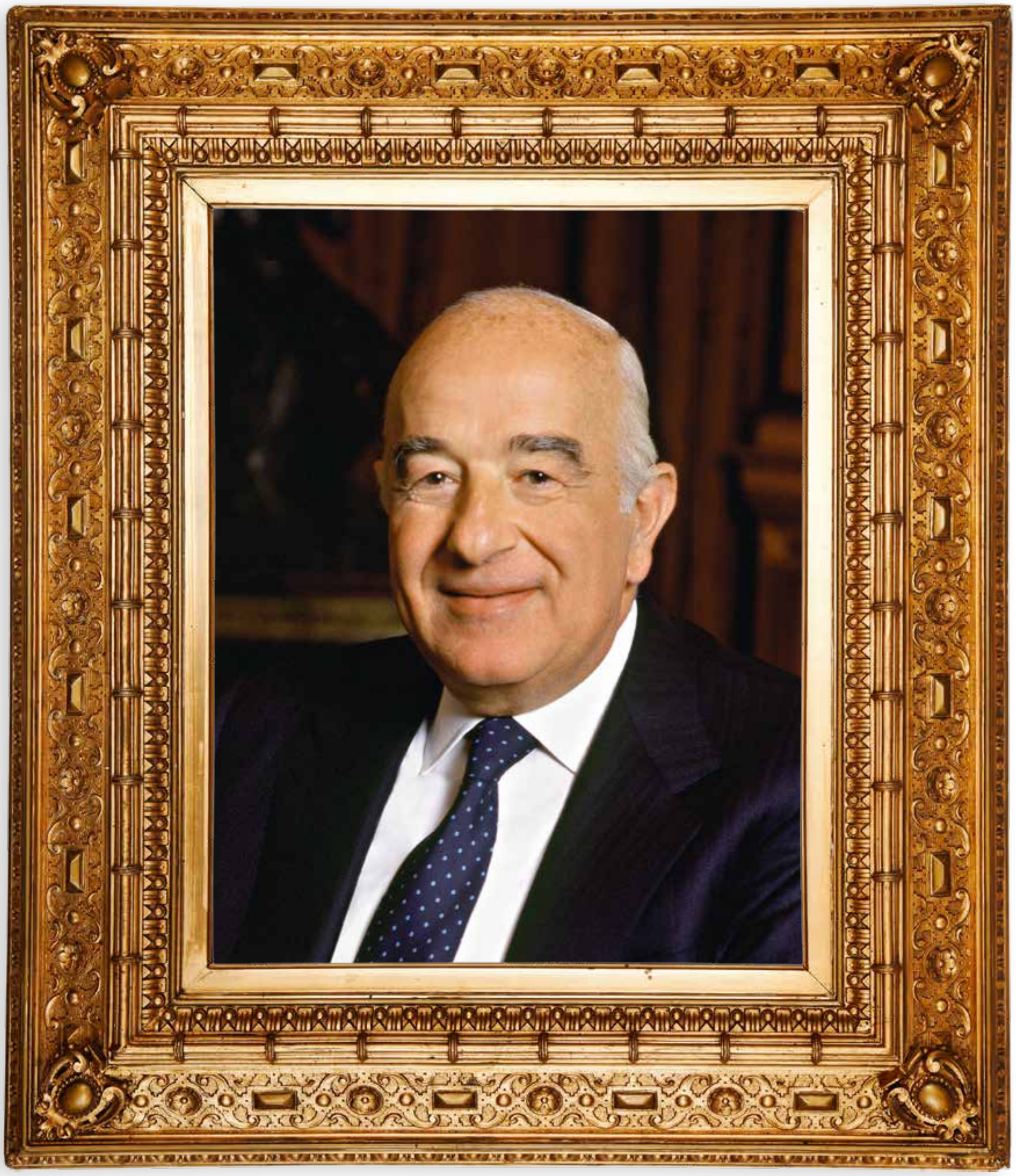
Safra National Bank
of New York

Annual Report
2022



“Every bank is like a child –
you have to nurture it
so it is able to grow and thrive.”

Joseph Safra (1938 – 2020)

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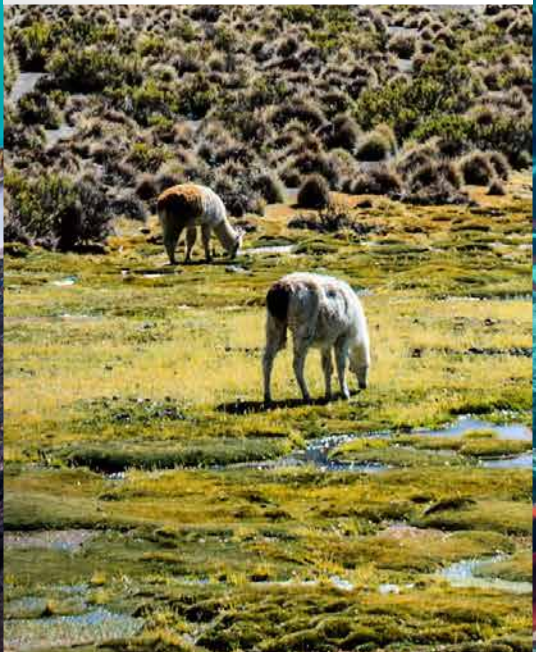

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North American Coastal Plain

United States of America

Chairman’s Foreword

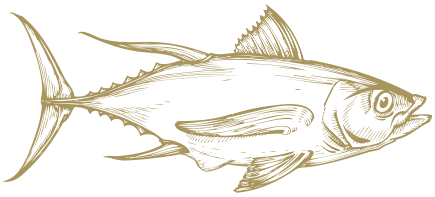
Chairman's Foreword

Welcome to the Annual Report of Safra National Bank of New York for 2022. We are pleased to report another year of good results, with record $2.3 billion in client net new assets. The Common Equity Tier 1 Capital Ratio reached an impressive 21.8%, supported by a strong capital base.

"If you choose to sail upon the seas of banking, build your bank as you would your boat, with the strength to sail safely through any storm". The year 2022 gave us ample opportunity to demonstrate the Bank's resilience and stability in the face of uncertainty coming from ongoing conflicts such as the Russia/Ukraine conflict, inflation and volatile markets. Against this backdrop, our employees exhibited an even deeper dedication to managing and protecting the wealth of our clients.

A culture of family entrepreneurship

As a privately-owned bank founded and managed by entrepreneurs, we have a distinctive understanding of the needs of families, business owners, and other investors. Our multi-generational heritage instils a sense of personal responsibility and accountability throughout all of our employees.



We recognize the importance of good risk management and take a long-term view on our approach to managing wealth. As a result, our interests align with those of our clients, ensuring that their financial wellbeing is always at the forefront of our decision-making.

By combining a deep understanding of the specific needs of our clients with our entrepreneurial spirit, we provide tailored financial solutions designed to meet their individual goals and objectives.

This approach has helped us build a reputation for stability and conservative wealth management and made us a trusted partner for all stakeholders.

Capital strength and risk management

Safra National Bank of New York further strengthened its financial position in 2022. Tier 1 capital, the ultimate measure of a bank's financial strength, rose to $890 million, almost twice its regulatory requirement to be considered well capitalized, and capital to risk-weighted-asset ratio closed at 22.4%. The Bank continues to be not only well capitalized but also has capital buffer above many other US banks. These figures demonstrate that the Bank and has all the financial strength to continue to grow and to navigate the different economic cycles, regardless of whether they are turbulent or calm.

Our conservatism is also reflected in the structure of the Bank's balance sheet, which maintained a very low duration and a high level of liquidity. At December 31, 2022 the Bank's overnight deposit at the Federal Reserve Bank amounted to $2.2 billion, which combined with our High-Quality Liquid Assets portfolio, provides the Bank with the liquidity needed to meet and even exceed its clients demand deposits.

Loans represent only 31% the Bank's balance sheet, of which 67% of those loans are typically fully collateralized by securities and the remaining 33% are secured by Commercial Real Estate.

The Bank deploys ample resources to manage increasing regulatory requirements and a challenging market environment, in combination with a proven risk management approach.

Commitment to our core values and sustainability

The J. Safra Group's core values of stability, trust, solidity, discretion, efficiency and sustainability are the very foundation for our commitment to creating value for clients. Stability provides a secure and reliable framework for client relationships, building on the J. Safra Group's multigenerational family ownership structure and conservative risk management practices. Trust is the cornerstone of our services, as it must be earned consistently through transparent and ethical practices. The J. Safra Group's solidity and high level of liquidity demonstrate our commitment to clients' interests and the ability to serve as a safe harbor for their assets. Discretion is a key component of the J. Safra Group's services, as the privacy of our clients always comes first. Efficiency is crucial in delivering high-quality services, as the J. Safra Group strives to find the best possible solutions and deliver them in an effective manner and to the highest standard. Finally, J. Safra Group has sustainability as a core aspect of its activities and has taken a leadership role in sustainable investing. Our belief is that considering long-term outcomes is crucial for genuine and enduring economic success. As such, the J. Safra Group seeks to invest in companies that are creating solutions for some of the world's most pressing issues, such as climate change.

Together, these values enable the J. Safra Group to continue acting as a long-term partner to clients, offering solutions most adapted to their specific needs.

Outlook 2023

Record increases in benchmark Fed Funds rate have made an impact towards fighting inflation, as its ongoing descent from the summer highs of last year have continued into the New Year. Coupled with improvement in supply chains, expectations are for the Federal Reserve to end its rate hiking stance by the summer of 2023. Even with its efforts to tighten financial conditions, the resiliency of the US consumer base and strong employment have continued, nonetheless, and have sparked optimism that any such economic slowdown may potentially be short-lived. Social and geo-political concerns persist, and with select regional banks having come under pressure at the beginning of the year, it could lead to further tightened lending standards.

We view any such potential for market volatility as an opportunity of which advantage can be taken. Operating with a conservative mindset and utilizing our close relationships – conversing with our Fixed Income and Equity Trading desks at our broker dealer subsidiary, Safra Securities, LLC, and our investment management and insurance agent teams from our affiliates J. Safra Asset Management and J. Safra Inc, respectively – allows for successful collaboration and discussions to navigate any such uncertainty with an opportunistic ideology.

In 2023, we will continue to make progress on the Bank's strategy, including digitalization, which allows us to engage even more closely with our clients and provide them with the high level of service they expect from us no matter where they are. We will also continue to develop tools that provide clients with greater access, greater transparency, and greater connectivity which have become paramount to private banking.

In conclusion, the Board expresses its gratitude to our clients for their unwavering trust and support, and recognizes the efforts and continued dedication of all employees, as we continue to grow and help our clients sail safely through any storm.

Jacob J. Safra
Chairman of the Board of Directors
Safra National Bank of New York

Mesoamerica

Mexico

Financial Highlights

Financial Highlights

Consolidated income statements	2022 US$ 000	2021 US$ 000
Net interest income	173,695	146,742
Non-interest income	15,262	126,979
Non-interest expenses	(158,405)	(159,779)
Operating income	**40,089**	**108,260**
Net income	**32,540**	**82,219**

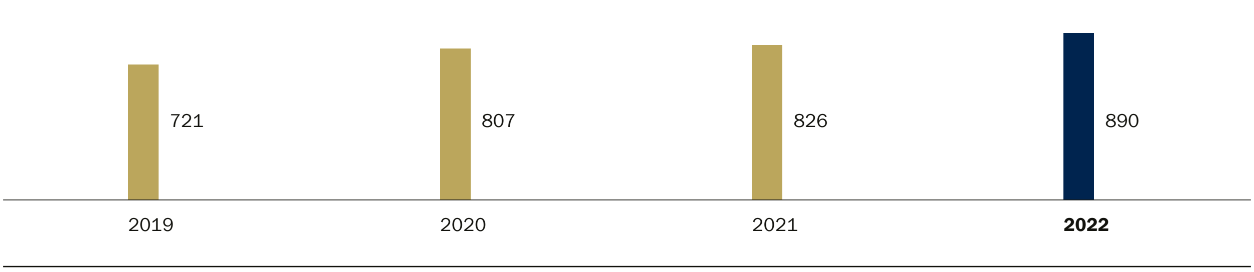
Consolidated balance sheets	12.31.2022 US$ 000	12.31.2021 US$ 000
Total assets	9,768,583	9,418,664
Investments	5,785,223	5,187,383
Loans	3,023,511	3,370,728
Deposits	7,809,889	7,565,948
Equity	**1,063,923**	**1,096,800**

Client assets	12.31.2022 US$ million	12.31.2021 US$ million
Total client assets	28,305	28,282

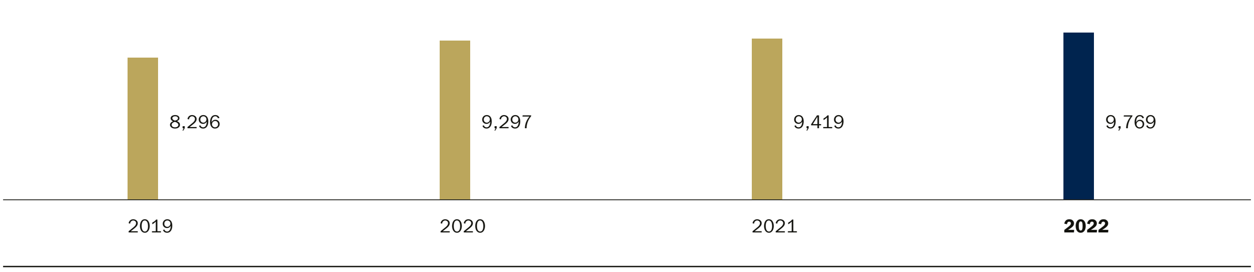
Ratios	2022 %	2021 %
Capital Ratio	22.4%	21.3%
Leverage Ratio	9.8%	8.9%

Note: Consolidated figures include the accounts of Safra National Bank of New York and its wholly owned subsidiaries Safra Securities LLC and 3050 Aventura Owner, LLC.

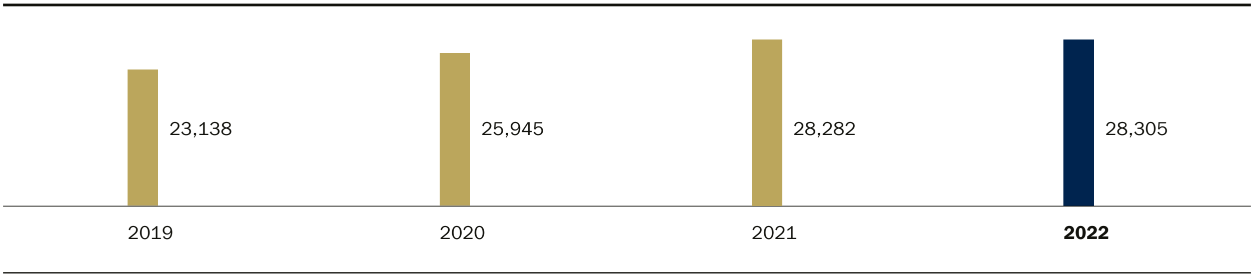
Tier 1 Capital as of 12/31 (US$ million)



On-Balance Sheet as of 12/31 (US$ million)



Total Client Assets as of 12/31 (US$ million)



Fernando De Noronha – Atol Das Rocas Moist Forests

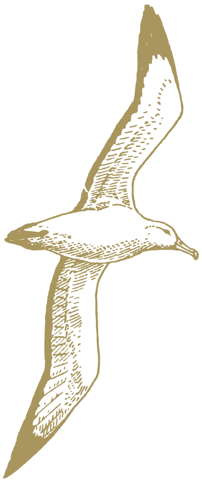
Brazil

Year in Review

Year in Review

This year, we selected biodiversity as the graphic theme for our Annual Report. It is our conviction that in the face of unprecedented declines in biodiversity as a result of human activities, it has never been more important to protect our biodiversity and put it on the path to recovery. We also believe that one of the main pillars of the fight to reverse nature loss is by investing appropriately.

As yet another unprecedented year, 2022 came with many challenges. The after effect of the 2020 pandemic contributed to a very tight labor market, with record low unemployment in the United States, potentialized by low work force participation, higher wages, and the change from a "temporary inflationary concept" to a more sustained one. The on-going conflict in Ukraine has also generated rising costs to energy, food, and other consumer goods. These disruptive events have contributed to a soaring rate of inflation, which ended at 9% at the end of 2022, and an aggressive monetary policy initiated by the Federal Reserve and by other central banks, as well. 2022 was indeed a geopolitical and economic "coup de grace" that has brought volatility and negative surprises in both the bond and equity markets.



We, at Safra National Bank, believe that with such challenges, there also comes the chance to explore opportunities as we head into 2023 and beyond. With current interest rates at the highest levels seen in recent history, there is the obvious alternative for investing in high-quality bonds with greater returns. Additionally, as investors shift their focus to value versus growth, there are companies with strong and sound balance sheets that may present themselves as a good opportunity for equity investments. Although the economic environment makes predicting the next steps to be taken by Central Banks in their monetary policy unclear, we continue to provide our clients with a diversified approach towards investments. And more important yet, we continue to demonstrate our value as a trusted partner to help navigate our clients during these unsettled waters through the strength of our Bank, as demonstrated by the tier 1 capital, that rose to $890 million, almost twice its regulatory requirement to be considered well capitalized, and the 22.4% capital to risk-weighted-asset ratio, in addition to the structure of the Bank's balance sheet, which maintained a very low duration and a high level of liquidity.

Continued growth in 2022

Total client assets amounted to $28.3 billion at December 31, 2022 and remained similar to December 31, 2021. Although market valuation during the year reduced client assets values, the Bank had an infusion of an additional $2.3 billion in client net new assets, from existing and new clients.

Net interest income rose by 18% to $174 million in 2022 compared to $147 million in 2021, from our balance sheet structure which allows us to benefit from the rise in interest rates.

Personnel expenses reached $87 million in 2022 compared to $79 million in 2021. This increase reflects our continuous effort to add new talent to the Bank, as well as, the hiring of new teams to support the expansion of the Bank's activities.

Since the Bank in preceding years elected to fair value certain assets, such as, some investment securities, the resulting accounting losses on those assets were actually offset by gains recorded in prior years, and are further offset by long-term deposits that, although have a positive value, are not recorded for accounting purposes. Removing this impact on both years, the adjusted net income would have been $87 million in 2022 and $85 million in 2021.

In 2022, Safra National Bank expanded its operations into Palm Beach, Florida, and also began the process of acquiring Delta National Bank and Trust Company, enhancing our reach and influence in additional key markets in Brazil.

Dedication our clients and committed teams

Our team of relationship managers, traders and supporting functions, as well as, investment managers and insurance agents from our affiliates J. Safra Asset Management and J. Safra Inc, respectively, continue to demonstrate their adaptability and determination to support the needs of the Bank and our demanding client base. Our team has successfully faced every challenge presented during this turbulent 2022, while continuing to remain committed to providing exceptional service.

Our highly specialized team of qualified and knowledgeable professionals provide clients with investment opportunities and portfolios that are robust, well diversified, and able to withstand the complexities of a highly integrated and volatile global market. This, along with our consistent financial performance and our adherence to a longstanding family philosophy of care and prudence, continues to make us a strong, trusted, and reliable partner to our clients, their families, and the multitude of generations.

As a family-owned bank that has been solely focused on private wealth management for over 180 years, we have the distinctive advantage of intimately understanding the needs of the high and ultra net-worth families that make up the core of our private banking business. Throughout 2022 and even more-so, throughout the greater cycle of socio-economic and political turmoil that has marked the period of the last two decades, Safra Bank and the J. Safra Group, have proven themselves to be globally respected symbol of resilience and stability.

Our multi-generational heritage, our pervasive sense of personal accountability, and our commitment to our core principals of sound risk management, ensures that our client's financial wellbeing is always at the forefront of every decision we make. This unique understanding also informs our working philosophy to "take care of our clients' wealth as we do our own" and we are dedicated to ensuring the security and stability of our client's wealth, along with providing an appropriate mix of tailored financial solutions designed to meet every clients' individual goals and objectives. Our primary role at Safra Bank is to help each client build a portfolio that is adaptable and capable of withstanding even long periods of volatility.

This approach has helped us build a reputation for stability and conservative wealth management and made us a trusted partner for all stakeholders.

In conclusion, and on behalf of the Safra Bank Executive Team, I would like to extend our gratitude to all of our loyal clients, and to our dedicated employees that work tirelessly to be worthy of our client's continued trust and support as we persevere and maintain our position as a truly exceptional global private bank!

Simoni Morato
Chief Executive Officer
Safra National Bank of New York

Chilean Winter Rainfall-Valdivian Forests

Chile

Consolidated Financial Statements

Independent Auditor's Report

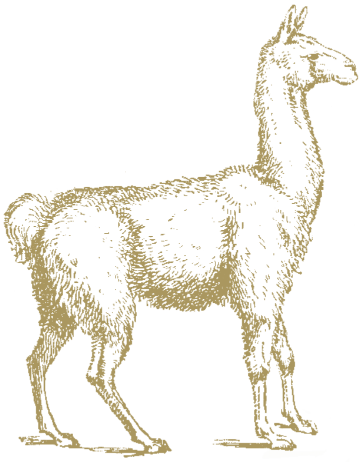
To the Board of Directors
Safra National Bank of New York:

Opinion

We have audited the consolidated financial statements of Safra National Bank of New York and its subsidiaries (the Bank), which comprise the consolidated statement of financial condition as of December 31, 2022 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2022 and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

We also have audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Bank's internal control over financial reporting as of December 31, 2022, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 11, 2023 expressed an unmodified opinion on the effectiveness of the Bank's internal control over financial reporting.



Basis for Opinion

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Bank and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The consolidated financial statements of the Bank as of and for the year ended December 31, 2021 were audited by another auditor, who expressed an unmodified opinion on those statements on March 15, 2022.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

New York, New York
April 11, 2023

Consolidated Statements of Financial Condition

ASSETS	**As of 12.31.2022** **US$ 000**	As of 12.31.2021 US$ 000
CASH AND DUE FROM BANKS	165,828	234,755
SHORT-TERM INVESTMENTS	32,477	71,778
CASH AND SECURITIES REQUIRED TO BE SEGREGATED UNDER FEDERAL OR OTHER REGULATIONS	153	113,353
INTEREST-BEARING DEPOSITS WITH BANKS	3,122,012	1,100,831
SECURITIES PURCHASED UNDER AGREEMENTS	5,142	–
SECURITIES HELD-TO-MATURITY		
Pledged as collateral	207	291
Unencumbered	253	315
Total securities held-to-maturity	460	606
INVESTMENT SECURITIES		
Pledged as collateral	2,580,845	3,569,703
Unencumbered	–	394,143
Total investment securities (includes fair value option securities $880,425 and $1,575,020 and securities available for sale $1,700,420 and $2,388,826 on December 31, 2022 and 2021, respectively)	2,580,845	3,963,846
TRADING SECURITIES, FAIR VALUE:		
Unencumbered	44,287	50,322
Total trading securities	44,287	50,322
LOANS — net of allowance for loan losses, unearned discounts, and deferred loan fees	3,023,511	3,370,728
OTHER ASSETS:		
Interest receivable	35,749	29,006
Premises and equipment, net	44,327	32,099
Customers, liability on acceptances outstanding	348	–
Cash surrender value of life insurance	85,928	84,044
Net deferred tax asset	37,188	–
Federal Reserve Stock	9,602	9,602
Derivative assets	305,182	42,506
Other assets	275,544	315,188
Total other assets	793,868	512,445
TOTAL ASSETS	**9,768,583**	**9,418,664**

See notes to consolidated financial statements.

(Continued)

LIABILITIES AND STOCKHOLDERS, EQUITY	**As of 12.31.2022** **US$ 000**	As of 12.31.2021 US$ 000
LIABILITIES:		
Deposits:		
Demand	2,664,464	3,449,671
Money market, NOW, and savings	856,232	503,567
Time	4,289,193	3,612,710
Total deposits	7,809,889	7,565,948
Borrowings	500,700	78,300
Securities sold under agreements to repurchase	5,142	–
Interest payable	29,190	2,164
Acceptances outstanding	348	–
Accrued compensation	29,897	28,501
Accrued taxes payable	2,321	–
Net deferred tax liability	–	4,177
Derivative liabilities	36,505	236,726
Payable to customers	128,659	168,671
Other liabilities	162,009	237,377
Total liabilities	8,704,660	8,321,864
COMMITMENTS AND CONTINGENT LIABILITIES (Note 20)		
STOCKHOLDERS, EQUITY:		
Common stock, $100 par value — authorized, 500,000 shares; issued and outstanding, 189,560 shares	18,956	18,956
Additional paid-in capital	292,601	292,601
Retained earnings	791,899	759,359
Accumulated other comprehensive income(loss) — net of tax	(39,533)	25,884
Total stockholders, equity	1,063,923	1,096,800
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**9,768,583**	**9,418,664**

See notes to consolidated financial statements.

(Concluded)

Consolidated Statements of Income

	For the Year Ended	For the Year Ended
	12.31.2022	12.31.2021
	US$ 000	US$ 000
INTEREST INCOME:		
Loans — including realization of deferred fees and accretion of discounts on loans	109,599	67,151
Securities	77,906	81,913
Interest-bearing deposits with banks	42,978	10,177
Securities purchased under agreements	1,085	–
Total interest income	231,568	159,241
INTEREST EXPENSE:		
Deposits and borrowings	56,789	12,499
Securities sold under agreements to repurchase	1,084	–
Total interest expense	57,873	12,499
NET INTEREST INCOME	173,695	146,742
NET PROVISION (BENEFIT) FOR CREDIT LOSSES — including off-balance sheet reserve	(9,537)	5,682
Net interest income after provision for credit losses	183,232	141,060
OTHER INCOME:		
Net gain on securities transactions	77,193	90,581
Net (loss) on fair value measurements	(129,223)	(67,635)
Net gain on foreign currency valuation on securities and derivatives	6,491	37,566
Fees and service charges	49,948	48,304
Other income	10,853	18,163
Total other income	15,262	126,979
OTHER EXPENSES:		
Salaries and employee benefits	87,543	79,242
Professional fees	26,196	24,641
Occupancy	9,380	16,226
Communications and data processing	16,503	11,009
Other operating	18,783	28,661
Total other expenses	158,405	159,779
INCOME BEFORE INCOME TAXES	40,089	108,260
INCOME TAXES (includes $13,711 and $4,374 income tax expense (benefit) from reclassification items from OCI for the years ended December 31, 2022 and 2021, respectively)	7,549	26,041
NET INCOME	**32,540**	**82,219**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

	For the Year Ended	For the Year Ended
	12.31.2022	12.31.2021
	US$ 000	US$ 000
NET INCOME	32,540	82,219
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAXES:		
Securities available-for-sale:		
Net unrealized gains/(losses) during the period (net of tax (expense)/benefit of $1,656 and $4,760 on December 31, 2022 and 2021, respectively)	(24,283)	(14,281)
Reclassification adjustment for realized (gains)/losses for securities sold/called included in net income (net of tax expense/(benefit) of $13,711 and $4,374, on December 31, 2022 and 2021, respectively)	(41,134)	(13,121)
Other comprehensive income/(loss)	(65,417)	(27,402)
TOTAL COMPREHENSIVE INCOME (LOSS)	**(32,877)**	**54,817**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

US$ 000	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE — January 1, 2021	**18,956**	**292,601**	**707,140**	**53,286**	**1,071,983**
Payment of dividends	–	–	(30,000)	–	(30,000)
Net income	–	–	82,219	–	82,219
Other comprehensive loss	–	–	–	(27,402)	(27,402)
BALANCE — December 31, 2021	**18,956**	**292,601**	**759,359**	**25,884**	**1,096,800**
Net income	–	–	32,540	–	32,540
Other comprehensive loss	–	–	–	(65,417)	(65,417)
BALANCE — December 31, 2022	**18,956**	**292,601**	**791,899**	**(39,533)**	**1,063,923**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	For the Year Ended **12.31.2022** **US$ 000**	For the Year Ended 12.31.2021 US$ 000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	32,540	82,219
Adjustment to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,516	10,798
Loss on disposal of software and equipment	7,208	688
Provision for (benefit from) deferred income taxes	19,489	(11,566)
Net (benefit) provision for credit losses	(9,537)	5,682
Net amortization/accretion of securities premiums/discounts	3,529	(6,705)
Net realized (gain)/loss on sales of securities available-for-sale ("AFS")	(54,845)	(17,495)
Net (gain)/loss on fair value measurement of elected fair value option ("FVO") on securities available-for-sale	69,812	95,707
Net (gain)/loss on fair value measurement of elected FVO on loans	23,620	18,568
Net (gain)/loss from basis adjustments on fair value hedges of AFS securities and loans	112,002	20,238
Net (increase) decrease in operating assets:		
Securities required to be segregated under federal or other regulations	–	12,000
Trading securities	337,668	59,124
Interest receivable	(6,743)	(4,245)
Derivative assets	(262,676)	58,352
Other assets	38,592	(200,585)
Net increase (decrease) in operating liabilities:		
Interest payable	27,026	(13,614)
Accrued compensation	1,396	4,718
Accrued taxes payable	2,321	(593)
Derivative liabilities	(200,221)	(137,601)
Payable to customers	(40,012)	56,574
Other liabilities	(127,593)	186,632
Net cash (used in) provided by operating activities	**(22,908)**	**218,896**

See notes to consolidated financial statements.

(Continued)

	For the Year Ended	For the Year Ended
	12.31.2022	12.31.2021
	US$ 000	US$ 000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from paydowns, sales, calls, and maturities of securities available-for-sale	936,665	1,763,147
Proceeds from paydowns and maturities of securities held-to-maturity	146	268
Purchases of securities	(39,519)	(408,923)
Acquisition of consumer loan business	–	(10,869)
Purchases of premises and equipment	(21,900)	(9,737)
Increase in cash surrender value of life insurance	(1,884)	(1,823)
Net (increase) decrease in:		
Interest-bearing deposits with banks	(2,021,181)	(514,594)
Loans	277,788	(568,655)
Customers' liability on acceptances outstanding	(348)	959
Net cash (used in) provided by investing activities	**(870,233)**	**249,773**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends	–	(30,000)
Net increase (decrease) in:		
Deposits	256,107	95,529
Borrowings	422,400	(398,060)
Acceptances outstanding	348	(959)
Net cash provided by (used in) financing activities	**678,855**	**(333,490)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(7,142)	(5,440)
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(221,428)	129,739
CASH, CASH EQUIVALENTS AND RESTRICTED CASH— Beginning of year	419,886	290,147
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — End of year	198,458	419,886
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest on deposits, borrowed funds, and derivative transactions	40,020	60,575
Income taxes — (net of refunds received of $172 in 2022 and $0 in 2021)	16,677	44,995

See notes to consolidated financial statements. (Concluded)

Notes to Consolidated Financial Statements

As of and for the years ended December 31, 2022 and 2021
(Dollars in thousands)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Safra National Bank of New York ("SNBNY") and its wholly owned subsidiaries, Safra Securities LLC ("SSL") and 3050 Aventura Owner, LLC (collectively, the "Bank"). SNBNY engages in wholesale and private banking under a federal charter and is a member of the Federal Deposit Insurance Corporation ("FDIC") and the Federal Reserve System ("FED"). The Office of the Comptroller of the Currency (the "OCC") regulates and supervises SNBNY. SSL is registered with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA"). The Bank is a subsidiary of Safra New York Corporation (the "Parent"), a U.S. holding company.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Bank and are prepared in accordance with U.S. generally accepted accounting principles (hereinafter referred to as "GAAP"). All intercompany accounts and transactions within the Bank have been eliminated in consolidation.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from these estimates. Significant accounting estimates reflected in the Bank's consolidated financial statements include the allowance for loan losses and the fair value of financial instruments.

Cash and Cash Equivalents

For purposes of the consolidated financial statements, cash and cash equivalents are comprised of cash and due from banks which consists of cash on hand, cash items in the process of collection, and amounts due from banks and short-term investments which consists of money market funds, money market accounts, short-term interest bearing deposits with financial institutions, securities and restricted cash. All amounts included in short-term investments have an original maturity of 90 days or less. Cash in SNBNY's vault at December 31, 2022 and 2021, was $530 and $612, respectively.

Cash and Securities Required to be Segregated under Federal or Other Regulations

Cash and securities required to be segregated under federal or other regulations consists of non interest-bearing cash held in a special reserve bank account pursuant to SEC Rule 15c3-3 for SSL.

Interest-Bearing Deposits with Banks

Interest-bearing deposits with banks consist principally of due from the Federal Reserve Bank of New York ("FRBNY"), time deposits, and amounts due from other depository and other financial institutions. The Bank may pledge interest-bearing deposits as collateral for a credit line with the FRBNY and securities transactions with other financial institutions.

Securities Sold under Agreements to Repurchase ("Repurchase Agreements") and Securities Purchased under Agreements to Resell ("Reverse Repurchase Agreements")

Repurchase agreements and reverse repurchase agreements are recorded as collateralized financing transactions and are carried at the contract value as specified in the respective agreements. Accrued interest on these transactions is recorded within interest receivable or payable in the consolidated statements of financial condition. Interest on these transactions is recorded within interest income or interest expense in the consolidated statements of income. It is the policy of the Bank to obtain possession of collateral with a fair value equal to or in excess of the principal amount loaned under the reverse repurchase agreements. Collateralized reverse repurchase agreements may result in credit exposure in the event the counterparties to the transactions are unable to fulfill their contractual obligations. The Bank minimizes the credit risk associated with this activity by monitoring credit exposure and collateral values, and by requiring additional collateral to be promptly deposited with or returned to the Bank when deemed necessary.

Securities

Securities accounted for under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 320, *Investments — Debt and Equity Securities* ("ASC 320"), are categorized as held-to-maturity, available-for-sale, or trading. Debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried on the consolidated statements of financial condition at amortized cost unless a decline in value is deemed other-than-temporary as a result of a credit deterioration of the issuer, in which case the carrying value is adjusted. The amortization of premium or accretion of discount, as well as any unrealized loss deemed other-than-temporary due to credit deterioration, is included in current period earnings. Securities that were bought and held principally for the purpose of selling them in the near term are classified as trading securities. Trading securities are carried at fair value with changes in unrealized gains and losses included in current earnings. Securities not classified as trading or as held-to-maturity are classified as available-for-sale. These securities are carried in the consolidated statements of financial condition at fair value with changes in unrealized holding gains and losses reported as other comprehensive income/(loss) ("OCI"), net of deferred income taxes, in the consolidated statements of comprehensive income. The Bank elected the fair value option for certain available-for-sale securities at inception, in accordance with ASC 825, *Financial Instruments* ("ASC 825"). The changes in unrealized gains and losses for these securities are included in net loss on fair value measurements on the consolidated statements of income. Interest revenue arising from securities is included in interest income on the consolidated statements of income.

For available-for-sale securities that are deemed to have other-than-temporary impairment due to a change in the Bank's intent to sell, the full decline in fair value below cost is included in current earnings. For available-for-sale securities that are deemed to have other-than-temporary impairment as a result of credit impairment, only the decline in fair value for credit-related impairment below cost is included in current earnings. Impairments related to other factors are recorded in OCI, net of applicable taxes.

Gains and losses on disposition of securities are based on the net proceeds received as compared to the adjusted carrying amount of the securities sold by using the First In First Out (FIFO) method. Refer to Notes 6 and 7 for further details.

Loans

Loans are stated at the principal amount outstanding, reduced by unearned discounts, deferred loan fees and allowance for loan losses. Interest is calculated by using the simple interest method on daily balances of the principal amount outstanding. Unearned discounts are recognized as interest income over the term of the loans using the effective interest method. Loan fees and certain direct costs associated with originating or acquiring loans are deferred and amortized over the term of the loan using the effective interest method.

Certain loans are recorded and measured at fair value in accordance with ASC 825, as the Bank has elected the fair value option for such loans. Such loans and accrued interest are stated at fair value with unrealized gains and losses included in net loss on fair value measurements. Interest revenue arising from those loans is included in the interest income on the consolidated statements of income. All up-front fees and costs related to those loans are recognized as fees and service charges and other expenses, respectively, in the consolidated statements of income. Premiums and discounts are recognized in interest income as incurred and not deferred. The allowance for loan losses is not applied to such loans. Refer to Note 22 for further details on fair value of the loans.

Nonaccrual loans are those loans on which the accrual of interest ceases when principal or interest payments are past due 90 days or more, unless, in the opinion of management, based upon a review of the borrower's or guarantor's financial condition, collateral value or other factors, full repayments are expected. A loan may be placed on nonaccrual status prior to the 90-day period if, in management's opinion, conditions warrant nonaccrual status. Generally, accrued interest is reversed when a loan is placed on nonaccrual status. Interest payments received on this loan may be recognized as income or applied to principal depending on management's judgment.

A modified loan is considered a troubled debt restructuring ("TDR") when the borrower is experiencing financial difficulties and the Bank grants a concession to the borrower that would not typically be considered. No single factor, by itself, is indicative of whether restructuring a debt is a TDR. The Bank evaluates the overall general decline in the economy and deteriorations of the borrower's financial condition. The Bank grants a concession when the nature and amount of the additional collateral or guarantees received as part of a debt restructuring do not serve as adequate compensation for other terms of the restructuring. When additional guarantees are received in a restructuring, the Bank evaluates both the guarantor's ability and willingness to pay the balance owed. The Bank reports all TDR loans as impaired loans until they mature or are paid down.

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") which was signed into law on March 27, 2020, provided relief from TDR accounting under certain circumstances for loan modifications in connection with the COVID-19 pandemic. In addition, on April 7, 2020, certain regulatory banking agencies issued an interagency statement that offers practical expedients for evaluating whether loan modifications in response to the COVID-19 pandemic are TDRs. The CARES Act guidance applies to modifications made between March 1, 2020 and December 31, 2020. Section 4013 of the CARES Act permits the suspension of TDR accounting for loan modifications that are made in response to the COVID-19 pandemic if (1) the borrower was not more than 30 days past due as of December 31, 2019, and (2) the modifications are related to arrangements that defer or delay the payment of principal or interest, or change the interest rate on the loan. In December 2020, the provisions of Section 4013 of the CARES Act were extended until the earlier of January 1, 2022 or 60 days after the end of the COVID-19 national emergency through the Consolidated Appropriations Act 2021 ("Appropriations Act"). The Bank has applied this guidance related to qualified modifications executed during the years ended December 31, 2021.

Uncollected overdraft amounts are charged off after 60 days outstanding. Any such amounts charged off are charged back directly against the Bank's current earnings and not against the provision for credit losses.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for credit losses, which is charged to expense and is based upon management's estimate of probable incurred and inherent losses in the loan portfolio, current domestic and international economic conditions, and other factors.

ASC 310, *Receivables* ("ASC 310"), requires all creditors to account for impaired loans, except those loans that are accounted for at fair value or at the lower of cost or fair value, at the present value of the expected future cash flows discounted at the loan's original effective interest rate or, as an expedient, at the loan's observable market price or the fair value of the collateral.

The Bank's allowance for loan losses is estimated considering the following factors: whether the loan is impaired, the type of loan product, the availability of first loss insurance, the estimated credit risk associated with a loan or pool of loans, the default and loss rates experienced by the Bank and industry, and the economic environment.

If a loan is considered impaired, the Bank will measure the impairment based on the present value of expected future cash flows or, as practical expedient, at the fair value of the loan or the fair value of the collateral less estimated costs to sell, if the loan is collateral dependent. Fair value of the collateral is generally determined by third-party appraisals for residential mortgage loans, quoted market prices for securities, and estimated fair values for other assets. For all impaired loans, the amount by which the loan balance exceeds the impairment measure is included as a component of the allowance for loan losses estimate.

The Bank's methodology to determine the allowance for loan losses and the provision for the off-balance sheet reserve for the non-impaired loans is based on the level of risk associated with each loan. The entire loan portfolio is divided into pools based on Facility Risk Grades on a scale from 1 to 11, 1 being minimal risk of loss and 11 being a loss. Each Facility Risk Grade has an approximated correlation with rating scales from nationally recognized rating agencies. These grades are then assigned both default rates and recovery rates using current data from the nationally recognized rating agencies adjusted by qualitative factors, such as business conditions, collateral, competition/law/regulations, and credit concentrations.

For each Facility Risk Grade, the reserve allocation factor is the Facility Risk Grade's average probability of loss given default. Qualitative adjustments are added to the factor, if required. The loan balances for each Facility Risk Grade category is then multiplied by the reserve allocation factor to calculate the required allowance for loan losses for each Facility Risk Grade category. The determination of the allowance requires judgment by management, and is therefore inherently uncertain.

A general description of the Bank's Facility Risk Grade categories is as follows:

Facility Risk Grades	**Classification**	**Description**
1 to 3	Highest or high quality	These loans are well collateralized with certificates of deposit, diversified readily marketable securities, and letters of credit from investment grade banks.
4 to 6	Low or moderate credit risk	These loans do not possess any substantive negative characteristics. The Bank assigns a general reserve as a contingency in the event of any adverse condition such as a review of the borrower's financial statements shows a decline in earnings from one year to the next or a reduction in the borrower's available credit with other financial institutions affecting the borrower's ability of payment.
7	Substantial credit risk	Mortgages on properties in a transitional phase, High LTV loans or exposures that now requires management attention although payments are current. Normal risk of loss of interest and principal according to the terms and conditions of the facility. May require very close monitoring.
8	Special Mention	These loans are examined to determine whether the collateral has been impaired and payments have been received on a timely basis. Loans within this category usually exhibit early warning signals of distress or deviation from expected performance but have not yet defaulted on payments. Early warning signals include but are not limited to (a) noticeable decline in obligor cash flows or deterioration of collateral, (b) litigation which may impede the borrower's future operating performance, (c) non-payment related defaults and (d) other adverse events that do not currently jeopardize repayment.
9	Substandard	These loans are assessed for evidence of deterioration of the value of the collateral, and/or the collectability and timing of payments does not allow the borrower to satisfy payments on the agreed terms, endangering recovery of unpaid balances.
10	Doubtful	These loans present evidence that the borrower may have an impaired financial and economic situation, and the likelihood of recovery for these loans is low.
11	Loss	These loans are designated as a loss and are to be charged off, as there is no potential for recovery.

In order to maintain the quality of the loan portfolio, the credit quality of each loan is reviewed at least annually. This lending policy is applicable to all classes of loans.

Premises and Equipment

Premises and equipment, including land, building and improvements, and computer hardware and software are stated at cost, less any accumulated depreciation and amortization. Depreciation of furniture, equipment, computer software and hardware is computed by the straight-line method based on the estimated useful lives of the assets, which are in the range of three to five years. Depreciation of building is computed by the straight-line method over the estimated useful life of 41 years. Improvements are amortized over the shorter of the life of the related lease or the estimated useful lives of the assets. Building improvements are amortized when the assets are placed in service. Artwork and land are carried at cost and are not amortized.

Goodwill and Intangible Assets

The Bank evaluates the recoverability of finite-lived intangible assets for possible impairment annually and whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable.

Intangible assets acquired in business acquisitions are amortized on a straight-line basis over the estimated useful lives of the assets. The approximate useful lives for amortization of the Bank's core deposits and customer relationship intangible assets is 12 years. The amortization expense is included in other operating expense in the consolidated statements of income.

Goodwill is measured as of the acquisition date at the excess of consideration transferred over the net fair value of assets acquired and liabilities assumed in a business acquisition. Goodwill is not amortized for accounting purposes.

The Bank is required to assess goodwill for impairment by comparing the estimated fair value of the reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill is not deemed to be impaired. If the estimated fair value is less than carrying value further analysis is required to determine the amount of the impairment. The estimated fair values of the reporting units are derived based on valuation techniques the Bank believes market participants would use for each of the reporting units. No impairment was recorded during 2022 and 2021 for goodwill and intangible assets.

Derivative Financial Instruments and Hedging Activities

The Bank uses various derivative financial instruments, including interest rate swaps and foreign exchange contracts, to manage the interest rate characteristics of certain assets or liabilities and to economically hedge against the effects of fluctuations in interest rates or foreign exchange rates. The Bank adheres to ASC 815, *Derivatives and Hedging* ("ASC 815"), which establishes accounting and reporting standards for derivative instruments, as well as certain derivative instruments embedded in other contracts that are outside of the Bank's trading activities.

The Bank elected to early adopt Accounting Standards Update ("ASU") 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* and began applying hedge accounting for certain transactions. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge. In addition, the Bank has continued to enter into derivative contracts that are intended to economically hedge certain of its risk, even though the Bank has not designated such derivatives for hedge accounting. All derivatives are recorded at fair value as derivative assets or derivative liabilities on the consolidated statements of financial condition.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in interest income. The Bank's fair value hedges consist of interest rate swap agreements that are intended to modify the exposure to interest rate risk on fixed rate securities available-for-sale and loans.

Certain fair value hedges are considered to be 100% effective as each meets shortcut method accounting requirements, and accordingly, the changes in fair values of both the interest rate swap contracts and related available-for-sale securities are recorded as equal and offsetting gains and losses in the consolidated statements of income. Accordingly, there was no gain or loss recognized in current period earnings related to these hedges.

For fair value hedges that do not meet shortcut accounting requirements the extent to which these instruments are effective at achieving offsetting changes in fair value must be assessed at least quarterly. For loans designated in hedging relationships, the difference between the change in fair value of the interest rate swap and the change in the fair value of the loan relating to the hedged risk is reported in earnings on the consolidated statements of income as an adjustment to interest income.

If a hedging relationship is discontinued as a result of not passing the effectiveness tests, and the derivative instrument is not redesignated to a new hedging relationship, the subsequent change in fair value of such instrument is charged directly to earnings. Changes in fair value of derivatives not designated in hedging relationships are recorded directly to earnings and included in net loss on fair value measurements or net gain on foreign currency valuation on securities and derivatives on the consolidated statements of income. The derivative assets and liabilities related interest income/(expense) on derivatives not designated as hedging instruments is recorded in net loss on fair value measurements in the consolidated statements of income.

To reduce credit exposures on derivatives transactions, the Bank enters into master netting agreements with counterparties that permit it to offset receivables and payables with such counterparties. For derivative contracts cleared through certain central clearing parties that have modified their rules to treat variation margin payments as settlements, the fair value of the respective derivative contracts are reported net of the variation margin payments. The Bank records the foreign exchange contracts, included within the derivative assets and liabilities, on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) in the consolidated statements of financial condition when a legal right of setoff exists under ASC 210-20-45, *Balance Sheet Offsetting*, or ASC 815-10-45, *Derivatives and Hedging – Balance Sheet Netting*. The Bank also offsets the interest-bearing deposits pledged as collateral in the derivative assets and liabilities in the consolidated statements of financial condition. Refer to Note 23 for further details.

Deposits

Deposits consist of demand, money market, NOW, savings, and time deposits accounts. Included within time deposits are brokered certificates of deposit issued by the Bank. The Bank has elected the fair value option in accordance with ASC 825 for certain brokered time deposits. Refer to Note 23 for further details.

Borrowings

Generally, borrowings include overnight borrowings with affiliated banks and advances from the Federal Home Loan Bank of New York (“FHLBNY”). Overnight borrowings with affiliated banks are payable the next business day and generally bear interest at a rate less than the federal funds rate. Advances from the FHLBNY have an original maturity of 90 days or less with preset interest rates determined by the FHLBNY.

Foreign Currency Transactions

Foreign currency transactions are accounted for at the exchange rates prevailing on the related transaction dates. Assets and liabilities denominated in foreign currencies are recorded and reported in the accompanying consolidated statements of financial condition using the period-end exchange rates. Gains and losses resulting from the settlement of foreign currency transactions and from the revaluation of assets and liabilities denominated in foreign currencies are recognized as net gain on foreign currency valuation on securities and derivatives in the consolidated statements of income.

Federal Reserve Bank of New York Stock and Federal Home Loan Bank of New York Stock

The Bank’s investments in the FRBNY and the FHLBNY stocks are carried at par value. The Bank is required to maintain a minimum level of investment in the FRBNY stock based on the capital of the Bank. As a member of the FHLBNY, the Bank is required to own shares of the FHLBNY stock. The FHLBNY’s requirement is based on the amount of either the eligible collateral or advances outstanding from the FHLBNY. The Bank periodically evaluates the FRBNY and the FHLBNY stocks for other-than-temporary impairment. The Bank’s determination of whether these stocks are impaired is based on its assessment of ultimate recoverability of par value rather than recognizing temporary declines in value. The determination of whether the decline affects the ultimate recoverability is influenced by the criteria such as: (1) the significance of the decline in net assets of the FRBNY and the FHLBNY as compared to the capital stock amounts for the FRBNY and the FHLBNY and the length of time this situation has persisted; (2) commitments by the FRBNY and the FHLBNY to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FRBNY and the FHLBNY; (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FRBNY and the FHLBNY; and (4) the liquidity position of the FRBNY and the FHLBNY. Based on this evaluation, the Bank determined there is not an other-than-temporary impairment of the stocks as of December 31, 2022 and 2021. The par value of the FHLBNY stocks is included in other assets in the consolidated statements of financial condition. Dividend income from the FRBNY and the FHLBNY stocks is included in the caption of other income in the consolidated statements of income.

Fees and Service Charges, and Other Income

Fees and service charges includes custody and banking fees. Other income primarily consists of commission income recorded on trade date basis by SSL, the Bank's broker-dealer subsidiary. Also included within other income is other commissions earned by the Bank, and interest income earned from bank owned life insurance.

Revenue Recognition

The majority of the Bank's revenues come from interest income and other sources, including loans, investments and derivatives, that are outside the scope of ASC 606, Revenue from Contracts with Customers ("ASC 606"). The Bank's services that fall within the scope of ASC 606 are presented within Other Income and are recognized as revenue as the Bank satisfies its performance obligation to the customer. Services within the scope of ASC 606 include revenues from brokerage fees, custody fees, wealth management fees, service charges on deposits, interchange and credit card fees, and other commissions.

A description of the Bank's revenue streams accounted for under ASC 606 follows:

Brokerage fees and commissions

The Bank earns fees from investment brokerage services provided to its customers. The Bank profits from mark-ups and mark-downs on riskless principal transactions, in which the Bank, upon receipt of an order to buy or sell a security, buys or sells that security in order to fill the customer order. Brokerage Fees are transaction-based commissions, including trade execution services. The Bank believes that the performance obligation is satisfied on the trade date for riskless principal trading and commissions because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and risks and rewards of ownership have been transferred to/from the customer.

Custody fees

The Bank earns custody fees for safekeeping securities on behalf of the customer. Custody is a service in which he Bank earns custody fees for safekeeping securities on behalf of the customer, which reduces the risk of the customer losing his/her assets or having them stolen. They are also available to the Bank to sell at the customer's demand. Custody provides an investor to store assets with little risk. Custody fees are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation, and are assessed based on the market value of assets under custody at month-end.

$	**2022**	2021
Net loss on fair value measurements[a)]	(139,424)	(70,895)
Net gains on sales of securities[a)]	54,845	17,495
Brokerage fees	40,049	91,350
Custody fees	17,571	18,125
Wealth management fees	16,069	15,370
Service charges on deposits	11,842	11,046
Net gain on foreign currency revaluation[a)]	6,491	37,566
Interchange and credit card fees	2,706	2,032
Other[b)]	5,113	4,890
Total other income	15,262	126,979

[a)] Not within the scope of ASC 606.

[b)] The other category includes $1,749 consisting mostly of loan prepayment fees, letter of credit fees and other fees, which is within the scope of ASC 606. The remaining balance of $3,364 are mainly the interest income earned from bank owned life insurance and dividends from the Federal Reserve Bank and Federal Home Loan Bank stocks, which is outside the scope of ASC 606

Wealth management and brokerage fees

The Bank earns wealth management and brokerage fees from its contracts with customers to manage assets for investment, and/or to transact on their accounts. Wealth Management Fees are produced from investment advisory services provided to its customers by an affiliate service provider. These fees are primarily earned over time as the affiliate provides the contracted quarterly services and are generally assessed based on a tiered scale of the market value of assets under management ("AUM") at month-end. The affiliate pays the Bank a percentage of its fees earned from the customers, because the Bank (i) acts as an introducer in arranging the relationship; and (ii) does not control the services rendered to the customer.

Service charges on deposit accounts

The Bank earns fees from its deposit customers for transaction-based, account maintenance and overdraft charges. Transaction-based fees, which include services such as ATM use fees, stop payment charges, wire transfer and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Bank fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation. Overdraft charges are recognized at the point in time that the overdraft occurs.

Interchange and credit card fees

The Bank earns interchange and credit card fees from credit cardholder transactions conducted through the MasterCard payment network, and credit card fees annually while the credit cardholder keep signed up for the Safra Mastercard, respectively. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Credit card fees, which relate primarily to the annual maintenance, are earned over the course of a year, representing the period over which the Bank satisfies the performance obligation.

Income Taxes

The Bank accounts for income taxes in accordance with the provisions of ASC 740, *Incomes Taxes* ("ASC 740"), which requires that an asset and liability approach be applied in accounting for income taxes and that deferred tax assets and liabilities be reflected for temporary differences using tax rates expected to be in effect when such differences reverse. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. In assessing the usability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized.

The Bank is included in the consolidated federal income tax return and combined state/city tax returns of the Parent. Current and deferred taxes are allocated to the Bank under the "separate-return" method. Under this method, the Bank is assumed to file a separate return with the taxing authority, thereby reporting its taxable income or loss and paying the applicable tax to or receiving the appropriate refund from the Parent as if the Bank was a separate taxpayer, except that net operating losses (or other current or deferred tax attributes) are characterized as realized (or realizable) by the Bank when those tax attributes are realized (or realizable) by the consolidated federal and combined state/city tax return group even if the Bank would not otherwise have realized the attributes on a stand-alone basis. Combined state apportionment factors are also utilized by the Bank. This method for allocating income tax expense, pursuant to this income tax allocation is systematic, rational and consistent with the broad principles of ASC 740.

The Bank recognizes tax positions in the consolidated financial statements only when it is more likely than not that the position will be sustained upon examination by relevant taxing authorities based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized upon settlement. A liability is established for differences between positions taken in a tax return and amounts recognized in the consolidated financial statements.

The Bank recognizes interest and penalties related to such a position within the income tax expense line in the accompanying consolidated statements of income, and a liability for unrecognized tax benefits ("UTB") which is included in other liabilities in the accompanying consolidated statements of financial condition.

Fair Value Option for Financial Instruments

ASC 825 permits entities to elect to measure financial instruments and certain eligible items at fair value upon entering into the transaction. The objective of the fair value option is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Bank has elected the fair value option for certain available-for-sale securities, loans and deposits. Refer to Note 22 for further details.

Acquisition of Consumer Loan Business

On August 18, 2021, the Bank acquired the consumer loan business of Access Loans LLC for $12,885. The acquisition was accounted for under the acquisition method of accounting pursuant to ASC 805, *Business Combinations*. The Bank paid cash of $10,869 for the acquired business which included consumer loans at fair value of $7,230. The purchase price included $5,028 for the assumption and payoff of third party debt and $1,516 for the discharge of loans previously made by the Bank to Access Loans LLC. The Bank recorded $5,655 of goodwill related to the acquisition. The purchase agreement provides for additional payments of up to $7,000 based on net earnings of the unit for the periods beginning at acquisition date and ending December 31, 2024 and 2025. These contingent payments have not been reflected in the consolidated financial statements.

LIBOR Transition

The London Interbank Offered Rate ("LIBOR") is the reference rate used for many of the Bank's transactions, including lending, securities and the derivatives that are used to manage risk related to such transactions. LIBOR is calculated daily by the Intercontinental Exchange for several currencies, maturities and tenors resulting in the daily reporting of 35 LIBOR rates that are used in various financial products and instruments worldwide.

The United Kingdom Financial Conduct Authority ("FCA"), which regulates the process for establishing LIBOR, announced in July 2017 that the sustainability of LIBOR could not be guaranteed. As previously announced in 2020, the ICE Benchmark Administration, the administrator of US Dollar LIBOR ceased publication of 1-week and 2-month USD LIBOR at the end of 2021 and intends to cease publication of the remaining USD LIBOR tenors on June 30, 2023. In the US, the Alternative Reference Rates Committee, a group of private-market and official sector participants, identified the Secured Overnight Financing Rate ("SOFR") as its recommended alternative benchmark rate. The Bank currently holds LIBOR referenced positions with maturities past June 30, 2023. Effective January 1, 2022, the Bank ceased entering into new swaps and loans referencing LIBOR. In addition, the reference rates on certain types of loans existing as of December 31, 2021 were changed from LIBOR to SOFR-based rates on January 1, 2022, and all other loan agreements with maturities after June 30, 2023 have been modified with fallback language allowing the replacement of LIBOR-based rates. Management has further mitigated the risks relating to the LIBOR transition by adhering to the ISDA IBOR Fallbacks Protocol which provides for SOFR-based replacement rates on derivatives that use LIBOR as a reference rate, which were entered into on or before December 31, 2021.

COVID-19 Pandemic

In March 2020, the outbreak of COVID-19 was recognized as a pandemic by the World Health Organization. The spread of COVID-19 created a global public health crisis that has resulted in unprecedented uncertainty and disruption in financial markets and in governmental, commercial and consumer activity in the US and globally. While the United States has continued to experience an economic rebound during 2022 following 2021 large scale vaccinations efforts, the current economic outlook still maintains a high level of uncertainty.

The US federal government has taken action to support the US economy through protections for companies, employees and the newly unemployed. The Federal Reserve has also taken actions to provide liquidity and support to the economy. The Bank has continued to operate during this period under its business continuity protocols. In addition, the Bank has taken a number of actions to monitor and mitigate the effects of COVID-19, such as safety and health measures for employees, including social distancing and a hybrid working environment. The Bank has also agreed to loan modifications for borrowers that have been impacted by the pandemic. Refer to Note 9 for further details on loan modifications and payment deferrals under the CARES Act and additional legislation that followed including the Consolidated Appropriations Act and the American Rescue Plan Act of 2021.

The Bank's liquidity and financial position remain strong. We continue to monitor developments related to COVID-19, including, but not limited to, its impact on our employees, our customers and the communities we serve. The Bank has not identified any significant impact of COVID to the Company's operations for the year ended December 31, 2022. However, at this point the extent to which these events may impact the Bank's consolidated financial position or consolidated results of operations is uncertain.

Acquisition of Delta North Bancorp

In December 2022, Safra New York Corporation, the parent company of the Bank entered into an agreement to acquire Delta North Bancorp and its subsidiary Delta National Bank and Trust ("Delta"). Subsequent to the closing Delta will merge into the Bank. The acquisition is expected to be completed during the course of the first half of 2023, subject to regulatory approval.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). The new guidance affects any entity that enters into a lease, with some specified scope exemptions. The ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which was issued in June 2020 in response to the COVID-19 pandemic, deferred the effective dates for the new guidance to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Bank adopted this guidance on January 1, 2022 with no material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which amended the guidance on accounting for credit losses. The amended guidance requires measurement of all expected credit losses for financial instruments and other commitments to extend credit held at the reporting date. For financial assets measured at amortized cost, factors such as historical experience, current conditions, and reasonable and supportable forecasts will be used to estimate expected credit losses. The amended guidance will also change the manner in which credit losses are recognized on debt securities classified as available-for-sale. In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which amends two areas of the new guidance. The new guidance will be effective for the Bank's interim and annual periods beginning January 1, 2023. The Bank has adopted this guidance for Q1 2023 and is evaluating the impact of the new accounting guidance on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, to simplify the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The same one-step impairment test will be applied to goodwill at all reporting units, even those with zero or negative carrying amounts. Entities will be required to disclose the amount of goodwill at reporting units with zero or negative carrying amounts. ASU 2017-04 is effective for the Bank's annual and interim periods beginning January 1, 2022. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. In March 2021, the FASB issued ASU No. 2021-03, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*. This guidance provides private companies and not-for-profit entities with an accounting alternative to perform the goodwill impairment triggering event evaluation as of the end of the reporting period, whether the reporting period is an interim or annual period. The amendments in ASU 2021-03 are effective for fiscal years beginning after December 31, 2019. The Bank adopted the above guidance relating to goodwill on January 1, 2022 with no material impact on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Subtopic 320-20): Premium Amortization on Purchased Callable Debt Securities*. This standard shortens the amortization period for the premium to the earliest call date to more closely align interest income recorded on bonds held at a premium or a discount with the economics of the underlying instrument. Adoption of ASU 2017-08 is required for the Bank's annual periods beginning January 1, 2020 and interim periods beginning January 1, 2021, and early adoption is permitted. The Bank adopted this guidance in 2019 with no material impact on its consolidated financial statements. In October 2020, the FASB issued ASU No. 2020-08, Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs, which clarifies that an entity should reevaluate each reporting period whether a callable debt security is within the guidance from ASU 2017-08. Adoption of ASU 2020-08 is required for the Bank's annual periods beginning January 1, 2022, and interim periods beginning January 1, 2023, and early adoption is permitted. The Bank adopted this additional guidance on January 1, 2022 with no material impact on its consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. This standard better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedge instruments and the hedged item in the financial statements. Adoption of this ASU is required for the Bank's annual periods beginning January 1, 2021 and interim periods beginning January 1, 2022. As permitted by the standard, the Bank early adopted the amendments on January 1, 2020 without any impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU eliminates and modifies certain disclosure requirements for fair value measurements. The guidance is effective for fiscal years beginning after December 15, 2019, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the existing requirements. The Bank adopted this guidance on January 1, 2020 with no material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for implementation Costs Incurred in a Cloud Computing Arrangement that Is a Service Contract*. This ASU aligns the accounting for costs to implement a cloud computing arrangement that is a service contract with the guidance on capitalizing costs for developing or obtaining internal use software. The guidance is effective for fiscal years beginning after December 15, 2020. As permitted by the standard, the Bank early adopted the guidance on January 1, 2020 using the prospective transition method. The Bank has cloud computing arrangements relating to its internet banking activities. Implementation costs incurred in connection with these cloud computing arrangements are included in other assets in the consolidated statements of financial condition.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848) – Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, and in January 2021, the FASB issued No. ASU 2021-01, *Reference Rate Reform (Topic 848) – Scope*. ASU 2020-04 provides optional expedients and exceptions for applying US GAAP to contract modifications, hedging relationships, and other transactions affected by the anticipated transition away from LIBOR. ASU 2021-01 refines the scope of ASC 848 and clarifies some of its guidance on reference rate reform. ASU 2021-01 also permits entities to elect certain optional expedients and exceptions when accounting for derivatives contracts and certain hedging relationships affected by changes in the interest rates used for discounting cash flows, for computing variation margin settlements, and for calculating price alignment interest in connection with reference rate reform activities under way in global financial markets. The amendments are effective as of March 12, 2020 and can be adopted anytime during the period of January 1, 2020 through December 31, 2022. The Bank adopted this guidance during the year ended December 31, 2021 with no material impact on its consolidated financial statements.

In March 2022, FASB issued Update 2022-02, “Financial Instruments - Credit Losses (ASC 326): Troubled Debt Restructurings (TDRs) and Vintage Disclosures” (ASU 2022-0”). The guidance amends the guidance in Topic 326 to eliminate the accounting guidance for TDRs by creditors, while enhancing disclosure requirements for certain loan refinancing and restructuring activities by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying TDR recognition and measurement guidance, creditors will determine whether a modification results in a new loan or continuation of existing loan. These amendments are intended to enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. Additionally, the amendments to ASC 326 require that an entity disclose current-period gross write-offs by year of origination within the vintage disclosures, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination. The guidance is only for entities that have adopted the amendments in Update 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”) for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early adoption using prospective application, including adoption in an interim period where the guidance should be applied as of the beginning of the fiscal year. The Company is currently assessing the impact of ASU 2022-02 on its disclosures and control structure; however, the Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

2. INTEREST-BEARING DEPOSITS WITH BANKS

As of December 31, 2022, interest-bearing deposits with banks in the amount of $3,122,012 (2021: $1,100,831) on the consolidated statement of financial condition consist principally of time deposits with foreign and domestic banks, deposits with the FRBNY, and a deposit of $20,271 (2021: $25,704) with an affiliated bank. The time deposits bear interest at rates ranging from 3.95% to 5.09%, with maturities in August and November 2023 (2021: 1.10% to 3.27%, with maturities in June 2022).

Included in the interest-bearing deposits with banks amounts noted above are also deposits with the FRBNY bearing interest of 4.40% and 0.15%, amounting to $2,250,336 and $725,127 at December 31, 2022 and 2021, respectively. Regulations of the Federal Reserve Board require depository institutions to maintain reserves, which are not available for investment purposes. As of March 26, 2020, FRBNY reduced the reserve requirement ratio to zero percent, thus there is no more required cash reserve. On average, there were deposits of $1,923,134 and $674,771 in excess of the reserve requirement held at the FRBNY during the years ended December 31, 2022 and 2021, respectively.

3. CASH AND CASH EQUIVALENTS, INCLUDING RESTRICTED CASH

In accordance with SEC Rule 15c3-3, SSL as a broker carrying customer accounts, is subject to requirements related to maintaining cash and/or U.S. Government securities in a segregated reserve account for the exclusive benefit of its customers, which as of December 31, 2022 and 2021, amounted to cash of $153 and $113,353, respectively, and qualified securities as defined by SEC Rule 15c3-3 with a fair value of $16,909 and $0, respectively.

At December 31, 2022 and 2021, cash, cash equivalents and restricted cash consisted of the following:

$	2022	2021
Cash and due from banks	165,828	234,755
Short-term investments	32,477	71,778
Restricted cash included in cash and securities segregated under federal or other regulations	153	113,353
Total	198,458	419,886

4. RELATED-PARTY TRANSACTIONS

The ultimate shareholders of the Bank also control various other companies (affiliates) located in the United States of America, Latin America, and Europe. Transactions with such affiliates arise in the normal course of business. A summary of transactions and balances with affiliates as of and for the years ended December 31, 2022 and 2021, are as follows:

$	**2022**	2021
ASSETS:		
Cash and due from banks	30	58
Interest bearing deposits with banks	20,271	25,704
Loans	127,791	129,291
Interest receivable	119	19
Other assets	122,210	125,953
LIABILITIES:		
Demand deposits	21,463	54,841
Money market accounts, NOW, and savings deposits	349	3,557
Time deposits	115,471	121,294
Borrowings	500,700	78,300
Interest payable	242	5
Other liabilities	10,146	17,959
INCOME AND EXPENSE FOR THE YEARS ENDED DECEMBER 31:		
INCOME:		
Introducer fee income (included in fees and service charges)	16,625	16,538
Interest income on loans	1,660	1,163
Rental income (included in other income)	–	92
EXPENSE:		
Interest expense on deposits and borrowings	6,928	141
Professional services (included in professional fees)	16,815	15,749
Rental expense (included in occupancy expenses)	4,101	5,710
Charitable contributions (included in other operating expenses)	384	13,344

Pursuant to service agreements, SNBNY charges certain affiliates for expenses, which are included in the income and expenses shown above. The allocation of expenses from SNBNY to certain affiliates is based on SNBNY's proportionate head counts and allocated time.

In August 2006, a loan of $263,738 was provided to the Parent to acquire and retire 50% of the Parent's equity shares. As of December 31, 2022 and 2021, the loan balance was reduced to $114,971 and $118,250, respectively. The loan is fully secured by U.S. agency/government securities and deposits. All other loans provided to affiliates as of December 31, 2022 and 2021 of $11,541 and $11,041, respectively, are fully secured by U.S. agency/government securities and deposits. The average interest rates on all loans provided to related parties for the years ended December 31, 2022 and 2021 were 1.26% and 0.84%, respectively. As of December 31, 2022 and 2021, letters of credit of $115 and $115, respectively, have been issued on behalf of affiliates.

The average balance of overnight borrowings with affiliates which are recorded in borrowings on the consolidated statements of financial condition, during the years of 2022 and 2021 were $257,670 and $378,355, respectively, and the average interest rate on overnight borrowings with affiliates during the years ended December 31, 2022 and 2021 were 2.10% and 0.01%, respectively.

Other assets include receivables for unsettled securities transactions, taxes and expense reimbursements. Other liabilities include payables for professional fees, rent and other accrued expenses.

5. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Information concerning financial assets purchased under agreements to resell is summarized as follows:

$	**2022**	2021
Balance as of December 31,	5,142	–
Average balance during the year	355	–
Average interest rate earned during the year	3.62%	0.00%
Highest balance at any month end	5,142	–

The Bank enters into repurchase agreements to obtain short-term financing. The counterparties to these agreements may sell, loan, or otherwise dispose of such financial assets to other parties in the normal course of their operations, and will agree to resell to the Bank identical financial assets at the maturities of these agreements.

Information concerning securities sold under agreements to repurchase is summarized as follows:

$	**2022**	2021
Balance as of December 31,	5,142	–
Average balance during the year	355	–
Average interest rate paid during the year	3.62%	0.00%
Highest balance at any month end	5,142	–

The Bank does not net securities purchased under agreements to resell and securities sold under agreements to repurchase. The securities purchased under agreements to resell and securities sold under agreements to repurchase were open-maturity and monthly term agreements during 2022.

6. INVESTMENT SECURITIES

The Bank elected the fair value option ("FVO") for certain securities in order to align the accounting with swaps and foreign currency forward contracts that hedge the risk associated with the investments. The swaps and forwards do not qualify for hedge accounting and the change in value of the swaps and forwards are recorded in net loss on fair value measurements on the consolidated statements of income. These securities are classified as investment securities on the consolidated statements of financial condition. The change in value of FVO securities is recorded in net loss on fair value measurements on the consolidated statements of income.

The amortized cost, gross unrealized gains/(losses), and fair value of securities including elected fair value option investment securities as of December 31, 2022 and 2021, were as follows:

Securities at December 31, 2022

		Gross		
	Amortized	Unrealized	Unrealized	
$	Cost	Gains	Losses	Fair Value
Obligations of states, local, U.S. Sponsored agencies, and political subdivisions	997,024	–	(142,312)	854,712
Agency mortgage-backed securities	27,191	–	(1,478)	25,713
Total Investment Securities: Fair Value Option	1,024,215	–	(143,790)	880,425
Obligations of U.S. government	400,185	–	(17,060)	383,125
Corporate debt securities	217,404	–	(22,002)	195,402
Obligations of states, local, U.S. Sponsored agencies, and political subdivisions	220,490	–	(70,837)	149,653
Agency mortgage-backed securities	1,002,855	66	(30,681)	972,240
Total Investment Securities: Available for sale	1,840,934	66	(140,580)	1,700,420
Total Investment Securities	2,865,149	66	(284,370)	2,580,845
Held-to-Maturity Securities:				
Agency mortgage-backed securities	460	–	(2)	458
Total held-to-maturity securities	460	–	(2)	458

Securities at December 31, 2021

		Gross		
	Amortized	Unrealized	Unrealized	
$	Cost	Gains	Losses	Fair Value
Obligations of U.S. government	302,002	98,420	–	400,422
Obligations of states, local, U.S. Sponsored agencies, and political subdivisions	1,002,415	137,592	–	1,140,007
Agency mortgage-backed securities	34,255	391	(55)	34,591
Total Investment Securities: Fair Value Option	1,338,672	236,403	(55)	1,575,020
Obligations of U.S. government	475,229	8,412	(4)	483,637
Corporate debt securities	421,234	4,245	(2,267)	423,212
Obligations of states, local, U.S. Sponsored agencies, and political subdivisions	181,597	–	(5,672)	175,925
Agency mortgage-backed securities	1,294,246	11,806	–	1,306,052
Total Investment Securities: Available for sale	2,372,306	24,463	(7,943)	2,388,826
Total Investment Securities	3,710,978	260,866	(7,998)	3,963,846
Held-to-Maturity Securities:				
Agency mortgage-backed securities	606	23	–	629
Total held-to-maturity securities	606	23	–	629

Investment securities with unrealized losses as of December 31, 2022 and 2021 including elected fair value option securities, are presented in the following table by the length of time, for which individual securities have been in a continuous unrealized loss position.

As of December 31, 2022

				Less Than 12 Months		Greater Than 12 Months	
$	Amortized Cost	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment Securities:							
Obligation of U.S. Government	400,185	383,125	(17,060)	–	–	383,125	(17,060)
Corporate debt securites	217,404	195,402	(22,002)	19,919	(81)	175,483	(21,921)
Obligations of states, local, U.S. Sponsored agencies, and political subdivisions	1,217,514	1,004,365	(213,149)	–	–	1,004,365	(213,149)
Agency mortgage-backed securities	1,028,483	996,324	(32,159)	985,916	(30,945)	10,408	(1,214)
Total	2,863,586	2,579,216	(284,370)	1,005,835	(31,026)	1,573,381	(253,344)

As of December 31, 2021

				Less Than 12 Months		Greater Than 12 Months	
$	Amortized Cost	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment Securities:							
Obligation of U.S. Government	74,922	74,918	(4)	74,918	(4)	–	–
Corporate debt securities	179,136	176,869	(2,267)	63,023	(428)	113,846	(1,839)
Obligations of states, local, U.S. Sponsored agencies, and political subdivisions	181,598	175,925	(5,673)	175,925	(5,673)	–	–
Agency mortgage-backed securities	6,234	6,178	(56)	4,664	(55)	1,514	(1)
Total	441,890	433,890	(8,000)	318,530	(6,160)	115,360	(1,840)

There were $5 in gross unrealized losses for held to maturity securities as of December 31, 2022 as compared to $0 as of December 31, 2021 and therefore they were all in an unrealized loss position for less than 12 months. The number of investment securities with unrealized losses were 110 and 20 while the number of held-to-maturity securities with unrealized losses were 19 and 0 at December 31, 2022 and 2021, respectively. The unrealized losses associated with investment and held-to-maturity securities are related to changes in interest rates and do not affect the expected cash flows of the underlying collateral or issuer. The decline in fair value at December 31, 2022 and 2021, below the amortized cost of the investments is deemed to be temporary because the Bank does not have the intent to sell nor is it probable that the Bank will be forced to sell such securities. In addition, there has been no credit impairment noted. The Bank considered all available evidence to evaluate the realizable value of its investments, including factors, such as the associated credit risk, interest rate, and prepayment risk.

The amortized cost and fair value of securities at December 31, 2022 and 2021, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. In addition, agency mortgage-backed securities are not categorized based on the maturity as they are not due at a single maturity date.

Securities at December 31, 2022

$	Amortized Cost	Fair Value
Investment Securities:		
Due in one year or less	–	–
Due after one year through five years	420,185	403,049
Due after five years through ten years	119,126	108,133
Over ten years	1,295,792	1,071,710
	1,835,103	1,582,892
Agency mortgage-backed securities	1,030,046	997,953
Total investment securities	2,865,149	2,580,845
Held-to-Maturity Securities:		
Agency mortgage-backed securities	460	458
Total held-to-maturity securities	460	458

Securities at December 31, 2021

$	Amortized Cost	Fair Value
Investment Securities:		
Due in one year or less	–	–
Due after one year through five years	582,737	591,765
Due after five years through ten years	174,071	171,977
Over ten years	1,625,669	1,859,461
	2,382,477	2,623,203
Agency mortgage-backed securities	1,328,501	1,340,643
Total investment securities	3,710,978	3,963,846
Held-to-Maturity Securities:		
Agency mortgage-backed securities	606	629
Total held-to-maturity securities	606	629

Proceeds from sales of investment securities during the years ended December 31, 2022 and 2021, were approximately $566,243 and $464,434 respectively.

During the year ended December 31, 2022, gross gains of $59,084 and gross losses of $4,239 were recorded on sales of securities and are included in net gain/(loss) on securities transactions in the consolidated statements of income. During the year ended December 31, 2021, gross gains of $17,617 and gross losses of $123 were recorded on sales of securities and are included in net gain/(loss) on securities transactions in the consolidated statements of income. During the years ended December 31, 2022 and 2021, there were no losses from other-than-temporary impairment of available-for-sale securities.

A summary of investment securities pledged as collateral for credit lines and securities transactions is as follows:

	Pledged at FRBNY, FHLBNY and other financial institutions	
$	Investment Securities, at fair value	Held-to-Maturity Securities, at amortized cost
At 12/31/2022:	2,580,845	207
At 12/31/2021:	3,569,703	291

There were no borrowings from FRBNY and FHLBNY at December 31, 2022 and 2021.

7. TRADING SECURITIES

During the years ended December 31, 2022 and 2021, trading securities gains were approximately $25,876 and $71,659, respectively, included in net gain on securities transactions in the consolidated statements of income.

A summary of trading securities at December 31, 2022 and 2021, is as follows:

$	**2022**	2021
Corporate debt securities	37,774	42,778
Equities	6,513	7,544
Total trading securities	44,287	50,322

At December 31, 2022 and 2021, SSL pledged Obligations of U.S. government of $0 and $0, respectively, with its clearing organizations for the conduct of its day-to-day clearing activities.

8. LOANS

A summary of the composition of the loan portfolio, including hedge accounting basis adjustments, at December 31, 2022 and 2021, is as follows:

$	**2022**	2021
Commercial and industrial:		
Domestic	1,546,057	1,612,145
Foreign	1,154,377	1,416,312
Total commercial and industrial	2,700,434	3,028,457
Individuals	347,064	378,541
Total loans	3,047,498	3,406,998
Less:		
Deferred loan fees and unearned discounts	10	87
Allowance for loan losses	23,977	36,183
Loans — net of allowance for loan losses, deferred loan fees and unearned discounts	3,023,511	3,370,728

The Bank elected the fair value option for certain loans with an aggregate outstanding principal balance of $481,777 and $703,073 as of December 31, 2022 and 2021, respectively, and recorded these loans at fair value of $453,290 and $703,514, as of December 31, 2022 and 2021, respectively. Refer to Note 22 for further details.

A summary of loans held for investment before allowance for loan losses, deferred loan fees and unearned discounts, and excluding hedge accounting basis adjustments (see Note 23 for further details), classified by Facility Risk Grade according to the Bank's methodology as discussed in Note 1 is as follows:

As of December 31, 2022

$

Facility	Commercial & Industrial			
Risk Grade	Domestic	Foreign	Individuals	Total
1–6	1,065,312	1,071,838	333,836	2,470,986
7	92,634	–	11,480	104,114
8	75,000	–	619	75,619
9	–	–	569	569
10	–	–	462	462
11	–	–	105	105
Total	1,232,946	1,071,838	347,071	2,651,855

As of December 31, 2021

$

Facility	Commercial & Industrial			
Risk Grade	Domestic	Foreign	Individuals	Total
1–6	837,659	1,332,575	366,370	2,536,604
7	87,040	–	11,371	98,411
8	75,000	–	343	75,343
9	–	–	230	230
10	–	–	227	227
11	–	–	–	–
Total	999,699	1,332,575	378,541	2,710,815

The maturities of the loan portfolio at December 31, 2022 and 2021 before allowance for loan losses, deferred loan fees and unearned discounts, and excluding hedge accounting basis adjustments (further details on Note 23), is summarized as follows:

$	**2022**	2021
Three months or less	577,367	1,756,097
Over three months through 12 months	733,676	770,093
Over one year through three years	342,357	274,644
Over three years through five years	199,174	305,933
Over five years through 15 years	407,546	307,562
Over 15 years	847,161	
Total	3,107,281	3,414,329

The Bank pledged $320,440 and $445,618 at December 31, 2022 and 2021, respectively, of loans before allowance for loan losses, deferred loan fees and unearned discounts, with the FRBNY and the FHLBNY as collateral for credit lines.

9. ALLOWANCE FOR LOAN AND OFF-BALANCE SHEET COMMITMENT LOSSES

The change in the allowance for loan and off-balance sheet commitment losses for the years ended December 31, 2022 and 2021, was as follows:

	LOANS					
	Commercial & Industrial					
				Foreign		Off-Balance Sheet
$	Domestic	Foreign	Individuals	Banks	Total	Commitments
Balance — January 1, 2021	24,452	3,396	984	2,452	31,284	2,197
Provisions (Benefits)	4,151	1,113	2,688	(2,452)	5,500	(894)
Charge-offs	–	–	(622)	–	(622)	–
Loan recoveries	15	–	6	–	21	–
Balance — December 31, 2021	28,618	4,509	3,056	–	36,183	1,303
Provisions (Benefits)	(14,303)	1,352	3,358	–	(9,593)	56
Charge-offs	–	–	(2,661)	–	(2,661)	–
Loan recoveries	–	–	48	–	48	–
Balance — December 31, 2022	14,315	5,861	3,801	–	23,977	1,359

The allowance for off-balance sheet commitment losses is included in other liabilities on the consolidated statements of financial condition.

A summary of loans past due, nonaccrual and impaired at December 31, 2022 and 2021, is as follows:

$	**2022**	2021
Loans past due 30 through 89 days and still accruing	1,188	722
Loans past due 90 days or more and still accruing	–	229
Nonaccrual loans	567	–
Impaired loans	75,000	75,000

The following table presents average impaired loans and related interest income, and interest forgone on nonaccrual loans reported by the Bank:

$	Average recorded in investment in impaired loans	Interest income recognized on impaired loans	Interest foregone on nonaccrual loans
For the year ended December 31, 2022	75,000	2,905	–
For the year ended December 31, 2021	75,000	1,626	–

The Bank does not collectively evaluate any specific group of homogenous loans for impairment. In accordance with ASC 310-10-35, the Bank evaluated a commercial and industrial loan of $75,000 for impairment on an individual basis as of December 31, 2022 and 2021. The Bank had an allowance for the one individually evaluated loan of $32 and $13 as of December 31, 2022 and 2021, respectively.

The Bank did not maintain any loans purchased with deteriorated credit as of December 31, 2022 and 2021.

The Bank determined that no loans qualified as a TDR at December 31, 2022 and 2021, and for the years then ended. In the year ended December 31, 2021, the Bank made certain loan modifications which are accounted for in accordance with Section 4013 of the CARES Act and the applicable regulatory guidance, therefore not treated as a TDR for accounting or disclosure purposes.

The Bank implemented a payment deferral program to assist both consumer and business borrowers that may be experiencing financial hardship due to the COVID-19 pandemic. As of December 31, 2022 and 2021, respectively, $492,076 and $549,735 of principal and interest was deferred under these arrangements. There were no interest rate reductions and no forgiveness of principal and interest in connection with the loan modifications. Refer to Note 1 for further details.

10. PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2022 and 2021, included the following:

$	**2022**	2021
Land	5,235	5,235
Building and improvements	49,627	27,905
Furniture and equipment	5,164	5,362
Computer hardware and software	13,104	22,332
Artwork	3,456	3,453
Total	76,586	64,287
Less accumulated depreciation and amortization	32,259	32,188
Total premises and equipment, net	44,327	32,099

The related depreciation and amortization expense, included in occupancy and communications and data processing expenses in the consolidated statements of income, was approximately $2,464 and $9,746 in 2022 and 2021, respectively.

In 2021, management approved a redevelopment plan providing for the demolition of an office building, used for the Bank's and an affiliate's premises, and construction of a new building on the site which costs are being capitalized. The carrying amount of the building under construction as of December 31, 2022 and December 31, 2021 is $29,454 and $7,911, respectively. Depreciation will begin when construction is completed and the building is capable of being operational in the manner intended by management.

11. OTHER ASSETS AND OTHER LIABILITIES

Other assets at December 31, 2022 and 2021, included the following:

$	**2022**	2021
Receivable from customers	157,367	132,758
Receivable from brokers, dealers and clearing organizations	66,760	118,303
Accounts receivable	24,422	22,619
Intangible assets, net	6,708	7,760
Securities borrowed	716	5,229
FHLBNY stock	3,029	3,555
Goodwill and other intangible assets	7,441	7,492
Taxes receivable	–	7,809
Other assets	9,101	9,663
Total other assets	275,544	315,188

Amortization expense for the intangible assets, which is included in other operating expenses in the consolidated statements of income, was approximately $1,052 for both the years ended December 2022 and 2021, respectively.

SSL borrows securities from other broker dealers to fulfill short sales by customers and delivers cash to the lender in exchange for securities. The fair value of these borrowed securities, which can be rehypothecated, was $694 and $4,903 at December 31, 2022 and 2021, respectively.

Other liabilities at December 31, 2022 and 2021, included the following:

$	**2022**	2021
Payable to brokers, dealers and clearing organizations	110,930	214,548
Accrued expenses	14,893	13,159
Other liabilities	36,186	9,670
Total other liabilities	162,009	237,377

12. GEOGRAPHIC CONCENTRATIONS

The following table classifies the international assets (consisting primarily of loans, acceptances, overdrafts, interest-bearing deposits, securities, derivative assets, and cash and due from banks) of the Bank by region of ultimate risk (excluding assets secured by cash deposits):

December 31, 2022

$	Governmental Obligations	Financial Institutions	Private Business and Individuals	Total
Western Europe and Canada	893	680,426	120,593	801,912
Brazil	12,206	164,333	32,092	208,631
Other Latin America	13,516	15,360	19,991	48,867
Other	1,851	203,482	46,694	252,027
Total	28,466	1,063,601	219,370	1,311,437

December 31, 2021

$	Governmental Obligations	Financial Institutions	Private Business and Individuals	Total
Western Europe and Canada	255,690	999,987	69,938	1,325,615
Brazil	29,954	241,776	34,521	306,251
Other Latin America	7,369	25,882	25,343	58,594
Other	31,043	250,585	56,712	338,340
Total	324,056	1,518,230	186,514	2,028,800

Substantially all of the Bank's assets are denominated in U.S. dollars.

13. Deposits — liabilities

Deposits — liabilities at December 31, 2022 and 2021 are summarized as follows:

$	2022	2021
Demand deposit — non-interest bearing	2,664,464	3,449,671
Money market	785,379	441,757
NOW and savings	70,853	61,810
Certificates of deposit	770,414	925,435
Certificates of deposit — brokered	3,518,779	2,687,275
Total deposits — liabilities	7,809,889	7,565,948

The distribution of certificates of deposit by remaining maturity at December 31, 2022 and 2021 is as follows:

$	2022	2021
Maturity in one year or less	3,962,971	3,576,740
Maturity in over one year through three years	322,881	10,492
Maturity in over three years	3,341	25,478
Total	4,289,193	3,612,710

At December 31, 2022 and 2021, certificates of deposit in denominations of $250,000 or more were $712,672 and $3,554,350, respectively. The Bank recorded $453,429 and $0 of certificates of deposit – brokered for which the fair value option was elected in accordance with ASC 825 as of December 31, 2022 and 2021, respectively. Refer to Note 22 for further details.

14. BORROWINGS

As of December 31, 2022 and 2021, all borrowings on the consolidated statements of financial condition of $500,700 and $78,300, respectively, were with affiliates. Refer to Note 4 for further details.

15. OTHER OPERATING EXPENSES

Other operating expenses for the years ended December 31, 2022 and 2021, are as follows:

$	2022	2021
Charitable contributions	384	13,344
FDIC insurance premiums	5,124	3,905
Other general operating	13,275	11,412
Total other operating expenses	18,783	28,661

16. INCOME TAXES

The components of the provision for income taxes for the years ended December 31, 2022 and 2021, are as follows:

$	2022	2021
Current tax expense:		
Federal	22,678	28,826
State and city	4,060	8,481
Foreign	300	300
Total current tax expense	27,038	37,607
Deferred tax benefit:		
Federal	(15,648)	(8,792)
State and city	(3,841)	(2,774)
Total deferred tax benefit	(19,489)	(11,566)
Income taxes	7,549	26,041

The net deferred tax asset and liability at December 31, 2022 and 2021, were composed of the following:

$	2022	2021
Deferred tax assets:		
Allowance for loan losses	6,538	9,910
Fair value measurements	12,642	–
Contingency reserve		–
Depreciation and amortization	2,598	2,526
Unrealized losses included in stockholders' equity	13,178	–
Accrued compensation	1,840	6,661
Accrued expenses	459	447
Other	(67)	(69)
Total deferred tax assets	37,188	19,475
Deferred tax liabilities:		
Fair value measurements	–	(15,024)
Unrealized gains included in stockholders' equity	–	(8,628)
Total deferred tax liabilities	–	(23,652)
Net deferred tax asset (liability)	37,188	(4,177)

The Bank has determined that it is more likely than not that the deferred tax assets will be fully realized and therefore no valuation allowance against the deferred tax assets is necessary. The provision for income taxes varied from the federal statutory income tax rate for the years ended December 31, 2022 and 2021, as follows:

$	2022	2021
Taxes at federal statutory rate	8,419	22,735
State and city income taxes — net of federal benefit	173	4,265
Bank owned life insurance	(399)	(386)
Dividend received deduction	(274)	(287)
State and city rate adjustment	–	–
Other — net	(370)	(286)
Provision for income taxes	7,549	26,041

Income taxes are provided for using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements.

The Bank recognizes interest and penalties related to unrecognized tax benefits ("UTB") within the income tax expense line in the accompanying consolidated statements of income. In 2022 and 2021, no UTB or interest was deemed necessary to be recognized in the consolidated statements of financial condition.

The Bank is subject to taxation in the U.S., New York State, Florida and New York City. As of December 31, 2022, the Bank's tax years 2019 and after are subject to examination by the US tax authority and tax years 2016 and after are subject to examination by state and city tax authorities.

Pursuant to a tax sharing agreement, the Bank reimburses the Parent for all federal, state and city taxes paid in connection with consolidated/combined tax returns. As of December 31, 2022, the Bank had a tax payable of $1,941 due from Parent which is included in other assets, and a tax payable of $380 for a separately filed state tax return which is included in other assets on the consolidated statement of financial condition. As of December 31, 2021, the Bank had a tax receivable of $7,809 due from Parent which is included in other assets, on the consolidated statement of financial condition.

17. ACCUMULATED OTHER COMPREHENSIVE INCOME

The tax effect allocated to each component of AOCI for the years ended December 31, 2022 and 2021 were as follows:

	2021		
$	Amount before Tax	Tax Benefit (Expense)	Amount Net of Tax
Beginning balance – January 1, 2021	71,048	(17,762)	53,286
Net Change in unrealized gain (loss)	(19,041)	4,760	(14,281)
Amounts reclassified out of AOCI	(17,495)	4,374	(13,121)
Ending balance – December 31, 2021	34,512	(8,628)	25,884

	2022		
$	Amount before Tax	Tax Benefit (Expense)	Amount Net of Tax
Beginning balance – January 1, 2022	34,512	(8,628)	25,884
Net Change in unrealized gain (loss)	(32,377)	8,094	(24,283)
Amounts reclassified out of AOCI	(54,845)	13,711	(41,134)
Ending balance – December 31, 2022	(52,711)	13,178	(39,533)

18. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Credit Related Instruments

The Bank enters into various types of agreements with its customers to enhance their credit standing and guarantee performance to third parties or advance funds in the form of loans. These commitments usually have fixed expiration dates and may require payment of a fee. At December 31, 2022 and 2021, such obligations included standby and commercial letters of credit of approximately $48,462 and $38,146, respectively. These amounts represent the maximum principal which the Bank may be required to disburse and the maximum potential exposure if all such obligations were ultimately to become worthless. The arrangements have credit risks essentially the same as that involved in extending loans to customers and are subject to the normal credit policies of the Bank. In addition, the Bank's outstanding unfunded lending commitments were approximately $30,125 and $24,505 at December 31, 2022 and 2021, respectively.

In connection with guarantees issued, substantially all such items were collateralized by deposits or highly liquid assets at December 31, 2022 and 2021.

19. CREDIT-RELATED RISK CONCENTRATIONS

In the normal course of its business, the Bank's credit-related risk concentrations as of December 31, 2022 and 2021, were as follows:

$	**2022**	2021
Credit exposure in deposits with banks:		
Branches and agencies in the United States of America	3,216,304	1,391,762
Foreign banks	71,169	126,126
Credit exposure in assets of the consolidated statements of financial condition in:		
The U.S. federal government and its agencies	2,297,671	3,433,482
Real estate loan portfolio	1,005,161	1,109,368
Total	6,590,305	6,060,738

20. COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, 2022, the Bank was obligated under non-cancelable leases for the Bank's premises with an affiliate expiring through July 31, 2027 and with a non-affiliate expiring through September 30, 2024.

Rental expense for 2022 and 2021 was $5,707 and $5,707, respectively, included in occupancy expenses in the consolidated statements of income. Minimum rental commitments on leases as of December 31, 2022, were as follows:

Years Ending December 31,

$	Amount
2023	1,753
2024	1,579
2025	1,030
2026	1,030
Thereafter	601
Total	5,993

The Bank is a party to litigations involving various aspects of its business. The Bank believes it has strong defenses and, where appropriate, will vigorously contest these matters. In accordance with applicable accounting guidance, the Bank establishes accruals for litigations when those matters proceed to a stage where they present loss contingencies that are both probable and estimable. The Bank will continue to monitor such matters for developments that could affect the amount of the accrual, and will adjust the accrual amount as appropriate.

In the normal course of business, the Bank may enter into contracts that contain various guarantees and indemnities including contracts where it executes, as agent or principal, transactions on behalf of customers. If the transactions brokered by the Bank do not settle because of failure to perform by either counterparty, the Bank may be required to discharge the obligation of the nonperforming party and, as a result, may incur a loss if the fair value of the underlying security is different from the contract amount of the transaction. The Bank has the right to pursue collection or performance from the counterparties who do not perform under their contractual obligations.

21. REGULATORY MATTERS

The Bank, as a national bank, is subject to the dividend restrictions set forth by the OCC. Under such restrictions, a bank may not, without the prior approval of the OCC, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained earnings (as defined) from the prior two years. In accordance with the aforementioned criteria, the Bank had the ability to declare dividends without the OCC's approval up to $158,518 and $199,977 as of December 31, 2022, and 2021 respectively. In accordance with this restriction, the Bank declared and paid dividends of $0 and $30,000 during the years ended December 31, 2022 and 2021, respectively.

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Common equity Tier 1 capital, Tier 1 risk-based capital, Total risk-based capital, and Tier 1 leverage ratios (as defined in the regulations). Events beyond management's control, such as deterioration in credit markets, could adversely affect future earnings and the Bank's ability to meet future capital requirements. As of December 31, 2022 and 2021, the Bank meets all capital adequacy requirements to which they are subject.

As of December 31, 2022, the most recent notification from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum or exceed Common equity Tier 1 capital, Tier 1 risk-based capital, Total risk-based capital, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are presented in the following table.

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount ($)	Ratio (%)	Amount ($)	Ratio (%)	Amount ($)	Ratio (%)
As of December 31, 2022:						
Total capital (to risk-weighted assets)	914,929	22.41	326,615	8.00	408,268	10.0
Tier 1 capital (to risk-weighted assets)	889,592	21.79	244,954	6.00	326,606	8.0
Common Equity Tier 1 capital (to risk-weighted assets)	889,592	21.79	183,716	4.50	265,367	6.5
Tier 1 capital (to average assets)	889,592	9.76	364,587	4.00	455,734	5.0
As of December 31, 2021:						
Total capital (to risk-weighted assets)	864,986	21.26	325,446	8.00	406,808	10.0
Tier 1 capital (to risk-weighted assets)	826,424	20.31	244,085	6.00	325,446	8.0
Common Equity Tier 1 capital (to risk-weighted assets)	826,424	20.31	183,064	4.50	264,425	6.5
Tier 1 capital (to average assets)	826,424	8.86	373,079	4.00	466,349	5.0

SSL is subject to the SEC Uniform Net Capital Rule pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934 (“SEC Rule 15c3-1”). SSL uses the alternate method under SEC Rule 15c3-1, which requires SSL to maintain minimum net capital, as defined, of $250 or 2% of aggregate debit items arising from customer transactions, as defined. The following table summarizes the minimum capital requirements and excess capital for SSL at December 31, 2022 and 2021:

$	**2022**	2021
Required net capital	981	2,020
Net capital	187,538	220,394
Excess net capital	186,557	218,374

22. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the fair value of financial instruments is made in accordance with the requirements of ASC 825 and ASC 820, *Fair Value Measurement* (“ASC 820”).

ASC 820 offers enhanced guidance for using fair value to measure assets and liabilities. It provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. It defines the fair value of a financial instrument as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Instruments that the Bank owns (long positions) are marked to bid prices. Fair value measurements do not include transaction costs. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three broad levels of the fair value hierarchy under ASC 820 are described below:

Level 1 Inputs — Unadjusted quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Examples of financial instruments with such inputs include certain U.S. Government securities, exchange-traded equity securities and money market funds.

Level 2 Inputs — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Examples of financial instruments with such inputs include U.S. Agency securities, municipal bonds, deposits, corporate bonds, certain mortgage-backed securities, over-the-counter derivatives (e.g. Interest rate and foreign exchange contracts), and certain sovereign bonds.

Level 3 Inputs — Unobservable inputs for the asset or liability rely on management’s own assumptions which are assumptions that management determines market participants would use in pricing the asset or liability. The unobservable inputs should be developed based on the best information available in the circumstances and may include the Bank’s own data. An example of financial instruments with such inputs is loans.

The following methods and assumptions were used to calculate the fair value of each class of financial instrument which are measured at fair value on a recurring basis. All of the valuation techniques described below apply to the unpaid principal balance, excluding any accrued interest or dividends at the measurement date. Interest income and expense are recorded within the consolidated statements of income depending on the nature of the instrument using the effective interest method based on acquired discount or premium.

Securities

The fair value of securities is based on quoted market prices. In the absence of quoted market prices, fair value is determined by pricing vendors using models which discount the future cash flows to their present value using current rates at which similar securities would be bought with similar credit ratings and for the same remaining maturities, or similar techniques. These models use inputs that are observable for substantially the full term of the security, inputs that are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the security or internally developed assumptions.

The following table describes the valuation methodologies used by the Bank to measure its securities at fair value:

Securities Type	Valuations	Classifications in the Valuation Hierarchy
Money market funds	Actively traded and valued using the exchange price, or published NAV	Level 1
Debt Securities	Quoted market prices are used where available	Level 2
Debt Securities	In the absence of quoted market prices, fair value is determined by pricing vendors using models which discount the future cash flows to their present value using current rates at which similar securities would be bought with similar credit ratings and for the same remaining maturities, or similar techniques. In certain instances unobservable inputs are used (those would be classified as Level 3).	Level 2 or 3

Loans held at fair value

The fair value of loans carried at fair value is calculated by using a discounted cash flow model ("DCF"). For loans measured at fair value in the accompanying consolidated statements of financial condition, the fair value approximates the amount that would be received to sell the loan (exit price). The DCF uses inputs that are observable either directly or indirectly for substantially the full term of the loan, such as interest rates as well as internally developed assumptions, such as credit risk and liquidity premium. Credit risk is included as part of the valuation process by considering expected rates of return for market participants for similar loans in the marketplace. The fair value of impaired loans is determined by discounting expected future cash flows of principal and interest, and if applicable, any costs to sell the related collateral upon foreclosure. The DCF uses inputs that are observable either directly or indirectly for substantially the full term of the loan, such as interest rates.

Deposit Liabilities

For time deposits measured at fair value in the accompanying consolidated statements of financial condition, the fair value approximates the amount that would be transferred with similar credit ratings and for the same remaining maturities (exit price). The fair value is calculated by using pricing models discounting the required future cash outflows to their present value using current inputs that are observable either directly or indirectly for substantially the full term of the deposit, such as interest rates as well as internally developed assumptions, such as the Bank's own credit risk.

Interest Rate Contracts

The fair value of interest rate swaps and caps are determined using a discounted cash flow pricing model with assumptions such as yield curves and discount rates with inputs that are observable either directly or indirectly for substantially the full term of the interest rate swap and caps.

Foreign Exchange Contracts

The fair value of foreign exchange forward and swap contracts is based on current market quotations for similar agreements at the reporting date, taking into account current interest rates, foreign exchange rates, and the current creditworthiness of the counterparties.

Other Derivative Contracts

Other derivative contracts include equity option contracts and credit default swaps. The fair value of these contracts are based on current market valuations.

The following table presents financial assets and liabilities measured at fair value on a recurring basis, including instruments for which the Bank has elected the fair value option, classified according to ASC 820 valuation hierarchy, as of December 31, 2022 and 2021:

Financial Assets and Liabilities at Fair Value as of December 31, 2022

$	Level 1	Level 2	Level 3	Cash Collateral Netting	Total
ASSETS					
Short-term investments:					
Money market accounts and funds	32,476	–	–	–	32,476
	32,476	–	–	–	32,476
Available-for-sale securities:					
Obligations of U.S. Government	–	383,125	–	–	383,125
Corporate debt securities	–	195,402	–	–	195,402
Obligations of states, local, U.S. Sponsored agencies and political subdivisions	–	1,004,365	–	–	1,004,365
Agency mortgage-backed securities	–	997,953	–	–	997,953
	–	2,580,845	–	–	2,580,845
Trading securities:					
Corporate debt securities	–	37,774	–	–	37,774
Equities	6,513	–	–	–	6,513
	6,513	37,774	–	–	44,287
Loans	–	–	453,290	–	453,290
Derivative assets:					
Foreign exchange contracts	–	32,772	–	(6,800)	25,972
Interest rate contracts	–	279,210	–	–	279,210
	–	311,982	–	(6,800)	305,182
Total assets	38,989	2,930,601	453,290	(6,800)	3,416,080
LIABILITIES					
Deposits – time deposits	–	453,429	–	–	453,429
Derivative liabilities:					
Foreign exchange contracts	–	27,971	–	–	27,971
Interest rate contracts	–	8,534	–	–	8,534
Other contracts	–	–	–	–	
	–	36,505	–	–	36,505
Total liabilities	–	489,934	–	–	489,934

Financial Assets and Liabilities at Fair Value as of December 31, 2021

$	Level 1	Level 2	Level 3	Cash Collateral Netting	Total
ASSETS					
Short-term investments:					
Money market accounts and funds	71,778	–	–	–	71,778
	71,778	–	–	–	71,778
Available-for-sale securities:					
Obligations of U.S. Government	–	884,059	–	–	884,059
Corporate debt securities	–	423,212	–	–	423,212
Obligations of states, local, U.S. Sponsored agencies and political subdivisions	–	1,315,932	–	–	1,315,932
Agency mortgage-backed securities	–	1,340,643	–	–	1,340,643
	–	3,963,846	–	–	3,963,846
Trading securities:					
Corporate debt securities	–	42,778	–	–	42,778
Equities	7,544	–	–	–	7,544
	7,544	42,778	–	–	50,322
Loans	–	–	703,514	–	703,514
Derivative assets:					
Foreign exchange contracts	–	21,566	–	(5,375)	16,191
Interest rate contracts	–	20,643	–	–	20,643
Other contracts	–	5,672	–	–	5,672
	–	47,881	–	(5,375)	42,506
Total assets	79,322	4,054,505	703,514	(5,375)	4,831,966
LIABILITIES					
Derivative liabilities:					
Foreign exchange contracts	–	15,568	–	–	15,568
Interest rate contracts	–	215,486	–	–	215,486
Other contracts	–	5,672	–	–	5,672
	–	236,726	–	–	236,726
Total liabilities	–	236,726	–	–	236,726

Methods Used to Fair Value Level 3 Assets

The fair value for loans was measured using DCF with contractual future cash flows, since all loans measured at fair value on a recurring basis in the accompanying consolidated statements of financial condition are performing loans. The discount rate was derived from swap rates which effectively converts the discount rate from a floating rate over Libor (or SOFR) to a fixed rate for the duration of the loan; plus, the contractual spread over Libor (or SOFR) for each loan; plus a liquidity spread; and plus a spread adjustment reflecting current market conditions and the resulting spreads as if the loan was to be effectuated as of December 31, 2022 and 2021. The following table presents the quantitative information about Level 3 fair value measurements as of December 31, 2022 and 2021:

Assets at December 31, 2022

	Fair Value $	Valuation Technique	Significant Unobservable Inputs	Range of Inputs	Weighted Average
Loans	453,290	Discounted cash flows	Credit spreads	36 bps – 736 bps	297 bps

Assets at December 31, 2021

	Fair Value $	Valuation Technique	Significant Unobservable Inputs	Range of Inputs	Weighted Average
Loans	703,514	Discounted cash flows	Credit spreads	15 bps – 790 bps	299 bps

The following table presents detailed changes in the Bank's Level 3 financial assets and liabilities at fair value that occurred during 2022 and 2021:

Level 3 — Financial Assets and Liabilities for Years Ended

$	**Loans**
BALANCE — January 1, 2021	807,811
Net unrealized gain (included in net gain/(loss) on fair value measurements)	(18,211)
Issuances	79,500
Paydowns	(165,586)
BALANCE — December 31, 2021	703,514
Net unrealized gain (included in net gain/(loss) on fair value measurements)	(28,927)
Issuances	–
Settlements	(221,297)
BALANCE — December 31, 2022	453,290

There were no transfers between Level 1, Level 2 and Level 3 for the years ended December 31, 2022 and 2021.

Fair Value Option

The Bank elected the fair value option for certain securities in order to align the accounting with swaps and foreign currency forward contracts that hedge the risk associated with the investments. Refer to Note 6 for further details.

The Bank elected to account for some fixed-rate loans at fair value under the provisions of ASC 825. These loans are economically hedged by certain derivatives in accordance with the Bank's risk management policies. The election of the fair value option intends to align the accounting for these loans with the related economic hedges. The Bank has not elected the fair value option for the remainder of the loan portfolio as these loans are not economically hedged or the Bank has elected to apply hedge accounting.

Loans for which the fair value option have been elected had an aggregate fair value of $453,290 and $703,514, and an aggregate outstanding principal balance of $481,777 and $703,073 at December 31, 2022 and 2021, respectively, and were included in loans in the consolidated statements of financial condition. As of December 31, 2022 and 2021, the Bank had no loans recorded at fair value that were classified as nonaccrual and/or past due. Accrued interest receivable of $1,324 and $1,603 at December 31, 2022 and 2021, respectively, were included in the aggregate fair value of the loans recorded at fair value. Interest revenue arising from these loans is included in interest income on the consolidated statements of income. All up-front fees and costs are recognized as fees and service charges and other expenses, respectively, in the consolidated statements of income. Premiums and discounts related to these loans are recognized in interest income as incurred and not deferred. An allowance for loan loss is not applied to these loans. Net gain/(loss) resulting from changes in fair value of these loans of $29,424 and $(18,568) were included in net loss on fair value measurements in the consolidated statements of income for the years ended December 31, 2022 and 2021, respectively. Changes in fair value due to instrument specific credit risk for the years 2022 and 2021 were not material. The changes in fair value of these loans were partially offset by changes in the fair value of the related financial derivatives that economically hedged these loans and both were recorded in net loss on fair value measurements on the consolidated statements of income.

23. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Bank uses derivative financial instruments primarily to protect against interest rate, foreign exchange rate and other market movement, and to fulfill clients' requests.

Foreign Exchange Contracts

The Bank uses foreign exchange contracts as economic hedges against fluctuations of assets and liabilities denominated in foreign currencies, and to facilitate customer transactions. As of December 31, 2022 and 2021, the Bank was a party to foreign exchange swaps to mitigate the effects of foreign exchange risk associated with non-U.S. government and corporate debt securities portfolios, with notional amounts totaling $93,185 and $44,600, respectively. As of December 31, 2022 and 2021, the total notional amounts outstanding to fulfill clients' needs were $2,093,386 and $1,934,779, respectively. Foreign exchange contracts had maturities ranging from January 2023 to December 2027, and from January 2022 to June 2030, as of December 31, 2022 and 2021, respectively.

Interest Rate Contracts

The Bank uses interest rate swaps to mitigate the effects of interest rate risks associated with the loans and securities portfolios and for certain time deposits, and also to facilitate customer transactions. During the year ended December 31, 2020, the Bank began designating interest rate swaps in fair value hedging transactions. The Bank uses fair value hedges to manage its exposure to changes in fair value of certain fixed rate available-for-sale securities and loans. The Bank was a party to interest rate swaps and caps as of December 31, 2022 and 2021, as follows:

$	**2022**	2021
Notional amounts of interest rate contracts as of December 31,		
Used as economic hedges	1,736,341	1,697,191
Used to fullfil clients' needs	172,000	72,000
Designated as fair value hedges	1,094,782	690,381
Total notional amounts	3,003,123	2,459,572
Range of maturity	February 2023 to May 2046	January 2022 to May 2046

Other Derivative Contracts

The Bank enters into other derivative contracts to facilitate customer transactions, including equity and credit derivatives. As of December 31, 2022, there were no amounts outstanding to fulfil clients' needs. As of December 31, 2021, the total notional amounts outstanding to fulfil clients' needs were equity option contracts of $35,443.

Fair values of gross derivative assets and liabilities as of December 31, 2022 and 2021 are as follows:

Derivative Assets

As of December 31,	**2022**		2021	
	Consolidated Statement of Financial Condition	Fair Value $	Consolidated Statement of Financial Condition	Fair Value $
Derivatives designated as hedging instruments:				
Interest rate contracts	Derivative assets	140,756	Derivative assets	20,475
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	Derivative assets	37,725	Derivative assets	31,508
Foreign exchange contracts*	Derivative liabilities	795	Derivative liabilities	765
Interest rate contracts	Derivative assets	138,454	Derivative assets	169
Other contracts	Derivative assets	–	Derivative assets	5,672
		176,974		38,114
Total gross derivative assets		317,730		58,589

* Derivative instruments within this category are subject to master netting agreements and are presented on a net basis in the consolidated statements of financial condition in accordance with ASC 210-20-45.

Derivative Liabilities

As of December 31,	**2022**		2021	
	Consolidated Statement of Financial Condition	Fair Value $	Consolidated Statement of Financial Condition	Fair Value $
Derivatives designated as hedging instruments:				
Interest rate contracts	Derivative liabilities	78	Derivative liabilities	134
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	Derivative liabilities	21,966	Derivative liabilities	16,333
Foreign exchange contracts*	Derivative assets	11,753	Derivative assets	9,943
Interest rate contracts	Derivative liabilities	8,456	Derivative liabilities	215,352
Other contracts	Derivative liabilities	–	Derivative liabilities	5,672
		42,175		247,300
Total gross derivative liabilities		42,253		247,434

* Derivative instruments within this category are subject to master netting agreements and are presented on a net basis in the consolidated statements of financial condition in accordance with ASC 210-20-45.

The following amounts represent interest income and gains/(losses) on derivatives not designated as hedging instruments:

$	Location on Consolidated Statement of Income	Amount of Gain/(Loss) Recognized in Consolidated Statements of Income **2022**	2021
Derivatives not Designated as Hedging Instruments:			
Interest income on interest rate contracts — net	Net gain/(loss) on fair value measurements	(8,760)	(31,892)
Interest income on foreign exchange contracts — net	Net gain/(loss) on foreign currency valuation on securities and derivatives	–	531
Gain/(loss) on interest rate contracts — net	Net gain/(loss) on fair value measurements	283,250	78,496
Gain/(loss) on foreign exchange contracts — net	Net gain/(loss) on foreign currency valuation on securities and derivatives	6,418	37,013
Total		280,908	84,148

Fair Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. The gain or loss on both the derivative instrument and the hedged item are included in interest income.

As of December 31, 2022 and 2021, the following amounts related to cumulative basis adjustments for fair value hedges were recorded on the consolidated statements of financial condition:

As of December 31,	**2022**		2021	
$	Carrying Amount of Hedged Asset	Amount of Basis Adjustments Included in the Carrying Amount	Carrying Amount of Hedged Asset	Amount of Basis Adjustments Included in the Carrying Amount
Line item on the consolidated statements of financial condition in which the hedged item is included:				
Securities available-for-sale*	467,589	(79,676)	351,646	(17,992)
Loans	520,559	(57,647)	353,591	(7,330)

* Carrying value of securities available-for-sale represents amortized cost.

The effect of gain or loss from derivatives designated as fair value hedges on the consolidated statements of income for the years ended December 31, 2022 and 2021 was as follows:

$	Location on Consolidated Statement of Income	Amount of Gain/(Loss) Recognized in Consolidated Statements of Income	
		2022	2021
Derivatives Designated as Fair Value Hedges:			
Gain/(loss) on interest rate contracts	Interest Income	120,750	21,108
Hedged item — AFS securities	Interest Income	(69,812)	(11,289)
Hedged item — loans	Interest Income	(50,317)	(8,949)
Total		621	870

The following tables provide a summary of offsetting derivative financial instruments as of December 31, 2022 and 2021.

$	Gross Amount Recognized	Gross Amount Offset in the Consolidated Statement of Financial Condition	Net Amount Presented in the Consolidated Statement of Financial Condition	Gross Amounts Not Offset in the Consolidated Statement of Financial Condition		Net Amount
				Derivatives	Collateral*	
As of December 31, 2022						
Derivative assets	317,730	(12,548)	305,182	(65,861)	(621)	238,700
Derivative liabilities	42,253	(5,748)	36,505	(65,861)	(10,522)	(39,878)

* Collateral values in excess of related derivative amounts recognized in the consolidated statement of financial condition are excluded from this table.

$	Gross Amount Recognized	Gross Amount Offset in the Consolidated Statement of Financial Condition	Net Amount Presented in the Consolidated Statement of Financial Condition	Gross Amounts Not Offset in the Consolidated Statement of Financial Condition		Net Amount
				Derivatives	Collateral*	
As of December 31, 2021						
Derivative assets	58,589	(16,083)	42,506	(24,203)	(870)	17,433
Derivative liabilities	247,434	(10,708)	236,726	(24,203)	(186,290)	26,233

* Collateral values in excess of related derivative amounts recognized in the consolidated statement of financial condition are excluded from this table.

The Bank is required to pledge assets under a bilateral margin arrangement, including either cash or U.S. Government securities, as collateral for its foreign exchange and interest rate contracts, whose collateral requirements vary by counterparty and change over time based on the market value, notional amount, and remaining term of the derivative agreements ("Derivatives"). In the event the Bank is unable to meet a margin call under one of its Derivatives, thereby causing an event of default or triggering an early termination event under one of its Derivatives, the counterparty to such Derivatives may have the option to terminate all of such counterparty's outstanding Derivatives with the Bank. In addition, under this scenario, any closed-out amount due to the counterparty upon termination of the counterparty's transactions would be immediately payable by the Bank pursuant to the applicable agreement. The Bank was in compliance with all margin requirements under its Derivatives as of December 31, 2022 and 2021. The Bank has received $2,210 and $870, respectively, of cash collateral as of December 31, 2021 and 2020 related to margin for equity option contracts, which is included in money market, NOW, and savings deposits in the accompanying consolidated statements of financial condition. In addition, the Bank has received $6,800 and paid $5,375, respectively, of cash collateral as of December 31, 2022 and 2021, which is netted against derivative assets and derivative liabilities, respectively, on the consolidated statements of financial condition.

The use of foreign exchange and interest rate contracts exposes the Bank to counterparty credit risks in the event of a default by a Derivative counterparty. If a counterparty defaults under the applicable Derivative agreement, the Bank may be unable to collect payments to which it is entitled under its Derivative agreements, and may have difficulty collecting the assets it pledged as collateral against such Derivative. The Bank currently has in place with all outstanding Derivative counterparties bilateral margin agreements thereby requiring a party to post collateral to the Bank for any valuation deficit. This arrangement is intended to limit the Bank's exposure to losses in the event of a counterparty default. The Bank also has valid master netting agreements in place with Derivative counterparties, which allow payables and receivables to settle with a net payment.

24. EMPLOYEE BENEFIT PLANS

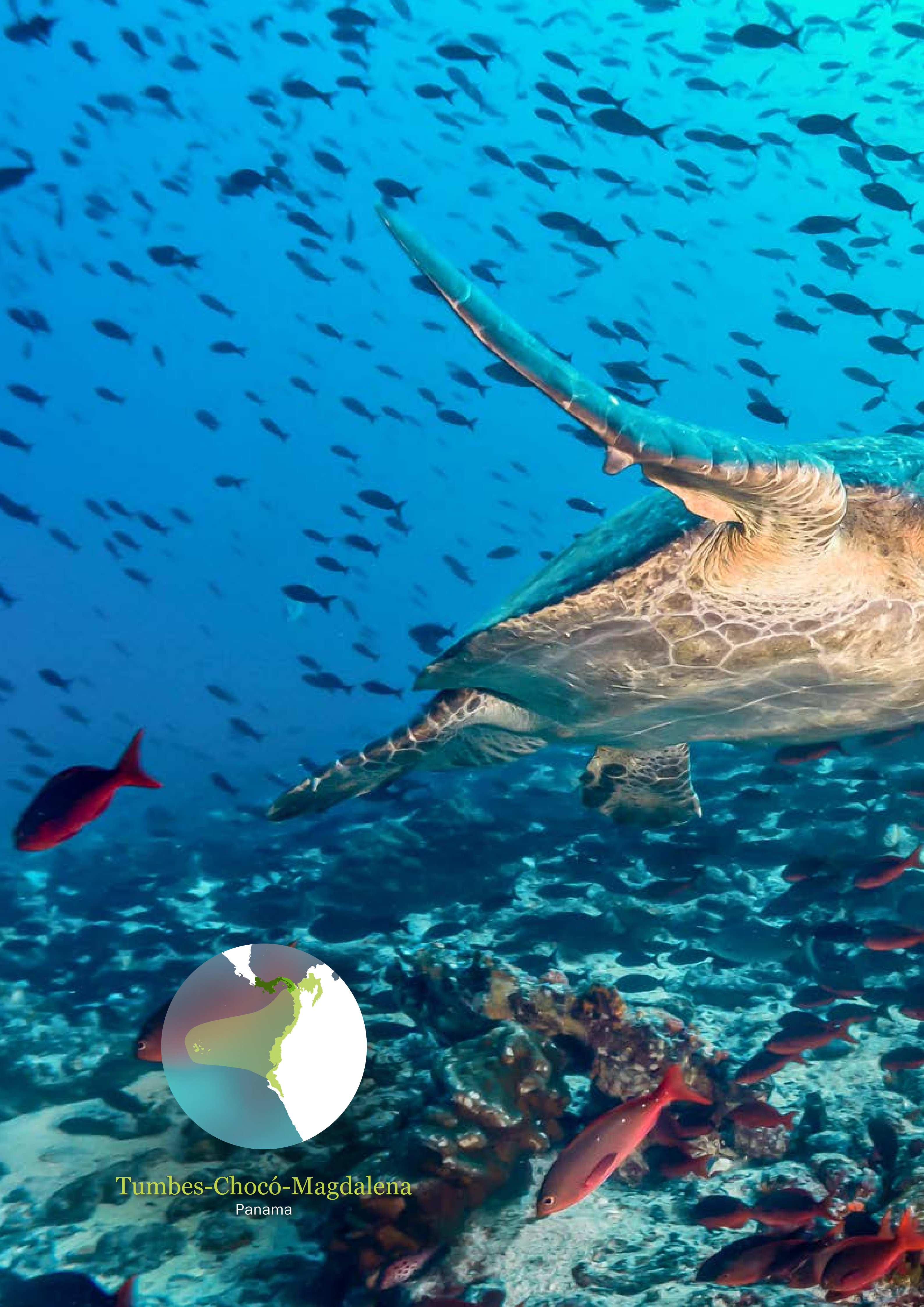
The Bank sponsors a multiemployer profit-sharing contribution plan covering substantially all its employees. Profit sharing expense included on the consolidated statements of income in salaries and employee benefits expenses for the years ended December 31, 2022 and 2021, was approximately $2,459 and $2,231, respectively.

25. CUSTODY SERVICES

The Bank provides custody services to its customers related to domestic and foreign fixed income instruments, equities, mutual funds and hedge funds. The fair value of assets under custody was $17,463,264 and $16,668,511 at December 31, 2022 and 2021, respectively. These items are not included in the consolidated statements of financial condition, since such items are not assets of the Bank. These instruments are not FDIC insured and are held on behalf of customers, who bear all risks. Custody fee revenue, included in fees and service charges in the consolidated statements of income, was $18,337 and $18,950 for the years ended December 31, 2022 and 2021, respectively.

26. SUBSEQUENT EVENTS

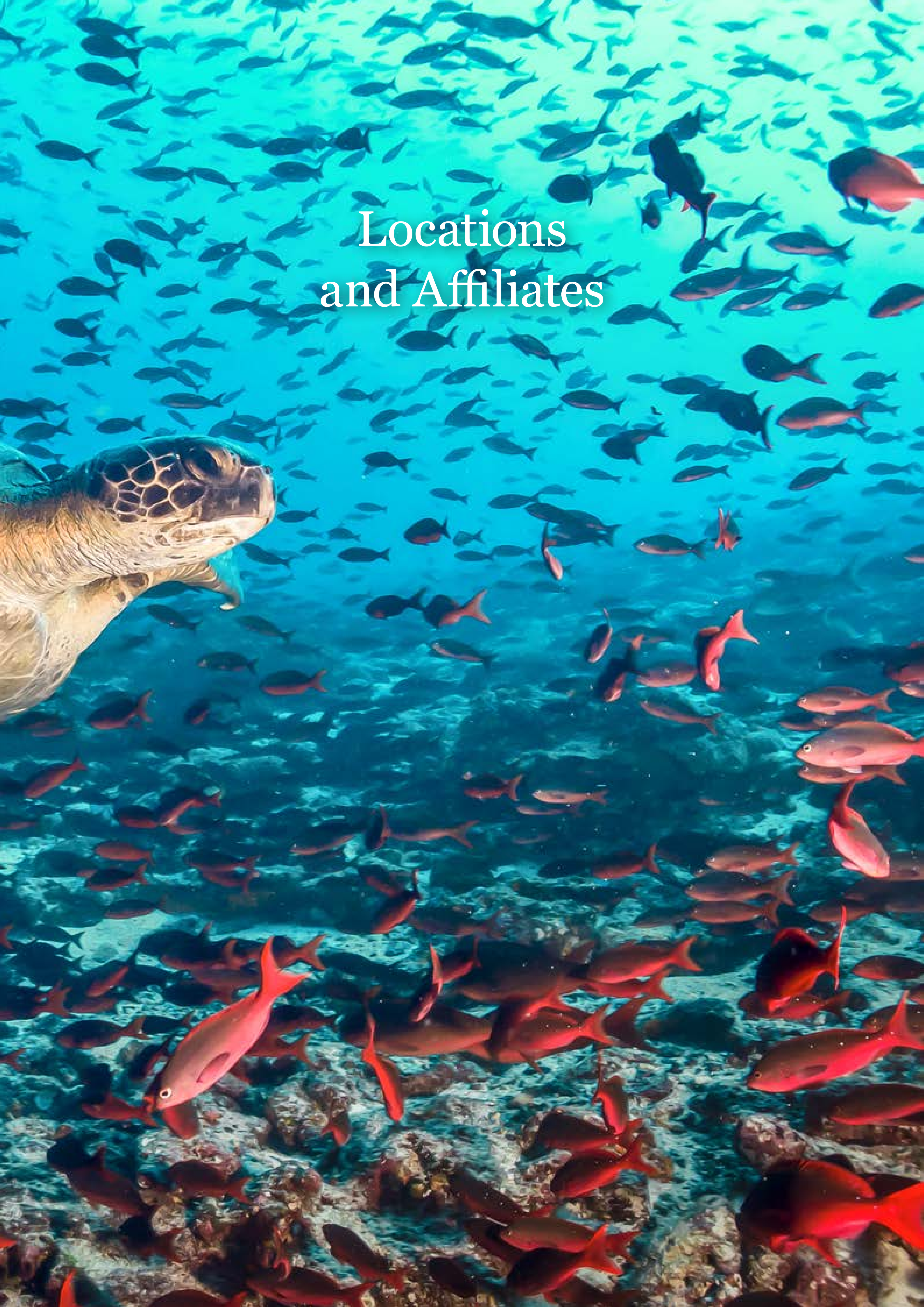
For the year ended December 31, 2022, the Bank evaluated subsequent events for the consolidated financial statements. There were no subsequent events through April 11, 2023, the date the consolidated financial statements were available to be issued, that would require recognition or disclosure in the consolidated financial statements.



Tumbes-Chocó-Magdalena

Panama

Locations and Affiliates



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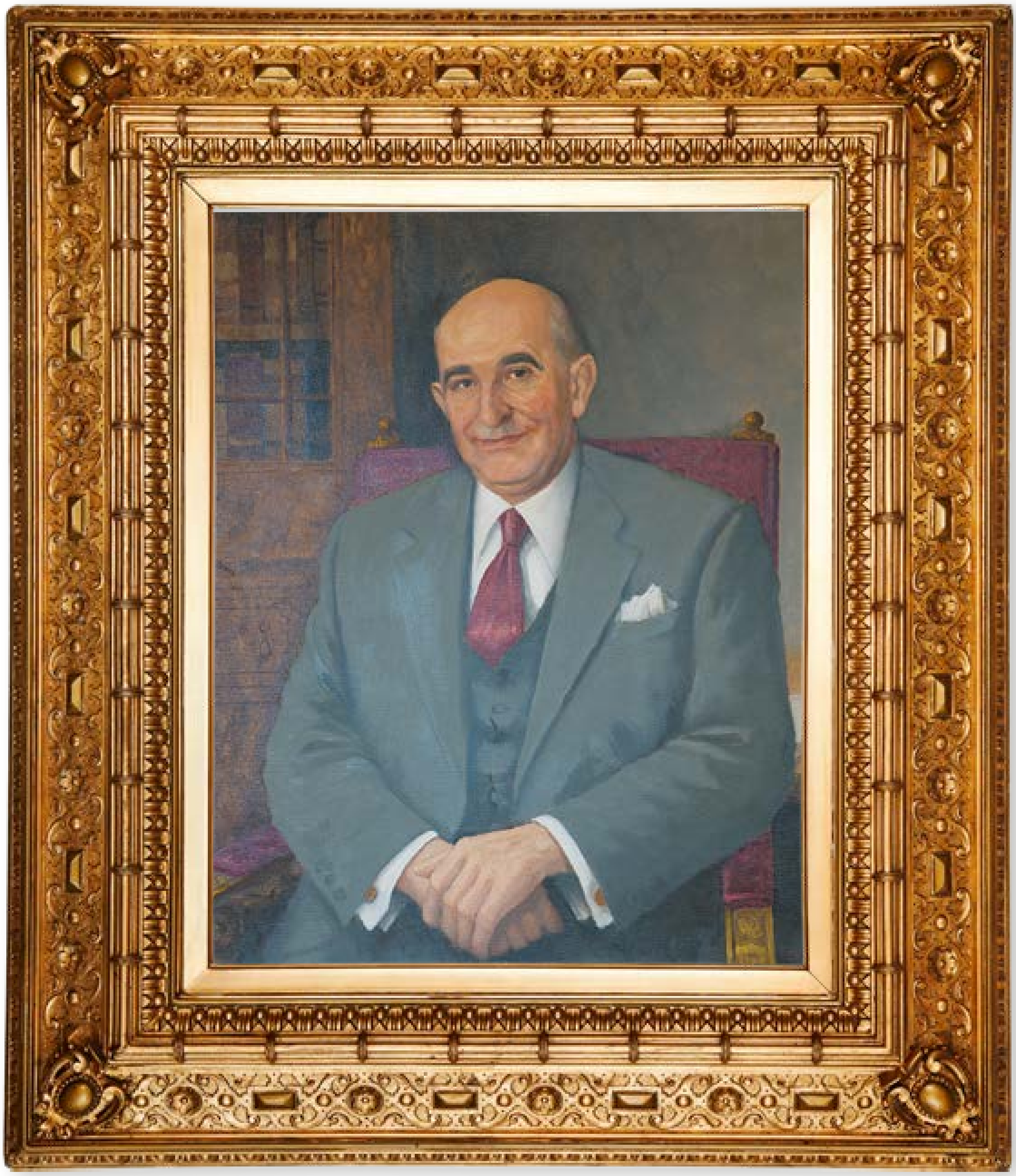

"If you choose to sail upon the seas
of banking, build your bank as
you would your boat, with the strength
to sail safely through any storm."

Jacob Safra (1891–1963)

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