BankUnited

BankUnited Inc. and BankUnited, NA

2017 Annual Dodd-Frank Act Stress Test Disclosure

October 2017

1. Introduction

Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) and related regulations issued by The Board of Governors of the Federal Reserve System (“Federal Reserve”) and the Office of the Comptroller of the Currency (“OCC”), require BankUnited Inc. (NYSE:BKU, “Company”) and BankUnited, NA (“Bank”) to conduct an annual company-run stress test and disclose a summary of the results under the Supervisory Severely Adverse Scenario.

Under the exercise, we are required to estimate losses, pre-provision net revenue ("PPNR"), the provision for loan and lease losses ("PLLL"), net income and capital, including pro-forma regulatory capital ratios, under three macroeconomic scenarios provided by the Federal Reserve. Two of these scenarios, Adverse and Severely Adverse, represent periods of hypothetical economic stress. For the 2017 stress test, we are required to use our portfolio data as of December 31, 2017 (“portfolio date”) and perform projections for a period of nine quarters (“projection horizon”). We are hereby disclosing summary results under the Severely Adverse Scenario as required. For a detailed description of the economic scenarios, please refer to the narrative provided by the Federal Reserve here. The purpose of the stress test is to assess whether BankUnited, Inc. and BankUnited, NA have sufficient capital to absorb losses and support operations during a period of severely adverse economic conditions. As per the rule, we are to assume there would be no capital actions, such as issuance or redemption of capital instruments (except for certain equity based compensation programs). Additionally, while the rule was amended this year to allow banks to alter their dividend payout projections during the forecast horizon, BankUnited opted to maintain dividend levels constant at current levels throughout the forecast horizon.

It is important to note that the scenario is NOT, and is more severe than, BankUnited’s or the Federal Reserve’s forecast of future economic conditions, but rather it is merely a single representation of a hypothetical scenario characterized by severely adverse economic conditions, designed to assess the resilience of banking organizations. BankUnited cautions the reader that results below are NOT our forecasts or predictions of future performance or of expected losses, revenue, net income or capital ratios and our actual performance under a period of economic stress may vary significantly. BankUnited gives no assurances regarding the likelihood of the economic conditions described herein or the assumptions used actually materializing. The stress test results are estimates which are based on a variety of assumptions that drive loss forecasting methodologies and balance sheet forecasts. Furthermore, we used modeling methodologies which are proprietary. Therefore, results are not comparable across financial institutions. Lastly, the results were derived as of the portfolio date and we are not required to update the results in light of new information, future events or otherwise.

2. Material risks included in the stress test

The performance of our business can be materially affected by macroeconomic conditions and interest rates. The major risks captured in the results shown herein are:

Credit risk - the risk of loss due to default or deterioration in the credit quality of borrowers or other counterparties to whom we extend credit in the form of loans or other investment contracts. This is by far our most significant risk.

Interest rate risk - the primary form of market risk to which we are exposed, interest rate risk results from the exposure to changes in the level of interest rates or slope of the yield curve. We are exposed to net interest income sensitivity, deposit elasticity, prepayment rates and changes in the fair value of our investment portfolio and interest rate swaps.

3. Summary of methodologies used in the stress test

Our stress test methodology is based, for the most part, on a very granular “bottom-up” approach for loss modeling. In order to estimate potential credit losses in our most significant portfolios, we use industry leading loan level econometric models developed by a third party. With these models, we are able to estimate Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD") for most loans in our portfolio. Due to limited internal loss data, our models are based on extensive nationwide loss databases supplied by a third party. For certain, less significant portfolios, we use more aggregated loss forecasting approaches. C&I Loans of less than $1 million are “pooled” and modeled together. The models are designed to account for loan level characteristics including, among other factors, geographic location at the Metropolitan Statistical Area ("MSA") level. Forecasting of the PLLL also involves estimating qualitative factors that would be expected to impact reserve levels, largely following our existing allowance for loan and lease losses ("ALLL") calculation methodology. Other than temporary impairment ("OTTI") of investment securities is estimated at the security level.

We use a detailed approach to forecasting PPNR and our balance sheet over the projection horizon. We capture the projected impact of the stressed environment on balance sheet size and composition including the impacts of (i) higher charge-offs, (ii) anticipated impact to loan portfolio growth and (iii) the anticipated impact on deposit levels and other sources of funds. Net interest income projections are derived from our balance sheet projections and the impact of the interest rate forecasts provided in the Supervisory Scenario. Non-interest income and non-interest expense are estimated using an analytical framework focused on sound and thoroughly documented assumptions and effective challenge by finance and line of business reviews.

4. Summary Results

Scenario Overview

The Severely Adverse scenario is characterized by a deep and prolonged recession accompanied by a period of heightened stress in corporate loan and commercial real estate markets. Real GDP growth declines sharply at the beginning of the projection period to a trough of -7.5% in 2017Q2 before gradually recovering to 3.0% annual growth by the end of the scenario. Unemployment rises and peaks at 10.0% in 2018Q3 and remains at elevated levels for the balance of the forecast period. Inflation remains subdued, averaging 1.6% throughout the scenario. The yield on 3m T bills drops to 0.1% in 2017Q1 and remains at that level throughout the scenario, while the 10 Year Note yield drops to 0.8% in 2017Q1 before gradually rising again to 1.5% by the end of the projection period. Accordingly, the yield curve (3m -10Y) flattens by 120 bps at the beginning of the projection period before gradually steepening. Corporate spreads (10Y BBB corporate) widen by a substantial 350bps, peaking in 2017Q3. Equity prices drop nearly 50% between the beginning of the projection period and the trough in 2017Q4. House and commercial real estate prices decline by 25% and 35% respectively to their trough in 2019Q1. New and unique to this year's Severely Adverse scenario is an additional stress contemplated for multifamily real estate assets which are being subject to a degree of stress greater than the overall index.

Results

The results of any stress test are significantly affected by the assumptions used with respect to balance sheet size over the forecast horizon. Management has demonstrated a high degree of control over the rate of balance sheet growth and composition. Under any set of economic conditions similar to the one contemplated in the Severely Adverse scenario, Management would react swiftly and would prudently shift to a conservative stance aimed at defending the Bank’s strong capital position, focusing on the preservation rather than the deployment of capital. Under such conditions, new loan production at BankUnited, as well as with the rest of the industry, would be significantly curtailed consistent with a decline in loan demand. However, in an abundance of conservatism, for purposes of this stress test, we assumed balance sheet size levels higher than our forecasting tools would suggest and higher than Management would judgmentally expect under the economic conditions contemplated in the Supervisory stress scenarios. Additionally, as mentioned in the Introduction section, Management opted to maintain dividend payouts at levels equal to our business plan under all stress scenarios.

Table 1 below shows projected cumulative losses under the Severely Adverse scenario for our major portfolios.

Table 1 - Cumulative 9 quarter (2017Q1F - 2019Q1F) Projected Non-Covered Charge-offs by Major Portfolio under the Severely Adverse scenario

BankUnited, Inc and BankUnited, NA

	$mm	Loss Rate*
C&I	413	5.70%
CRE	132	1.70%
Residential Mortgages	14	0.40%
Municipal Loans	1	0.10%
Total Loan Losses	560	

* Loss Rate is expressed as a percentage of average loan portfolio carrying value for the 9-qtr horizon

Table 2 below shows projected cumulative pre-provision net revenue (PPNR), provision (PLLL) and net income under the Severely Adverse Scenario. The Bank owns certain assets which are covered by a Shared Loss Agreement with the Federal Deposit Insurance Corporation (FDIC). The carrying value of the covered assets, comprised of residential loans and OREO, totaled approximately $619 million at December 31, 2016. In projecting covered loan losses for purposes of the DFAST, using a proprietary cash flow and loss forecasting model, we projected incremental credit losses in an extreme stress scenario based on the most adverse quarter of loss experience in this portfolio following the great recession. The results of this exercise reflected the immaterial impact on capital from heightened credit losses in the covered loan portfolio due to the mitigating impact of FDIC indemnification. For purposes of operational simplification given the limited potential for overall adverse capital impact, the additional modeled credit losses resulting from this exercise are fully reflected in the initial quarter of projected results for the Severely Adverse scenario and no subsequent recovery is assumed. Pursuant to the terms of the Agreement, the covered assets are subject to a stated loss threshold whereby the FDIC will reimburse BankUnited for 80% of cumulative losses (including certain interest and expenses) related to the covered assets up to $4.0 billion and 95% of losses in excess of the $4 billion threshold, substantially mitigating the impact to capital of credit risk and any additional projected credit losses on the covered loan portfolio. Under the Severely Adverse Scenario, expected losses would push the running balance of covered losses over the $4 billion threshold, therefore a blended rate of 87.5% was used in calculating the income due from the FDIC loss sharing agreement. Estimated covered loan losses in the severely adverse supervisory scenario, reflected as an increase in the PLLL and ALLL in 2017Q1, amounted to $280 million. The related mitigating impact of FDIC indemnification and loss sharing agreement of $245 million is reflected in 2017Q1 as an increase in non-interest income, a component of PPNR, and an increase in the FDIC indemnification asset, consistent with the Company's accounting policies.

Table 2 - Cumulative 9 quarter (2017Q1F - 2019Q1F) Projected PPNR, PLLL and Net Income under the Severely Adverse scenario

	BankUnited, Inc.		BankUnited, NA	
	$mm	% of Average Assets	$mm	% of Average Assets
Covered PPNR	276	0.9%	276	0.9%
Non-Covered PPNR	963	3.2%	1026	3.4%
Covered Provision for Loan Losses	279	0.9%	279	0.9%
Non-Covered Provision for Loan Losses	849	2.8%	849	2.8%
Pre-Tax Income	111	0.4%	174	0.6%
Net Income	128	0.4%	163	0.5%

Table 3 below summarizes the projected regulatory capital ratios.

Table 3 - Capital Ratios under the Severely Adverse scenarios - Projection Period (2017Q1F - 2019Q1F)

	BankUnited, Inc.					BankUnited, NA				
	Actual 2016 Q4	"Well Capitalized" Minimum	Horizon Minimum	Forecast Period	Projection Horizon end (2019Q1)	Actual 2016 Q4	"Well Capitalized" Minimum	Horizon Minimum	Forecast Period	Projection Horizon end (2019Q1)
CET1	11.6%	6.5%	10.7%	2017Q2	11.2%	12.9%	6.5%	11.9%	2017Q3	12.1%
Tier 1 Risk Based Capital	11.6%	8.0%	10.7%	2017Q2	11.2%	12.9%	8.0%	11.9%	2017Q3	12.1%
Tier 1 Leverage Capital	8.4%	5.0%	7.4%	2017Q3	7.7%	9.3%	5.0%	8.1%	2017Q3	8.3%
Risk Based Capital	12.4%	10.0%	12.0%	2017Q2	12.4%	13.7%	10.0%	13.2%	2017Q3	13.4%

* As defined under the Prompt Corrective Actions (PCA) regulatory framework

5. Drivers of Change in Capital Ratios

Figure 5.1 — BankUnited, Inc Tier 1 and Common Equity Tier 1 Risk-Based Capital: Key Drivers

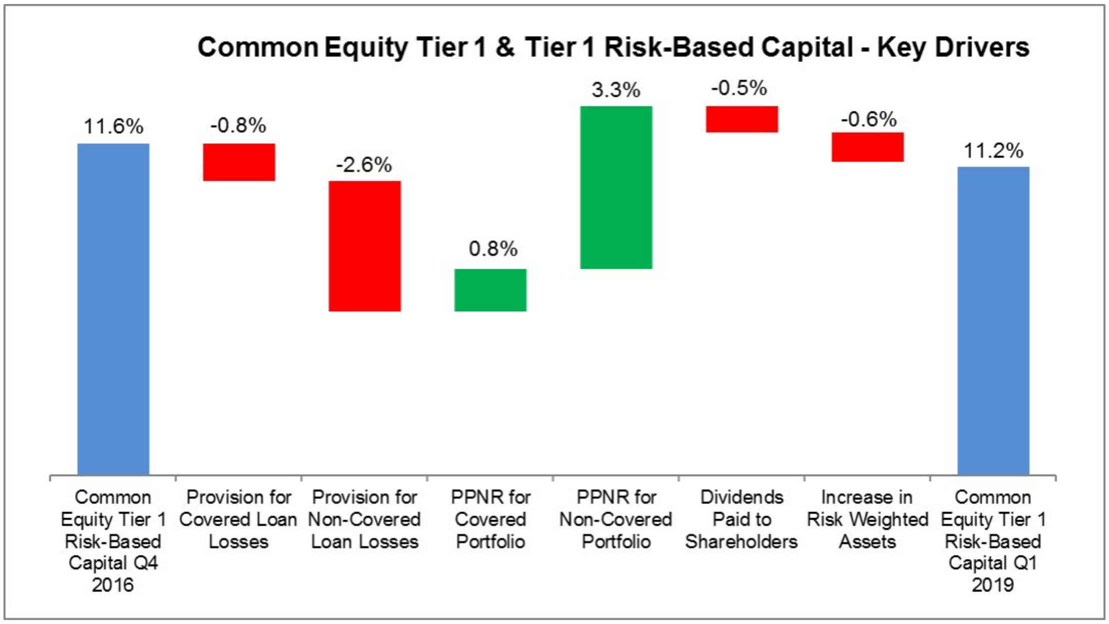
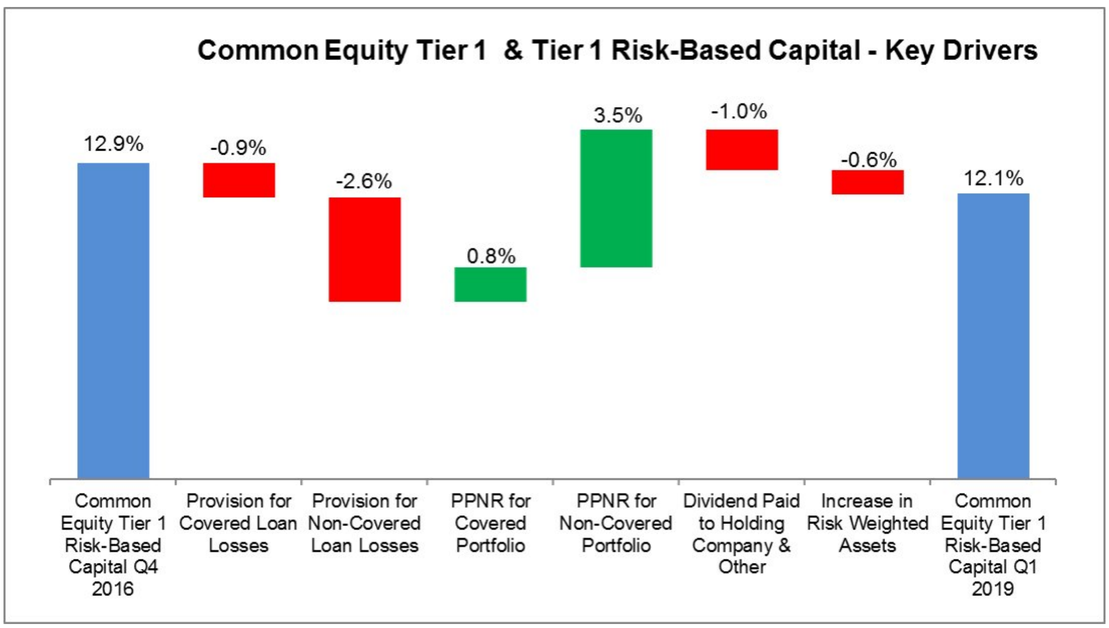


Figure 5.2 — BankUnited, NA Tier 1 and Common Equity Tier 1 Risk-Based Capital: Key Drivers



The significant drivers of changes in regulatory capital ratios in the Severely Adverse scenario include elevated credit losses in the form of net non-covered loan charge-offs accompanied by an increased PLLL sufficient to build an adequate ALLL and reductions, compared to results in the Baseline scenario, in PPNR resulting primarily from lower projected balances of interest earning assets. The adverse impact to capital driven by these income statement dynamics is offset by the capital benefits of a smaller projected balance sheet. In summary, the results of the Company's Dodd-Frank Act Stress Test indicate that the Company and the Bank will have sufficient capital to successfully navigate a severe economic downturn such as the one characterized by the Severely Adverse scenario and maintain capital levels in excess of regulatory "well-capitalized" guidelines throughout the course of the hypothetical scenario.

BankUnited

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Forward-Looking Statements

These 2017 Annual Dodd-Frank Act Stress Test Disclosures of projected results, risks and assumptions are hypothetical and made pursuant to the requirements of the Federal Reserve's DFAST and related instructions and do not necessarily reflect the Company's future expectations. These disclosures contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "estimates", "anticipates", "outlook", "believes", "expects, "potential", "continues", "may", "will", "could", "should", "seeks", "approximately", "predicts", "projects", "intends", "plans", or the negative version of those words or other comparable words and similar expressions identify forward-looking statements.

These forward-looking statements are based on management's current views with respect to future results, or upon hypothetical assumptions required under DFAST and are subject to risks and uncertainties. Forward-looking statements are based on beliefs and assumptions made by management using currently available information. Forward-looking statements speak only as of the date on which they are made. The Company expressly disclaims any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise. The inclusion of forward-looking statements should not be regarded as a representation by the Company that the future plans, estimates or expectations contemplated by a forward-looking statement will be achieved. 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 could differ materially from those indicated in these statements. These factors should not be construed as exhaustive.