BESSEMER TRUST

"It's more than money management, *it's life management.*"

Annual Report 2018

Privately owned and independent, Bessemer Trust is a multifamily office that has served individuals and families of substantial wealth for more than 110 years. Through comprehensive investment management, wealth planning, and family office services, we help you and your family achieve peace of mind for generations.

A lot of firms manage money.

Yet we know from experience that wealth represents more than numbers.

It's your family, your career, your philanthropy, your future.

At Bessemer, we help you manage what's important in life.

Opposite page, clockwise from top left:

K'Lon Andrews
Portfolio Manager

Kathryn Grossman España
Senior Client Advisor

Richard J. McRoskey
Communications Strategist

Edward V. St. John
Senior Trader

Cover quote by a client whose family we have served proudly since 1997.

From left to right:

Stuart S. Janney, III
Chairman

Marc D. Stern
Chief Executive Officer

To Our Clients, Shareholders, and Employees:

At Bessemer, our commitment to clients goes beyond wealth management. A discussion with a client about their asset allocation, taxes, philanthropy, insurance, or estate plan is fundamentally a conversation about their lives.

As a privately owned multifamily office, we have had the opportunity for seven generations to provide clients with the peace of mind that comes from knowing that someone is looking out for them.

Going above and beyond is at the heart of our culture. We invest in new ways to fulfill client needs rather than to maximize the firm's near-term financials. In 2018, we launched two municipal bond portfolios to help clients meet their income needs with greater tax efficiency, and we introduced an environmental, social, and governance portfolio to enable clients focused on these values to invest accordingly. We also began publishing our biannual *Wealth Planning Perspectives* to share our latest thinking.

15K	98%	$0
MEETINGS WITH CLIENTS	TEN-YEAR CLIENT ASSET RETENTION RATE	OUTSTANDING DEBT

In a rapidly evolving digital world, we refined our client website, public website, and secure communications to provide greater ease of use while safeguarding clients' personal information.

Making all of this possible are dedicated professionals at Bessemer who have developed their expertise through more than 21,000 collective years of work experience. We are convinced that our emphasis on an environment promoting mutual respect, collaboration, and client satisfaction is central to attracting and retaining talented experts. In 2018, we promoted Elizabeth Delo, Mike Driscoll, and Adam Ruchman to managing director in their key roles within client advisory, investments, and technology, respectively. Gerardo Nout joined our Miami office as regional director. In addition, we welcomed Yvette Garcia as our general counsel and Arthur Cohen as head of corporate tax; they succeed Steve Williamson and Gail Campbell, who are retiring after successful Bessemer careers of 22 years and 32 years, respectively.

We also took a key step in 2018 to provide employees with the best possible environment in which to work, by committing to new headquarters office space at 1271 Avenue of the Americas in New York City's Rockefeller Center. Our new location in the iconic Time & Life Building combines a rich architectural history with the opportunity to create a warm, welcoming, and current environment that, beginning in 2021, will fulfill the evolving needs of clients and employees across generations.

The qualities that set us apart are embraced at every level of our firm, and we thank our Board of Directors for their ongoing guidance and support. We welcome to our Board Michael H. Bynum, who brings experience as chairman of a community bank and president of an agricultural business. We also recognize and thank Lewis M. Linn, who retired as a director this past year.

Following several years of meaningful investment gains, equity markets experienced a sharp

11TH	$3.9B	3:1
CONSECUTIVE YEAR OF POSITIVE ACCOUNT CONTRIBUTIONS FROM CLIENTS	IN ASSETS FROM NEW CLIENTS	CLIENT-TO-EMPLOYEE RATIO

correction in the fourth quarter, hurting the absolute returns of Balanced Growth (70/30). Outperformance versus its benchmark was driven by an overweight to U.S. assets and generally favorable security selection across global equity markets.

Our firm's financial strength and stability enable us to follow through on our commitment to long-term stewardship of client relationships. Revenues for the year totaled $598 million, net income was $127 million, and income distributions to shareholders totaled $9.57 per share. Our firm continues to be well capitalized by regulatory standards, with total shareholders' equity of $361 million as of December 31. Please see page 17 for additional information on our financial results.

Our most important measure of success is client satisfaction. In 2018, we marked our eleventh consecutive year of positive net additions to client accounts, retained more than 98% of client assets, and welcomed 93 new clients.

As we look to the future and evolve alongside the needs of our clients, we know that enhancing each client's wealth and success requires not only delivering expertise but also retaining an unwavering commitment to their interests coming first. Thank you for your continued confidence and trust.

Stuart S. Janney, III
Chairman

Marc D. Stern
Chief Executive Officer

Every meaningful relationship is built on trust. Being a Bessemer client means more than working with highly trained experts, it's knowing that your team is committed to doing what's right.




From top:

Robert D. Patenaude
Associate General Counsel

Desire Flores
Investor Relations Specialist

Timothy S. McBride
Regional Director

Zoya V. Chechurina
Quality Assurance Lead

It’s more than a recommendation, *it’s trusted advice.*

In a world of experts, it’s rare to find an advisor dedicated to becoming an expert in you — your life, your family, and the things you care about. At Bessemer Trust, that’s what we do. We build deep, lasting relationships with our clients. With your best interest behind every recommendation we make, the result is meaningful advice you can depend on.

Opposite page, clockwise from top left:

George Wilcox
President

W. David Bunce
Region Head

Jennifer Sierra
Senior Retirement Analyst

Jane R. Symington
Senior Client Advisor

A.J. Fried
Head of Technology Operations

"Our clients can rest easier knowing that Bessemer is looking out for them. We take great satisfaction in being the first person they call."

Jane Symington, *Senior Client Advisor*

It's more than guiding a portfolio,

it's overseeing irreplaceable wealth.

We know a conversation about investing is really a conversation about your personal goals. Preserving and enhancing your wealth requires a partner who understands what your needs are today and how they may evolve in the future. From portfolio construction and asset allocation to tax planning and philanthropic strategies, we put our collective knowledge to work to help you achieve your unique objectives.

"Financial matters are very personal. They're tied to family, relationships, and goals. That's what makes our work so gratifying."

Gernon Brown, *Senior Client Advisor*

Clockwise from top:

Rebecca Patterson
Chief Investment Officer

Richard S. Monteith
Director of Alternative Investor Relations

Timothy W. Haberbusch
Head of Client Advisory Business Analysis

George Jiang
Senior Programmer Analyst

Mark A. Tremblay
Head of Family Office Management

G. Gernon Brown, III
Senior Client Advisor

It’s more than estate planning, *it’s having a lasting impact.*

Our client relationships often span multiple generations. We understand that your wealth represents continuity, purpose, and the positive impact you want to have. That’s why we are there at every step, with strategies based on 111 years of serving individuals and families. Our dedicated team has the experience to help you achieve your goals now and for generations to come.

Opposite page, clockwise from top left:

Richard S. Shaw
Senior Client Advisor

Yvette M. Garcia
General Counsel

Stephen R. Akers
Senior Fiduciary Counsel

Amy H. Schnitzer
Associate Fiduciary Counsel

Matthew S. MacDowell
Associate Client Advisor

“What drives us is building deep relationships with our clients so we can understand their unique goals.”

Steve Akers, *Senior Fiduciary Counsel*

It’s more than day-to-day support, *it’s the time to focus on what matters most.*

Managing your wealth shouldn’t come at the expense of something even more valuable: your time. At Bessemer, helping families manage the complexities of wealth is our singular focus. Our experts have the knowledge and resources to create comprehensive solutions for you. Having a trusted partner working behind the scenes means that you can focus on what’s important to you.

“With our investments in technology, we want clients to know their security is our priority.”

Patrick Darcy,
Chief Information Security Officer

Clockwise from top:

Kerri G. Nipp
Fiduciary Officer

Rebecca L. Savage
Brand Marketing Associate

Noah M. Fine
Information Security Analyst

Patrick M. Darcy
Chief Information Security Officer

Michael J. Panzarino
Client Advisor

It’s more than a workforce, *it’s a team of seasoned experts.*

At the heart of everything we do is a highly talented group of individuals who are deeply committed to our goal of providing each client with peace of mind. Throughout their Bessemer careers, our people foster meaningful client relationships and embody our culture of putting clients’ needs first.

They also dedicate time to give back to our local communities. In 2018, our employees worked together on a diverse range of causes, from helping children and the elderly, to supporting our veterans, and protecting animals. Whether serving clients or volunteering, our seasoned experts are guided by a single objective: enhancing the lives of those around us.

We take great care to support the professional development of our employees and to hire top industry experts. The following employees were named Managing Director or Principal in 2018:

Managing Director

Arthur Cohen
Corporate Tax Director

Elizabeth W. Delo
Regional Director

Michael J. Driscoll
Head of Trading and Portfolio Operations

Yvette M. Garcia
General Counsel

Gerardo J. Nout
Regional Director and Senior Investment Strategist

Adam R. Ruchman
Head of Application Delivery

Principal

Teresa L. Cannellos
Director of Family Office Management

J.P. Coviello
Senior Investment Strategist

Scott M. Deke
Senior Wealth Advisor

Taylor J. Heininger
Senior Wealth Advisor

Caroline W. Hodkinson
Director of Philanthropic Advisory

Merileen C. Letzter
Senior Fiduciary Tax Consultant

Eric Zachary Maurus, Sr.
Senior Wealth Advisor

Hoshi Merchant
Head of Content Systems

Arturo G. Pedroso
Senior Wealth Advisor

Richard S. Shaw
Senior Client Advisor

Lai Ngor Yee
Senior Fiduciary Tax Consultant

F. Zafar
Head of Technology Research & Development

Our ability to deliver for clients depends on professionals with extensive experience and a deep understanding of the qualities that make Bessemer Trust unique. We thank and recognize our employees who celebrated 30, 35, and 40 years of service in 2018:

Gisele M. Trasente
Information Technology
40 years

K'Lon Andrews
Investments
35 years

Warren Collins
Office Services
35 years

Mary C. Hyland
Office Services
35 years

Philip C. Kalafatis
Client Advisory
30 years

Teresa L. Koncar
Operations
30 years

Thomas P. McNulty
Finance
30 years

Yik F. Mui
Information Technology
30 years

Robin Stefens
Client Advisory
30 years

George M. Yaworsky
Finance
30 years

"We are better able to serve clients because of our team's strong relationships. Volunteering together is one way we deepen those connections."

Brookes Clemmons
Associate Client Advisor

From the top:

Brookes L. M. Clemmons
Associate Client Advisor

Stephen M. Watson
National Director of Client Relations

Samantha J. Vervaeke (left)
Associate Client Advisor

Francesca C. Rourke (right)
Client Advisor Administrator

Jack Valentine
Associate Client Advisor

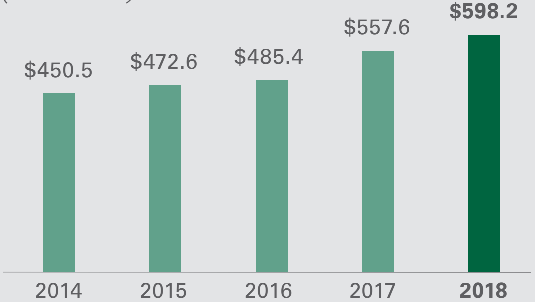
Financial Results

Financial Highlights

Bessemer Trust has remained privately owned for more than 110 years. As a private company, we are not required to publish an annual report, but do so in the interest of transparency and open communication with our clients, shareholders, and employees.

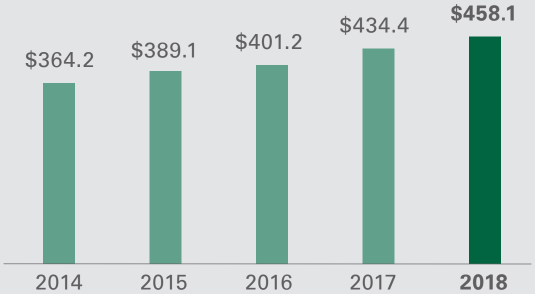
REVENUES

(In millions)



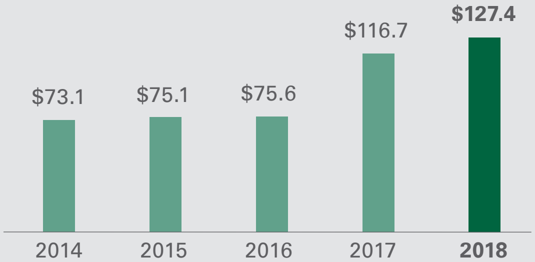
EXPENSES

(In millions)

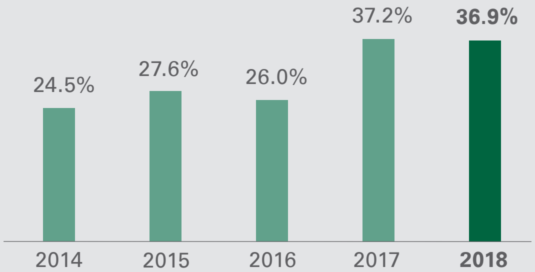


NET INCOME

(In millions)



RETURN ON AVERAGE EQUITY



(In thousands, except per share data)	**2018**	2017
Revenues	**$598,227**	$557,560
Expenses	**458,134**	434,414
Income taxes	**12,678**	6,483
Net income	**127,415**	116,663
Average shareholders' equity	**345,266**	313,821
Return on average equity	**36.9%**	37.2%
Total distributions to shareholders	**94,888**	72,653
Basic earnings per common share	**50.84**	46.36
Book value per common share	**144.46**	129.05

Management's Analysis of Results

EXECUTIVE OVERVIEW

The company is a multifamily office focused on providing private wealth management services to individuals and families of substantial wealth, as well as their trusts and foundations.

The company's financial condition remains strong, characterized by high-quality assets, appropriate liquidity, minimal sensitivity to interest rate risk, and no debt. Shareholders' equity increased $38.4 million to a record $362.0 million at year-end.

Net income for 2018 reached a record $127.4 million, a 9.2% increase over 2017. Higher average market levels, strong client retention exceeding 98%, and positive inflows from existing and new clients contributed to an 8.0% increase in fees from client services in 2018. Net interest income rose as interest rate spreads widened, while Other income declined due to reduced hedge fund performance fees and lower realized investment gains. Expenses rose 5.5% as the company continued to invest for the future in people, technology, facilities, and client-related enhancements. Income distributions from earnings totaled $9.57 per share in 2018 and $7.90 in 2017.

FEES FROM CLIENT SERVICES

Fees from client services are generated from the company's core business of providing investment management, custody, trust, estate administration, tax, and other personalized financial services to clients. These revenues totaled $549.5 million in 2018, up by $40.8 million. New clients added $3.9 billion in assets, generating $12.0 million in 2018 fees and estimated ongoing annual revenues of approximately $21.9 million. Assets under supervision at December 31, 2018, totaled $148.1 billion, including $78.1 billion held in custody and directed trusts.

NET INTEREST INCOME AND OTHER INCOME

Net interest income, comprised of the interest earned on the company's banking assets less interest expense paid on money market deposits, increased 23.9% to $40.4 million due to the favorable impact of widening net interest rate spreads and higher average loan balances. Deposit balances at year-end 2018 totaled $3.4 billion, up $0.6 billion from the prior year-end.

Other income declined $6.6 million from 2017 due primarily to lower performance fees earned as manager of the Fifth Avenue hedge funds.

EXPENSES

The company continued to focus on controlling expenses while selectively investing in areas to enhance future growth potential. Total expenses in 2018 were $458.1 million, $23.7 million higher than 2017. Employee compensation and benefits of $318.8 million was up by $22.8 million, or 7.7%, due to new hires and increased incentive compensation levels. Occupancy and equipment costs, professional fees and assessments, and other expenses remained relatively flat compared to 2017.

NET INCOME AND DISTRIBUTIONS

The company's net income totaled $127.4 million in 2018, compared to $116.7 million in 2017. The return on average equity in 2018 was 36.9%.

The company made total distributions to shareholders of $94.9 million in 2018. Income distributions totaled $24.0 million ($9.57 per share) as compared to $19.9 million ($7.90 per share) for 2017. Since the company is a Subchapter S corporation, tax distributions totaling $70.9 million ($28.29 per share) were made in 2018 to cover the shareholders' estimated tax liability associated with the company's 2018 flow-through taxable income.

FINANCIAL CONDITION

The company ended the year with total corporate assets in excess of $4.0 billion. Deposits with the Federal Reserve Bank of New York, investments in government agency securities, and secured loans represented the largest components of interest-earning assets. Because loans are fully secured by the borrowers' marketable securities, no reserve for loan losses is required. As permitted by banking regulations, the company also maintains a marketable securities portfolio, which is invested in securities similar to those of clients, including investment grade tax-exempt debt and diversified equities that meet balanced objectives of safety of principal, liquidity, after-tax yield, and capital appreciation. Unrealized appreciation, net of taxes, on the company's available for sale securities totaled $1.8 million at December 31, 2018.

Shareholders' equity increased by $38.4 million in 2018. The company's equity includes earnings retained to support its banking and trust operations.

As required by accounting rules, a non-cash net increase to capital was recorded on December 31, 2018, reflecting actuarial adjustments that reduced the company's pension and post-retirement benefit liabilities by $7.0 million. Capital ratios are in excess of minimum capital adequacy requirements mandated by the banking regulators, and the company and its subsidiary banks continue to be classified as "well-capitalized" by regulatory standards. As a result, equity is available to provide for future growth and capitalize on strategic initiatives, expected to provide opportunities to increase long-term profitability.

Consolidated Statements of Financial Condition

As of December 31: *(In thousands)*	**2018**	2017
ASSETS		
Cash and cash equivalents	**$1,592,965**	$ 983,825
Securities available for sale	**1,308,355**	1,311,804
Loans, secured by marketable securities	**826,584**	753,764
Receivables	**64,271**	70,804
Premises and equipment	**46,129**	52,979
Goodwill	**76,307**	76,307
Other investments	**115,196**	130,028
Other assets	**35,038**	33,551
Total Assets	**$4,064,845**	$3,413,062
LIABILITIES		
Deposits	**$3,366,918**	$2,752,305
Accrued expenses and other liabilities	**335,960**	337,163
Total Liabilities	**$3,702,878**	$3,089,468
SHAREHOLDERS' EQUITY		
Common stock and surplus	**$ 83,105**	$ 83,118
Retained earnings	**443,059**	410,532
Accumulated other comprehensive loss, net of tax	**(60,103)**	(66,261)
Treasury stock, at cost	**(104,094)**	(103,795)
Total Shareholders' Equity	**361,967**	323,594
Total Liabilities and Shareholders' Equity	**$4,064,845**	$3,413,062

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31: *(In thousands, except per share data)*	**2018**	2017
REVENUES		
Fees from client services	**$549,514**	$508,724
Net interest income	**40,378**	32,600
Net realized (losses)/gains on securities available for sale	**(26)**	1,302
Other income	**8,361**	14,934
Total Revenues	**598,227**	557,560
EXPENSES		
Employee compensation and benefits, including long-term incentives	**318,811**	295,974
Occupancy and equipment	**69,146**	69,047
Professional fees and assessments	**26,562**	26,398
Other expenses	**43,615**	42,995
Total Expenses	**458,134**	434,414
INCOME BEFORE PROVISION FOR INCOME TAXES	**140,093**	123,146
Provision for income taxes	**12,678**	6,483
NET INCOME	**$127,415**	$116,663
Earnings per share	**$ 50.84**	$ 46.36
NET INCOME	**$127,415**	$116,663
Other comprehensive income/(loss), net of tax:		
Net change in net unrealized gains on securities available for sale	**(834)**	(207)
Pension and other post-retirement benefit adjustments	**6,992**	(8,785)
Other comprehensive income/(loss), net of tax	**6,158**	(8,992)
COMPREHENSIVE INCOME	**$133,573**	$ 107,671

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31: *(In thousands)*	**2018**	2017
COMMON STOCK AND SURPLUS		
Balance, beginning of year	**$ 83,118**	$ 83,118
Other, net	**(13)**	—
Balance, end of year	**83,105**	83,118
RETAINED EARNINGS		
Balance, beginning of year	**410,532**	366,522
Net income	**127,415**	116,663
Distributions to shareholders:		
For income taxes (per share 2018, $28.29; 2017, $20.96)	**(70,904)**	(52,801)
From earnings (per share 2018, $9.57; 2017, $7.90)	**(23,984)**	(19,852)
Balance, end of year	**443,059**	410,532
ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF TAX		
Balance, beginning of year	**(66,261)**	(57,269)
Other comprehensive income/(loss)	**6,158**	(8,992)
Balance, end of year	**(60,103)**	(66,261)
TREASURY STOCK, AT COST		
Balance, beginning of year	**(103,795)**	(96,882)
Class B non-voting common stock repurchase	**(299)**	(6,913)
Balance, end of year	**(104,094)**	(103,795)
Total Shareholders' Equity	**$361,967**	$323,594

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended December 31: *(In thousands)*	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 127,415	$ 116,663
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(2,854)	633
Depreciation and amortization on premises and equipment	14,125	15,634
Net (discount accretion)/premium amortization of debt securities available for sale	(722)	(1,676)
Net realized losses/(gains) on securities available for sale	26	(1,302)
Impairment charges on securities available for sale	39	—
Decrease/(increase) in receivables and other assets	7,527	(17,376)
Decrease/(increase) in other investments	14,832	(13,095)
Increase in accrued expenses and other liabilities	6,476	21,041
Net Cash Provided by Operating Activities	166,864	120,522
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of securities available for sale	171,819	12,374
Proceeds from maturities, calls and mandatory redemptions of securities available for sale	2,069,754	1,083,359
Purchases of securities available for sale	(2,238,670)	(1,660,550)
Net increase in loans	(72,820)	(95,899)
Capitalized computer software	(2,456)	(3,933)
Purchases of premises and equipment	(4,764)	(5,895)
Net Cash Used in Investing Activities	(77,137)	(670,544)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase/(decrease) in deposits	614,613	(656,904)
Purchases of treasury stock	(299)	(6,913)
Income tax distributions to shareholders	(70,904)	(52,801)
Income distributions from earnings to shareholders	(23,984)	(19,852)
Other, net	(13)	—
Net Cash Provided by/(Used in) Financing Activities	519,413	(736,470)
Net Increase/(Decrease) in Cash and Cash Equivalents	609,140	(1,286,492)
Cash and Cash Equivalents, beginning of year	983,825	2,270,317
Cash and Cash Equivalents, end of year	$1,592,965	$ 983,825
CASH PAYMENTS		
Interest	$ 20,436	$ 8,949
Income taxes, net	15,811	9,448
NON-CASH INVESTING ACTIVITY		
Transfer from securities available for sale to other investments	$ —	$ 1,962

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements for the Years Ended December 31, 2018, and 2017

NOTE 1. BASIS OF PRESENTATION

Organization — The Bessemer Group, Incorporated is a registered bank holding company and multifamily office focused on providing wealth management services to individuals and families of substantial wealth, as well as their trusts and foundations, through certain of its wholly owned subsidiaries. Shares of The Bessemer Group, Incorporated are owned primarily by trusts for the benefit of the heirs of Henry Phipps, deceased.

The following significant accounting and reporting policies of The Bessemer Group, Incorporated and subsidiary companies (the "company") are in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation and Use of Estimates — The consolidated financial statements include the accounts of The Bessemer Group, Incorporated and its wholly owned subsidiaries. All intercompany accounts are eliminated in consolidation. Preparation of the consolidated financial statements requires the use of estimates, where appropriate, by the company's management. Actual results may differ from those estimates.

The company performs a continual evaluation of whether certain investments are variable interest entities and whether the company can be deemed to exert control or significant influence over the financial and operating policies of the investee. A banking subsidiary of the company acts as general partner, or equivalent, for certain of its private equity and real asset funds. The governing agreements of these funds generally provide that, subject to certain conditions, investors in those funds may remove the company as general partner, or equivalent, of the fund or liquidate the fund without cause by a majority vote. As a result, these funds are not consolidated by the company as part of these consolidated financial statements. Equity and partnership interests in these funds are carried at fair value.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign Currency Translation — The functional currency of the company's foreign operations is the U.S. dollar. Foreign currency translation and transaction gains and losses are included in Other income.

Fees from Client Services — Fees from client services are recorded on the accrual basis of accounting when earned and include fees from investment management, trust, custody, estate administration, client tax, and other services. Also included are management, custody, servicing, and other fees earned by the Company for services provided to the Old Westbury Funds, Inc. and Old Westbury (Cayman) Funds SPC.

Cash Equivalents — Cash equivalents include amounts due from banks, interest-bearing deposits with the Federal Reserve Bank of New York and other banks, and short-term investments, which are readily convertible into cash, have original maturities of three months or less, and are recorded at amortized cost.

Securities Available for Sale — Marketable equity securities and debt securities are designated as available for sale and are carried at estimated fair value, with net unrealized gains and losses, net of tax, included in accumulated other comprehensive loss. Estimated fair values are based on market quotations, where available. If market quotations are unavailable, estimated fair values are based on quoted market prices of comparable investments. Realized securities gains and losses are computed on the identified-cost basis. Interest income is recorded on the accrual basis, adjusted for the amortization of premium and accretion of discount.

Loans, Secured by Marketable Securities — Loans are carried at their principal amount and interest income on loans is accrued based on the stated interest rates. Interest rates are primarily floating rates tied to the subsidiary banks' prime rate or, in limited cases, the one-month or three-month London Interbank Offered Rate ("LIBOR"). Loans are fully secured by marketable securities with minimum margin requirements monitored and maintained on an ongoing basis reflecting liquidity, portfolio diversification, investment quality, maturity, and duration. Since all loans are fully secured by marketable securities, generally due on demand, and interest income is on a current accrual basis, management has determined that no allowance for loan losses is required. The company has no history of experiencing loan losses.

Premises and Equipment — Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets or over the terms of the respective leases, if earlier, for leasehold improvements. The company capitalizes the cost of computer software developed or obtained for internal use and amortizes such cost over its estimated useful life not exceeding ten years.

Goodwill — Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies. The company assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, thereby requiring impairment testing. On an annual basis, at September 30th, the company determines whether a quantitative assessment should be performed to test goodwill for impairment, and it was concluded that such assessment was not necessary.

Other Investments — Other investments primarily include corporate assets set aside in Rabbi Trusts (Grantor Trusts) and other accounts that are solely available to fund obligations under certain of the company's retirement and long-term incentive compensation plans ("Plans"). The terms of these Plans allow participating employees to allocate their individual balances among several available investment alternatives. The Other investments are generally allocated by management in accordance with employee elections. These investments are long-term in nature and do not represent proprietary trading securities. Other investments are reported at fair value. The company has elected trading securities accounting treatment to allow it to record both realized and unrealized gains or losses in the consolidated statements of comprehensive income, consistent with the recording of the change in the value of the future obligations to employees under the related Plans.

Income Taxes — The company is classified as a Subchapter S corporation under the provisions of the Internal Revenue Code. Accordingly, the company does not expect to incur federal income tax obligations but will continue to incur corporate income tax at certain state and local levels. The provision for deferred income taxes is made for items reported in the consolidated financial statements in different years than for tax return purposes.

Assets Under Supervision — Client assets held in fiduciary or agency capacities are not included in the statements of financial condition, as such items are not assets of the company.

Earnings Per Share — Basic earnings per share is calculated based on the weighted average number of common shares outstanding of 2,506,148 during 2018 and 2,516,560 during 2017.

Comprehensive Income — Comprehensive income is defined as the change in equity of an entity, excluding transactions with shareholders. Comprehensive income consists of net income and other comprehensive income/(loss), which includes net changes in net unrealized gains and losses on securities available for sale and adjustments for pension and other post-retirement benefits.

NOTE 3. NEW ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board ("FASB") issued authoritative guidance that revises the lease accounting model to recognize on the statement of financial condition the rights and obligations of all leases with a term greater than 12 months and expands related quantitative and qualitative disclosures. This guidance is effective January 1, 2020. The company is currently evaluating the impact that adoption of the guidance will have. The impact will consist primarily of a statement of financial condition gross-up of the company's operating leases to show the respective rights and obligations as lease assets and lease liabilities.

In January 2016, the FASB issued authoritative guidance requiring that certain equity investments be measured at fair value, with changes in fair value recognized in earnings. The guidance simplifies the impairment assessment for certain equity securities and reduces the complexity of other-than-temporary impairment guidance. This guidance is effective January 1, 2019. The future expected effect of adopting this guidance, when implemented retrospectively, will be an adjustment to retained earnings in 2019 and will reflect the net unrealized gains on marketable equity securities as disclosed in Note 5 of the consolidated financial statements.

In May 2014, the FASB issued authoritative guidance that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This guidance is effective January 1, 2019. The company does not expect adoption to have a material impact on its consolidated financial statements.

NOTE 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at December 31:

(In thousands)	**2018**	2017
Non-interest bearing — Cash and due from banks	**$ 8,647**	$ 8,621
Interest-bearing:		
Deposit with the Federal Reserve Bank of New York	**875,026**	867,158
Deposits with other banks	**8,083**	18,031
Short-term investments	**701,209**	90,015
	$1,592,965	$983,825

NOTE 5. SECURITIES AVAILABLE FOR SALE

The cost and estimated fair value of securities available for sale at December 31, 2018, and 2017 were as follows:

(In thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2018:				
Debt obligations of:				
U.S. Treasury and Government Agencies	**$ 1,178,704**	**$ —**	**$ 245**	**$ 1,178,459**
States and political subdivisions	**103,012**	**21**	**1,074**	**101,959**
Marketable equity securities	**24,799**	**3,361**	**223**	**27,937**
	$ 1,306,515	**$ 3,382**	**$ 1,542**	**$ 1,308,355**
2017:				
Debt obligations of:				
U.S. Treasury and Government Agencies	$ 1,194,909	$ —	$ 1,636	$1,193,273
States and political subdivisions	91,400	7	1,004	90,403
Marketable equity securities	22,508	5,625	5	28,128
	$ 1,308,817	$ 5,632	$ 2,645	$1,311,804

The components of net realized (losses)/gains on securities available for sale for the years ended December 31 were as follows:

(In thousands)	**2018**	2017
Gross realized gains from sales	**$ 709**	$ 1,422
Gross realized losses from sales	**(735)**	(120)
Net realized (losses)/gains on securities available for sale	**$ (26)**	$ 1,302

The maturities of debt obligations included in securities available for sale at December 31 were as follows:

	2018		2017	
(In thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
U.S. Treasury and Government Agencies:				
Within one year	**$1,165,268**	**$1,165,268**	$1,163,030	$1,161,703
After one, but within five years	**13,436**	**13,191**	31,879	31,570
	$1,178,704	**$1,178,459**	$1,194,909	$1,193,273
States and political subdivisions:				
Within one year	**$ 25,993**	**$ 25,938**	$ 6,394	$ 6,383
After one, but within five years	**76,030**	**75,046**	83,806	82,823
Five to ten years	**989**	**975**	1,200	1,197
	$ 103,012	**$ 101,959**	$ 91,400	$ 90,403

The estimated fair value for securities available for sale with continuous gross unrealized losses for less than 12 months at December 31 was as follows:

	2018		2017	
(In thousands)	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
U.S. Treasury and Government Agencies	**$ 10,288**	**$ 189**	$329,528	$ 1,636
States and political subdivisions	**3,459**	**20**	86,002	1,004
Marketable equity securities	**2,662**	**223**	3,218	5

There were no securities available for sale at December 31, 2017, that had continuous gross unrealized losses for 12 months or more. The estimated fair value for securities available for sale with continuous gross unrealized losses for 12 months or more at December 31 was as follows:

	2018	
(In thousands)	Estimated Fair Value	Gross Unrealized Losses
U.S. Treasury and Government Agencies	**$ 2,903**	**$ 56**
States and political subdivisions	**78,278**	**1,054**
Marketable equity securities	**—**	**—**

The company's management views the gross unrealized losses noted above as temporary. As of December 31, 2018, gross unrealized losses for U.S. Treasury and Government Agencies totaled $245,000 on debt securities with a combined value of $13,191,000, and gross unrealized losses for debt obligations of states and political subdivisions totaled $1,074,000 on securities with a combined value of $81,737,000. These unrealized losses are primarily attributable to changes in market rates since their purchase. Other-than-temporary impairment of securities available for sale is evaluated considering numerous factors, and their relative significance varies case by case. Factors considered include the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer of a security, and the intent and ability of the company's management to retain the security for a period of time sufficient to allow for an anticipated recovery in fair value.

If it is determined that the impairment is other-than-temporary, the carrying value of the security is written down to fair value, and a loss is recognized through earnings. Included in Other income, the company recorded other-than-temporary impairment charges of $39,000 and $0 related to marketable equity securities during 2018 and 2017, respectively, with an estimated fair value at the time of impairment of $117,000 and $0, respectively.

NOTE 6. SEGREGATED ASSETS

Cash equivalents and securities available for sale with an aggregate estimated fair value of $648,763,000 and $1,229,529,000, respectively, were segregated at December 31, 2018, as required by law for a portion of deposits of subsidiary banks. At December 31, 2017, the aggregate estimated fair value of such segregated assets amounted to $62,961,000 of cash equivalents and $1,249,481,000 of securities available for sale.

NOTE 7. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31:

(In thousands)	**2018**	2017
Land	**$ 1,487**	$ 1,487
Building	**8,167**	7,620
Leasehold improvements	**64,573**	63,653
Computer software	**60,077**	57,496
Computer hardware	**22,036**	19,985
Furniture, fixtures, and office equipment	**24,724**	23,605
	181,064	173,846
Less — Accumulated depreciation and amortization	**(134,935)**	(120,867)
	$ 46,129	$ 52,979

NOTE 8. DEPOSITS

Deposits in the company's subsidiary banks consisted of the following at December 31:

(In thousands)	**2018**	2017
Demand deposits	**$ 259,474**	$ 196,425
Money market deposits	**3,107,444**	2,555,880
	$ 3,366,918	$ 2,752,305

Money market deposits relate to funds of trust department clients of the company's U.S. banking subsidiaries. Such funds are deposited with the company's subsidiary banks, Bessemer Trust Company, N.A. and Bessemer Trust Company.

NOTE 9. GOODWILL

Goodwill of $76,307,000 relates to the acquisition of all of the interests in Brundage, Story and Rose LLC, a privately held New York City–based investment advisory firm and the remaining interest in Fifth Avenue Alternative Investments LLC, a consolidated subsidiary engaged in organizing, sponsoring, and managing hedge fund investment vehicles. There has been no impairment of goodwill since these acquisitions were completed.

NOTE 10. BORROWINGS

The company has a secured revolving credit agreement, as amended, with a commercial bank for a line of credit up to $15,000,000 for general corporate and working capital purposes. The line of credit may be drawn upon as needed with interest at the greater of LIBOR plus 2.5% for interest periods at the company's option up to three months, or 4%. The company had no drawdowns against the line of credit during 2018 and 2017. The company pledged certain of its alternative investment funds with a fair value of $695,000 and $876,000 as of December 31, 2018, and 2017, respectively, which are recorded in Other assets, to secure the agreement.

NOTE 11. NET INTEREST INCOME

The components of net interest income for the years ended December 31 were as follows:

(In thousands)	**2018**	2017
Interest income:		
Cash equivalents	**$13,090**	$12,408
Securities available for sale	**20,597**	9,302
Loans	**29,168**	20,593
	62,855	42,303
Interest expense on deposits	**22,477**	9,703
Net interest income	**$40,378**	$32,600

NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS

The company uses derivative financial instruments, where appropriate, as part of its risk management activities and to meet the needs of its clients. Derivative financial instruments are recorded at fair value and included within Other assets and Other liabilities.

The company uses interest rate swaps to effectively reduce the interest rate risk on fixed rate term loans to clients. Swaps involve the exchange of fixed and floating interest payments between counterparties without the exchange of the underlying principal amounts. The interest rate spread is recognized over the life of the swap in net interest income and was not material during 2018 and 2017. At December 31, 2018, and 2017, the notional principal amounts of swaps amounted to $6,000,000, respectively. The related estimated fair value of the swap contracts was approximately $211,000 and $200,000 as of December 31, 2018, and 2017, respectively, and is included in Other assets.

Forward foreign currency contracts are agreements between two parties to purchase or sell foreign currencies at negotiated forward rates. At December 31, 2018, and 2017, respectively, the notional principal amounts of forward foreign currency contracts amounted to $6,963,000. The company entered into bilateral over-the-counter contracts not formally designated as accounting hedges. The fair value of the derivative asset and liability was $272,000 each and $268,000 each as of December 31, 2018, and 2017, respectively. Realized and unrealized gains and losses on forward foreign currency contracts are included in Other income.

NOTE 13. OTHER INCOME

As manager of certain alternative asset fund portfolios, the company may receive incentive fees or carried interest from these funds upon exceeding performance thresholds. The company records income from incentive fees when earned and carried interest when the likelihood of clawback is improbable and cash has been distributed. Included in Other income are investment performance incentive fees of $55,000 and $5,778,000 and carried interest of $150,000 and $1,633,000 during 2018 and 2017, respectively.

NOTE 14. RELATED-PARTY TRANSACTIONS

Revenues and expenses for the years ended December 31, 2018, and 2017 include the following transactions with Bessemer Securities LLC and subsidiaries ("BSLLC"), a private investment company with ownership similar to that of the company:

(In thousands)	**2018**	2017
Revenues — Fees received from BSLLC for investment advisory and custody services	**$3,741**	$3,520
Expenses reimbursed by BSLLC:		
Occupancy costs	**$1,304**	$1,304
Allocated direct costs for various services provided, reported by the company as a reduction of other expenses	**2,259**	2,108
Expenses reimbursed by BSLLC	**$3,563**	$3,412

Included in the statements of financial condition are money market deposit liabilities to BSLLC of $276,654,000 and $131,968,000 at December 31, 2018, and 2017, respectively.

NOTE 15. COMMITMENTS AND CONTINGENCIES

The company and certain of its subsidiaries lease office space under non-cancellable leases expiring between 2020 and 2041, some of which are subject to renewal options for an additional five years. Certain leases contain provisions for periodic escalations. Rent expense, including escalations under certain leases, was $28,480,000 and $28,030,000 in 2018 and 2017, respectively. The approximate minimum total annual rentals (in thousands) under these leases (exclusive of a reduction for subleases aggregating $3,786,000) at December 31, 2018, were as follows:

2019	$ 28,361
2020	27,858
2021	27,377
2022	35,578
2023	35,530
Thereafter	571,813
	$726,517

The table above includes the lease entered during 2018 for the company's new headquarters in New York City. Build-out and relocation are scheduled for completion in 2021.

The company is contingently liable for outstanding standby letters of credit of $14,471,000 at December 31, 2018, issued on behalf of customers. The company holds customers' marketable securities, fully securing such commitments.

In the ordinary course of business, the company is subject to litigation, claims, and proceedings. Management, after consultation with legal counsel, does not anticipate these matters to have a material adverse effect on the consolidated financial statements of the company.

NOTE 16. INCOME TAXES

The components of the provision/(benefit) for income taxes for the years ended December 31 were as follows:

(In thousands)	**2018**	2017
Current:		
Federal	**$ —**	$ —
State and local	**15,428**	5,761
Foreign	**104**	89
	15,532	5,850
Deferred:		
Federal	**—**	—
State and local	**(2,850)**	617
Foreign	**(4)**	16
	(2,854)	633
	$ 12,678	$ 6,483

The company, as a Subchapter S corporation, does not expect to incur federal income taxes. The company will continue to incur corporate income taxes at certain state and local levels. The total income tax provision differs from that which would be computed using the statutory federal rate due to the company's S corporation election and state, local, and foreign income taxes, including changes to state allocation factors. The Tax Cuts and Jobs Act, which provided significant tax reform, was enacted on December 22, 2017. The impact of the new tax law was not material to the company.

The elements of the net deferred tax assets recorded in Other assets at December 31, 2018, and 2017 were as follows:

(In thousands)	**2018**	2017
Deferred tax assets	**$ 23,994**	$ 26,999
Deferred tax liabilities	**(7,837)**	(13,345)
Net deferred tax assets	**$ 16,157**	$ 13,654

The net deferred tax assets relate to state and local income taxes and reflect the tax effects of temporary differences in the recognition of income and expense for income tax and financial reporting purposes. The principal items generating such temporary differences relate to deferred compensation, employee benefit plans, unrealized appreciation/depreciation of securities available for sale, differences between the basis of premises and equipment, and goodwill. No valuation allowance was deemed necessary with regard to deferred tax assets.

The company recognizes tax positions in the 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. An asset or a liability is established for differences between positions taken in a tax return and amounts recognized in the financial statements. With respect to uncertain income tax positions, management does not expect any material changes during the next 12 months to the estimated amount of unrecognized income tax benefits existing at December 31, 2018. The company recognizes interest and penalties related to unrecognized income tax benefits within the Provision for income taxes. Accrued interest and penalties are included within Accrued expenses and other liabilities.

The company's major income tax jurisdictions are New York State, New York City, and New Jersey. In the normal course of business, the company is subject to examination by federal, state, and local jurisdictions, where applicable. As of December 31, 2018, the company's federal and New York State income tax returns that remain subject to examination under the statute of limitations are from 2015 forward. The tax years that remain subject to examination by other major tax jurisdictions under the statute of limitations are New York City from 2016 forward and New Jersey from 2014 forward.

NOTE 17. EMPLOYEE BENEFIT PLANS

All eligible employees of the company are included in qualified, and in some instances non-qualified, defined contribution and non-contributory pension (defined benefit) plans. The total expense for the defined contribution plans was $37,510,000 and $33,128,000 in 2018 and 2017, respectively. The company provides pension plan benefits based on the participant's years of service and average final compensation, as defined, for employees hired prior to July 1, 2006. Effective January 1, 2012, the defined benefit pension plan was amended to permanently freeze accruals of defined benefits for services of plan participants rendered after 2011. Current participants are fully vested but increases in their future compensation and years of service after December 31, 2011, will not impact the amount of their benefits. The pension plan will continue to pay benefits, invest assets, and receive contributions. The company provides other defined benefits for post-retirement medical insurance coverage ("Other benefits"), in excess of Medicare, to employees hired prior to January 20, 2005, and retiring directly from the company, who meet service and other requirements.

The company recognizes the funded status of a defined benefit plan in the statement of financial condition and the changes in that funded status in the year in which the changes occur through comprehensive income. Unrecognized actuarial gains and losses and prior service costs, net of tax, are recognized in Accumulated other comprehensive loss and adjusted as they are subsequently recognized as components of net defined benefit expense.

The following table reflects key information with respect to the company's defined benefit plans (dollars in thousands):

	Pension Benefits		Other Benefits	
	2018	2017	**2018**	2017
Benefit expense during the year	**$ 697**	$ 1,408	**$ 1,399**	$ 1,117
Employer contribution during the year	**2,817**	5,095	**1,023**	984
Benefits paid during the year	**6,272**	6,252	**1,197**	1,155
Projected benefit obligation at December 31:	**$163,879**	$178,438	**$ 32,402**	$ 35,313
Fair value of qualified plan assets at December 31:	**96,362**	104,428	**—**	—
Funded status at December 31:	**$ (67,517)**	$ (74,010)	**$ (32,402)**	$(35,313)
Accumulated benefit obligation at December 31:	**$163,879**	$178,438		
Amounts recognized in the statement of financial condition at December 31:				
Assets	**$ —**	$ —	**$ —**	$ —
Liabilities	**(67,517)**	(74,010)	**(32,402)**	(35,313)
Net amounts recognized	**$ (67,517)**	$ (74,010)	**$ (32,402)**	$(35,313)
Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rate — qualified plan	**4.40%**	3.81%	**—**	—
Discount rate — non-qualified plan	**4.22%**	3.54%	**4.42%**	3.84%
Rate of compensation increase	**—**	—	**—**	—
Weighted-average assumptions used to determine net periodic benefit cost during the year:				
Discount rate — qualified plan	**3.81%**	4.38%	**—**	—
Discount rate — non-qualified plan	**3.54%**	4.00%	**3.84%**	4.43%
Expected long-term return on plan assets	**6.75%**	6.75%	**—**	—
Rate of compensation increase	**—**	—	**—**	—

The projected benefit obligation for pension benefits includes both qualified plan and non-qualified plan obligations. In addition to qualified plan assets, general corporate assets have been set aside in a Grantor Trust to cover expected benefits payable under the non-qualified pension plan. The value of these assets amounted to $11,434,000 and $11,071,000 at December 31, 2018, and 2017, respectively.

The assumed health care cost trend rate is 8.15% pre-Medicare and 6.85% post-Medicare in 2018 and is estimated at 8.15% in 2019, decreasing gradually to 4.75% in 2026 and remaining at that approximate level thereafter.

The expected long-term rate of return assumptions represent the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The assumptions have been determined by reflecting expectations regarding future rates of return for the portfolio considering the asset allocation target and related historical rates of return. The rate of return assumptions are reassessed on an annual basis. The expected long-term rate of return on plan assets is estimated to be 6.75% in 2019.

Benefit expense for 2019 is expected to include the following estimated amounts (in thousands) related to the amortization of net actuarial loss and prior service credit from Accumulated other comprehensive loss:

	Pension Benefits	Other Benefits
Net actuarial loss	$1,527	$ 725
Prior service credit	—	(1,590)

The company's objective is to achieve a competitive long-term return, consisting of capital appreciation and current income, investing in broadly diversified assets without assuming undue risk. Asset allocation is subject to review by the company's Retirement Board and is consistent with the standard balanced growth with hedge funds allocation model available to clients. The qualified pension plan's asset allocation at December 31 was as follows:

	Target Allocation	**2018**	2017
Equity securities	40–75%	**60%**	64%
Fixed income securities	20–45%	**28%**	24%
Alternative assets	0–15%	**10%**	10%
Other assets	0–15%	**2%**	2%

The company uses the framework and techniques described in Note 21 when determining the fair value of its qualified plan investments. The following table presents qualified plan assets carried at fair value as of December 31, 2018, and 2017 by valuation hierarchy:

(In thousands)	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
2018:				
Equity securities	**$40,578**	**$ —**	**$ —**	**$40,578**
Fixed income securities	**4,072**	**—**	**—**	**4,072**
Other assets	**185**	**—**	**—**	**185**
	$44,835	**$ —**	**$ —**	**$44,835**
2017:				
Equity securities	$47,074	$ —	$ —	$47,074
Fixed income securities	4,192	—	—	4,192
Other assets	—	—	—	—
	$51,266	$ —	$ —	$51,266

The investments in equity and fixed income securities in the table above include investments made through open-end mutual funds.

The table above excludes plan assets in collective employee benefit funds and alternative asset investments that are measured using the net asset value per share as a practical expedient. The fair value of collective employee benefit funds at December 31, 2018, and 2017 amounted to $39,989,000 and $40,888,000, respectively, and are not classified within the fair value hierarchy. The fair value of alternative asset investments at December 31, 2018, and 2017 amounted to $10,102,000 and $10,327,000, respectively, and are not classified within the fair value hierarchy. The table above also excludes the fair value of short-term financial instruments, primarily cash equivalents, at December 31, 2018, and 2017 that approximated their carrying amount of $1,364,000 and $1,947,000, respectively.

The projected unit credit method is used to determine both pension cost and funding requirements for the pension plans. The benefit plans are funded with the amounts necessary to meet the legal or contractual minimum funding requirements. For 2019, the company expects to contribute $4,300,000 and $1,136,000 to the pension benefit plans and the other benefits plan, respectively.

Other benefit payments reflect expected future service. The following pension benefit payments and other benefit payments are expected to be made for the years ending December 31 (in thousands):

	Pension Benefits	Other Benefits
2019	$ 7,382	$ 1,136
2020	7,381	1,207
2021	7,585	1,293
2022	8,419	1,393
2023	8,922	1,526
Years 2024–2028	47,635	9,423

NOTE 18. LONG-TERM INCENTIVE PLANS

Under the Earnings Based Plan ("EBP"), designated senior officers of the company earned cash awards based on certain measures of each year's earnings, as defined. Amounts earned under the EBP are paid over a four-year period. The (benefit)/provision for the EBP was $(20,000) and $2,998,000 in 2018 and 2017, respectively, and is included in Employee compensation and benefits. The benefit for EBP in 2018 resulted from forfeitures and changes in market levels for benefit payments in excess of the remaining award provision. Effective December 31, 2015, no future awards will be earned under the EBP, and prior awards will continue to vest and be paid in accordance with the EBP. The termination of the EBP will be completed after remaining benefit payments are concluded in early 2019.

NOTE 19. SHAREHOLDERS' EQUITY

Common stock and surplus consisted of the following at December 31:

(In thousands)	**2018**	2017
Common stock, no par value:		
Voting — authorized 477,100 shares, issued and outstanding 477,069 shares	**$ 477**	$ 477
Class A non-voting — authorized 1,911,000 shares, issued 1,902,782 shares and outstanding 1,892,407 shares in 2018 and 1,892,507 shares in 2017	**1,903**	1,903
Class B non-voting — authorized 1,500,000 shares, issued 1,159,609 shares and outstanding 136,126 shares in 2018 and 137,876 shares in 2017	**1,160**	1,160
	3,540	3,540
Surplus	**79,565**	79,578
	$83,105	$83,118

In accordance with federal and state banking laws, directors of national banks or trust companies are required to own a minimum interest in such banks' common stock. In connection with the retirement and election of certain directors of its national bank or trust company subsidiary during 2018 and 2017, the company repurchased and issued directors' qualifying shares of Class A non-voting common stock (no par value) at the company's then-prevailing book value per share. The company subsequently retired the repurchased shares, which resumed the status of authorized and unissued shares.

During 2018, the company purchased at fair value and held in treasury 1,750 shares of its Class B non-voting common stock (no par value) for $299,000 in cash. During 2017, the company purchased at fair value and held in treasury 45,400 shares of its Class B non-voting common stock (no par value) for $6,913,000 in cash.

Under provisions of applicable banking regulations, approval by the regulatory authorities is required if dividends declared by the company's subsidiary banks exceed a defined amount. Approximately $132,860,000 of the company's consolidated Retained earnings of $443,059,000 at December 31, 2018, relate to retained earnings of the banks, which were not available, without such approval, for the payment of dividends to The Bessemer Group, Incorporated, the sole shareholder. In addition, it is company policy to retain sufficient earnings in the banks so as to meet capital requirements related to planned growth in banking and fiduciary assets.

NOTE 20. ACCUMULATED OTHER COMPREHENSIVE LOSS

Other comprehensive income/(loss) consisted of the following activity:

(In thousands)	Amount Before Taxes	Income Tax Effect	Amount Net of Taxes
2018:			
Net unrealized gains on securities available for sale:			
Change in net unrealized gains	**$ (1,176)**	**$ 325**	**$ (851)**
Less — net realized losses/(gains) included in net income	**26**	**(9)**	**17**
Pension and other post-retirement benefit adjustments:			
Change in net actuarial loss	**9,249**	**(779)**	**8,470**
Change in prior service credit	**(1,590)**	**112**	**(1,478)**
Other comprehensive income	**$ 6,509**	**$ (351)**	**$ 6,158**
2017:			
Net unrealized gains on securities available for sale:			
Change in net unrealized gains	$ 1,159	$ (121)	$ 1,038
Less — net realized gains included in net income	(1,302)	57	(1,245)
Pension and other post-retirement benefit adjustments:			
Change in net actuarial loss	(8,184)	859	(7,325)
Change in prior service credit	(1,589)	129	(1,460)
Other comprehensive loss	$ (9,916)	$ 924	$ (8,992)

The components of Accumulated other comprehensive loss, net of taxes, at December 31 were as follows:

(In thousands)	**2018**	2017
Net unrealized gains on securities available for sale	**$ 1,830**	$ 2,664
Pension and other post-retirement benefit adjustments:		
Net actuarial loss	**(72,578)**	(81,827)
Tax benefit on net actuarial loss	**8,109**	8,888
Prior service credit	**3,179**	4,769
Tax provision on prior service credit	**(643)**	(755)
	$(60,103)	$(66,261)

NOTE 21. FAIR VALUE MEASUREMENT

Fair value is the price 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 under current market conditions. Fair value measurement is achieved using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

The three levels are defined as follows:

Level 1 — Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that the company can access at the measurement date.

Level 2 — Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The company's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the financial instrument that a market participant may use.

The following table presents financial instruments measured at fair value on a recurring basis that are required to be classified within the valuation hierarchy as of December 31, 2018, and 2017 by valuation hierarchy:

(In thousands)	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
2018:				
Securities available for sale:				
Debt obligations of:				
U.S. Treasury and Government Agencies	**$674,980**	**$503,479**	**$ —**	**$1,178,459**
States and political subdivisions	**—**	**101,959**	**—**	**101,959**
Marketable equity securities	**27,937**	**—**	**—**	**27,937**
	702,917	**605,438**	**—**	**1,308,355**
Other investments:				
Marketable equity securities	**115,196**	**—**	**—**	**115,196**
Other assets:				
Derivative assets	**—**	**483**	**—**	**483**
Total assets measured at fair value	**$818,113**	**$605,921**	**$ —**	**$1,424,034**
Other liabilities:				
Derivative liabilities	**$ —**	**$ 272**	**$ —**	**$ 272**
Total liabilities measured at fair value	**$ —**	**$ 272**	**$ —**	**$ 272**
2017:				
Securities available for sale:				
Debt obligations of:				
U.S. Treasury and Government Agencies	$482,301	$710,972	$ —	$1,193,273
States and political subdivisions	—	90,403	—	90,403
Marketable equity securities	28,128	—	—	28,128
	510,429	801,375	—	1,311,804
Other investments:				
Marketable equity securities	130,028	—	—	130,028
Other assets:				
Derivative assets	—	468	—	468
	$640,457	$801,843	$ —	$1,442,300
Other liabilities:				
Derivative liabilities	$ —	$ 268	$ —	$ 268
Total liabilities measured at fair value	$ —	$ 268	$ —	$ 268

Marketable equity securities in the table on the preceding page primarily include holdings in various publicly traded, open-end mutual funds offered by Old Westbury Funds, Inc. or Old Westbury (Cayman) Funds SPC. The mutual funds invest in a variety of asset classes, including equities and fixed income securities. The investment advisor for these funds is a subsidiary of the company.

Other investments represent corporate assets that are available to fund future obligations under certain of the company's retirement and incentive compensation plans.

Following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Where quoted prices are available in an active market for the specific securities, such securities are classified in Level 1 of the valuation hierarchy. Level 1 securities included highly liquid U.S. Treasury securities, exchange-traded equities, open-ended mutual funds, and index funds.

If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Such securities are classified within Level 2 of the valuation hierarchy. If listed prices or quotes are not available, fair value is based upon models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates, and credit curves. In addition to market information, models also incorporate transaction details, such as maturity. Examples of such instruments generally classified within Level 2 of the valuation hierarchy are discounted government agency notes with remaining maturities under one year, government-sponsored agency bonds, municipal bonds, and derivative assets and liabilities (interest rate swaps and forward foreign currency contracts). Not classified within the valuation hierarchy are collective employee benefit funds (held within the qualified plan for pension benefits), which are valued at the funds' net asset values. The collective employee benefit funds can be redeemed monthly with a redemption notice of three business days and principally invest in a diversified portfolio of large-capitalization equities of U.S. and non-U.S. companies, as well as investment-grade bonds and notes.

In certain cases where there is limited activity or less transparency around inputs to the valuation, investments are classified within Level 3 of the valuation hierarchy. No assets classified as Level 3 under the fair value hierarchy were outstanding as of December 31, 2018, and 2017.

The table on the preceding page excludes certain assets that are measured at fair value using net asset value per share as a practical expedient. Included within Other assets on the statement of financial condition are alternative investment funds, which are not classified in the fair value hierarchy. The valuation of alternative investment funds requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. The fair value of alternative investment funds was determined based upon information provided monthly by each of the underlying alternative investment fund managers. Due to the inherent uncertainty as to valuations for alternative investment funds, the fair values determined by management may differ from the fair values that would have been used had a ready market for these investments existed, and the differences could be material.

The fair values of alternative investment funds have been estimated using the net asset values of the Company's ownership interest in the funds as a practical expedient. Such investments consist of the following at December 31, 2018, and 2017:

(In thousands)	**2018**	2017
Fifth Avenue private equity funds	**$1,084**	$1,334
Fifth Avenue real asset funds	**342**	425
	$1,426	$1,759

Fifth Avenue private equity funds and Fifth Avenue real asset funds are closed-end investments and are not subject to redemptions. Instead, distributions are expected to be received following the sale of the underlying assets of the partnerships over time.

At December 31, 2018, unfunded commitments in Fifth Avenue private equity funds and Fifth Avenue real asset funds amounted to $107,000 and $234,000, respectively. Additional information on the investment objectives and strategies follows.

Fifth Avenue private equity funds include investments in several limited liability companies that invest in private capital and venture capital–type investments. Fifth Avenue real asset funds include investments in limited liability companies formed to invest in global commercial real estate and other private real assets, including, but not limited to, power and energy, oil and gas, and infrastructure through private equity funds and direct investments.

The company's other financial instruments include cash and cash equivalents, loans, receivables, and deposits. The fair value of these other financial instruments has been determined to approximate their carrying amount since these instruments are short-term in nature and, to the extent they bear interest, are floating rate and are repriced to market interest rates on a quarterly or more frequent basis. The estimated fair value amounts have been determined by the company's management, using available market information and appropriate valuation methodologies. The difference between estimated fair value and carrying amount was not material. However, considerable judgment is required in interpreting market data to develop estimates of fair value and, therefore, the estimates included above are not necessarily indicative of the amounts that the company could realize in a current market exchange.

NOTE 22. CAPITAL REQUIREMENTS

The company and its subsidiary banks are subject to the capital adequacy rules of U.S. regulators. As of December 31, 2018, management believes that the company and its subsidiary banks meet all capital adequacy requirements to which they are subject. The primary regulators of the company and its subsidiary banks in the U.S. categorized each respective institution as well capitalized under the regulatory framework for prompt corrective action. There have been no subsequent conditions or events since December 31, 2018, that would change the well-capitalized categorization.

Quantitative measures established by regulation to ensure capital adequacy require the company and its subsidiary banks to maintain minimum amounts and ratios of Total, Common Equity Tier 1, and Tier 1 Capital to risk-weighted assets, and Tier 1 Capital to average assets, as defined by regulation. Based upon the capital structure of the company and its subsidiary banks, Common Equity Tier 1 Capital equals Tier 1 Capital. In the event of future noncompliance, the regulators are empowered to initiate actions that, if undertaken, could have a direct material effect on the company's consolidated financial statements. The actual measures for the company and its subsidiary banks at December 31, 2018, and 2017 follow:

			Ratios		
(In thousands)	Total Capital Amount	Common Equity Tier 1 and Tier 1 Capital Amounts	Total Capital to Risk-Weighted Assets	Common Equity Tier 1 and Tier 1 Capital to Risk-Weighted Assets	Tier 1 Capital to Average Assets
2018:					
Consolidated	**$352,835**	**$351,423**	**22.4%**	**22.3%**	**11.2%**
Bessemer Trust Company	**73,859**	**73,084**	**22.4%**	**22.2%**	**10.7%**
Bessemer Trust Company, N.A.	**179,310**	**179,310**	**21.7%**	**21.7%**	**8.2%**
2017:					
Consolidated	$322,392	$319,864	20.8%	20.7%	10.5%
Bessemer Trust Company	71,145	69,997	23.3%	22.9%	8.6%
Bessemer Trust Company, N.A.	157,485	157,485	19.3%	19.3%	8.0%

The following table presents the regulatory minimum and well-capitalized ratios at December 31, 2018, and 2017:

	Minimum Capital Ratios	Well-Capitalized Ratios
Total Capital	**8%**	**10%**
Common Equity Tier 1 Capital	**4.5%**	**6.5%**
Tier 1 Capital	**6%**	**8%**
Tier 1 Capital to Average Assets	**4%**	**5%**

NOTE 23. SUBSEQUENT EVENTS

The company evaluated subsequent events through March 15, 2019, the date on which the consolidated financial statements were available to be issued. The company has determined that there were no subsequent events that require recognition or disclosure in the consolidated financial statements.

Independent Auditors' Report

To the Board of Directors and Shareholders of The Bessemer Group, Incorporated

We have audited the accompanying consolidated financial statements of The Bessemer Group, Incorporated and subsidiary companies (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in shareholders' 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 the 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 Company'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 The Bessemer Group, Incorporated and subsidiary companies as of December 31, 2018 and 2017, 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

March 15, 2019

Five-Year Comparative Summary

RESULTS OF OPERATIONS *(In thousands, except per share data)*	**2018**	2017	2016	2015	2014
REVENUES					
Fees from client services	**$ 549,514**	$ 508,724	$ 450,983	$ 446,550	$ 422,319
Net interest income	**40,378**	32,600	23,364	19,496	18,646
Other income/(loss)	**8,335**	16,236	11,092	6,552	9,544
Total Revenues	**598,227**	557,560	485,439	472,598	450,509
EXPENSES					
Employee compensation and benefits	**318,811**	295,974	267,838	256,553	246,085
Other expenses	**139,323**	138,440	133,392	132,523	118,139
Total Expenses	**458,134**	434,414	401,230	389,076	364,224
INCOME					
Income before provision for income taxes	**140,093**	123,146	84,209	83,522	86,285
Provision for income taxes	**12,678**	6,483	8,651	8,411	13,152
Net income	**$ 127,415**	$ 116,663	$ 75,558	$ 75,111	$ 73,133
Basic earnings per share	**$ 50.84**	$ 46.36	$ 29.58	$ 29.12	$ 27.85
DISTRIBUTIONS TO SHAREHOLDERS					
For income taxes (per share)	**$ 28.29**	$ 20.96	$ 16.02	$ 16.85	$ 16.91
From earnings (per share)	**$ 9.57**	$ 7.90	$ 5.50	$ 5.58	$ 5.59
FINANCIAL CONDITION AT DECEMBER 31					
Assets	**$4,064,845**	$3,413,062	$4,010,995	$3,505,698	$3,293,803
Liabilities	**3,702,878**	3,089,468	3,715,506	3,225,573	3,025,830
Shareholders' equity	**$ 361,967**	$ 323,594	$ 295,489	$ 280,125	$ 267,973
Book value per share	**$ 144.46**	$ 129.05	$ 115.75	$ 109.40	$ 102.22

Board of Directors, Senior Officers, and Office Locations

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Managing Partner
Jasper Ridge Partners

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Area Director of Finance
Four Seasons Hotels

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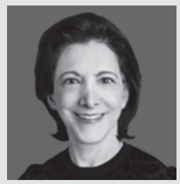
Founding Co-Partner
Snow Phipps Group



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Former Managing Director
Corporate Finance
Morgan Stanley

William F. Ruprecht
Former Chairman,
President, & Chief
Executive Officer
Sotheby's

Marc D. Stern
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Bessemer Trust

William C. Trimble, III §
Chief Executive Officer,
President, & Director
Easterly Government
Properties

Michael A. Vlasic §
Principal
NBT Investments

§ Member of the Audit Committee.

* Lewis M. Linn retired from the Board of Directors in 2018. Michael H. Bynum was elected to the Board of Directors as of January 2019.

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Chief Executive Officer

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Scott M. Lillis

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