Annual Report 2019

Safra National Bank
of New York

"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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Safra National Bank of New York

Safra Securities LLC

Financial Highlights

Consolidated income statements	2019 US$ 000	2018 US$ 000
Net interest income	118,025	143,855
Non-interest income	120,338	106,735
Non-interest expenses	(133,552)	(130,445)
Operating income	**104,811**	**120,145**
Net income	**78,999**	**92,998**

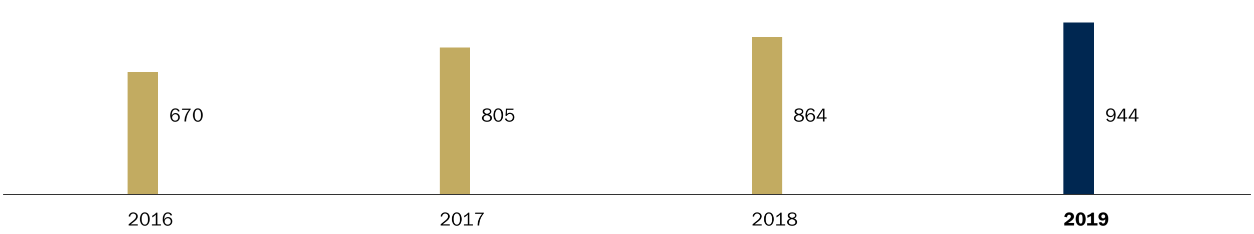
Consolidated balance sheets	12.31.2019 US$ 000	12.31.2018 US$ 000
Total assets	8,296,257	8,174,780
Investments	4,841,280	4,619,120
Loans	2,877,858	3,058,974
Deposits	6,281,170	6,086,215
Equity	**943,698**	**864,328**

Client assets	12.31.2019 US$ million	12.31.2018 US$ million
Total client assets	23,138	20,745

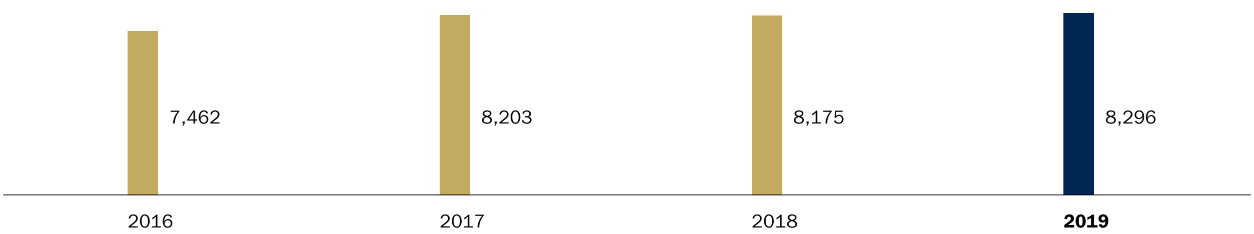
Ratios	2019 %	2018 %
Capital Ratio	19.8%	17.7%
Cost-income ratio	56.0%	52.1%

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.

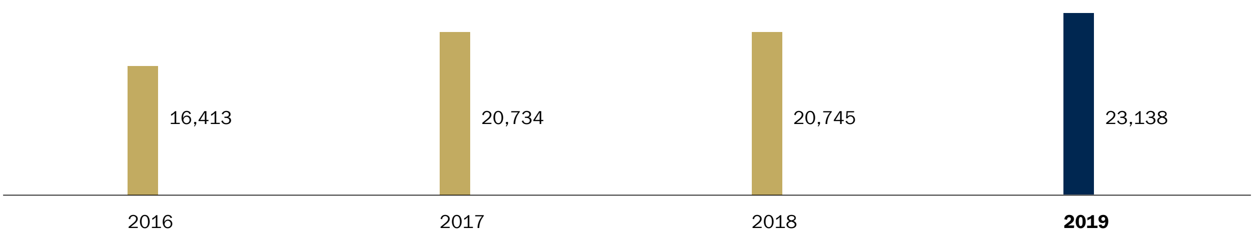
Total Equity as of 12.31.2019 (US$ million)



On-Balance Sheet Assets as of 12.31.2019 (US$ million)



Total Client Assets as of 12.31.2019 (US$ million)




GREENLAND
CANADA
UNITED STATES
NORTH AMERICA
NORTH PACIFIC OCEAN
NORTH ATLANTIC OCEAN
CENTRAL AMERICA
BRAZIL
PERU
CHILE
ARGENTINA
BOLIVIA
COLOMBIA
VENEZUELA
SOUTH AMERICA
SOUTH PACIFIC OCEAN
SOUTH ATLANTIC OCEAN
POLYNESIA
FR. POLYNESIA
EUROPE
MOROCCO
MAURITANIA
MALI
ICELAND
IRELAND
Hudson Bay
Baffin Bay
Beaufort Sea
Labrador Sea
Gulf of Alaska
Gulf of Mexico
Sargasso Sea
Scotia Sea
Drake Passage
Weddell Sea
Amundsen Sea
ARCTIC ARCHIPELAGO
CANADIAN SHIELD
ANDES
GMT
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GMT–4
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ARCTIC OCEAN
Barents Sea
Kara Sea
Laptev Sea
Norwegian Sea
SCANDINAVIA
FINLAND
NORWAY
SWEDEN
NORTHERN EUROPEAN PLAIN
URAL MOUNTAINS
RUSSIA
SIBERIA
Sea of Okhotsk
GMT+1
GMT+1
GMT+1
POLAND
BELARUS
UKRAINE
GMT+3
GMT+2
GMT+3
GMT+4
GMT+8
GMT+8
KAZAKHSTAN
KAZAKH STEPPE
ASIA
MONGOLIA
GOBI DESERT
UZBEKISTAN
TURKMENISTAN
AFGHANISTAN
PAKISTAN
CHINA
INDIA
JAPAN
KOREA
Sea of Japan
Yellow Sea
East China Sea
HONG KONG
MACAO
TAIWAN
Philippine Sea
PHILIPPINES
VIETNAM
THAILAND
MYANMAR
CAMBODIA
South China Sea
Bay of Bengal
Arabian Sea
SRI LANKA
MALDIVES
MALAYSIA
SINGAPORE
INDONESIA
MALAY ARCHIPELAGO
GREATER SUNDA ISLANDS
Java Sea
Banda Sea
Arafura Sea
Timor Sea
PAPUA NEW GUINEA
MICRONESIA
CAROLINE ISLANDS
MARSHALL IS.
MELANESIA
Solomon Sea
Coral Sea
AUSTRALIA
WESTERN PLATEAU
Great Australian Bight
Tasman Sea
NEW ZEALAND
INDIAN OCEAN
GREECE
ITALY
TUNISIA
LIBYA
EGYPT
ALGERIA
SAHARA
AFRICA
Mediterranean Sea
Black Sea
TURKEY
IRAQ
IRAN
ISRAEL
JORDAN
SAUDI ARABIA
QATAR
UNITED ARAB EMIRATES
OMAN
YEMEN
Red Sea
Gulf of Aden
SUDAN
CHAD
NIGER
NIGERIA
ETHIOPIA
SOMALIA
S. SUDAN
KENYA
TANZANIA
DEM. REP. CONGO
ANGOLA
ZAMBIA
ZIMBABWE
MOZAMBIQUE
MADAGASCAR
BOTSWANA
NAMIBIA
SOUTH AFRICA
Mozambique Channel
SEYCHELLES
MAURITIUS

Contents


18:00 **Mexico** (GMT–6)
00:00 GMT 08:00 **Hong Kong** (GMT+8)

Year in Review

Year in Review

This year's Annual Report focuses on the theme of around the clock global awareness and responsiveness.

The J. Safra Group's network of offices looks after our clients across all time zones, and we effectively provide around the clock coverage via the major cities where the J. Safra Group operates.

The images we have selected feature the cities and their skylines in each time zone as the J. Safra Group's clients and world markets open up in the East and go about their business during the working day towards evening in the West. The skylines reflect how the Group is continually scanning the horizon for our clients, looking for opportunities but also for the first signs of challenges ahead.

This theme also brings to mind the resilience of the J. Safra Group entities, as they have continued to grow throughout the various economic cycles. Our responsibility and duty is to continually looking forward, so that we can hone our perspective and not only discover new opportunities, but also shield ourselves and our clients from the possible challenges that lay dormant on the horizon. This is the core of our strength and the reason that the J. Safra brand continues as the preeminent leader in the private banking business world-wide.

Safra National Bank of New York continues to thrive, even as the overall global economy remains turbulent and unpredictable. This is a result of the steadfast commitment of the Bank to devote a considerable amount of resources in expanding our reach and presence throughout Latin America; attracting new and talented individuals that share our sense of ownership and accountability; maintaining a strong culture consisting of prudent controls and governance; and tapping into the burgeoning financial technologies of the industry to allow us to develop tools and services that create a more interconnected environment, increasing availability, access, and transparency.

The quality of our staff, and the loyalty so many have demonstrated over decades of service, enable us to provide exceptional service to our clients. We are privileged to accompany many of these clients across generations as they build equity that requires careful stewardship. This duty of care, natural conservatism, and a long-term perspective are clear benefits of our culture as a family-owned private bank.

If 2018 was marked by the tightening of Fed policy, then 2019 was the undoing of what had transpired during the prior year. Fed Chairman Powell pivoted policy and embarked on cutting interest rates in 2019 to stem adverse impact from the global trade war as well as to ward off recessionary implications emanating from the manufacturing segment of the economy. Corporate earnings were lackluster as uncertainty from global trade and poor capital spending weighed on overall results. Nonetheless, the broad economic picture in developed markets remained resilient from an employment perspective and risk assets rallied, effectively reversing their dismal performance from the prior year. Risk-free/averse assets also performed well, aided by dovish stance from global central banks.

Throughout the years, we have continued to work closely with our clients to create portfolios that are robust, well diversified, and able to withstand the complexities of the current environment. This, along with our consistent year over year results, and our adherence to a long-standing family philosophy of care, prudence, and long term perspectives, continue to make us a strong, trusted, and reliable partner to our clients and their families spanning the multitude of generations.

This year has seen the issues of the environment and sustainability dominate the headlines across the globe. The J.Safra Group has been a leader in the field of sustainable investment for over 30 years, and we see significant room to grow this business further, aided by proactive measures of central bankers, policy makers and regulators. The next generation demand that the financial sector plays its part in finding solutions to these challenges.

Excellent Performance in 2019

The 2019 year was an excellent year for Safra National Bank of New York, with an increase in total client assets of 11.5%, or $2.4 billion, to a record amount of $23.1 billion. This substantial increase was the result of market performance and organic growth.

The Bank reported net income of $79 million.

Total on-balance sheet assets and total equity reached $8.3 billion and $944 million at December 31, 2019, respectively, as compared to $8.2 billion and $864 million at the end of 2018.

The Bank is well capitalized 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. Tier 1 Capital rose to $721 million, an increase of 6.4% over the prior year and capital to risk-weighted-asset ratio closed at 19.8%.

The resilience and performance of the J. Safra Group for more than 175 years is due to the wise and prudent philosophy of its founders – think about our clients all the time and take care of their wealth as we would do our own. This philosophy is the key differentiator between ourselves and our competitors, where we maintain direct involvement and alignment with our clients and where, through that innate understanding of our clients needs, our clients are able to take the most advantage of our experienced and knowledgeable team and the vast resources of the J. Safra Group entities. This philosophy of nurturing clients across generations, and long term perseverance continues to position the J. Safra brand as a true leader in private banking. On behalf of the Safra National Bank of New York Executive Team, I would like to thank our loyal clients for their continued trust and support, and to express our gratitude to all employees for their expertise and dedication as we continue to grow and thrive.

Simoni Morato
Chief Executive Officer
Safra National Bank of New York

11:00 **Hong Kong** (GMT+8)

03:00 GMT 07:00 **Dubai, UAE** (GMT+4)

Company Profile

Company Profile

Safra National Bank of New York (the "Bank") is a highly-regarded provider of private banking and financial services.

Since 1981, Safra National Bank of New York has been providing its high net worth clients' premier private banking investment and services, with solutions of a modern and open platform. Headquartered in New York, and with a branch in Aventura, Florida, the Bank also has representative offices in Brazil, Chile, Mexico and Panama, and affiliated advisory offices in Argentina and Uruguay. The core philosophy of our business is to understand our clients and focus on their needs. Although Latin America remains the primary region of our client base, the Bank has been increasing its presence in the U.S. domestic private banking business. As of the end of 2019, the Bank held more than $23 billion in client assets.

As a privately held institution, Safra National Bank of New York does not have the pressure to maximize short-term gains and take undue risks. Our steadfast position throughout various economic cycles, reinforced with our core philosophy of capital preservation, corroborates the “alignment of interests” between the Bank and its clients. Our relationship managers are driven by sustaining and growing relationships through expertise, personalized services, and an evolving digital experience. Moreover, we also recognize that the safety and soundness of our balance sheet is paramount not only to our shareholders, but also to our clients.

Safra National Bank of New York holds a national bank charter and is supervised by the Office of the Comptroller of the Currency (“OCC”) and is a member of the Federal Reserve System and the Federal Deposit Insurance Corporation (“FDIC”). The Bank has a U.S. broker-dealer subsidiary, Safra Securities LLC, which is registered with the U.S. Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority (“FINRA”), as well as an SEC registered investment advisor affiliate, J. Safra Asset Management Corporation.

Our Mandate

As the core business of Safra National Bank of New York, private banking is our mission and all other activities cater first and foremost to this area.

At Safra National Bank of New York, relationships are the key to private banking, and the client is at the center of all we do. Private banking is in our DNA, and in recognizing the diverse needs of our clients, we offer a comprehensive range of services to meet their global needs, including expanded brokerage and advisory services through our subsidiary and affiliated companies, Safra Securities LLC and J. Safra Asset Management Corporation, respectively. By establishing and maintaining long-term client relationships built on trust; providing easy access to our senior management team; and having a business model centered on agility and flexibility, the Bank is at the forefront of the private banking industry. As a bank that can leverage the strength and global reach of its international affiliates, we maintain the access, expertise, technical skills and broad knowledge of the largest global financial institutions, while retaining the personalized and entrepreneurial approach of a boutique private bank.

16:00 **Dubai** (GMT+4)

12:00 GMT 12:00 **London, UK** (GMT)

09:00 **Brazil** (GMT–3)

09:00 **Uruguay** (GMT–3)

09:00 **Argentina** (GMT–3)

08:00 **Chile** (GMT–4)

Products and Services

Products and Services

Banking Products and Services

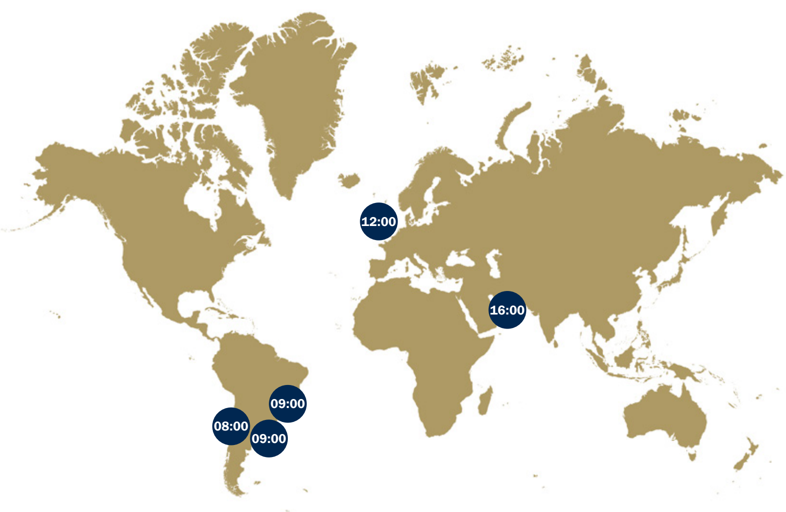
Dedicated and specialized relationship managers provide a client-centric approach to private banking, making available to clients a variety of banking products and services.

The Bank offers a comprehensive gamut of banking products and services including, but not limited to, time deposits, checking accounts in U.S. dollars and other currencies, money market accounts, credit cards, domestic and international wire transfer in U.S. dollars and other currencies, credit facilities for leverage loans and cash management.

Custody Services

Custody and Safekeeping are an integral part of our private banking services, offering clients access to a wide range of investment opportunities while protecting those assets from undue risk.

The Bank provides a broad range of custody and safekeeping services including, but not limited to, multi-asset processing and settlement, proxy services, corporate actions, dividends and interest calculations, daily cash management, periodic statements and confirmations, cash and securities transfers, and tax reporting and recordkeeping. The Bank offers these custody and safekeeping services to its clients as part of its trading services so clients can meet all of their securities needs through a single platform in segregated accounts.



Trading and Execution Services

Trading and Execution Services are managed through a dedicated team of account officers and our own in-house trading professionals who collaborate and can respond quickly and efficiently to a broad range of clients' investment needs.

The Bank maintains the philosophy of keeping an open platform to be able to offer a variety of products and services to satisfy the most demanding investment needs of its clients. The Bank and its broker dealer subsidiary Safra Securites LLC have global trading capabilities in fixed-income securities including U.S. and emerging markets fixed-income instruments and structured products, as well as equities (U.S. and worldwide), precious metals, options and foreign exchange operations.

In particular, the Bank has considerable expertise in the following product areas:

- U.S. and Other Developed Countries Fixed-Income Instruments: Fixed-income securities include but are not limited to corporate debt, commercial paper, foreign currency time deposits, U.S. Treasuries, U.S. agency securities and Municipal bonds.
- Emerging Markets Fixed-Income Instruments: Fixed-income securities include but are not limited to corporate and sovereign debt bonds primarily in the Latin America markets.
- Structured Products and Derivatives: With relationships to some of the largest financial institution counterparties, the Bank provides various structured products (fixed income and equity) for the Bank's sophisticated clients.

- Equities and Options: The Bank, as well as its U.S. broker dealer subsidiary, facilitates trading on the NYSE, NASDAQ and other stock exchanges worldwide to accommodate clients' execution orders and needs.
- Currency and Precious Metals: The Bank offers competitive pricing of foreign exchange instruments, derivative products and non-deliverable forwards to help clients hedge their investment exposure.
- Mutual Funds: The Bank makes available to its clients an extensive universe of offshore mutual funds through the Bank itself and onshore mutual funds through its U.S. broker dealer subsidiary.
- Alternative Investments: The Bank also offers to its clients access to onshore and offshore hedge funds, private equity investments and real estate funds, leveraging the expertise of its affiliate J. Safra Asset Management Corporation.

International Trade Finance Services

Clients seeking tailored international trade financing solutions can find experts dedicated to help meeting their global financing needs.

To meet clients' needs in foreign trade endeavors, Safra National Bank of New York maintains a full range of trade-financing services, including commercial and standby letters of credit, performance and bid bonds, documentary collections, and import, export and forfeit financing. Account officers work alongside our credit experts to find the most appropriate solution to meet every individual client need.

Commercial Real Estate Financing Services

Our team of highly experienced lending experts in commercial real estate take the time to undertake an in-depth analysis and to understand the objectives of each client in order to provide the right real estate financing solution.

The Bank offers specialized services and fixed and floating rate financing solutions for all types of commercial real estate assets, including multifamily, offices, retail, and mixed use properties throughout the United States, with particular focus in New York City and the surrounding boroughs. With a team of knowledgeable and experienced in-house lending officers, the Bank offers a broad range of financing capabilities that are creative, flexible and scalable.

Asset Management

Through our U.S. affiliate, J. Safra Asset Management Corporation, our clients have ready access to a specialized team of advisors who can help clients achieve their adjusted risk return objectives.

The Bank recognizes that the needs of its clients are varied and sophisticated, and in many cases the Bank offers more specialized services provided by its advisory affiliate, J. Safra Asset Management Corporation ("JSAM"). JSAM, which is a U.S. SEC registered Investment Advisor, has more than $1.9 billion in assets under management as of the end of 2019. The Investment Team strongly believes that through disciplined and consistent asset allocation, the team can truly help clients in achieving their performance goals. JSAM offers discretionary and non-discretionary advisory portfolios, using a diverse range of asset classes and managers, keeping an open platform to expand possible investment vehicles, and when necessary, customizing solutions to address the specific needs of each individual client.

16:00 **London** (GMT)

16:00 GMT 13:00 **São Paulo, Brazil** (GMT–3)

13:00 **Uruguay** (GMT–3)

13:00 **Argentina** (GMT–3)

12:00 **Chile** (GMT–4)

11:00 **United States of America** (GMT–5)

11:00 **Panama** (GMT–5)

10:00 **Mexico** (GMT–6)

Corporate Governance

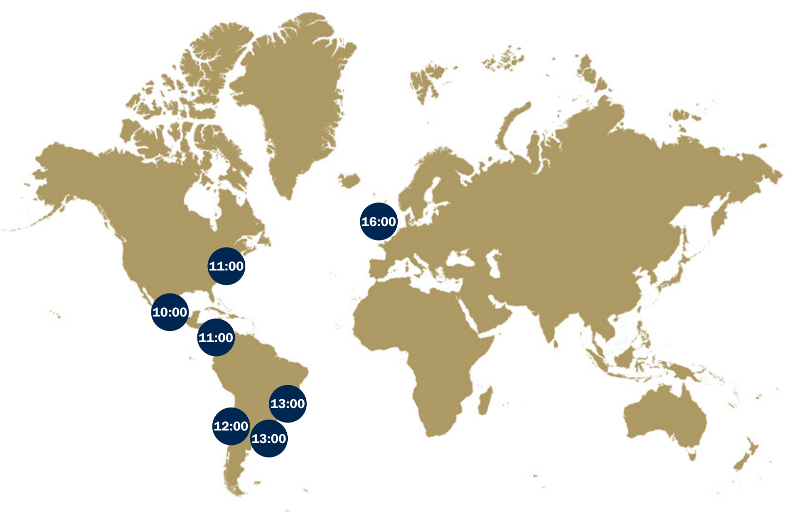
Corporate Governance

Compliance Culture

In order to safeguard and uphold the trust in our brand, Safra National Bank of New York is committed to promoting a "Culture of Compliance" that fosters a sense of personal accountability and the desire to do things the right way.

At Safra National Bank of New York, we expect all of our employees to adhere to the absolute highest levels of ethical conduct and behavior. To sustain this, the Bank has established policies and procedures that clearly outline every employee's obligations to comply with laws and regulations; established internal controls that mitigate the risk of improper activities; established an infrastructure to enforce, test, and measure compliance through our various Compliance, Internal Audit, and Risk Management divisions; and established a Board of Directors that can oversee the Bank's activities and can work with our leadership to continually improve and enhance the Bank's corporate governance practices.

A commitment to compliance is one of the core values of the Bank and the Bank's Executive Management strongly believes that this commitment is the key to maintaining confidence in the Bank and retaining the continued trust of its clients, both of which are critical to the sustainability of the Bank's business model across generations.



The Bank through its affiliate J. Safra Asset Management Corporation, is dedicated to fostering the J. Safra Group's corporate strategy and governance, having incorporated Environmental, Social and Governance (ESG) considerations in its core investment offerings.

While our commitment to our clients is our first priority, the Bank is also dedicated to fostering diversity, growth and the sense of community that is essential to a private bank, within our own employee family. In recruiting, training, developing, and investing in our employees, the Bank encourages entrepreneurial innovation, which adds to the continued growth of the Bank, improves our product and service offerings, and ensures that the Bank will retain a competitive edge amongst its peers. With a low employee turnover rate, our clients recognize that the long-term relationships of both the client, and their account officers, are vitally important to our institution.

Board of Directors

The Board of Directors of the Bank (the "Board") is the ultimate governing body of the Safra National Bank of New York. The Board advises on the strategic direction of the Bank, oversees the Bank's overall activities, and sets the tone and establishes guidelines on the nature and amount of risk the Bank may take. Collectively, the members of the Board have a thorough understanding of the financial industry, as well as the legal and regulatory environment in which the Bank operates.

As of December 31, 2019, the composition of the Board of Directors of Safra National Bank of New York was as follows:

Joseph Y. Safra	Chairman
Jacob J. Safra	Vice-Chairman
Carlos Alberto Vieira	Member
Simoni Morato	Member
Mark S. Grunwald	Member
Stephen Gardner	Member*
Anne Vitale	Member*
Raphael Amit	Member*

* Independent member

Executive Committee

The Board of Directors delegates the responsibility for the direct management of Safra National Bank of New York to the CEO and the Executive Committee. As of December 31, 2019, the composition of the Executive Committee of the Bank was as follows:

Simoni Morato	Chairperson and CEO
Mark S. Grunwald	Vice-Chairman and CFO
Carlos Bertaco	Member and Controller
Peter Javier	Member and Chief Compliance Officer
Rafaelo Colombo	Member and Head of Operations
Muriel Seligson	Member and Head of Private Banking
Flavio Hojda	Member and Head of Private Banking

The Executive Committee ensures the implementation of all directives issued by the Board and provides the Board with all information necessary to enable the Board to sufficiently carry out its supervisory obligations. Furthermore, the Executive Committee is responsible for the implementation of policies and procedures, including but not limited to the key areas of the Bank:

- Compliance
- Credit
- Enterprise Risk Management
- Financial Control
- Human Resources and Training
- Information Technology/ Information Security
- Internal Audit
- Legal
- Treasury
- Treasury Risk Management/ Management Information Systems

The duties, responsibilities and functions of the above are governed by the various committees appointed by the Board and written policies which are subject to annual review and approval by the Board.

Examination Committee

As of December 31, 2019 the Examination Committee was composed of the following members:

Anne Vitale	Chairperson
Stephen Gardner	Member
Raphael Amit	Member

The Examination Committee is composed of the External Board Members and its main role is to independently supervise the activities of Internal Audit and Enterprise Risk Management. Also the Examination Committee has the responsibility of annually appointing the external auditor of the Bank. Deloitte & Touche LLP has been re-appointed as external auditor of Safra National Bank of New York for the year 2019.

Internal Audit

The Internal Audit function reports to the Examination Committee and is responsible for providing Safra National Bank of New York and its subsidiaries with independent and objective evaluations on the effectiveness of the institution's risk management, control, and governance processes by assessing:

- the effectiveness of processes implemented to define strategies and risk tolerance, as well as the overall adherence to the strategies approved by the Board of Directors;
- effectiveness of policies and procedures;
- effectiveness of risk management, including whether risks are appropriately identified and managed;
- effectiveness of internal controls, specifically whether they are commensurate with the risks of the Bank;
- effectiveness and sustainability of remedial actions, if any;
- reliability and integrity of financial and operational information (i.e. whether activities are properly, accurately, and completely recorded, and the quality of underlying data and models) and;
- compliance with legal, regulatory, and statutory requirements, as well as with internal policies and procedures.

Enterprise Risk Management

The Enterprise Risk Management function reports to the Examination Committee and is responsible for identifying emerging risks that may affect Safra National Bank of New York and its subsidiaries and ensuring such risks are being adequately addressed through:

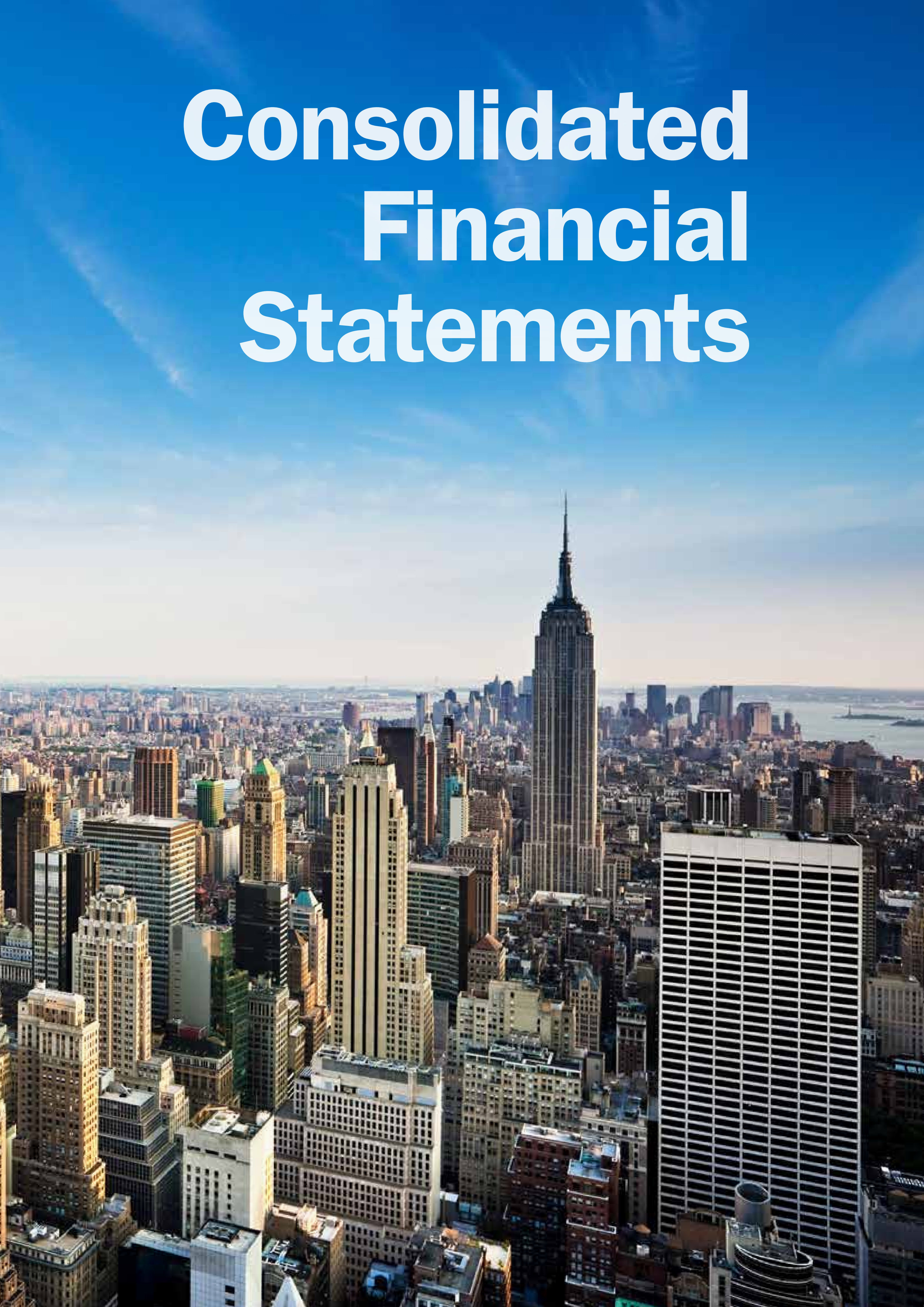
- the development and monitoring of key risk indicators ("KRIs") to determine quantity and direction of risk and to proactively implement risk mitigation measures;
- the maintenance of an inventory of internal controls based on existing policies and procedures that are mapped to key risk areas;
- the on-going monitoring of risk taking activities and risk exposure to ensure they are in line with the board-approved risk appetite and risk limits.

17:00 **Brazil** (GMT–3)
17:00 **Uruguay** (GMT–3)
17:00 **Argentina** (GMT–3)
16:00 **Chile** (GMT–4)

20:00 GMT 15:00 **New York City, US** (GMT–5)

15:00 **Panama** (GMT–5)
14:00 **Mexico** (GMT–6)

Consolidated Financial Statements



Independent Auditors' Report

To the Board of Directors and Shareholders
of Safra National Bank of New York
New York, NY

We have audited the accompanying consolidated financial statements of Safra National Bank of New York and its subsidiaries (the "Bank"), which comprise the consolidated statements of financial condition as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that

are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Safra National Bank of New York and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
New York, NY
March 4, 2020

Consolidated Statements of Financial Condition

ASSETS	As of 12.31.2019 US$ 000	As of 12.31.2018 US$ 000
CASH AND DUE FROM BANKS	129,889	119,185
SHORT-TERM INVESTMENTS	547,727	50,084
CASH AND SECURITIES REQUIRED TO BE SEGREGATED UNDER FEDERAL OR OTHER REGULATIONS	31,126	32,429
INTEREST-BEARING DEPOSITS WITH BANKS	330,787	1,319,894
SECURITIES HELD-TO-MATURITY, AMORTIZED COST:		
Pledged as collateral	423	485
Unencumbered	692	890
Total securities held-to-maturity	1,115	1,375
SECURITIES AVAILABLE-FOR-SALE, FAIR VALUE:		
Pledged as collateral	3,053,184	2,220,827
Unencumbered	822,073	932,903
Total securities available-for-sale (includes securities available-for-sale at fair value option — $1,969,505 and $1,964,539 on December 31, 2019 and 2018, respectively)	3,875,257	3,153,730
TRADING SECURITIES, FAIR VALUE:		
Pledged as collateral	21,963	17,870
Unencumbered	64,431	76,167
Total trading securities	86,394	94,037
LOANS — net of allowance for loan losses, unearned discounts, and deferred loan fees (includes loans at fair value option — $1,013,781 and $1,017,147 on December 31, 2019 and 2018, respectively)	2,877,858	3,058,974
OTHER ASSETS:		
Interest receivable	27,819	34,076
Premises and equipment, net	26,134	28,464
Customers' liability on acceptances outstanding	112	296
Cash surrender value of life insurance	80,377	78,486
Net deferred tax asset	3,385	11,362
Federal Reserve Stock	9,602	9,602
Derivative assets	49,553	72,138
Other assets	219,122	110,648
Total other assets	416,104	345,072
TOTAL ASSETS	**8,296,257**	**8,174,780**

See notes to consolidated financial statements.

(Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY	**As of 12.31.2019** **US$ 000**	As of 12.31.2018 US$ 000
LIABILITIES:		
Deposits:		
Demand	1,972,007	1,714,072
Money market, NOW, and savings	207,083	254,469
Time (includes time deposits at fair value option — $1,998 and $1,970 on December 31, 2019 and 2018, respectively)	4,102,080	4,117,674
Total deposits	6,281,170	6,086,215
Borrowings	618,400	933,900
Interest payable	31,740	30,977
Acceptances outstanding	112	296
Accrued compensation	26,703	25,085
Accrued taxes payable	1,168	618
Derivative liabilities	132,258	53,841
Payable to customers	56,340	33,180
Other liabilities	204,668	146,340
Total liabilities	7,352,559	7,310,452
COMMITMENTS AND CONTINGENT LIABILITIES (Note 19)		
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	633,381	562,743
Accumulated other comprehensive (loss) — net of tax	(1,240)	(9,972)
Total stockholders' equity	943,698	864,328
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**8,296,257**	**8,174,780**

See notes to consolidated financial statements. (Concluded)

Consolidated Statements of Income

	For the Year Ended 12.31.2019 US$ 000	For the Year Ended 12.31.2018 US$ 000
INTEREST INCOME:		
Loans — including realization of deferred fees and accretion of discounts on loans	115,838	115,494
Securities	80,081	80,696
Interest-bearing deposits with banks	26,956	24,020
Other	28	–
Total interest income	222,903	220,210
INTEREST EXPENSE:		
Deposits and borrowings	104,878	76,355
NET INTEREST INCOME	118,025	143,855
NET PROVISION FOR CREDIT LOSSES — including off-balance sheet reserve	–	–
Net interest income after provision for credit losses	118,025	143,855
OTHER INCOME:		
Net gain on securities transactions (includes $(890) and $(336) accumulated other comprehensive income ("OCI") reclassifications for realized net (losses) on available-for-sale securities sold/called for the years ended December 31, 2019 and 2018, respectively)	56,599	48,292
Net (loss)/gain on fair value measurements (includes derivative net interest income of $8,501 and $5,605 for the years ended December 31, 2019 and 2018, respectively)	(1,864)	8,209
Net gain on foreign currency valuation on securities and derivatives	20,772	6,583
Fees and service charges	31,973	29,918
Other income	12,858	13,733
Total other income	120,338	106,735
OTHER EXPENSES:		
Salaries and employee benefits	70,444	68,473
Professional fees	24,927	20,929
Occupancy	10,969	11,898
Communications and data processing	7,417	6,983
Other operating	19,795	22,162
Total other expenses	133,552	130,445
INCOME BEFORE INCOME TAXES	104,811	120,145
INCOME TAXES (includes $(231) and $(87) income taxes (benefit) from reclassification items from OCI for the years ended December 31, 2019 and 2018, respectively)	25,812	27,147
NET INCOME	**78,999**	**92,998**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

	For the Year Ended 12.31.2019 US$ 000	For the Year Ended 12.31.2018 US$ 000
NET INCOME	78,999	92,998
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAXES:		
Securities available-for-sale:		
Net unrealized gains/(losses) during the period (net of tax benefit/(expense) of $(1,656) and $10,361 on December 31, 2019 and 2018, respectively)	4,712	(29,492)
Reclassification adjustment for realized losses for securities sold/called included in net income (net of tax (benefit) of $(231) and $(87), on December 31, 2019 and 2018, respectively)	659	249
Other comprehensive income/(loss)	5,371	(29,243)
TOTAL COMPREHENSIVE INCOME	**84,370**	**63,755**

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, 2018	**18,956**	**292,601**	**474,745**	**19,271**	**805,573**
Payment of dividends	–	–	(5,000)	–	(5,000)
Net income	–	–	92,998	–	92,998
Other comprehensive income	–	–	–	(29,243)	(29,243)
BALANCE — December 31, 2018	**18,956**	**292,601**	**562,743**	**(9,972)**	**864,328**
Payment of dividends	–	–	(5,000)	–	(5,000)
Net income	–	–	78,999	–	78,999
Other comprehensive income	–	–	–	5,371	5,371
Reclassification of tax effects from the Tax Act	–	–	(3,361)	3,361	–
BALANCE — December 31, 2019	**18,956**	**292,601**	**633,381**	**(1,240)**	**943,698**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	For the Year Ended 12.31.2019 US$ 000	For the Year Ended 12.31.2018 US$ 000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	78,999	92,998
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,541	5,449
Deferred income taxes	6,090	(10,147)
Net amortization/accretion of securities premiums/discounts	(348)	10,378
Net (gain) on sales of securities available-for-sale	(1,789)	(6,712)
Net (gain)/loss on fair value measurement of elected fair value option (“FVO”) on securities available-for-sale	(114,356)	88,844
Net (gain)/loss on fair value measurement of elected FVO on loans and deposits	(22,521)	11,335
Net decrease (increase) in operating assets:		
Securities required to be segregated under federal or other regulations	(4,041)	9,090
Trading securities	7,643	(1,963)
Interest receivable	6,257	5,299
Derivative assets	22,584	(6,162)
Other assets	(109,527)	(38,180)
Net increase (decrease) in operating liabilities:		
Interest payable	763	11,475
Accrued compensation	1,617	3,645
Accrued taxes payable	550	466
Derivative liabilities	78,417	(46,770)
Payable to customers	23,160	(16,749)
Other liabilities	58,328	102,459
Net cash provided by operating activities	**37,367**	**214,755**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from paydowns, sales, calls, and maturities of securities available-for-sale	6,735,777	2,721,441
Proceeds from paydowns and maturities of securities held-to-maturity	262	303
Purchases of securities	(7,333,552)	(2,940,800)
Purchases of premises and equipment	(2,159)	(1,611)
Increase in cash surrender value of life insurance	(1,891)	(1,919)
Net decrease (increase) in:		
Interest-bearing deposits with banks	989,107	253,863
Loans	203,666	(134,521)
Customers’ liability on acceptances outstanding	184	164
Net cash provided by (used in) investing activities	**591,394**	**(103,080)**

See notes to consolidated financial statements.

(Continued)

	For the Year Ended 12.31.2019 US$ 000	For the Year Ended 12.31.2018 US$ 000
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends	(5,000)	(5,000)
Net increase (decrease) in:		
Deposits	195,281	(556,639)
Borrowings	(315,500)	429,000
Acceptances outstanding	(184)	(164)
Net cash (used in) financing activities	**(125,403)**	**(132,803)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(355)	(4,591)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	503,003	(25,719)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—Beginning of year	175,757	201,476
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—End of year	678,760	175,757
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest on deposits, borrowed funds, and derivative transactions	93,772	64,113
Income taxes — (net of refunds received of $0 in 2019 and $11 in 2018)	11,558	29,931

See notes to consolidated financial statements.

(Concluded)

Notes to Consolidated Financial Statements

As of and for the years ended December 31, 2019 and 2018
(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 accounting principles generally accepted in the United States of America (hereinafter referred to as "generally accepted accounting principles" or "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, the valuation of goodwill and intangible assets, the realization of deferred tax assets, the other-than-temporary impairment of available-for-sale securities, the fair value of financial instruments and reserve for claims.

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 other financial institutions, and short-term investments which consists of money market funds, money market accounts, short-term interest bearing deposits with financial institutions and securities. All amounts included in short-term investments have an original maturity of 90 days or less. Cash in SNBNY's vault at December 31, 2019 and 2018, was $548 and $559, 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 and U.S. Government securities held in a special reserve bank account pursuant to 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 Accounting Standards Codification ("ASC") 320, *Investment — 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 and the changes in unrealized gains and losses for these securities are included in net gain/(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 straight-line method.

Certain loans are recorded and measured at fair value in accordance with ASC 825, *Financial Instruments* ("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 gain/(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 21 for further details.

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.

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 loans 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 either the present value of estimated future cash flows, fair value of the loan, or, if the loan is collateral dependent, the fair value of the collateral less estimated costs to sell. 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.

Loss rates are determined by subtracting the recovery rates from 100%. 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	Top 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	Normal	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	Normal	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 artworks 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. 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 2019 and 2018 for goodwill and intangible assets.

Derivative Financial Instruments

The Bank uses various derivative 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.

All derivatives are recorded at fair value as derivative assets or derivative liabilities on the consolidated statements of financial condition.

The Bank does not apply hedge accounting. All outstanding derivatives are included in the Bank's derivative assets and liabilities, with changes in fair value reflected in net gain/(loss) on fair value measurements and net gain on foreign currency valuation on securities and derivatives in the consolidated statements of income. The derivative assets and liabilities related interest income/(expense) is also recorded in net gain/(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. 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 has elected not to offset the interest-bearing deposits pledged as collateral in the derivative assets and liabilities in the consolidated statements of financial condition. Refer to Note 21 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 21 for further details.

Borrowings

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, 2019 and 2018. 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 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

In accordance with the provisions of ASC 606, *Revenue from Contracts with Customers,* effective January 1, 2018 the Bank recognizes revenue when it transfers promised services to customers in an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those 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. Revenues from riskless principal trading of $47,104 and $49,444, included in net gain on securities transactions, and commissions of $8,914 and $9,782, included in other income, were recognized in the consolidated statements of income pursuant to ASC 606 for the years ended December 31, 2019 and 2018, respectively. In addition, the Bank recognized revenues from custody fees and service charges of $29,387 and $28,194 in 2019 and 2018, respectively, as earned in accordance with ASC 606. The Bank early adopted the new standard using the modified retrospective method on January 1, 2018, which applies the cumulative effect on prior year financial statements as an adjustment to retained earnings. The adoption of the new standard had no impact on the consolidated financial statements.

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 the tax-sharing agreement 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 and a liability for unrecognized tax benefits ("UTB") is included in other liabilities in the accompanying consolidated statements of financial condition and income.

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 time deposits. Refer to Note 21 for further details.

Fair Value Hierarchy

Transfers between levels of the fair value hierarchy are recorded at the value as of the beginning of the reporting period. Determining the significance of transfers into and out of levels, the Bank considers both the fair value of the assets or liabilities transferred between the levels (compared to total assets or liabilities of the Bank, respectively) as well as the change in fair value during the period associated with the transferred assets or liabilities (compared to the Bank's earnings). Refer to Note 21 for further details.

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. Accordingly, the FCA intends to stop persuading, or compelling, banks to submit to LIBOR by the end of 2021, and there is no guarantee that any LIBOR settings will continue to be published after December 31, 2021. In the U.S., 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. New derivatives contracts are already being traded using the SOFR reference rates.

Recent Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-01, *Financial Instruments—Overall* (Subtopic 825-10). The ASU amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. It revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments. The new guidance is effective for annual periods beginning after December 15, 2018 and interim periods beginning after December 15, 2019. The Bank adopted this guidance on January 1, 2019 without a material impact on its consolidated financial statements.

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. The new guidance is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Bank is currently evaluating the impact, if any, the new guidance may have 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. Early adoption is permitted. The Bank is currently evaluating the impact of the new accounting guidance on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* The ASU requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. Effective January 1, 2019, the Bank has adopted this guidance, which is reflected in the consolidated statements of cash flows. The Bank has applied the guidance retrospectively to the amounts for the year ended December 31, 2018. The adoption of this guidance did not have a material impact on the 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 No. 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. The Bank does not expect the adoption of ASU No. 2017-04 to have a 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 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, and early adoption is permitted. The Bank is currently evaluating the impact of the new accounting guidance on its consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement–Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* The amendments in ASU No. 2018-02 are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. ASU No. 2018-02 allows an entity to elect a one-time reclassification from Accumulated Other Comprehensive Income ("AOCI") to retained earnings of "stranded" tax effects resulting from the Tax Cuts and Jobs Act. Refer to Note 16 for further details.

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 without any material impact on its consolidated financial statements.

2. INTEREST-BEARING DEPOSITS WITH BANKS

As of December 31, 2019, interest-bearing deposits with banks in the amount of $330,787 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 $32,413 with an affiliated bank with interest of 0.16%. The time deposits bear interest at rates ranging from 2.75% to 3.46%, with maturities ranging from February 2020 to June 2022.

As of December 31, 2018, interest-bearing deposits with banks in the amount of $1,319,894 on the consolidated statement of financial condition consist principally of deposits with the FRBNY, and a deposit of $17,037 with an affiliated bank with interest of 0.14%. The amount also includes margin and money market deposits with interest rates ranging from 0.10% to 1.03%, and a time deposit maturing in February 2019 with an interest rate of 1.90%.

Included in the interest-bearing deposits with banks amounts noted above are also deposits with the FRBNY bearing interest of 1.55% and 2.40%, amounting to $98,129 and $1,300,757 at December 31, 2019 and 2018, respectively. Regulations of the Federal Reserve Board require depository institutions to maintain reserves, which are not available for investment purposes. On average, required cash reserves were $162,748 and $197,763 at the FRBNY during the years ended December 31, 2019 and 2018, respectively. On average, there were deposits of $481,961 and $827,446 in excess of the reserve requirement held at the FRBNY during the years ended December 31, 2019 and 2018, respectively.

3. CASH AND SECURITIES REQUIRED TO BE SEGREGATED UNDER FEDERAL OR OTHER REGULATIONS

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, 2019 and 2018, amounted to cash of $1,144 and $6,488, respectively, and qualified securities as defined by SEC Rule 15c3-3 with a fair value of $29,982 and $25,941, respectively.

At December 31, 2019 and 2018, cash, cash equivalents and restricted cash consisted of the following:

$	**2019**	2018
Cash and due from banks	129,889	119,185
Short-term investments	547,727	50,084
Restricted cash included in cash and securities segregated under federal or other regulations	1,144	6,488
Total	678,760	175,757

4. RELATED-PARTY TRANSACTIONS

The ultimate shareholder of the Bank also controls 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, 2019 and 2018, are as follows:

$	**2019**	2018
ASSETS:		
Cash and due from banks	70	2
Interest bearing deposits with banks	32,413	17,037
Loans	130,541	132,041
Interest receivable	68	94
Other assets	97,310	7,358
LIABILITIES:		
Demand deposits	79,579	50,144
Money market accounts, NOW, and savings deposits	278	1,049
Time deposits	93,672	73,867
Borrowings	618,400	433,900
Interest payable	561	503
Other liabilities	9,087	7,229
INCOME AND EXPENSE FOR THE YEARS ENDED DECEMBER 31:		
INCOME:		
Interest income on loans	4,896	3,773
Rental income	251	–
EXPENSE:		
Interest expense on deposits and borrowings	10,681	10,177
Professional services (included in professional fees)	17,154	8,756
Rental expense (included in occupancy expenses)	5,080	5,131
Charitable contributions (included in other operating expenses)	6,441	5,000

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, 2019 and 2018, the loan balance was reduced to $120,250 and $122,250, respectively. The loan is fully secured by U.S. agency/government securities and deposits. All other loans provided to affiliates as of December 31, 2019 and 2018 of $10,291 and $9,791, 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, 2019 and 2018 were 3.53% and 2.66%, respectively. As of December 31, 2019 and 2018, letters of credit of $215 and $240, 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 2019 and 2018 were $460,165 and $438,270, respectively, and the average interest rate on overnight borrowings with affiliates during the years ended December 31, 2019 and 2018 were 1.91% and 1.86%, respectively.

Other assets includes receivable for unsettled securities transactions, taxes and expense reimbursements. Other liabilities includes payable 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:

	2019	2018
Balance as of December 31,	$ –	$ –
Average balance during the year	$836	$ –
Average interest rate earned during the year	3.34%	–
Highest balance at any month end	$ –	$ –

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:

	2019	2018
Balance as of December 31,	$ –	$ –
Average balance during the year	$26	$ –
Average interest rate paid during the year	2.62%	–
Highest balance at any month end	$ –	$ –

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 agreements during 2019.

6. SECURITIES — AVAILABLE-FOR-SALE & HELD-TO-MATURITY

The amortized cost, gross unrealized gains/(losses), and fair value of securities including elected fair value option available-for-sale securities as of December 31, 2019 and 2018, were approximately as follows:

Securities at December 31, 2019

		Gross		
$	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-Sale Securities:				
Obligations of U.S. government	1,185,446	33,045	(1,296)	1,217,195
Non-U.S. government debt securities	471,244	2,367	(351)	473,261
Corporate debt securities	395,470	1,500	(173)	396,797
Obligations of states, local, U.S. Sponsored agencies, and political subdivisions	1,012,704	71,425	(6,356)	1,077,773
Agency mortgage-backed securities	711,507	1,481	(2,756)	710,231
Total available-for-sale securities	3,776,371	109,818	(10,932)	3,875,257
Held-to-Maturity Securities:				
Agency mortgage-backed securities	1,115	63	–	1,178
Total held-to-maturity securities	1,115	63	–	1,178

Securities at December 31, 2018

		Gross		
$	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-Sale Securities:				
Obligations of U.S. government	579,944	104	(9,822)	570,226
Non-U.S. government debt securities	464,713	522	(141)	465,094
Corporate debt securities	951,010	4,345	(10,173)	945,182
Obligations of states, local, U.S. Sponsored agencies, and political subdivisions	703,080	3,022	(9,311)	696,791
Agency mortgage-backed securities	477,711	1,393	(2,667)	476,437
Total available-for-sale securities	3,176,458	9,386	(32,114)	3,153,730
Held-to-Maturity Securities:				
Agency mortgage-backed securities	1,375	74	–	1,449
Total held-to-maturity securities	1,375	74	–	1,449

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)/gain on fair value measurements on the consolidated statements of income. These securities are classified as available-for-sale securities on the consolidated statements of financial condition. The change in value of FVO securities is recorded in net (loss)/gain on fair value measurements on the consolidated statements of income.

A summary of FVO securities as of December 31, 2019 and 2018 is as follows:

$	**2019**	2018
Amortized cost	1,868,946	1,978,336
Fair value of FVO securities	1,969,505	1,964,539
Gross unrealized gains	107,413	8,451
Gross unrealized (losses)	(6,854)	(22,248)

Available-for-sale securities with unrealized losses as of December 31, 2019 and 2018 including elected fair value option available-for-sale securities, are presented in the following table by the length of time, for which individual securities have been in a continuous unrealized loss position. There were no gross unrealized losses for held-to-maturity securities as of December 31, 2019 and 2018.

As of December 31, 2019

				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
Available-for-Sale Securities:							
Obligation of U.S. government	451,841	450,545	(1,296)	250,664	(1,186)	199,881	(110)
Non-U.S. government debt securities	38,531	38,180	(351)	38,180	(351)	–	–
Corporate debt securities	65,613	65,440	(173)	65,440	(173)	–	–
Obligations of states, local, U.S. Sponsored agencies, and political subdivisions	182,395	176,039	(6,356)	176,039	(6,356)	–	–
Agency mortgage-backed securities	577,561	574,805	(2,756)	266,964	(242)	307,841	(2,514)
Total	1,315,941	1,305,009	(10,932)	797,287	(8,308)	507,722	(2,624)

As of December 31, 2018

				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
Available-for-Sale Securities:							
Obligation of U.S. government	528,609	518,787	(9,822)	518,787	(9,822)	–	–
Non-U.S. government debt securities	113,675	113,534	(141)	113,534	(141)	–	–
Corporate debt securities	563,119	552,946	(10,173)	357,200	(7,413)	195,746	(2,760)
Obligations of states, local, U.S. Sponsored agencies, and political subdivisions	518,523	509,212	(9,311)	509,212	(9,311)	–	–
Agency mortgage-backed securities	375,046	372,379	(2,667)	352,716	(1,831)	19,663	(836)
Total	2,098,972	2,066,858	(32,114)	1,851,449	(28,518)	215,409	(3,596)

The number of available-for-sale securities with unrealized losses were 22 and 67 at December 31, 2019 and 2018, respectively. The unrealized losses associated with available-for-sale 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, 2019 and 2018, 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, 2019 and 2018, 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.

Securities at December 31, 2019

$	Amortized Cost	Fair Value
Available-for-Sale Securities:		
Due in one year or less	885,908	888,831
Due after one year through five years	883,018	882,968
Due after five years through ten years	–	–
Over ten years	1,295,938	1,393,227
	3,064,864	3,165,026
Agency mortgage-backed securities	711,507	710,231
Total available-for-sale securities	3,776,371	3,875,257
Held-to-Maturity Securities:		
Agency mortgage-backed securities	1,115	1,178
Total held-to-maturity securities	1,115	1,178

Securities at December 31, 2018

$	Amortized Cost	Fair Value
Available-for-Sale Securities:		
Due in one year or less	439,238	439,633
Due after one year through five years	953,538	951,519
Due after five years through ten years	322,560	318,443
Over ten years	983,411	967,698
	2,698,747	2,677,293
Agency mortgage-backed securities	477,711	476,437
Total available-for-sale securities	3,176,458	3,153,730
Held-to-Maturity Securities:		
Agency mortgage-backed securities	1,375	1,449
Total held-to-maturity securities	1,375	1,449

Proceeds from sales of available-for-sale securities during the years ended December 31, 2019 and 2018, were approximately $4,831,228, and $2,415,217, respectively.

During the years ended December 31, 2019 and 2018, net gains of approximately $1,789 and $6,712 respectively, were recorded on sales of securities and are included in net gain on securities transactions in the consolidated statements of income. During the years ended December 31, 2019 and 2018, there were no losses from other-than-temporary impairment of available-for-sale securities.

A summary of available-for-sale securities and held-to-maturity securities pledged as collateral for credit lines and securities transactions is as follows:

	Pledged at FRBNY, FHLBNY and other financial institutions			
$	Available-for-sale Securities, at fair value	Held-to-Maturity Securities, at amortized cost	Borrowings from FRBNY	Borrowings from FHLBNY
At 12/31/2019:	3,053,184	423	–	–
At 12/31/2018:	2,220,827	485	–	500,000

7. TRADING SECURITIES

During the years ended December 31, 2019 and 2018, trading securities gains were approximately $54,020 and $40,769, respectively, included in net gain on securities transactions in the consolidated statements of income.

A summary of trading securities at December 31, 2019 and 2018, is as follows:

$	**2019**	2018
Obligation of U.S. government	27,960	42,922
Corporate debt securities	51,222	44,861
Equities	7,212	6,254
Total trading securities	86,394	94,037

At December 31, 2019 and 2018, SSL pledged Obligations of U.S. government of $21,963 and $17,870, 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 at December 31, 2019 and 2018, is as follows:

$	**2019**	2018
Commercial and industrial:		
Domestic	1,735,030	1,794,875
Foreign	878,409	1,034,383
Total commercial and industrial	2,613,439	2,829,258
Individuals	260,405	256,461
Foreign banks	30,000	–
Total loans	2,903,844	3,085,719
Less:		
Deferred loan fees and unearned discounts	171	944
Allowance for loan losses	25,815	25,801
Loans — net of allowance for loan losses, deferred loan fees and unearned discounts	2,877,858	3,058,974

The Bank elected the fair value option for certain loans with an aggregate outstanding principal balance of $1,010,292 and $1,036,214 as of December 31, 2019 and 2018, respectively, and recorded these loans at fair value of $1,013,781 and $1,017,147, as of December 31, 2019 and 2018, respectively. Refer to Note 21 for further details.

A summary of loans not recorded at fair value before allowance for loan losses, deferred loan fees and unearned discounts classified by Facility Risk Grade according to the Bank's methodology as discussed in Note 1 is as follows:

As of December 31, 2019

$ Facility	Commercial & Industrial		Indivi-	Foreign	
Risk Grade	Domestic	Foreign	duals	Banks	Total
1–6	689,267	861,916	260,405	–	1,811,588
7	45,475	3,000	–	30,000	78,475
8	–	–	–	–	–
9	–	–	–	–	–
10	–	–	–	–	–
11	–	–	–	–	–
Total	734,742	864,916	260,405	30,000	1,890,063

As of December 31, 2018

$ Facility	Commercial & Industrial		Indivi-	Foreign	
Risk Grade	Domestic	Foreign	duals	Banks	Total
1–6	708,071	1,014,532	254,312	–	1,976,915
7	90,774	–	–	–	90,774
8	883	–	–	–	883
9	–	–	–	–	–
10	–	–	–	–	–
11	–	–	–	–	–
Total	799,728	1,014,532	254,312	–	2,068,572

The maturities of the loan portfolio at December 31, 2019 and 2018 before allowance for loan losses, deferred loan fees and unearned discounts is summarized as follows:

$	**2019**	2018
Three months or less	1,298,896	1,174,313
Over three months through 12 months	582,671	710,924
Over one year through three years	526,993	539,383
Over three years through five years	198,327	390,216
Over five years through 15 years	296,957	270,883
Total	2,903,844	3,085,719

The Bank pledged $607,637 and $783,183 at December 31, 2019 and 2018, 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, 2019 and 2018, was as follows:

	LOANS					
	Commercial & Industrial					
$	Domestic	Foreign	Individuals	Foreign Banks	Total	Off-balance Sheet Commitments
Balance — January 1, 2018	20,556	4,167	1,059	–	$25,782	3,091
Provisions (Reversals)	1,337	(1,076)	(261)	–	–	–
Write-offs	–	–	–	–	–	–
Loan recoveries	13	–	6	–	19	–
Balance — December 31, 2018	21,906	3,091	804	–	25,801	3,091
Provisions (Reversals)	(2,819)	171	197	2,451	–	–
Write-offs	–	–	–	–	–	–
Loan recoveries	13	–	1	–	14	–
Balance — December 31, 2019	19,100	3,262	1,002	2,451	25,815	3,091

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

At December 31, 2019 and 2018, there were no loans that are past due and on nonaccrual status. There were no impaired loans recorded at December 31, 2019 and 2018.

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

$	Average recorded investment in impaired loans	Interest income recognized on impaired loans	Interest foregone on nonaccrual loans
For the year ended December 31, 2019	–	–	–
For the year ended December 31, 2018	2,524	111	–

During the years ended December 31, 2019 and 2018, the Bank did not record any provisions for credit losses or specific reserves for impaired loans.

The Bank does not collectively evaluate any specific group of homogenous loans for impairment. In accordance with ASC 310-10-35, the Bank evaluated the loans as of December 31, 2019 and 2018, and there were no impairments on an individual basis. The Bank did not maintain any loans purchased with deteriorated credit as of December 31, 2019 and 2018.

The Bank determined that no loans qualified as a TDR at December 31, 2019 and 2018. During the years ended December 31, 2019 and 2018, the Bank recognized interest income on TDR aggregating $0 and $111, respectively, and under the original terms of the loans the Bank would have recognized interest income totaling $0 and $123, respectively.

10. PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2019 and 2018, included the following:

$	2019	2018
Land	5,235	5,235
Building and improvements	31,695	31,656
Furniture and equipment	5,552	5,526
Computer hardware and software	12,254	10,697
Artwork	3,453	3,424
	58,189	56,538
Less accumulated depreciation and amortization	32,055	28,074
Total premises and equipment, net	26,134	28,464

The related depreciation and amortization expense, included in occupancy and other operating expenses in the consolidated statements of income, was approximately $4,489 and $4,397 in 2019 and 2018, respectively.

11. OTHER ASSETS AND OTHER LIABILITIES

Other assets at December 31, 2019 and 2018, included the following:

$	2019	2018
Receivable from customers	167,765	643
Accounts receivable	15,089	16,073
Receivable from brokers, dealers and clearing organizations	13,693	25,738
Intangible assets, net	9,865	10,917
Securities borrowed	5,402	11,489
FHLBNY stock	2,242	24,326
Goodwill	1,837	1,837
Taxes receivable	–	7,314
Other assets	3,229	12,311
Total other assets	219,122	110,648

Amortization expense for the intangible assets, which is included in other operating expenses in the consolidated statements of income, was approximately $1,052 and $1,052 in 2019 and 2018, 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 $5,060 and $10,863, at December 31, 2019 and 2018, respectively.

Other liabilities at December 31, 2019 and 2018, included the following:

$	2019	2018
Payable to brokers, dealers and clearing organizations	170,704	125,924
Accrued expenses	11,816	13,276
Other liabilities	22,148	7,140
Total other liabilities	204,668	146,340

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, 2019

$	Governmental Obligations	Financial Institutions	Private Business and Individuals	Total
Western Europe and Canada	327,460	732,928	38,153	1,098,541
Brazil	44,237	288,373	38,576	371,186
Other Latin America	1,424	41,676	31,230	74,330
Other	109,789	58,611	30,557	198,957
Total	482,910	1,121,588	138,516	1,743,014

December 31, 2018

$	Governmental Obligations	Financial Institutions	Private Business and Individuals	Total
Western Europe and Canada	426,660	857,813	85,808	1,370,281
Brazil	54,598	314,782	28,436	397,816
Other Latin America	8,272	49,330	45,270	102,872
Other	9,401	79,635	73,575	162,611
Total	498,931	1,301,560	233,089	2,033,580

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

13. DEPOSITS — LIABILITIES

Deposits — liabilities at December 31, 2019 and 2018 are summarized as follows:

$	2019	2018
Demand deposit — non-interest bearing	1,972,007	1,714,072
Money market	167,186	207,789
NOW and savings	39,897	46,680
Certificates of deposit	865,279	1,032,974
Certificates of deposit — brokered	3,236,801	3,084,700
Total deposits — liabilities	6,281,170	6,086,215

The distribution of certificates of deposit by remaining maturity at December 31, 2019 and 2018 is as follows:

$	2019	2018
Maturity in one year or less	4,031,200	4,012,868
Maturity in over one year through three years	70,521	103,651
Maturity in over three years	359	1,155
Total	4,102,080	4,117,674

The aggregate amount of certificates of deposit, excluding certificates of deposit – brokered, with a denomination of $100,000 or more was approximately $844,606 and $1,009,096 at December 31, 2019 and 2018, respectively. The Bank recorded $1,998 and $1,970 of certificates of deposit – brokered at fair value due to the fair value option election in accordance with ASC 825 as of December 31, 2019 and 2018, respectively. Refer to Note 21 for further details.

At December 31, 2019 and 2018, certificates of deposit in denominations of $250,000 or more were $4,031,582 and $4,036,302, respectively.

14. BORROWINGS

The balance of advances from FHLBNY which is included in borrowings on the consolidated statements of financial condition at December 31, 2019 and 2018 were $0 and $500,000, respectively. The interest rate on the advances with FHLBNY as of December 31, 2018 ranged from 2.63% to 2.69% and they matured in January 2019. As of December 31, 2019 and 2018, the Bank held $2,242 and $24,326, respectively, of FHLBNY stock, recorded in other assets on the consolidated statements of financial condition. Refer to Note 4 for overnight borrowings with affiliates.

15. OTHER OPERATING EXPENSES

The other operating expenses for the years ended December 31, 2019 and 2018, are as follows:

$	2019	2018
Charitable contributions	6,441	5,868
FDIC insurance premiums	3,547	6,049
Other general operating	9,807	10,245
Total other operating expenses	19,795	22,162

16. INCOME TAXES

The components of the provision for income taxes for the years ended December 31, 2019 and 2018, are as follows:

$	2019	2018
Current tax expense:		
Federal	16,052	28,401
State and city	3,370	8,593
Foreign	300	300
Total current tax expense	19,722	37,294
Deferred tax expense/(benefit):		
Federal	4,592	(7,754)
State and city	1,498	(2,393)
Total deferred tax expense/(benefit)	6,090	(10,147)
Income taxes	25,812	27,147

The net deferred tax asset and liability at December 31, 2019 and 2018, were composed of the following:

$	2019	2018
Deferred tax assets:		
Allowance for credit losses	7,403	7,482
Contingency reserve	106	26
Depreciation and amortization	2,006	1,533
Charitable contributions	–	132
Accrued compensation	1,589	1,511
Accrued expenses	388	589
Unrealized losses included in stockholders' equity	435	2,322
Other	(35)	167
Total deferred tax assets	11,892	13,762
Deferred tax liabilities:		
Fair value measurements	(8,507)	(2,400)
Total deferred tax liabilities	(8,507)	(2,400)
Net deferred tax asset	3,385	11,362

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, 2019 and 2018, as follows:

$	**2019**	2018
Taxes at federal statutory rate	22,010	25,230
State and city income taxes — net of federal benefit	3,772	4,856
Bank owned life insurance	(400)	(405)
Municipal interest income	–	(1,889)
Dividend received deduction	(316)	(301)
State and city rate adjustment	103	8
Other — net	643	(352)
Provision for income taxes	25,812	27,147

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.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* ASU 2018-02 allows an entity to elect a one-time reclassification from AOCI to retained earnings of “stranded” tax effects resulting from the Tax Cuts and Jobs Act (the “Tax Act”). The amount of the reclassification includes the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances. The Bank’s accounting policy related to the release of the income tax effects from AOCI is to follow the portfolio approach. Effective January 1, 2019, the Bank adopted this ASU which resulted in a decrease in retained earnings and an increase in AOCI of $3,361, as a result of the change to the U.S federal corporate income tax rate.

The Bank recognizes interest and penalties related to UTB within the income tax expense line in the accompanying consolidated statements of income. In 2019 and 2018, no UTB 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, 2019, the Bank’s tax years after 2014 are subject to examination by the taxing authorities. Where tax returns have not been filed, the statute of limitations remains open indefinitely.

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, 2019, the Bank had a tax payable of $1,088 due to Parent and a tax liability of $80 for a separately filed state tax return, which are included as liabilities on the consolidated statement of financial condition. As of December 31, 2018, the Bank had a tax receivable of $7,314 and a tax liability of $618, which are included in other assets and other liabilities, respectively, in the consolidated statement of financial condition.

17. 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, 2019 and 2018, such obligations included standby and commercial letters of credit of approximately $32,246 and $33,407, 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 $11,922 and $35,499 at December 31, 2019 and 2018, respectively.

In connection with guarantees issued, substantially all such items were collateralized by deposits or highly liquid assets at December 31, 2019 and 2018.

18. CREDIT-RELATED RISK CONCENTRATIONS

In the normal course of its business, the Bank's credit-related risk concentrations as of December 31, 2019 and 2018, were as follows:

$	**2019**	2018
Credit exposure in deposits with banks:		
Branches and agencies in the United States of America	779,801	1,427,831
Foreign banks	132,690	17,119
Credit exposure in assets of the consolidated statements of financial condition in:		
The U.S. federal government and its agencies	2,965,079	1,813,693
Real estate loan portfolio	1,171,979	1,342,022
Total	5,049,549	4,600,665

19. COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, 2019, the Bank was obligated under a non-cancelable lease with an affiliate for the Bank's premises expiring through July 2027.

Rental expense for 2019 and 2018 was $5,479 and $6,382, respectively, included in occupancy expenses in the consolidated statements of income. Minimum rental commitments on leases as of December 31, 2019, were as follows:

Years Ending December 31,

$	Amount
2020	957
2021	957
2022	987
2023	1,030
2024	1,030
Thereafter	2,662
Total	7,623

As of December 31, 2019, the Bank was obligated as a lessor on a non-cancelable lease contract with an affiliate, expiring through June 30, 2022. Rental income for 2019 and 2018 was $251 and $0, respectively, included in other income in the consolidated statements of income. Minimum rental commitments on this lease as of December 31, 2019, were as follows:

Years Ending December 31,

$	Amount
2020	334
2021	334
2022	167
Total	835

As of December 31, 2019, total land, building and improvement of $11,052, was held for this lease.

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, SSL 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 SSL do not settle because of failure to perform by either counterparty, SSL may be required to discharge the obligation of the nonperforming party and, as a result, may incur a loss if the market value of the underlying security is different from the contract amount of the transaction. SSL has the right to pursue collection or performance from the counterparties who do not perform under their contractual obligations.

20. 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 $271,949 and $251,441 as of December 31, 2019, and 2018 respectively. In accordance with this restriction, the Bank declared and paid dividends of $5,000 and $5,000 during the years ended December 31, 2019 and 2018, 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, 2019 and 2018, the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2019, 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		Capitalized Under Prompt Corrective Action Provisions	
	Amount ($)	Ratio (%)	Amount ($)	Ratio (%)	Amount ($)	Ratio (%)
As of December 31, 2019:						
Total capital (to risk-weighted assets)	749,830	19.83	302,442	8.00	378,052	10.0
Tier 1 capital (to risk-weighted assets)	720,924	19.07	226,831	6.00	302,442	8.0
Common Equity Tier 1 capital (to risk-weighted assets)	720,924	19.07	170,124	4.50	245,734	6.5
Tier 1 capital (to average assets)	720,924	8.62	334,673	4.00	418,342	5.0
As of December 31, 2018:						
Total capital (to risk-weighted assets)	706,641	17.72	319,098	8.0	398,872	10.0
Tier 1 capital (to risk-weighted assets)	677,749	16.99	239,323	6.0	319,098	8.0
Common Equity Tier 1 capital (to risk-weighted assets)	677,749	16.99	179,492	4.5	259,267	6.5
Tier 1 capital (to average assets)	677,749	9.06	299,296	4.0	374,120	5.0

SSL is subject to the SEC Uniform Net Capital Rule pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934. SSL uses the alternate method under 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 table summarizes the minimum capital requirements and excess capital for SSL at December 31, 2019 and 2018:

$	**2019**	2018
Required net capital	401	303
Net capital	201,621	169,239
Excess net capital	201,220	168,936

In December 2013, the Federal Reserve Board, SEC, OCC, FDIC, and Commodity Futures Trading Commission (collectively, the “Agencies”) released final rules implementing the Volcker Rule, a part of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Volcker Rule”). The Volcker Rule was designed to prohibit banks from engaging in proprietary trading and owning or engaging in certain transactions with hedge funds or private equity funds. Under the Volcker Rule, certain activities may be permitted to continue (e.g. U.S. government, agency, state, and municipal obligations, exemptions available for market making, underwriting, and risk mitigating/hedging activities), although under new, restrictive definitions. In July 2019, the Agencies released final rule amendments (the “Rule Amendments”) which exempt certain financial institutions from the restrictions imposed by the Volcker rule. The Bank’s management has determined that it meets the conditions under the Rule Amendments and is therefore exempt from the Volcker Rule.

21. 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.

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). Any transfers between levels are recorded at the value as of the beginning of the reporting period. 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. Valuation of these assets and liabilities does not entail a significant degree of judgment. Examples of financial instruments with such inputs include certain U.S. Government securities and exchange-traded equity securities.

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 for which it is practicable to calculate that value.

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
Equities and money market funds	Actively traded and valued using the exchange price	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
The fair value of loans 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. For loans not measured at fair value, on a recurring basis, in the accompanying consolidated statements of financial condition, the fair value approximates the amount that similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities (entry price). The fair value of impaired loans is determined by discounting expected future cash flows of principal and interest, and 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
The fair value of demand deposits, savings accounts, and certain money market deposits approximate the carrying value as they are equal to the amount payable on demand at the reporting date including interest. 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. For time deposits not measured at fair value, on a recurring basis, in the accompanying consolidated statements of financial condition, the fair value approximates the amount that similar deposits would be obtained for the same remaining maturities (entry 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.

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.

Commercial and Standby Letters of Credit and Bankers Acceptances
The fair value of letters of credit and bankers acceptances, based on the estimated cost to terminate them or otherwise settle the obligations with the counterparties was not material at December 31, 2019 and 2018.

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, 2019 and 2018:

Financial Assets and Liabilities at Fair Value as of December 31, 2019

$	Level 1	Level 2	Level 3	Total
ASSETS				
Short-term investments:				
Money market accounts and funds	541,741	–	–	541,741
Obligations of U.S. Government	–	5,986	–	5,986
	541,741	5,986	–	547,727
Obligations of U.S. Government required to be segregated under federal or other regulations	–	29,982	–	29,982
Available-for-sale securities:				
Obligations of U.S. Government	–	1,217,195	–	1,217,195
Non-U.S. government debt securities	–	473,261	–	473,261
Corporate debt securities	–	396,797	–	396,797
Obligations of states, local, U.S. Sponsored agencies and political subdivisions	–	1,077,773	–	1,077,773
Agency mortgage-backed securities	–	710,231	–	710,231
	–	3,875,257	–	3,875,257
Trading securities:				
Obligations of U.S. Government	–	27,960	–	27,960
Corporate debt securities	–	51,222	–	51,222
Equities	7,212	–	–	7,212
	7,212	79,182	–	86,394
Loans	–	–	1,013,781	1,013,781
Derivative assets:				
Foreign exchange contracts	–	42,554	–	42,554
Interest rate contracts	–	6,999	–	6,999
		49,553	–	49,553
Total assets	548,953	4,039,960	1,013,781	5,602,694
LIABILITIES				
Deposits — time deposits	–	1,998	–	1,998
Derivative liabilities:				
Foreign exchange contracts	–	31,269	–	31,269
Interest rate contracts	–	100,989	–	100,989
	–	132,258	–	132,258
Total liabilities	–	134,256	–	134,256

Financial Assets and Liabilities at Fair Value as of December 31, 2018

$	Level 1	Level 2	Level 3	Total
ASSETS				
Short-term investments:				
Money market fund	50,084	–	–	50,084
Obligations of U.S. Government required to be segregated under federal or other regulations	–	25,941	–	25,941
Available-for-sale securities:				
Obligations of U.S. Government	–	570,226	–	570,226
Non-U.S. government debt securities	–	465,094	–	465,094
Corporate debt securities	–	945,182	–	945,182
Obligations of states, local, U.S. Sponsored agencies and political subdivisions	–	696,791	–	696,791
Agency mortgage-backed securities	–	476,437	–	476,437
	–	3,153,730	–	3,153,730
Trading securities:				
Obligations of U.S. Government	–	42,922	–	42,922
Corporate debt securities	–	44,861	–	44,861
Equities	6,254	–	–	6,254
	6,254	87,783	–	94,037
Loans	–	–	1,017,147	1,017,147
Derivative assets:				
Foreign exchange contracts	–	23,423	–	23,423
Interest rate contracts	–	48,715	–	48,715
	–	72,138	–	72,138
Total assets	56,338	3,339,592	1,017,147	4,413,077
LIABILITIES				
Deposits — time deposits	–	1,970	–	1,970
Derivative liabilities:				
Foreign exchange contracts	–	17,390	–	17,390
Interest rate contracts	–	36,451	–	36,451
	–	53,841	–	53,841
Total liabilities	–	55,811	–	55,811

Certain financial assets and liabilities measured at fair value on a nonrecurring basis are classified according to ASC 820 valuation hierarchy; however, the assets and liabilities not measured at fair value on an ongoing basis, are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment. For the years ended December 31, 2019 and 2018, there were no impaired loans.

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 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 to a fixed rate for the duration of the loan; plus, the contractual spread over Libor 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, 2019 and 2018. The following table presents the quantitative information about Level 3 fair value measurements as of December 31, 2019 and 2018:

Assets at December 31, 2019

	Fair Value $	Valuation Technique	Significant Unobservable Inputs	Range of Inputs	Weighted Average
Loans	1,013,781	Discounted cash flows	Credit spreads	160 bps – 360 bps	248 bps

Assets at December 31, 2018

	Fair Value $	Valuation Technique	Significant Unobservable Inputs	Range of Inputs	Weighted Average
Loans	1,017,147	Discounted cash flows	Credit spreads	169 bps – 394 bps	253 bps

The following table presents detailed changes in the Bank's Level 3 financial assets and liabilities at fair value that occurred during 2019 and 2018:

Level 3 — Financial Assets and Liabilities for Years Ended

$	**Loans**
BALANCE — January 1, 2018	1,030,218
Net unrealized losses (included in net (loss)/gain on fair value measurements)	(11,303)
Issuances	85,060
Settlements	(86,828)
BALANCE — December 31, 2018	1,017,147
Net unrealized gain (included in net (loss)/gain on fair value measurements)	22,556
Issuances	208,447
Settlements	(234,369)
BALANCE — December 31, 2019	1,013,781
Change in unrealized loss related to assets held at December 31, 2019	27,719

There were no transfers between Level 1, Level 2 and Level 3 for the years ended December 31, 2019 and 2018.

Fair Value Option

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.

Loans for which the fair value option have been elected had an aggregate fair value of $1,013,781 and $1,017,147, and an aggregate outstanding principal balance of $1,010,292 and $1,036,214 at December 31, 2019 and 2018, respectively, and were included in loans in the consolidated statements of financial condition. As of December 31, 2019 and 2018, the Bank had no loans recorded at fair value that were classified as nonaccrual and/or past due. Accrued interest receivable of $2,024 and $2,017 at December 31, 2019 and 2018, 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 gains/(losses) resulting from changes in fair value of these loans of $22,549 and $(11,333) were included in net (loss)/gain on fair value measurements in the consolidated statements of income for the years ended December 31, 2019 and 2018, respectively. Changes in fair value due to instrument specific credit risk for the years 2019 and 2018 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)/gain on fair value measurements on the consolidated statements of income.

The Bank also elected to account for certain long-term time deposits at fair value under the provisions of ASC 825, which are economically hedged using derivatives. The Bank has not elected the fair value option for the remainder of the time deposit portfolio as they are not hedged.

Time deposits for which the fair value option has been elected had an aggregate fair value of $1,998 and $1,970 and an aggregate outstanding principal balance of $2,000 and $2,000 at December 31, 2019 and 2018, respectively and were included in deposits in the consolidated statements of financial condition. Interest expense arising from these deposits is included in the consolidated statements of income as part of net interest expense. All up-front fees, costs, premiums and discounts related to these deposits are recognized in interest expense as incurred and not deferred. Net losses resulting from changes in fair value of these deposits of $(28) and $0 were included in net (loss)/ gain on fair value measurements in the consolidated statements of income for the years ended December 31, 2019 and 2018, respectively. Changes in fair value due to instrument specific non-performance risk for the years 2019 and 2018 were not material. The changes in fair value of these deposits were partially offset by changes in the fair value of the related financial derivatives that economically hedged these deposits.

The following table presents financial assets and liabilities not recorded at fair value as required by ASC 825 and considered as Level 3, as of December 31, 2019 and 2018:

	2019		2018	
$	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Time deposits	200,245	200,529	245	245
Held-to-maturity securities	1,115	1,178	1,375	1,449
Loans — net of allowance for loan losses and deferred loan fees and unearned discounts	1,864,077	1,865,646	2,041,827	2,040,514
Financial liabilities:				
Time deposits	4,100,082	4,094,498	4,115,704	4,172,119

The table above does not include the fair value of cash and due from banks, interest-bearing deposits in banks (except time deposits), securities purchased under agreements to resell, demand deposits, money market, NOW, saving deposits, borrowings, securities sold under agreements to repurchase, unsettled securities purchased, acceptances outstanding, and accrued interest receivable and payable because their carrying amount approximates fair value due to their short-term nature and frequent repricing. The Bank's investment in FRBNY and FHLBNY stocks are carried at par. For such investments, carrying value approximates fair value as the Bank can only sell such investment to the issuer at par value.

22. DERIVATIVE FINANCIAL INSTRUMENTS

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, 2019 and 2018, 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 $573,391 and $848,063, respectively. As of December 31, 2019 and 2018, the total notional amounts outstanding to fulfill clients' needs were $3,080,648 and $2,046,871, respectively. Maturities for all foreign exchange contracts had maturities ranging from January 2020 to April 2024, and from January 2019 to January 2024, as of December 31, 2019 and 2018, 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. The Bank was a party to interest rate swaps and caps as of December 31, 2019 and 2018, as follows:

$	2019	2018
Notional amounts as of December 31,		
Interest rate contracts used as economic hedges	2,169,482	2,432,332
Interest rate contracts used to fullfil clients' needs	261,600	261,600
Total notional amounts	2,431,082	2,693,932
Range of fixed rate paid	0.60%– 5.90%	0.60%– 8.40%
Range of variable rate paid	1–3 month LIBOR	1–3 month LIBOR
Range of fixed rate received	1.25%– 5.20%	1.25%– 6.00%
Range of variable rate received	1–3 month LIBOR/SOFR	1–3 month LIBOR
Range of maturity	January 2020 to August 2045	January 2019 to August 2045

Fair values of derivatives as of December 31, 2019 and 2018 are as follows:

Derivatives not Designated as Hedging Instruments Under ASC 815

As of December 31,	2019		2018	
	Consolidated Statement of Financial Condition	Fair Value $	Consolidated Statement of Financial Condition	Fair Value $
Gross asset derivatives:				
Foreign exchange contracts	Derivative assets	59,048	Derivative assets	31,221
Foreign exchange contracts*	Derivative liabilities	4,595	Derivative liabilities	6,309
Interest rate contracts	Derivative assets	6,999	Derivative assets	48,715
Total gross asset derivatives		70,642		86,245
Gross liability derivatives:				
Foreign exchange contracts	Derivative liabilities	35,864	Derivative liabilities	23,699
Foreign exchange contracts*	Derivative assets	16,494	Derivative assets	7,798
Interest rate contracts	Derivative liabilities	100,989	Derivative liabilities	36,451
Total gross liability derivatives		153,347		67,948

* 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 derivative transactions, and are recorded in net (loss)/gain on fair value measurements and net gain on foreign currency valuation on securities and derivatives on the consolidated statements of income:

Amount of Gain/(Loss) Recognized in Consolidated Statements of Income

$	2019	2018
Derivatives		
Interest income on interest rate contracts — net	8,501	5,605
Interest income on foreign exchange contracts — net	1,086	2,488
(Loss)/gain on interest rate contracts — net	(147,242)	55,004
Gain on foreign exchange contracts — net	19,660	16,767
Total	(117,995)	79,864

The following table presents, as of December 31, 2019 and 2018, the fair value of gross and net derivative assets and liabilities for which netting is permissible under ASC 210-20-45, *Balance Sheet Offsetting,* or ASC 815-10-45, D*erivatives and Hedging – Balance Sheet Netting.*

	2019		2018	
$	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Gross derivative assets/liabilities:				
Foreign exchange contracts	63,643	52,358	37,530	31,497
Interest rate contracts	6,999	100,989	48,715	36,451
Total gross derivative assets/liabilities	70,642	153,347	86,245	67,948
Amounts netted on the consolidated statements of financial condition:				
Foreign exchange contracts – derivative assets	(16,494)	(16,494)	(7,798)	(7,798)
Foreign exchange contracts – derivative liabilities	(4,595)	(4,595)	(6,309)	(6,309)
Total amounts netted on the consolidated statements of financial condition	(21,089)	(21,089)	(14,107)	(14,107)
Net derivative assets/liabilities in the consolidated statements of financial condition	49,553	132,258	72,138	53,841
Amounts not netted on the consolidated statements of financial condition:				
Cash collateral posted	–	–	1,660	–
Cash collateral received	–	10,120	–	16,973
Foregin exchange contracts	21,601	28,340	31,221	23,699
Interest rate contracts	6,999	100,989	48,715	36,451

The Bank is required to pledge assets under a bilateral margin arrangement, including either cash or agency residential mortgage-backed 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, 2019 and 2018. The Bank has received $10,120 and $16,973, respectively, as of December 31, 2019 and 2018 related to margin for foreign exchange and interest rate contracts, which is included in money market, NOW, and savings deposits in the accompanying consolidated statements of financial condition. In addition, the Bank has paid $0 and $1,660, respectively, as of December 31, 2019 and 2018, which is included in interest bearing deposits with banks.

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.

23. 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, 2019 and 2018, were approximately $2,129 and $2,055, respectively.

24. CUSTODY SERVICES

The Bank provides custody services to its customers related to domestic and foreign fixed income instruments, equities, mutual and hedge funds. The market value of assets under custody was $15,776,667 and $13,882,763 at December 31, 2019 and 2018, 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 $19,376 and $18,461 for the years ended December 31, 2019 and 2018, respectively.

25. SUBSEQUENT EVENTS

For the year ended December 31, 2019, the Bank evaluated subsequent events for the consolidated financial statements. There were no subsequent events through March 4, 2020, the date the consolidated financial statements were available to be issued, that would require recognition or disclosure in the consolidated financial statements.


18:00 **United States of America** (GMT–5)
18:00 **Panama** (GMT–5)
23:00 GMT 17:00 **Mexico City, Mexico** (GMT–6)

Locations and Affiliates

Locations and Affiliates

Safra National Bank of New York

Headquarters

546 Fifth Avenue
New York, NY, 10036
+1 (212) 704 5500
Member Federal Reserve System
Member Federal Deposit Insurance Corporation

Branch Office

Aventura
3050 Aventura Boulevard
Aventura, FL, 33180
+1 (305) 682 3800

Representative Offices

Brazil
Avenida Paulista, 2100
Sao Paulo, SP, Brazil – 01310-930
+55 (11) 3175 9911

Chile
Edificio Millenium,
Vitacura 2939, Piso 25, Oficina 2501
Santiago, Chile
+56 (2) 32 733 100

Mexico
Edificio Forum,
Andres Bello 10, Piso 19
11520, México D. F., México
+52 (55) 5279 4880

Panama
Torre Bicsa,
Avenida Balboa y Calle Aquilino de La Guardia, Piso 39
Panama, Republica de Panama
+50 (7) 380 7025

Subsidiary

Safra Securities LLC
546 Fifth Avenue
New York, NY, 10036
+1 (212) 704 5617
Member Financial Industry Regulatory Authority
Member Securities Investor Protection Corporation

Affiliates

J. Safra Asset Management Corporation
546 Fifth Avenue
New York, NY, 10036
+1 (212) 704 5553

SNB Servicios (Argentina) S.A.
Avenida Leandro N. Alem 855, Piso 33 “B”
C1001 AAD, Buenos Aires, Argentina
+54 (11) 3987 7055

SNB Servicios (Uruguay) S.A.
World Trade Center,
Avenida Luis Alberto de Herrera, 1248 Oficina 2304
11300, Montevideo, Uruguay
+598 (2) 624 5552

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Safra National Bank
of New York