

Effects of New Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-01, “Investments – Equity Method and Joint Ventures (Topic 323), Accounting for Investments in Qualified Affordable Housing Projects.” The amendments in ASU No. 2014-01 provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for a low-income housing tax credit. The amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The Company chose to apply this new guidance for the period beginning on January 1, 2014.

The impact of applying this new guidance included a \$1.3 million reduction in the balance of retained earnings as of January 1, 2014. The total amount of affordable housing tax credits and other tax benefits recognized during calendar year 2014, and the related amount of amortization recognized as a component of income tax expense for that year, were \$3.9 million and \$2.9 million, respectively. As of December 31, 2014, the commitment of additional anticipated equity contributions of \$21.7 million relating to current investments is reflected in “Other liabilities.” Retrospective application of the new amortization methodology would not result in a material change to prior-period presentations.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

For cash flow reporting purposes, cash and cash equivalents include cash on hand, amounts due from banks, and money market investments, which include federal funds sold and reverse repurchase agreements. At December 31, 2014 and 2013, the Company’s cash and cash equivalents totaled \$564.2 million and \$644.6 million, respectively. Included in cash and cash equivalents at those dates were \$135.2 million and \$208.0 million of interest-bearing deposits in other financial institutions, primarily consisting of balances due from the Federal Reserve Bank of New York. Also included in cash and cash equivalents at December 31, 2014 and 2013 were federal funds sold of \$6.8 million and \$4.8 million, respectively. In addition, the Company had \$250.0 million in pledged reverse repurchase agreements outstanding at December 31, 2014 and 2013.

In accordance with the monetary policy of the Board of Governors of the Federal Reserve System (the “FRB”), the Company was required to maintain total reserves with the Federal Reserve Bank of New York of \$129.5 million and \$133.7 million, respectively, at December 31, 2014 and 2013, in the form of deposits and vault cash. The Company was in compliance with this requirement at both dates.

Securities Held to Maturity and Available for Sale

The securities portfolio primarily consists of mortgage-related securities and, to a lesser extent, debt and equity (together, “other”) securities. Securities that are classified as “available for sale” are carried at their estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders’ equity. Securities that we have the intent and ability to hold to maturity are classified as “held to maturity” and carried at amortized cost, less the non-credit portion of OTTI recorded in accumulated other comprehensive loss, net of tax (“AOCL”).

The fair values of our securities—and particularly our fixed-rate securities—are affected by changes in market interest rates and credit spreads. In general, as interest rates rise and/or credit spreads widen, the fair value of fixed-rate securities will decline; as interest rates fall and/or credit spreads tighten, the fair value of fixed-rate securities will rise. We regularly conduct a review and evaluation of our securities portfolio to determine if the decline in the fair value of any security below its carrying amount is other than temporary. If we deem any decline in value to be other than temporary, the security is written down to its current fair value, creating a new cost basis, and the resultant loss (other than the OTTI on debt securities attributable to non-credit factors) is charged against earnings and recorded in non-interest income. Our assessment of a decline in fair value includes judgment as to the financial position and future prospects of the entity that issued the investment security, as well as a review of the security’s underlying collateral. Broad changes in the overall market or interest rate environment generally will not lead to a write-down.

In accordance with OTTI accounting guidance, unless we have the intent to sell, or it is more likely than not that we may be required to sell a security before recovery, OTTI is recognized as a realized loss in earnings to the extent that the decline in fair value is credit-related. If there is a decline in fair value of a security below its carrying