 181,036

Consumer credit exposure, based on delinquency status:

	June 30, 2012	December 31, 2011
New loans:		
Current	$ 10,847	$ 3,387
Past due less than 90 days	18	10
	$ 10,865	$ 3,397

Commercial credit exposure, based on internal risk rating:

	June 30, 2012				
	Multi-Family	Commercial Real Estate	Construction	Land	Commercial Loans and Leases
New loans:					
Pass	$ 230,442	$ 580,097	$ 28,874	$ 23,341	$ 1,240,733
Special mention	6,927	1,031	—	—	9,164
Substandard	5,563	5,346	—	295	21,904
Doubtful	—	—	3	—	1,201
	242,932	586,474	28,877	23,636	1,273,002
Non-ACI:					
Pass	729	21,782	—	—	9,499
Special mention	—	—	—	—	398
Substandard	13	162	—	159	5,350
Doubtful	—	—	—	—	562
	742	21,944	—	159	15,809
	$ 243,674	$ 608,418	$ 28,877	$ 23,795	$ 1,288,811

	December 31, 2011				
	Multi-Family	Commercial Real Estate	Construction	Land	Commercial Loans and Leases
New loans:					
Pass	$ 106,010	$ 302,278	$ 23,086	$ 7,115	$ 778,069
Special mention	1,000	5,300	—	—	1,440
Substandard	913	2,430	3	332	9,106
Doubtful	—	—	—	—	918
	107,923	310,008	23,089	7,447	789,533

Non-ACI loans:					
Pass	757	32,096	—	—	10,550
Special mention	—	287	—	—	1,752
Substandard	17	295	—	164	6,662
Doubtful	—	—	—	—	220
	774	32,678	—	164	19,184
	$ 108,697	$ 342,686	$ 23,089	$ 7,611	$ 808,717

The following table presents an aging of loans in the new and non-ACI loan portfolios as of June 30, 2012 and December 31, 2011. Amounts are net of premiums, discounts, deferred fees and costs (in thousands):

	June 30, 2012					December 31, 2011				
	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due or in Foreclosure	Total	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due or in Foreclosure	Total
New loans:										
1-4 single family residential	$ 721,322	$ 2,275	$ 1,334	$ 78	$ 725,009	$ 450,661	$ 15,790	$ 142	$ —	$ 466,593
Home equity loans and lines of credit	1,611	—	—	—	1,611	1,996	14	—	27	2,037
Multi-family	241,045	—	—	1,887	242,932	107,010	913	—	—	107,923
Commercial real estate	584,845	1,629	—	—	586,474	310,008	—	—	—	310,008
Construction	28,874	—	—	3	28,877	23,086	—	—	3	23,089
Land	23,636	—	—	—	23,636	7,115	—	—	332	7,447
Commercial loans and leases	1,267,407	321	3,184	2,090	1,273,002	787,611	349	307	1,266	789,533
Consumer	10,847	18	—	—	10,865	3,387	10	—	—	3,397
	$ 2,879,587	$ 4,243	$ 4,518	$ 4,058	$ 2,892,406	$ 1,690,874	$ 17,076	$ 449	$ 1,628	$ 1,710,027
Non-ACI:										
1-4 single family residential	$ 74,028	$ 1,956	$ 499	$ 3,998	$ 80,481	$ 83,075	$ 1,812	$ 1,160	$ 6,624	$ 92,671
Home equity loans and lines of credit	149,958	4,752	1,258	9,458	165,426	164,367	4,181	2,626	7,825	178,999
Multi-family	742	—	—	—	742	774	—	—	—	774
Commercial real estate	21,944	—	—	—	21,944	32,383	—	—	295	32,678
Land	159	—	—	—	159	164	—	—	—	164
Commercial loans and leases	10,729	3,903	20	1,157	15,809	13,318	109	—	5,757	19,184
	257,560	10,611	1,777	14,613	284,561	294,081	6,102	3,786	20,501	324,470
	$ 3,137,147	$ 14,854	$ 6,295	$ 18,671	$ 3,176,967	$ 1,984,955	$ 23,178	$ 4,235	$ 22,129	$ 2,034,497

ACI Loans

The accretable yield on ACI loans represents the amount by which undiscounted expected future cash flows exceed carrying value. Changes in the accretable yield on ACI loans for the six months ended June 30, 2012 and the year ended December 31, 2011 were as follows (in thousands):

Balance, December 31, 2010	$ 1,833,974
Reclassifications from non-accretable difference	135,933
Accretion	(446,292)
Balance, December 31, 2011	1,523,615
Reclassifications from non-accretable difference	50,032
Accretion	(219,869)
Balance, June 30, 2012	$ 1,353,778

Accretable yield at June 30, 2012 included expected cash flows of $165.7 million from a pool of 1-4 single family residential loans whose carrying value has been reduced to zero. The unpaid principal balance of loans remaining in this pool was $344.3 million at June 30, 2012.

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

The tables below set forth at June 30, 2012 and December 31, 2011 the carrying amount of ACI loans or pools for which the Company has determined it is probable that it will be unable to collect all the cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition, if any, as well as ACI loans not accounted for in pools that have been modified in troubled debt restructurings, and the related allowance amounts (in thousands):

	June 30, 2012		
	Recorded Investment in Impaired Loans or Pools	Unpaid Principal Balance	Related Specific Allowance
With no specific allowance recorded:			
Commercial real estate	$ 107	$ 180	$ —

Land	484	710	—
Commercial loans and leases	313	313	—
With a specific allowance recorded:			
Multi-family	13,303	17,342	939
Commercial real estate	45,088	59,585	7,365
Construction	1,405	1,335	139
Land	14,404	17,524	1,185
Commercial loans and leases	12,890	13,703	1,457
Total:			
Residential	$ —	$ —	$ —
Commercial	87,994	110,692	11,085
	$ 87,994	$ 110,692	$ 11,085

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	December 31, 2011		
	Recorded Investment in Impaired Loans or Pools	Unpaid Principal Balance	Related Allowance
With no specific allowance recorded:			
Land	$ 435	$ 751	$ —
With a specific allowance recorded:			
Multi-family	11,144	13,497	1,063
Commercial real estate	49,876	67,698	10,672
Construction	3,467	11,678	991
Land	12,700	13,838	1,319
Commercial loans and leases	16,914	18,444	2,287
Total:			
Residential	$ —	$ —	$ —
Commercial	94,536	125,906	16,332
	$ 94,536	$ 125,906	$ 16,332

The following table summarizes ACI loans that were modified in troubled debt restructurings ("TDRs") during the three and six months ended June 30, 2012 and 2011 (dollars in thousands):

	Three Months Ended June 30, 2012				Three Months Ended June 30, 2011			
	Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period		Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period	
	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment
Commercial real estate	2	$ 433	1	$ 327	4	$ 945	3	$ 710
Land	—	—	—	—	1	355	—	—
Commercial loans and leases	2	381	—	—	—	—	—	—
	4	$ 814	1	$ 327	5	$ 1,300	3	$ 710

	Six Months Ended June 30, 2012				Six Months Ended June 30, 2011			
	Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period		Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period	
	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment
Commercial real estate	2	$ 433	1	$ 327	4	$ 945	3	$ 710
Land	—	—	—	—	1	355	—	—
Commercial loans and leases	3	403	—	—	—	—	—	—
	5	$ 836	1	$ 327	5	$ 1,300	3	$ 710

Modifications during the three and six month periods ended June 30, 2012 and 2011 included restructurings of the amount and timing of payments.

Modified ACI loans accounted for in pools are not considered TDRs, are not separated from the pools and are not classified as impaired loans.

The following table presents the average recorded investment in impaired ACI loans for the three and six months ended June 30, 2012 and 2011 (in thousands):

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011

Residential:				
Home equity loans and lines of credit	$ —	$ 74,822	$ —	$ 76,578
Commercial:				
Multi-family	16,584	34,520	14,771	40,324
Commercial real estate	47,764	69,211	48,468	65,179
Construction	2,561	4,911	2,863	4,687
Land	14,794	21,981	14,241	26,620
Commercial loans and leases	13,826	24,150	14,855	27,051
	95,529	154,773	95,198	163,861
	$ 95,529	$ 229,595	$ 95,198	$ 240,439

The following tables summarize key indicators of credit quality for the Company's ACI loans as of June 30, 2012 and December 31, 2011 (in thousands):

Residential credit exposure, based on delinquency status:

	June 30, 2012		December 31, 2011	
	1-4 Single Family Residential	Home Equity Loans and Lines of Credit	1-4 Single Family Residential	Home Equity Loans and Lines of Credit
Current	$ 1,180,710	$ 49,734	$ 1,278,887	$ 57,290
Past due less than 90 days	81,088	2,457	92,215	3,327
Past due 90 days or more	265,381	10,618	310,764	10,948
	$ 1,527,179	$ 62,809	$ 1,681,866	$ 71,565

Consumer credit exposure, based on delinquency status:

	June 30, 2012	December 31, 2011
Current	$ 2,579	$ 2,866
Past due less than 90 days	40	33
Past due 90 days or more	35	38
	$ 2,654	$ 2,937

Commercial credit exposure, based on internal risk rating:

	June 30, 2012				
	Multi-Family	Commercial Real Estate	Construction	Land	Commercial Loans and Leases
Pass	$ 32,142	$ 121,117	$ 707	$ 14,873	$ 7,965
Special mention	1,084	8,290	—	—	50
Substandard	23,715	75,275	3,075	11,226	9,323
Doubtful	—	59	—	—	188
	$ 56,941	$ 204,741	$ 3,782	$ 26,099	$ 17,526

	December 31, 2011				
	Multi-Family	Commercial Real Estate	Construction	Land	Commercial Loans and Leases
Pass	$ 34,593	$ 128,762	$ 635	$ 14,977	$ 12,657
Special mention	2,074	10,857	—	—	171
Substandard	24,524	83,681	3,467	18,041	10,374
Doubtful	519	56	—	—	805
	$ 61,710	$ 223,356	$ 4,102	$ 33,018	$ 24,007

The following table presents an aging of loans in the ACI portfolio as of June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012					December 31, 2011				
	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due or in Foreclosure	Total	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due or in Foreclosure	Total
1-4 single family residential	$ 1,180,710	$ 63,851	$ 17,237	$ 265,381	$ 1,527,179	$ 1,278,887	$ 66,767	$ 25,448	$ 310,764	$ 1,681,866
Home equity loans and lines of credit	49,734	1,895	562	10,618	62,809	57,290	2,500	827	10,948	71,565
Multi-family	47,051	—	—	9,890	56,941	49,116	—	674	11,920	61,710
Commercial real estate	200,501	1,067	—	3,173	204,741	212,253	1,292	459	9,352	223,356
Construction	707	—	—	3,075	3,782	635	—	—	3,467	4,102
Land	18,816	—	—	7,283	26,099	24,396	—	—	8,622	33,018
Commercial loans and leases	12,021	—	152	5,353	17,526	17,678	62	223	6,044	24,007
Consumer	2,579	21	19	35	2,654	2,866	25	8	38	2,937
	$ 1,512,119	$ 66,834	$ 17,970	$ 304,808	$ 1,901,731	$ 1,643,121	$ 70,646	$ 27,639	$ 361,155	$ 2,102,561

1-4 single family residential and home equity ACI loans that are contractually delinquent by more than 90 days and accounted for in pools that are on accrual status because discount continues to be accreted totaled $276.0 million and $321.7 million at June 30, 2012 and December 31, 2011, respectively. The carrying amount of commercial and commercial real estate ACI loans that are contractually delinquent in excess of ninety days but still classified as accruing loans due to discount accretion totaled $28.8 million and $39.4 million at June 30, 2012 and December 31, 2011, respectively.

Note 6 FDIC Indemnification Asset

The FDIC indemnification asset represents the present value of estimated future payments to be received from the FDIC under the terms of BankUnited's Loss Sharing Agreements with the FDIC.

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

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The following table summarizes the components of the gains and losses associated with covered assets, along with the related additions to or reductions in the amounts recoverable from the FDIC under the Loss Sharing Agreements, as reflected in the consolidated statements of operations for the three and six months ended June 30, 2012 and 2011 (in thousands):

	Three Months Ended June 30, 2012			Three Months Ended June 30, 2011		
	Transaction Income (Loss)	Net Gain (Loss) on Indemnification Asset	Net Impact on Pre-tax Earnings	Transaction Income (Loss)	Net Gain (Loss) on Indemnification Asset	Net Impact on Pre-tax Earnings
(Provision for) recovery of losses on covered loans	$ 1,484	$ (922)	$ 562	$ 6,443	$ (5,807)	$ 636
Income from resolution of covered assets, net	14,803	(12,923)	1,880	3,076	1,051	4,127
Gain (loss) on sale of OREO	1,490	(1,130)	360	(12,264)	9,445	(2,819)
Impairment of OREO	(3,048)	2,438	(610)	(8,187)	6,623	(1,564)
Net OREO loss	(1,558)	1,308	(250)	(20,451)	16,068	(4,383)
	$ 14,729	$ (12,537)	$ 2,192	$ (10,932)	$ 11,312	$ 380

	Six Months Ended June 30, 2012			Six Months Ended June 30, 2011		
	Transaction Income (Loss)	Net Gain (Loss) on Indemnification Asset	Net Impact on Pre-tax Earnings	Transaction Income (Loss)	Net Gain (Loss) on Indemnification Asset	Net Impact on Pre-tax Earnings
Provision for losses on covered loans	$ (116)	$ 673	$ 557	$ (3,574)	$ 832	$ (2,742)
Income from resolution of covered assets, net	22,085	(18,375)	3,710	2,366	4,154	6,520
Gain (loss) on sale of OREO	89	23	112	(24,474)	18,388	(6,086)
Impairment of OREO	(6,595)	5,276	(1,319)	(17,786)	14,260	(3,526)
Net OREO loss	(6,506)	5,299	(1,207)	(42,260)	32,648	(9,612)
	$ 15,463	$ (12,403)	$ 3,060	$ (43,468)	$ 37,634	$ (5,834)

Changes in the FDIC indemnification asset for the six months ended June 30, 2012 and the year ended December 31, 2011 were as follows (in thousands):

Balance, December 31, 2010	$ 2,667,401
Accretion	55,901
Reduction for claims filed	(753,963)
Net gain on indemnification asset	79,812
Balance, December 31, 2011	2,049,151
Accretion	11,081
Reduction for claims filed	(336,303)
Net loss on indemnification asset	(12,403)
Balance, June 30, 2012	$ 1,711,526

Under the terms of the Loss Sharing Agreements, the Company is also entitled to reimbursement from the FDIC for certain expenses related to covered assets upon final resolution of those assets. For the three and six months ended June 30, 2012 and 2011, non-interest expense includes approximately $5.1 million, $10.0 million, $8.6 million and $17.5 million, respectively, of expenses subject to reimbursement at the 80% level under the Loss Sharing Agreements. For those same periods, claims of $3.3 million, $9.8 million, $8.2 million and $18.7 million, respectively, were submitted to the FDIC for reimbursement. As of June 30, 2012, $18.9 million of expenses remained to be submitted for reimbursement from the FDIC in future periods as the related covered assets are resolved.

Note 7 Income Taxes

The Company's effective income tax rate for the six months ended June 30, 2012 differed from the statutory federal income tax rate primarily due to the impact of state income taxes, non-deductible equity based compensation expense and a non-taxable gain on the acquisition of Herald. For the six months ended June 30, 2011 the effective income tax rate differed from the statutory federal income tax rate primarily due to the impact of $110.4 million in non-deductible equity based compensation expense. Additionally, during the six months ended June 30, 2011, the Company recorded a provision related to uncertain state income tax positions of approximately $7.6 million.

Note 8 Derivatives and Hedging Activities

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

The Company also enters into interest rate swaps with certain of its borrowers to enable those borrowers to manage their exposure to interest rate fluctuations. To mitigate interest rate risk associated with these derivative contracts, the Company enters into offsetting derivative contract positions with financial institution counterparties. These interest rate swap contracts are not designated as hedging instruments; therefore, changes in the fair value of these derivatives are recognized immediately in earnings. The impact on earnings related to changes in fair value of these derivatives for the three and six months ended June 30, 2012 and 2011 was not material.

The Company may be exposed to credit risk in the event of non-performance by the counterparties to its interest rate swap agreements. The Company assesses the credit risk of its financial institution counterparties by monitoring publicly available credit rating and financial information. The Company manages dealer credit risk by entering into interest rate swaps only with primary and highly rated counterparties, the use of ISDA master agreements and counterparty limits. The agreements may require counterparties to post collateral in defined circumstances. The Company is currently in a liability position with respect to these interest rate swap agreements and is therefore not holding any collateral. The Company manages the risk of default by its borrower counterparties through its normal loan underwriting and credit monitoring policies and procedures. The Company does not currently anticipate any losses from failure of interest rate swap counterparties to honor their obligations.

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 or upon the initiation of other defined regulatory actions. Currently, there are no circumstances that would trigger these provisions of the agreements. The fair value of derivative instruments containing these provisions that were in a liability position at June 30, 2012 was $65.4 million.

The following tables set forth certain information concerning the Company's interest rate contract derivative financial instruments and related hedged items at June 30, 2012 and December 31, 2011 (dollars in thousands):

	June 30, 2012							
	Hedged Item	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Remaining Life in Years	Notional Amount	Balance Sheet Location	Fair value Asset	Fair value Liability
Derivatives designated as cash flow hedges:								
Pay-fixed interest rate swaps	Variability of interest cash flows on certificates of deposit	3.11%	12-Month Libor	3.4	$ 225,000	Other liabilities	$ —	$ (17,527)
Purchased interest rate forward-starting swaps	Variability of interest cash flows on variable rate borrowings	3.65%	3-Month Libor	3.9	405,000	Other liabilities	—	(47,907)
Derivatives not designated as hedges:								
Pay-fixed interest rate swaps		5.03%	Indexed to 1-month Libor	5.7	64,328	Other liabilities	—	(4,577)
Pay-variable interest rate swaps		Indexed to 1-month Libor	5.03%	5.7	64,328	Other assets	4,577	—
					$ 758,656		$ 4,577	$ (70,011)

	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
				December 31, 2011				
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	3.9	$ 225,000	Other liabilities	$ —	$ (15,854)
Purchased interest rate forward-starting swaps	Variability of interest cash flows on variable rate borrowings	3.65%	3-Month Libor	4.4	405,000	Other liabilities	—	(47,593)
Derivatives not designated as hedges:								
Pay-fixed interest rate swaps		5.15%	Indexed to 1-month Libor	5.6	53,018	Other liabilities	—	(3,731)
Pay-variable interest rate swaps		Indexed to 1-month Libor	5.15%	5.6	53,018	Other assets	3,731	—
					$ 736,036		$ 3,731	$ (67,178)

The following table provides information about gains and losses recognized, included in interest expense in the accompanying consolidated statements of operations, related to interest rate contract derivative instruments designated as cash flow hedges for the three and six months ended June 30, 2012 and 2011 (in thousands):

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Amount of loss included in AOCI at end of period, net of tax	$ (36,893)	$ (26,692)	$ (36,893)	$ (26,692)
Amount of loss reclassified from AOCI into income during the period (effective portion)	$ (4,454)	$ (4,767)	$ (8,883)	$ (9,469)
Amount of gain loss recognized in income during the period (ineffective portion)	$ —	$ —	$ —	$ 427

During the six months ended June 30, 2012 and 2011, no derivative positions designated as cash flow hedges were discontinued and none of the gains and losses reported in AOCI were reclassified into earnings as a result of the discontinuance of cash flow hedges or because of the early extinguishment of debt. As of June 30, 2012, the amount expected to be reclassified from AOCI into income during the next twelve months was $17.4 million.

At June 30, 2012, investment securities available for sale with a carrying amount of $75.9 million and cash on deposit of $11.5 million were pledged as collateral for interest rate swaps. The amount of collateral required to be

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posted by the Company varies based on the settlement value of outstanding swaps, which approximates their carrying amount at June 30, 2012.

The Company enters into commitments to fund residential mortgage loans with the intention that these loans will subsequently be sold into the secondary market. A mortgage loan commitment binds the Company to lend funds to a potential borrower at a specified interest rate within a specified period of time, generally 30 to 90 days. These commitments are considered derivative instruments. The notional amount of outstanding mortgage loan commitment derivatives was $11.2 million and $8.4 million at June 30, 2012 and December 31, 2011, respectively. Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the commitments might decline from inception of the commitment to funding of the loan. To protect against the price risk inherent in derivative loan commitments, the Company utilizes “best efforts” forward loan sale commitments. Under a “best efforts” contract, the Company commits to deliver an individual mortgage loan to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the Company for a loan is specified prior to the loan being funded. These commitments are considered derivative instruments once the underlying loans are funded. All of the Company’s loans held for sale at June 30, 2012 and December 31, 2011 were subject to forward sale commitments. The notional amount of forward loan sale commitment derivatives was $3.0 million and $4.0 million at June 30, 2012 and December 31, 2011, respectively. The fair value of derivative loan commitments and forward sale commitments was nominal at June 30, 2012 and December 31, 2011.

Note 9 Stockholders’ Equity

In February, 2012, the Company created a series of 5,416,000 shares of preferred stock designated “Series A Nonvoting Convertible Preferred Stock”, par value $0.01 per share. The preferred stock ranks *pari passu* with the Company’s common stock with respect to the payment of dividends or distributions and has a liquidation preference of $0.01 per share. Subject to certain restrictions, each share of preferred stock is convertible into one share of common stock at the option of the holder or upon written request of the Company.

On February 2, 2011, the Company closed the initial public offering (“IPO”) of 33,350,000 shares of its common stock at $27.00 per share. In the offering, the Company sold 4,000,000 shares and selling stockholders sold 29,350,000 shares. Proceeds received by the Company on the sale of the 4,000,000 shares amounted to $102.6 million, net of underwriting discounts. The Company incurred direct costs of the stock issuance of $4.0 million, which were charged to paid-in capital. Prior to the IPO, BankUnited, Inc. was a wholly-owned subsidiary of BU Financial Holdings, LLC (“BUFH”). Immediately prior to the completion of the IPO, a reorganization was effected in accordance with BUFH’s LLC agreement, pursuant to which all equity interests in BankUnited, Inc. were distributed to the members of BUFH and BUFH was liquidated.

Effective January 10, 2011, the Board of Directors of BankUnited, Inc. (the “Board of Directors”), authorized a 10-for-1 split of the Company’s outstanding common shares. Stockholders’ equity has been retroactively adjusted to give effect to this stock split for all periods presented by reclassifying from paid-in capital to common stock the par value of the additional shares issued. All share and per share data have been retroactively restated for all periods presented to reflect this stock split.

Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income for the three and six months ended June 30, 2012 and 2011 are summarized as follows (in thousands):

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	Three Months Ended June 30,					
	2012			2011		
	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 arising during the period	$ 16,676	$ (6,433)	$ 10,243	$ 13,914	$ (5,367)	$ 8,547
Reclassification adjustment for net securities gains realized in income	(880)	340	(540)	(100)	39	(61)
Net change in unrealized gains on securities available for sale	15,796	(6,093)	9,703	13,814	(5,328)	8,486
Unrealized losses on derivative instruments:						
Net unrealized holding loss arising during the period	(7,435)	2,868	(4,567)	(16,785)	6,476	(10,309)
Reclassification adjustment for net losses realized in income	4,454	(1,718)	2,736	4,768	(1,840)	2,928
Net change in unrealized losses on derivative instruments	(2,981)	1,150	(1,831)	(12,017)	4,636	(7,381)
Other comprehensive income	$ 12,815	$ (4,943)	$ 7,872	$ 1,797	$ (692)	$ 1,105

	Six Months Ended June 30,					
	2012			2011		
	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 arising during the period	$ 56,749	$ (21,891)	$ 34,858	$ 13,116	$ (5,059)	$ 8,057
Reclassification adjustment for net securities gains realized in income	(896)	346	(550)	(103)	40	(63)
Net change in unrealized gains on securities available for sale	55,853	(21,545)	34,308	13,013	(5,019)	7,994
Unrealized losses on derivative instruments:						
Net unrealized holding loss arising during the period	(8,462)	3,264	(5,198)	(13,965)	5,388	(8,577)
Reclassification adjustment for net losses realized in income	8,884	(3,427)	5,457	9,469	(3,653)	5,816
Net change in unrealized losses on derivative instruments	422	(163)	259	(4,496)	1,735	(2,761)
Other comprehensive income	$ 56,275	$ (21,708)	$ 34,567	$ 8,517	$ (3,284)	$ 5,233

Note 10 Equity Based Compensation

During the six months ended June 30, 2012, the Company granted 41,760 shares of unvested stock under the BankUnited 2010 Omnibus Equity Incentive Plan (the “2010 Plan”). The shares granted were valued at the closing price of the Company’s common stock on the date of grant, ranging from $23.08 to $24.66, for a weighted average per share value on the date of grant of $24.27 and an aggregate fair value of $1.0 million. During the six months ended June 30, 2011, the Company granted 283,090 shares of unvested stock under the 2010 Plan valued at the closing price of the Company’s common stock on the date of grant ranging from $27.00 to $28.05, for a weighted average per share value on the date of grant of $27.99 and an aggregate fair value of $7.9 million. The majority of these shares vest in equal annual installments over a period of three years. Unvested shares participate in dividends declared on the Company’s common stock on a one-for-one basis.

Prior to the IPO, BUFH had a class of authorized membership interests identified as Profits Interest Units (“PIUs”) which were awarded to certain management members of the Company. In conjunction with the IPO, the PIUs outstanding were exchanged for a combination of vested and unvested shares of the Company’s common stock and vested and unvested stock options. The vested and unvested shares and vested stock options participate in dividends declared on the Company’s common stock on a one-for-one basis. The unvested stock options participate on a one-for-one basis in dividends declared on common stock until they vest. In the first quarter of 2011 in conjunction with the IPO, the Company recorded approximately $110.4 million in compensation expense related to the exchange and vesting of PIUs. This expense, which is not deductible for tax purposes, resulted in an offsetting increase in paid-in capital.

Note 11 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, certain preferred stocks and mutual funds. If quoted prices in active markets are not available, fair values are estimated using quoted prices of securities with similar characteristics, quoted prices of identical securities in less active markets, discounted cash flow techniques, or matrix pricing models. Investment securities available for sale that are generally classified within level 2 of the fair value hierarchy include U.S. Government agency debentures, U.S. Government agency and sponsored enterprise mortgage-backed securities, preferred stock investments for which level 1 valuations are not available, corporate debt securities, certain non-mortgage asset-backed securities, Re-Remics, commercial mortgage-backed securities, state and municipal obligations and U.S. Small Business Administration securities. Pricing of these securities is generally 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 private label mortgage-backed securities, certain non-mortgage asset-backed securities and trust preferred securities. The Company typically values these securities using internally developed or third-party proprietary pricing models, primarily discounted cash flow valuation techniques, which incorporate both observable and unobservable inputs. Unobservable inputs that may impact the valuation of these securities include risk adjusted discount rates, projected prepayment rates, projected default rates and projected loss severity.

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

The following tables present assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Investment Securities Available for Sale:				
U.S. Treasury and government agency securities	$ 20,073	$ 32,550	$ —	$ 52,623
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	—	2,062,900	—	2,062,900
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities	—	116,052	—	116,052
Re-Remics	—	671,022	—	671,022
Private label residential mortgage-backed securities and CMOs	—	—	487,990	487,990
Private label commercial mortgage-backed securities	—	369,134	—	369,134
Non-mortgage asset-backed securities	—	264,420	75,194	339,614
Mutual funds and preferred stocks	266,695	20	—	266,715
State and municipal obligations	—	24,495	—	24,495
Small Business Administration securities	—	352,133	—	352,133
Other debt securities	—	12,095	3,736	15,831
Derivative assets	—	4,577	—	4,577
Total assets at fair value	$ 286,768	$ 3,909,398	$ 566,920	$ 4,763,086
Derivative liabilities	—	70,011	4	70,015
Total liabilities at fair value	$ —	$ 70,011	$ 4	$ 70,015

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Investment Securities Available for Sale:				
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	$ —	$ 1,985,713	$ —	$ 1,985,713
Re-Remics	—	546,310	—	546,310

Private label residential mortgage-backed securities and CMO's	—	—	387,687	387,687
Private label commercial mortgage-backed securities	—	262,562	—	262,562
Non-mortgage asset-backed securities	—	331,015	79,870	410,885
Mutual funds and preferred stocks	253,778	39	—	253,817
State and municipal obligations	—	25,270	—	25,270
Small Business Administration securities	—	303,677	—	303,677
Other debt securities	—	2,897	3,159	6,056
Derivative assets	—	3,731	—	3,731
Total assets at fair value	$ 253,778	$ 3,461,214	$ 470,716	$ 4,185,708
Derivative liabilities	—	67,178	—	67,178
Total liabilities at fair value	$ —	$ 67,178	$ —	$ 67,178

There were no transfers of financial assets between levels of the fair value hierarchy during the three and six months ended June 30, 2012 and 2011.

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 three and six months ended June 30, 2012 and 2011 (in thousands):

	Three Months Ended June 30, 2012			
	Private Label Residential Mortgage-Backed Securities	Non-Mortgage Asset-Backed Securities	Other Debt Securities	Derivative Liabilities
Balance at beginning of period	$ 444,417	$ 78,010	$ 3,315	$ (37)
Gains (losses) for the period included in:				
Net income	—	—	—	33
Other comprehensive income	(1,922)	49	426	—
Purchases or issuances	71,129	—	—	—
Sales	—	—	—	—
Settlements	(25,634)	(2,865)	(5)	—
Transfers into level 3	—	—	—	—
Transfers out of level 3	—	—	—	—
Balance at end of period	$ 487,990	$ 75,194	$ 3,736	$ (4)

	Three Months Ended June 30, 2011					
	Re-Remics	Private Label Residential Mortgage-Backed Securities	Private Label Commercial Mortgage-Backed Securities	Non-Mortgage Asset-Backed Securities	Other Debt Securities	Derivative Liabilities
Balance, beginning of period	$ 565,641	$ 361,848	$ —	$ 175,232	$ 4,528	$ (34)
Gains (losses) for the period included in:						
Net income	—	—	—	—	—	5
Other comprehensive income	(2,900)	(1,305)	—	2,584	(8)	—
Purchases or issuances	—	9,390	64,778	48,450	—	—
Sales	—	—	—	—	—	—
Settlements	(35,147)	(16,698)	—	(4,914)	(9)	—
Transfers into level 3	—	—	—	—	—	—
Transfers out of level 3	—	—	—	—	—	—
Balance, end of period	$ 527,594	$ 353,235	$ 64,778	$ 221,352	$ 4,511	$ (29)

	Six Months Ended June 30, 2012			
	Private Label Residential Mortgage-Backed Securities	Non-Mortgage Asset-Backed Securities	Other Debt Securities	Derivative Liabilities
Balance at beginning of period	$ 387,687	$ 79,870	$ 3,159	$ —
Gains (losses) for the period included in:				
Net income	—	—	—	(4)
Other comprehensive income	6,150	377	588	—
Purchases or issuances	144,437	—	—	—
Sales	—	—	—	—
Settlements	(50,284)	(5,053)	(11)	—
Transfers into level 3	—	—	—	—
Transfers out of level 3	—	—	—	—
Balance at end of period	$ 487,990	$ 75,194	$ 3,736	$ (4)

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BANKUNITED, INC. AND SUBSIDIARIES
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	Six Months Ended June 30, 2011							
	Re-Remics	Private Label Residential Mortgage-Backed Securities	Private Label Commercial Mortgage-Backed Securities	Non-Mortgage Asset-Backed Securities	Other Debt Securities	FDIC Warrant	PIU Liability	Derivative Liabilities
Balance, beginning of period	$ 612,631	$ 382,920	$ —	$ 130,610	$ 3,943	$ (25,000)	$ (44,964)	$ (78)
Gains (losses) for the period included in:								
Net income	—	—	—	—	—	—	—	49
Other comprehensive income	(4,761)	(7,772)	—	3,678	568	—	—	—
Purchases or issuances	—	9,390	64,778	95,108	—	—	—	—
Settlements	(80,276)	(31,303)	—	(8,044)	—	25,000	44,964	—
Transfers into level 3	—	—	—	—	—	—	—	—
Transfers out of level 3	—	—	—	—	—	—	—	—
Balance, end of period	$ 527,594	$ 353,235	$ 64,778	$ 221,352	$ 4,511	$ —	$ —	$ (29)

Changes in the fair value of derivative liabilities are included in the consolidated statement of operations line item “Other non-interest expense”.

The following table provides information about the valuation techniques and unobservable inputs used in the valuation of financial instruments falling within level 3 of the fair value hierarchy as of June 30, 2012 (in thousands):

	Fair Value at June 30, 2012	Valuation Technique	Unobservable Input	Range (Weighted Average)
Private label residential mortgage-backed securities and CMO’s - Covered	$ 203,334	Discounted cash flow	Voluntary prepayment rate Probability of default Loss severity	1.67% - 30.11% (8.58%) 0.00% - 45.76% (8.12%) 0.00% - 95.33% (9.48%)
Private label residential mortgage-backed securities and CMO’s - Non-covered	$ 284,656	Discounted cash flow	Voluntary prepayment rate Probability of default Loss severity	3.61% - 63.87% (13.92%) 0.00% - 7.48% (1.37%) 0.00% - 51.89% (11.90%)
Non-mortgage asset-backed securities secured by commercial loans	$ 75,194	Discounted cash flow	Voluntary prepayment rate Probability of default Loss severity	5.00% - 10.00% (6.56%) 4.00% - 5.00% (4.31%) 55.00% - 55.00% (55.00%)

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

Non-mortgage asset-backed securities for which fair value measurements are categorized in level 3 of the fair value hierarchy at June 30, 2012 consisted of two groups of securities collateralized by small balance commercial loans. The first group is comprised of 2003 issue senior floating rate bonds with a coupon of LIBOR + 0.43%, rated AAA/AA+/Aaa (Fitch/S&P/Moody’s) with a current subordination level of 26.1%. The second group is comprised of AAA rated 2011 issue senior fixed rate bonds with a coupon of 5% and a current subordination level of 28.5%.

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Non-covered private label residential mortgage-backed securities for which fair value measurements are classified in level 3 of the fair value hierarchy at June 30, 2012 can be categorized into three groups. The first group, with an aggregate fair value of $195.4 million, is comprised of AAA rated securities issued from 2010 to 2012, collateralized by prime jumbo fixed rate and hybrid 1-4 single family residential mortgages with collateral origination dates ranging from 2009 to 2012. The coupon rates on these bonds range from 2.9% to 4.1% and current subordination levels range from 7.3% to 20.9%. The second group, with an aggregate fair value of $40.9 million, consists of securities issued in 2010 collateralized by Alt-a, fixed rate 1-4 single family mortgages originated from 2005 to 2008. The securities in this group are senior and senior subordinate tranches with ratings ranging from Aaa to A1. The coupon rates on these bonds range from 5.2% to 5.7% and current subordination levels range from 59.3% to 69.2%. The third group, with an aggregate fair value of $48.4 million, is comprised of senior tranches issued from 2003 to 2005 collateralized by prime fixed rate and hybrid 1-4 single family residential mortgages originated from 2002 to 2004. These securities have coupons ranging from 2.7% to 5.5%, ratings ranging from Aa2 to AAA and current subordination levels ranging from 7.2% to 12.9%.

The covered securities for which fair value measurements are categorized in level 3 of the fair value hierarchy at June 30, 2012 consisted of pooled trust preferred securities with a fair value of $3.7 million and private label residential mortgage-backed securities with a fair value of $203.3 million. The trust preferred securities are not material to the Company’s financial statements. The private label mortgage-backed securities were acquired in the FSB Acquisition and vary significantly with respect to seniority, subordination, collateral type and collateral performance; however, because of the Loss Sharing Agreements, the Company has minimal risk with respect to fluctuations in the value of these securities.

The Company uses third-party pricing services in determining fair value measurements for investment securities that are categorized in level 3 of the fair value hierarchy. To obtain an understanding of the methodologies and assumptions used, management may review written documentation provided by the pricing services, conduct interviews with valuation desk personnel, perform on-site walkthroughs and review model results and detailed assumptions used to value selected securities as considered necessary. Management has established a 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 our primary pricing service for a sample of securities are validated. When there are price discrepancies, the final determination of fair value is based on careful consideration of the assumptions and inputs employed by each of the pricing sources.

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

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

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

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The following tables present assets for which nonrecurring changes in fair value have been recorded for the three and six month periods ended June 30, 2012 and 2011 (in thousands):

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

	June 30, 2011				Gains (Losses) from Fair Value Changes	
					Three Months Ended	Six Months Ended
					June 30, 2011	
	Level 1	Level 2	Level 3	Total		
Other real estate owned	$ —	$ —	$ 141,723	$ 141,723	$ (8,187)	$ (17,786)

The following table presents the carrying value and fair value of financial instruments as of June 30, 2012 and December 31, 2011 and the level within the fair value hierarchy in which those measurements are classified (in thousands):

		June 30, 2012		December 31, 2011	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:					
Cash and cash equivalents	1	$ 164,144	$ 164,144	$ 303,742	$ 303,742
Investment securities available for sale	1/2/3	4,758,509	4,758,509	4,181,977	4,181,977
Non-marketable equity securities	1	154,376	154,376	147,055	147,055
Loans held for sale	2	2,970	2,995	3,952	3,994
Loans:					
Covered	3	2,161,170	2,679,026	2,398,737	2,856,268
Non-covered	3	2,861,893	2,893,972	1,689,919	1,725,313
FDIC Indemnification asset	3	1,711,526	1,593,804	2,049,151	1,950,446
Accrued interest receivable	1	22,433	22,433	19,133	19,133
Derivative assets	2	4,577	4,577	3,731	3,731
Liabilities:					
Demand, savings and money market deposits	1	$ 5,601,922	$ 5,601,922	$ 4,777,530	$ 4,777,530
Time deposits	2	2,624,692	2,656,270	2,587,184	2,621,874
Short-term borrowings	1	42,581	42,581	206	206
Federal Home Loan Bank advances	2	2,226,978	2,267,555	2,236,131	2,294,265
Income taxes payable	1	82,061	82,061	53,171	53,171
Accrued interest payable	1	7,712	7,712	8,519	8,519
Advance payments by borrowers for taxes and insurance	1	36,151	36,151	21,838	21,838
Derivative liabilities	2/3	70,015	70,015	67,178	67,178

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

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receivable, short-term borrowings, income taxes payable, accrued interest payable and advance payments by borrowers for taxes and insurance.

Non-marketable equity securities:

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

Loans held for sale:

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

ACI and non-ACI loans:

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

New loans:

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

FDIC indemnification asset:

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

Deposits:

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

Federal Home Loan Bank advances:

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

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Note 12   Commitments and Contingencies

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

Commitments to fund loans:

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

Unfunded commitments under lines of credit:

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

Commercial and standby letters of credit:

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

Total lending related commitments outstanding at June 30, 2012 were as follows (in thousands):

	Covered	Non-Covered	Total
Commitments to fund loans	$ —	$ 237,914	$ 237,914
Commitments to purchase loans	—	15,091	15,091
Unfunded commitments under lines of credit	76,858	381,244	458,102
Commercial and standby letters of credit	—	32,408	32,408
	$ 76,858	$ 666,657	$ 743,515

Legal Proceedings

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

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

The following discussion and analysis is intended to focus on significant changes in the financial condition and results of operations of the Company during the three and six months ended June 30, 2012 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 2011 Annual Report on Form 10-K for the year ended December 31, 2011 (the "2011 Annual Report on Form 10-K").

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect the Company's current views with respect to, among other things, future events and financial performance. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," and similar expressions identify forward-looking statements. These forward-looking statements are based on the historical performance of the Company or on the Company's current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by the Company that the future plans, estimates or expectations so contemplated will be achieved. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to the Company's operations, financial results, financial condition, business prospects, growth strategy and liquidity. If one or more of these or other risks or uncertainties materialize, or if the Company's underlying assumptions prove to be incorrect, the Company's actual results may vary materially from those indicated in these statements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements. Factors that may cause actual results to differ materially from these forward-looking statements include but are not limited to, the risk factors described in Part I, Item 1A of the 2011 Annual Report on Form 10-K. The Company does not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

Quarterly Highlights

- Net income for the quarter ended June 30, 2012 was $48.9 million or $0.48 per share, as compared to $44.0 million or $0.44 per share, for the quarter ended June 30, 2011.

- Net interest income increased by $28.5 million to $145.8 million for the quarter ended June 30, 2012 from $117.3 million for the quarter ended June 30, 2011. The primary drivers of the increase in net interest income were an increase in interest income on loans of $20.4 million and a decrease in interest expense on deposits of $2.0 million. The yield on loans decreased to 11.87% for the quarter ended June 30, 2012 from 13.15% for the quarter ended June 30, 2011, reflecting a decrease in the yield on new loans and an increase in the proportion of the portfolio comprised of new loans, partially offset by an increase in the yield on covered loans. The average rate paid on deposits declined to 0.84% for the quarter ended June 30, 2012 from 1.12% for the quarter ended June 30, 2011 reflecting declines in market interest rates and a continued shift in deposit mix away from time deposits toward lower cost deposit products. The net interest margin decreased to 5.82% from 5.99%.

- Loans, net of discount and deferred fees and costs, increased by $369.4 million during the quarter ended June 30, 2012. New loans grew by $501.2 million while covered loans declined by $131.8 million.

- Asset quality remained strong, with a ratio of non-performing assets to total assets of 0.98%, a ratio of non-performing loans to total loans of 0.54%, and an annualized net charge-off ratio (net charge-offs to average loans) of 0.19%. Substantially all non-performing assets were covered assets at June 30, 2012.

- Demand deposits represented 20.1% of total deposits at June 30, 2012 compared to 16.6% of total deposits at December 31, 2011 while time deposits declined to 31.9% of total deposits at June 30, 2012 from 35.1% at December 31, 2011.

- The Company's capital ratios continue to exceed the requirements to be considered well capitalized under applicable regulatory guidelines, with a Tier 1 leverage ratio of 12.8%, a Tier 1 risk-based capital ratio of 34.8% and a Total risk-based capital ratio of 36.2% at June 30, 2012.

Results of Operations

Net Interest Income

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

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

Net interest income is also impacted by the accounting for ACI loans and to a declining extent, the accretion of fair value adjustments recorded in conjunction with the FSB Acquisition. ACI loans were initially recorded at fair value, measured based on the present value of expected cash flows. The excess of expected cash flows over carrying value, known as accretable yield, is being recognized as interest income over the lives of the underlying loans. Accretion related to ACI loans has a positive impact on our net interest income, net interest margin and interest rate spread. The impact of accretion related to ACI loans on net interest income, 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 will decline as the ACI loans are resolved and new loans are added to the portfolio. ACI loans represented 37.4% and 50.8% of total loans, net of discounts, premiums and deferred costs and fees, at June 30, 2012, and December 31, 2011, respectively. As the impact of accretion related to ACI loans declines, we expect our net interest margin and interest rate spread to decrease.

Payments received in excess of expected cash flows may result in a pool of ACI residential loans becoming fully amortized and its carrying value reduced to zero even though outstanding contractual balances remain related to loans in the pool. Once the carrying value of a pool is reduced to zero, any future proceeds from the remaining loans are recognized as interest income upon receipt. The carrying value of one pool was reduced to zero in late 2011. Future expected cash flows from this pool totaled $165.7 million as of June 30, 2012. The UPB of loans remaining in this pool was $344.3 million at June 30, 2012. We expect that future proceeds from loans in this pool will result in an increase in interest income from the pool. To some extent, the increase in interest income will be offset by a reduction in non-interest income reported in the consolidated statement of operations line item "Income from resolution of covered assets, net." The timing of receipt of proceeds from loans in this pool may be unpredictable, leading to increased volatility in the yield on the pool.

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

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

The following tables present, for the periods indicated, information about (i) average balances, the total dollar amount of interest income from earning assets and the resultant average yields; (ii) average balances, the total

dollar amount of interest expense on interest bearing liabilities and the resultant average rates; (iii) net interest income; (iv) the interest rate spread; and (v) the net interest margin. Nonaccrual and restructured loans are included in the average balances presented in this table; however, interest income foregone on nonaccrual loans is not included. Yields have been calculated on a pre-tax basis (dollars in thousands):

	Three Months Ended June 30,					
	2012			2011		
	Average Balance	Interest	Yield/ Rate (1)	Average Balance	Interest	Yield/ Rate (1)
Assets:						
Interest earning assets:						
Investment securities available for sale	$ 4,688,632	$ 34,059	2.91%	$ 3,541,723	$ 29,237	3.30%
Other interest earning assets	522,874	1,235	0.95%	572,792	617	0.43%
Loans	4,813,393	142,621	11.87%	3,722,389	122,243	13.15%

Total interest earning assets	10,024,899	177,915	7.11%	7,836,904	152,097	7.77%
Allowance for loan and lease losses	(57,351)			(61,168)		
Non-interest earning assets	2,414,312			2,983,739		
Total assets	$ 12,381,860			$ 10,759,475		
Liabilities and Stockholders' Equity:						
Interest bearing liabilities:						
Interest bearing demand deposits	$ 502,313	814	0.65%	$ 372,060	624	0.67%
Savings and money market deposits	3,958,633	6,491	0.66%	3,248,353	7,023	0.87%
Time deposits	2,624,250	9,742	1.49%	2,546,673	11,377	1.79%
Total interest bearing deposits	7,085,196	17,047	0.97%	6,167,086	19,024	1.24%
Borrowings:						
FHLB advances	2,229,410	15,036	2.71%	2,248,514	15,747	2.81%
Short-term borrowings	35,244	35	0.40%	3,785	4	0.42%
Total interest bearing liabilities	9,349,850	32,118	1.38%	8,419,385	34,775	1.66%
Non-interest bearing demand deposits	1,055,998			619,052		
Other non-interest bearing liabilities	302,923			270,951		
Total liabilities	10,708,771			9,309,388		
Stockholders' equity	1,673,089			1,450,087		
Total liabilities and stockholders' equity	$ 12,381,860			$ 10,759,475		
Net interest income		$ 145,797			$ 117,322	
Interest rate spread			5.73%			6.11%
Net interest margin			5.82%			5.99%

(1) Annualized

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	Six Months Ended June 30,					
	2012			2011		
	Average Balance	Interest	Yield/ Rate (1)	Average Balance	Interest	Yield/ Rate (1)
Assets:						
Interest earning assets:						
Investment securities available for sale	$ 4,543,664	$ 67,098	2.95%	$ 3,372,406	$ 61,786	3.66%
Other interest earning assets	523,792	2,189	0.84%	682,059	1,623	0.48%
Loans	4,544,554	278,918	12.30%	3,762,366	236,894	12.62%
Total interest earning assets	9,612,010	348,205	7.26%	7,816,831	300,303	7.70%
Allowance for loan and lease losses	(53,604)			(59,813)		
Non-interest earning assets	2,427,300			3,078,889		
Total assets	$ 11,985,706			$ 10,835,907		
Liabilities and Stockholders' Equity:						
Interest bearing liabilities:						
Interest bearing demand deposits	$ 488,606	1,581	0.65%	$ 361,002	1,177	0.66%
Savings and money market deposits	3,809,788	12,924	0.68%	3,250,407	14,249	0.88%
Time deposits	2,601,538	19,502	1.51%	2,719,296	23,904	1.77%
Total interest bearing deposits	6,899,932	34,007	0.99%	6,330,705	39,330	1.25%
Borrowings:						
FHLB advances	2,231,918	30,555	2.75%	2,250,855	31,319	2.81%
Short-term borrowings	18,226	37	0.41%	2,045	5	0.49%
Total interest bearing liabilities	9,150,076	64,599	1.42%	8,583,605	70,654	1.66%
Non-interest bearing demand deposits	959,564			572,595		
Other non-interest bearing liabilities	247,370			274,350		
Total liabilities	10,357,010			9,430,550		
Stockholders' equity	1,628,696			1,405,357		
Total liabilities and stockholders' equity	$ 11,985,706			$ 10,835,907		
Net interest income		$ 283,606			$ 229,649	
Interest rate spread			5.84%			6.04%
Net interest margin			5.90%			5.87%

(1) Annualized

Three months ended June 30, 2012 compared to three months ended June 30, 2011

Net interest income was $145.8 million for the three months ended June 30, 2012 compared to $117.3 million for the three months ended June 30, 2011, an increase of $28.5 million. The increase in net interest income was comprised of an increase in interest income of $25.8 million and a decrease in interest expense of $2.7 million.

The increase in interest income resulted primarily from a $20.4 million increase in interest income from loans and a $4.8 million increase in interest income from investment securities available for sale. Increased interest income from loans resulted from a $1.1 billion increase in the average balance outstanding and a decrease in the average yield to 11.87% for the three months ended June 30, 2012 from 13.15% for the comparable period in 2011. The yield on loans acquired in the FSB Acquisition was 20.46% for the three months ended June 30, 2012 as compared to 14.95% for the three months ended June 30, 2011. This increase resulted primarily from (i) covered loans being resolved at a faster rate than expected, resulting in higher accretion, (ii) improvements in probability of default and loss severity given default leading to an increase in expected cash flows, (iii) favorable resolutions of commercial ACI loans and (iv) recognition of all proceeds from resolution of loans in one residential pool with a carrying value of zero as interest income as discussed above. The increased yield on loans acquired in the FSB Acquisition was offset by a decline in the yield on new loans to 4.38% for the three months ended June 30, 2012 from 5.21% for the three months ended June 30, 2011, coupled with an increase in the proportion of the total portfolio represented by new loans. The decline in yield on new loans was a function of lower market rates of

interest. New loans represented 53.39% of average loans outstanding for the three months ended June 30, 2012 as compared to 18.55% of average loans outstanding for the three months ended June 30, 2011.

Increased interest income on investment securities available for sale for the three months ended June 30, 2012 as compared to the three months ended June 30, 2011 resulted from an increase of $1.1 billion in the average balance outstanding. The impact on interest income of the increase in the average balance was partially offset by a decline in the average yield to 2.91% for the three months ended June 30, 2012 from 3.30% for the three months ended June 30, 2011, reflecting the impact of lower market interest rates.

The primary component of the decrease in interest expense for the three months ended June 30, 2012 as compared to the three months ended June 30, 2011, was a $2.0 million decline in interest expense on deposits. This decline was attributable primarily to a decrease in the average rate resulting from declining market rates of interest and a continued shift in deposit mix from time deposits to lower cost products. The decrease in average rate was partially offset by a $2.1 million reduction in accretion of fair value adjustments and an increase of $918.1 million in the average balance of interest bearing deposits.

The net interest margin for the three months ended June 30, 2012 was 5.82% as compared to 5.99% for the three months ended June 30, 2011, a decrease of 17 basis points. The net interest spread declined to 5.73% for the three months ended June 30, 2012 from 6.11% for the three months ended June 30, 2011. An improvement in the average rate paid on interest bearing deposits to 0.97% for the quarter ended June 30, 2012 from 1.24% for the quarter ended June 30, 2011 was offset by a decline in the average yield on interest earning assets to 7.11% from 7.77% for those same periods. The decline in the average yield on interest earning assets resulted from the lower yield on loans and investment securities as discussed above. The impact on the net interest margin of the decline in average yield was partly mitigated by an increase in average interest earning assets as a percentage of average total assets.

Six months ended June 30, 2012 compared to six months ended June 30, 2011

Net interest income was $283.6 million for the six months ended June 30, 2012 compared to $229.6 million for the six months ended June 30, 2011, an increase of $54.0 million. The increase in net interest income was comprised of an increase in interest income of $47.9 million and a decrease in interest expense of $6.1 million.

The increase in interest income resulted primarily from a $42.0 million increase in interest income from loans and a $5.3 million increase in interest income from investment securities available for sale. Increased interest income from loans was attributable to a $782.2 million increase in the average balance outstanding offset by a decrease in the average yield to 12.30% for the six months ended June 30, 2012 from 12.62% for the comparable period in 2011. The yield on loans acquired in the FSB Acquisition was 19.96% for the six months ended June 30, 2012 as compared to 14.05% for the six months ended June 30, 2011. The increased yield on loans acquired in the FSB Acquisition was offset by a decline in the yield on new loans to 4.43% for the six months ended June 30, 2012 from 5.32% for the six months ended June 30, 2011, coupled with an increase in the proportion of the total portfolio represented by new loans.

While the average volume of investment securities available for sale increased by $1.2 billion for the six months ended June 30, 2012 as compared to the six months ended June 30, 2011, the yield declined to 2.95% for the six months ended June 30, 2012 from 3.66% for the six months ended June 30, 2011.

The primary component of the decrease in interest expense for the six months ended June 30, 2012 as compared to the six months ended June 30, 2011, was a $5.3 million decline in interest expense on deposits.

The net interest margin for the six months ended June 30, 2012 was 5.90% as compared to 5.87% for the six months ended June 30, 2011, an increase of 3 basis points. The net interest spread declined to 5.84% for the six months ended June 30, 2012 from 6.04% for the six months ended June 30, 2011. An improvement in the average rate paid on interest bearing liabilities to 1.42% for the six months ended June 30, 2012 from 1.66% for the six months ended June 30, 2011 was offset by a decline in the average yield on interest earning assets to 7.26% from 7.70% for those same periods.

The factors impacting trends in net interest income for the six months ended June 30, 2012 were consistent with those impacting net interest income for the three months then ended, 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. generally accepted accounting principles. The determination of the amount of the ALLL is complex and involves a high degree of judgment and subjectivity. Our determination of the amount of the allowance and corresponding provision for loan losses considers ongoing evaluations of the various segments of the loan portfolio and of individually significant credits, levels of non-performing loans and charge-offs, statistical trends and economic and other relevant factors. See "Analysis of the Allowance for Loan and Lease Losses" below for more information about how we determine the appropriate level of the allowance.

Because the determination of fair value at which the loans acquired in the FSB acquisition were initially recorded encompassed assumptions about expected future cash flows and credit risk, no ALLL was recorded at the date of acquisition. An allowance related to ACI loans is recorded only when estimates of future cash flows related to these loans are revised downward, indicating further deterioration in credit quality. An allowance for non-ACI loans may be established if factors considered relevant by management indicate that the credit quality of the non-ACI loans has deteriorated.

Since the recognition of a provision for loan losses on covered loans represents an increase in the amount of reimbursement we ultimately expect to receive from the FDIC, we also record an increase in the FDIC indemnification asset for the present value of the projected increase in reimbursement, with a corresponding increase in non-interest income, recorded in "Net gain (loss) on indemnification asset" as discussed below in the section entitled "Non-interest income." Therefore, the impact on our results of operations of any provision for loan losses on covered loans is significantly mitigated by the corresponding impact on non-interest income. For the three months ended June 30, 2012 and 2011, we recorded provisions for (recovery of) loan losses on covered loans of $(1.5) million and $(6.4) million, respectively. For the three months ended June 30, 2012 and 2011, the impact on earnings from these provisions was significantly mitigated by recording reductions in non-interest income of $0.9 million and of $5.8 million, respectively. For the six months ended June 30, 2012 and 2011, we recorded provisions for loan losses on covered loans of $0.1 million and $3.6 million and related non-interest income of $0.7 million and $0.8 million, respectively.

For the three months ended June 30, 2012 and 2011, we recorded provisions for loan losses of $4.2 million and $3.6 million, respectively, related to new loans. For the six months ended June 30, 2012 and 2011, we recorded provisions for loan losses of $11.4 million and $5.0 million, respectively, related to new loans. The increase in the provision for losses on new loans related primarily to growth in the new loan portfolio. These loans are not protected by the Loss Sharing Agreements and as such, these provisions are not offset by an increase in non-interest income.

Non-Interest Income

The Company reported non-interest income of $21.7 million and $52.9 million for the three months ended June 30, 2012 and June 30, 2011, respectively. Non-interest income was $58.1 million for the six months ended June 30, 2012 as compared to $117.1 million for the six months ended June 30, 2011. The following table presents a comparison of the categories of non-interest income for the three and six month periods ended June 30, 2012 and 2011 *(in thousands)*:

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	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Accretion of discount on FDIC indemnification asset	$ 4,294	$ 14,873	$ 11,081	$ 34,443
Income from resolution of covered assets, net	14,803	3,076	22,085	2,366
Net gain (loss) on indemnification asset	(12,537)	11,312	(12,403)	37,634
FDIC reimbursement of costs of resolution of covered assets	3,333	8,241	9,849	18,741
Non-interest income from covered assets	9,893	37,502	30,612	93,184
Service charges and fees	3,229	2,648	6,345	5,332
Gain on sale of investment securities available for sale, net	880	100	896	103
Mortgage insurance income	2,649	6,784	6,339	8,085
Investment services income	1,091	2,110	2,223	4,515
Other non-interest income	3,924	3,714	11,649	5,901
	$ 21,666	$ 52,858	$ 58,064	$ 117,120

Non-interest income related to transactions in the covered assets

A significant portion of our non-interest income for the three and six months ended June 30, 2012 and 2011 resulted from the resolution of assets covered by our Loss Sharing Agreements with the FDIC and accretion of discount on the FDIC indemnification asset. Non-interest income related to transactions in covered assets represented 46% and 71% of total non-interest income for the quarters ended June 30, 2012 and 2011, respectively, and 53% and 80% for the six months ended June 30, 2012 and 2011.

Accretion of discount on the FDIC indemnification asset totaled $4.3 million and $14.9 million for the three months ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012 and 2011, respectively, accretion of discount on the FDIC indemnification asset totaled $11.1 million and $34.4 million. The FDIC indemnification asset was recorded in conjunction with the FSB Acquisition at its estimated fair value, representing the present value of estimated future cash payments from the FDIC for probable losses on covered assets. If projected cash flows from the ACI loans increase, the yield on the loans will increase accordingly and the discount rate of accretion on the FDIC indemnification asset will decrease as less cash flow is expected to be recovered from the indemnification asset. The decrease in accretion for the three and six months ended June 30, 2012 as compared to the three and six months ended June 30, 2011 was related to the decrease in the average balance of the indemnification asset as well as a decrease in the average discount rate. For the three months ended June 30, 2012 and 2011, the average rate at which discount was accreted on the FDIC indemnification asset was 0.99% and 2.56%, respectively. The average rate at which discount was accreted on the FDIC indemnification asset for the six months ended June 30, 2012 and 2011 was 1.23% and 2.89%, respectively.

The average balance of the indemnification asset decreased primarily as a result of the submission of claims and receipt of cash from the FDIC under the terms of the Loss Sharing Agreements. We expect the amount of accretion to continue to decline in future periods because our projected cash flows from ACI loans have continued to increase, and as a result we expect to collect less cash flow from the indemnification asset. Additionally, as we continue to submit claims under the Loss Sharing Agreements, the remaining balance of the indemnification asset will decline.

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

- gains or losses from the resolution of covered assets;

· provisions for losses on covered loans;

· gains or losses on the sale of OREO; and

· impairment of OREO.

Each of these types of transactions is discussed further below.

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A rollforward of the FDIC indemnification asset for the year ended December 31, 2011 and the six months ended June 30, 2012 follows (in thousands):

Balance, December 31, 2010	$	2,667,401
Accretion		55,901
Reduction for claims filed		(753,963)
Net gain on indemnification asset		79,812
Balance, December 31, 2011		2,049,151
Accretion		11,081
Reduction for claims filed		(336,303)
Net loss on indemnification asset		(12,403)
Balance, June 30, 2012	$	1,711,526

Covered loans may be resolved through prepayment, short sale of the underlying collateral, foreclosure, or charge-off. The difference between consideration received in resolution of covered loans and the amount of projected losses from resolution of those loans is recorded in the consolidated statement of operations 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 gain (loss) on indemnification asset” and reflected as corresponding increases or decreases in the FDIC indemnification asset. The amount of income recorded in any period will be impacted by the number and UPB of ACI loans resolved, the amount of consideration received, and our ability to accurately project cash flows from ACI loans in future periods.

The following table provides further detail of the components of income from resolution of covered assets, net for the three and six months ended June 30, 2012 and 2011 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Payments in full	$ 19,764	$ 29,650	$ 34,931	$ 50,895
Foreclosures	(6,776)	(18,329)	(13,679)	(31,460)
Short sales	(715)	(8,828)	(2,604)	(16,529)
Charge-offs	(261)	(3,002)	(1,236)	(4,971)
Recoveries	2,791	3,585	4,673	4,431
Income from resolution of covered assets, net	$ 14,803	$ 3,076	$ 22,085	$ 2,366

As expected, the impact of payments in full on income (loss) from resolution of covered assets declined for the three and six months ended June 30, 2012 as compared to the three and six months ended June 30, 2011. As covered loans continue to be resolved, the number of paid-in-full resolutions declines. The net average gain per paid in full transaction has also declined as additional history with the performance of covered loans has been reflected in our updated cash flow forecasts. The decrease in the impact on income from resolution of covered assets from foreclosures and short sales for the three months and six months ended June 30, 2012 as compared to the three months and six months ended June 30, 2011 relates primarily to a decline in the level of foreclosure and short sale activity. Charge-offs for the three month and six months ended June 30, 2011 exceeded those for the three months and six months ended June 30, 2012 due primarily to a higher number and dollar amount of charge-offs of home equity lines of credit recognized during the six months ended June 30, 2011.

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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 gain (loss) on indemnification asset” and reflected as a corresponding increase in the FDIC indemnification asset.

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

Net gain (loss) on indemnification asset of $(12.5) million and $11.3 million was recorded for the three months ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012 and 2011we recorded net gain (loss) on indemnification asset of $(12.4) million and $37.6 million, respectively. These gains and losses represent 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 transactions related to covered assets was $2.2 million and $0.4 million, respectively, for the three months ended June 30, 2012 and 2011, and $3.1 million and $(5.8) million, respectively, for the six months ended June 30, 2012 and 2011, as detailed in the table below (in thousands):

	Three Months Ended June 30, 2012			Three Months Ended June 30, 2011		
	Transaction Income (Loss)	Net Gain (Loss) on Indemnification Asset	Net Impact on Pre-tax Earnings	Transaction Income (Loss)	Net Gain (Loss) on Indemnification Asset	Net Impact on Pre-tax Earnings
(Provision for) recovery of losses on covered loans	$ 1,484	$ (922)	$ 562	$ 6,443	$ (5,807)	$ 636
Income from resolution of covered assets, net	14,803	(12,923)	1,880	3,076	1,051	4,127
Gain (loss) on sale of OREO	1,490	(1,130)	360	(12,264)	9,445	(2,819)
Impairment of OREO	(3,048)	2,438	(610)	(8,187)	6,623	(1,564)
Net OREO loss	(1,558)	1,308	(250)	(20,451)	16,068	(4,383)
	$ 14,729	$ (12,537)	$ 2,192	$ (10,932)	$ 11,312	$ 380

	Six Months Ended June 30, 2012			Six Months Ended June 30, 2011		
	Transaction Income (Loss)	Net Gain (Loss) on Indemnification Asset	Net Impact on Pre-tax Earnings	Transaction Income (Loss)	Net Gain (Loss) on Indemnification Asset	Net Impact on Pre-tax Earnings
Provision for losses on covered loans	$ (116)	$ 673	$ 557	$ (3,574)	$ 832	$ (2,742)
Income from resolution of covered assets, net	22,085	(18,375)	3,710	2,366	4,154	6,520
Gain (loss) on sale of OREO	89	23	112	(24,474)	18,388	(6,086)
Impairment of OREO	(6,595)	5,276	(1,319)	(17,786)	14,260	(3,526)
Net OREO loss	(6,506)	5,299	(1,207)	(42,260)	32,648	(9,612)
	$ 15,463	$ (12,403)	$ 3,060	$ (43,468)	$ 37,634	$ (5,834)

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Certain OREO and foreclosure related expenses, including fees paid to attorneys and other service providers, property preservation costs, maintenance and repair costs, advances for taxes and insurance, appraisal costs and inspection costs are also reimbursed under the terms of the Loss Sharing Agreements. Such expenses are recorded in non-interest expense when incurred, and the reimbursement is recorded as “FDIC reimbursement of costs of resolution of covered assets” in non-interest income when submitted to the FDIC, generally upon ultimate resolution of the underlying covered asset. This may result in the expense and the related income from reimbursements being recorded in different periods. For the three months ended June 30, 2012 and 2011, non-interest expense includes approximately $5.1 million and $8.6 million, respectively, of expenses subject to reimbursement at the 80% level under the Loss Sharing Agreements. For the six months ended June 30, 2012 and 2011, non-interest expense includes approximately $10.0 million and $17.5 million, respectively, of such expenses. During the three months ended June 30, 2012 and 2011, claims of $3.3 million and $8.2 million, respectively, were submitted to the FDIC for reimbursement. During the six months ended June 30, 2012 and 2011, $9.8 million and $18.7 million, respectively, of such claims were submitted to the FDIC. As of June 30, 2012, $18.9 million of expenses remained to be submitted for reimbursement from the FDIC in future periods.

Other components of non-interest income

Gains on the sale of investments securities available for sale during the three months ended June 30, 2012 resulted from a realignment of certain asset backed and preferred stock positions in response to market developments.

Mortgage insurance income represents mortgage insurance proceeds received with respect to covered loans in excess of the portion of losses on those loans that is recoverable from the FDIC. Mortgage insurance proceeds up to the amount of losses on covered loans reimbursable by the FDIC offsets amounts otherwise recoverable from the FDIC. The decrease in mortgage insurance income for the three months ended June 30, 2012 and, to a lesser extent, for the six months then ended, as compared to the three and six months ended June 30, 2011 resulted from a decline in the volume of claims.

Other non-interest income for the six months ended June 30, 2012 included a gain of $5.3 million on the acquisition of Herald. For further discussion, see Note 3 to the consolidated financial statements.

Non-Interest Expense

The Company reported non-interest expense of $83.0 million and $167.1 million, respectively, for the three and six months ended June 30, 2012, as compared to $95.9 million and $300.2 million, respectively, for the three and six months ended June 30, 2011. The following table presents the components of non-interest expense for the three and six months ended June 30, 2012 and 2011 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Employee compensation and benefits	$ 43,951	$ 41,364	$ 90,576	$ 190,670
Occupancy and equipment	13,229	8,791	25,051	16,396
Impairment of other real estate owned	3,048	8,187	6,595	17,786
Foreclosure expense	3,892	6,057	6,611	10,527
(Gain) loss on sale of other real estate owned	(1,490)	12,264	(89)	24,474
Other real estate owned expense	1,161	2,589	3,437	6,932
Deposit insurance expense	1,946	2,329	3,096	6,518
Professional fees	3,953	3,507	7,602	6,736
Telecommunications and data processing	3,121	3,418	6,351	6,866
Other non-interest expense	10,220	7,383	17,919	13,323
	$ 83,031	$ 95,889	$ 167,149	$ 300,228

Employee compensation and benefits

Employee compensation and benefits expense increased by $2.6 million for the three months ended June 30, 2012 as compared to the three months ended

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June 30, 2011, reflecting continued growth and enhancement of personnel and the acquisition of Herald. The increase in employee compensation and benefits expense was net of a $2.5 million decrease in equity based compensation resulting from vesting of certain awards issued in conjunction with the IPO.

Employee compensation and benefits expense decreased by $100.1 million to $90.6 million for the six months ended June 30, 2012 as compared to $190.7 million for the six months ended June 30, 2011. Employee compensation and benefits for the six months ended June 30, 2011 included a one-time equity based compensation charge of $110.4 million recorded in conjunction with the consummation of the IPO as discussed in Note 10 to the consolidated financial statements. This charge to compensation expense was offset by a credit to paid-in capital and therefore did not impact the Company's capital position. Excluding the impact of this one-time charge, employee compensation and benefits increased by $10.3 million for the six months ended June 30, 2012 as compared to the six months ended June 30, 2011, attributable primarily to growth and the continued enhancement of personnel.

Occupancy and equipment

Occupancy and equipment costs increased by $4.4 million and $8.7 million to $13.2 million and $25.1 million, respectively, for the three and six months ended June 30, 2012 as compared to $8.8 million and $16.4 million for the three and six months ended June 30, 2011. These increases related primarily to the expansion and refurbishment of our branch network and enhancements to our technology platforms.

OREO and foreclosure related costs

At June 30, 2012 as well as during the three and six months ended June 30, 2012 and 2011, all of our OREO properties were covered by the Loss Sharing Agreements. Therefore, losses from sale or impairment of OREO are substantially offset by non-interest income related to indemnification by the FDIC. Generally, OREO and foreclosure related expenses are also reimbursed under the terms of the Loss Sharing Agreements.

Impairment of OREO declined by $5.1 million to $3.0 million for the three months ended June 30, 2012 from $8.2 million for the three months ended June 30, 2011 and by $11.2 million to $6.6 million for the six months ended June 30, 2012 from $17.8 million for the six months ended June 30, 2011. Net gains on the sale of OREO totaled $1.5 million and $0.1 million for the three and six months ended June 30, 2012, respectively as compared to net losses on the sale of OREO of $12.3 million and of $24.5 million, respectively, for the three and six months ended June 30, 2011. These improvements resulted from a decline in the level of foreclosure and OREO activity as well as improvements in loss severity experience.

For the three months ended June 30, 2012, 346 residential OREO units were sold as compared to 825 units for the three months ended June 30, 2011. Residential units sold at a gain comprised 47% and 28% of total units sold for the three months ended June 30, 2012 and 2011, respectively. Additionally, the average gain per unit sold at a gain increased to $27 thousand from $16 thousand and the average loss per unit sold at a loss decreased to $18 thousand from $21 thousand for the three months ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012, 795 residential OREO units were sold as compared to 1,792 units for the six months ended June 30, 2011. Residential units sold at a gain comprised 44% and 27% of total units sold for the six months ended June 30, 2012 and 2011, respectively. Additionally, the average gain per unit sold at a gain increased to $20 thousand from $16 thousand and the average loss per unit sold at a loss decreased to $17 thousand from $22 thousand for the six months ended June 30, 2012 and 2011, respectively. The volume of commercial OREO sales is substantially lower than the volume of residential sales. For the three and six months ended June 30, 2012 and 2011, gains (losses) recorded on the sale of commercial OREO were $3.1 million and $(0.5) million, respectively. The impact on the consolidated financial statements of gains and losses on sales of OREO is significantly mitigated by the impact of indemnification by the FDIC.

In total, foreclosure and OREO related expenses decreased by $3.5 million to $5.1 million for the three months ended June 30, 2012 from $8.6 million for the three months ended June 30, 2011. Foreclosure and OREO related expenses decreased by $7.5 million to $10.0 million for the six months ended June 30, 2012 from $17.5 million for the six months ended June 30, 2011. These declines were primarily attributable to decreases in the levels of foreclosure activity and OREO inventory. At June 30, 2012, there were 1,824 units in the foreclosure pipeline and 577 units in OREO as compared to 3,590 units in the foreclosure pipeline and 890 units in OREO at June 30, 2011.

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We have performed an internal assessment of our foreclosure practices and procedures and of our vendor management processes related to outside vendors that assist us in the foreclosure process. This assessment did not reveal any deficiencies in processes and procedures that we believe to be of significance.

Other components of non-interest expense

Deposit insurance expense decreased by $0.4 million and $3.4 million for the three and six months ended June 30, 2012, respectively, as compared to the three and six months ended June 30, 2011. A change in the assessment base coupled with a relatively low assigned risk rating resulted in a reduction of premiums.

Increases in other non-interest expense for the three and six months ended June 30, 2012 as compared to the three and six months ended June 30, 2011 resulted from increased advertising costs, the acquisition of Herald and overall growth of the Company.

Income Taxes

The provision for income taxes was $32.8 million and $63.8 million, respectively, for the three and six months ended June 30, 2012 as compared to $33.2 million and $61.6 million, respectively, for the three and six months ended June 30, 2011. The Company's effective tax rate was 40% and 39%, respectively, for the three and six months ended June 30, 2012 as compared to 43% and 162%, respectively, for the three and six months ended June 30, 2011.

For the three months ended June 30, 2012 and 2011, the effective tax rate differed from the statutory federal income tax rate of 35% primarily due to state income taxes and certain non-deductible equity based compensation. The Company's effective income tax rate for the six months ended June 30, 2012 was also impacted by a non-taxable gain on the acquisition of Herald. For the six months ended June 30, 2011, the Company's effective tax rate differed from the statutory federal tax rate primarily due to the $110.4 million charge to compensation expense recorded in conjunction with the IPO. This expense was not deductible for income tax purposes. Additionally, a provision of approximately $7.6 million, including penalties and interest, was recorded for uncertain state income tax positions during the six months ended June 30, 2011.

Financial Condition

Average interest-earning assets increased $1.8 billion to $9.6 billion for the six months ended June 30, 2012 from $7.8 billion for the six months ended June 30, 2011. This increase was driven by a $1.2 billion increase in the average balance of investment securities and a $782.2 million increase in average loans. Average non-interest earning assets declined by $651.6 million. The most significant component of this decline was the decrease in the FDIC indemnification asset from claims paid.

Average interest bearing liabilities increased by $566.5 million to $9.2 billion for the six months ended June 30, 2012 from $8.6 billion for the six months ended June 30, 2011, due primarily to an increase of $569.2 million in average interest-bearing deposits. Reflecting a continued shift from time deposits to generally lower cost deposit products, average time deposits declined by $117.8 million while average interest bearing demand, savings and money market deposits grew by $687.0 million. Average non-interest bearing liabilities increased by $360.0 million, primarily as a result of a $387.0 million increase in non-interest bearing demand deposits.

Average stockholders' equity increased by $223.3 million, due largely to the retention of earnings. To a lesser extent, the increase in average stockholders' equity was impacted by the issuance of equity consideration in the acquisition of Herald, an increase in unrealized gains on investment securities available for sale and dividends.

Investment Securities Available for Sale

The following tables show, as of June 30, 2012 and December 31, 2011, the amortized cost and fair value of investment securities available for sale and the breakdown of covered and non-covered securities (in thousands):

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	June 30, 2012									
	Covered Securities				Non-Covered Securities				Total	
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Fair Value
U.S. Treasury and government agency securities	$ —	$ —	$ —	$ —	$ 52,517	$ 106	$ —	$ 52,623	$ 52,517	$ 52,623
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	—	—	—	—	2,007,780	55,278	(158)	2,062,900	2,007,780	2,062,900
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities	—	—	—	—	114,697	1,355	—	116,052	114,697	116,052
Resecuritized real estate mortgage investment conduits ("Re-Remics")	—	—	—	—	666,589	6,578	(2,145)	671,022	666,589	671,022
Private label residential mortgage-backed securities and CMOs	156,122	47,479	(266)	203,335	281,031	3,684	(60)	284,655	437,153	487,990
Private label commercial mortgage-backed securities	—	—	—	—	357,111	12,023	—	369,134	357,111	369,134
Non-mortgage asset-backed securities	—	—	—	—	337,667	3,281	(1,334)	339,614	337,667	339,614
Mutual funds and preferred stocks	16,382	875	(420)	16,837	238,024	11,854	—	249,878	254,406	266,715
State and municipal obligations	—	—	—	—	24,216	282	(3)	24,495	24,216	24,495
Small Business Administration securities	—	—	—	—	347,736	4,526	(129)	352,133	347,736	352,133
Other debt securities	3,893	2,963	—	6,856	9,098	—	(123)	8,975	12,991	15,831
	$ 176,397	$ 51,317	$ (686)	$ 227,028	$ 4,436,466	$ 98,967	$ (3,952)	$ 4,531,481	$ 4,612,863	$ 4,758,509

	December 31, 2011									
	Covered Securities				Non-Covered Securities				Total	
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Fair Value
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	$ —	$ —	$ —	$ —	$ 1,952,095	$ 34,823	$ (1,205)	$ 1,985,713	$ 1,952,095	$ 1,985,713
Re-Remics	—	—	—	—	544,924	4,972	(3,586)	546,310	544,924	546,310
Private label residential mortgage-backed securities and CMO's	165,385	44,746	(310)	209,821	177,614	1,235	(983)	177,866	342,999	387,687
Private label commercial mortgage-backed securities	—	—	—	—	255,868	6,694	—	262,562	255,868	262,562
Non-mortgage asset-backed securities	—	—	—	—	414,274	2,246	(5,635)	410,885	414,274	410,885
Mutual funds and preferred stocks	16,382	491	(556)	16,317	235,705	3,071	(1,276)	237,500	252,087	253,817
State and municipal obligations	—	—	—	—	24,994	278	(2)	25,270	24,994	25,270
Small Business Administration securities	—	—	—	—	301,109	2,664	(96)	303,677	301,109	303,677
Other debt securities	3,868	2,188	—	6,056	—	—	—	—	3,868	6,056
	$ 185,635	$ 47,425	$ (866)	$ 232,194	$ 3,906,583	$ 55,983	$ (12,783)	$ 3,949,783	$ 4,092,218	$ 4,181,977

Investment securities available for sale grew by $576.5 million to $4.8 billion at June 30, 2012 from $4.2 billion at December 31, 2011. Growth of the investment portfolio reflects continued deployment of cash generated from loan resolution activity and claims paid by the FDIC as well as the acquisition of Herald. 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 and manage interest rate risk by investing a significant portion of the portfolio in high quality liquid securities consisting primarily of U.S. Government agency floating rate mortgage-backed securities. We have also invested in highly rated structured products including private label residential and commercial mortgage-backed securities and Re-Remics, bank preferred stocks, U.S. Small Business Administration securities and non-mortgage asset-backed securities collateralized primarily by auto loans, student loans, servicer advances and small balance commercial loans that, while somewhat less liquid, provide us with higher yields. Relatively short effective portfolio duration helps mitigate interest rate risk arising from the currently low level of market interest rates. The weighted average expected life of the investment portfolio as of June 30, 2012 was 4.9 years and the effective duration was 1.8 years.

Covered securities include private label residential mortgage-backed securities, mortgage-backed security mutual funds, trust preferred collateralized debt obligations, U.S. government sponsored enterprise preferred stocks and corporate debt securities covered under the commercial shared loss agreement. To date, the Company has not

submitted any claims for reimbursement related to the covered securities. As the investment portfolio has grown, covered securities have represented a declining percentage of the total portfolio. Covered securities represented 4.8% and 5.6% of the fair value of the investment portfolio at June 30, 2012 and December 31, 2011, respectively.

The following table shows the scheduled maturities, carrying values and current yields for our investment portfolio as of June 30, 2012. 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 pre-tax 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 and government agency securities	$ 12,538	1.84%	$ 40,085	0.45%	$ —	—	$ —	—	$ 52,623	0.78%
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	269,187	2.05%	840,528	2.29%	619,494	2.53%	333,691	2.31%	2,062,900	2.33%
U.S. Government agency and sponsored enterprise commercial mortgage-backed securities	543	2.13%	2,367	2.12%	105,171	2.61%	7,971	2.14%	116,052	2.57%
Re-Remics	68,656	3.65%	254,501	3.27%	217,273	2.98%	130,592	2.95%	671,022	3.15%
Private label residential mortgage-backed securities and CMOs	109,705	5.36%	239,220	5.62%	92,558	6.77%	46,507	7.80%	487,990	5.99%
Private label commercial mortgage-backed securities	26,757	2.56%	188,699	2.56%	153,678	3.45%	—	—	369,134	2.93%
Non-mortgage asset-backed securities	119,682	2.66%	155,042	3.17%	56,532	2.95%	8,358	4.19%	339,614	2.98%
State and municipal obligations	6,121	1.63%	15,899	1.97%	1,851	1.97%	624	3.32%	24,495	1.92%
Small Business Administration securities	77,469	1.73%	172,997	1.73%	76,236	1.71%	25,431	1.61%	352,133	1.72%
Other debt securities	—	—	6,652	3.74%	4,435	7.91%	4,744	8.75%	15,831	6.41%
	$ 690,658	2.78%	$ 1,915,990	2.82%	$ 1,327,228	2.97%	$ 557,918	2.93%	$ 4,491,794	2.87%
Mutual funds and preferred stocks with no scheduled maturity									266,715	5.73%
Total investment securities available for sale									$ 4,758,509	3.03%

As of June 30, 2012, 87.7% of the non-covered securities were backed by the U.S. government, U.S. government agencies or sponsored enterprises or were rated AAA. With the exception of preferred stock positions with a carrying value of $51.5 million, the remaining non-covered securities were investment grade. In July, 2012, to reduce our concentration in bank preferred stock investments, we liquidated our position in non-investment grade and certain other preferred stock positions at an aggregate realized gain of $5.9 million. The investment portfolio was in a net unrealized gain position of $145.7 million at June 30, 2012 with aggregate fair value equal to 103% of amortized cost. Net unrealized gains included $150.3 million of gross unrealized gains and $4.6 million of gross unrealized losses. Securities in unrealized loss positions for 12 months or more had an aggregate fair value of $89.3 million, representing less than 2% of the fair value of the portfolio, with total unrealized losses of $1.8 million at June 30, 2012.

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 before 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;
- available information about the value and performance of underlying collateral;
- the payment structure of the security, including levels of subordination or over-collateralization;
- the general market condition of the geographic area or industry of the issuer;
- the issuer’s financial condition, performance and business prospects; and
- credit ratings of issuers and individual securities.

No securities were determined to be other-than-temporarily impaired during the six months ended June 30, 2012 or 2011.

The majority of the unrealized losses in the portfolio at June 30, 2012 were driven by widening spreads on certain private label Re-Remics and non-mortgage asset-backed securities. We believe these factors to be consistent with temporary impairment.

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 and duration of impairment of individual securities in the portfolio is generally not material. The timely repayment of principal and interest on U.S. Government, government agency and government sponsored enterprise securities in unrealized loss positions is explicitly or implicitly guaranteed by the full faith and credit of the U.S. Government. Management engaged a third party to perform projected cash flow analyses of the private label mortgage-backed securities, Re-Remics and non-mortgage asset-backed securities, incorporating CUSIP level collateral default rate, voluntary prepayment rate, severity and delinquency assumptions. Based on the results of this analysis, no credit losses were projected. Given the expectation of timely repayment of principal and interest and the limited duration and severity of impairment, we concluded that none of the debt securities were other-than-temporarily impaired. Given the limited severity of impairment, we considered the impairment of the equity securities to be temporary.

For further discussion of our analysis of investment securities for OTTI, see Note 4 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, performing on-site walkthroughs 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 propriety 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. Certain preferred stocks and U.S. Treasury securities are classified within level 1 of the hierarchy. At June 30, 2012 and December 31, 2011, 11.9% and 11.3%, respectively, of our investment securities were classified within level 3 of the fair value hierarchy. Securities classified within level 3 of the hierarchy included primarily private label residential mortgage-backed securities and certain non-mortgage asset-backed securities. The non-mortgage asset-backed securities consisted of securities backed by small balance commercial loans. 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.

For additional discussion of the fair values of investment securities, see Note 11 to the consolidated financial statements.

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 between covered ACI loans, covered non-ACI loans, non-covered ACI loans and new loans at June 30, 2012 and December 31, 2011 (dollars in thousands):

	June 30, 2012					
	Covered Loans		Non-Covered Loans			
	ACI	Non-ACI	ACI	New Loans	Total	Percent of Total
Residential:						
1-4 single family residential	$ 1,527,179	$ 104,218	$ —	$ 712,259	$ 2,343,656	45.9%
Home equity loans and lines of credit	62,809	168,759	—	1,611	233,179	4.6%
	1,589,988	272,977	—	713,870	2,576,835	50.5%
Commercial:						
Multi-family	56,941	754	—	243,417	301,112	5.9%
Commercial real estate	200,582	21,946	4,159	587,852	814,539	16.0%
Construction	3,782	—	—	28,957	32,739	0.6%
Land	26,099	159	—	23,766	50,024	1.0%
Commercial loans and leases	17,526	16,796	—	1,274,439	1,308,761	25.7%
	304,930	39,655	4,159	2,158,431	2,507,175	49.2%
Consumer	2,654	—	—	10,847	13,501	0.3%
Total loans	1,897,572	312,632	4,159	2,883,148	5,097,511	100.0%
Premiums, discounts and deferred fees and	—	(28,071)	—	9,258	(18,813)	

costs, net					
Loans net of premiums, discounts, deferred fees and costs	1,897,572	284,561	4,159	2,892,406	5,078,698
Allowance for loan and lease losses	(11,085)	(9,878)	—	(34,672)	(55,635)
Loans, net	$ 1,886,487	$ 274,683	$ 4,159	$ 2,857,734	$ 5,023,063

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	December 31, 2011					
	Covered Loans		Non-Covered Loans			Percent of
	ACI	Non-ACI	ACI	New Loans	Total	Total
Residential:						
1-4 single family residential	$ 1,681,866	$ 117,992	$ —	$ 461,431	$ 2,261,289	54.1%
Home equity loans and lines of credit	71,565	182,745	—	2,037	256,347	6.1%
	1,753,431	300,737	—	463,468	2,517,636	60.2%
Commercial:						
Multi-family	61,710	791	—	108,178	170,679	4.1%
Commercial real estate	219,136	32,678	4,220	311,434	567,468	13.6%
Construction	4,102	—	—	23,252	27,354	0.7%
Land	33,018	163	—	7,469	40,650	1.0%
Commercial loans and leases	24,007	20,382	—	799,978	844,367	20.2%
	341,973	54,014	4,220	1,250,311	1,650,518	39.6%
Consumer	2,937	—	—	3,372	6,309	0.2%
Total loans	2,098,341	354,751	4,220	1,717,151	4,174,463	100.0%
Premiums, discounts and deferred fees and costs, net	—	(30,281)	—	(7,124)	(37,405)	
Loans net of premiums, discounts, deferred fees and costs	2,098,341	324,470	4,220	1,710,027	4,137,058	
Allowance for loan and lease losses	(16,332)	(7,742)	—	(24,328)	(48,402)	
Loans, net	$ 2,082,009	$ 316,728	$ 4,220	$ 1,685,699	$ 4,088,656	

Total loans, before discounts, premiums and deferred origination fees and costs, increased by $923.0 million to $5.1 billion at June 30, 2012, from $4.2 billion at December 31, 2011. New loans grew by $1.2 billion while loans acquired in the FSB Acquisition declined by $242.9 million from December 31, 2011 to June 30, 2012. New residential loans grew by $250.4 million and new commercial loans grew by $908.1 million during the six months ended June 30, 2012. Residential loan growth was attributable primarily to purchases of residential mortgages. Loans acquired from Herald contributed $306.0 million to loan growth.

At June 30, 2012 and December 31, 2011, respectively, 43% and 59% of loans, after discounts, premiums and deferred origination fees and costs, were covered loans. Covered loans are declining and new loans increasing as a percentage of the total portfolio as covered loans are repaid or resolved and new loan originations and purchases increase. This trend is expected to continue.

Residential Mortgages

Historically, residential mortgages, including 1-4 single family residential mortgages and home equity loans and lines of credit, have represented the majority of the total loan portfolio. Consistent with our strategy of emphasizing commercial loan production, this portfolio segment is declining as a percentage of total loans. Residential mortgages constituted 24.8% of total new loans and 84.1% of total loans acquired in the FSB Acquisition at June 30, 2012. Residential mortgages totaled $2.6 billion, or 50.5% of total loans and $2.5 billion, or 60.2% of total loans at June 30, 2012 and December 31, 2011, respectively. The decline in this portfolio segment as a percentage of loans is a result of the resolution of covered loans, including transfers to OREO, and an emphasis on commercial loan origination. The dollar amount of residential loans in the portfolio increased from December 31, 2011 to June 30, 2012 due largely to purchases of single family residential loans.

The new residential loan portfolio includes both loans originated and purchased since the FSB Acquisition. We currently originate 1-4 single family residential mortgage loans with terms ranging from 10 to 40 years, with either fixed or adjustable interest rates, primarily to customers in the state of Florida. New residential mortgage loans are primarily closed-end first lien loans for the purchase or re-finance of owner occupied property. At June 30, 2012 and December 31, 2011, $75.1 million or 10.6% and $58.2 million or 12.6%, respectively, of our new 1-4 single family residential loans were originated loans; $637.2 million or 89.4% and $403.2 million or 87.4% of our new 1-4 single family residential loans were purchased loans. We have purchased loans to supplement our mortgage origination platform and to geographically diversify our loan portfolio given the current credit environment and

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limited demand for non-agency mortgage product in Florida. The number of newly originated residential mortgage loans that are re-financings of covered loans is not significant.

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

We do not originate option adjustable rate mortgages (“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. All of these loans are covered loans; therefore, the Company’s exposure to future losses on these mortgage loans is mitigated by the Loss Sharing Agreements.

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, land, commercial and industrial loans and leases.

Commercial real estate loans include term loans secured by owner and non-owner occupied income producing properties including rental apartments, industrial properties, retail shopping centers, office buildings, warehouses 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. The Company's underwriting standards generally provide for loan terms of five years, with amortization schedules of no more than twenty-five years. Loan to value ("LTV") ratios are typically limited to no more than 80%. In addition, the Company usually obtains personal guarantees of the principals as additional security for commercial real estate loans.

Commercial loans are typically made to growing companies and middle market businesses and include equipment loans, working capital lines of credit, asset-backed loans, acquisition finance credit facilities, lease financing and Small Business Administration product offerings. These loans may be structured as term loans, typically with maturities of five years or less, or revolving lines of credit which typically mature annually. Lease financing consists primarily of municipal leases. The portfolio also includes, to a lesser extent, equipment financing leases.

Management's loan origination strategy is heavily focused on the commercial portfolio segment, which comprised 74.8% and 72.8% of new loans as of June 30, 2012 and December 31, 2011, respectively. New commercial loans that represent re-financings of covered loans are not significant.

Consumer Loans

Consumer loans include loans secured by certificates of deposit, direct and indirect auto financing, demand deposit account overdrafts and unsecured personal lines of credit and are not a material component of the loan portfolio.

Asset Quality

In discussing asset quality, a distinction must be made between covered loans and new loans. New loans were underwritten under significantly different and generally more conservative standards than the covered loans. 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 covered loans is higher than that of new loans, our exposure to loss related to the covered loans is significantly mitigated by the Loss Sharing Agreements and by the fair value basis recorded in these loans resulting from the application of acquisition accounting.

We have established a robust credit risk management framework and put in place an experienced team to lead the workout and recovery process for the commercial and commercial real estate portfolios. We have also implemented a dedicated internal loan review function that reports directly to our Audit 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, workout and recovery and loan review departments. Commercial loans are regularly reviewed by our internal loan review department. Relationships with committed balances greater than $250,000 are reviewed at least annually. The Company utilizes an internal asset risk classification system as part of its efforts to monitor and improve 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, insufficient cash flows, operating losses, negative financial trends, or declining collateral values. 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 risk ratings 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.

New Loans

At June 30, 2012, new commercial loans with aggregate balances of $17.1 million, $33.1 million and $1.2 million were rated special mention, substandard and doubtful, respectively. At December 31, 2011, new commercial loans aggregating $7.7 million were rated special mention and new commercial loans aggregating $13.7 million were classified substandard or doubtful.

At June 30, 2012, new 1-4 single family residential loans totaling $78 thousand were 90 days or more past due. New 1-4 single family residential loans past due less than 90 days totaled $3.6 million at June 30, 2012. At December 31, 2011, no new 1-4 single family residential loans were 90 days or more past due. New 1-4 single family residential loans past due less than 90 days totaled $15.9 million at December 31, 2011. There were no past due home equity loans and lines of credit in the new portfolio at June 30, 2012. Past due home equity loans and lines of credit in the new loan portfolio at December 31, 2011 were not significant. At June 30, 2012, 21.5% of the new home equity portfolio were first liens, and 78.5% were second or third liens.

The majority of our new residential mortgage portfolio consists of purchased loans. 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 pools which have average FICO scores above 700, primarily are owner-occupied and full documentation, and have a current LTV of less than 80%. We perform due diligence on the purchased loans for credit, compliance, counterparty, payment history and property valuation.

At June 30, 2012, the purchased loan portfolio had the following characteristics: 52.3% were fixed rate loans, substantially all were full documentation and had an average FICO score of 767 and average LTV of 64.3%. The majority of this portfolio was owner-occupied, with 96.7% primary residence and 3.3% second homes or investment properties. In terms of vintage, 3.6% of the portfolio was originated pre-2008, 2.7% in 2008, 1.2% in 2009, 5.0% in 2010, 72.0% in 2011 and 15.5% in 2012.

Similarly, the originated loan portfolio had the following characteristics at June 30, 2012: 71.9% were fixed rate loans, 100% were full documentation and had an average FICO score of 767 and average LTV of 62.8%. The majority of this portfolio was owner-occupied, with 96.2% primary residence and 3.8% second home. In terms of vintage, 4.8% of the portfolio was originated in 2009, 28.0% in 2010, 44.7% in 2011 and 22.5% in 2012.

Delinquent consumer loans in the new portfolio were insignificant as of June 30, 2012 and December 31, 2011.

Covered Loans

Covered loans consist of both ACI loans and non-ACI loans. At June 30, 2012, covered ACI loans totaled $1.9 billion and covered non-ACI loans totaled $284.6 million, net of discounts, premiums and deferred fees and costs.

Residential

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 to be derived 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 as we gain greater experience. Generally, commercial and commercial real estate loans are monitored individually due to their size and other unique characteristics.

Residential mortgage loans, including home equity loans, comprised 87.8% of the UPB of the acquired loan portfolio at the FSB Acquisition date. We performed a detailed analysis of the portfolio to determine the key loan characteristics influencing performance. Key characteristics influencing the performance of the residential mortgage portfolio, including home equity loans, were determined to be delinquency status; product type, in particular, amortizing as opposed to option ARM products; current indexed LTV ratio; and original FICO score. The ACI loans in the residential mortgage portfolio were grouped into ten homogenous static pools based on these characteristics, and the non-ACI residential loans were grouped into two homogenous static pools.

At June 30, 2012 the carrying value of 1-4 single family residential non-ACI loans was $80.5 million; $6.5 million or 8.0% of these loans were 30 days or more past due and $4.0 million or 5.0% were 90 days or more past due. At June 30, 2012, ACI 1-4 single family residential loans totaled $1.5 billion; $346.5 million or 22.7% of these loans were delinquent by 30 days or more and $265.4 million or 17.4% were delinquent by 90 days or more.

At June 30, 2012 non-ACI home equity loans and lines of credit had an aggregate carrying value of $165.4 million; $15.5 million or 9.4% of these loans were 30 days or more past due and $9.5 million or 5.7% were 90 days or more past due. ACI home equity loans and lines of credit had a carrying amount of $62.8 million at June 30, 2012. At June 30, 2012, $13.1 million or 20.8% of ACI home equity loans and lines of credit were 30 days or more contractually delinquent and $10.6 million or 16.9% were delinquent by 90 days or more. At June 30, 2012, 3.9% and 6.8%, respectively, of the non-ACI and ACI home equity loans and lines of credit were first liens while 96.1% and 93.2%, respectively, of the non-ACI and ACI home equity loans and lines of credit were second or third liens. Expected loss severity given default is significantly higher for home equity loans that are not first liens.

Although delinquencies in the covered residential portfolio are high, potential future losses to the Company related to these loans are significantly mitigated by the Loss Sharing Agreements.

Commercial

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

At June 30, 2012 non-ACI commercial loans had an aggregate UPB of $39.7 million and a carrying value, net of discounts of $38.7 million; 82.8% of these loans were rated “pass” and this portfolio segment has limited delinquency history. At June 30, 2012, non-ACI commercial loans with aggregate carrying values of $0.4 million, $5.7 million and $0.6 million were rated special mention, substandard and doubtful, respectively.

At June 30, 2012, ACI commercial loans had a carrying value of $309.1 million, of which $304.9 million are covered under the Loss Sharing Agreements. At June 30, 2012, loans with aggregate carrying values of $9.4 million, $122.6 million and $0.2 million were internally risk rated special mention, substandard and doubtful, respectively.

Potential future losses to the Company related to the covered loans are significantly mitigated by the Loss Sharing Agreements.

Impaired Loans and Non-Performing Assets

Non-performing assets consist of (i) non-accrual loans, including loans that have been restructured in TDRs and placed on nonaccrual 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. Impaired loans also 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. Because of discount accretion, these ACI loans have not been classified as nonaccrual loans and we do not consider them to be non-performing assets. As of June 30, 2012 and December 31, 2011, substantially all of the non-performing assets were covered assets. The Company's exposure to loss related to covered assets is significantly mitigated by the Loss Sharing Agreements and by the fair value basis recorded in these assets resulting from the application of acquisition accounting.

The following table summarizes the Company's impaired loans and other non-performing assets at June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012			December 31, 2011		
	Covered Assets	Non-Covered Assets	Total	Covered Assets	Non-Covered Assets	Total
Nonaccrual loans						
Residential:						
1-4 single family residential	$ 4,366	$ —	$ 4,366	$ 7,410	$ —	$ 7,410
Home equity loans and lines of credit	9,458	—	9,458	10,451	27	10,478
Total residential loans	13,824	—	13,824	17,861	27	17,888
Commercial:						
Commercial real estate	162	—	162	295	—	295
Construction	—	3	3	—	3	3
Land	—	295	295	—	332	332
Commercial loans and leases	5,665	5,542	11,207	6,695	2,469	9,164
Total commercial loans	5,827	5,840	11,667	6,990	2,804	9,794
Total nonaccrual loans	19,651	5,840	25,491	24,851	2,831	27,682
Non-ACI and new loans past due 90 days and still accruing	132	1,966	2,098	375	—	375
TDRs	—	—	—	824	—	824
Total non-performing loans	19,783	7,806	27,589	26,050	2,831	28,881
Other real estate owned	93,724	—	93,724	123,737	—	123,737
Total non-performing assets	113,507	7,806	121,313	149,787	2,831	152,618
Impaired ACI loans on accrual status	87,994	—	87,994	94,536	—	94,536
TDRs in compliance with their modified terms	3,230	4,399	7,629	583	—	583
Total impaired loans and non-performing assets	$ 204,731	$ 12,205	$ 216,936	$ 244,906	$ 2,831	$ 247,737
Non-performing loans to total loans (1)			0.54%			0.70%
Non-performing assets to total assets			0.98%			1.35%
ALLL to total loans (1)			1.10%			1.17%
ALLL to non-performing loans			201.66%			167.59%
Net charge-offs to average loans			0.19%			0.62%

(1) Total loans for purposes of calculating these ratios is net of premiums, discounts, deferred fees and costs.

Contractually delinquent ACI loans are not reflected as nonaccrual loans because discount continues to be accreted. Discount accretion continues to be recorded as there continues to be 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 still accruing was $304.8 million and $361.2 million at June 30, 2012 and December 31, 2011, respectively.

The decline in the ratio of non-performing assets to total assets at June 30, 2012 as compared to December 31, 2011 was primarily attributable to the decrease in OREO.

Except for ACI loans, commercial loans are placed on nonaccrual status when (i) management has determined that full payment of all contractual principal and interest is in doubt, or (ii) the loan is past due 90 days or more as to principal and/or interest, unless the loan is well-secured and in the process of collection. Residential loans are placed on nonaccrual status when there is 90 days of interest due and uncollected. Residential loans are returned to accrual status when less than 90 days of interest is due and unpaid. Commercial loans are returned to accruing status only after all past due principal and interest has been collected. Except for ACI loans accounted for in pools, loans that are the subject of troubled debt restructurings are generally placed on nonaccrual 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, extensions of maturity at below market terms, or in some cases, partial forgiveness of principal. Under generally accepted accounting principles, modified ACI loans accounted for in pools are not accounted for as troubled debt restructurings and are not separated from their respective pools when modified. To date, TDRs have not had a material impact on our financial condition or results of operations.

As of June 30, 2012 impaired loans included four new commercial relationships with a carrying value of $4.7 million, six non-ACI commercial relationships with a total carrying value of $0.2 million and eight ACI commercial relationships with an aggregate carrying value of $2.0 million that had been modified in TDRs. Additionally, at June 30, 2012 impaired loans included 13 non-ACI residential loans with a total carrying value of $3.3 million that were the subject of the U.S. Treasury Department's Home Affordable Modification Program ("HAMP") modifications and classified as TDRs.

During the six months ended June 30, 2012, three new commercial loans with a total carrying value of $1.0 million were modified in TDRs. One non-ACI commercial loan with a carrying value of $10 thousand and two non-ACI residential loans with a total carrying value of $1.8 million were modified in TDRs. Five ACI commercial loans with a total carrying value of $0.8 million were modified in TDRs during the six months ended June 30, 2012.

Additional interest income that would have been recognized on nonaccrual loans and TDRs had they performed in accordance with their original contractual terms is not material.

Loss Mitigation Strategies

Although our exposure to loss on covered assets is mitigated by the Loss Sharing Agreements, we have implemented strategies designed to minimize losses on these assets. We evaluate each 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. As of June 30, 2012, 11,695 borrowers had been counseled regarding their participation in HAMP; 8,342 of those borrowers were initially determined to be potentially eligible for loan modifications under the program. As of June 30, 2012, 1,403 borrowers who did not elect to participate in the program had been sent termination letters and 2,798 borrowers had been denied due to ineligibility. At June 30, 2012, there were 3,386 permanent loan modifications. Substantially all of these modified loans were ACI loans accounted for in pools.

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

Based on an analysis of historical performance of the non-ACI residential mortgage and home equity portfolio, OREO and short sale losses and recent trending data, we have concluded that LTV ratio is the leading predictive indicator of loss severity for this portfolio. The non-ACI residential mortgage and home equity portfolios have therefore been divided into homogenous groups and stratified based on LTV for purposes of calculating the ALLL. Calculated frequency of roll to loss and severity percentages are applied to the dollar value of loans in each group to calculate an overall loss allowance. LTV ratios at the individual loan level are updated quarterly using the appropriate Case-Shiller quarterly metropolitan statistical area ("MSA") Home Price Index to adjust the original appraised value of the underlying collateral. Frequency is calculated for each group using a four month roll to loss percentage, based on the assumption that if an event has occurred with a borrower that will ultimately result in a loss, this will manifest itself as a loan in default and in process of foreclosure within four months. 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.

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 is not seasoned and has not yet developed an observable loss trend. Therefore, the ALLL for new residential loans is based primarily on peer group average historical loss rates as discussed further below.

Since the new commercial loan portfolio is not yet seasoned enough to exhibit a loss trend and the non-ACI commercial portfolio has limited delinquency history, the ALLL for new and non-ACI commercial loans is based primarily on the Company's internal credit risk rating system and peer group average historical loss rates by loan class. The allowance is comprised of specific reserves for significant classified 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 nonaccrual status with committed credit facilities greater than or equal to $500,000 are individually evaluated for impairment. A quarterly net realizable value analysis is prepared for each of these relationships. This analysis forms the basis for establishing specific reserves. Loans modified in TDRs are also evaluated individually for impairment. We believe that loans rated substandard or doubtful that are not individually evaluated for impairment exhibit characteristics indicative of a heightened level of credit risk. We group these loans by product type and risk rating and establish general reserve percentages based on estimated probability of default and loss severity for each group. These estimates are based on available industry data.

The peer group used to calculate the average historical loss rates that form the basis for our general reserve calculations is a group of 20 banks in the U.S. southeast region determined by management to be the most comparable to BankUnited. Factors that impacted the selection of the peer group included asset size, composition of the loan portfolio and credit quality ratios including net charge-offs to average loans, ALLL to total loans, ALLL to noncurrent loans and noncurrent loans to total loans. Peer bank data is obtained from the Statistics on Depository Institutions Report published by the FDIC for the most recent quarter available. For new loans, a six quarter average of peer group historical loss rates is used as this period corresponds to the vintage of the majority of loans in this portfolio segment. For the non-ACI portfolio, a twelve quarter average of peer group historical loss rates is used as this period is considered more representative of expected loss experience for the more seasoned loans in this segment.

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 average historical loss rates are adjusted upward for loans rated special mention or assigned a lower "pass" rating. Peer group average historical loss rates are adjusted downward for loans assigned the highest "pass" grades.

In addition to the quantitative calculations described above, adjustments are made to the allowance for relevant qualitative factors when there is a material observable trend in those factors not already taken into account in the quantitative calculations. Qualitative factors that may result in an adjustment to the allowance have been grouped into four categories:

- portfolio trends,
- policy and credit guidelines,
- economic factors, and
- credit concentrations.

At June 30, 2012, qualitative adjustments were made to historical loss percentages related to:

- economic factors, including unemployment rates, trends in real estate prices and GDP
- portfolio trends, in particular the portfolio growth rate
- policy and credit guidelines, related to the volume of staffing changes

Qualitative adjustments represented approximately 5% of the total ALLL at June 30, 2012.

For non-ACI 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 such increase in the allowance for non-ACI loans will result in a corresponding increase in the FDIC indemnification asset.

As of June 30, 2012, the Herald loan portfolio has not had a material impact on our analysis of the ALLL. The Herald portfolio was acquired on February 29, 2012 and recorded at estimated fair value at that date.

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.

The analysis of expected cash flows for residential ACI pools incorporates updated pool level expected prepayment rates, default rates, and delinquency levels, and loan level loss severity given default assumptions. Prepayment, delinquency and default curves used for this purpose are derived from roll rates generated from the historical performance of the ACI residential loan portfolio observed over the immediately preceding four quarters. Given the static nature of the pools and unique characteristics of the loans, we believe that regularly updated historical information from the Company's own portfolio is the best available indicator of future performance. Estimates of default probability and severity of loss given default also incorporate updated LTV ratios. Historic and projected values for the Case-Shiller Home Price Index for the relevant MSA are utilized at the individual loan level to project current and future property values. 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.

Based on our projected cash flows, no ALLL related to home equity and 1-4 single family residential ACI pools was recorded at June 30, 2012 or December 31, 2011.

The primary assumptions underlying estimates of expected cash flows for ACI commercial loans are default probability and severity of loss given default. Updated assumptions for large balance and delinquent loans in the commercial ACI portfolio are based on net realizable value analyses prepared at the individual loan level by the

Company's workout and recovery department. Updated assumptions for smaller balance commercial loans are based on a combination of the Company's own historical delinquency and severity data and industry level data. Delinquency data is used as a proxy for defaults as the Company's experience has been that few of these loans return to performing status after being delinquent greater than 60 days. An additional multiplier is also applied in developing assumptions for loans rated special mention, substandard, or doubtful based on the Company's historical loss experience with classified loans.

Based on our loan level analysis, we recorded a recovery of the provision for loan losses on ACI commercial loans of $(1.8) million and $(2.8) million, respectively, for the three and six months ended June 30, 2012 and a provision for loan losses on ACI commercial loans of $0.4 million and $12.1 million, respectively, for the three and six months ended June 30, 2011.

The following table provides an analysis of the ALLL, provision for loan losses and net charge-offs for the period from December 31, 2011 through June 30, 2012 (in thousands):

	Covered Loans			
	ACI Loans	Non-ACI Loans	New Loans	Total
Balance at December 31, 2011	$ 16,332	$ 7,742	$ 24,328	$ 48,402
Provision for loan losses:				
1-4 single family residential	—	309	3,413	3,722
Home equity loans and lines of credit	—	4,333	(1)	4,332

Multi-family	301	(16)	491	776
Commercial real estate	(2,919)	(46)	1,861	(1,104)
Construction	74	—	54	128
Land	6	(60)	147	93
Commercial loans and leases	(244)	(1,622)	5,430	3,564
Consumer	—	—	(19)	(19)
Total Provision	(2,782)	2,898	11,376	11,492
Charge-offs:				
1-4 single family residential	—	(26)	—	(26)
Home equity loans and lines of credit	—	(1,874)	—	(1,874)
Multi-family	(425)	—	—	(425)
Commercial real estate	(388)	—	—	(388)
Construction	(926)	—	—	(926)
Land	(140)	—	—	(140)
Commercial loans and leases	(586)	(140)	(1,116)	(1,842)
Total Charge-offs	(2,465)	(2,040)	(1,116)	(5,621)
Recoveries:				
Home equity loans and lines of credit	—	2	—	2
Multi-family	—	16	—	16
Commercial real estate	—	11	—	11
Commercial loans and leases	—	1,249	82	1,331
Consumer	—	—	2	2
Total Recoveries	—	1,278	84	1,362
Balance at June 30, 2012	$ 11,085	$ 9,878	$ 34,672	$ 55,635

The following tables show the distribution of the ALLL, broken out between covered and new loans, as of June 30, 2012 and December 31, 2011 (dollars in thousands):

	June 30, 2012				
	Covered Loans				
	ACI Loans	Non-ACI Loans	New Loans	Total	% (1)
Residential:					
1-4 single family residential	$ —	$ 876	$ 7,428	$ 8,304	45.9%
Home equity loans and lines of credit	—	8,010	17	8,027	4.6%
Total residential	—	8,886	7,445	16,331	50.5%
Commercial:					
Multi-family	939	5	1,420	2,364	5.9%
Commercial real estate	7,365	249	6,390	14,004	16.0%
Construction	139	—	320	459	0.6%
Land	1,185	2	218	1,405	1.0%
Commercial loans and leases	1,457	736	18,845	21,038	25.7%
Total commercial	11,085	992	27,193	39,270	49.2%
Consumer	—	—	34	34	0.3%
	$ 11,085	$ 9,878	$ 34,672	$ 55,635	100%

	December 31, 2011				
	Covered Loans				
	ACI Loans	Non-ACI Loans	New Loans	Total	% (1)
Residential:					
1-4 single family residential	$ —	$ 593	$ 4,015	$ 4,608	54.1%
Home equity loans and lines of credit	—	5,549	18	5,567	6.1%
	—	6,142	4,033	10,175	60.2%
Commercial:					
Multi-family	1,063	5	929	1,997	4.1%
Commercial real estate	10,672	284	4,529	15,485	13.6%
Construction	991	—	266	1,257	0.7%
Land	1,319	62	71	1,452	1.0%
Commercial loans and leases	2,287	1,249	14,449	17,985	20.2%
	16,332	1,600	20,244	38,176	39.6%
Consumer	—	—	51	51	0.2%
	$ 16,332	$ 7,742	$ 24,328	$ 48,402	100%

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

Significant components of the change in the ALLL at June 30, 2012 as compared to December 31, 2011, include:

- Increases in the allowance for most loan classes in the new portfolio, including increases of $3.4 million for 1-4 single family residential loans, $1.9 million for new commercial real estate loans and

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$4.4 million for new commercial loans and leases, all primarily attributable to growth in the new loan portfolio;
- An increase of $2.5 million in the allowance for non-ACI home equity loans, resulting from an increase in the balance of loans projected to roll to default;
- A $(3.3) million decrease in the allowance for ACI commercial real estate loans resulting from improvements in expected cash flows from this portfolio class.

Other Real Estate Owned

All of the OREO properties owned by the Company are covered assets. The following table presents the changes in OREO for the three and six month periods ended June 30, 2012 and 2011 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Balance, beginning of period	$ 106,950	$ 182,482	$ 123,737	$ 206,680
Transfers from loan portfolio	43,171	82,837	87,353	187,927
Sales	(53,349)	(115,409)	(110,771)	(235,098)
Impairment	(3,048)	(8,187)	(6,595)	(17,786)
Balance, end of period	$ 93,724	$ 141,723	$ 93,724	$ 141,723

The decrease in OREO reflects continued efforts to resolve non-performing covered assets. Residential OREO inventory declined to 577 units at June 30, 2012 from 778 units at December 31, 2011. At June 30, 2012, 93% of OREO was comprised of residential properties.

Deposits

The following table presents information about our deposits for the three months and six months ended June 30, 2012 and 2011 (dollars in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012		2011		2012		2011	
	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	$ 1,055,998	0.00%	$ 619,052	0.00%	$ 959,564	0.00%	$ 572,595	0.00%
Interest bearing	502,313	0.65%	372,060	0.67%	488,606	0.65%	361,002	0.66%
Money market	2,851,457	0.67%	2,002,792	0.89%	2,693,000	0.69%	1,994,471	0.90%
Savings	1,107,176	0.62%	1,245,561	0.83%	1,116,788	0.66%	1,255,936	0.85%
Time	2,624,250	1.49%	2,546,673	1.79%	2,601,538	1.51%	2,719,296	1.77%
	$ 8,141,194	0.84%	$ 6,786,138	1.12%	$ 7,859,496	0.87%	$ 6,903,300	1.15%

Total deposits increased by $861.9 million to $8.2 billion at June 30, 2012 from $7.4 billion at December 31, 2011. Deposits from Herald accounted for a portion of this increase, totaling $386.5 million at June 30, 2012. The distribution of deposits reflected in the table above reflects growth in lower rate deposit products, consistent with management's business strategy.

The following table shows scheduled maturities of certificates of deposit with denominations greater than or equal to $100,000 as of June 30, 2012 (in thousands):

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Three months or less	$ 125,355
Over three through six months	344,421
Over six through twelve months	402,569
Over twelve months	557,935
	$ 1,430,280

Borrowed Funds

The following table sets forth information regarding our short-term borrowings, consisting primarily of securities sold under agreements to repurchase and overnight FHLB advances, as of and for the three and six months ended June 30, 2012 and 2011 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Maximum outstanding at any month-end	$ 52,126	$ 2,165	$ 52,126	$ 2,165
Balance outstanding at end of period	42,581	2,165	42,581	2,165
Average outstanding during the period	35,244	3,785	18,226	2,045
Average interest rate during the period	0.40%	0.42%	0.41%	0.49%
Average interest rate at end of period	0.37%	0.50%	0.37%	0.50%

The Company also utilizes FHLB advances to finance its operations. The contractual balance of FHLB advances outstanding at June 30, 2012 totaled $2.2 billion, with $0.4 billion, $1.0 million, $0.7 million and $0.1 million maturing in 2012, 2013, 2014 and 2015, respectively.

Capital Resources

Stockholders' equity increased by $157.0 million to $1.7 billion at June 30, 2012 from $1.5 billion at December 31, 2011, due primarily to the retention of earnings. Stockholders' equity was also impacted, to a lesser extent, by equity consideration issued in the acquisition of Herald, increases in unrealized gains on investment securities available for sale and dividends.

Federal banking regulators have adopted regulations setting forth a five-tier system for measuring the capital adequacy of the financial institutions they supervise. At June 30, 2012 and December 31, 2011, the Company had capital levels that exceeded regulatory well capitalized guidelines.

The following table presents the Company's regulatory capital ratios as of June 30, 2012 (dollars in thousands):

	June 30, 2012					
	Actual		Required to be Considered Well Capitalized		Required to be Considered Adequately Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage capital	$ 1,561,417	12.83%	N/A(1)	N/A	$ 486,791	4.00%
Tier 1 risk-based capital	$ 1,561,417	34.82%	$ 269,026	6.00%	$ 179,351	4.00%
Total risk-based capital	$ 1,622,595	36.19%	$ 448,377	10.00%	$ 358,702	8.00%

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

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Liquidity

Liquidity involves our ability to generate adequate funds to support asset growth, meet deposit withdrawal and other contractual obligations, maintain reserve requirements and otherwise conduct ongoing operations. BankUnited's liquidity needs are primarily met by growth in transaction deposit accounts, its cash position, cash flow from its amortizing investment and loan portfolios and reimbursements under the Loss Sharing Agreements. If necessary, BankUnited has the ability to raise liquidity through collateralized borrowings, FHLB advances or the sale of its available for sale investment portfolio. The asset/liability committee ("ALCO") policy has established several measures of liquidity which are monitored monthly by ALCO and quarterly by the Company's Board of Directors. The primary measure of liquidity monitored by management is liquid assets (defined as cash and cash equivalents and pledgeable securities) to total assets. BankUnited's liquidity is considered acceptable if liquid assets divided by total assets exceeds 2.5%. At June 30, 2012, BankUnited's liquid assets divided by total assets was 14.0%. In addition, management monitors a one year liquidity ratio, defined as cash and cash equivalents, pledgeable securities, unused borrowing capacity at the FHLB, and loans and non-agency securities maturing within one year divided by 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. At June 30, 2012, BankUnited exceeded the acceptable limit established by ALCO for this ratio.

As a holding company, BankUnited, Inc. is a corporation separate and apart from our banking subsidiaries, and therefore, provides for its own liquidity. BankUnited, Inc.'s main sources of funds include management fees and dividends from its subsidiaries and access to capital markets. There are regulatory limitations that affect the ability of bank subsidiaries to pay dividends to BankUnited, Inc. Management believes that such limitations will not impact our ability to meet our ongoing short-term cash obligations.

We expect that our liquidity requirements will continue to be met by operations, including reimbursements under the Loss Sharing Agreements, and we intend to satisfy our liquidity requirements 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 repricing characteristics may not reprice at the same time or to the same degree. The primary objective of the Company's asset/liability management activities is to maximize net interest income, while maintaining acceptable levels of interest rate risk. The ALCO is responsible for establishing policies to limit exposure to interest rate risk, and to ensure procedures are established to monitor compliance with these policies. The guidelines established by ALCO are reviewed and approved by the Company's 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 and plus 300 basis point change with rates increasing 25 basis points per month until the applicable limit is reached as well as a modified flat scenario incorporating a more flattened yield curve. We did not simulate a decrease in interest rates at June 30, 2012 due to the extremely low rate environment.

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 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. At June 30, 2012, the impact on BankUnited's projected net interest income in a plus 200 basis point scenario was 1.6% in the first twelve months and 8.8% in the second year.

These forecasts fall within an acceptable level of interest rate risk per the policies established by ALCO. In the event the model indicates an unacceptable level of risk, the Company could undertake a number of actions that would reduce this risk, including the sale of a portion of its available for sale investment portfolio or the use of risk management strategies 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 and the shape of the yield curve. Actual results may also differ due to the Company's actions, if any, in response to the changing rates.

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. These interest rate swaps are designated as cash flow hedging instruments. The fair value of these instruments is included in other liabilities in our consolidated balance sheets and changes in fair value are reported in accumulated other comprehensive income. At June 30, 2012, outstanding interest rate swaps designated as cash flow hedges had an aggregate notional amount of $630.0 million. The aggregate fair value of interest rate swaps designated as cash flow hedges included in other liabilities at June 30, 2012 was $65.4 million.

Off-Balance Sheet Arrangements

Commitments

We routinely enter into commitments to extend credit to our customers, including commitments to fund loans or lines of credit and commercial and standby letters of credit. The credit risk associated with these commitments is essentially the same as that involved in extending loans to customers and they are subject to our normal credit policies and approval processes. While these commitments represent contractual cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. The following table details our outstanding commitments to extend credit as of June 30, 2012 (in thousands):

	Covered	Non-Covered	Total
Commitments to fund loans	$ —	$ 237,914	$ 237,914
Commitments to purchase loans	—	15,091	15,091
Unfunded commitments under lines of credit	76,858	381,244	458,102
Commercial and standby letters of credit	—	32,408	32,408
	$ 76,858	$ 666,657	$ 743,515

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 2011 Annual Report on Form 10-K.

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 June 30, 2012, 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.

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 2011 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2012.

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

*Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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 9th day of August 2012.

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

/s/ Douglas J. Pauls
Douglas J. Pauls
Chief Financial Officer

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Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John A. Kanas, certify that:

1. I have reviewed this quarterly report on Form 10-Q of BankUnited, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John A. Kanas

John A. Kanas
Chairman, President and Chief Executive Officer

Date: August 9, 2012

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Douglas J. Pauls, certify that:

1. I have reviewed this quarterly report on Form 10-Q of BankUnited, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Douglas J. Pauls

Douglas J. Pauls
Chief Financial Officer

Date: August 9, 2012

Exhibit 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

In connection with the Quarterly Report of BankUnited, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John A. Kanas, as Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Date: August 9, 2012

Exhibit 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

In connection with the Quarterly Report of BankUnited, Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Douglas J. Pauls, as Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Douglas J. Pauls

Douglas J. Pauls
Chief Financial Officer

Date: August 9, 2012