



Butterfield

ANNUAL REPORT 2014

THE BANK OF N.T. BUTTERFIELD & SON LIMITED

BUTTERFIELD IN 2014

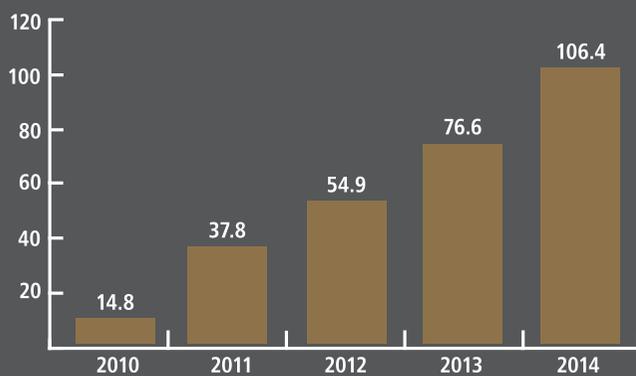


CORE BUSINESSES:
 ■ Community Banking
 ■ Wealth Management

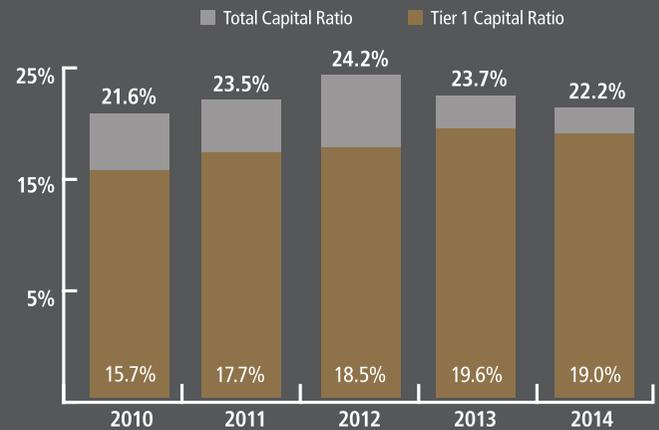
Assets: \$9.9 billion
 Employees: 1,164



CORE NET INCOME (IN \$ MILLIONS)



CAPITAL



AWARDS



Net-Worth-Specific Services for Super Affluent Clients
CAYMAN ISLANDS

Succession Planning Advice and Trusts
GUERNSEY



Find out more at
www.butterfieldgroup.com

MESSAGE FROM THE CHAIRMAN & CHIEF EXECUTIVE OFFICER

Dear Shareholders,

Butterfield delivered strong results in 2014, generating core earnings of \$106.4 million, or \$0.17 per share, which represent improvements of 39% and 55% over 2013, respectively. Return on shareholders' equity, as measured by core cash return on average tangible common equity, was 15.1%, up from 10.3% the previous year.

Following the Bank's recapitalisation five years ago, Butterfield has posted core profits and continued to build capital with each successive year. Today, Butterfield is on a very solid footing, with a strong capital position and ample liquidity. Our core earnings are sustainable and growing. Our asset quality continues to improve.

Butterfield has achieved these results against a backdrop of low interest rates and lagging economic recovery in our key markets, which has continued to suppress demand for loans and limit some transaction volumes. Our progress, therefore, is owed principally to our internal focus on expanding our core businesses to create value, rather than an external, macroeconomic lift.

CREATING SUSTAINABLE VALUE

Our strategy for growth is centred on the development of our core businesses in existing markets, coupled with diligent management of expenses, capital and risks.

In April, Butterfield completed the acquisition of Legis Group's Guernsey-based trust and corporate services business. The acquired personnel and clientele are complementary to our existing trust business in Guernsey—where Butterfield has operated for more than 40 years—and have added scale and expertise to our operations without the need for expansion of premises or significant infrastructure investment. The Legis acquisition has been accretive to revenue and earnings, contributing significantly to the \$8.8 million increase in non-interest income during 2014.

Late in the year, Butterfield also expanded its presence in the Cayman Islands—the Bank's second largest market—by completing the acquisition of select deposit and credit business from HSBC, which has exited the community banking business locally. With the onboarding of more than 3,800 new accounts, Butterfield has added approximately \$0.5 billion of deposits, enhancing our lending capabilities and providing us with economies of scale that will continue to drive our long-term growth in the market.

The acquisitions contributed to a modest increase in core operating expenses of \$3.2 million during the year, but we saw our core efficiency ratio improve to 67.7%, better by 390 basis points than 2013. Expenses as a percentage of revenues continue to trend downwards as we experience efficiencies from the installation of common core banking platforms in Bermuda/Cayman and Europe, and the centralisation of key functions, as well as continued diligence in the maintenance of staffing levels as revenues rise.

Looking forward, Butterfield will continue to seek to deploy excess capital through organic growth and prudent acquisitions in our core business areas—community banking and wealth management—in locations where we have a substantial market presence and history, and a depth of expertise. In this way, we will continue to create sustainable value for our shareholders.

“Butterfield is on a very solid footing, with a strong capital position and ample liquidity. Our core earnings are sustainable and growing. Our asset quality continues to improve.”

IMPROVING ASSET QUALITY

In 2014, Butterfield completed the sales of two hotel properties in Bermuda that were in receivership. Those transactions contributed to a 31% reduction of gross non-accrual loans to \$71.8 million, or 1.8% of total gross loans, from \$104.1 million, or 2.5% of total gross loans, in 2013.

Reflective of the protracted economic recovery affecting credit demand, loan run-offs exceeded gross loans written in Bermuda in 2014. Combined with the impact of unfavourable foreign exchange movements, offset by the acquisition of HSBC Cayman loans, the Group loan portfolio decreased by \$69 million year over year. Over the same period, the

Bank's investment portfolio grew by \$400 million to \$3.0 billion, 99.8% of which was invested in A-or-better-rated securities.

EFFECTIVELY MANAGING CAPITAL

Earnings growth has driven organic growth of capital and, at year-end 2014, Butterfield's Tier 1 and Total capital ratios were 19.0% and 22.2%, respectively, well in excess of requirements.

During the year, the Bank called a \$90 million tranche of subordinated debt, which lowered our annual debt interest expense. We also continued to repurchase shares and provided direct returns to shareholders in the form of dividends. The Bank repurchased \$17 million of common shares and \$0.7 million of preference shares during the year, and paid common dividends totalling \$0.05 per share, or \$27 million. Subsequent to year end, the Board declared interim (fourth quarter) and special common dividends of \$0.01 each to be paid to common and contingent value convertible preference shareholders during the first quarter of 2015.



RESPONDING TO REGULATORY CHANGES

Butterfield devoted significant time and resources in 2014 to developing an effective set of procedures and systems to enable us to be fully compliant with the reporting requirements of the US Foreign Account Tax Compliance Act ("FATCA"). We view FATCA as an important first step in the ongoing process of improving transparency in international financial services centres, which will serve to benefit our industry.

We will continue to invest proactively in the development of internal procedures and controls to ensure that Butterfield is compliant with all applicable know-your-client, tax, and source-of-funds-related reporting requirements, and able to respond effectively and completely to information requests from our regulators.

BOARD MATTERS

Butterfield's 10-member Board and its various committees provide direction to and oversight of the management team as we work to effect progressive change and grow the Bank. Butterfield has benefited from a high degree of continuity of service among both independent and non-independent Directors, and in 2014 we had only one change of Director. In September, Victor Dodig retired from Butterfield's Board in advance of his appointment to the post of President & Chief Executive Officer of CIBC. Shawn Beber replaced Mr. Dodig as one of CIBC's representatives on the Board.

CONTRIBUTING TO OUR COMMUNITIES

At Butterfield, we take our commitment to corporate citizenship seriously and, with strong earnings and capital, we are able to provide support to worthy charities and programmes in the communities we call home. We provided donations, sponsorships and assistance to a range of non-profit organisations and community events in 2014, complete details of which are provided in the Community Involvement section of this Report, overleaf.

Reflecting on the successes of 2014, and looking ahead to another promising year in 2015, I would like to thank our employees for their ongoing dedication and contributions in meeting the needs of our clients. I look forward to working with them, and with my fellow Directors, as we continue to strengthen and grow the Bank for the benefit of our shareholders and the wider community.

Brendan McDonagh
Chairman & Chief Executive Officer

COMMUNITY INVOLVEMENT

At Butterfield, we recognise that our role within the communities in which we operate extends beyond providing financial services. Through our employees, who volunteer their time and skills to important causes, and through sponsorships and donations, Butterfield supports initiatives and organisations that are working to enhance prosperity, foster social progress and enrich the quality of the lives of people in our communities.

In 2014, Butterfield was pleased to provide support to the following organisations and events:

CULTURAL ORGANISATIONS & EVENTS

<p>Abbotsford Trust conserving Abbotsford House and its collections for the benefit of current and future generations (UK)</p>	<p>Cayman Carnival Batabano, the island's national carnival providing youth with a platform to express their creativity and celebrate their Caribbean heritage (Cayman Islands)</p>	<p>destination and supporting Cayman's aspiring filmmakers (Cayman Islands)</p>	<p>Guernsey Eisteddfod annual music, drama, dance and art festival (Guernsey)</p>	<p>National Children's Festival of the Arts Young Musician of the Year Award (Cayman Islands)</p>	<p>St. James Concert and Assembly Hall (Guernsey)</p>
<p>Bermuda National Trust Christmas Walkabout in St. George (Bermuda)</p>	<p>Cayman Drama Society promoting drama, music and allied arts, and producing dramatic and artistic entertainment (Cayman Islands)</p>	<p>Cayman National Cultural Foundation Young At Arts Programme, an educational youth programme including after-school theatre instruction (Cayman Islands)</p>	<p>Guernsey Sinfonietta concert (Guernsey)</p>	<p>National Gallery of the Cayman Islands promoting and encouraging the appreciation and practice of the visual arts of and in the Cayman Islands (Cayman Islands)</p>	<p>Simon Spillett Jazz Concert, an independently organised event to raise funds for the Saumarez Park playground (Guernsey)</p>
<p>Cayman Arts Festival bringing varied and diverse performances to Cayman to help entertain and educate (Cayman Islands)</p>	<p>Cayman International Film Festival promoting Cayman as a filmmaking</p>	<p>European Piano Teachers Association annual recital and concert (Guernsey)</p>	<p>Guernsey Symphonic Winds November performance (Guernsey)</p>	<p>Rocquaine Regatta community day (Guernsey)</p>	<p>TEDx Seven Mile Beach, an independently organised TED event devoted to sharing world-changing ideas (Cayman Islands)</p>

EDUCATION & INSTRUCTION

<p>Alpha Phi Alpha Fraternity providing mentoring to local students (Bermuda)</p>	<p>The Bermuda School of Music providing music education to the island (Bermuda)</p>	<p>Butterfield School Supply Drive providing supplies to children at 23 schools (Bermuda)</p>	<p>Kaleidoscope Arts Foundation, a community arts centre dedicated to teaching art to children (Bermuda)</p>	<p>The Menuhin Foundation dedicated to bringing the art of string playing to Bermuda's children (Bermuda)</p>	<p>Sir Dudley A. Spurling Postgraduate Scholarship awarded to Marlena Tucker (Bermuda)</p>
<p>Association of International Banks and Trust Companies Soft Skills Training Programme (The Bahamas)</p>	<p>Bermuda Zoological Society inspiring appreciation and care of island environments (Bermuda)</p>	<p>Butterfield Undergraduate Scholarship awarded to Alexandra Anglin (Cayman Islands)</p>	<p>Kiwanis Club Résumé Writing Workshop at the Ranfurly Home (The Bahamas)</p>	<p>Sir Harry D. Butterfield Scholarship awarded to Victoria Clarke (Bermuda)</p>	

SPORTS PROGRAMMES & SPORTING EVENTS

<p>Academy Sports Club youth football programme (Cayman Islands)</p>	<p>Cayman Islands Equestrian Federation providing training, organising competitions and working to prevent equine abuse (Cayman Islands)</p>	<p>Cayman Islands Gymnastics Foundation providing scholarships to young gymnasts to further their development within the sport (Cayman Islands)</p>	<p>Cayman Islands Squash Association junior squash programme (Cayman Islands)</p>	<p>Guernsey Sailing Trust enabling children from all walks of life to experience and enjoy sailing (Guernsey)</p>	<p>Cayman Islands Crisis Centre (Cayman Islands)</p>
<p>Butterfield Bermuda Grand Prix 2014 cycling event (Bermuda)</p>	<p>Cayman Islands Golf Association supporting youth participation in golf (Cayman Islands)</p>	<p>Cayman Islands Little League Association youth t-ball and baseball programme (Cayman Islands)</p>	<p>Freedom Farm Baseball League for children aged four to 18 (The Bahamas)</p>	<p>Guernsey Sports Association for the Disabled, an active club for people with learning or physical disabilities (Guernsey)</p>	<p>Swan Rendezvous Regatta yacht racing competition (Guernsey)</p>
<p>Cayman Islands Basketball Association (Cayman Islands)</p>		<p>Cayman Islands Sailing Club providing youth sailing instruction (Cayman Islands)</p>	<p>Guernsey Disability Football Club, a Special Olympics-affiliated club (Guernsey)</p>	<p>St. Patrick's Day 5K Irish Jog supporting the</p>	<p>The Rock International Open (TRIO) kitesurfing competition (Cayman Islands)</p>
					<p>Tigers Football Club youth football team (Cayman Islands)</p>



HEALTH & HUMAN SERVICES

Addington Fund providing homes for farming families who have left the industry and lost their homes (UK)

AFASIC supporting parents and representing children with speech, language and communication needs (UK)

All Saints Camp of St John the Divine, a refuge for people with HIV/AIDS (The Bahamas)

The Back Up Trust supporting individuals who suffer from spinal cord injuries (UK)

Bahamas Crisis Centre providing services to victims of abuse (The Bahamas)

BBC Children In Need funding projects for disadvantaged youth (UK | Guernsey)

Big Brothers Big Sisters of Bermuda helping children of single-parent homes realise their potential (Bermuda)

Bilney Lane Children's Home, an orphanage and foster home for children aged five to 18 (The Bahamas)

Breast Cancer Foundation raising funds to support the fight against breast cancer (Cayman Islands)

The Royal British Legion providing practical, emotional and financial support to all members of the British Armed Forces past and present, and their families (UK | Guernsey)

Cancer Research UK funding research and providing information to the public to help beat cancer sooner (UK | Guernsey)

Cayman Heart Fund developing programmes to reduce and prevent cardiovascular disease (Cayman Islands)

Cayman Islands Crisis Centre providing safe, temporary shelter for women and children and assistance to all victims of abuse (Cayman Islands)

Cayman Islands Hospice Care providing specialised nursing services and bereavement programmes (Cayman Islands)

Cayman Islands Red Cross protecting human dignity by helping vulnerable people in crisis (Cayman Islands)

Cayman Islands Veterans Association providing services and support to ex-servicemen and women (Cayman Islands)

The Charitable Foundation for Physically Handicapped Children responding to the health, education and other needs of physically challenged children (Bermuda)

Cheshire Home providing individual care and support for adults living with severe physical disabilities (Guernsey)

Children's Emergency Hostel providing temporary accommodation, food, clothing, medical care and other necessities to abandoned and neglected children (The Bahamas)

The Coalition for the Protection of Children working to ensure the rights and needs of children in Bermuda are met (Bermuda)

Deaf Access promoting the equality of deaf people (UK)

The Eliza DoLittle Society addressing the needs of Bermuda's homeless population (Bermuda)

Feed Our Future funding nutritionally balanced low cost or free meals to schoolchildren in need (Cayman Islands)

Friends of Hospice supporting Agape House and hospice care in Bermuda (Bermuda)

Great Ormond Street Hospital for Children dedicated to finding new and better ways to treat childhood illnesses (UK)

Guernsey Chest & Heart Foundation providing free health screening services for the prevention and treatment of respiratory and circulatory disease (Guernsey)

Guernsey Stroke Association supporting stroke patients and their families (Guernsey)

Guernsey Town Centre Partnership promoting the improvement, protection and preservation of St Peter Port (Guernsey)

Hands of Love Ministry providing feeding and clothing programmes for the community and employment and housing programmes for ex-prisoners (Bermuda)

Havens Hospices caring for individuals with life-limiting illnesses and their families (UK)

Help For Heroes supporting wounded servicemen and women and their families (Guernsey)

Juvenile Diabetes Research Foundation funding research to cure, treat and prevent type 1 diabetes (Guernsey)

LEPRA assisting people and communities affected by some of the world's oldest and most neglected diseases (UK)

Macmillan Cancer Support providing practical medical and financial support for better cancer care (UK)

Maggie's Centres offering practical, emotional, and social support for people with cancer (UK)

Maison St. Pierre providing accommodation and life-skills training for homeless women and their children (Guernsey)

Meals On Wheels delivering meals to seniors (Cayman Islands)

Mercury Phoenix Trust providing funding for the global battle against HIV/AIDS (Guernsey)

National Council of Voluntary Organisations dedicated to the care, education, and well-being of children and families in need (Cayman Islands)

North London Hospice caring for those with potentially life-limiting illnesses (UK)

The Packwood Home seniors' residence (Bermuda)

Pink Ladies Cancer Charity breast cancer support group (Guernsey)

Priaultx Premature Baby Foundation assisting the Neo Natal Unit and supporting families of premature babies (Guernsey)

The Ranfurly Home For Children providing a safe haven for orphaned, abused, neglected or abandoned children (The Bahamas)

Rotaract Club of Grand Cayman empowering students and young professionals to create positive change in their local communities (Cayman Islands)

Rotary Club End Polio Now Campaign (Guernsey)

St. John Ambulance & Rescue Service providing 24-hour accident and emergency cover and paramedic response and non-emergency patient transport (Guernsey)

St. Saviour Community Centre fostering community spirit through social, leisure and community events (Guernsey)

The Salvation Army meeting human needs and being a transforming influence in the community (Bermuda)

Saumarez Park Playground Appeal raising funds for a new adventure playground at Saumarez Park (Guernsey)

Save The Children working in 120 countries to save children's lives, fight for their rights and help them fulfil their potential (Guernsey)

Spitalfields Crypt Trust supporting people recovering from addiction (UK)

Stroke Association funding research for stroke prevention and treatment, and supporting stroke survivors (UK)

Wellbeing of Women dedicated to improving the health of women and babies across the UK (UK)

BOARD OF DIRECTORS & PRINCIPAL BOARD COMMITTEES

COMMITTEES INDICATED BY NUMBERS



1
CHAIRMAN
BRENDAN MCDONAGH
 Chief Executive Officer,
 The Bank of N.T. Butterfield & Son Limited



1,2,4
CAROLINE FOULGER*
 Retired Partner, PwC



1,3,5
VICE CHAIRMAN
BARCLAY SIMMONS*
 Managing Partner,
 Attride-Stirling & Woloniecki, Barristers & Attorneys



3,5
OLIVIER SARKOZY
 Managing Director and Head of The Carlyle Group's
 Global Financial Services Group



1,2,4
ALASTAIR BARBOUR*
 Retired Partner, KPMG



1,3,5
WOLFGANG SCHOELLKOPF*
 Managing Partner,
 PMW Capital Management



2,4
SHAWN BEBER
 Senior Vice-President,
 Strategy and Corporate Development, CIBC



1,3,5
RICHARD VENN
 Strategic Advisor,
 REV Advisory Ltd.



2,5
WENDALL BROWN*
 Chairman & President, BDC 2000



3,4
JOHN WRIGHT*
 Retired Bank Chief Executive

PRINCIPAL BOARD COMMITTEES

1. EXECUTIVE COMMITTEE OF THE BOARD OF DIRECTORS

Supports the Board in fulfilling its overall governance responsibilities.

2. AUDIT COMMITTEE

Oversees Butterfield's financial reports, internal financial controls, internal audit processes and compliance.

3. RISK POLICY AND COMPLIANCE COMMITTEE

Focuses on credit, market and operational risk.

4. CORPORATE GOVERNANCE COMMITTEE

Focuses on Directors' and Board Committee governance, performance and Directors' nominations.

5. COMPENSATION AND HUMAN RESOURCES COMMITTEE

Focuses on compensation and benefits, employee development and succession.

DIRECTORS' CODE OF PRACTICE AND CODES OF CONDUCT

The Directors have adopted a *Code of Best Practice* based upon recommended principles of corporate governance. In implementing the *Code*, the Board meets regularly, retains full effective control over the Bank, and monitors executive management. *Codes of Conduct & Ethics* apply to Directors and employees and impose Butterfield's principles of business, including ethics and conflicts of interest. Copies of the *Codes* can be accessed on www.butterfieldgroup.com.

*Independent, Non-Executive Director. On an annual basis, the Corporate Governance Committee ensures the appropriate composition of the Board and its Committees in accordance with the Group's Corporate Governance Policy. The assessment of the independence of a Director is based upon a number of factors including, but not limited to: whether he or she has been employed by the Group within the last five years; whether he or she has had, within the last three years, a material relationship with the Group; and whether he or she represents a significant shareholder.

GROUP EXECUTIVE MANAGEMENT

BRENDAN MCDONAGH
Chairman & Chief Executive Officer

MICHAEL COLLINS
Senior Executive Vice President
Bermuda

CONOR O'DEA
Senior Executive Vice President
International Banking

DANIEL FRUMKIN
Executive Vice President
Chief Risk Officer

DONNA HARVEY MAYBURY
Executive Vice President
Human Resources

JOHN MARAGLIANO
Executive Vice President
Chief Financial Officer

ROBERT MOORE
Executive Vice President
Head of Group Trust

SHAUN MORRIS
Executive Vice President
General Counsel, Group Chief Legal Officer

MICHAEL NEFF
Executive Vice President
Head of Group Asset Management

OWEN MARTIN
Senior Vice President
Group Internal Audit

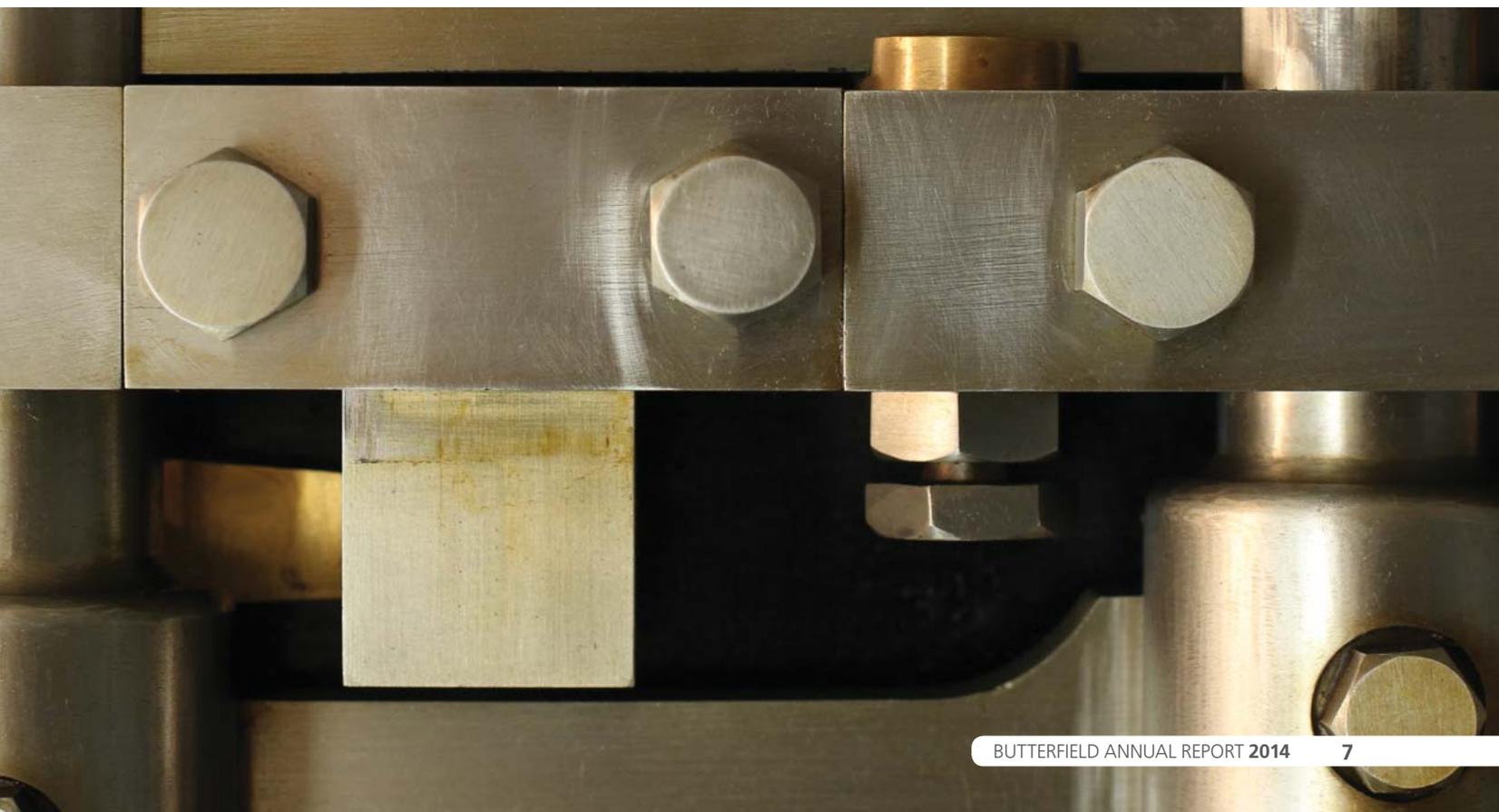


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2014

2015

MANAGEMENT'S DISCUSSION & ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The financial overview of results of operations and financial condition should be read in conjunction with our consolidated financial statements and the related notes. The consolidated financial statements and notes have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). All references to "Butterfield", the "Group" or the "Bank" refer to The Bank of N.T. Butterfield & Son Limited and its subsidiaries on a consolidated basis. Certain statements in this discussion and analysis may be deemed to include "forward looking statements" and are based on management's current expectations and are subject to uncertainty and changes in circumstances. Forward looking statements are not historical facts but instead represent only management's belief regarding future events, many of which by their nature are inherently uncertain and outside of management's control. Actual results may differ materially from those included in these statements due to a variety of factors, including worldwide economic conditions, success in business retention and obtaining new business and other factors.

PERFORMANCE MEASUREMENT

We use a number of financial measures to assess the performance of our business. Some measures are calculated in accordance with GAAP, while other measures do not have a standardised meaning under GAAP. Accordingly, these measures, described below, may not be comparable to similar measures used by other companies. Investors may however find these non-GAAP financial measures useful in analysing financial performance.

Return on Common Equity ("ROE")

ROE measures profitability by revealing how much profit is generated with the money invested by common shareholders. ROE is the amount of net income to common shareholders as a percentage of average common equity and calculated as Net Income to Common Shareholders / Average Common Equity. Net income is for the full fiscal year (before dividends paid to common shareholders but after dividends to preference shareholders). Common equity does not include the preference shareholders' equity.

Core Cash Return on Average Tangible Common Equity ("CCROTCE")

CCROTCE measures core cash profitability as a percentage of average tangible common equity. CCROTCE is the amount of core income to common shareholders excluding amortisation of intangible assets as a percentage of average tangible common equity and is calculated as Core Cash Earnings to Common Shareholders / Average Tangible Common Equity. Core cash earnings to common shareholders is net earnings to common shareholders for the full fiscal year (before dividends paid to common shareholders but after dividends to preference shareholders) adjusted for one-off items not in the ordinary course of business plus amortisation of intangible assets expensed in the year. Average tangible common equity does not include the preference shareholders' equity or goodwill and intangible assets.

Tangible Total Equity/Tangible Asset Ratio ("TE/TA")

TE/TA is used to determine how much loss the Bank can take before

subordinated debt capital is impacted. The TE/TA ratio is calculated as $(\text{Common Equity} + \text{Preferred Equity} - \text{Intangible Assets} - \text{Goodwill}) / \text{Tangible Assets}$. Tangible equity does not include goodwill or intangible assets. Tangible assets are the Bank's total assets from continuing operations less goodwill and intangibles.

Tangible Common Equity/Tangible Asset Ratio ("TCE/TA")

TCE/TA is used to determine how much loss the Bank can take before forms of capital other than common equity are impacted. The TCE/TA ratio is calculated as $(\text{Common Equity} - \text{Intangible Assets} - \text{Goodwill}) / \text{Tangible Assets}$. Tangible common equity does not include preference shareholders' equity or goodwill and intangible assets. Tangible assets are the Bank's total assets from continuing operations less goodwill and intangibles.

Total Capital Ratio

The Total capital ratio measures the amount of the Bank's capital in relation to the amount of risk it is taking. All banks must ensure that a reasonable proportion of their risk is covered by permanent capital. Under Basel II, Pillar I, banks must maintain a minimum Total capital ratio of 8%. In effect, this means that 8% of risk-weighted assets must be covered by permanent or near permanent capital. The risk weighting process takes into account the relative risk of various types of lending, financial instruments and other exposures. The higher the capital adequacy ratio a bank has, the greater the level of unexpected losses it can absorb before becoming insolvent.

Tier 1 Capital Ratio

The Tier 1 capital ratio is the ratio of the Bank's core equity capital, as measured under Basel II, to its total risk-weighted assets ("RWA"). RWA are the total of all assets held by the Bank weighted by credit risk according to a formula determined by the Regulator plus a component for operational risk. The Bank follows the Basel Committee on Banking Supervision ("BCBS") guidelines in setting formulae for calculation of the components of total RWA.

Tier 1 Common Ratio

The Tier 1 common ratio is the same as the Tier 1 capital ratio but excludes preference shareholders' equity in the numerator.

Return on Assets ("ROA")

ROA is an indicator of profitability relative to total assets and demonstrates how efficient management is at using the assets to generate earnings. The ROA ratio is calculated as Annual Net Income / Average Total Assets.

Core Cash Return on Average Tangible Assets ("CCROATA")

CCROATA is an indicator used to assess the core cash profitability of average tangible assets and demonstrates how efficiently management is utilising its tangible assets to generate core cash net income. CCROATA is calculated by taking the core income to common shareholders excluding amortisation of intangible assets as a percentage of average tangible assets and is calculated as Core Cash Earnings to Common Shareholders / Average Tangible Common Equity. Core net income is the net income adjusted for one-off items not in the ordinary course of business, annualised.

Net Interest Margin ("NIM")

NIM is a performance metric that examines how successful the Bank's investment decisions are compared to its cost of funding assets and is expressed as net interest income as a percentage of average interest-earning assets. NIM is calculated as Net Interest Income Before Provision for Credit Losses / Average Interest-Earning Assets. Net interest income is the interest earned on cash and cash equivalents, investments, loans and other interest earning assets minus the interest paid for deposits, short-term borrowings and long-term debt. The average interest-earning assets is calculated using daily average balances of interest-earning assets.

Efficiency Ratio

The efficiency ratio is an indicator used to assess operating efficiencies and demonstrates how efficiently management is controlling expenses relative

to generating revenues. The efficiency ratio is calculated by taking the cash non-interest expenses as a percentage of total revenue before gains and losses and provisions for credit losses and is calculated as (Non-Interest Expenses – Amortisation of Intangible Assets) / (Non-Interest Income + Net Interest Income Before Provision for Credit Losses).

Core Efficiency Ratio

The Core Efficiency Ratio is an indicator used to assess core operating efficiencies relative to generating core revenues. The core efficiency ratio is calculated by taking the core cash non-interest expenses as a percentage of total core revenue before gains and losses and provisions for credit losses and is calculated as (Core Non-Interest Expenses – Amortisation of Intangible Assets) / (Core Non-Interest Income + Core Net Interest Income Before Provision for Credit Losses).

Non-Performing Assets ("NPA") Ratio

NPA ratio is an indicator of the credit quality of the Bank's total assets by expressing the non-performing assets as a percentage of total assets. The NPA ratio is calculated as (Gross Non-Accrual Loans – Specific Allowance for Credit Losses on Non-Accrual Loans + Accruing Loans Past Due 90 days + Other Real Estate Owned) / Total Assets.

Non-Accrual ("NACL") Ratio

The NACL ratio is an indicator used to assess the credit performance of the Bank's loan portfolio by calculating the non-accrual loans as a percentage of loans. The NACL ratio is calculated as Gross Non-Accrual Loans / Gross Total Loans. Note the reference to gross implies the amounts prior to loan allowances for credit losses.

ABOUT BUTTERFIELD

Established in 1858, Butterfield provides community banking and wealth management in Bermuda and select markets in the Caribbean and Europe. Today we are the largest independent bank in Bermuda and have a significant market position in the Cayman Islands. Group-wide, we have over 1,100 employees across six jurisdictions. Butterfield offers a full range of banking services in Bermuda and the Cayman Islands, consisting of institutional, corporate, commercial and retail banking and treasury activities. In wealth management, we provide private banking, asset management, custody and trust services to individual, family, institutional and corporate clients from our headquarters in Bermuda and subsidiary offices in The Bahamas, the Cayman Islands, Guernsey, Switzerland and the United Kingdom.



BUSINESS STRATEGY

Whilst remaining well-capitalised with strong liquidity, our strategic focus is on building shareholder value by expanding our share of the community and private banking markets in jurisdictions in which we have a meaningful presence and a depth of local market knowledge. Our strategy also involves leveraging our multi-jurisdictional trust, custody and asset management offerings to build our wealth management business from both cross-referrals with existing customers and business development through referrals and relationships with fiduciaries and advisers. We aim to build upon our relationship-based business approach by delivering exceptional client service experiences, as well as a wide range of products to meet our clients' financial service needs.

The wide range of products on offer is reflective of our strategy of pursuing opportunities in diversified businesses including community banking, private banking, asset management, custody, corporate trust and personal trust services. These diverse businesses directly contribute to the high level of fee income at 36% of revenue before credit provisions and gains or losses.

Building on our community banking and wealth management strategies will also leverage our strong and loyal client base. Unlike many banks, Butterfield is almost exclusively funded by our shareholders and customers. Our core customer deposits have been very stable; even throughout the credit crisis. Our core deposit base includes \$1.6 billion of non-interest earning deposits and together with \$849 million of equity, the Bank can invest in longer duration assets and earn a higher yield on \$2.0 billion of assets with very low interest rate risk. This contribution reflects the strength of being a deposit-led organisation even in times of low interest rates.

Given the large, loyal customer deposit base enjoyed in our main jurisdictions, and the relatively low volume of lending demand from our customer base, our investment strategy is more important than is the case for most financial institutions. At 31 December 2014, we had \$5.4 billion of cash and investments representing 55% of total assets. In recognition of this defining characteristic of Butterfield, we maintain a conservative approach to our investments. With the help of our investment advisers, we continued to manage our interest rate risk, which measures the degree to which our profitability is at risk due to changes in interest rates. Our focused investment strategy has allowed us to improve the profitability of our investments despite the ongoing challenges of a changing investment climate, whilst minimising credit risk in the investment book. Our continued management of interest rate risk requires us to purchase primarily fixed-rate investments that, whilst complying with our credit safety requirements, will experience temporary declines in market values when rates start to increase. Rising interest rates will improve the profitability of Butterfield, such that these anticipated negative marks are part of our strategy. They will not affect earnings, as they are not credit-related, but they will potentially give rise to negative impacts in equity through "other comprehensive income" for available-for-sale ("AFS") investments. To minimise

the impact on our equity in such circumstances, whilst implementing proper management of interest rate risk, we held \$338 million of investments in the held-to-maturity ("HTM") portfolio at year end.

To support our strategy, the Bank aligns our management structure to focus on lines of business and central support services with increasingly less emphasis on independent management by jurisdiction. However, we remain flexible and nimble in each jurisdiction, with business development and decision making on client service-related matters based locally. In addition, we continue to invest heavily in new technology allowing for new and more flexible products, enhanced customer service and a streamlined, more efficient operation. We expect that recent investments in core banking systems in our two largest markets (Bermuda and Cayman), upgrades in Guernsey and the United Kingdom, and the introduction of mobile banking in Bermuda and Cayman will enhance our strategy by driving additional revenue opportunities, improving internal controls, and creating new operational efficiencies.

2014 OVERVIEW

In 2014, the Bank made solid progress in building value for shareholders, raising the core cash return on average tangible common equity to 15.1% and core cash EPS to \$0.17, up substantially from 10.3% and \$0.11, respectively, in 2013. That progress was driven by a continued focus on prudent expansion within our core businesses and markets, and diligent management of capital, expenses and risks. Coupled with our ongoing diligence in the management of our balance sheet, each successive quarter of profitability in 2014 has translated into growth of capital, which has enabled the Bank to deploy funds not only to accretive acquisitions, but also to the retirement of subordinated debt, the repurchase of shares and the payment of common dividends to directly enhance shareholder returns, whilst maintaining strong capital ratios that are well in excess of regulatory requirements. As a result of our focused strategy, Butterfield is a stronger bank, core earnings are stable and growing, and asset quality is solid.

Core earnings improved by \$29.8 million to \$106.4 million, building on our strong capital position with Total and Tier 1 capital ratios of 22.2% and 19.0%, respectively. To enhance common shareholder returns, the Board declared a fourth interim dividend of \$0.01 per common and contingent value convertible preference share and a special dividend of \$0.01 per common and contingent value convertible preference share on 26 February 2015. Going forward, the Board will continue to assess capital planning options and declare dividends as warranted, subject to regulatory approval.

The Bank's balance sheet remains strong, with shareholders' equity ending the year at \$849 million, of which \$183 million is 8% preference shareholders' equity and \$666 million is common and contingent value convertible preference shareholders' equity ("common equity"). Total assets increased by \$1.0 billion to \$9.9 billion, driven by a \$1.0 billion increase in customer deposit levels reinvested in cash, short-term investments and investments.

Shareholders' equity increased by \$46 million mainly due to net income earned during 2014 net of dividends to shareholders.

During the first quarter of 2014, the Bank announced that it had reached an agreement to expand its trust and fiduciary services presence in Guernsey—one of Butterfield's core markets—through the acquisition of Legis T & C Holdings Limited ("Legis"). On 1 April 2014, Butterfield Trust (Guernsey) Limited ("BTGL") acquired all of the outstanding common shares of Legis for a maximum purchase price of up to \$39.6 million. Legis is a Guernsey-based trust and corporate services business. The acquisition was undertaken to enhance the Bank's market presence and widen the Bank's range of corporate and institutional trust services.

In July 2014, the Bank announced an agreement to acquire parts of the corporate and retail banking business of HSBC Bank (Cayman) Limited ("HSBC Cayman") in the Cayman Islands—another of our core markets. The acquisition was completed in the fourth quarter of 2014. We are committed to providing banking innovation and leadership in Cayman, and by welcoming customers of HSBC to the Butterfield family, we are continuing to strengthen our community banking market presence. This transaction strengthens our core business and market position in Cayman and is in keeping with our Group strategy of deploying capital to business development in core markets and businesses in which we have the scale and expertise to drive long-term growth.

Key accomplishments in 2014 were as follows:

- **Core profitability:** The Bank delivered excellent growth in core net income, up \$29.8 million (39%) to \$106.4 million from \$76.6 million in 2013.
- **Investment strategy:** NIM improved by 10 basis points to 274 basis points compared to 264 basis points in 2013. Underlying this increase, earning asset yields increased by 6 basis points from an increase in investment portfolio yields. The cost of funds declined by 5 basis points to 32 basis points due to the retirement of \$90 million of subordinated capital and higher levels of non-interest bearing balances.
- **Core expenses:** Core non-interest expenses increased by \$3.3 million, from \$253.7 million in 2013, to \$257.0 million in 2014 as a result of the two acquisitions, whilst the core efficiency ratio improved from 71.6% in 2013 to 67.7% in 2014 reflecting the faster rate of revenue increase over the marginal increase in expenses.
- **Headcount:** Across the Group, headcount on a full-time equivalency basis, excluding students, increased by 31 from 1,133 as at 31 December 2013 to 1,164 at the end of 2014 due to the integration of staff from the Legis and HSBC Cayman acquisitions.

- **Deposits:** Customer deposits increased by \$1.0 billion due to both organic deposit growth and the acquisition of HSBC Cayman deposits in November 2014, whilst interest bearing deposit costs increased marginally by 1 basis point from 30 basis points in 2013 to 31 basis points in 2014. Together with non-interest bearing deposits totalling \$1.6 billion at 31 December 2014, the average cost of deposits remained flat at 26 basis points.
- **Loan quality:** As at 31 December 2014, the Bank had gross non-accrual loans of \$71.8 million representing 1.8% of total gross loans, reflecting an improvement from the \$104.1 million, or 2.5%, of total loans at year-end 2013. Net non-accrual loans were \$53.0 million, equivalent to 1.3% of net loans, after specific provisions of \$18.8 million, reflecting an increased specific provision coverage ratio of 26.2%, up from 21.2% at 31 December 2013.
- **Investment grade ratings:** Moody's at A3; Standard & Poor's at BBB+; and Fitch at A-.

MARKET ENVIRONMENT

In 2014, the global economy expanded at a slightly better pace than in the previous year, but with a degree of inconsistency across geographic regions. A few key countries are showing clear signs of growth and improvement, but Europe, in particular, continued to experience economic challenges. Most economic forecasts remain cautiously optimistic that the global recovery will show slow and modest improvement.

The latest data available in the United States ("US") have shown that the economy experienced continued improvement in 2014. The Federal Reserve saw significant enough improvement in labour markets to warrant the conclusion of its latest round of quantitative easing stimulus, although the cumulative size of the balance sheet expansion remains in place. Better employment figures have supported continued increases in consumer confidence and spending, and have contributed to continued stabilisation in the housing market. Inflation in the US has remained subdued.

The Eurozone remained weak in 2014 with high unemployment rates, particularly in Southern Europe, and minimal real GDP growth below 1%. The European Central Bank ("ECB") has taken several steps to ensure that measured inflation and inflation expectations do not turn negative. Both negative deposit rates and large new quantitative easing programmes have been announced and implemented in the second half of 2014 and early 2015. In contrast to the situation in the Eurozone, the economy in the United Kingdom ("UK") improved markedly in 2014, returning to what most forecasters would consider its "trend" growth rate. The unemployment rate in the UK, much like in the US, declined faster than anticipated, supporting consumer confidence and spending.



The Bermuda economy remains challenged, but improved during 2014. Although official figures for 2014 have not yet been released, economic indicators (e.g., retail sales index) suggest that real GDP was positive in 2014. Consumer and business confidence also improved in the second half of 2014 as Bermuda was awarded the right to host the 2017 America's Cup. Whilst tourism remains a small part of the Bermuda economy, Bermuda is expected to benefit from significant publicity, construction of facilities and hotels, and higher economic activity over the next two years in relation to the America's Cup events.

The Cayman Islands experienced GDP growth in 2014 with strength noted in the hotel, restaurant, real estate, rental and business activity sectors. The consumer price index showed a modest decrease in 2014 from its higher 2013 levels, with higher costs for household goods, education and transport offset by lower costs for housing and utilities and miscellaneous goods and services.

The mixed economic climate in our two largest operations in 2014 resulted in limited loan demand and continued pressure on customers' ability to service loan payment obligations. Similarly, our private banking business in Europe experienced limited loan growth due to increase competition and pricing pressures.

In this mixed macroeconomic climate, the Bank continues to maintain a highly liquid balance sheet with a low-risk investment portfolio and no reliance on wholesale money markets for liquidity. Total liquid cash and investments made up 55% of the Bank's balance sheet at year-end 2014, which is up from 50% at the end of 2013.

2015 OUTLOOK

We are cautiously optimistic that improvements noted in certain areas of the global economy during 2014 will continue. However, the ability of economic forecasters to accurately assess the economic future is challenged by inconsistent trends in terms of the strength, scope, and geography of the world's recovery. As a result, confidence levels in these forecasts remain moderate.

The US economy should experience a similar or slightly better level of real GDP growth in 2015, which should be supportive of growth in Bermuda and the Cayman Islands. Inflation should continue to remain subdued, but as substantially lower oil prices drive energy costs lower in the US, inflation could become low enough to cause concern for the US Federal Reserve. Current market expectations are for the US Federal Reserve to begin to adjust short-term policy rates higher in 2015, but any rate movement should be confined to the second half of the year and an extended period of near-zero inflation does have the ability to delay any rate normalisation within 2015 as we have experienced in the last few years.

As noted above, the improvement in UK real GDP growth should continue at a similar pace in 2015. The Bank of England is in a very similar position to the US Federal Reserve, but is closer to the situation in continental Europe, where measured inflation is very low. Any increases to interest rates in the UK should be focused on the second half of the year and be at a measured and orderly pace. In the Eurozone, the ECB stimulus together with a weakening Euro and lower oil prices should support a strengthening Eurozone economy.

With recent positive developments in its economic outlook, including its selection to host the 2017 America's Cup and the resurgence of hospitality construction projects, Bermuda appears well-positioned to post modest GDP growth, despite downward pressure from consolidations in the insurance industry.

In the Cayman Islands, GDP is expected to improve from 2014 with continuing strength in hospitality, construction, and real estate. Additionally, unemployment is expected to register a slight improvement, though inflation pressures will continue.

Our asset and liability management strategy focuses on net interest income at risk in various interest rate environments. We match our expected investment flows with maturities and expected deposit behaviour on the liability side of the balance sheet, which neutralises the impact of changing interest rates in any given reporting period. These investments position us so we are not reliant on rising rates to achieve adequate profitability. However, when higher rates materialise, core profitability should be further improved. Higher rates will also have a restraining effect on capital levels as they will reduce the market values of our longer-dated securities in our AFS book, partially offset by lower liabilities for future pension and health costs for employees.

In 2015, our strategy remains unchanged as we continue to focus our attention on the development of our core businesses, which we expect will drive revenue growth and improve our efficiency ratio as we maintain our focus on cost containment.

FINANCIAL SUMMARY

(in \$ thousands, except per share data)

As at 31 December	2014	2013	2012	2011	2010
Cash and cash equivalents	2,063,311	1,730,472	1,542,526	1,902,726	2,222,934
Short-term investments	394,770	54,981	76,213	20,280	18,157
Investments in debt and equity securities	2,989,111	2,613,643	2,881,704	2,061,639	2,764,723
Loans, net of allowance for credit losses	4,019,128	4,088,225	3,955,960	4,069,419	3,858,138
Premises, equipment and computer software	215,123	240,603	243,321	272,472	257,468
Goodwill and intangible assets	57,862	19,121	22,276	46,100	51,435
Total assets from continuing operations	9,858,440	8,870,815	8,833,009	8,517,306	9,346,914
Assets of discontinued operations	-	-	-	307,044	276,573
Total assets	9,858,440	8,870,815	8,833,009	8,824,350	9,623,487
Total deposits	8,671,577	7,637,951	7,393,238	7,256,561	7,988,501
Subordinated capital	117,000	207,000	260,000	267,755	282,799
Shareholders' equity					
Preference shareholders' equity	183,046	183,606	195,578	200,000	200,000
Common and contingent value convertible preference shareholders' equity	666,328	618,955	661,596	629,725	609,289
For the year ended 31 December	2014	2013	2012	2011	2010
Interest income					
Loans	191,986	187,042	190,691	188,043	181,786
Investments	67,757	60,875	49,117	43,816	26,161
Deposits with banks	5,358	5,291	4,999	9,636	11,015
Interest expense	(26,614)	(29,399)	(33,102)	(39,246)	(52,937)
Net interest income before provision for credit losses	238,487	223,809	211,705	202,249	166,025
Non-interest income	134,830	125,963	128,543	132,349	143,264
Provision for credit losses	(8,048)	(14,825)	(14,190)	(13,169)	(40,262)
Salaries and other employee benefits	(129,761)	(131,064)	(137,433)	(145,136)	(153,246)
Other non-interest expenses (including income taxes)	(143,037)	(132,472)	(143,352)	(141,186)	(143,174)
Net income (loss) before gains and losses	92,471	71,411	45,273	35,107	(27,393)
Total other gains (losses)	5,868	6,749	(27,312)	4,238	(180,366)
Net income (loss) from continuing operations	98,339	78,160	17,961	39,345	(207,759)
Net income (loss) from discontinued operations	-	-	7,620	1,127	144
Net income (loss)	98,339	78,160	25,581	40,472	(207,615)
Non-core items	8,064	(1,600)	29,300	(2,700)	222,400
Core net income	106,403	76,560	54,881	37,772	14,785
Dividends and guarantee fee of preference shares	(16,546)	(16,990)	(18,000)	(21,270)	(18,000)
Amortisation of intangible assets	4,281	3,358	5,040	5,367	5,278
Core cash earnings to common shareholders	94,138	62,928	41,921	21,869	2,063
Common dividends paid	(27,440)	(38,531)	-	-	-
Financial Ratios	2014	2013	2012	2011	2010
Core cash return on average tangible assets	1.2%	0.9%	0.6%	0.4%	0.2%
Core cash return on average tangible common equity	15.1%	10.3%	6.6%	3.8%	0.6%
Return on common shareholders' equity	12.3%	9.2%	1.1%	3.0%	(44.3%)
Tier 1 capital ratio	19.0%	19.6%	18.5%	17.7%	15.7%
Total capital ratio	22.2%	23.7%	24.2%	23.5%	21.6%
Tangible common equity ratio	6.2%	6.8%	7.3%	6.9%	5.8%
Tangible total equity / tangible assets	8.1%	8.9%	9.5%	9.3%	7.9%
Net interest margin	2.74%	2.64%	2.66%	2.42%	1.91%
Efficiency ratio	72.0%	74.1%	79.3%	84.1%	95.0%
Core efficiency ratio	67.7%	71.6%	78.4%	83.6%	88.2%

Per participating share⁽¹⁾ (\$)	2014	2013	2012	2011	2010
Net income (diluted)	0.15	0.11	0.01	0.03	(0.47)
Core cash earnings per share (diluted)	0.17	0.11	0.08	0.04	0.01
Cash dividends	0.05	0.07	-	-	-
Net book value	1.22	1.13	1.20	1.14	1.10
Tangible net book value	1.12	1.09	1.16	1.05	1.00
Number of employees⁽²⁾	2014	2013	2012	2011	2010
Bermuda	537	554	624	664	732
Overseas	627	579	607	606	649
Total	1,164	1,133	1,231	1,270	1,381
Other data	2014	2013	2012	2011	2010
Year-end number of participating shares	544,162	548,622	549,866	554,769	554,531
Weighted average number of participating shares on a fully diluted basis	556,482	553,571	556,357	555,615	477,225
Risk-weighted assets	4,113,404	4,197,744	4,275,055	4,425,639	4,934,569

⁽¹⁾ Includes both common and contingent value convertible preference shareholders' equity.

⁽²⁾ On a full-time equivalency basis and excluding students.

CONSOLIDATED RESULTS OF OPERATIONS AND DISCUSSION FOR FISCAL YEAR ENDED 31 DECEMBER 2014

Net Income

The Bank reported net income of \$98.3 million for the year ended 31 December 2014, compared to \$78.2 million in 2013. Results in both years were adversely affected by various non-core gains (losses) and expenses. After deduction of preference dividends and guarantee fees (2014: \$16.5 million, 2013: \$17.0 million) and the premium paid on preference share buy-backs (2014: \$0.1 million, 2013: \$2.8 million), the net income available to common shareholders was \$81.7 million (\$0.15 per share) in 2014 compared to \$58.4 million (\$0.11 per share) in 2013.

The following table states reported earnings for 2014 compared to 2013:

(in \$ millions)	Year ended 31 December			
	2014	2013	\$ change	% change
Non-interest income	134.8	126.0	8.8	7.0%
Net interest income before provision for credit losses	238.5	223.8	14.7	6.6%
Total revenue before provision for credit losses and gains and losses	373.3	349.8	23.5	6.7%
Provision for credit losses	(8.0)	(14.8)	6.8	(45.9%)
Total other gains	5.9	6.7	(0.8)	(11.9%)
Total net revenue	371.2	341.7	29.5	8.6%
Non-interest expenses	(273.1)	(262.6)	(10.5)	4.0%
Net income before taxes	98.1	79.1	19.0	24.0%
Income tax benefit (expense)	0.2	(0.9)	1.1	(122.2%)
Net income	98.3	78.2	20.1	25.7%
Dividends and guarantee fee of preference shares	(16.5)	(17.0)	0.5	(2.9%)
Premium paid on preference shares bought back	(0.1)	(2.8)	2.7	(96.4%)
Net earnings attributable to common shareholders	81.7	58.4	23.3	39.9%
Net earnings per common share				
Basic	0.15	0.11	0.04	36.4%
Diluted	0.15	0.11	0.04	36.4%

Core Earnings

The following table shows the income statement on a core earnings basis:

(in \$ millions)	Year ended 31 December		
	2014	2013	Movement
Non-interest income	134.8	126.0	8.8
Net interest income before provision for credit losses	238.5	223.8	14.7
Total net revenue before provision for credit losses and other gains (losses)	373.3	349.8	23.5
Provision for credit losses	(8.0)	(14.8)	6.8
Total other losses	(1.1)	(3.8)	2.7
Total net revenue	364.2	331.2	33.0
Non-interest expenses	(257.0)	(253.7)	(3.3)
Total net income before taxes	107.2	77.5	29.7
Income tax benefit (expense)	(0.8)	(0.9)	0.1
Core net income	106.4	76.6	29.8

The following table reconciles the Bank's US GAAP net income for 2014 and 2013 to core earnings attributable to common shareholders:

(in \$ millions)	Year ended 31 December	
	2014	2013
Net income	98.3	78.2
Non-core items:		
Impairment of fixed assets	2.0	-
Gain on disposal of a Pass-through note investment (formerly a SIV)	(8.7)	-
Net gain on sale of affiliate	-	(0.4)
Additional consideration from previously disposed of entities	(0.3)	(0.8)
Impairment of investment in affiliate	-	3.8
Realised gain on legal settlement	-	(13.1)
Realised gain on private equity investment	(1.1)	-
Early retirement programme, redundancies and other one-off compensation costs	2.7	8.9
One-off project costs	10.2	-
Business acquisition costs	4.3	-
One-off income tax refund	(1.0)	-
Total one-time items	8.1	(1.6)
Core earnings	106.4	76.6
Dividends and guarantee fee of preference shares	(16.5)	(17.0)
Amortisation of intangible assets	4.3	3.4
Core cash earnings to common shareholders	94.2	63.0
Core cash earnings per common share ⁽¹⁾		
Impact of non-core items on earnings per share - fully diluted	0.01	-
Core cash earnings per share - fully diluted	0.17	0.11

⁽¹⁾ Premium paid on preference shares bought back was not adjusted as management views the transaction as non-core.

Impairment of Fixed Assets

In 2014, the Bank recognised \$2.0 million of write-downs on properties deemed impaired where the recorded value was greater than the market value.

Gain on Disposal of a Pass-through Note Investment

During the second quarter of 2014, the Bank realised a gain of \$8.7 million on the sale of the Bank's last remaining structured investment. This gain is reflective of the prudent decision made to hold the asset when the market was distressed as the underlying intrinsic value was much higher than market prices reflected at the time.

Net Gain on Sale of Affiliate

During December 2013, the Bank sold its 30% interest in Friesenbruch-Meyer Insurance Ltd., a Bermuda-based insurance company, for \$3.4 million, resulting in a gain of \$0.4 million.

Additional Consideration from Previously Disposed of Entities

During 2014, the Bank received additional sale consideration of \$0.3 million for the 2012 disposal of Island Heritage (2013: \$0.8 million).

Impairment of Investment in Affiliate

In 2013, the Bank recognised a \$3.8 million impairment loss in one of its investments in affiliates as the fair value of the investment in affiliate was less than the carrying amount.

Realised Gain on Legal Settlement

During the second quarter of 2013, the Bank reached a legal settlement relating to a previously disposed of investment, resulting in a one off receipt of \$13.1 million.

Realised Gain on Private Equity Investments

During the second quarter of 2014, the Bank disposed of its investment in a private equity holding and realised a gain of \$1.1 million.

Early Retirement Programme, Redundancies and Other One-off Compensation Costs

One-off compensation costs includes incentive packages for redundancies, optional early retirement packages and other one-off compensation costs offered to eligible employees. In 2014 and 2013, the cost amounted to \$2.7 million and \$8.9 million respectively.

One-off Project Costs

During 2014, the Bank incurred expenses associated with a stringent compliance review programme of customer data to ensure our files meet internationally recognised standards. The Bank has and continues to put significant resources into the enhancement of our compliance and reporting procedures to fulfill regulatory obligations and ensure our records continue to meet international reporting standards.

Business Acquisition Costs

During 2014, the Bank expensed \$4.3 million of professional costs relating to the acquisitions of Legis and HSBC.

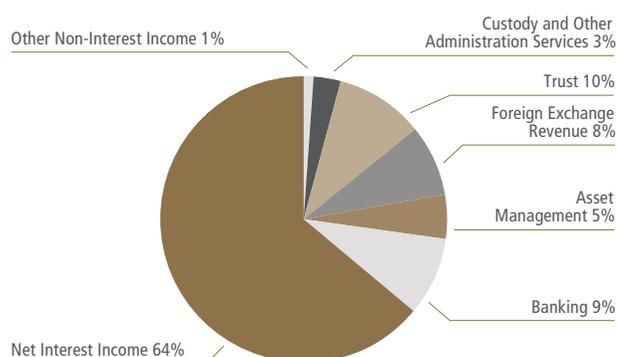
One-off income tax refund

During 2014, the Bank received a tax refund of \$1.0 million.

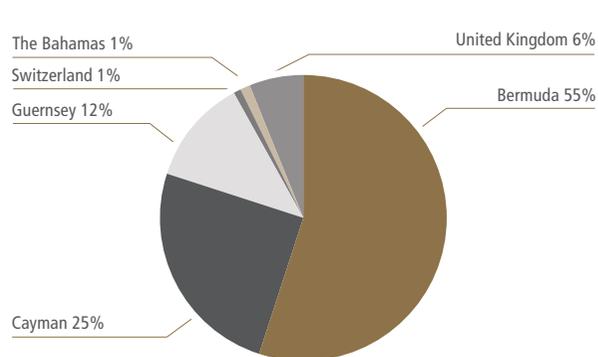
REVENUE

Total revenue before provision for credit losses and gains and losses for 2014 was \$373.3 million, up \$23.5 million (6.7%) from 2013. Net interest income before provision for credit losses increased from \$223.8 million in 2013 to \$238.5 million in 2014, an improvement of \$14.7 million (6.6%). The increase in net interest income was driven by higher average investment portfolio balances of \$222.5 million, an increase in related investment yields of 6 basis points, an increase in average loan balances of \$52.1 million and a decrease in liability costs of 5 basis points. The overall NIM increased by 10 basis points from 264 basis points in 2013 to 274 basis points in 2014. In addition, non-interest income was up \$8.8 million (7.0%) attributable to increased trust revenues earned from the recently acquired Legis Group business along with new business growth.

DISTRIBUTION OF 2014 TOTAL REVENUE BEFORE PROVISION FOR CREDIT LOSSES AND GAINS AND LOSSES



DISTRIBUTION BY LOCATION OF 2014 TOTAL REVENUE BEFORE PROVISION FOR CREDIT LOSSES AND GAINS AND LOSSES



Non-Interest Income

Non-interest income is a function of a number of factors including the composition and value of client assets under management and administration, the volume and nature of clients' transaction activities, and the types of products and services our clients use. Our fee structure provides for varied pricing that depends on the value of client assets and the nature of services provided. As a result, it is not always possible to draw a direct relationship between the value of client assets and the level of non-interest income, though the trend of non-interest income generally follows the trend in client asset levels.

Total non-interest income increased from \$126.0 million in 2013 to \$134.8 million in 2014, and similar to 2013, non-interest income as a percentage of total revenue before provision for credit losses and gains and losses remained stable at 36%.

The following table presents the components of non-interest income for the years ended 31 December:

(in \$ thousands)	2014	2013	\$ change	% change
Asset management	17,728	18,067	(339)	(1.9%)
Banking	34,280	32,490	1,790	5.5%
Foreign exchange revenue	29,379	29,311	68	0.2%
Trust	38,268	30,410	7,858	25.8%
Custody and other administration services	10,166	10,232	(66)	(0.6%)
Other non-interest income	5,009	5,453	(444)	(8.1%)
Total non-interest income	134,830	125,963	8,867	7.0%

Asset management

Asset management revenues are generally based on the market value of assets managed and the volume of transactions and fees for other services rendered. We provide asset management services from our offices in Bermuda, the Cayman Islands, Guernsey and the United Kingdom. Revenues from asset management were \$17.7 million in 2014, compared to \$18.1 million in 2013. The decrease is mainly due to the lower fees earned on the Butterfield Money Market Fund ("BMMF") owing to lower short-term interest rates, and a decline in balances as clients sought better-yielding alternatives for short-term investments. This decrease was partially offset by increased management fees from private clients.

The table that follows shows the changes in the year-end values of clients' assets under management as at 31 December, sub-divided between those managed for clients on a discretionary basis and those client funds invested in mutual funds that Butterfield manages:

(in \$ millions)	2014	2013	\$ change
Butterfield Funds	2,164	2,304	(140)
Discretionary	1,638	1,892	(254)
Total assets under management	3,802	4,196	(394)

Banking

During 2014, Butterfield provided a full range of community, commercial, and private banking services in select jurisdictions. Community banking services are offered to individuals and small to medium-sized businesses through branch locations, Internet banking, automated teller machines, debit cards, and mobile banking in Bermuda and the Cayman Islands, whilst private banking services are offered in Bermuda, the Cayman Islands, Guernsey and the United Kingdom. Banking revenues reflect loan, transaction, processing, and other fees earned in these jurisdictions. Banking fee revenues increased by 5.5% in 2014 to \$34.3 million, compared to \$32.5 million in 2013, due primarily to higher credit card activity as a result of increased volumes from the merchant business and higher levels of customer purchases.

Foreign Exchange

We provide foreign exchange services in the normal course of business in all jurisdictions. The major contributors to foreign exchange revenues are Bermuda and the Cayman Islands, accounting for 86% of the Group's foreign exchange revenue (2013: 84%). The Bank does not maintain a proprietary trading book. Foreign exchange income is generated from client-driven transactions and totalled \$29.4 million in 2014, compared with \$29.3 million in 2013. The \$0.1 million year-on-year increase reflects increased client activity and related volumes in both retail and institutional foreign exchange flows.

Trust

We provide both personal and institutional fiduciary services from our operations in Bermuda, The Bahamas, the Cayman Islands, Guernsey and Switzerland. Revenues are derived from a combination of fixed fees, fees based on the market values of assets held in trust and fees based on time spent in relation to the range of personal trust and company administration services and pension and employee benefit trust services we provide. Trust revenues represent 28% of the Bank's non-interest income, up from 24% in 2013. In 2014, trust revenues totalled \$38.3 million, an increase of \$7.9 million or 25.8% over 2013 largely attributable to the acquisition of the Legis Group business, which closed on 1 April 2014, and also to new business growth. Revenue growth was supported by structured, proactive business development activities. Improved new business results were seen in all of our businesses in both personal and institutional fiduciary services.

Trust assets under administration were \$84.4 billion at year-end 2014 compared to \$53.3 billion the prior year, an increase of \$31.1 billion or 58.3%, which is largely attributable to the acquired Legis Group business.

Custody and Other Administration Services

Custody fees are generally based on market values of assets in custody, the volume of transactions, and flat fees for other services rendered. We provide custody services from our offices in Bermuda, the Cayman Islands, Guernsey and the United Kingdom, and other administration services — primarily administered banking — in Guernsey. In 2014, revenues were \$10.2 million, the slight decrease due to lower transaction volumes and expired mandates. Total custody and other administration services assets under administration (which includes the administered banking services operations provided by our Guernsey business) were \$42.5 billion as at 31 December 2014, down from \$43.7 billion the prior year.

Other Non-Interest Income

The components of other non-interest income for the years ended 31 December 2014 and 2013 are set forth in the following table:

(in \$ thousands)	2014	2013
Net share of earnings from investments in affiliates	834	1,068
Rental income	2,726	3,194
Other	1,449	1,191
Total other non-interest income	5,009	5,453

In 2014, we recorded equity pickup income of \$0.8 million, a decrease of \$0.4 million from the prior year. Rental income decreased by \$0.5 million to \$2.7 million in 2014 due to a reduction in rented properties. Included in the "Other" category are maintenance fees from leased premises, director's fee income, and other miscellaneous income.

Net Interest Income Before Provision For Credit Losses

Net interest income is the amount of interest earned on our interest-earning assets less interest paid on our interest-bearing liabilities. There are several drivers of the change in net interest income, including changes in the volume and mix of interest-earning assets and interest-bearing liabilities, their relative sensitivity to interest rate movements, and the proportion of non-interest-bearing sources of funds, such as equity and non-interest-bearing current accounts.

During the second quarter of 2013, the Bank enhanced its net interest margin calculation by changing its balance sheet averages from monthly to daily averages and analysing in detail the interest earning balances. Prior periods have been restated for this change in methodology.

The following table presents the components of net interest income for the years ended 31 December:

(in \$ millions)	2014			2013		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets						
Cash and cash equivalents and short-term investments	1,752.9	5.4	0.31%	1,794.7	5.3	0.30%
Investments	2,877.8	67.7	2.35%	2,655.3	60.9	2.29%
Loans	4,075.0	192.0	4.71%	4,022.9	187.0	4.65%
Interest-earning assets	8,705.7	265.1	3.05%	8,472.9	253.2	2.99%
Other assets	410.8	-	-	413.7	-	-
Total assets	9,116.5	265.1	2.91%	8,886.6	253.2	2.85%
Liabilities						
Deposits	6,741.6	(20.9)	(0.31%)	6,559.5	(20.0)	(0.30%)
Securities sold under agreement to repurchase	22.0	(0.1)	(0.45%)	63.8	(0.2)	(0.31%)
Subordinated capital	117.2	(5.6)	(4.78%)	228.7	(9.2)	(4.02%)
Interest-bearing liabilities	6,880.8	(26.6)	(0.39%)	6,852.0	(29.4)	(0.43%)
Non-interest-bearing current accounts	1,211.0			990.7		
Other liabilities	187.2			198.0		
Total liabilities	8,279.0	(26.6)	(0.32%)	8,040.7	(29.4)	(0.37%)
Shareholders' equity	837.5			845.9		
Total liabilities and shareholders' equity	9,116.5			8,886.6		
Non-interest-bearing funds net of non-interest earning assets (free balance)	1,824.9			1,620.9		
Net interest margin		238.5	2.74%		223.8	2.64%

Net interest income before provision for credit losses of \$238.5 million increased \$14.7 million or 6.6% over 2013. Net interest income is largely generated by the Bank's Bermuda and Cayman jurisdictions, which account for 86% of total net interest income. Interest income increased by \$11.9 million and was driven by improved investment portfolio performance and higher loan income. Investment income increased by \$6.9 million from an increase of \$222.5 million in average balances combined with a yield improvement of 6 basis points. The yield increase resulted from favourable prepayment speeds on US agency securities despite a shortening of duration to approximately four years attributable to increased investment in adjustable-rate US agency securities. Loan interest income was higher by \$4.9 million due primarily to \$2.6 million attributable to one-off interest received and a \$52.1 million increase in average balances, whilst yields remained stable.

Interest-bearing liability costs decreased by 5 basis points, driving an improvement in interest expense of \$2.8 million, largely from the subordinated capital payoff of \$90 million in January 2014 and \$43 million in May 2013.

Average free balances for 2014 were \$1.8 billion (2013: \$1.6 billion) including non-interest bearing current accounts of \$1.2 billion (2013: \$990.7 million), shareholders' equity of \$837.5 million (2013: \$845.9 million), net of other assets and other liabilities totalling \$223.6 million (2013: \$215.7 million). See the Risk Management section for more information on how interest rate risk is managed.

PROVISION FOR CREDIT LOSSES

The Bank's net provision for credit losses in 2014 was \$8.0 million compared to \$14.8 million in 2013, a decrease of \$6.8 million. Incremental provisions of \$10.3 million were required principally for specific reserves pertaining to commercial and residential mortgages, partially offset by recoveries of \$2.3 million. This compares to 2013 when the Bank required incremental provisions relating to specific reserves of \$20.6 million that were partially offset by recoveries of \$5.8 million.

OTHER GAINS (LOSSES)

The following table represents the components of other gains (losses) for the years ended 31 December:

(in \$ thousands)	2014	2013
Net trading gains	250	315
Net realised gains (losses) on available-for-sale investments	8,680	(61)
Net realised / unrealised losses on other real estate owned	(1,804)	(5,000)
Impairment of fixed assets	(1,986)	-
Gain on sale of subsidiary and affiliates	277	1,227
Impairment of investment in affiliate	-	(3,800)
Net other gains	451	14,068
Other gains	5,868	6,749

Net Trading Gains

A \$0.3 million gain was recorded with respect to trading securities in 2014, which relates primarily to the fair value adjustments of the Bank's seed money in shares of the Butterfield Select Funds. The Bank's seed capital in the BNY Mellon Butterfield Income Advantage Fund was redeemed in 2014 at the prevailing net asset value.

Net Realised Gains (Losses) on Available-For-Sale Investments

Net realised gain of \$8.7 million was recorded on the sale of the Bank's investment in the Avenir Pass-through note, which was formerly a structured investment vehicle.

Net Realised / Unrealised Losses on Other Real Estate Owned

Valuation adjustments related to real estate held for sale were \$1.8 million compared to \$5.0 million in 2013, the decrease being attributable largely to 2013 write-downs in the hospitality portfolio.

Impairment of Fixed Assets

The Bank conducts annual property impairment assessments on its properties held for sale and rent which resulted in \$2.0 million in write-downs in 2014 to reflect current market values.

Gain on Sale of Subsidiary and Affiliates

During 2014, the Bank received \$0.3 million of additional sale consideration for the 2012 disposal of Island Heritage Holdings Ltd.

Impairment of Investment in Affiliate

In 2013, the Bank recognised a \$3.8 million impairment loss in one of its investments in affiliates as the fair value of the investment in affiliate was less than the carrying amount.

Net Other Gains

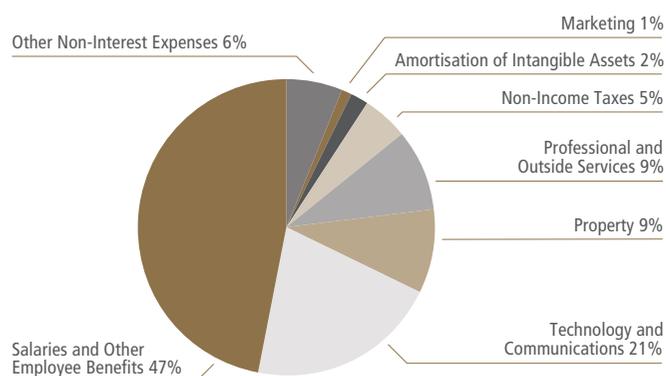
Net other gains were \$0.5 million in 2014 compared to net other gains of \$14.1 million in 2013. The primary driver of this change is the legal settlement reached relating to a previously disposed of investment, resulting in a one-off receipt of \$13.1 million in 2013.

NON-INTEREST EXPENSES

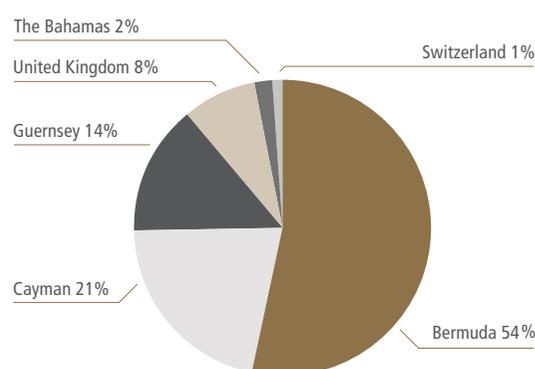
Expense management continued to be a key focus in 2014 as the Bank continues to adapt to the persistently low interest rate environment. Total non-interest expenses in 2014 were \$273.1 million compared to \$262.6 million recorded in 2013. These figures include non-core expenses in 2014 and 2013 of \$16.0 million and \$8.9 million, respectively. After adjusting for these non-core items, 2014 core expenses were up \$3.3 million (1.3%) with an improvement in core efficiency ratio to 67.7% from 71.6% in 2013.

Salary and employee benefits accounted for 47% of non-interest expenses with technology, communications and property making up 30% combined. Bermuda expenses include all head office costs.

DISTRIBUTION OF 2014 NON-INTEREST EXPENSES



DISTRIBUTION OF 2014 NON-INTEREST EXPENSES BY LOCATION



The following table presents the components of non-interest expenses for the years ended 31 December:

(in \$ thousands)	2014	2013	\$ change	% change
Salaries and other employee benefits	129,761	131,064	(1,303)	(1.0%)
Technology and communications	57,119	54,223	2,896	5.3%
Property	24,312	24,309	3	-
Professional and outside services	24,022	15,012	9,010	60.0%
Non-income taxes	14,175	13,682	493	3.6%
Amortisation of intangible assets	4,281	3,358	923	27.5%
Marketing	3,802	3,484	318	9.1%
Other non-interest expenses	15,495	17,513	(2,018)	(11.5%)
Total non-interest expenses	272,967	262,645	10,322	3.9%
Non-core items	(16,045)	(8,900)	(7,145)	80.3%
Core non-interest expenses	256,922	253,745	3,177	1.3%

Salaries and Other Employee Benefits

Total salaries and other employee benefits costs were \$129.8 million in 2014, down \$1.3 million compared to 2013. 2014 included \$5.6 million of severance and project-related non-core costs, compared to \$8.5 million of non-core personnel costs in 2013. Core salaries and other employee benefits costs were \$124.2 million in 2014, up \$1.6 million compared to 2013 from a \$3.2 million increase in staff costs from the consolidation of the acquisitions offset by cost savings from a full year benefit of the early retirement and redundancy programme at the end of 2013 as well as a \$1.0 million one-time release of pension expense from the closure of a defined benefit pension plan. Headcount on a full-time equivalency basis at year-end was 1,164, up 31 compared to 1,133 a year ago as a result of the acquisitions.

Technology and Communications

Technology and communication costs were \$57.1 million in 2014, up \$2.9 million from the \$54.2 million recorded in 2013 as a result of a \$2.2 million increase in depreciation relating to the new banking systems in our European businesses and \$0.7 million non-core project-related costs.

Property

Property costs, which reflect occupancy expenses, building maintenance, and depreciation of property, plant and equipment, remained unchanged in 2014.

Professional and Outside Services

Professional and outside services include primarily consulting, legal, audit, and other professional services. The current year expense of \$24.0 million included \$9.5 million of non-core project-related costs, and when excluded, professional fees from our core business decreased by \$0.5 million from reduced consulting expenditures.

Non-Income Taxes

These taxes reflect taxes levied in the jurisdictions in which we operate, including employee-related payroll taxes, customs duties, and business licences. In 2014, the expense was \$14.2 million, up \$0.5 million mainly due to higher value-added taxes paid in our UK business. Of the \$14.2 million in non-income taxes, \$8.8 million was paid to the Bermuda government agencies for payroll tax, business licences and land taxes, \$1.6 million for value-added taxes paid in our UK business and \$3.8 million paid to other governments for business licences, insurance tax and work permit fees.

Amortisation of Intangible Assets

Intangible assets relate to client relationships acquired from business acquisitions and are amortised on a straight-line basis over their estimated useful lives, not exceeding 15 years. The estimated lives of these acquired intangible assets are re-evaluated annually and tested for impairment. The amortisation expense associated with intangible assets was \$4.3 million in 2014 compared to \$3.4 million in 2013. The higher amortisation levels were driven by the Legis Group and HSBC Cayman acquisitions completed in 2014.

Marketing

Marketing expenses reflect costs incurred in advertising and promoting our products and services. Marketing expenses totalled \$3.8 million in 2014, up \$0.3 million but remained consistent as a percentage of total net revenue before provision for credit losses and gains and losses at 1.0%.

Other Non-Interest Expenses

(in \$ thousands)	2014	2013	\$ change	% change
Stationery and supplies	1,343	1,320	23	1.7%
Custodian and handling	1,753	1,647	106	6.4%
Charitable donations	787	1,139	(352)	(30.9%)
Insurance	2,230	2,367	(137)	(5.8%)
Other expenses				
Maintenance fees for liquidity facility	175	175	-	-
Cheque processing	1,328	1,319	9	0.7%
Dues and subscriptions	535	517	18	3.5%
Registrar and transfer agent fee	707	1,012	(305)	(30.1%)
Agent commission fees	439	468	(29)	(6.2%)
Foreign bank charges	572	564	8	1.4%
Directors' fees	899	914	(15)	(1.6%)
General expenses	713	2,541	(1,828)	(71.9%)
Other	4,014	3,530	484	13.7%
Total other non-interest expenses	15,495	17,513	(2,018)	(11.5%)

Other non-interest expenses were \$15.5 million in 2014, a decrease of \$2.0 million compared to 2013. This was driven principally by lower operational losses experienced in 2014.

INCOME TAXES

Each jurisdiction in which we operate is subject to different income tax laws. The Bank is incorporated in Bermuda as a local company and therefore, pursuant to Bermuda law, not obligated to pay any taxes in Bermuda on either income or capital gains. The Bank's subsidiaries in the Cayman Islands and The Bahamas are not subject to any taxes in their respective jurisdictions on either income or capital gains under current laws applicable in the respective jurisdictions. In general, Bermuda and Cayman are not subject to corporate income taxes but are required to pay higher rates of non-income taxes (included above) such as licence fees and payroll taxes.

The Bank's subsidiaries in the United Kingdom, Guernsey and Switzerland are subject to the tax laws of those jurisdictions. The corporate tax rate in the UK is 21.5% whilst in Guernsey the banking profits are subject to a 10% flat corporate tax rate. In 2014, income tax benefit netted to \$0.2 million compared to an income tax expense of \$0.9 million in 2013, the movement is due to the income tax refund received in 2014.

CONSOLIDATED BALANCE SHEET AND DISCUSSION

The following table shows the balance sheet as reported as at 31 December:

(in \$ millions)	2014	2013	\$ change	% change
Assets				
Cash and cash equivalents	2,063	1,730	333	19.2%
Short-term investments	395	55	340	618.2%
Debt and equity securities	2,989	2,614	375	14.3%
Loans, net of allowance for credit losses	4,019	4,088	(69)	(1.7%)
Premises, equipment and computer software	215	241	(26)	(10.8%)
Goodwill and intangibles	58	19	39	205.3%
Other assets	119	124	(5)	(4.0%)
Total assets	9,858	8,871	987	11.1%
Liabilities				
Total deposits	8,672	7,638	1,034	13.5%
Total other liabilities	220	223	(3)	(1.3%)
Subordinated capital	117	207	(90)	(43.5%)
Total liabilities	9,009	8,068	941	11.7%
Preference shareholders' equity	183	184	(1)	(0.5%)
Common and contingent value convertible preference shareholders' equity	666	619	47	7.6%
Total shareholders' equity	849	803	46	5.7%
Total liabilities and shareholders' equity	9,858	8,871	987	11.1%
Capital Ratios	2014	2013		
Risk-weighted assets	4,113	4,198		
Tangible common equity (TCE)	608	600		
Tangible assets (TA)	9,800	8,852		
TCE/TA	6.2%	6.8%		
Tier 1 common ratio	14.6%	15.2%		
Tier 1 capital ratio	19.0%	19.6%		
Total capital ratio	22.2%	23.7%		

The Bank maintains a highly liquid balance sheet and is well capitalised. At 31 December 2014, total cash and cash equivalents, short-term investments and other investments represented \$5.4 billion, or 55.3% of total assets, up from 49.6% at year-end 2013. The Bank's balance sheet remains strong with shareholders' equity ending the year up \$46 million to \$849 million, of which \$183 million is preference shareholders' equity and \$666 million is common equity.

Total assets grew by \$1.0 billion to \$9.9 billion, primarily reflecting a \$1.0 billion increase in customer deposit levels reinvested in cash and investments, which grew by \$1.0 billion.

At 31 December 2014, Butterfield's capital ratios were strong, but declined from year-end 2013 because of balance sheet growth, with the TCE/TA ratio ending 2013 at 6.2% (2013: 6.8%), whilst the total capital ratio and tier 1 capital ratios were 22.2% (2013: 23.7%) and 19.0% (2013: 19.6%), respectively. These ratios are well in excess of regulatory minimums.

Cash, Cash Equivalents and Short-Term Investments

The Bank only places deposits with highly-rated institutions and ensures there is appropriate geographic diversification in its exposures. Limits are set for aggregate geographic exposures and for every counterparty for which the Bank places deposits. Those limits are monitored and reviewed by our Credit Risk Management

("CRM") division and approved by the Financial Institutions Committee. The Bank defines cash and cash equivalents to include cash on hand, cash items in the process of collection, amounts due from correspondent banks and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in fair value. Such investments are those with less than three months maturity from the date of acquisition and include unrestricted term deposits, certificates of deposit and treasury bills. Investments of a similar nature that are either restricted or have a maturity of more than three months but less than one year are classified as short-term investments. From August 2014, certificates of deposits with less than one year but greater than three months' maturity from the date of acquisition are designated as short-term investments as the investments are highly liquid and subject to an insignificant risk of change in fair value. As at 31 December 2014, cash and cash equivalents and short-term investments were \$2.5 billion, compared to \$1.8 billion as at 31 December 2013.

See "Note 3: Cash and Cash Equivalents" and "Note 4: Short-Term Investments" in the 31 December 2014 consolidated financial statements for additional tables and information.

Investments

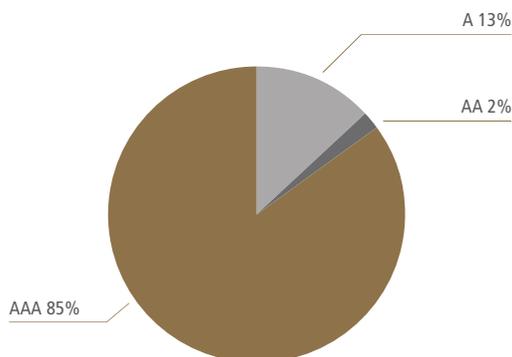
Our investment policy requires management to maintain a portfolio of securities that provide the liquidity necessary to cover the Bank's obligations as they come due, and mitigate our overall exposure to credit and interest rate risk, whilst achieving a satisfactory return on the funds invested. The securities in which we may invest are limited to securities that are considered investment grade. Securities in our investment portfolio are accounted for under US GAAP as either trading, available-for-sale or held-to-maturity. Investment policies are approved by the Board of Directors, governed by the Group Asset and Liability Committee and monitored by Group Market Risk, a department of the Group Risk Management division.

Effective 1 October 2010, the Bank entered into an investment advisory agreement with Carlyle Investment Management LLC, an affiliated company of the Carlyle Group. Under the agreement, Carlyle provided balance sheet management advisory services to the Bank including, but not limited to: development of investment strategies for consideration by the Bank's Asset and Liability Committee; balance sheet simulation analysis, including interest rate sensitivity, economic value at risk, interest at risk and stress testing; detailed investment portfolio reporting; cash flows and net interest income forecasting; deposit behaviour analysis and pricing strategies; and assistance with credit advisory and workout strategies. Effective 31 July 2012, the investment advisory business previously conducted by Carlyle Investment Management LLC was transferred to Alumina Investment Management LLC ("Alumina") and the Bank agreed to the transfer of its contract (the "Contract") to Alumina.

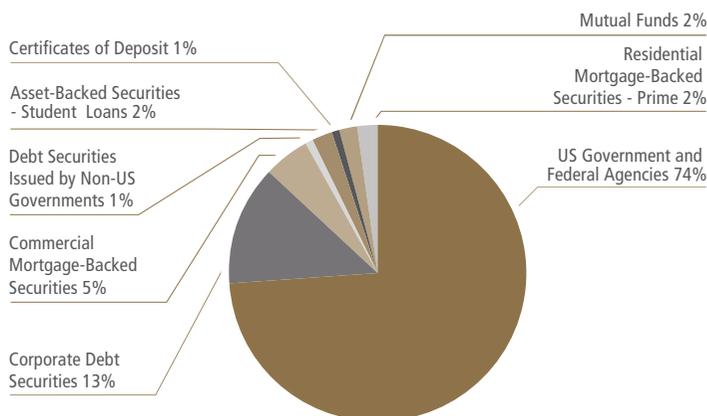
As part of this transfer, balance sheet simulation analysis, which includes: interest rate sensitivity, economic value at risk, interest at risk and stress testing; cash flows and net interest income forecasting; deposit behaviour analysis, and pricing strategies, is now performed in-house using best in class ALM technology and professional services. The results are reviewed by both the Group Asset and Liability Management Committee and our investment advisers.

Consistent with industry and rating agency designations, the Bank defines investment grade as "BBB" or higher. As at 31 December 2014, 99.8% (2013: 98.5%) of our total investments were investment grade and rated A or better.

31 DECEMBER 2014 INVESTMENT PORTFOLIO BY LONG-TERM DEBT RATING



31 DECEMBER 2014 INVESTMENT PORTFOLIO BY TYPE



The following table presents the carrying value of investments by balance sheet category as at 31 December:

(in \$ millions)	2014	2013	\$ change	% change
Trading	7	53	(46)	(86.8%)
Available-for-sale	2,644	2,227	417	18.7%
Held-to-maturity	338	334	4	1.2%
Total investments	2,989	2,614	375	14.3%

The investment portfolio was \$3.0 billion as at 31 December 2014, compared to \$2.6 billion as at 31 December 2013. A net decrease in non-US agency securities of \$170 million was reinvested primarily in US government and federal agency securities that totalled \$2.2 billion, or 75% of the total investment portfolio. New business acquisitions also contributed to the growth in the investment portfolio. The investment yield improved year-on-year by 6 basis points to 2.35% in 2014, due primarily to favourable prepayment speeds on US agency securities. Total net unrealised gains of the investment portfolio were \$15.7 million, compared to net unrealised losses of \$57.5 million at year-end 2013. The movement in unrealised losses for the year related to the impact of changes in interest rates on the longer duration assets and is not credit related. The 10 year treasury rate was 2.17% as at 31 December 2014 compared to 3.03% the year before.

Trading securities, consisting of holdings of real estate mutual funds and seed capital invested in mutual funds managed by the Bank, totalled \$6.9 million at year-end 2014, compared to \$53.3 million at year-end 2013. Trading securities reflect primarily the \$5 million seed capital invested by the Bank in Butterfield Select Funds. A \$43 million investment in the BNY Mellon Butterfield Income Advantage Fund was redeemed in 2014.

Available-for-sale ("AFS") securities totalled \$2.6 billion at year-end 2014, compared to \$2.2 billion at year-end 2013. As at 31 December 2014, 71.4% or \$1.9 billion (2013: 60.5% or \$1.3 billion) of AFS securities consisted of holdings of mortgage-backed securities implicitly and explicitly guaranteed by US government agencies. Corporate debt securities totalled \$399 million or 15.1% (2013: \$415 million or 18.7%), and certificates of deposit represented 1.4% or \$38 million (2013: 3.8% or \$85 million).

The remaining 12.1% of AFS securities is comprised primarily of commercial mortgage-backed securities (5.7% or \$151 million); government guaranteed student loan-backed securities (2.5% or \$65 million), debt securities issued by non-US governments (1.4% or \$38 million) and residential mortgage-backed securities (2.5% or \$65 million).

Held-to-maturity ("HTM") investments were \$338 million as at 31 December 2014 (2013: \$333 million) and consisted entirely of mortgage-backed securities implicitly and explicitly guaranteed by US government agencies that management has no intention to sell before maturity.

Investment valuation

Securities in unrealised loss positions are analysed as part of management's ongoing assessment of other-than-temporary impairment ("OTTI"). When management intends to sell securities, it recognises an impairment loss equal to the full difference between the amortised cost basis and the fair value of those securities. When management does not intend to sell equity or debt securities in an unrealised loss position, potential OTTI is considered using a variety of factors, including: the length of time and extent to which the market value has been less than amortised cost; adverse conditions specifically related to the industry, geographic area or financial condition of the issuer or underlying collateral of a security; payment structure of the security; changes to the rating of the security by a rating agency; the volatility of the fair value changes; and changes in fair value of the security after the balance sheet date.

For debt securities, management estimates cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist and to determine whether any adverse changes in cash flows have occurred. Management's cash flow estimates take into account expectations of relevant market and economic data, such as GDP and unemployment during the cash flow cycle as of the end of the reporting period and includes, for example, underlying loan-level data, and structural features of securitisation, such as subordination, excess spread, over-collateralisation or other forms of credit enhancement. Management compares the losses projected for the underlying collateral ("pool losses") against the level of credit enhancement in the securitisation structure to determine whether these features are sufficient to absorb the pool losses, or whether a credit loss on the debt security exists. Management also performs other analyses to support its cash flow projections, such as stress scenarios. For debt securities, management considers a decline in fair value to be other-than-temporary when it does not expect to recover the entire amortised cost basis of the security.

See "Note 5: Investments" in the 31 December 2014 consolidated financial statements for additional tables and information.

Loans

The loan portfolio stood at \$4.0 billion at 31 December 2014, down \$0.1 billion from \$4.1 billion in 2013, due primarily to the significant prepayments on the commercial and residential mortgage portfolio and unfavourable foreign exchange rate movements offset by the acquisition of the HSBC Cayman loan portfolio in November 2014.

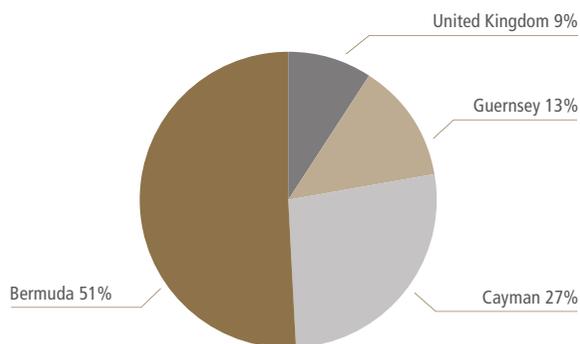
During the year, gross loans written totalled \$476.8 million offset by pay downs of \$619.8 million. In Bermuda, gross loans written totalled \$194.2 million offset by pay downs of \$240.7 million.

The loan portfolio represented 41% of total assets at 31 December 2014 (2013: 46%), whilst loans as a percentage of customer deposits decreased from 54% at year-end 2013 to 47% in 2014.

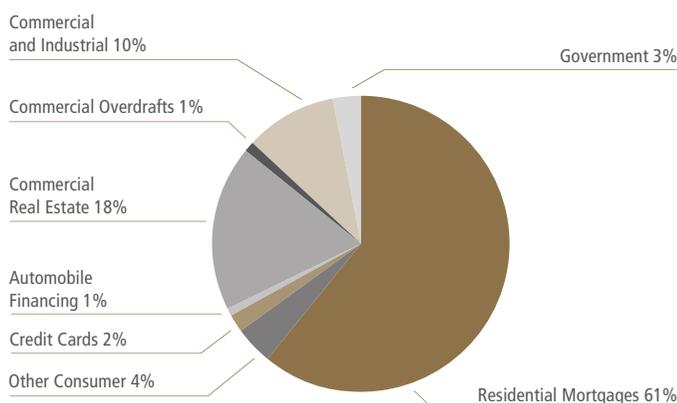
Allowance for credit losses at 31 December 2014 totalled \$47.5 million, a decrease of \$5.3 million from the prior year. The movement in the allowance was mainly the result of additional provisions of \$10.3 million (including recoveries of \$2.3 million) recorded during the year, and \$15.6 million in charge-offs and foreign exchange movements. Of the total allowance, the general allowance was \$28.7 million (2013: \$30.7 million) and the specific allowance was \$18.8 million (2013: \$22.1 million), reflecting a specific coverage ratio of 26.2%, compared to 21.2% at 31 December 2013. The increase in the specific coverage ratio reflects the resolution of large commercial loans, which in turn amplifies the coverage ratio on the more diversified and less concentrated remaining balance.

Gross non-accrual loans totalled \$71.8 million at 31 December 2014, down \$32.3 million from \$104.1 million at 31 December 2013, and represented 1.8% of the total loan portfolio at 31 December 2014, compared to 2.5% in 2013. During 2014, the Bank held other real estate owned properties ("OREO") amounting to \$19.3 million (2013: \$27.4 million) comprising commercial real estate of \$9.2 million (2013: \$14.2 million), foreclosed residential properties of \$6.7 million (2013: \$9.2 million) and property held for sale reclassified during 2014 of \$3.4 million (2013: \$4.0 million).

31 DECEMBER 2014 LENDING BY LOCATION



31 DECEMBER 2014 GROUP LOANS BY TYPE



Government

Loans to governments showed a \$32.4 million increase from 2013, due primarily to the loans acquired through HSBC (Cayman) Limited in November 2014.

Commercial

The commercial and industrial loan portfolio includes loans and overdraft facilities advanced primarily to corporations and small and medium-sized entities, which are generally not collateralised by real estate and where loan repayments are expected to flow from the operation of the underlying businesses.

Commercial real estate loans are offered to real estate investors, developers and builders domiciled primarily in Bermuda and the United Kingdom. To manage our credit exposure on such loans, the principal collateral is real estate held for commercial purposes and is supported by a registered mortgage. Cash flows from the properties, primarily from rental income, are generally supported by long-term leases to high quality international businesses. These cash flows are principally sufficient to service the loan. The portfolio has decreased by \$45.5 million due primarily to significant repayments of loans in our European jurisdictions.

Commercial loans of \$0.4 billion at 31 December 2014 decreased by \$18.5 million from the previous year, driven by repayments of commercial lending facilities partially offset by corporate loan growth.

Residential

The residential mortgage portfolio comprises mortgages to clients with whom we are seeking to establish (or already have) a comprehensive financial services relationship. It includes mortgages to individuals and corporate loans secured by residential property.

At 31 December 2014, residential mortgages totalled \$2.5 billion (or 62% of total gross loans), a \$40.0 million decrease from 31 December 2013. The reduction was as a result of significant prepayments on the residential mortgage portfolio and unfavourable foreign exchange rate movements offset by the acquisition of the HSBC Cayman loan portfolio in November 2014.

All mortgages were underwritten utilising our stringent credit standards. Residential loans consist of conventional home mortgages and equity credit lines.

Other Loan Portfolios

We provide loans, as part of our normal banking business, in respect of automobile financing, consumer financing, credit cards, commercial financing, loans to financial institutions and overdraft facilities to retail, corporate and private banking clients in the jurisdictions in which we operate.

Our loan portfolio and contractual obligations and arrangements are discussed in more detail in "Note 6: Loans" and "Note 7: Credit Risk Concentrations" in the 31 December 2014 consolidated financial statements.

Deposits

Deposits are our principal funding source for use in lending, investments and liquidity. Butterfield is a deposit-led Bank and does not require the use of wholesale funding to fund its loan business. Deposit balances at the end of reporting periods, particularly in our Bermuda and Cayman Islands operations, can fluctuate due to significant balances that flow in and out from hedge fund clients to meet quarter-end subscriptions and redemptions, and are typically paid in the first few days of the quarter.

The table below shows the year-end and average customer deposit balances by jurisdiction, comparing 31 December 2014 and 2013:

(in \$ millions)	As at 31 December			Average balance		
	2014	2013	\$ change	2014	2013	\$ change
Bermuda	3,870	3,551	319	3,758	3,531	227
Cayman	2,591	2,071	520	2,018	1,878	140
Guernsey	1,496	1,291	205	1,440	1,376	64
The Bahamas	61	78	(17)	78	88	(10)
UK	614	607	7	621	635	(14)
Total deposits	8,632	7,598	1,034	7,915	7,508	407

Average customer deposits increased by \$0.4 billion to \$7.9 billion in 2014. On a year-end basis, customer deposits were up \$1.0 billion to \$8.6 billion from \$7.6 billion at year-end 2013.

Customer demand deposits, which include chequing accounts (both interest-bearing and non-interest-bearing), savings and call accounts, totalled \$6.7 billion, or 78.1% of total customer deposits at year-end 2014, compared to \$5.6 billion, or 74.3%, at year-end 2013. Customer term deposits remained flat at \$2.0 billion compared to the prior year. The cost of funds on deposits remained flat at 26 basis points in 2014.

See "Note 10: Customer Deposits and Deposits from Banks" in the 31 December 2014 consolidated financial statements for additional tables and information.

Borrowings

We have no issuances of certificates of deposit ("CD"), commercial paper ("CP") or senior notes outstanding and have no CD or CP issuance programmes. We are able to source funding on an uncommitted basis from a number of major banks, including our principal correspondent banks. We use funding from the inter-bank market as part of interest rate and liquidity management. At 31 December 2014, deposits from banks totalled \$39.9 million, a decrease of \$0.3 million from the prior year.

Employee Future Benefits

The Bank maintains trustee pension plans including non-contributory defined benefit plans and a number of defined contribution plans, and provides post-retirement healthcare benefits to its qualifying retirees. The defined benefit provisions under the pension plans are generally based upon years of service and average salary during the final years of employment. The defined benefit pension and post-retirement healthcare plans are not open to new participants and are non-contributory and the funding required is provided by the Bank, based upon the advice of an independent actuary.

Effective 31 December 2011, the Bermuda defined benefit pension benefits were amended to freeze credited service and final average earnings for remaining active members. Effective January 2012, all the participants of the Bermuda defined benefit pension plan are inactive and in accordance with US GAAP, the net actuarial loss of the Bermuda defined benefit pension plan is amortised over the estimated average remaining life expectancy of the inactive participants of 22.8 years. Prior to all Bermuda participants being inactive, the net actuarial loss of the Bermuda defined benefit pension plan was amortised to net income over the estimated average remaining service period for active members of 4.5 years.

Effective 30 September 2014, the defined benefit pension benefits of the Bank's Guernsey operations were amended to freeze credited service and final average earnings for remaining active members. The benefits amendment resulted in a further reduction in the Guernsey defined benefit pension liability of \$4.59 million as at 30 September 2014.

Effective October 2014, all the participants of the Guernsey defined benefit pension plan are inactive and in accordance with US GAAP, the net actuarial loss of the Guernsey defined benefit pension plan will be amortised over the estimated average remaining life expectancy of the inactive participants of 39 years. Prior to all Guernsey participants being inactive, the net actuarial loss of the Guernsey defined benefit pension plan was amortised to net income over the estimated average remaining service period for active members of 15 years.

For the year ended 31 December 2014 numerous changes in the plan provisions were made to align the plan provisions with the administrative practices of the Bank resulting in a further increase in the Bermuda defined benefit post-retirement healthcare plan liability of \$7.9 million. The Bank previously amortised prior service credits resulting from plan amendments on a linear basis over the expected average remaining service period (to full eligibility) of active members expected to receive benefits under the plan (3.1 years remaining for 2010 plan amendments and 4.6 years remaining for 2011 plan amendments as of 1 January 2014). At 31 December 2014, for new prior service costs/credits amortisations, the plan is substantially inactive; therefore, the Bank will amortise new prior service costs/credits resulting from plan amendments recognised at 31 December 2014 on a linear basis over the average remaining life expectancy of members eligible for benefits under the plan (21 years at 31 December 2014).

As at 31 December 2014, the Bank had a net obligation for employee future benefits in the amount of \$109.5 million, up \$39.3 million from \$70.2 million at year-end 2013 driven by plan amendments, lower interest rates, longer life expectancy and reduced returns on plan assets.

See "Note 11: Employee Future Benefits" in the 31 December 2014 consolidated financial statements for additional tables and information.

Subordinated Debt, Interest Payments and Maturities

We have outstanding issuances of subordinated debt with a carrying value of \$117 million as at 31 December 2014, all issued in US dollars, compared to \$207 million as at 31 December 2013. All but \$14.9 million of outstanding subordinated debt is eligible for inclusion in our Tier 2 regulatory capital base and is limited to 50% of Tier 1 Capital.

The \$90 million Series A note was due 2015 with a fixed coupon of 4.81% until 2 July 2010 after which the coupon rate became floating and the principal became redeemable in whole at the Bank's option. During January 2014, the Bank exercised its option to redeem all of the Series A notes outstanding at face value of \$90 million.

The following table presents the contractual maturity, interest rates and principal outstanding as at 31 December 2014:

Subordinated capital (in \$ millions)	Earliest date redeemable at the Bank's option	Contractual maturity date	Interest rate until date redeemable	Interest rate from earliest date redeemable to contractual maturity	Principal outstanding
2003 issuance - Series B	27 May 2013	27 May 2018	5.15%	3 months US\$ LIBOR + 2.000%	47
2005 issuance - Series B	2 July 2015	2 July 2020	5.11%	3 months US\$ LIBOR + 1.695%	45
2008 issuance - Series B	27 May 2018	27 May 2023	8.44%	3 months US\$ LIBOR + 4.929%	25
Total					117

See "Note 18: Subordinated Capital" in the 31 December 2014 consolidated financial statements for additional information.

Repurchase Agreements

We also obtain funds from time to time from the sale of securities to institutional investors under repurchase agreements. In a repurchase agreement transaction, we will generally pledge investment securities as collateral in a borrowing transaction, agreeing to repurchase the identical security on a specified later date, generally not more than 90 days, at a price greater than the original sales price. The difference between the sale price and repurchase price is the cost of the use of the proceeds, or interest expense. The investment securities underlying these agreements may be delivered to securities dealers who arrange such transactions as collateral for the repurchase obligation. Repurchase agreements represent a cost competitive funding source and also provide liquidity on agency paper for us. However, we are subject to the risk that the borrower of the securities may default at maturity and not return the collateral. In order to minimise this potential risk when entering into such transactions, we generally deal with large, established investment brokerage firms with whom we have master repurchase agreements. Repurchase transactions are accounted for as financing arrangements rather than as sales of such securities, and the obligation to repurchase such securities is reflected as a liability in our consolidated financial statements. As at 31 December 2014, there were no repurchase agreements outstanding compared to \$25.5 million at 31 December 2013.

Shareholders' Equity

Shareholders' equity increased during the year ended 31 December 2014 by \$46.8 million to \$849.4 million.

Increases totalling \$158.4 million include:

- \$98.3 million net income for the year
- \$49.9 million from unrealised gains on AFS securities
- \$9.0 million of share-based compensation
- \$1.2 million of share-based settlements for stock options exercised

These increases were offset by decreases totalling \$111.6 million:

- \$47.1 million net increase in employee future benefits
- \$27.4 million of common share dividends
- \$17.0 million from the purchase of treasury common shares
- \$16.5 million preference share dividends and guarantee fee
- \$2.9 million translation adjustments on foreign operations
- \$0.7 million from the buy-back and cancellation of preference shares

Capital Resources

The Bank manages its capital both on a total Group basis and, where appropriate, on a legal entity basis. The Finance department has the responsibility for measuring, monitoring and reporting capital levels within guidelines and limits established by the Risk Policy and Compliance Committee of the Board. The management of capital will also involve regional management to ensure compliance with local regulation. In establishing the guidelines and limits for capital, a variety of factors are taken into consideration, including the overall risk of the business in stressed scenarios, regulatory requirements, capital levels relative to our peers, and the impact on our credit ratings.

As at 31 December 2014, the Bank was subject to Basel II which is a risk-based capital adequacy framework developed by the Basel Committee on Banking Supervision and has been endorsed by the central bank governors and heads of bank supervision of the G10 countries. The Bank is fully compliant with all regulatory capital requirements and maintains capital ratios well in excess of regulatory minimums as at 31 December 2014.

As at 31 December 2014, the Bank's regulatory capital stood at \$0.9 billion with the consolidated tier 1 and total capital ratios of 19.0% and 22.2%, respectively (2013: 19.6% and 23.7%, respectively).

The following table sets forth our capital adequacy as at 31 December 2014 and 2013 in accordance with Basel II framework:

(in \$ millions)	2014	2013
Capital		
Tier 1 capital	781.7	823.6
Tier 2 capital	130.8	169.2
Total capital	912.5	992.8
Risk-Weighted Assets		
Cash and cash equivalents and investments	683.2	742.9
Loans	2,364.9	2,381.8
Other assets	314.0	345.2
Off-balance sheet items	177.7	193.6
Operational risk charge	573.6	534.2
Total risk-weighted assets	4,113.4	4,197.7
Capital Ratios (%)		
Tier 1 common	14.6%	15.2%
Tier 1 total	19.0%	19.6%
Total capital	22.2%	23.7%

Under Basel II Pillar III (market disclosures) the Bank is required to publish further information about the risks to which it is exposed. The Bank's Pillar III disclosures for the year ended 31 December 2014 will be published on the corporate website, www.butterfieldgroup.com, shortly after the publication of the consolidated financial statements.

Under these standards, when fully phased-in on 1 January 2019, the Bank will be subject to the following requirements:

- Common equity Tier 1 ("CET1") of at least 7.0 % of risk-weighted assets ("RWA"), inclusive of a minimum CET1 ratio of 4.5% and the new capital conservation buffer of 2.5%;
- Tier 1 capital of at least 8.5% of RWA, inclusive of the 2.5% capital conservation buffer;
- Total capital of at least 10.5% of RWA, inclusive of the 2.5% capital conservation buffer;
- Buffer between 0.5% to 3% (to be determined) composed of CET1-eligible capital imposed by the BMA upon its assessment of the extent to which the Bank (individually and collectively with the other Bermuda banks) pose a degree of material systemic risk to the economy of Bermuda due to its role in deposit taking, corporate lending, payment systems and other core economic functions;
- Counter-cyclical buffer of up to 2.5% composed of CET1-eligible capital may be imposed by the BMA when macroeconomic indicators provide an assessment of excessive credit or other pressures building in the banking sector;
- Leverage ratio must be at least 5.0%; and
- Liquidity coverage ratio ("LCR") with a minimum requirement of 100%, subject to the phase-in rules.

Effective 1 January 2015, the BMA adopted capital and liquidity regulatory requirements consistent with Basel III, a framework released by the Basel Committee on Banking Supervision. The finalisation of the implementation is subject to ongoing consultation with the BMA regarding the implementation and interpretation of these new rules. The Bank is assessing the impact of the adoption of this guidance.

Preference Shares

In June 2009, the Bank offered 200,000 of 8.00% non-cumulative perpetual limited voting preference shares, liquidation preference of US \$1,000 per share (the "preference shares") and \$200,000,000 in the aggregate. The preference shares are fully and unconditionally guaranteed, with the full faith and credit of the Government of Bermuda (the "Guarantor"), as to payment of dividends for up to ten years and as to payment of the liquidation preference on, or in certain circumstances prior to, the ten-year anniversary of the date of issuance (the "Guarantee").

Dividends on the preference shares are payable quarterly on a non-cumulative basis, only when, as and if declared by our Board of Directors, on 15 March, 15 June, 15 September and 15 December of each year at a fixed rate equal to 8.00% per annum on the liquidation preference, commencing on 15 September 2009. In the event that, during the ten-year term of the Guarantee, the Bank does not pay full dividends in respect of any quarterly dividend period on any preference shares that are then issued and outstanding, the Guarantor has agreed to pay to holders of the preference shares an amount equal to such unpaid dividends pursuant to the Guarantee.

The Bank may redeem the preference shares at its option, subject to approval of the Bermuda Monetary Authority ("BMA"), in whole or in part, on the tenth day prior to the ten-year anniversary of the date of issuance (the "Bank Redemption Date"), at a redemption price equal to 100% of the liquidation preference thereof plus any unpaid dividends for the then-current dividend period to the Guarantee End Date, regardless of whether any dividends are actually declared for such dividend period. In addition, the Bank may redeem the preference shares prior to the Bank Redemption Date, at its option, subject to approval of the BMA, in whole or in part, at any time and from time to time, at a redemption price equal to the "Make-Whole Redemption Price". Unless previously redeemed, the Guarantor has agreed to purchase from the holders thereof, and such holders will be required to transfer to the Guarantor, on the ten-year anniversary of the date of issuance, all preference shares then issued and outstanding, at a price per preference share equal to the liquidation preference thereof plus any unpaid dividends for the then-current dividend period to the date of such purchase, regardless of whether any dividends are actually declared for such dividend period. In addition, upon the occurrence of a Liquidation Event at any time prior to the ten-year anniversary of the date of issuance of the preference shares, the Guarantor has agreed to purchase from the holders thereof, and such holders will be required to transfer to the Guarantor, all preference shares then issued and outstanding, at a price per preference share equal to the liquidation preference thereof plus any unpaid dividends for the then-current dividend period to the date of payment, regardless of whether any dividends are actually declared for such dividend period.

Contingent Value Convertible Preference Shares (“CVCP shares”) (see the Rights Offering Prospectus for details)

In March 2010, the Bank offered up to 99.3 million common shares and 8.3 million CVCP shares in the form of up to 107.4 million Rights Units, each Unit consisting of 0.92038 common shares and 0.07692 CVCP shares, for each common share held at a price of BD\$1.21 per Rights Unit.

A holder of CVCP shares has the option to convert any such shares to common shares at any time. All CVCP shares outstanding will automatically convert into common shares at the earlier of 31 March 2015 or a sale of the Bank. On such conversion, the CVCP shares will convert into common shares at the Conversion Price. The initial Conversion Price shall be US\$1.21, subject to any customary anti-dilution adjustments and certain downward notional adjustment based on certain Loan Recoveries.

A holder of CVCP shares is entitled to certain distributions in connection with certain sales or public offerings of the Bank’s equity interest in Butterfield Fulcrum Group (“BFG”, now known as Mitsubishi UFJ Fund Services, or MUFJ). On 9 February 2011, the Bank announced that it had agreed to sell its minority ownership position in BFG. The sale transaction closed during the second quarter of 2011 and generated proceeds of \$3.31 million. The completion of the sale triggered a dividend of \$3.27 million (\$0.42 per share) to holders of Butterfield CVCP shares, which was paid on 16 August 2011 to shareholders of record on 26 July 2011. Through this transaction, the Bank fully divested itself of its minority ownership stake in BFG. The Bank continues to provide MUFJ and its clients with commercial banking, foreign exchange and custody services.

When, as and if declared by the Board, holders of the outstanding CVCP shares will be entitled to receive dividends based on the number of common shares into which the CVCP shares would be convertible as of the dividend record date.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Bank, the holders of the CVCP shares will be entitled to receive from its assets legally available for distribution to shareholders as a liquidation preference before any distribution of assets is made to or set aside for the holders of any junior shares, such as the common shares, the greater of (i) US\$1.21 per CVCP share plus any declared but unpaid dividends with respect to the then-current dividend period and (ii) the amount per CVCP share that would be received if such CVCP share had converted into common shares immediately prior to such liquidation, dissolution or winding up.

The CVCP shares are issued as perpetual securities subject to conversion to common shares and shall not be redeemable by any holders at any time.

The holders of the CVCP shares will vote together with the holders of the common shares on all matters upon which the holders of the common shares are entitled to vote. The CVCP shares shall be entitled to such number of votes based on the number of common shares into which the CVCP shares are convertible as of the applicable record date.

The class vote of the holders of at least 66.6% of the CVCP shares shall be required for (i) the creation or issuance of shares that are senior to liquidation, (ii) an amendment of rights of the CVCP shares or (iii) a reclassification, merger, amalgamation or consolidation where the holders of CVCP shares would not receive the consideration that would be received if such CVCP shares had converted into common shares immediately prior to such event.

The CVCP shares shall be privately transferable (subject to applicable securities laws and any required regulatory consents) but shall not be listed on the Bermuda Stock Exchange or any other stock exchange. The CVCP shares will not be registered under the securities laws of any jurisdiction. This will result in a limited market for the CVCP shares. CVCP shares are transferable to common shares at the holders’ option by contacting the Bank’s transfer agent and registrar.

With respect to the 8.0% preference shares, the CVCP shares rank *pari passu* as to liquidation and *pari passu* as to dividends and, with respect to common shares, the CVCP shares rank senior as to liquidation and *pari passu* as to dividends (other than dividends relating to BFG, as to which the CVCP shares rank senior).

As at 31 December 2014, there were 6.9 million CVCP shares outstanding with 0.2 million shares converted to common shares at the holders’ option during the year ended 31 December 2014. As at 31 December 2014, there were no loan recoveries attributable to the CVCP shares as defined in the certificate of designation. Consequently, the conversion factor to common shares at 31 December 2014 remained one to one (1:1). Loan recoveries mean the amount by which the cumulative amount of collections actually received by the Bank with respect to “covered loans” from and after 1 January 2010 and through (and including) the measurement date exceeds \$102.3 million. In no event shall the loan recoveries exceed US\$42.0 million. As at 31 December 2014, the carrying value of the covered loans was \$11.0 million (2013: \$23.7 million) reflecting charge-offs during the year as approved by the Audit Committee and reviewed by an independent committee of the Board of Directors.

Share Buy-Back Programme

The Bank initially introduced two share buy-back programmes on 1 May 2012 as a means to improve shareholder liquidity and facilitate growth in share value. Each programme was approved by the Board of Directors for a period of 12 months, in accordance with the regulations of the BSX. The BSX must be advised monthly of shares purchased pursuant to each programme.

Common Share Buy-Back Programme

The Board of Directors approved the 2012 common share buy-back programme on 1 May 2012 with up to six million common shares authorised to be acquired for treasury. On 10 December 2012, the Board approved increasing the number of common shares to be acquired up to 10 million.

Effective 1 April 2013, the Board cancelled the 2012 common share buy-back programme and approved the 2013 common share buy-back programme for the purchase of up to 10 million common shares. On 2 December 2013, the Board increased the total number of common shares authorised to be purchased for treasury to 15 million.

Effective 1 April 2014, the Board approved the 2014 common share buy-back programme authorising the purchase for treasury of up to 15 million common shares.

On 26 February 2015, the Board approved, with effect from 1 April 2015, the 2015 common share buy-back programme, authorising the purchase for treasury of up to eight million common shares.

Total common share buy-backs for the year ending 31 December are as follows:

	2014	2013	2012	Total
Acquired number of shares (to the nearest 1)	8,567,340	4,038,482	7,260,051	19,865,873
Average cost per common share	1.99	1.39	1.24	1.59
Total cost (in Bermuda dollars)	17,018,412	5,610,907	8,999,061	31,628,380

Preference Share Buy-Back Programme

The Board of Directors approved the 2012 preference share buy-back programme on 1 May 2012 with up to 2,000 preference shares authorised to be purchased for cancellation. On 10 December 2012, the Board approved increasing the number of preference shares to be purchased for cancellation up to 8,000.

During the second quarter of 2013, the Board approved the 2013 preference share buy-back programme authorising in total the purchase and cancellation of up to 15,000 preference shares. On 2 December 2013, the Board increased the total number of preference shares authorised to be repurchased and cancelled to 26,600 preference shares.

On 28 April 2014, the Board approved the 2014 preference share buy-back programme, authorising the purchase and cancellation of up to 26,600 preference shares.

On 26 February 2015, the Board approved, with effect from 4 May 2015, the 2015 preference share buy-back programme, authorising the purchase and cancellation of up to 5,000 preference shares.

Total preference share buy-backs for the year ending 31 December are as follows:

	2014	2013	2012	Total
Acquired number of shares (to the nearest 1)	560	11,972	4,422	16,954
Average cost per preference share	1,172.26	1,230.26	1,218.40	1,225.25
Total cost (in Bermuda dollars)	656,465	14,728,624	5,387,777	20,772,866

From time to time, the Bank's associates, insiders and insiders' associates as defined by the BSX regulations may sell shares which may result in such shares being repurchased pursuant to each programme, provided no more than any such person's pro-rata share of the listed securities is repurchased. Pursuant to the BSX regulations, all repurchases made by any issuer pursuant to a securities repurchase programme must be made: (1) in the open market and not by private agreement; and (2) for a price not higher than the last independent trade for a round lot of the relevant class of securities.

Warrants

Following the capital raise on 2 March 2010, the terms of the 4,279,601 warrants with an exercise price of \$7.01 previously issued to the Government of Bermuda in conjunction with the issuance of the preference shares in 2009 were adjusted in accordance with the terms of the guarantee. Subsequently, the Government of Bermuda now holds 4.30 million (2013: 4.28 million) warrants with an exercise price of \$3.49 (2013: \$3.51) and an expiration date of 22 June 2019.

Dividends

During the year ended 31 December 2014, the Bank declared cash dividends totalling \$27.4 million or \$0.05 for each common share and contingent value convertible preference shares on record as of the related record dates.

The Board also declared a fourth interim dividend of \$0.01 per common and contingent value convertible preference share and a special dividend of \$0.01 per common and contingent value convertible preference share to be paid on 27 March 2015 to shareholders of record on 13 March 2015.

During the years ended 31 December 2014 and 2013, the Bank declared the full 8.00% cash dividends on preference shares in each quarter. Preference share dividends declared and paid were \$14.7 million during 2014 (2013: \$15.1 million). Guarantee fees paid to the Government of Bermuda were \$1.8 million during 2014 (2013: \$1.9 million).

Cash Flows

Cash and cash equivalents were \$2.1 billion as at 31 December 2014, compared to \$1.7 billion in the prior year. The increase is described below by category of operating, investing and financing activities.

For the year ended 31 December 2014, net cash provided by operating activities totalled \$182.7 million (2013: \$119.1 million). Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income. Cash provided by operating activities increased by \$63.5 million from 2013 to 2014, due primarily to rising core earnings that generated higher cash earnings compared to the prior year, a decrease in other assets and an increase in trading investments due to the receipt of seed money from the BNY Mellon Butterfield Income Advantage Fund.

Our investing activities include capital expenditures, loan activities, investment activities, and divesture and acquisition activities. We do not own, directly or indirectly, any shares of stock or any other equity interest or long-term debt securities of any company, corporation, firm, partnership, joint venture, association or other entity, except pursuant to the ordinary course of investment activities, the strategic investment in an associated company or as a result of the ordinary course loan structuring. Net cash used in investing activities for the year ending 31 December 2014 totalled \$341.1 million, compared to cash provided by investing activities of \$55.7 million in 2013. The \$341.1 million cash used in investing activities in 2014 was mainly attributable to \$343.8 million increased investments in short-term certificate of deposits, \$425.3 million increased net investment in securities offset by cash transferred for deposits assumed in the HSBC acquisition of \$310.6 million and a decrease in loan balances of \$145.0 million.

Net cash provided by financing activities totalled \$505.3 million in 2014, compared to net cash provided by financing activities of \$4.1 million in 2013. The \$501.2 million change reflects primarily a \$465.5 million increase in deposits and a \$58.0 million decrease in repurchase agreements.

OFF BALANCE SHEET ARRANGEMENTS

Assets Under Administration and Assets Under Management

The Bank, in the normal course of business, holds assets under administration and assets under management in a fiduciary or agency capacity for our clients. In accordance with US GAAP, these assets are not assets of the Bank and are not included in our consolidated balance sheet.

Credit-Related Arrangements

We enter into standby letters of credit, letters of guarantee and contractual commitments to extend credit in the normal course of business, which are not required to be recorded on the balance sheet. Since many commitments expire unused or only partially used, these totals do not necessarily reflect future cash requirements. Management believes there are no material commitments to extend credit that represent risks of an unusual nature.

Standby letters of credit and letters of guarantee are issued at the request of our clients in order to secure a client's payment or performance obligations to a third party. These guarantees represent our irrevocable obligation to pay the third-party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the client. Generally, the term of the standby letters of credit does not exceed one year, whilst the term of the letters of guarantee does not exceed four years.

Credit risk is the principal risk associated with these instruments. The contractual amounts of these instruments represent the credit risk should the instrument be fully drawn upon and the client defaults. To control the credit risk associated with issuing letters of credit and letters of guarantee, we subject such activities to the same credit quality and monitoring controls as our lending activities. The types and amounts of collateral security we hold for these standby letters of credit and letters of guarantee is generally represented by our deposits or a charge over assets held in mutual funds. We are obligated to meet the entire financial obligation of these agreements and in certain cases are able to recover the amounts paid through recourse against the collateral security.

The following table sets forth the outstanding financial guarantees with contractual amounts representing credit risk:

Collateral is shown at estimated market value less selling cost. Where cash is the collateral, it is shown in gross amounts including interest income.

(in \$ millions)	2014			2013		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	225.7	224.2	1.5	294.6	292.2	2.4
Letters of guarantee	10.2	7.6	2.6	12.4	8.8	3.6
Total	235.9	231.8	4.1	307.0	301.0	6.0

Contractual Obligations (Including Subordinated Debt)

We enter into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. These credit arrangements are subject to our normal credit standards and collateral is obtained where appropriate. Substantially all of our commitments to extend credit are contingent upon clients maintaining specific credit standards at the time of loan funding. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for possible loan losses.

The Bank has a facility by one of its custodians, whereby the Bank may offer up to US\$200 million of standby letters of credit to its customers on a fully secured basis. Under the standard terms of the facility, the custodian has the right to set-off against securities held of 110% of the utilised facility. At 31 December 2014, \$91.8 million (2013: \$149.2 million) of standby letters of credit were issued under this facility. The contractual amounts for these commitments represent the maximum payments we would have to make should the contracts be fully drawn, the counterparty default, and any collateral held prove to be of no value. Commitments, when drawn, would be funded from our free cash resources.

We enter into other contractual obligations in the normal course of business. Certain of these obligations, such as subordinated debt, are recorded as liabilities in our consolidated balance sheet. Other items, such as sourcing agreements, operating leases and other purchase contracts, are not required to be recorded on the balance sheet. Expected cash payments associated with subordinated debt are based on principal payment dates.

See "Note 18: Subordinated Capital" in the 31 December 2014 consolidated financial statements for terms of subordinated debt arrangements and interest obligations.

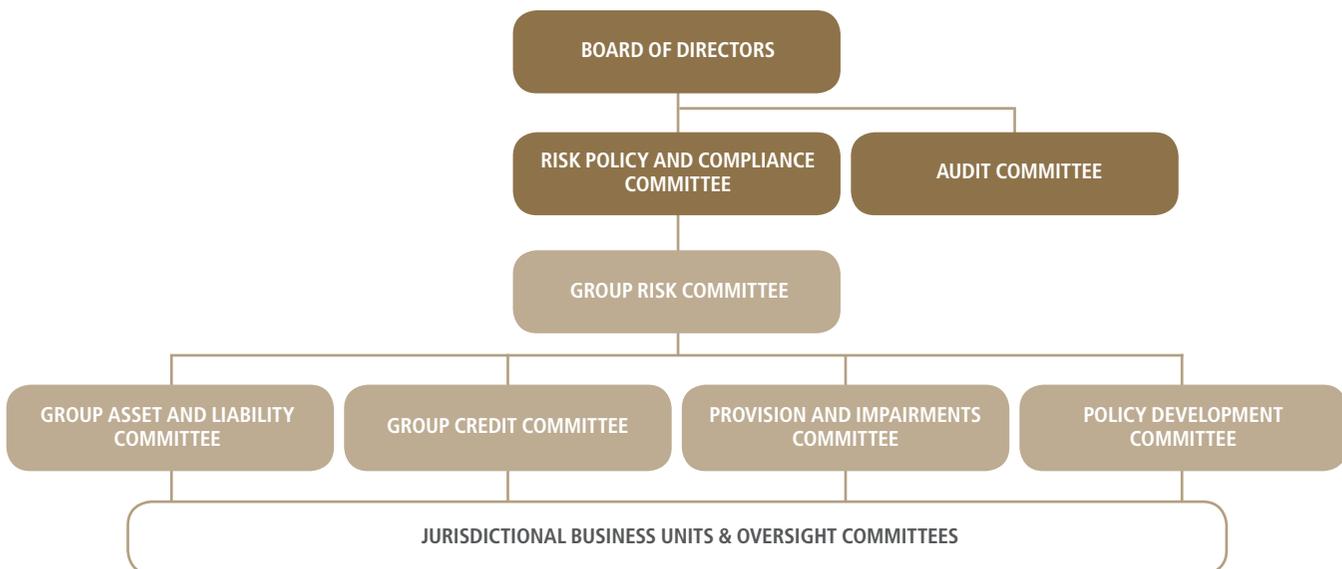
The \$33.1 million contractual obligation in respect of sourcing—for Bermuda and the Cayman Islands—relates to an eight-year agreement entered into in October 2008 with global technology service provider Hewlett Packard ("HP") (previously EDS) to supply technology infrastructure and application development management, information security and technical support for our locations in Bermuda and the Cayman Islands. In 2011, working with HP, we completed the transition of all our business applications and legacy systems in these locations to a new, common platform that is centrally managed. Under our agreement with HP, server management and maintenance, technology field support, application support and development and help desk functions are managed by HP.

We have entered into additional contractual obligations in the normal course of business which are not significant to the amounts above.

RISK MANAGEMENT

Risk Governance

The Group's risk governance and management structure is illustrated below:



The Board of Directors (the "Board") has overall responsibility for determining risk strategy, setting the Bank's risk appetite and ensuring that risk is monitored and controlled effectively. It accomplishes its mandate through the activities of two dedicated committees:

The Risk Policy and Compliance Committee: This committee assists the Board in fulfilling its responsibilities by overseeing the Group's risk profile and its performance against approved risk appetites and tolerance thresholds. Specifically, the committee considers the sufficiency of the Group's policies, procedures and limits related to the identification, measurement, monitoring and control of activities that give rise to credit, market, liquidity, interest rate, operational and reputational risks, as well as overseeing its compliance with laws, regulations and codes of conduct.

The Audit Committee: This committee reviews the overall adequacy and effectiveness of the Group's system of internal controls and the control environment, including those that are brought to bear in respect of the risk management process. It reviews recommendations arising from internal and independent audit review activities and management's response to any findings raised.

Both the Risk Policy and Compliance and Audit Committees are supported in the execution of their respective mandates by the dedicated Audit, Compliance and Risk Policy Committees for our UK, Guernsey and Caribbean operations, which oversee the sufficiency of local risk management policies and procedures and the effectiveness of the system of internal controls that are in place. These committees are chaired by non-executive Directors drawn from our jurisdictional Boards.

The Group executive management team is led by the Chairman & Chief Executive Officer (the "Chairman") and includes the members of executive management reporting directly to the Chairman. The executive management team is responsible for setting business strategy and for monitoring, evaluating and managing risks across the Group. It is supported by the following committees:

The Group Risk Committee ("GRC") is comprised of executive and senior management team members and is chaired by the Chief Risk Officer. It provides a forum for the strategic assessment of risks assumed across the Group as a whole based on an integrated view of credit, market, liquidity, legal and regulatory compliance, operational, interest rate, investment, capital and reputational risks, ensuring that these exposures are consistent with the risk appetites and tolerance thresholds promulgated by the Board. It is responsible for reviewing, evaluating and recommending the Group's Risk Appetite Framework, the results of the Capital Assessment and Risk Profile ("CARP") process (including all associated stress testing performed) and the Group's key risk policies to the Board for approval, for reviewing and evaluating current and proposed business strategies in the context of our risk appetites and for identifying, reviewing and advising on current and emerging risk issues and associated mitigation plans.

The Group Asset and Liability Committee ("GALCO") is comprised of executive and senior management team members and is chaired by the Chief Financial Officer. The committee is responsible for liquidity, interest rate and exchange rate risk management and other balance sheet issues. It also oversees the execution of the Group's investment and capital management strategies and monitors the associated risks assumed. It is supported in the execution of its mandate by the work undertaken by the dedicated Asset and Liability Committees in each of the Bank's jurisdictional business units.

The Group Credit Committee ("GCC") is comprised of executive and senior management and is chaired by the Chief Risk Officer. The committee is responsible for a broad range of activities relating to the monitoring, evaluation and management of credit risks assumed across the Group at both transaction and portfolio levels. It is supported in the execution of its mandate by the Financial Institutions Committee (FIC), a dedicated sub-committee that is responsible for the evaluation and approval of recommended inter-bank and counterparty exposures assumed in the Group's treasury and investment portfolios, and by the activities of the European Credit Committee, which reviews and approves transactions within delegated authorities and recommends specific transactions outside of these limits to the Group Credit Committee for approval.

The Provision and Impairments Committee is comprised of executive and senior management team members and is chaired by the Chief Risk Officer. The committee is responsible for approving significant provisions and other impairment charges. It also oversees the overall credit risk profile of the Group in regards to non-accrual loans and assets. It is supported in the execution of its mandate by local credit committees and the Group Credit Committee, which make recommendations to this committee.

The Policy Development Committee is comprised of senior management team members across the Group and is chaired by the Group Head of Compliance. The committee is responsible for overseeing the design, development and maintenance of the Group's framework of operational policies. It develops recommendations regarding policy requirements, engages with nominated members of executive management to ensure that policies are drafted or updated on a timely basis and provides a forum through which they are debated Group-wide prior to their adoption, thereby ensuring a consistency of application and interpretation. It also ensures that all policies and any policy exception requests are reviewed and recommended prior to presentation to the Group Risk Committee and if necessary, the Risk Policy and Compliance Committee of the Board for approval.

Risk Management

The Group manages its exposure to risk through a three "lines of defence" model. This may be summarised as follows:

The first "line of defence" is provided by our Jurisdictional business units, which retain ultimate responsibility for the risks they assume and for bearing the cost of risk associated with these exposures.

The second "line of defence" is provided by the Risk Management group, which works in collaboration with our business units to identify, assess, mitigate and monitor the risks associated with our business activities and strategies. It does this by:

- Making recommendations to the Group Risk Committee regarding the constitution of the Risk Appetite Framework;
- Setting risk strategies that are designed to manage risk exposures assumed in the course of pursuing our business strategies and aligning them with agreed appetites;

- Establishing and communicating policies, procedures and limits to control risks in alignment with these risk strategies;
- Measuring, monitoring and reporting on risk levels;
- Opining on specific transactions that fall outside delegated risk limits; and
- Identifying and assessing emerging risks.

The four functions within the Risk Management group that support our risk management activities are outlined below. To ensure a formal separation of duties, each reports directly to the Chief Risk Officer.

Group Market Risk – This unit provides independent oversight of the measurement, monitoring and control of liquidity and funding risks, interest rate and foreign exchange risks as well as the market risks associated with the Group’s investment portfolios. It also monitors compliance with both regulatory requirements and the Group’s internal policies and procedures relating to the management of these risks.

Group Credit Risk Management – This unit is responsible for the adjudication and oversight of credit risks associated with our retail and commercial lending activities and the management of risks associated with our investment portfolios and counterparty exposures. It also establishes the parameters and delegated limits within which credit risks may be assumed and promulgates guidelines on how exposures should be managed and monitored.

Group Compliance – This unit provides independent analysis and assurance of the Group’s compliance with applicable laws, regulations, codes of conduct and recommended best practices, including those associated with the prevention of money laundering and terrorist financing. It is also responsible for assessing the Group’s potential exposure to upstream risks and for providing guidance on the preparations that should be made in advance of these changes coming into effect.

Group Operational Risk – This unit assesses the effectiveness of the Group’s procedures and internal controls in managing its exposure to various forms of operational risk, including those associated with new business activities and processes and the deployment of new technologies. It also oversees the Group’s incident management processes and reviews the effectiveness of its loss data collection activities.

The third “line of defence” is provided by our Group Internal Audit function, which performs oversight and ongoing review, and challenges the effectiveness of the internal controls that are executed by both the business and Risk Management. This includes the review of the accuracy of the underlying data and appropriateness of the stress testing methodologies that are executed as a part of our Capital Adequacy and Risk Profile (CARP) process.

The Risk Appetite Framework

The Risk Appetite Framework is the cornerstone of our approach to risk management. Developed by executive management and approved formally by the Board of Directors, it communicates a willingness to take on certain risks in the pursuit of our strategic objectives and defines those that should be avoided. It also provides management with a clear mandate regarding the amount and type of risk that it may accept and establishes minimum expectations regarding the practices and behaviours that should be brought to bear in managing the exposures assumed. It is aligned with the interests of our stakeholders, feeds into our business planning processes, and shapes our discussions on risk matters generally.

Our framework comprises the following elements:

- (i) Nine broad categories of risk: credit; market; liquidity; legal and regulatory; governance; process and technology; people; country and political; and reputational. These represent the various risks that the Group assumes across the entirety of its operations in the pursuit of its strategic goals.
- (ii) For each risk category, there is a declared risk appetite. To ensure consistency in our risk conversations, these have been distilled into the three options set out in the table below, with each appetite designed to convey a clear strategic direction in terms of the risk/reward profile assumed:

APPETITE	DEFINITION	PROFILE
Averse	The Group will work to avoid exposure to this risk given its potential for financial loss, reputational damage, and/or the loss of customer and/or investor confidence.	Our processes and controls are defensive and focus on detection and prevention.
Cautious	Given the potential for financial loss, reputational damage, and the loss of customer and/or investor confidence, the Group will be very selective in the exposures assumed to this risk and will monitor it closely.	Security is favoured over reward. Exposures are only assumed when the risk can be quantified accurately and is assessed as being acceptable.
Open	The Group will consider opportunities to accept this risk and will accept those that fall within clearly defined parameters. The risk of loss or reputational damage is accepted but the exposure can be estimated reliably and can be managed to a tolerable level.	Reward is commensurate with the risk assumed. Exposures can be estimated reliably and structures, systems and processes are in place to manage it.

(iii) A statement of our governing principles relating to each risk category. This establishes the characteristics of the risks that the Bank is willing to assume and the management behaviours that we should exhibit when doing so.

Specific performance measures and tolerance thresholds in respect of each risk category, combining quantitative and qualitative targets (which are designed to reflect both forward looking as well as historical perspectives), are designed to provide executive management and the Board with an indication of the “direction” of our exposure relative to our declared risk appetite and an early warning of material adverse developments requiring remedial action. The metrics are monitored independently by the Group Risk function and are measured against actual results. The results of these analyses are reported to management at all levels of the organisation and are reviewed regularly by Group Risk, executive management, and the Board of Directors in the performance of their oversight activities.

Application of the Risk Appetite Framework

The limits, targets and thresholds used to measure performance continue to be refined by the Group Risk Management function in an effort to express as complete a “picture” as possible of our exposure to a given risk, relative to the stated appetite. All changes proposed pass through a formal review and approval process at both the executive management and Board levels prior to their adoption.

Through this approach, the Risk Appetite Framework sets the tone for our risk culture across the Group as a whole, influencing behaviours at all levels of the organisation and reinforcing accountability for decisions taken. Many of our jurisdictional offices have developed subsidiary risk appetite frameworks in conjunction with their local Risk Management functions. This ensures appropriate coverage of local risk factors and the establishment of proportional tolerance thresholds. Group Risk has reviewed these frameworks prior to their adoption and has modified any appetites proposed that are considered to be inconsistent with the overall Group approach.

Credit Ratings

Our credit ratings are provided in the table below:

As at 31 December 2014	Standard & Poor's	Moody's	Fitch
Short-term deposits	A2	P2	F1
Long-term deposits and debt	BBB+	A3	A-



JURISDICTION AND
BUSINESS LINE **OVERVIEWS**

BERMUDA

For more than 150 years, Bermuda has served as home to Butterfield's headquarters and remains the Bank's largest jurisdiction in terms of number of employees, Banking Centre locations and business volume. Recognised in 2013 and 2014 as Bermuda's Bank of the Year by *The Banker*, Butterfield is Bermuda's largest independent bank, offering a full range of community banking services and wealth management services, including private banking, asset management and personal trusts. Butterfield also provides services to corporate and institutional clients in Bermuda, which includes asset management and corporate trust services.

Net income before gains and losses was \$53.3 million at 31 December 2014, up \$19.5 million from \$33.8 million in the prior year, due principally to higher investment income, restructuring initiatives in 2013, and lower provisions for credit losses and interest expense on subordinated debt, all partially offset by higher professional fees. Net gains of \$6.9 million during the year were favourable by \$3.4 million compared to net gains of \$3.5 million in 2013, due primarily to one-off gains and reduced valuation allowances required on foreclosed properties. Net income after gains and losses was \$60.2 million, an increase of \$22.8 million from \$37.4 million in the prior year.

Net interest income before provision for credit losses increased by \$7.8 million to \$144.7 million in 2014 due to an increase of \$6.3 million in investment income and a decrease of \$3.6 million in subordinated debt expense, all partially offset by reduced loan interest revenue of \$1.5 million due to lower

average loan balances than in 2013 and \$0.6 million of other items relating primarily to higher interest paid on deposits.

Provision for credit losses was \$6.4 million, down \$6.3 million from the prior year, largely due to higher impairment of non-performing hospitality loans and residential mortgages in 2013.

Non-interest income of \$60.7 million at 31 December 2014 remained flat, due primarily to \$0.9 million of higher banking fees offset by asset management fees that were lower by \$1.1 million.

Operating expenses declined by \$5.3 million to \$145.7 million in 2014 due to operational losses and restructuring initiatives in 2013, all partially offset by higher professional fees.

Total assets as at 31 December 2014 were \$4.8 billion, up \$0.2 billion from year-end 2013. Customer deposits ended the year at \$3.9 billion, up \$0.3 billion from year-end 2013, and loan balances ended the year at \$2.1 billion, flat from year-end 2013.

Client assets under administration for the trust and custody businesses were \$33.7 billion and \$29.8 billion, respectively, whilst assets under management were \$2.3 billion.



(in \$ thousands)	2014	2013	\$ change	% change
Net interest income	144,692	136,900	7,792	5.7%
Provision for credit losses	(6,425)	(12,707)	6,282	(49.4%)
Non-interest income	60,692	60,682	10	-
Revenue before other gains (losses)	198,959	184,875	14,084	7.6%
Operating expenses	(145,696)	(151,042)	5,346	(3.5%)
Net income before other gains (losses)	53,263	33,833	19,430	57.4%
Total other gains	6,908	3,533	3,375	95.5%
Net income	60,171	37,366	22,805	61.0%

As at 31 December

(in \$ millions)

Customer deposits	3,870	3,551	319	9.0%
Loans, net of allowance for credit losses	2,031	2,075	(44)	(2.1%)
Total assets	4,797	4,624	173	3.7%

Assets under administration

Custody and other administration services	29,824	31,198	(1,374)	(4.4%)
Trust	33,650	35,621	(1,971)	(5.5%)

Assets under management

Butterfield Funds	1,893	1,956	(63)	(3.2%)
Other assets under management	404	805	(401)	(49.8%)
Total assets under management	2,297	2,761	(464)	(16.8%)

Number of employees

	537	554	(17)	(3.1%)
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CAYMAN ISLANDS

Butterfield is a leading financial services provider in the Cayman Islands, offering a comprehensive range of personal and corporate financial services. In addition to our strong retail presence, Butterfield is also focused on our wealth management offering through an award-winning private banking service, as well as asset management and trust services.

Named Bank of the Year in 2013 and 2014 by *The Banker*, Butterfield continued to enhance its client delivery channels including online, mobile banking and the American Airlines affinity credit card products, as well as the recent acquisition of the community and corporate banking business of HSBC Bank (Cayman) Limited. With three Banking Centres in excellent locations and 13 ATMs strategically located in Grand Cayman, Butterfield continues to be a leader in the provision of financial services locally.

Net income before gains and losses at 31 December 2014 was \$33.5 million, up \$7.6 million from \$25.9 million in 2013. The increase was due primarily to increases in interest income on loans and investments, banking fees, foreign exchange income, and lower provision for credit losses, offset by acquisition integration and other project costs.

Net interest income before loan loss provisions was \$59.4 million in 2014, an improvement of \$7.4 million compared to 2013. The increase was driven primarily by an improvement in loan income of \$6.8 million as loans increased by \$153.0 million. Investment income was up \$1.0 million resulting from an average increase of \$23.3 million in fixed rate available-for-sale securities and \$4.5 million in floating rate notes. Deposit liability costs of \$1.9 million were unchanged from the prior year as the interest-cost impact from average growth

in demand deposits was offset by a marginal decline in average time deposits.

Provision for credit losses was \$0.6 million compared to \$3.6 million in 2013. Significant general provisions in the prior year (relating to the increase in commercial loans and specific provisions on certain residential mortgages and commercial loans) resulted in the year-over-year reduction of \$3.0 million.

Non-interest income was \$33.5 million, up \$1.3 million year over year. The increase was due primarily to higher banking fees, driven by an increase in card, wire transfer and foreign exchange volumes, along with trust and asset management fees, partially offset by lower rental and other non-interest income.

Operating expenses increased \$4.2 million, year over year, to \$58.8 million, driven primarily by acquisition integration and other project costs, as well as growth in technology and loan servicing costs.

Total assets at 31 December 2014 were \$2.9 billion, up \$0.6 billion from year-end 2013, reflecting higher client deposit levels propelled by the acquisition of loans and deposits from HSBC Cayman in November 2014. Net loans increased by \$0.2 billion from year-end 2013 to end the year at \$1.1 billion. The available-for-sale investments, at \$0.8 billion at the end of fiscal 2014, were up \$0.3 billion, year over year.

Client assets under administration for the trust and custody businesses were \$3.4 billion and \$1.5 billion, respectively, whilst assets under management were \$0.8 billion at year end.



(in \$ thousands)	2014	2013	\$ change	% change
Net interest income	59,370	51,981	7,389	14.2%
Provision for credit losses	(557)	(3,554)	2,997	(84.3%)
Non-interest income	33,515	32,177	1,338	4.2%
Revenue before other gains (losses)	92,328	80,604	11,724	14.5%
Operating expenses	(58,829)	(54,674)	(4,155)	7.6%
Net income before other gains (losses)	33,499	25,930	7,569	29.2%
Total other gains (losses)	36	(492)	528	(107.3%)
Net income	33,535	25,438	8,097	31.8%

As at 31 December

(in \$ millions)

Customer deposits	2,591	2,071	520	25.1%
Loans, net of allowance for credit losses	1,104	951	153	16.1%
Total assets	2,864	2,309	555	24.0%

Assets under administration

Custody and other administration services	1,464	1,323	141	10.7%
Trust	3,432	1,591	1,841	115.7%

Assets under management

Butterfield Funds	111	139	(28)	(20.1%)
Other assets under management	696	541	155	28.7%
Total assets under management	807	680	127	18.7%

Number of employees	293	273	20	7.3%
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GUERNSEY

In Guernsey, Butterfield offers private banking, lending, asset management, custody, administered banking and fiduciary services.

Guernsey's results now include Legis Group, the acquisition having been completed on 1 April 2014. The acquisition was undertaken to expand our market presence and widen the range of corporate and institutional trust services for private clients and institutional and corporate clients.

Guernsey posted net income before gains and losses of \$5.1 million in 2014, compared to \$7.4 million in 2013. The decrease of \$2.3 million was due primarily to lower net interest income from compressed yields on investments and higher non-interest expenses, in particular higher technology and professional fees offset by a tax refund received.

Net interest income before provision for credit losses declined by \$1.7 million to \$18.1 million in 2014, compared to \$19.8 million last year, attributable to weakening inter-bank and investment yields and increased inter-Group subordinated debt interest.

Provision for credit losses was \$0.2 million compared to \$0.1 million in 2013.

Non-interest income increased \$7.1 million to \$26.8 million, attributable to additional revenues earned from the acquired Legis business together with higher asset management, custody and other administration services fees earned, offset by lower foreign exchange revenues.

Operating expenses at \$39.6 million were \$7.7 million higher than 2013 due primarily to additional expenses attributable to the acquired business and an increase in technology and amortisation expenses offset by a tax refund received.

Total assets at 31 December 2014 of \$1.6 billion were up \$0.2 billion from year-end 2013, driven by higher customer deposit balances that have increased cash and investment balances.

Client assets under administration for the trust business were \$41.0 billion in 2014, up from \$10.1 billion in 2013 and attributable to the acquired Legis business. Similarly, assets under administration for the custody and administered banking businesses were \$9.2 billion, down \$0.5 billion (4.2%) over 2013, due to adverse exchange rates. Client assets under management were \$0.4 billion at year-end.



(in \$ thousands)	2014	2013	\$ change	% change
Net interest income	18,061	19,808	(1,747)	(8.8%)
Provision for credit losses	(154)	(126)	(28)	22.2%
Non-interest income	26,814	19,678	7,136	36.3%
Revenue before other gains (losses)	44,721	39,360	5,361	13.6%
Operating expenses	(39,580)	(31,945)	(7,635)	23.9%
Net income before other gains (losses)	5,141	7,415	(2,274)	(30.7%)
Total other losses	(1,077)	(378)	(699)	184.9%
Net income	4,064	7,037	(2,973)	(42.2%)

As at 31 December

(in \$ millions)

Customer deposits	1,496	1,291	205	15.9%
Loans, net of allowance for credit losses	527	563	(36)	(6.4%)
Total assets	1,639	1,438	201	14.0%

Assets under administration

Custody and other administration services	9,247	9,654	(407)	(4.2%)
Trust	41,016	10,108	30,908	305.8%

Assets under management

Butterfield Funds	46	72	(26)	(36.1%)
Other assets under management	355	352	3	0.9%
Total assets under management	401	424	(23)	(5.4%)

Number of employees

	211	175	36	20.6%
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UNITED KINGDOM

In the UK, Butterfield provides a range of traditional private banking, lending, treasury and investment management services. This includes the provision of family office services to high net worth international clients through the expertise within the Butterfield Group.

The United Kingdom recorded net income of \$0.9 million in 2014, down \$3.3 million from \$4.2 million in 2013. The swing in credit provisions accounts for \$2.4 million of the decrease, as a net recovery of \$1.5 million was booked in 2013 compared to provisions of \$0.9 million in 2014.

Net interest income before credit provisions of \$16.2 million was up \$1.3 million from \$14.9 million at year-end 2013. The increase was due primarily to a one-off receipt of default loan interest of \$1.6 million, but also due in part to the revised strategy on customer deposit products, which reduced interest expenses by \$0.3 million compared to 2013.

Provision for credit losses increased by \$2.4 million. We recorded a net loss

in 2014 of \$0.9 million, the majority of which related to two commercial loan facilities. This compares to a net recovery of \$1.5 million in 2013 following recoveries from two previously written off facilities.

Operating expenses of \$22.2 million were \$2.3 million higher than 2013 due primarily to an increase in non-income taxes, as well as increased professional fees relating to external assistance and advice received on a number of projects associated with changing regulatory requirements.

Total assets at year-end were consistent with year-end 2013 at \$0.8 billion. Loan balances were \$0.4 billion in 2014, down \$0.1 billion from year-end 2013. Customer deposit balances of \$0.6 billion at year-end 2013 remained flat during 2014 to end the year at the same level.

Assets under management of \$0.3 billion were unchanged from year-end 2013. Custody client assets under administration at the end of 2014 amounted to \$1.9 billion.



(in \$ thousands)	2014	2013	\$ change	% change
Net interest income	16,213	14,932	1,281	8.6%
Provision for credit losses	(912)	1,504	(2,416)	(160.6%)
Non-interest income	7,717	7,384	333	4.5%
Revenue before other gains (losses)	23,018	23,820	(802)	(3.4%)
Operating expenses	(22,164)	(19,841)	(2,323)	11.7%
Net income before other gains (losses)	854	3,979	(3,125)	(78.5%)
Total other gains	1	181	(180)	(99.4%)
Net income	855	4,160	(3,305)	(79.4%)

As at 31 December

(in \$ millions)

Customer deposits	614	607	7	1.2%
Loans, net of allowance for credit losses	357	497	(140)	(28.2%)
Total assets	833	828	5	0.6%

Assets under administration – Custody	1,920	1,506	414	27.5%
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Assets under management

Butterfield Funds	88	97	(9)	(9.3%)
Other assets under management	183	194	(11)	(5.7%)
Total assets under management	271	291	(20)	(6.9%)

Number of employees	85	97	(12)	(12.4%)
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GROUP TRUST

Our trust and corporate services specialists deliver solutions to meet a range of client needs, including estate and succession planning, administration of complex asset holdings, and efficient co-ordination for the affairs of international families; as well as the pension, employee benefit and other fiduciary requirements of multinational corporations and institutions.

Alongside our traditional strengths in providing services to families and institutions connected with the United Kingdom, North America, and Europe, in 2014 we continued to build relationships with clients connected to the Asian and Latin American regions.

Our goal is to deliver consistently reliable service to our clients underpinned by the technical expertise of our multi-jurisdictional team, which operates through separately incorporated trust businesses in our jurisdictions of choice: The Bahamas, Bermuda, the Cayman Islands, Guernsey and Switzerland. To this end, training and continual professional development for our staff remained a priority in 2014. Active participation in the local branches of leading trust industry associations and bodies such as the Society of Trust and Estate Practitioners also assists our employees in remaining at the forefront of their specialisations.

Our multi-jurisdictional expertise in trust and fiduciary services has been recognised by a number of prestigious wealth services industry awards. Most recently, Butterfield won awards in respect of Succession Planning Advice and Trusts in Guernsey, and for Net-Worth-Specific Services for Super Affluent Clients in the Cayman Islands, in the 2015 annual *Euromoney* Private Banking and Wealth Management Awards. The *Euromoney* awards are decided by a vote of private banking professionals from around the globe and recognise recipients offering the leading private wealth services and products in their respective markets. *Euromoney* magazine is considered the preeminent journal of the international finance community.

Total Trust assets under administration ("Trust AUA") at 31 December:

(in \$ millions)	2014	2013	\$ change	% change
Bermuda	33,650	35,621	(1,971)	(5.5%)
Cayman Islands	3,432	1,591	1,841	115.7%
Guernsey	41,016	10,108	30,908	305.8%
Switzerland	3,097	2,566	531	20.7%
The Bahamas	3,203	3,370	(167)	(5.0%)
Total	84,398	53,256	31,142	58.5%

The *Euromoney* award came on the heels of recognition from UK-based publisher of wealth-management industry news and directories, *Citywealth*, with Butterfield being named runner up in the categories of Best Trust Company – Caribbean and Best Trust Company – Guernsey at *Citywealth's* International Financial Centre Awards in January 2015. This followed on our successes as winners of Best Trust Company – Switzerland and Best Trust Company – Caribbean in last year's awards.

We have also been prominent participants in the international fiduciary services industry through sponsorship of leading events such as the 2014 STEP Asia conference, which took place in Hong Kong, the STEP Caribbean conference held in The Bahamas, the upcoming Transcontinental Trusts Conference taking place in Bermuda in April 2015 and the International Bar Association's 20th Wealth Transfer Conference in London in March 2015.

Revenues are derived from a combination of fixed fees, fees based on the market values of assets held in trust and fees based on time spent in relation to the range of personal trust and company administration services, and the pension, employee benefit and other corporate and institutional trust services we provide.

In 2014, trust revenues totalled \$38.3 million, an increase of 25.8% from 2013 attributable largely to the acquisition of the Legis Group's trust and corporate administration business in Guernsey, and also to strong new business results. Close relationships with our clients and their advisers, as well as structured, proactive business development activities led to an increase in new business in both personal and institutional fiduciary services in all of our businesses.

Trust revenues represented 28.4% of total non-interest income in 2014, up from 24.1% in 2013.



GROUP ASSET MANAGEMENT

Butterfield Asset Management focuses on fulfilling the financial needs of those who demand the highest levels of service and expertise. Each client has direct access to his or her portfolio manager who is, in turn, supported by a Group investment discipline designed to leverage resources from across the organisation, including a Core Strategy and Research team based in the United Kingdom.

The Group provides a broad range of investment services to institutional and private clients in Bermuda, the Cayman Islands, Guernsey, and the United Kingdom. Principal services include discretionary investment management and managed portfolio services. Advisory and self-directed brokerage options are available to clients in Bermuda and the Cayman Islands. The Group also provides money market and mutual fund offerings in all four jurisdictions. Institutional clients consist primarily of captive insurance companies in Bermuda and the Cayman Islands. Private clients are high net worth individuals and their fiduciary vehicles served from all four jurisdictions. Retail and mass affluent clients are served in Bermuda and the Cayman Islands as part of Butterfield's community banking platform.

Group Asset Management revenue was \$17.7 million in 2014, compared to \$18.1 million in 2013. The decrease of \$0.4 million is due principally to lower short-term interest rates and their trickle-down effect on Money Market Fund management fee income. This was partially offset by increased management fees from private clients.

Assets under management were \$3.8 billion at year-end 2014, compared to \$4.2 billion at the end of 2013. The decrease of \$0.4 billion is due primarily to the decline in institutional clients, as insurance captives continued to move assets back onshore, and withdrawals of Money Market Fund balances as clients continued to seek out better-yielding alternatives for short-term investments.

Total Assets under Management ("AUM") at 31 December:

(in \$ millions)	2014			2013		
	Butterfield Funds	Other assets	Total AUM	Butterfield Funds	Other assets	Total AUM
Bermuda	1,893	404	2,297	1,956	805	2,761
Cayman Islands	111	696	807	139	541	680
Guernsey	46	355	401	72	352	424
The Bahamas	26	-	26	40	-	40
UK	88	183	271	97	194	291
Total	2,164	1,638	3,802	2,304	1,892	4,196



FINANCIAL STATEMENTS

MANAGEMENT'S FINANCIAL REPORTING RESPONSIBILITY

The Management of The Bank of N.T. Butterfield & Son Limited is responsible for the preparation of the consolidated financial statements contained in this report, which covers all of the interests of the Bank. Management has fully disclosed its income, assets, liabilities and off-balance sheet commitments. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and, where appropriate, are based on the best estimates and judgment of management.

Management has established and maintains a system of financial reporting and internal controls to provide reasonable assurance that transactions are properly authorised and recorded, assets are protected against unauthorised use or disposition and liabilities are recognised. These procedures include the careful selection and training of qualified staff, the establishment of organisational structures providing an appropriate and well-defined division of responsibilities, and the communication of policies and standards of business conduct throughout the Bank.

The system of internal controls is further supported by a professional staff of internal auditors who conduct periodic inspections of all aspects of the Bank's operations. In addition, the Bank's Head of Group Internal Audit reports to, and has full and free access to the Audit Committee of the Board of Directors.

The Audit Committee, composed entirely of Directors who are not employees of the Bank, reviews the financial statements before such statements are approved by the Board of Directors and submitted to the Bank's shareholders. The Committee meets and consults regularly with management, the internal auditors and our external independent auditors to review the scope and results of their work.

Under the provisions of the Bermuda Monetary Authority Act 1969, the Bermuda Monetary Authority is charged with the supervision of the Bank. Such supervision is in line with international practices and combines a comprehensive system of statistical returns, providing a detailed breakdown of the balance sheet and statement of operations of the Bank, and regular meetings with the senior management of the Bank. Such regular reviews are intended to satisfy the Authority that the safety and interests of the depositors, creditors and shareholders of the Bank are being duly observed and that the Bank is in a sound financial condition.

The accounting firm of PricewaterhouseCoopers Ltd., the shareholders' independent auditors, has examined the consolidated financial statements of the Bank in accordance with auditing standards generally accepted in the United States of America and have expressed their opinion in their report to the shareholders. The auditors have unrestricted access to, and meet periodically with, the Audit Committee to review their findings regarding internal controls over the financial reporting process, auditing matters and financial reporting issues. Management has made available to PricewaterhouseCoopers Ltd. all of the Bank's financial records and related data, as well as the minutes of shareholders' and Directors' meetings.



Brendan McDonagh
Chairman & Chief Executive Officer
26 February 2015



John Maragliano
Executive Vice President & Chief Financial Officer
26 February 2015



26 February 2015

Independent Auditor's Report

To the Board of Directors and Shareholders of The Bank of N.T. Butterfield & Son Limited

We have audited the accompanying consolidated financial statements of The Bank of N.T. Butterfield & Son Limited and its subsidiaries, which comprise the consolidated balance sheets as of 31 December 2014 and 2013, and the related consolidated statements of operations, of comprehensive income, of changes in shareholders' equity and of cash flows for the years then ended.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the 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.

Auditor's responsibility

Our responsibility is to express an opinion on the 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 our 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, we consider 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, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. 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.

*PricewaterhouseCoopers Ltd., Chartered Professional Accountants, P.O. Box HM 1171, Hamilton HM EX, Bermuda
T: +1 (441) 295 2000, F: +1 (441) 295 1242, www.pwc.com/bermuda*



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Bank of N.T. Butterfield & Son Limited and its subsidiaries at 31 December 2014 and 2013, 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants

Reference: Independent Auditor's Report on the Consolidated Financial Statements of The Bank of N.T. Butterfield & Son Limited as at 31 December 2014 and 2013 and for the years then ended.

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CONSOLIDATED BALANCE SHEETS

(in thousands of Bermuda dollars, except per share data)

	As at	
	31 December 2014	31 December 2013
Assets		
Cash and demand deposits with banks	482,286	411,124
Cash equivalents	1,581,025	1,319,348
Total cash and cash equivalents	2,063,311	1,730,472
Short-term investments	394,770	54,981
Debt and equity securities		
Trading	6,871	53,328
Available-for-sale	2,644,063	2,226,921
Held-to-maturity	338,177	333,394
Total investments in debt and equity securities	2,989,111	2,613,643
Loans, net of allowance for credit losses	4,019,128	4,088,225
Premises, equipment and computer software	215,123	240,603
Accrued interest	19,241	19,621
Goodwill	24,821	7,086
Intangible assets	33,041	12,035
Investments in affiliates	12,838	12,533
Other real estate owned	19,300	27,407
Other assets	67,756	64,209
Total assets	9,858,440	8,870,815
Liabilities		
Customer deposits		
Non-interest bearing	1,558,122	1,012,973
Interest bearing	7,073,549	6,584,756
Total customer deposits	8,631,671	7,597,729
Bank deposits	39,906	40,222
Total deposits	8,671,577	7,637,951
Securities sold under agreement to repurchase	-	25,535
Employee future benefits	117,897	89,109
Accrued interest	4,754	3,825
Preference share dividends payable	655	616
Other liabilities	97,183	104,218
Total other liabilities	220,489	223,303
Subordinated capital	117,000	207,000
Total liabilities	9,009,066	8,068,254
Shareholders' equity		
Common share capital (BMD 0.01 par; authorised shares 26,000,000,000) issued and outstanding: 550,023,138 (2013: 549,803,460)	5,500	5,498
Preference share capital (USD 0.01 par; USD 1,000 liquidation preference) issued and outstanding: 183,046 (2013: 183,606)	2	2
Contingent value convertible preference share capital (USD 0.01 par) issued and outstanding: 6,909,397 (2013: 7,129,075)	69	71
Additional paid-in capital	1,348,465	1,344,755
Accumulated deficit	(405,804)	(460,157)
Less: treasury common shares: 12,770,604 shares (2013: 8,310,421 shares)	(22,086)	(10,948)
Accumulated other comprehensive loss	(76,772)	(76,660)
Total shareholders' equity	849,374	802,561
Total liabilities and shareholders' equity	9,858,440	8,870,815

The accompanying notes are an integral part of these consolidated financial statements.



Brendan McDonagh
Chairman & Chief Executive Officer

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of Bermuda dollars, except per share data)

	For the year ended	
	31 December 2014	31 December 2013
Non-interest income		
Asset management	17,728	18,067
Banking	34,280	32,490
Foreign exchange revenue	29,379	29,311
Trust	38,268	30,410
Custody and other administration services	10,166	10,232
Other non-interest income	5,009	5,453
Total non-interest income	134,830	125,963
Interest income		
Loans	191,986	187,042
Investments	67,757	60,875
Deposits with banks	5,358	5,291
Total interest income	265,101	253,208
Interest expense		
Deposits	20,903	19,973
Subordinated capital	5,628	9,186
Securities sold under repurchase agreements	83	240
Total interest expense	26,614	29,399
Net interest income before provision for credit losses	238,487	223,809
Provision for credit losses	(8,048)	(14,825)
Net interest income after provision for credit losses	230,439	208,984
Net trading gains	250	315
Net realised gains (losses) on available-for-sale investments	8,680	(61)
Net realised / unrealised losses on other real estate owned	(1,804)	(5,000)
Impairment of fixed assets	(1,986)	-
Net gain on sale of affiliates and subsidiary	277	1,227
Impairment of investment in affiliate	-	(3,800)
Net other gains	451	14,068
Total other gains	5,868	6,749
Total net revenue	371,137	341,696
Non-interest expense		
Salaries and other employee benefits	129,761	131,064
Technology and communications	57,119	54,223
Property	24,312	24,309
Professional and outside services	24,022	15,012
Non-income taxes	14,175	13,682
Amortisation of intangible assets	4,281	3,358
Marketing	3,802	3,484
Other expenses	15,495	17,513
Total non-interest expense	272,967	262,645
Net income before income taxes	98,170	79,051
Income tax benefit (expense)	169	(891)
Net income	98,339	78,160
Earnings per common share		
Basic earnings per share	0.15	0.11
Diluted earnings per share	0.15	0.11

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Bermuda dollars)

	For the year ended	
	31 December 2014	31 December 2013
Net income	98,339	78,160
Other comprehensive income (loss), net of taxes		
Net change in unrealised gains (losses) on translation of net investment in foreign operations	(2,874)	2,855
Net change in unrealised gains (losses) on available-for-sale investments	49,905	(84,917)
Employee future benefits adjustments	(47,143)	17,925
Other comprehensive loss	(112)	(64,137)
Total comprehensive income	98,227	14,023

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	For the year ended			
	31 December 2014		31 December 2013	
	Number of shares	In thousands of Bermuda dollars	Number of shares	In thousands of Bermuda dollars
Common share capital issued and outstanding				
Balance at beginning of year	549,803,460	5,498	549,677,803	5,496
Conversion of contingent value preference shares	219,678	2	125,657	2
Balance at end of year	550,023,138	5,500	549,803,460	5,498
Preference shares				
Balance at beginning of year	183,606	2	195,578	2
Repurchase and cancellation of preference shares	(560)	-	(11,972)	-
Balance at end of year	183,046	2	183,606	2
Contingent value convertible preference shares				
Balance at beginning of year	7,129,075	71	7,254,732	73
Conversion to common shares	(219,678)	(2)	(125,657)	(2)
Balance at end of year	6,909,397	69	7,129,075	71
Additional paid-in capital				
Balance at beginning of year		1,344,755		1,355,689
Stock option plan expense		8,869		6,347
Share-based compensation settlements		(4,503)		(2,553)
Reduction of carrying value on repurchase of preference shares		(560)		(11,972)
Premium paid on repurchase of preference shares		(96)		(2,756)
Balance at end of year		1,348,465		1,344,755
Accumulated deficit				
Balance at beginning of year		(460,157)		(482,796)
Net income for year		98,339		78,160
Common share cash dividends declared and paid				
\$0.05 per share (2013 \$0.07 per share)		(27,440)		(38,531)
Cash dividends declared on preference shares		(14,712)		(15,094)
Preference shares guarantee fee		(1,834)		(1,896)
Balance at end of year		(405,804)		(460,157)
Treasury common shares				
Balance at beginning of year	8,310,421	(10,948)	7,066,586	(8,767)
Share-based settlement	(90,000)	180	(119,873)	173
Purchase of treasury shares	8,567,340	(17,018)	4,038,482	(5,611)
Share-based compensation settlements	(4,017,157)	5,700	(2,674,774)	3,257
Balance at end of year	12,770,604	(22,086)	8,310,421	(10,948)
Accumulated other comprehensive loss				
Balance at beginning of year		(76,660)		(12,523)
Other comprehensive loss, net of taxes		(112)		(64,137)
Balance at end of year		(76,772)		(76,660)
Total shareholders' equity		849,374		802,561

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Bermuda dollars)

	For the year ended	
	31 December 2014	31 December 2013
Cash flows from operating activities		
Net income	98,339	78,160
Adjustments to reconcile net income to operating cash flows		
Depreciation and amortisation	47,251	44,957
Impairment of fixed assets	1,986	-
Decrease in carrying value of investments in affiliates	(834)	(1,068)
Share-based payments and settlements	9,049	6,520
Realised gains on legal settlement	-	(13,108)
Contingent consideration fair value adjustment	1,070	-
Equity pick up on private equity partnership investment	(458)	-
Net gain on sales of affiliates and subsidiary	(277)	(1,227)
Impairment of investment in affiliate	-	3,800
Net realised / unrealised losses on other real estate owned	1,804	5,000
Net realised (gains) losses on available-for-sale investments	(8,680)	61
Provision for credit losses	8,048	14,825
Changes in operating assets and liabilities		
Decrease (increase) in accrued interest receivable	594	(585)
Increase in other assets	(3,955)	(24,716)
Increase in accrued interest payable	1,040	1,011
Decrease in other liabilities and employee future benefits	(18,885)	(2,965)
	136,092	110,665
Net change in trading investments	46,574	8,464
Cash provided by operating activities from operations	182,666	119,129
Cash flows from investing activities		
Net (increase) decrease in short-term investments	(343,773)	21,393
Net proceeds on sale of affiliate and dividends received	806	4,598
Purchase of subsidiary	(34,757)	-
Net amounts received for assuming deposits acquired from another bank	310,578	-
Proceeds from legal settlement	-	13,108
Net additions to premises, equipment and computer software	(6,128)	(19,169)
Proceeds from other real estate owned	12,389	8,619
Net decrease (increase) in loans	145,023	(133,503)
Held-to-maturity investments: proceeds from pay downs	12,426	19,435
Held-to-maturity investments: purchases	(18,073)	(114,588)
Available-for-sale investments: proceeds from sale	160,208	387,149
Available-for-sale investments: proceeds from maturities and pay downs	707,158	1,073,069
Available-for-sale investments: purchases	(1,287,004)	(1,204,440)
Cash (used in) provided by investing activities	(341,147)	55,671
Cash flows from financing activities		
Net increase in demand and term deposit liabilities	681,258	215,800
Net decrease in securities sold under agreement to repurchase	(25,535)	(83,486)
Repayment of subordinated capital	(90,000)	(53,000)
Common shares repurchased	(17,018)	(5,611)
Preference shares repurchased	(656)	(14,852)
Proceeds from stock option exercise	1,198	706
Cash dividends paid on preference shares	(14,673)	(15,015)
Cash dividends paid on common and contingent value convertible preference shares	(27,440)	(38,531)
Preference shares guarantee fee paid	(1,834)	(1,896)
Cash provided by financing activities	505,300	4,115
Net effect of exchange rates on cash and cash equivalents	(13,980)	9,031
Net increase in cash and cash equivalents	332,839	187,946
Cash and cash equivalents at beginning of year	1,730,472	1,542,526
Cash and cash equivalents at end of year	2,063,311	1,730,472
Supplemental disclosure of cash flow information		
Cash interest paid	27,654	30,410
Cash income tax paid	985	911
Non-cash item		
Transfer to other real estate owned	6,086	6,719

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Bermuda dollars unless otherwise stated)

NOTE 1: NATURE OF BUSINESS

The Bank of N.T. Butterfield & Son Limited ("Butterfield", "Bank" or the "Company") is incorporated under the laws of Bermuda and has a banking licence under the Bank and Deposit Companies Act, 1999 ("the Act"). Butterfield is regulated by the Bermuda Monetary Authority ("BMA"), which operates in accordance with Basel principles.

Butterfield is a full service community bank in Bermuda and Cayman and a provider of specialised wealth management services in all its jurisdictions. Services offered include retail, private and corporate banking, treasury, custody, asset management and personal and institutional trust services. The Bank provides such services from six jurisdictions: Bermuda, Cayman, Guernsey, Switzerland, The Bahamas and the United Kingdom. The Bank holds all applicable licenses required in the jurisdictions in which it operates.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation and Use of Estimates and Assumptions

The accounting and financial reporting policies of the Bank and its subsidiaries conform to generally accepted accounting principles in the United States of America ("GAAP"). The preparation of consolidated financial statements in accordance 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 year, and actual results could differ from those estimates.

Critical accounting estimates are those that require management to make subjective or complex judgments about the effect of matters that are inherently uncertain and may change in subsequent periods. Changes that may be required in the underlying assumptions or estimates in these areas could have a material impact on the future financial condition and results of operations. Management believes that the most critical accounting policies upon which the financial condition depends, and which involve the most complex or subjective decisions or assessments, are as follows:

- Allowance for credit losses
- Fair value and impairment of financial instruments
- Impairment of long-lived assets
- Impairment of goodwill
- Employee future benefits
- Share-based payments

b. Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries (collectively the "Bank"), and those variable interest entities ("VIEs") where the Company is the primary beneficiary. Intercompany accounts and transactions have been eliminated. The Bank consolidates subsidiaries where it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. The Bank is deemed to have a controlling financial interest and is the primary beneficiary of a VIE if it has both the power to direct the activities of the VIE that most significantly impact the VIE economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The determination of whether the Bank meets the criteria to be considered the primary beneficiary of a VIE requires a periodic evaluation of all transactions (such as investments, loans and fee arrangements) with the entity.

Entities where the Bank holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence, other than investments in designated VIEs, are accounted for under the equity method, and the pro rata share of their income (loss) is included in other non-interest income.

c. Foreign Currency Translation

Assets, liabilities, revenues and expenses denominated in United States ("US") dollars are translated to Bermuda dollars at par. Assets and liabilities of the parent company arising from other foreign currency transactions are translated into Bermuda dollars at the rates of exchange prevailing at the balance sheet date. The resulting gains or losses are included in foreign exchange revenue in the consolidated statements of operations.

The assets and liabilities of foreign currency-based subsidiaries are translated at the rate of exchange prevailing on the balance sheet date, while associated revenues and expenses are translated to Bermuda dollars at the average rates of exchange prevailing throughout the year. Unrealised translation gains or losses on investments in foreign currency-based subsidiaries are recorded as a separate component of shareholders' equity within accumulated other comprehensive loss ("AOCL"). Gains and losses on foreign currency-based subsidiaries are recorded in the consolidated statements of operations when the Bank ceases to have a controlling financial interest in a foreign currency-based subsidiary.

d. Assets Held in Trust or Custody

Securities and properties (other than cash and deposits held with the Bank and its subsidiaries) held in trust, custody, agency or fiduciary capacity for customers are not included in the consolidated balance sheet because the Bank is not the beneficiary of these assets.

e. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash items in the process of collection, amounts due from correspondent banks and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in fair value. Such investments are those with less than three months' maturity from the date of acquisition and include unrestricted term deposits, certificates of deposit and treasury bills.

f. Short-Term Investments

Short-term investments comprise restricted term and demand deposits and unrestricted term deposits and treasury bills with less than one year but greater than three months maturity from the date of acquisition. From August 2014, certificates of deposit with less than one year but greater than three months maturity from the date of acquisition are designated as short-term investments as the investments are highly liquid and subject to an insignificant risk of change in fair value.

g. Investments

Investments in debt and equity securities are classified as trading, available-for-sale ("AFS") or held-to-maturity ("HTM").

Investments are classified primarily as AFS when used to manage the Bank's exposure to interest rate and liquidity movements, as well as to make strategic longer-term investments. AFS investments are carried at fair value in the consolidated balance sheet with unrealised gains and losses reported as net increase or decrease to AOCL. Debt and equity securities classified as trading investments are carried at fair value in the consolidated balance sheet, with unrealised gains and losses included in the consolidated statements of operations as net realised / unrealised gains (losses) on trading investments. Investments that the Bank has the positive intent and ability to hold to maturity are classified as HTM and are carried at amortised cost in the consolidated balance sheet. Unrecognised gains and losses on HTM securities are disclosed in the notes to the consolidated financial statements.

The specific identification method is used to determine realised gains and losses on AFS and HTM investments, which are included in net realised gains and losses on AFS and HTM investments, respectively, in the consolidated statements of operations.

Dividend and interest income, including amortisation of premiums and discounts, on securities for which cash flows are not considered uncertain are included in interest income in the consolidated statements of operations. For securities with uncertain cash flows, the investments are accounted for under the cost recovery method, whereby all principal and coupon payments received are applied as a reduction of the amortised cost and carrying amount. Accrual of income is suspended in respect of debt securities that are in default, or from which it is unlikely that future interest payments will be received as scheduled.

Contained within other assets are investments in a closed ended fund (prior to its redemption in 2013) and private equity companies for which the Bank does not have sufficient rights or ownership interests to follow the equity method of accounting. With respect to the closed ended fund, the Bank used the net assets value as a practical expedient for fair value. Unquoted equity investments which are held directly by the Bank and which do not have readily determinable fair values are recorded at cost and reviewed for impairment if indicators of impairment exist.

Investments in affiliates, which includes investments whereby the Bank has the ability to influence, but not control, the financial or operating policies of such entities, are accounted for using the equity method of accounting.

Recognition of other-than-temporary impairments

For debt securities, management considers a decline in fair value to be other-than-temporary when it does not expect to recover the entire amortised cost basis of the security. Investments in debt securities in unrealised loss positions are analysed as part of management's ongoing assessment of other-than-temporary impairment ("OTTI"). When management intends to sell such securities or it is more likely than not that the Bank will be required to sell the securities before recovering the amortised cost, it recognises an impairment loss equal to the full difference between the amortised cost basis and the fair value of those securities. When management does not intend to sell or it is not more likely than not that the Bank will be required to sell such securities before recovering the amortised cost, management determines whether any credit losses exist to identify any OTTI.

Under certain circumstances, management will perform a qualitative determination and consider a variety of factors, including the length of time and extent to which the fair value has been less than cost; adverse conditions specifically related to the industry, geographic area or financial condition of the issuer or underlying collateral of a security; payment structure of the security; changes to the rating of the security by a rating agency; the volatility of the fair value changes; and changes in fair value of the security after the balance sheet date. Alternatively, management estimates cash flows over the remaining lives of the underlying security to assess whether credit losses exist.

In situations where there is a credit loss, only the amount of impairment relating to credit losses on AFS and HTM investments is recognised in net income. For AFS investments, the decrease in fair value relating to factors other than credit losses are recognised in AOCL. Cash flow estimates take into account expectations of relevant market and economic data as of the end of the reporting period, including, for example, underlying loan-level data, and structural features of securitisation, such as subordination, excess spread, over collateralisation or other forms of credit enhancement. The degree of judgment involved in determining the recoverable value of an investment security is dependent upon the availability of observable market prices or observable market parameters. When observable market prices and parameters do not exist, judgment is necessary to estimate recoverable value which gives rise to added uncertainty in the assessment. The assessment takes into consideration factors such as interest rate changes, movements in credit spreads, default rate assumptions, prepayment assumptions, type and quality of collateral, and market sentiment.

With respect to the pass-through note investment ("PTN"), prior to its redemption in 2014, management compared cash flow projections to fair value and amortised cost to determine if any credit losses existed. Management's cash flow forecasts for the PTN were created in conjunction with a specialist in analytical cash flow modelling. Management also performed other analyses to support its cash flow projections to assess the reasonability.

Management's fair valuations may include inputs and assumptions that are less observable or require greater estimation, thereby resulting in values which may be greater or lower than the actual value at which the investments may be ultimately sold or the ultimate cash flows that may be recovered. If the assumptions on which management based its fair valuations change, the Bank may experience additional OTTI or realised losses or gains, and the period-to-period changes in value could vary significantly.

h. Loans

Loans are reported as the principal amount outstanding, net of allowance for credit losses, unearned income and net deferred loan fees. Interest income is recognised over the term of the loan using the effective interest method, or on a basis approximating a level rate of return over the term of the loan, except for loans classified as non-accrual.

Acquired loans

Acquired loans are recorded at fair value at the date of acquisition. No allowance for credit losses is recorded on the acquisition date as the fair value of the acquired assets incorporates assumptions regarding credit risk. Acquired loans with evidence of credit quality deterioration for which it is probable that the Bank will not receive all contractually required payments receivable are accounted for as purchased credit-impaired loans. Generally, acquired loans that meet the Bank's definition for non-accrual status are considered to be credit-impaired.

The excess of the cash flows expected to be collected on purchased credit-impaired loans, measured as of the acquisition date, over the estimated fair value is referred to as the accretible yield and is recognised in interest income over the remaining life of the loan using an effective yield methodology. The difference between contractually required payments as of the acquisition date and the cash flows expected to be collected is referred to as the non-accretible difference, which is included as a reduction of the carrying amount of the purchased credit-impaired loans.

The Bank evaluates at each balance sheet date whether the estimated cash flows and corresponding present value of its loans determined using the effective interest rates has decreased and if so, recognises an allowance for credit losses in its consolidated statements of operations. For any increases in cash flows expected to be collected, the Bank adjusts any prior recorded allowance for purchased credit-impaired loans first, and then the amount of accretible yield recognised on a prospective basis over the purchased credit-impaired loan's remaining life. Purchased credit-impaired loans are not considered non-performing and continue to have an accretible yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected.

Impaired loans

A loan is considered to be impaired when, based on current information and events, the Bank determines that it will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Impaired loans include all non-accruing loans and all loans modified in a troubled debt restructuring ("TDR") even if full collectability is expected following the restructuring.

When a loan is identified as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, the current fair value of the collateral, less selling costs, is used instead of discounted cash flows.

If the Bank determines that the expected realisable value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortised premium or discount), impairment is recognised through an allowance estimate. If the Bank determines that part of the allowance is uncollectible, that amount is charged off.

Non-accrual

Commercial, commercial real estate and consumer loans (excluding credit card consumer loans) are placed on non-accrual status generally if:

- in the opinion of management, full payment of principal or interest is in doubt; or
- principal or interest is 90 days past due.

Residential mortgages are placed on non-accrual status immediately if:

- in the opinion of management, full payment of principal or interest is in doubt; or
- when principal or interest is 90 days past due, unless the loan is well secured and any ongoing collection efforts are reasonably expected to result in repayment of all amounts due under the contractual terms of the loan.

Interest income on non-accrual loans is recognised only to the extent it is received in cash. Cash received on non-accrual loans where there is no doubt regarding full repayment (no impairment recognised in the form of a specific allowance) is first applied as repayment of the past due principal amount of the loan and secondly to past due interest and fees.

Where there is doubt regarding the ultimate full repayment of the non-accrual loan (impairment recognised in the form of a specific allowance), all cash received is applied to reduce the principal amount of the loan. Interest income on these loans is recognised only after the entire balance receivable is recovered and interest is actually received.

Loans are returned to accrual status when:

- none of the principal or accrued interest is past due (with certain exceptions as noted below) and the Bank expects repayment of the remaining contractual obligation; or
- when the loan becomes well secured and in the process of collection.

Loans modified in a TDR

A modification of a loan constitutes a TDR when a borrower is experiencing financial difficulty and the modification constitutes a concession. If a restructuring is considered a TDR, the Bank is required to make certain disclosures in the notes of the consolidated financial statements and individually evaluate the restructured loan for impairment. The Bank employs various types of concessions when modifying a loan that it would not otherwise consider, which may include extension of repayment periods, interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimise economic loss and to avoid foreclosure or repossession of collateral.

Commercial and industrial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor is often requested.

Commercial mortgage and construction loans modified in a TDR often involve extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a new borrower or guarantor.

Construction loans modified in a TDR may also involve extending the interest-only payment period.

Residential mortgage modifications generally involve a short-term forbearance period after which the missed payments are added to the end of the loan term, thereby extending the maturity date. Interest continues to accrue on the missed payments and as a result, the effective yield on the mortgage remains unchanged. As the forbearance period usually involves an insignificant payment delay they typically do not meet the reporting criteria for a TDR.

Automobile loans modified in a TDR are primarily comprised of loans where the Bank has lowered monthly payments by extending the term.

When a loan undergoes a TDR, the determination of the loan's accrual versus non-accrual status following the modification depends on several factors. As with the risk rating process, the accrual status decision for such a loan is a separate and distinct process from the loan's TDR analysis and determination. Management considers the following in determining the accrual status of restructured loans:

- If the loan was appropriately on accrual status prior to the restructuring, the borrower has demonstrated performance under the previous terms, and the Bank's credit evaluation shows the borrower's capacity to continue to perform under the restructured terms (both principal and interest payments), it is likely that the appropriate conclusion is for the loan to remain on accrual at the time of the restructuring. This evaluation must include consideration of the borrower's sustained historical repayment performance for a reasonable period prior to the date on which the loan was restructured. A sustained period of repayment performance generally would be a minimum of six months and would involve payments of cash or cash equivalents; or
- If the loan was on non-accrual status before the restructuring, but the Bank's credit evaluation shows the borrower's capacity to meet the restructured terms, the loan would likely remain as non-accrual until the borrower has demonstrated a reasonable period of sustained repayment performance. As noted above, this period generally would be at least six months (thereby providing reasonable assurance as to the ultimate collection of principal and interest in full under the modified terms). Sustained performance before the restructuring may be taken into account.

Loans that have been modified in a TDR are restored to accrual status only when interest and principal payments are brought current for a continuous period of six months under the modified terms. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on non-accrual status.

A loan that is modified in a TDR prior to becoming impaired will be left on accrual status if full collectability in accordance with the restructured terms is expected. The Bank works with its customers in these difficult economic times and may enter into a TDR for loans that are in default, or at risk of defaulting, even if the loan is not impaired.

Delinquencies

The entire balance of an account is contractually delinquent if the minimum payment of principal or interest is not received by the specified due date. Delinquency is reported on loans that are 30 days or more past due.

Charge-offs

The Bank recognises charge-offs when it determines that loans are uncollectible, and this generally occurs when all commercially reasonable means of recovering the loan balance have been exhausted.

Commercial and consumer loans are either fully or partially charged-off down to the fair value of collateral securing the loans when:

- management judges the loan to be uncollectible;
- repayment is expected to be protracted beyond reasonable time frames;
- the asset has been classified as a loss by either the Bank's internal loan review process or external examiners; or
- the customer has filed bankruptcy and the loss becomes evident owing to a lack of assets or cash flow.

The outstanding balance of commercial and consumer real estate secured loans and residential mortgages that are in excess of the estimated property value, less costs to sell, is charged-off once there is reasonable assurance that such excess outstanding balance is not recoverable.

Credit card consumer loans that are contractually 180 days past due and other consumer loans with an outstanding balance under \$100,000 that are contractually 180 days past due are written off and reported as charge-offs.

i. Allowance for Credit Losses

The Bank maintains an allowance for credit losses, which in management's opinion is adequate to absorb all estimated credit-related losses in its lending and off-balance sheet credit-related arrangements at the balance sheet date. The allowance for credit losses consists of specific allowances and a general allowance as follows:

Specific allowances

Specific allowances are determined on an exposure-by-exposure basis and reflect the associated estimated credit loss. The specific allowance for credit loss is computed as the difference between the recorded investment in the loan and the present value of expected future cash flows from the loan. The effective rate of return on the loan is used for discounting the cash flows. However, when foreclosure of a collateral-dependent loan is probable, the Bank measures impairment based on the fair value of the collateral. The Bank considers estimated costs to sell, on a discounted basis, in the measurement of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan. If the measurement of an impaired loan is less than the recorded investment in the loan, then the Bank recognises impairment by creating an allowance with a corresponding charge to provision for credit losses.

General allowances

The allowance for credit losses attributed to the remaining portfolio is established through various analyses that estimate the incurred loss at the balance sheet date inherent in the lending and off-balance sheet credit-related arrangements portfolios. These analyses consider historical default rates and loss severities, geographic, industry, and other environmental factors. Management also considers overall portfolio indicators including trends in internally risk rated exposures, cash-basis loans, historical and forecasted write-offs, and a review of industry, geographic and portfolio concentrations, including current developments within those segments. In addition, management considers the current business strategy and credit process, including limit setting and compliance, credit approvals, loan underwriting criteria and loan workout procedures.

Each portfolio of smaller balance, homogeneous loans, including consumer instalment, revolving credit, and most other consumer loans, is collectively evaluated for impairment. The allowance for credit losses attributed to these loans is established via a process that estimates the probable losses inherent and incurred in the portfolio, based upon various analyses. Management considers overall portfolio indicators including historical credit losses; delinquent (defined as loans that are more than 30 days past due), non-performing, and classified loans; trends in volumes and terms of loans; an evaluation of overall credit quality; the credit process, including lending policies and procedures; and economic, geographical, product, and other environmental factors.

j. Business Combinations, Goodwill and Intangible Assets

All business combinations are accounted for using the acquisition method. Identifiable intangible assets (mostly customer relationships) are recognised separately from goodwill and are initially valued at fair value using discounted cash flow calculations and other recognised valuation techniques. Goodwill represents the excess of the fair value of the consideration paid for the acquisition of a business over the fair value of the net assets acquired. Contingent purchase consideration was measured at its fair value and recorded on the purchase date. Any subsequent changes in the fair value of a contingent consideration liability will be recorded through the statement of comprehensive income.

Goodwill is tested annually for impairment at the reporting unit level, or more frequently if events or circumstances indicate there may be impairment. If the carrying amount of a reporting unit, including the allocated goodwill, exceeds its fair value, goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill. Other acquired intangible assets with finite lives are amortised on a straight-line basis over their estimated useful lives, not exceeding 15 years. Intangible assets' estimated lives are re-evaluated annually and an impairment test is carried out if certain indicators of impairment exist.

k. Premises, Equipment and Computer Software

Land, buildings, equipment and computer software, including leasehold improvements, are carried at cost less accumulated depreciation. The Bank generally computes depreciation using the straight-line method over the estimated useful life of an asset, which is 50 years for buildings, and three to 10 years for other equipment. For leasehold improvements the Bank uses the straight-line method over the lesser of the remaining term of the leased facility or the estimated economic life of the improvement. The Bank capitalises certain costs, including interest cost incurred during the development phase, associated with the acquisition or development of internal use software. Once the software is ready for its intended use, these costs are amortised on a straight-line basis over the software's expected useful life, which is between five and 10 years.

Management reviews the recoverability of the carrying amount of premises, equipment and computer software when indicators of impairment exist and an impairment charge is recorded when the carrying amount of the reviewed asset is deemed not recoverable by future expected cash flows to be derived from the use and disposition of the asset.

I. Other Real Estate Owned

Other real estate owned ("OREO") is comprised of real estate property held for sale and commercial and residential real estate properties acquired in partial or total satisfaction of loans acquired through foreclosure proceedings, acceptance of a deed-in-lieu of foreclosure or by taking possession of assets that were used as loan collateral. These properties are recorded at fair value less estimated costs to sell the property. If the recorded investment in the loan exceeds the property's fair value at the time of acquisition, a charge-off is recorded against the specific allowance. If the carrying value of the real estate exceeds the property's fair value at the time of reclassification, an impairment charge is recorded in the consolidated statements of operations. Subsequent decreases in the property's fair value below the new cost basis are recorded through the use of a valuation allowance. Subsequent increases in the fair value of a property may be used to reduce the allowance but not below zero. Any operating expenses of the property are recognised through charges to non-interest expense.

m. Derivatives

All derivatives are recognised on the consolidated balance sheet at their fair value. On the date that the Bank enters into a derivative contract, it designates the derivative as: a hedge of the fair value of a recognised asset or liability (a fair value hedge); a hedge of a forecasted transaction or the variability of cash flows that are to be received or paid in connection with a recognised asset or liability (a cash flow hedge); a hedge of an exposure to foreign currency risk of a net investment in a foreign operation (a net investment hedge); or, an instrument that is held for trading or non-hedging purposes (a trading or non-hedging instrument).

The changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk, are recorded in current year earnings.

The changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive loss ("OCL") and the ineffective portion is recorded in current year earnings. That is, ineffectiveness from a derivative that overcompensates for changes in the hedged cash flows is recorded in earnings. However, the ineffectiveness from a derivative that under compensates is not recorded in earnings.

The changes in the fair value of a derivative that is designated and qualifies as a foreign currency hedge is recorded in either current year earnings or OCL, depends on whether the hedging relationship satisfies the criteria for a fair value or cash flow hedge. If, however, a derivative is used as a hedge of a net investment in a foreign operation, the changes in the derivative's fair value, to the extent that the derivative is effective as a hedge, are recorded in the cumulative translation adjustment ("CTA") account within OCL.

Changes in the fair value of derivative trading and non-hedging instruments are reported in current year earnings.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value, cash flow, or foreign currency hedges to specific assets and liabilities on the consolidated balance sheet or specific firm commitments or forecasted transactions.

The Bank also formally assesses whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods.

For those hedge relationships that are terminated, hedge designations that are elected to be removed, forecasted transactions that are no longer expected to occur, or the hedge relationship ceases to be highly effective, the hedge accounting treatment described in the paragraphs above is no longer applied and the end-user derivative is terminated or transferred to the trading designation. For fair value hedges, any changes to the carrying value of the hedged item prior to the discontinuance remain as part of the basis of the asset or liability. When a cash flow hedge is discontinued, the net derivative gain (loss) remains in AOCL unless it is probable that the forecasted transaction will not occur in the originally specified time period.

n. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase (securities financing agreements) are treated as collateralised financing transactions. The obligation to repurchase is recorded at the value of the cash received on sale adjusted for the amortisation of the difference between the sale price and the agreed repurchase price. The amortisation of this amount is recorded as an interest expense.

o. Collateral

The Bank pledges assets as collateral as required for various transactions involving security repurchase agreements, deposit products and derivative financial instruments. Assets that have been pledged as collateral, including those that can be sold or repledged by the secured party, continue to be reported on the Bank's consolidated balance sheet.

p. Employee Future Benefits

The Bank maintains trustee pension plans for substantially all employees as either non-contributory defined benefit plans or defined contribution plans.

Benefits under the defined benefit plans are primarily based on the employee's years of credited service and average annual salary during the final years of employment as defined in the plans. The Bank also provides post-retirement medical benefits for certain qualifying active and retired Bermuda-based employees.

Expense for the defined benefit pension plans and the post-retirement medical benefits plan is comprised of (a) the actuarially determined benefits for the current year's service, (b) imputed interest on the actuarially determined liability of the plan, (c) in the case of the defined benefit pension plans, the expected investment return on the fair value of plan assets and (d) amortisation of certain items over the expected average remaining service life of employees in the case of the active defined benefit pension plans, estimated average remaining life expectancy of the inactive participants in the case of the inactive defined benefit pension plans and the expected average remaining service life to full eligibility age of employees covered by the plan in the case of the post-retirement medical benefits plan. The items amortised are amounts arising as a result of experience gains and losses, changes in assumptions, plan amendments and the change in the net pension asset or post-retirement medical benefits liability arising on adoption of revised accounting standards.

For each of the defined benefit pension plans and for the post-retirement medical benefits plan, the asset and liability recognised for accounting purposes are reported in other assets and employee future benefits respectively. The actuarial gains and losses, transition obligation and past service costs of the defined pension plans and post-retirement medical benefits plan are recognised in OCL net of tax and amortised to net income over the average service period for the active defined benefit pension plans and post-retirement medical benefits plan and average remaining life expectancy for the inactive defined benefit pension plans.

For the defined contribution pension plans, the Bank and participating employees provide an annual contribution based on each participating employee's pensionable earnings. Amounts paid are expensed in the period.

q. Share-Based Compensation

The Bank engages in equity settled share-based payment transactions in respect of services received from eligible employees. The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in respect of the shares or share options granted is recognised in the consolidated statements of operations over the shorter of the vesting or service period.

The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the current share price, the risk-free interest rate, expected dividend rate, the expected volatility of the share price over the life of the option and other relevant factors. Time vesting conditions are taken into account by adjusting the number of shares or share options included in the measurement of the cost of employee services so that ultimately, the amount recognised in the consolidated statements of operations reflects the number of vested shares or share options. The Bank recognises compensation cost for awards with performance conditions if and when the Bank concludes that it is probable that the performance condition will be achieved, net of an estimate of pre-vesting forfeitures (e.g., due to termination of employment prior to vesting).

r. Revenue Recognition

Trust and investment services fees include fees for private and institutional trust, executorship, and custody services. Asset management fees include fees for investment management, investment advice and brokerage services. Fees are recognised as revenue over the period of the relationship or when the Bank has rendered all services to the clients and is entitled to collect the fee from the client, as long as there are no contingencies associated with the fees.

Banking services fees primarily include fees for certain loan origination, letters of credit, other financial guarantees, compensating balances and other financial services-related products. Certain loan origination fees are primarily overdraft and other revolving lines of credit fees. These fees are recognised as revenue over the period of the underlying facilities. Letters of credit fees are recognised as revenue over the period in which the related service is provided. All other fees are recognised as revenue in the period in which the service is provided.

Loan interest income includes the amortisation of non-refundable loan origination and commitment fees. These fees are deferred (except for certain retrospectively determined fees meeting specified criteria) and recognised as an adjustment of yield over the life of the related loan. These loan origination and commitment fees are offset by their related direct costs and only the net amounts are deferred and amortised into interest income.

Dividend and interest income, including amortisation of premiums and discounts, on securities for which cash flows are not considered uncertain are included in interest income in the consolidated statements of operations. Loans placed on non-accrual status and investments with uncertain cash flows are accounted for under the cost recovery method, whereby all principal, dividends, interest and coupon payments received are applied as a reduction of the amortised cost and carrying amount.

s. Fair Values

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Bank determines the fair values of assets and liabilities based on the fair value hierarchy which requires an entity to maximise the use of observable inputs and minimise the use of unobservable inputs when measuring fair value. The relevant accounting standard describes three levels of inputs that may be used to measure fair value. Investments classified as trading and AFS, and derivative assets and liabilities are recognised in the consolidated balance sheet at fair value.

Level 1, 2 and 3 valuation inputs

Management classifies items that are recognised at fair value on a recurring basis based on the level of inputs used in their respective fair value determination as described below.

Fair value inputs are considered Level 1 when based on unadjusted quoted prices in active markets for identical assets.

Fair value inputs are considered Level 2 when based on internally developed models or based on prices published by independent pricing services using proprietary models. To qualify for Level 2, all significant inputs used in these models must be observable in the market place or can be corroborated by observable market data for substantially the full term of the instrument and includes, among others: interest yield curves, credit spreads, prices for similar assets and foreign exchange rates. Level 2 also includes financial instruments that are valued using quoted prices for identical assets but for which the market is not considered active due to low trading volumes.

Fair value inputs are considered Level 3 when based on internally developed models using significant unobservable assumptions involving management's estimations or non-binding bid quotes from brokers.

The following methods and assumptions were used in the determination of the fair value of financial instruments:

Cash and cash equivalents

The carrying amount of cash and demand deposits with banks, being short-term in nature, is deemed to approximate fair value.

Cash equivalents include unrestricted term deposits, certificates of deposit and treasury bills with a maturity of less than three months from the date of acquisition and the carrying value at cost is considered to approximate fair value because they are short-term in nature, bear interest rates that approximate market rates, and generally have negligible credit risk.

Short-term investments

Short-term investments comprise restricted term and demand deposits and unrestricted term deposits, certificates of deposit and treasury bills with less than one year but greater than three months' maturity from the date of acquisition. The carrying value at cost is considered to approximate fair value because they are short-term in nature, bear interest rates that approximate market rates, and generally have negligible credit risk.

Trading investments and defined benefit pension plan equity securities and mutual funds

Trading investments include equities, mutual funds and debt securities issued by non-US governments. The fair value of listed equity securities is based upon quoted market values. Investments in actively traded mutual funds are based on their published net asset values. See "AFS and HTM investments including defined benefit pension plan fixed income securities" below for valuation techniques and inputs of fixed income securities.

AFS and HTM investments and defined benefit pension plan fixed income securities

The fair values for AFS investments are generally sourced from third parties. The fair value of fixed income securities is based upon quoted market values where available, "evaluated bid" prices provided by third party pricing services ("pricing services") where quoted market values are not available, or by reference to broker or underwriter bid indications where pricing services do not provide coverage for a particular security. To the extent the Bank believes current trading conditions represent distressed transactions, the Bank may elect to utilise internally generated models. The pricing services typically use market approaches for valuations using primarily Level 2 inputs (in the vast majority of valuations), or some form of discounted cash flow analysis.

Pricing services indicate that they will only produce an estimate of fair value if there is objectively verifiable information available to produce a valuation. Standard inputs to the valuations provided by the pricing services listed in approximate order of priority for use when available include: reported trades, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data. The pricing services may prioritise inputs differently on any given day for any security, and not all inputs listed are available for use in the evaluation process on any given day for each security evaluation. However, the pricing services also monitor market indicators and industry and economic events. When these inputs are not available, pricing services identify "buckets" of similar securities (allocated by asset class types, sectors, sub-sectors, contractual cash flows/structure, and credit rating characteristics) and apply some form of matrix or other modelled pricing to determine an appropriate security value which represents their best estimate as to what a buyer in the marketplace would pay for a security in a current sale.

It is common industry practice to utilise pricing services as a source for determining the fair values of investments where the pricing services are able to obtain sufficient market corroborating information to allow them to produce a valuation at a reporting date. In addition, in the majority of cases, although a value may be obtained from a particular pricing service for a security or class of similar securities, these values are corroborated against values provided by other pricing services. While the Bank receives values for the majority of the investment securities it holds from pricing services, it is ultimately management's responsibility to determine whether the values received and recorded in the financial statements are representative of appropriate fair value measurements.

Broker/dealer quotations are used to value investments with fixed maturities where prices are unavailable from pricing services due to factors specific to the security such as limited liquidity, lack of current transactions, or trades only taking place in privately negotiated transactions. These are considered Level 3 valuations, as significant inputs utilised by brokers may be difficult to corroborate with observable market data, or sufficient information regarding the specific inputs utilised by the broker was not available to support a Level 2 classification.

For disclosure purposes, investments held to maturity are fair valued using the same methods described above.

Loans

The majority of loans are variable rate and re-price in response to changes in market rates and hence management estimates that the fair value of loans is not significantly different than their carrying amount. For significant fixed-rate loan exposures, fair value is estimated by discounting the future cash flows, using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, of such loans.

Accrued interest

The carrying amounts of accrued interest receivable and payable are assumed to approximate their fair values given their short-term nature.

OREO

OREO assets are carried at the lower of cost or fair value less estimated costs to sell. Fair value is based on third-party appraisals adjusted to reflect management's judgment as to the realisable value of the properties. Appraisals of OREO properties are updated on an annual basis.

Deposits

The fair value of fixed-rate deposits has been estimated by discounting the contractual cash flows, using market interest rates offered at the balance sheet date for deposits of similar terms. The carrying amount of deposits with no stated maturity date is deemed to equate to the fair value.

Subordinated capital

The fair value of the subordinated capital has been estimated by discounting the contractual cash flows, using current market interest rates.

Derivatives

Derivative contracts can be exchange traded or over-the-counter ("OTC") derivative contracts and may include forward, swap and option contracts relating to interest rates or foreign currencies. Exchange-traded derivatives typically fall within Level 1 of the fair value hierarchy depending on whether they are deemed to be actively traded or not. OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources where an understanding of the inputs utilised in arriving at the valuations is obtained.

Where models are used, the selection of a particular model to value an OTC derivative depends upon the contractual terms and specific risks inherent in the instrument as well as the availability of pricing information in the market. The Bank generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, interest rate swaps and options, model inputs can generally be verified and model selection does not involve significant management judgment.

Goodwill

The fair value of reporting units for which goodwill is recognised is determined by discounting estimated future cash flows using discount rates reflecting valuation-date market conditions and risks specific to the reporting unit.

t. Impairment or Disposal of Long-Lived Assets

Impairment losses are recognised when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected from its use and disposal. The impairment recognised is measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets that are to be disposed of other than by sale are classified and accounted for as held for use until the date of disposal or abandonment. Assets that meet certain criteria are classified as held for sale and are measured at the lower of their carrying amounts or fair value, less costs of sale.

u. Credit-Related Arrangements

In the normal course of business, the Bank enters into various commitments to meet the credit requirements of its customers. Such commitments, which are not included in the consolidated balance sheet, include:

- Commitments to extend credit, which represent undertakings to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions.
- Standby letters of credit, which represent irrevocable obligations to make payments to third parties in the event that the customer is unable to meet its financial obligations.
- Documentary and commercial letters of credit, related primarily to the import of goods by customers, which represent agreements to honour drafts presented by third parties upon completion of specific activities.

These credit arrangements are subject to the Bank's normal credit standards and collateral is obtained where appropriate. The contractual amounts for these commitments set out in the table in Note 12 represent the maximum payments the Bank would have to make should the contracts be fully drawn, the counterparty default, and any collateral held prove to be of no value. As many of these arrangements will expire or terminate without being drawn upon or are fully collateralised, the contractual amounts do not necessarily represent future cash requirements. The Bank does not carry any liability for these obligations.

v. Income Taxes

The Bank uses the asset and liability method of accounting for income taxes. Under this method, deferred income taxes reflect the net tax effect of temporary differences between the consolidated financial statements' carrying amounts of assets and liabilities and their respective tax bases. Accordingly, a deferred income tax asset or liability is determined for each temporary difference based on the enacted tax rates to be in effect on the expected reversal date of the temporary difference. The effect of a change in tax rates on deferred tax assets and liabilities is recognised in income in the period that includes the enactment date.

The Bank records net deferred tax assets to the extent the Bank believes these assets will more likely than not be realised. Net deferred income tax assets or liabilities accumulated as a result of temporary differences are included in other assets or other liabilities, respectively. A valuation allowance is established to reduce deferred income tax assets to the amount more likely than not to be realised. In making such a determination, the Bank considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. In the event the Bank were to determine that it would be able to realise the deferred income tax assets in the future in excess of their net recorded amount, the Bank would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The Bank records uncertain tax positions on the basis of a two-step process whereby (1) the Bank determines whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (2) where those tax positions that meet the more-likely-than-not recognition threshold, the Bank recognises the largest amount of tax benefit that is greater than 50 percent likely to be realised upon ultimate settlement with the related tax authority.

Income taxes on the consolidated statements of operations include the current and deferred portions of the income taxes. The Bank recognises interest accrued and penalties related to unrecognised tax benefits in operating expenses. Income taxes applicable to items charged or credited directly to shareholders' equity are included in such items.

w. Consolidated Statements of Cash Flows

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, cash items in the process of collection, amounts due from correspondent banks and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in fair value.

x. Earnings Per Share

Earnings per share have been calculated using the weighted average number of common shares outstanding during the year (see also Note 19). Dividends declared on preference shares and related guarantee fees are deducted from net income to obtain net income available to common shareholders. In periods when basic earnings per share is positive, the dilutive effect of share-based compensation plans is calculated using the treasury stock method, whereby the proceeds received from the exercise of share-based awards are assumed to be used to repurchase outstanding common shares, using the quarterly average market price of the Bank's shares for the period.

y. New Accounting Pronouncements

Accounting for CTA Upon Derecognition of Certain Subsidiaries or Group of Assets

In March 2013, the Financial Accounting Standards Board ("FASB") issued the final guidance related to the release of CTA upon derecognition of subsidiaries or a group of assets within a foreign entity into net income. The guidance clarifies that when a parent ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity and the sale represents the complete or substantially complete liquidation of the investment in the foreign entity, or when a parent loses its controlling financial interest in an investment in a foreign entity, it should release the CTA into net income. The standard also requires the release of CTA into net income upon acquiring a controlling interest in a foreign entity that was accounted for under the equity method prior to obtaining control, and consistent with current GAAP in this area, upon a partial sale of an equity method investment. The guidance was effective prospectively from 1 January 2014. The adoption of this guidance for the year ended 31 December 2014 has not had an impact on the Bank's consolidated financial position or results of operations.

Accounting for the Reclassification of Residential Real Estate Collateralised Consumer Mortgage Loans Upon Foreclosure

In January 2014, the FASB published an Accounting Standards Update for the reclassification of residential real estate collateralised consumer mortgage loans upon foreclosure. The update codifies the consensus reached by the FASB's Emerging Issues Task Force ("EITF") at its November 2013 meeting. The amendments in the update clarifies when an in-substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralising a consumer mortgage loan such that the loan receivable should be derecognised and the real estate property recognised. The update requires a creditor to reclassify a collateralised consumer mortgage loan to real estate property upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. The update is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after 15 December 2014. The adoption of this guidance is not expected to have an impact on the Bank's consolidated financial position or results of operations.

Revenue Recognition

In May 2014, the FASB and International Accounting Standards Board ("IASB") issued converged final standards on revenue recognition. The core principle of the new standards is that revenue is recognised when a customer obtains control of a good or service compared to the existing model that

is based on the transfer of risks and rewards. As a result of the change, revenue could be recognised earlier or later than it is today and in addition, the standards require extensive new disclosures. The revenue standard is effective for the first interim period within annual reporting periods beginning after 15 December 2016 for GAAP public reporting entities and early adoption is not permitted. The Bank is assessing impact of the adoption of this guidance.

Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved After the Requisite Service Period

In June 2014, the FASB published an Accounting Standards Update which provides explicit guidance on accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The amendments require that a performance target that could be achieved after the requisite service period be treated as a performance condition that affects the vesting of the award. Performance conditions that affect vesting would not be reflected in estimating the grant date fair value of the awards. Rather, compensation costs would be recognised when the achievement of the performance condition is considered probable, which may be after the recipient's service period ends or may never become probable. The update is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after 15 December 2015. The adoption of this guidance is not expected to have an impact on the Bank's consolidated financial position or results of operations.

NOTE 3: CASH AND CASH EQUIVALENTS

	31 December 2014			31 December 2013		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Non-interest earning						
Cash and demand deposits	23,609	116,056	139,665	46,104	90,767	136,871
Interest earning						
Demand deposits	203,572	139,049	342,621	110,273	163,980	274,253
Cash equivalents	469,388	1,111,637	1,581,025	407,052	912,296	1,319,348
Sub-total - Interest earning	672,960	1,250,686	1,923,646	517,325	1,076,276	1,593,601
Total cash and cash equivalents	696,569	1,366,742	2,063,311	563,429	1,167,043	1,730,472

NOTE 4: SHORT-TERM INVESTMENTS

	31 December 2014			31 December 2013		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted term deposits, certificates of deposit and treasury bills						
Maturing within three months	-	144,632	144,632	-	35,420	35,420
Maturing between three to six months	-	223,563	223,563	-	6,884	6,884
Maturing between six to twelve months	-	15,694	15,694	-	3,721	3,721
Total unrestricted short-term investments	-	383,889	383,889	-	46,025	46,025
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Interest earning demand deposits	9,141	1,740	10,881	8,842	114	8,956
Total short-term investments	9,141	385,629	394,770	8,842	46,139	54,981

NOTE 5: INVESTMENTS

Amortised Cost, Carrying Amount and Fair Value

	31 December 2014				31 December 2013			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value
Trading								
Debt securities issued								
by non-US governments	-	-	-	-	3,000	546	-	3,546
Mutual funds	6,778	1,037	(944)	6,871	49,799	990	(1,007)	49,782
Total trading	6,778	1,037	(944)	6,871	52,799	1,536	(1,007)	53,328
Available-for-sale								
Certificates of deposit	37,724	19	-	37,743	83,789	794	(12)	84,571
US government and federal agencies	1,881,728	17,140	(10,998)	1,887,870	1,390,987	9,382	(52,789)	1,347,580
Debt securities issued								
by non-US governments	38,254	196	(125)	38,325	88,298	184	(28)	88,454
Corporate debt securities	391,059	9,393	(1,163)	399,289	402,921	15,888	(3,405)	415,404
Asset-backed securities - Student loans	66,136	-	(1,313)	64,823	85,980	-	(2,801)	83,179
Commercial mortgage-backed securities	154,211	33	(3,075)	151,169	155,374	-	(12,485)	142,889
Residential mortgage-backed securities - Prime	65,167	264	(602)	64,829	32,917	-	(2,080)	30,837
Pass-through note	-	-	-	-	26,791	7,216	-	34,007
Equity securities	15	-	-	15	-	-	-	-
Total available-for-sale	2,634,294	27,045	(17,276)	2,644,063	2,267,057	33,464	(73,600)	2,226,921

	31 December 2014				31 December 2013			
	Amortised cost / Carrying amount	Gross unrealised gains	Gross unrealised losses	Fair value	Amortised cost / Carrying amount	Gross unrealised gains	Gross unrealised losses	Fair value
Held-to-maturity⁽¹⁾								
US government and federal agencies	338,177	6,330	(518)	343,989	333,394	91	(17,951)	315,534

⁽¹⁾ For the years ended 31 December 2014 and 2013 non-credit impairments recognised in AOCL for HTM investments were \$nil.

Pledged AFS Investments

The Bank pledges US government and federal agency investment securities to secure Bank deposit products where the secured party does not have the right to sell or repledge the collateral. As at 31 December 2014, US government and federal agency investment securities with an amortised cost of \$381.4 million (2013: \$363.8 million) and fair value of \$383.7 million (2013: \$350.7 million) were pledged.

As at 31 December 2014, US government and federal agency investment securities with an amortised cost of \$nil (2013: \$25.2 million) and fair value of \$nil (2013: \$25.8 million) were pledged to collateralise repurchase agreements maturing within 90 days.

Pledged HTM Investments

As at 31 December 2014, US government and federal agency investment securities with an amortised cost of \$107.8 million (2013: \$83.0 million) and fair value of \$110.2 million (2013: \$75.1 million) were pledged to secure Bank deposit products where the secured party did not have the right to sell or repledge the collateral.

Unrealised Loss Positions

The following tables show the fair value and gross unrealised losses of the Bank's AFS and HTM investments with unrealised losses that are not deemed to be OTTI, aggregated by investment category and length of time that individual securities have been in a continuous unrealised loss position. Debt securities are categorised as being in a continuous loss position for "less than 12 months" or "12 months or more" based on the point in time that the fair value declined below the amortised cost basis.

	Less than 12 months		12 months or more		Total fair value	Total gross unrealised losses
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses		
31 December 2014						
Available-for-sale						
Certificates of deposit	5,454	-	-	-	5,454	-
US government and federal agencies	270,276	(1,942)	390,913	(9,056)	661,189	(10,998)
Debt securities issued by non-US governments	22,588	(125)	-	-	22,588	(125)
Corporate debt securities	8,090	(8)	38,845	(1,155)	46,935	(1,163)
Asset-backed securities - Student loans	-	-	64,847	(1,313)	64,847	(1,313)
Commercial mortgage-backed securities	-	-	150,216	(3,075)	150,216	(3,075)
Residential mortgage-backed securities - Prime	-	-	18,116	(602)	18,116	(602)
Total available-for-sale securities with unrealised losses	306,408	(2,075)	662,937	(15,201)	969,345	(17,276)
Held-to-maturity						
US government and federal agencies	-	-	60,556	(518)	60,556	(518)
Total held-to-maturity securities with unrealised losses	-	-	60,556	(518)	60,556	(518)

	Less than 12 months		12 months or more		Total fair value	Total gross unrealised losses
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses		
31 December 2013						
Available-for-sale						
Certificates of deposit	50,464	(12)	-	-	50,464	(12)
US government and federal agencies	855,973	(47,481)	107,189	(5,308)	963,162	(52,789)
Debt securities issued by non-US governments	42,996	(28)	-	-	42,996	(28)
Corporate debt securities	-	-	36,595	(3,405)	36,595	(3,405)
Asset-backed securities - Student loans	36,470	(681)	46,709	(2,120)	83,179	(2,801)
Commercial mortgage-backed securities	58,890	(5,619)	83,998	(6,866)	142,888	(12,485)
Residential mortgage-backed securities - Prime	30,837	(2,080)	-	-	30,837	(2,080)
Total available-for-sale securities with unrealised losses	1,075,630	(55,901)	274,491	(17,699)	1,350,121	(73,600)
Held-to-maturity						
US government and federal agencies	259,595	(11,740)	41,161	(6,211)	300,756	(17,951)
Total held-to-maturity securities with unrealised losses	259,595	(11,740)	41,161	(6,211)	300,756	(17,951)

The Bank does not believe that the investment securities that were in an unrealised loss position as of 31 December 2014, which was comprised of 72 securities, or, 34% of the portfolio by fair value, represent an OTTI. Total gross unrealised losses were 1.7% of the fair value of affected securities and were attributable primarily to changes in market interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Bank does not intend to sell the investment securities that were in an unrealised loss position and it is not more likely than not that the Bank will be required to sell the investment securities before recovery of the amortised cost bases, which may be at maturity.

The following describes the process for identifying credit impairment in security types with the most significant unrealised losses.

US government and federal agencies

As at 31 December 2014, gross unrealised losses on securities related to US government and federal agencies were \$11.5 million (2013: \$70.7 million) of which \$1.9 million has been in an unrealised loss position for less than 12 months and \$9.6 million has been in an unrealised loss position for more than 12 months. Overall, management believes that all the securities in this class do not have any credit losses, given the explicit and implicit guarantees provided by the US federal government.

Corporate debt securities

As at 31 December 2014, gross unrealised losses on corporate debt securities were \$1.2 million (2013: \$3.4 million) of which materially all have been in an unrealised loss position for more than 12 months. This relates primarily to one debt security issued by a US government-sponsored enterprise and is implicitly backed by the US federal government. Management believes that the value of this security will recover and the current unrealised loss position is a result of interest rate movements.

Asset-backed securities - Student loans

As at 31 December 2014, gross unrealised losses on student loan asset-backed securities were \$1.3 million (2013: \$2.8 million) all of which related to investments that were in an unrealised loss position for greater than 12 months. Asset-backed securities collateralised by student loans are composed primarily of securities collateralised by Federal Family Education Loan Program loans ("FFELP loans"). FFELP loans benefit from a federal government guarantee of at least 97% of defaulted principal and accrued interest, with additional credit support provided in the form of over-collateralisation, subordination and excess spread, which collectively total in excess of 100%. Accordingly, the vast majority of FFELP loan-backed securities are not exposed to traditional consumer credit risk.

Commercial mortgage-backed securities

As at 31 December 2014, gross unrealised losses on commercial mortgage-backed securities were \$3.1 million (2013: \$12.5 million) all of which have been in an unrealised loss position for more than 12 months. The Bank's commercial mortgage-backed securities are predominantly rated "AAA" and possess significant subordination (a form of credit enhancement for the benefit of senior securities, expressed here as credit support which is the percentage of pool losses that can occur before a senior security will incur its first dollar of principal loss). No credit losses were recognised on these securities as there are no delinquencies on the underlying mortgages and credit support and loan-to-value ratios ("LTV") range from 5% - 36% and 25% - 61% respectively.

Residential mortgage-backed securities - Prime

As at 31 December 2014, gross unrealised losses on prime residential mortgage-backed securities were \$0.6 million (2013: \$2.1 million) all of which have been in an unrealised loss position for more than 12 months. The Bank's prime residential mortgage-backed securities are predominantly rated "AAA" and possess significant subordination (a form of credit enhancement for the benefit of senior securities, expressed here as credit support which is the percentage of pool losses that can occur before a senior security will incur its first dollar of principal loss). No credit losses were recognised on these securities as credit support and LTVs range from 7% - 18% and 54% - 62%, respectively.

Contractual Maturities

The following table presents the remaining contractual maturities of the Bank's securities. For mortgage-backed securities (primarily US government agencies), management presents the maturity date as the mid-point between the reporting and expected contractual maturity date which is determined assuming no future prepayments. By using the aforementioned mid-point, this date represents management's best estimate of the date by which the remaining principal balance will be repaid given future principal repayments of such securities. The actual maturities may differ due to the uncertainty of the timing when borrowers make prepayments on the underlying mortgages.

31 December 2014	Remaining term to average contractual maturity						Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	No specific maturity	
Trading							
Mutual funds	-	-	-	-	-	6,871	6,871
Available-for-sale							
Certificates of deposit	18,246	19,497	-	-	-	-	37,743
US government and federal agencies	-	-	100,305	335,769	1,451,796	-	1,887,870
Debt securities issued by non-US governments	-	1,360	14,376	22,589	-	-	38,325
Corporate debt securities	8,090	121,930	230,424	38,845	-	-	399,289
Asset-backed securities - Student loans	-	-	52,597	-	12,226	-	64,823
Commercial mortgage-backed securities	-	-	-	43,128	108,041	-	151,169
Residential mortgage-backed securities - Prime	-	-	-	6,448	58,381	-	64,829
Equity securities	-	-	-	-	-	15	15
Total available-for-sale	26,336	142,787	397,702	446,779	1,630,444	15	2,644,063
Held-to-maturity							
US government and federal agencies	-	-	-	48,820	289,357	-	338,177
Total investments	26,336	142,787	397,702	495,599	1,919,801	6,886	2,989,111
Total by currency							
US dollars	13,088	123,290	397,702	473,011	1,919,801	6,037	2,932,929
Other	13,248	19,497	-	22,588	-	849	56,182
Total investments	26,336	142,787	397,702	495,599	1,919,801	6,886	2,989,111

31 December 2013	Remaining term to average contractual maturity						Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	No specific maturity	
Trading							
Debt securities issued by non-US governments	-	-	1,095	1,482	969	-	3,546
Mutual funds	-	-	-	-	-	49,782	49,782
Total trading	-	-	1,095	1,482	969	49,782	53,328
Available-for-sale							
Certificates of deposit	28,186	56,385	-	-	-	-	84,571
US government and federal agencies	1	-	82,668	310,676	954,235	-	1,347,580
Debt securities issued by non-US governments	26,472	31,141	4,783	26,058	-	-	88,454
Corporate debt securities	-	-	415,404	-	-	-	415,404
Asset-backed securities - Student loans	-	-	562	71,320	11,297	-	83,179
Commercial mortgage-backed securities	-	-	-	133,765	9,124	-	142,889
Residential mortgage-backed securities - Prime	-	-	-	8,570	22,267	-	30,837
Pass-through note	-	-	-	34,007	-	-	34,007
Total available-for-sale	54,659	87,526	503,417	584,396	996,923	-	2,226,921
Held-to-maturity							
US government and federal agencies	-	-	-	51,144	282,250	-	333,394
Total investments	54,659	87,526	504,512	637,022	1,280,142	49,782	2,613,643
Total by currency							
US dollars	17	32,132	503,416	612,839	1,279,173	49,011	2,476,588
Other	54,642	55,394	1,096	24,183	969	771	137,055
Total investments	54,659	87,526	504,512	637,022	1,280,142	49,782	2,613,643

Sale Proceeds and Realised Gains and Losses of AFS Securities

During the year ended 31 December 2014, the Bank disposed of:

- Pass-through note totalling \$34.4 million in sale proceeds, resulting in a gross realised gain of \$8.7 million;
- US government and federal agency securities totalling \$96.1 million in sale proceeds, resulting in a gross realised loss of \$0.1 million;
- Certificates of deposit totalling \$17.1 million in sale proceeds, resulting in a gross realised gain of \$nil; and
- Debt securities issued by non-US governments totalling \$12.6 million in sale proceeds, resulting in a gross realised gain of \$nil.

During the year ended 31 December 2013, the Bank disposed of:

- US government and federal agency securities totalling \$117.2 million in sale proceeds, resulting in gross realised gains of \$0.3 million and gross realised losses of \$0.6 million;
- Corporate bonds totalling \$116.3 million in sale proceeds, resulting in gross realised gains of \$0.5 million;
- Asset-backed securities totalling \$43.6 million in sale proceeds, resulting in gross realised losses of \$0.2 million; and
- Other securities totalling \$110.0 million in sale proceeds, resulting in gross realised losses of \$0.1 million.

NOTE 6: LOANS

The "Bermuda" and "Non-Bermuda" classifications purpose is to reflect management segment reporting as described in Note 14: Segmented Information.

	31 December 2014			31 December 2013		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Commercial loans						
Government	66,316	46,776	113,092	65,725	15,000	80,725
Commercial and industrial	137,445	251,392	388,837	129,865	270,808	400,673
Commercial overdrafts	48,107	11,194	59,301	57,851	8,083	65,934
Total commercial loans	251,868	309,362	561,230	253,441	293,891	547,332
Less specific allowance for credit losses on commercial loans	(352)	(65)	(417)	(240)	(233)	(473)
Total commercial loans after specific allowance for credit losses	251,516	309,297	560,813	253,201	293,658	546,859
Commercial real estate loans						
Commercial mortgage	415,315	281,663	696,978	417,112	332,509	749,621
Construction	-	20,617	20,617	-	13,489	13,489
Total commercial real estate loans	415,315	302,280	717,595	417,112	345,998	763,110
Less specific allowance for credit losses on commercial real estate loans	(770)	(1,052)	(1,822)	(5,123)	-	(5,123)
Total commercial real estate loans after specific allowance for credit losses	414,545	301,228	715,773	411,989	345,998	757,987
Consumer loans						
Automobile financing	12,639	7,716	20,355	15,618	6,654	22,272
Credit card	58,500	20,684	79,184	60,846	16,149	76,995
Overdrafts	12,935	8,208	21,143	10,079	6,311	16,390
Other consumer	43,679	113,941	157,620	47,396	117,960	165,356
Total consumer loans	127,753	150,549	278,302	133,939	147,074	281,013
Less specific allowance for credit losses on consumer loans	(355)	-	(355)	(160)	-	(160)
Total consumer loans after specific allowance for credit losses	127,398	150,549	277,947	133,779	147,074	280,853
Residential mortgage loans	1,270,867	1,238,616	2,509,483	1,309,605	1,239,920	2,549,525
Less specific allowance for credit losses on residential mortgage loans	(14,771)	(1,446)	(16,217)	(13,225)	(3,070)	(16,295)
Total residential mortgage loans after specific allowance for credit losses	1,256,096	1,237,170	2,493,266	1,296,380	1,236,850	2,533,230
Total gross loans	2,065,803	2,000,807	4,066,610	2,114,097	2,026,883	4,140,980
Less specific allowance for credit losses	(16,248)	(2,563)	(18,811)	(18,748)	(3,303)	(22,051)
Less general allowance for credit losses	(18,992)	(9,679)	(28,671)	(20,440)	(10,264)	(30,704)
Net loans	2,030,563	1,988,565	4,019,128	2,074,909	2,013,316	4,088,225

The principal means of securing residential mortgages, personal, credit card and business loans are charges over assets and guarantees. Mortgage loans are generally repayable over periods of up to thirty years and personal, credit card, business and government loans are generally repayable over terms not exceeding five years. The effective yield on total loans as at 31 December 2014 is 4.71% (2013: 4.65%).

Age Analysis of Past Due Loans (Including Non-Accrual Loans)

The following tables summarise the past due status of the loans at 31 December 2014 and 2013. The aging of past due amounts are determined based on the contractual delinquency status of payments under the loan and this aging may be affected by the timing of the last business day at period end.

31 December 2014	30-59 days	60-89 days	90 days or more	Total past due loans	Total current ⁽¹⁾	Total loans
Commercial loans						
Government	-	-	-	-	113,092	113,092
Commercial and industrial	357	29	1,776	2,162	386,675	388,837
Commercial overdrafts	-	-	61	61	59,240	59,301
Total commercial loans	357	29	1,837	2,223	559,007	561,230
Commercial real estate loans						
Commercial mortgage	909	1,001	9,054	10,964	686,014	696,978
Construction	-	-	-	-	20,617	20,617
Total commercial real estate loans	909	1,001	9,054	10,964	706,631	717,595
Consumer loans						
Automobile financing	165	19	152	336	20,019	20,355
Credit card	753	384	202	1,339	77,845	79,184
Overdrafts	-	-	10	10	21,133	21,143
Other consumer	856	270	1,653	2,779	154,841	157,620
Total consumer loans	1,774	673	2,017	4,464	273,838	278,302
Residential mortgage loans	29,577	15,889	80,812	126,278	2,383,205	2,509,483
Total past due loans	32,617	17,592	93,720	143,929	3,922,681	4,066,610

⁽¹⁾ Loans less than 30 days past due are included in current loans.

31 December 2013	30-59 days	60-89 days	90 days or more	Total past due loans	Total current ⁽¹⁾	Total loans
Commercial loans						
Government	-	-	-	-	80,725	80,725
Commercial and industrial	681	89	529	1,299	399,374	400,673
Commercial overdrafts	2	1	604	607	65,327	65,934
Total commercial loans	683	90	1,133	1,906	545,426	547,332
Commercial real estate loans						
Commercial mortgage	784	1,386	42,958	45,128	704,493	749,621
Construction	-	-	-	-	13,489	13,489
Total commercial real estate loans	784	1,386	42,958	45,128	717,982	763,110
Consumer loans						
Automobile financing	253	91	353	697	21,575	22,272
Credit card	834	482	501	1,817	75,178	76,995
Overdrafts	10	8	258	276	16,114	16,390
Other consumer	506	348	2,060	2,914	162,442	165,356
Total consumer loans	1,603	929	3,172	5,704	275,309	281,013
Residential mortgage loans	36,355	16,908	62,700	115,963	2,433,562	2,549,525
Total past due loans	39,425	19,313	109,963	168,701	3,972,279	4,140,980

⁽¹⁾ Loans less than 30 days past due are included in current loans.

Loans' Credit Quality

The four credit quality classifications set out in the following table are defined below and describe the credit quality of the Group's lending portfolio. These classifications each encompass a range of more granular, internal credit rating grades assigned.

31 December 2014	Pass	Special mention	Substandard	Non-accrual	Total gross recorded investments
Commercial loans					
Government	98,092	15,000	-	-	113,092
Commercial and industrial	381,952	4,254	1,898	733	388,837
Commercial overdrafts	55,439	3,452	304	106	59,301
Total commercial loans	535,483	22,706	2,202	839	561,230
Commercial real estate loans					
Commercial mortgage	544,832	91,500	48,373	12,273	696,978
Construction	20,617	-	-	-	20,617
Total commercial real estate loans	565,449	91,500	48,373	12,273	717,595
Consumer loans					
Automobile financing	19,615	564	-	176	20,355
Credit card	78,982	-	202	-	79,184
Overdrafts	20,933	167	-	43	21,143
Other consumer	153,226	1,917	714	1,763	157,620
Total consumer loans	272,756	2,648	916	1,982	278,302
Residential mortgage loans	2,344,836	49,819	58,124	56,704	2,509,483
Total gross recorded loans	3,718,524	166,673	109,615	71,798	4,066,610

31 December 2013	Pass	Special mention	Substandard	Non-accrual	Total gross recorded investments
Commercial loans					
Government	80,725	-	-	-	80,725
Commercial and industrial	393,091	4,282	2,780	520	400,673
Commercial overdrafts	57,569	7,445	448	472	65,934
Total commercial loans	531,385	11,727	3,228	992	547,332
Commercial real estate loans					
Commercial mortgage	559,312	99,174	49,899	41,236	749,621
Construction	12,332	-	1,157	-	13,489
Total commercial real estate loans	571,644	99,174	51,056	41,236	763,110
Consumer loans					
Automobile financing	20,794	1,033	8	437	22,272
Credit card	76,494	-	432	69	76,995
Overdrafts	14,954	1,008	207	221	16,390
Other consumer	160,959	2,295	151	1,951	165,356
Total consumer loans	273,201	4,336	798	2,678	281,013
Residential mortgage loans	2,383,773	63,979	42,607	59,166	2,549,525
Total gross recorded loans	3,760,003	179,216	97,689	104,072	4,140,980

Quality classification definitions

A **pass loan** shall mean a loan that is expected to be repaid as agreed. A loan is classified as pass where the Bank is not expected to face repayment difficulties because the present and projected cash flows are sufficient to repay the debt and the repayment schedule as established by the agreement is being followed.

A **special mention** loan shall mean a loan under close monitoring by the Bank's management. Loans in this category are currently protected and still performing (current with respect to interest and principal payments), but are potentially weak and present an undue credit risk exposure, but not to the point of justifying a classification of substandard.

A **substandard** loan shall mean a loan whose evident unreliability makes repayment doubtful and there is a threat of loss to the Bank unless the unreliability is averted.

A **non-accrual** loan shall mean either management is of the opinion full payment of principal or interest is in doubt or when principal or interest is 90 days past due and for residential mortgage loans which are not well secured and in the process of collection.

Non-Performing Loans

	31 December 2014			31 December 2013		
	Non-accrual loans ⁽¹⁾	Accruing loans past due 90 days	Total non-performing loans	Non-accrual loans	Accruing loans past due 90 days	Total non-performing loans
Commercial loans						
Commercial and industrial	733	1,057	1,790	520	9	529
Commercial overdrafts	106	4	110	472	132	604
Total commercial loans	839	1,061	1,900	992	141	1,133
Commercial real estate loans						
Commercial mortgage	12,273	779	13,052	41,236	1,722	42,958
Construction	-	-	-	-	-	-
Total commercial real estate loans	12,273	779	13,052	41,236	1,722	42,958
Consumer loans						
Automobile financing	176	-	176	437	8	445
Credit card	-	202	202	69	432	501
Overdrafts	43	-	43	221	37	258
Other consumer	1,763	619	2,382	1,951	283	2,234
Total consumer loans	1,982	821	2,803	2,678	760	3,438
Residential mortgage loans	56,704	29,052	85,756	59,166	9,938	69,104
Total non-performing loans	71,798	31,713	103,511	104,072	12,561	116,633

⁽¹⁾ Excludes purchased credit-impaired loans.

Gross Loans Evaluated For Impairment

	31 December 2014		31 December 2013	
	Individually evaluated	Collectively evaluated	Individually evaluated	Collectively evaluated
Commercial	839	560,391	2,642	544,690
Commercial real estate	33,898	683,697	63,264	699,846
Consumer	2,068	276,234	4,093	276,920
Residential mortgage	105,777	2,403,706	103,086	2,446,439
Total gross loans evaluated for impairment	142,582	3,924,028	173,085	3,967,895

Changes in General and Specific Allowances For Credit Losses

	31 December 2014				31 December 2013	
	Commercial	Commercial real estate	Consumer	Residential mortgage	Total	Total
Allowances at beginning of year	8,340	9,816	3,442	31,157	52,755	55,957
Provision taken (released) during the year	282	2,789	(686)	5,663	8,048	14,825
Recoveries	67	-	1,983	274	2,324	5,826
Charge-offs	(838)	(6,621)	(1,895)	(6,113)	(15,467)	(23,706)
Other	(20)	(64)	(47)	(47)	(178)	(147)
Allowances at end of year	7,831	5,920	2,797	30,934	47,482	52,755
Allowances at end of year: individually evaluated for impairment	417	1,822	355	16,217	18,811	22,051
Allowances at end of year: collectively evaluated for impairment	7,414	4,098	2,442	14,717	28,671	30,704

Impaired Loans

A loan is considered to be impaired when, based on current information and events, the Bank determines that it will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Impaired loans include all non-accrual loans and all loans modified in a TDR even if full collectability is expected following the restructuring. For the year ended 31 December 2014, the amount of gross interest income that would have been recorded had impaired loans been current was \$5.2 million (2013: \$5.7 million). The tables below present information about the Bank's impaired loans:

31 December 2014	Impaired loans with an allowance			Gross recorded investment of impaired loans without an allowance	Total impaired loans ⁽¹⁾		
	Gross recorded investment	Specific allowance	Net loans		Gross recorded investment	Specific allowance	Net loans
Commercial loans							
Commercial and industrial	575	(417)	158	158	733	(417)	316
Commercial overdrafts	-	-	-	106	106	-	106
Total commercial loans	575	(417)	158	264	839	(417)	422
Commercial real estate loans							
Commercial mortgage	5,854	(1,822)	4,032	28,044	33,898	(1,822)	32,076
Consumer loans							
Automobile financing	-	-	-	176	176	-	176
Overdrafts	-	-	-	43	43	-	43
Other consumer	515	(355)	160	1,344	1,859	(355)	1,504
Total consumer loans	515	(355)	160	1,563	2,078	(355)	1,723
Residential mortgage loans	45,673	(16,217)	29,456	29,764	75,437	(16,217)	59,220
Total impaired loans	52,617	(18,811)	33,806	59,635	112,252	(18,811)	93,441

⁽¹⁾ Excludes purchased credit-impaired loans.

31 December 2013	Impaired loans with an allowance			Gross recorded investment of impaired loans without an allowance	Total impaired loans		
	Gross recorded investment	Specific allowance	Net loans		Gross recorded investment	Specific allowance	Net loans
Commercial loans							
Commercial and industrial	442	(373)	69	1,728	2,170	(373)	1,797
Commercial overdrafts	169	(100)	69	303	472	(100)	372
Total commercial loans	611	(473)	138	2,031	2,642	(473)	2,169
Commercial real estate loans							
Commercial mortgage	30,277	(5,123)	25,154	32,987	63,264	(5,123)	58,141
Consumer loans							
Automobile financing	208	(75)	133	229	437	(75)	362
Credit card	-	-	-	69	69	-	69
Overdrafts	-	-	-	221	221	-	221
Other consumer	128	(85)	43	1,938	2,066	(85)	1,981
Total consumer loans	336	(160)	176	2,457	2,793	(160)	2,633
Residential mortgage loans	52,123	(16,295)	35,828	14,285	66,408	(16,295)	50,113
Total impaired loans	83,347	(22,051)	61,296	51,760	135,107	(22,051)	113,056

Average Impaired Loan Balances and Related Recognised Interest Income

	31 December 2014		31 December 2013	
	Average gross recorded investment	Interest income recognised	Average gross recorded investment	Interest income recognised
Commercial loans				
Commercial and industrial	1,452	-	3,744	97
Commercial overdrafts	289	-	382	-
Total commercial loans	1,741	-	4,126	97
Commercial real estate loans				
Commercial mortgage	48,581	675	64,002	256
Consumer loans				
Automobile financing	307	-	509	-
Credit card	35	-	35	-
Overdrafts	132	-	219	-
Other consumer	1,963	5	2,025	4
Total consumer loans	2,437	5	2,788	4
Residential mortgage loans	70,923	1,021	63,159	386
Total impaired loans	123,682	1,701	134,075	743

Loans Modified in a TDR

31 December 2014	Number of contracts	Recorded investment ⁽¹⁾	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Effect of modification on recorded investment	
					Changes in the amount and / (or) timing of principal or interest payments	Interest capitalisation
Commercial real estate loans	8	25,922	35,270	35,419	-	149
Consumer loans	1	96	111	111	-	-
Residential mortgage loans	36	23,346	23,706	24,203	-	497
Total loans modified in a TDR	45	49,364	59,087	59,733	-	646

⁽¹⁾ The total recorded investment is comprised of \$8.9 million of non-accrual loans and \$40.5 million of loans on accrual status.

31 December 2013	Number of contracts	Recorded investment ⁽¹⁾	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Effect of modification on recorded investment	
					Changes in the amount and / (or) timing of principal or interest payments	Interest capitalisation
Commercial loans	3	1,785	1,911	1,911	-	-
Commercial real estate loans	8	29,081	35,270	35,419	-	149
Consumer loans	1	115	117	117	-	-
Residential mortgage loans	18	11,395	11,347	11,585	-	238
Total loans modified in a TDR	30	42,376	48,645	49,032	-	387

⁽¹⁾ The total recorded investment is comprised of \$11.3 million of non-accrual loans and \$31.0 million of loans on accrual status.

For the year ended 31 December 2014, the Bank has four loans modified in a TDR that subsequently defaulted (i.e., 90 days or more past due following a modification) with a recorded investment amounting to \$2.4 million.

Purchased Credit-Impaired Loans	31 December
Changes in the contractual principal outstanding for all purchased credit-impaired loans	2014
Balance at beginning of year	-
Purchases	7,197
Advances	19
Balance at end of year	7,216
Changes in the non-accretable balance for purchased credit-impaired loans	
Balance at beginning of year	-
Estimate of contractual principal not expected to be collected (non-accretable difference) at acquisition	3,804
Balance at end of year	3,804

There were no accretable balances for purchased credit-impaired loans for the year ended 31 December 2014.

NOTE 7: CREDIT RISK CONCENTRATIONS

Concentrations of credit risk in the lending and off-balance sheet credit-related arrangements portfolios arise when a number of customers are engaged in similar business activities, are in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. The Bank regularly monitors various segments of its credit risk portfolio to assess potential concentrations of risks and to obtain collateral when deemed necessary. In the Bank's commercial portfolio, risk concentrations are evaluated primarily by industry and by geographic region of loan origination. In the consumer portfolio, concentrations are evaluated primarily by products. Credit exposures include loans, guarantees and acceptances, letters of credit and commitments for undrawn lines of credit. Unconditionally cancellable credit cards and overdraft lines of credit are excluded from the tables below.

The following table summarises the credit exposure of the Bank by business sector. The on-balance sheet exposure amounts disclosed are net of specific allowances and the off-balance sheet exposure amounts disclosed are gross of collateral held:

Business sector	31 December 2014			31 December 2013		
	Loans	Off-balance sheet	Total credit exposure	Loans	Off-balance sheet	Total credit exposure
Banks and financial services	307,835	299,934	607,769	358,079	367,162	725,241
Commercial and merchandising	252,945	113,432	366,377	258,693	129,698	388,391
Governments	109,051	-	109,051	75,780	4,767	80,547
Individuals	2,482,892	75,224	2,558,116	2,473,662	97,184	2,570,846
Primary industry and manufacturing	70,298	570	70,868	57,001	-	57,001
Real estate	710,905	5,703	716,608	789,259	9,849	799,108
Hospitality industry	107,538	275	107,813	100,019	-	100,019
Transport and communication	6,335	-	6,335	6,436	-	6,436
Sub-total	4,047,799	495,138	4,542,937	4,118,929	608,660	4,727,589
General allowance	(28,671)	-	(28,671)	(30,704)	-	(30,704)
Total	4,019,128	495,138	4,514,266	4,088,225	608,660	4,696,885

The following table summarises the credit exposure of the Bank by geographic region for cash and cash equivalents, short-term investments, loans receivable and off-balance sheet exposure. The credit exposure by currency for investments is disclosed in Note 5: Investments.

Geographic region	31 December 2014				31 December 2013			
	Cash and cash equivalents and short-term investments	Loans	Off-balance sheet	Total credit exposure	Cash and cash equivalents and short-term investments	Loans	Off-balance sheet	Total credit exposure
Australia	7,521	-	-	7,521	11,044	-	-	11,044
Bermuda	18,486	2,269,748	263,407	2,551,641	56,730	2,331,616	301,603	2,689,949
Canada	16,648	-	-	16,648	57,478	-	-	57,478
Cayman	196,746	763,379	145,796	1,105,921	76,890	589,807	179,367	846,064
Germany	-	-	-	-	2,617	-	-	2,617
Guernsey	1,741	527,560	70,976	600,277	1	563,669	84,493	648,163
Japan	32,464	-	-	32,464	12,503	-	-	12,503
New Zealand	3,384	-	-	3,384	846	-	-	846
Sweden	2,419	-	-	2,419	503	-	-	503
Switzerland	7,954	-	-	7,954	19,396	-	-	19,396
The Bahamas	4,423	31,809	-	36,232	4,932	39,990	-	44,922
United Kingdom	1,300,686	455,303	14,959	1,770,948	984,127	593,847	43,197	1,621,171
United States	864,361	-	-	864,361	557,370	-	-	557,370
Other	1,248	-	-	1,248	1,016	-	-	1,016
Sub-total	2,458,081	4,047,799	495,138	7,001,018	1,785,453	4,118,929	608,660	6,513,042
General allowance	-	(28,671)	-	(28,671)	-	(30,704)	-	(30,704)
Total	2,458,081	4,019,128	495,138	6,972,347	1,785,453	4,088,225	608,660	6,482,338

NOTE 8: PREMISES, EQUIPMENT AND COMPUTER SOFTWARE

Category	31 December 2014			31 December 2013		
	Cost	Accumulated depreciation	Net carrying value	Cost	Accumulated depreciation	Net carrying value
Land	11,569	-	11,569	13,290	-	13,290
Buildings	147,704	(58,424)	89,280	153,737	(56,423)	97,314
Equipment	42,324	(38,046)	4,278	47,140	(40,893)	6,247
Computer hardware and software in use	203,089	(99,331)	103,758	195,656	(77,460)	118,196
Computer software in development	6,238	-	6,238	5,556	-	5,556
Total	410,924	(195,801)	215,123	415,379	(174,776)	240,603

	31 December 2014	31 December 2013
Depreciation charged to operating expenses		
Buildings (included in Property expense)	4,434	4,478
Equipment (included in Property expense)	1,728	2,100
Computer hardware and software (included in Technology and communication expense)	18,588	16,300
Total depreciation charged to operating expenses	24,750	22,878
Impairment of buildings' carrying value (included in Impairment of fixed assets)	1,986	-

During the year ended 31 December 2014, the Bank's intended use of three Bermuda properties changed and therefore the properties were assessed for impairment. The carrying amount of the Bermuda segment's buildings was impaired by \$1.2 million because their respective fair values were lower than the carrying amounts.

At the end of 2014, the Bank changed its commitment with respect to a Bermuda property which was being used in its operations but is now contemplated for disposal and therefore the property has been reclassified as held for sale and included in OREO assets in the consolidated balance sheet. The reclassification resulted in an \$0.8 million write down of the carrying amount to its fair value less cost to sell. The fair value was based on the discounted cash flow of a projected sale.

NOTE 9: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Guernsey segment	For the year ended	
	31 December 2014	31 December 2013
Balance at beginning of year	7,086	6,949
Acquisition during the year (see Note 26)	19,291	-
Foreign exchange translation adjustment	(1,556)	137
Balance at end of year	24,821	7,086

Customer Relationship Intangible Assets

Business segment	31 December 2014				31 December 2013			
	Cost	Accumulated impairment	Accumulated amortisation	Net carrying amount	Cost	Accumulated impairment	Accumulated amortisation	Net carrying amount
Bermuda - Wealth Management	8,342	-	(5,702)	2,640	8,342	-	(5,146)	3,196
Cayman	12,324	-	(1,138)	11,186	1,211	-	(934)	277
Guernsey	58,420	-	(39,205)	19,215	42,953	-	(34,391)	8,562
Total	79,086	-	(46,045)	33,041	52,506	-	(40,471)	12,035

Customer relationships are initially valued based on the present value of net cash flows expected to be derived solely from the recurring customer base existing as at the date of acquisition. Customer relationship intangible assets may or may not arise from contracts. See Note 26: Business Combinations for details of acquisitions of customer relationship intangible assets that occurred during the year ended 31 December 2014.

During the year ended 31 December 2014, the amortisation expense amounted to \$4.3 million (2013: \$3.4 million) and the foreign exchange translation adjustment decreased the net carrying amount by \$1.3 million (2013: increased by \$0.1 million). The estimated aggregate amortisation expense for each of the succeeding five years (until 31 December 2019) is \$5.2 million.

NOTE 10: CUSTOMER DEPOSITS AND DEPOSITS FROM BANKS

By Maturity	31 December 2014			31 December 2013		
	Customers	Banks	Total	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	1,558,122	408	1,558,530	1,012,973	385	1,013,358
Demand deposits - Interest bearing	5,179,522	26,512	5,206,034	4,631,149	11,701	4,642,850
Sub-total - demand deposits	6,737,644	26,920	6,764,564	5,644,122	12,086	5,656,208
Term deposits having a denomination of less than \$100,000						
Term deposits maturing within six months	57,451	82	57,533	56,468	-	56,468
Term deposits maturing between six to twelve months	18,310	-	18,310	16,392	-	16,392
Term deposits maturing after twelve months	18,492	-	18,492	18,205	-	18,205
Sub-total - term deposits having a denomination of less than \$100,000	94,253	82	94,335	91,065	-	91,065
Term deposits having a denomination of \$100,000 or more						
Term deposits maturing within six months	1,445,072	9,368	1,454,440	1,570,923	16,150	1,587,073
Term deposits maturing between six to twelve months	294,175	3,536	297,711	94,802	11,986	106,788
Term deposits maturing after twelve months	60,527	-	60,527	196,817	-	196,817
Sub-total - term deposits having a denomination of \$100,000 or more	1,799,774	12,904	1,812,678	1,862,542	28,136	1,890,678
Sub-total - term deposits	1,894,027	12,986	1,907,013	1,953,607	28,136	1,981,743
Total	8,631,671	39,906	8,671,577	7,597,729	40,222	7,637,951

By Type and Segment

	31 December 2014			31 December 2013		
	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	2,914,440	955,683	3,870,123	2,532,572	1,018,417	3,550,989
Banks	9,508	-	9,508	494	1,036	1,530
Cayman						
Customers	2,153,500	437,259	2,590,759	1,677,092	394,338	2,071,430
Banks	15,797	12,986	28,783	10,627	27,100	37,727
Guernsey						
Customers	1,350,377	145,132	1,495,509	1,085,862	204,646	1,290,508
Banks	1,307	-	1,307	965	-	965
The Bahamas						
Customers	53,317	7,514	60,831	68,257	9,980	78,237
United Kingdom						
Customers	266,010	348,439	614,449	280,339	326,226	606,565
Banks	308	-	308	-	-	-
Total Customers	6,737,644	1,894,027	8,631,671	5,644,122	1,953,607	7,597,729
Total Banks	26,920	12,986	39,906	12,086	28,136	40,222
Total	6,764,564	1,907,013	8,671,577	5,656,208	1,981,743	7,637,951

NOTE 11: EMPLOYEE FUTURE BENEFITS

The Bank maintains trusted pension plans including non-contributory defined benefit plans and a number of defined contribution plans, and provides post-retirement medical benefits to its qualifying retirees. The defined benefit provisions under the pension plans are generally based upon years of service and average salary during the final years of employment. The defined benefit and post-retirement medical plans are not open to new participants and are non-contributory and the funding required is provided by the Bank, based upon the advice of an independent actuary.

The following table presents the financial position of the Bank's defined benefit pension plans and the Bank's post-retirement medical benefits, which is unfunded. The benefit obligations and plan assets are measured as at 31 December 2014 and 2013:

	31 December 2014		31 December 2013	
	Pension plans	Post-retirement medical benefit plan	Pension plans	Post-retirement medical benefit plan
Accumulated benefit obligation at end of year	188,890	-	160,762	-
Change in projected benefit obligation				
Projected benefit obligation at beginning of year	167,469	89,109	167,683	97,126
Service cost	1,203	825	1,553	930
Employee contributions	99	-	124	-
Interest cost	7,760	4,503	6,971	4,215
Benefits paid	(8,771)	(3,590)	(7,889)	(3,139)
Plan amendment	-	7,901	-	-
Settlement and curtailment of liability	(4,662)	-	-	-
Actuarial (gain) loss	31,604	15,892	(2,690)	(10,023)
Foreign exchange translation adjustment	(5,812)	-	1,717	-
Projected benefit obligation at end of year	188,890	114,640	167,469	89,109
Change in plan assets				
Fair value of plan assets at beginning of year	186,412	-	163,701	-
Actual return on plan assets	18,451	-	18,089	-
Employer contribution	4,172	3,590	10,070	3,139
Employee contributions	99	-	124	-
Benefits paid	(8,771)	(3,590)	(7,889)	(3,139)
Foreign exchange translation adjustment	(6,356)	-	2,317	-
Fair value of plan assets at end of year	194,007	-	186,412	-
Amounts recognised in the consolidated balance sheet consist of:				
Prepaid benefit cost included in other assets	8,374	-	18,943	-
Accrued pension benefit cost included in employee future benefits liability	(3,257)	(114,640)	-	(89,109)
Surplus (deficit) of plan assets over projected benefit obligation at measurement date	5,117	(114,640)	18,943	(89,109)
Amounts recognised in accumulated other comprehensive loss consist of:				
Net actuarial loss, excluding deferred taxes	(53,970)	(29,874)	(36,384)	(14,904)
Prior service credit, net of prior service cost	-	7,008	-	21,628
Deferred income taxes assets	801	-	768	-
Net amount recognised in accumulated other comprehensive loss	(53,169)	(22,866)	(35,616)	6,724

As at 31 December 2014, the pension plans of the Guernsey and United Kingdom subsidiaries were in a surplus position (i.e., net surplus presented in other assets in the balance sheet), while the pension plan of the Bermuda operations was in a deficit position with projected benefit obligations of \$94.9 million and plan assets of \$91.6 million (2013: all plans were in a surplus position).

Guernsey Defined Benefit Pension Plan

Effective 30 September 2014, the defined benefit pension benefits of the Bank's Guernsey operations were amended to freeze credited service and final average earnings for remaining active members. The benefits amendment resulted in a further reduction in the Guernsey defined benefit pension liability of \$4.59 million as at 30 September 2014.

Effective October 2014, all the participants of the Guernsey defined benefit pension plan are inactive and in accordance with US GAAP, the net actuarial loss of the Guernsey defined benefit pension plan will be amortised over the estimated average remaining life expectancy of the inactive participants of 39 years. Prior to all of the Guernsey participants being inactive, the net actuarial loss of the Guernsey defined benefit pension plan was amortised to net income over the estimated average remaining service period for active members of 15 years.

Bermuda Defined Benefit Post Retirement Healthcare Plan

For the year ended 31 December 2014 numerous changes in the plan provisions were made to align the plan provisions with the administrative practices of the Bank resulting in a further increase in the Bermuda defined benefit post-retirement healthcare plan liability of \$7.9 million.

The Bank amortises prior service credit resulting from plan amendments that occurred when plan members were active employees, on a linear basis over the expected average remaining service period (to full eligibility) of active members expected to receive benefits under the plan. Such remaining service periods are as follow: 3.1 years for the 2010 plan amendments and 4.6 years for the 2011 plan amendments. Plan amendments occurring in 2014 resulted in the recognition of new prior service cost on 31 December 2014 on a plan for which substantially all members are now inactive and, in accordance with US GAAP, the Bank has elected to amortise this new prior service cost on a linear basis over the average remaining life expectancy of members eligible for benefits under the plan (21 years at 31 December 2014).

Annual Benefit Expense

Expense component	For the year ended			
	31 December 2014		31 December 2013	
	Pension plans	Post-retirement medical benefit plan	Pension plans	Post-retirement medical benefit plan
Service cost	1,203	825	1,553	930
Interest cost	7,760	4,503	6,971	4,215
Expected return on plan assets	(10,653)	-	(9,076)	-
Amortisation of past service cost	-	(6,719)	-	(6,719)
Amortisation of net actuarial loss	1,058	922	1,695	2,242
Defined benefit expense (income)	(632)	(469)	1,143	668
Defined contribution expense	6,892	-	6,042	-
Total benefit expense (income)	6,260	(469)	7,185	668

Other Changes Recognised in Other Comprehensive (Loss) Income

Net gain (loss) arising during the year	(18,947)	(15,892)	11,755	10,023
Prior service cost arising during the year	-	(7,901)	-	-
Amortisation of past service credit	-	(6,719)	-	(6,719)
Amortisation of net actuarial loss	1,058	922	1,644	2,242
Change in deferred taxes	83	-	(1,656)	-
Foreign exchange adjustment	253	-	636	-
Total changes recognised in other comprehensive (loss) income	(17,553)	(29,590)	12,379	5,546

The estimated portion of the net actuarial loss for the pension plans that will be amortised from AOCL into benefit expense over the 2015 fiscal year is \$1.3 million. The estimated portion of the net actuarial loss and the past service credit for the post-retirement medical benefit plan that will be amortised from AOCL into benefit expense over the 2015 fiscal year is \$2.3 million for the net actuarial loss and a credit of \$5.7 million for the net past service credit.

Actuarial Assumptions

Actuarial assumptions used to determine annual benefit expense	For the year ended			
	31 December 2014		31 December 2013	
	Pension plans	Post-retirement medical benefit plan	Pension plans	Post-retirement medical benefit plan
Weighted average discount rate	4.75%	5.10%	4.20%	4.40%
Weighted average rate of compensation increases ⁽¹⁾	4.30%	N/A	3.85%	N/A
Weighted average expected long-term rate of return on plan assets	5.80%	N/A	5.65%	N/A
Weighted average annual medical cost increase rate (sensitivity shown below)	N/A	7.3% to 4.5% in 2027	N/A	7.5% to 4.5% in 2027

⁽¹⁾ Excludes the inactive Bermuda defined benefit pension plan.

Actuarial assumptions used to determine benefit

Weighted average discount rate	3.80%	4.20%	4.75%	5.10%
Weighted average rate of compensation increases	2.80%	N/A	4.30%	N/A
Weighted average annual medical cost increase rate (sensitivity shown below)	N/A	7.1% to 4.5% in 2027	N/A	7.3% to 4.5% in 2027

Post-retirement medical benefit plan sensitivity to trend rate assumptions

The effect of a one percentage point increase or decrease in the assumed medical cost increase rate on the aggregate of service and interest costs is as follows:

a. One percent increase in trend rate		
i. Effect on total service cost and interest cost components for the year	952	934
ii. Effect on benefit obligation at year-end	20,339	14,111
a. One percent increase in trend rate		
i. Effect on total service cost and interest cost components for the year	(771)	(752)
ii. Effect on benefit obligation at year-end	(16,514)	(11,601)

To develop the expected long-term rate of return on the plan assets assumption for each plan, the Bank considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocations of the assets. The weighted average discount rate used to determine benefit obligations at the end of the year is derived from interest rates on high quality corporate bonds with maturities that match the expected benefit payments.

Investments Policies and Strategies

The pension plans' assets are managed according to each plan's investment policy statement, which outlines the purpose of the plan, statement of objectives and guidelines and investment policy. The asset allocation is diversified and any use of derivatives is limited to hedging purposes only.

	31 December 2014		31 December 2013	
	Actual allocation	Target allocation	Actual allocation	Target allocation
Weighted average actual and target asset allocations of the pension by asset category				
Debt securities (including debt mutual funds)	49%	50%	41%	48%
Equity securities (including equity mutual funds)	45%	48%	59%	50%
Other	6%	2%	0%	2%
Total	100%	100%	100%	100%

Fair Value Measurements of Pension Plans' Assets

The following table presents the fair value of plans' assets by category and level of inputs used in their respective fair value determination as described in Note 2:

	31 December 2014				31 December 2013			
	Fair value determination				Fair value determination			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
US government and federal agencies	-	7,707	-	7,707	-	7,737	-	7,737
Corporate debt securities	-	62,466	-	62,466	-	54,036	-	54,036
Debt securities issued by non-US governments	-	17,342	-	17,342	-	14,978	-	14,978
Equity securities and mutual funds	12,747	92,962	-	105,709	12,807	96,228	109	109,144
Other	-	783	-	783	-	517	-	517
Total fair value of plans' assets	12,747	181,260	-	194,007	12,807	173,496	109	186,412

At 31 December 2014, 35.9% (2013: 35.6%) of the assets of the pension plans were mutual funds and equity securities managed or administered by wholly-owned subsidiaries of the Bank. At 31 December 2014, 0.3% and 1.1% (2013: 0.2% and 1.2%) of the plans' assets were invested in common and preference shares of the Bank, respectively.

The investments of the pension funds are diversified across a range of asset classes and are diversified within each asset class. The assets are generally actively managed with the goal of adding some incremental value through security selection and asset allocation.

Estimated 2015 Bank contribution to, and estimated benefit payments for the next ten years under, the pension and post-retirement medical benefit plans are as follows:

	Pension plans	Post-retirement medical benefit plan
Estimated Bank contributions for the year ending 31 December 2015	627	4,033
Estimated benefit payments by year:		
2015	7,200	4,033
2016	7,400	4,306
2017	7,500	4,572
2018	7,400	4,874
2019	7,400	5,194
2020-2023	37,300	30,328

NOTE 12: CREDIT-RELATED ARRANGEMENTS AND COMMITMENTS

Commitments

As at 31 December 2014, the Bank was committed to expenditures under contract for sourcing and leases of \$33.1 million and \$20.0 million respectively (2013: \$52.6 million and \$21.5 million, respectively). Rental expense for premises leased on a long-term basis for the year ended 31 December 2014 amounted to \$5.3 million (2013: \$4.9 million).

The following table summarises the Bank's commitments for sourcing, long-term leases and other agreements:

For the year ending 31 December	Sourcing	Leases	Other agreements	Total
2015	18,409	4,270	2,241	24,920
2016	14,667	3,994	559	19,220
2017	-	3,256	559	3,815
2018	-	3,086	516	3,602
2019	-	2,714	474	3,188
2020 & thereafter	-	2,696	474	3,170
Total commitments	33,076	20,016	4,823	57,915

Credit-Related Arrangements

Standby letters of credit and letters of guarantee are issued at the request of a Bank customer in order to secure the customer's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Bank to pay the third party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the customer. Generally, the term of the standby letters of credit does not exceed one year, whilst the term of the letters of guarantee does not exceed four years. The types and amounts of collateral security held by the Bank for these standby letters of credit and letters of guarantee is generally represented by deposits with the Bank or a charge over assets held in mutual funds.

The Bank considers the fees collected in connection with the issuance of standby letters of credit and letters of guarantee to be representative of the fair value of its obligation undertaken in issuing the guarantee. In accordance with applicable accounting standards related to guarantees, the Bank defers fees collected in connection with the issuance of standby letters of credit and letters of guarantee. The fees are then recognised in income proportionately over the life of the credit agreements.

The following table presents the outstanding financial guarantees with contractual amounts representing credit risk as follows:

	31 December 2014			31 December 2013		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	225,718	224,158	1,560	294,572	292,204	2,368
Letters of guarantee	10,227	7,594	2,633	12,391	8,761	3,630
Total	235,945	231,752	4,193	306,963	300,965	5,998

Collateral is shown at estimated market value less selling cost. Where cash is the collateral, this is shown gross including interest income.

The Bank enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of the Bank's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for possible loan losses.

The following table presents the unfunded legally binding commitments to extend credit with contractual amounts representing credit risk as follows:

	31 December 2014	31 December 2013
Commitments to extend credit	257,266	299,062
Documentary and commercial letters of credit	1,927	2,635
Total unfunded commitments to extend credit	259,193	301,697

The Bank has a facility by one of its custodians, whereby the Bank may offer up to US\$200 million of standby letters of credit to its customers on a fully secured basis. Under the standard terms of the facility, the custodian has the right to set-off against securities held of 110% of the utilised facility. At 31 December 2014, \$91.8 million (2013: \$149.2 million) of standby letters of credit were issued under this facility.

Legal Proceedings

There are actions and legal proceedings pending against the Bank and its subsidiaries which arose in the normal course of its business. Management, after reviewing all actions and proceedings pending against or involving the Bank and its subsidiaries, considers that the resolution of these matters would in the aggregate not be material to the consolidated financial position of the Bank.

NOTE 13: LOAN INTEREST INCOME

	31 December 2014	31 December 2013
	For the year ended	
Contractual interest		
Contractual interest earned on mortgages	113,076	106,725
Contractual interest earned on other loans	75,640	77,256
Subtotal contractual interest earned	188,716	183,981
Amortisation		
Amortisation of fair value hedge	(1,548)	(1,724)
Amortisation of loan origination fees (net of amortised costs)	4,818	4,785
Total loan interest income	191,986	187,042
Balance of unamortised fair value hedge as at year-end	(5,806)	(7,354)
Balance of unamortised loan fees as at year-end	7,526	7,380

NOTE 14: SEGMENTED INFORMATION

At 31 December 2014, for management reporting purposes, the operations of the Bank are grouped into the following six business segments based upon the geographic location of the Bank's operations: Bermuda, Cayman, Guernsey, Switzerland, The Bahamas and the United Kingdom. Accounting policies of the reportable segments are the same as those described in Note 2.

Bermuda provides a full range of retail, commercial and private banking services. Retail services are offered to individuals and small to medium-sized businesses through five branch locations and through Internet banking, mobile banking, automated teller machines ("ATMs") and debit cards. Retail services include deposit services, consumer and mortgage lending, credit cards and personal insurance products. Commercial banking includes commercial lending and mortgages, cash management, payroll services, remote banking and letters of credit. Treasury services include money market and foreign exchange activities. Bermuda's wealth management offering consists of Butterfield Asset Management Limited, which provides investment management, advisory and brokerage services and Butterfield Trust (Bermuda) Limited, which provides trust, estate, company management and custody services.

The Cayman segment provides a comprehensive range of retail, commercial and private banking services. Retail services are offered to individuals and small to medium-sized businesses through three branch locations and through Internet banking, mobile banking, ATMs and debit cards. Retail services include deposit services, consumer and mortgage lending, credit cards and property/auto insurance. Commercial banking includes commercial lending and mortgages, cash management, payroll services, remote banking and letters of credit. Treasury services include money market and foreign exchange activities. Cayman's wealth management offering comprises investment management, advisory and brokerage services and Butterfield Trust (Cayman) Limited, which provides trust, estate and company management.

The Guernsey segment provides a broad range of services to private clients and financial institutions including private banking and treasury services, Internet banking, administered bank services, wealth management and fiduciary services.

The Switzerland segment provides fiduciary services.

The Bahamas segment provides fiduciary and ancillary services.

The United Kingdom segment provides a broad range of services including private banking and treasury services, Internet banking and wealth management and fiduciary services to high net worth individuals and privately owned businesses.

Total Assets by Segment	31 December 2014		31 December 2013	
Bermuda	4,797,235		4,624,281	
Cayman	2,863,624		2,309,380	
Guernsey	1,639,334		1,437,873	
Switzerland	2,002		2,206	
The Bahamas	70,265		91,758	
United Kingdom	832,707		828,295	
Total assets before inter-segment eliminations	10,205,167		9,293,793	
Less: inter-segment eliminations	(346,727)		(422,978)	
Total	9,858,440		8,870,815	

For the year ended 31 December 2014	Net interest income		Provision for credit losses	Non- interest income	Revenue before gains and losses	Total expenses	Net income before gains and central allocations	Gains and losses	Net income
	Customer	Inter- segment							
Bermuda	141,528	3,164	(6,425)	60,692	198,959	145,696	53,263	6,908	60,171
Cayman	58,442	928	(557)	33,515	92,328	58,829	33,499	36	33,535
Guernsey	19,303	(1,242)	(154)	26,814	44,721	39,580	5,141	(1,077)	4,064
Switzerland	-	-	-	2,486	2,486	2,867	(381)	-	(381)
The Bahamas	(15)	166	-	5,492	5,643	5,548	95	-	95
United Kingdom	19,229	(3,016)	(912)	7,717	23,018	22,164	854	1	855
Total before eliminations	238,487	-	(8,048)	136,716	367,155	274,684	92,471	5,868	98,339
Inter-segment eliminations	-	-	-	(1,886)	(1,886)	(1,886)	-	-	-
Total	238,487	-	(8,048)	134,830	365,269	272,798	92,471	5,868	98,339

For the year ended 31 December 2013	Net interest income		Provision for credit losses	Non- interest income	Revenue before gains and losses	Total expenses	Net income before gains and central allocations	Gains and losses	Net income
	Customer	Inter- segment							
Bermuda	135,404	1,496	(12,707)	60,682	184,875	151,042	33,833	3,533	37,366
Cayman	50,809	1,172	(3,554)	32,177	80,604	54,674	25,930	(492)	25,438
Guernsey	19,805	3	(126)	19,678	39,360	31,945	7,415	(378)	7,037
Switzerland	1	-	-	1,746	1,747	2,418	(671)	3,905	3,234
The Bahamas	17	170	58	5,612	5,857	4,932	925	-	925
United Kingdom	17,773	(2,841)	1,504	7,384	23,820	19,841	3,979	181	4,160
Total before eliminations	223,809	-	(14,825)	127,279	336,263	264,852	71,411	6,749	78,160
Inter-segment eliminations	-	-	-	(1,316)	(1,316)	(1,316)	-	-	-
Total	223,809	-	(14,825)	125,963	334,947	263,536	71,411	6,749	78,160

NOTE 15: DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

The Bank uses derivatives for risk management purposes and to meet the needs of its customers. The Bank's derivative contracts principally involve OTC transactions that are privately negotiated between the Bank and the counterparty to the contract and include interest rate contracts and foreign exchange contracts.

The Bank may pursue opportunities to reduce its exposure to credit losses on derivatives by entering into International Swaps and Derivatives Association master agreements ("ISDAs"). Depending on the nature of the derivative transaction, bilateral collateral arrangements may be used as well. When the Bank is engaged in more than one outstanding derivative transaction with the same counterparty, and also has a legally enforceable master netting agreement with that counterparty, the net marked to market exposure represents the netting of the positive and negative exposures with that counterparty. When there is a net negative exposure, the Bank regards its credit exposure to the counterparty as being zero. The net marked to market position with a particular counterparty represents a reasonable measure of credit risk when there is a legally enforceable master netting agreement between the Bank and that counterparty.

Certain of these agreements contain credit risk-related contingent features in which the counterparty has the option to accelerate cash settlement of the Bank's net derivative liabilities with the counterparty in the event the Bank's credit rating falls below specified levels or the liabilities reach certain levels.

All derivative financial instruments, whether designated as hedges or not, are recorded on the consolidated balance sheet at fair value within other assets or other liabilities. These amounts include the effect of netting. The accounting for changes in the fair value of a derivative in the consolidated statements of operations depends on whether the contract has been designated as a hedge and qualifies for hedge accounting.

Notional Amounts

The notional amounts are not recorded as assets or liabilities on the consolidated balance sheet as they represent the face amount of the contract to which a rate or price is applied to determine the amount of cash flows to be exchanged. Notional amounts represent the volume of outstanding transactions and do not represent the potential gain or loss associated with market risk or credit risk of such instruments. Credit risk is limited to the positive fair value of the derivative instrument, which is significantly less than the notional amount.

Fair Value

Derivative instruments, in the absence of any compensating up-front cash payments, generally have no market value at inception. They obtain value, positive or negative, as relevant interest rates, exchange rates, equity or commodity prices or indices change. The potential for derivatives to increase or decrease in value as a result of the foregoing factors is generally referred to as market risk. Market risk is managed within clearly defined parameters as prescribed by senior management of the Bank. The fair value is defined as the profit or loss associated with replacing the derivative contracts at prevailing market prices.

Risk Management Derivatives

The Bank enters into interest derivative contracts as part of its overall interest rate risk management strategy to minimise significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Bank's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain consolidated balance sheet assets and liabilities so that movements in interest rates do not adversely affect the net interest margin. Derivative instruments that are used as part of the Bank's risk management strategy include interest rate swap contracts that have indices related to the pricing of specific consolidated balance sheet assets and liabilities. Interest rate swaps generally involve the exchange of fixed and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date. The Bank uses foreign currency derivative instruments to hedge its exposure to foreign currency risk. Certain hedging relationships are formally designated and qualify for hedge accounting as fair value or net investment hedges. Risk management derivatives comprise the following:

Fair value hedges

Derivatives are designated as fair value hedges to minimise the Bank's exposure to changes in the fair value of assets and liabilities due to movements in interest rates. The Bank enters into interest rate swaps to convert its fixed-rate long-term loans to floating-rate loans, and convert fixed-rate deposits to floating-rate deposits. Changes in fair value of these derivatives are recognised in income. For fair value hedges, the Bank applies the "shortcut" method of accounting, which assumes there is no ineffectiveness in a hedge. As a result, changes recorded in the fair value of the hedged item are equal to the offsetting gain or loss on the derivative and are reflected in the same line item. During the year ended 31 December 2011, the Bank cancelled its interest rate swaps designated as fair value hedges of loans receivable and therefore discontinued hedge accounting for these financial instruments. The fair value attributable to the hedged loans are accounted for prospectively and are being amortised to net income over the remaining life of each individual loan using the effective interest method.

Net investment hedges

Foreign currency swaps and qualifying non-derivative instruments designated as net investment hedges are used to minimise the Bank's exposure to variability in the foreign currency translation of net investments in foreign operations. The effective portion of changes in the fair value of the hedging instrument is recognised in AOCL consistent with the related translation gains and losses of the hedged net investment. For net investment hedges, all critical terms of the hedged item and the hedging instrument are matched at inception and on an ongoing basis to minimise the risk of hedge ineffectiveness.

For derivatives designated as net investment hedges, the Bank follows the forward-rate method in measuring the amount of ineffectiveness in a net investment hedge. According to that method, all changes in fair value, including changes related to the forward-rate component and the time value of currency swaps, are recorded in the foreign currency translation adjustment account within AOCL. To the extent all terms are not perfectly matched, any ineffectiveness is measured using the hypothetical derivative method. Ineffectiveness resulting from net investment hedges is recorded in foreign exchange income. Amounts recorded in AOCL are reclassified to earnings only upon the sale or liquidation of an investment in a foreign subsidiary.

For foreign-currency-denominated debt instruments that are designated as hedges of net investments, the translation gain or loss that is recorded in the foreign currency translation adjustment account is based on the spot exchange rate between the functional currencies of the respective subsidiary.

Derivatives not formally designated as hedges

Derivatives not formally designated as hedges are entered into to manage the interest rate risk of fixed rate deposits and foreign exchange risk of the Bank's exposure. Changes in the fair value of derivative instruments not formally designated as hedges are recognised in foreign exchange income.

Client service derivatives

The Bank enters into foreign exchange contracts and interest rate caps primarily to meet the foreign exchange needs of its customers. Foreign exchange contracts are agreements to exchange specific amounts of currencies at a future date at a specified rate of exchange. Changes in the fair value of client services derivative instruments are recognised in income.

The following table shows the aggregate notional amounts of derivative contracts outstanding listed by type and respective gross positive or negative fair values and classified by those used for risk management (sub-classified as hedging and those that do not qualify for hedge accounting), client services and credit derivatives. Fair value of derivatives is recorded in the consolidated balance sheet in other assets and other liabilities. Gross positive fair values are recorded in other assets and gross negative fair values are recorded in other liabilities, subject to netting when master netting agreements are in place.

The following table shows the notional amounts and related fair value measurements of derivative instruments as at the balance sheet date:

31 December 2014	Derivative instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk management derivatives					
Net investment hedges	Currency swaps	180,333	29	(3,102)	(3,073)
Derivatives not formally designated as hedging instruments	Currency swaps	48,408	253	(1,108)	(855)
Subtotal risk management derivatives		228,741	282	(4,210)	(3,928)
Client services derivatives					
	Spot and forward foreign exchange	2,529,159	16,648	(15,032)	1,616
Total derivative instruments		2,757,900	16,930	(19,242)	(2,312)
31 December 2013	Derivative instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk management derivatives					
Net investment hedges	Currency swaps	171,396	-	(10,004)	(10,004)
Derivatives not formally designated as hedging instruments	Currency swaps	168,343	-	(9,381)	(9,381)
Subtotal risk management derivatives		339,739	-	(19,385)	(19,385)
Client services derivatives					
	Spot and forward foreign exchange	2,871,361	11,246	(10,167)	1,079
Total derivative instruments		3,211,100	11,246	(29,552)	(18,306)

In addition to the above, foreign denominated deposits, totalling \$15.7 million at 31 December 2014 (2013: \$nil), were designated as a hedge of foreign exchange risk associated with the net investment in foreign operations.

The "Net amounts offset in consolidated balance sheet" column within the following table represents the aggregate of our net exposure to each counterparty after considering the balance sheet and disclosure-only netting adjustments. We manage derivative exposure by monitoring the credit risk associated with each counterparty using counterparty specific credit risk limits, using master netting arrangements and obtaining collateral.

31 December 2014	Gross amounts recognised	Gross amounts offset in consolidated balance sheet	Net amounts offset in consolidated balance sheet	Gross amounts not offset in consolidated balance sheet	Net amounts in consolidated balance sheet	Collateral pledged	Amounts net of collateral in consolidated balance sheet
Derivative assets							
Spot and forward foreign exchange and currency swaps	16,222	(2,585)	13,637	3,293	16,930	11,375	28,305
Derivative liabilities							
Spot and forward foreign exchange and currency swaps	2,839	(19,283)	(16,444)	(2,798)	(19,242)	9,041	(10,201)
Total derivative instruments			(2,807)		(2,312)		18,104
31 December 2013	Gross amounts recognised	Gross amounts offset in consolidated balance sheet	Net amounts offset in consolidated balance sheet	Gross amounts not offset in consolidated balance sheet	Net amounts in consolidated balance sheet	Collateral pledged	Amounts net of collateral in consolidated balance sheet
Derivative assets							
Spot and forward foreign exchange and currency swaps	11,075	(3,362)	7,713	3,533	11,246	9,611	20,857
Derivative liabilities							
Spot and forward foreign exchange and currency swaps	4,217	(30,302)	(26,085)	(3,467)	(29,552)	9,599	(19,953)
Total derivative instruments			(18,372)		(18,306)		904

The following table shows the location and amount of gains (losses) recorded in the consolidated statements of operations on derivatives outstanding as at 31 December 2014 and 2013:

Derivative instrument	Consolidated statements of operations line item	For the year ended	
		31 December 2014	31 December 2013
Interest rate swaps	Net other gains	-	86
Spot and forward foreign exchange	Foreign exchange revenue	(332)	2,030
Total net gains recognised in net income		(332)	2,116

NOTE 16: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the financial assets and liabilities that are measured at fair value on a recurring basis. Management classifies these items based on the level of inputs used in their respective fair value determination, as described in Note 2.

Management reviews the price of each security monthly, comparing market values to expectations and to the prior month's price. Management's expectations are based upon knowledge of prevailing market conditions and developments relating to specific issuers and/or asset classes held in the investment portfolio. Where there are unusual or significant price movements, or where a certain asset class has performed out-of-line with expectations, the matter is reviewed by the Group Asset and Liability Committee.

Financial instruments in Level 1 include actively traded redeemable mutual funds.

Financial instruments in Level 2 include equity securities not actively traded, certificates of deposit, corporate bonds, mortgage-backed securities and other asset-backed securities, interest rate swaps and caps and forward foreign exchange contracts, and mutual funds not actively traded.

Financial instruments in Level 3 include mortgage-backed securities and other asset-backed securities for which the market is relatively illiquid and for which information about actual trading prices is not readily available.

Items that are recognised at fair value on a recurring basis:

	31 December 2014				31 December 2013			
	Level 1	Fair value Level 2	Level 3	Total carrying amount / fair value	Level 1	Fair value Level 2	Level 3	Total carrying amount / fair value
Financial assets								
Trading investments								
Debt securities issued								
by non-US governments	-	-	-	-	-	3,546	-	3,546
Mutual funds	6,038	833	-	6,871	5,842	43,940	-	49,782
Total trading	6,038	833	-	6,871	5,842	47,486	-	53,328
Available-for-sale investments								
Certificates of deposit	-	37,743	-	37,743	-	84,571	-	84,571
US government and federal agencies	-	1,887,870	-	1,887,870	-	1,347,580	-	1,347,580
Debt securities issued								
by non-US governments	-	38,325	-	38,325	-	88,454	-	88,454
Corporate debt securities	-	399,289	-	399,289	-	415,404	-	415,404
Asset-backed securities - Student loans	-	52,596	12,227	64,823	-	71,882	11,297	83,179
Commercial mortgage-backed securities	-	151,169	-	151,169	-	142,889	-	142,889
Residential mortgage-backed securities - Prime	-	64,829	-	64,829	-	30,837	-	30,837
Pass-through note	-	-	-	-	-	-	34,007	34,007
Equity securities	-	15	-	15	-	-	-	-
Total available-for-sale	-	2,631,836	12,227	2,644,063	-	2,181,617	45,304	2,226,921
Other assets - Derivatives	-	16,930	-	16,930	-	11,246	-	11,246
Financial liabilities								
Other liabilities - Derivatives	-	(19,242)	-	(19,242)	-	(29,552)	-	(29,552)

There were no transfers between Level 1 and Level 2 during the years ended 31 December 2014 and 2013.

The following table presents quantitative information about recurring fair value measurements of assets classified within Level 3 of the fair value hierarchy:

Financial instrument type	Valuation technique	31 December 2014	31 December 2013
Asset-backed securities - Student loans	Unadjusted third-party priced	12,227	11,297
Pass-through note	Unadjusted third-party priced	-	34,007

The valuation techniques used for the Level 3 assets as presented in the previous table, are described as follows:

Unadjusted third-party price

Prices obtained from third-party pricing vendors or brokers that are used to record the fair value of the asset of which the related valuation technique and significant unobservable inputs are not provided.

- Asset-backed securities ("ABS") – The ABS is a federal family education loan programme guaranteed student loan security and is valued using a non-binding broker quote. The fair value provided by the broker is based on the last trading price of similar securities but as the market for the security is illiquid, a Level 2 classification is not supported.
- Pass-through note ("PTN") – The PTN consisted of a pool of floating rate income securities (typically US sub-prime collateralised mortgage obligations and mortgage-backed securities). The third-party investment manager of the PTN determined the fair value of each underlying security within the PTN. The investment manager used a variety of valuation techniques consistent with those disclosed in Note 2. Despite relying on the fair values provided by the investment manager, management is still responsible for the final fair valuation used. The PTN was sold in 2014.

Significant increases (decreases) in any of the above inputs in isolation could result in a significantly different fair value measurement. Generally a change in assumption used for the probability of defaults is accompanied by a directionally similar change in the assumption used for the loss severity.

Level 3 Reconciliation

	31 December 2014	31 December 2013	
	Available- for-sale investments	Available- for-sale investments	Closed ended fund
Carrying amount at beginning of year	45,304	41,810	4,397
Proceeds from sales, paydowns and maturities	(36,438)	(5,542)	(4,111)
Accretion recognised in net income	915	1,929	-
Realised and unrealised gains (losses) recognised in other comprehensive income	(6,286)	7,107	-
Realised and unrealised gains recognised in net income	8,732	-	-
Foreign exchange translation adjustment	-	-	(286)
Carrying amount at end of year	12,227	45,304	-

Items Recognised at Fair Value on a Non-Recurring Basis:

	31 December 2014			Total carrying amount / fair value	31 December 2013			Total carrying amount / fair value
	Fair value				Fair value			
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Other real estate owned	-	19,300	-	19,300	-	27,407	-	27,407

The current carrying value of OREO will be adjusted to fair value only when there is devaluation below carrying value.

Items Other Than Those Recognised at Fair Value on a Recurring Basis:

	Level	31 December 2014			31 December 2013		
		Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
Financial assets							
Cash and cash equivalents	Level 1	2,063,311	2,063,311	-	1,730,472	1,730,472	-
Short-term investments	Level 1	394,770	394,770	-	54,981	54,981	-
Investments held-to-maturity	Level 2	338,177	343,989	5,812	333,394	315,534	(17,860)
Loans, net of allowance for credit losses	Level 2	4,019,128	4,015,764	(3,364)	4,088,225	4,082,741	(5,484)
Financial liabilities							
Customer deposits							
Demand deposits	Level 2	6,737,644	6,737,644	-	5,644,122	5,644,122	-
Term deposits	Level 2	1,894,027	1,895,558	(1,531)	1,953,607	1,955,096	(1,489)
Deposits from banks	Level 2	39,906	39,906	-	40,222	40,222	-
Securities sold under agreement to repurchase							
	Level 2	-	-	-	25,535	25,543	(8)
Subordinated capital	Level 2	117,000	115,936	1,064	207,000	203,521	3,479

NOTE 17: INTEREST RATE RISK

The following tables set out the assets, liabilities and shareholders' equity and off-balance sheet instruments on the date of the earlier of contractual maturity, expected maturity or repricing date. Use of these tables to derive information about the Bank's interest rate risk position is limited by the fact that customers may choose to terminate their financial instruments at a date earlier than the contractual maturity or repricing date. Examples of this include fixed-rate mortgages, which are shown at contractual maturity but which may pre-pay earlier, and certain term deposits, which are shown at contractual maturity but which may be withdrawn before their contractual maturity subject to prepayment penalties. Investments are shown based on remaining contractual maturities. The remaining contractual principal maturities for mortgage-backed securities (primarily US Government agencies) do not consider prepayments. Remaining expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations before the underlying mortgages mature.

31 December 2014

Earlier of contractual maturity or repricing date

(in \$ millions)	Earlier of contractual maturity or repricing date					Non-interest bearing funds	Total
	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years		
Assets							
Cash and deposits with banks	1,923	-	-	-	-	140	2,063
Short-term investments	155	224	16	-	-	-	395
Investments	422	37	105	470	1,948	7	2,989
Loans	3,684	133	20	89	44	49	4,019
Other assets	-	-	-	-	-	392	392
Total assets	6,184	394	141	559	1,992	588	9,858
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	849	849
Demand deposits	5,142	64	-	-	-	1,559	6,765
Term deposits	1,168	344	316	79	-	-	1,907
Other liabilities	-	-	-	-	-	220	220
Subordinated capital	47	-	45	25	-	-	117
Total liabilities and shareholders' equity	6,357	408	361	104	-	2,628	9,858
Interest rate sensitivity gap	(173)	(14)	(220)	455	1,992	(2,040)	-
Cumulative interest rate sensitivity gap	(173)	(187)	(407)	48	2,040	-	-

31 December 2013

Earlier of contractual maturity or repricing date

(in \$ millions)	Earlier of contractual maturity or repricing date					Non-interest bearing funds	Total
	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years		
Assets							
Cash and deposits with banks	1,593	-	-	-	-	137	1,730
Short-term investments	44	7	4	-	-	-	55
Investments	347	55	32	496	1,634	50	2,614
Loans	3,581	253	19	138	27	70	4,088
Other assets	-	-	-	-	-	384	384
Total assets	5,565	315	55	634	1,661	641	8,871
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	803	803
Demand deposits	4,587	57	-	-	-	1,012	5,656
Term deposits	1,432	212	123	215	-	-	1,982
Securities sold under agreement to repurchase	26	-	-	-	-	-	26
Other liabilities	-	-	-	-	-	197	197
Subordinated capital	137	-	-	70	-	-	207
Total liabilities and shareholders' equity	6,182	269	123	285	-	2,012	8,871
Interest rate sensitivity gap	(617)	46	(68)	349	1,661	(1,371)	-
Cumulative interest rate sensitivity gap	(617)	(571)	(639)	(290)	1,371	-	-

NOTE 18: SUBORDINATED CAPITAL

On 28 May 2003, the Bank issued US \$125 million of Subordinated Lower Tier II capital notes. The notes were issued at par and in two tranches, namely US \$78 million in Series A notes due 2013 and US \$47 million in Series B notes due 2018. The issuance was by way of private placement with US institutional investors. The notes are listed on the Bermuda Stock Exchange ("BSX") in the specialist debt securities category. Part proceeds of the issue were used to repay the entire amount of the US \$75 million outstanding subordinated notes redeemed in July 2003. The notes issued under Series A paid a fixed coupon of 3.94% until 27 May 2008 when it was redeemed in whole by the Bank. The Series B notes paid a fixed coupon of 5.15% until 27 May 2013 when they became redeemable in whole at the Bank's option. The Series B notes were priced at a spread of 1.35% over the 10-year US Treasury yield.

On 27 June 2005, the Bank issued US \$150 million of Subordinated Lower Tier II capital notes. The notes were issued at par in two tranches, namely US \$90 million in Series A notes due 2015 and US \$60 million in Series B notes due 2020. The issuance was by way of private placement with US institutional investors. The notes are listed on the BSX in the specialist debt securities category. The notes issued under Series A paid a fixed coupon of 4.81% until 2 July 2010 after which the coupon rate became floating and the principal became redeemable in whole at the Bank's option. The Series B notes pay a fixed coupon of 5.11% until 2 July 2015 when they also become redeemable in whole at the Bank's option. The Series A notes were priced at a spread of 1.00% over the five-year US Treasury yield and the Series B notes were priced at a spread of 1.10% over the 10-year US Treasury yield. During September 2011, the Bank repurchased a portion of the outstanding 5.11% 2005 Series B Subordinated notes ("the Note"). The face value of the portion of the Note repurchased was \$15 million and the purchase price paid for the repurchase was \$13.875 million, which realised a gain of \$1.125 million. During January 2014, the Bank fully redeemed the 2005 issuance Series A subordinated debt for its nominal value of \$90 million.

On 27 May 2008, the Bank issued US \$78 million of Subordinated Lower Tier II capital notes. The notes were issued at par and in two tranches, namely US \$53 million in Series A notes due 2018 and US \$25 million in Series B notes due 2023. The issuance was by way of private placement with US institutional investors. The notes are listed on the BSX in the specialist debt securities category. The proceeds of the issue were used to repay the entire amount of the US \$78 million outstanding subordinated notes redeemed in May 2008. The notes issued under Series A paid a fixed coupon of 7.59% until 27 May 2013 when they became redeemable in whole at the option of the Bank. In May 2013, the Bank exercised its option to redeem the Series A note outstanding at face value. The Series B notes pay a fixed coupon of 8.44% until 27 May 2018 when they also become redeemable in whole at the Bank's option. The Series B notes were priced at a spread of 4.51% over the 10-year US Treasury yield.

No interest was capitalised during the years 2014 and 2013.

The following table presents the contractual maturity and interest payments for subordinated capital issued by the Bank as at 31 December 2014. The interest payments are calculated until contractual maturity using the current LIBOR rates.

Subordinated capital	Earliest date redeemable at the Bank's option	Contractual maturity date	Interest rate until date redeemable	Interest rate from earliest date redeemable to contractual maturity	Principal outstanding	Interest payments until contractual maturity			
						Within 1 year	1 to 5 years	After 5 years	
Bermuda									
2003 issuance - Series B	27-May-2013	27-May-2018	5.15%	3 months US\$ LIBOR + 2.000%	47,000	1,065	2,662	-	
2005 issuance - Series B	2-Jul-2015	2-Jul-2020	5.11%	3 months US\$ LIBOR + 1.695%	45,000	1,806	3,526	661	
2008 issuance - Series B	27-May-2018	27-May-2023	8.44%	3 months US\$ LIBOR + 4.929%	25,000	2,110	7,244	4,580	
Total					117,000	4,981	13,432	5,241	

NOTE 19: EARNINGS PER SHARE

Earnings per share have been calculated using the weighted average number of common shares outstanding during the year after deduction of the shares held as treasury stock. The dilutive effect of share-based compensation plans was calculated using the treasury stock method, whereby the proceeds received from the exercise of share-based awards are assumed to be used to repurchase outstanding shares, using the average market price of the Bank's shares for the year. Numbers of shares are expressed in thousands.

	For the year ended	
	31 December 2014	31 December 2013
Basic earnings per share	0.15	0.11
Net income	98,339	78,160
Less: Preference dividends declared and guarantee fee	(16,546)	(16,990)
Less: Premium on preference share buyback	(96)	(2,756)
Net income attributable for common shareholders	81,697	58,414
Weighted average number of common shares issued	556,933	556,933
Weighted average number of common shares held as treasury stock	(9,336)	(7,567)
Adjusted weighted average number of common shares (in thousands)	547,597	549,366
Diluted Earnings Per Share	0.15	0.11
Net income attributable for common shareholders	81,697	58,414
Adjusted weighted average number of common shares issued	547,597	549,366
Net dilution impact related to options to purchase common shares	3,927	1,271
Net dilution impact related to awards of unvested common shares	4,958	2,934
Adjusted weighted average number of diluted common shares (in thousands)	556,482	553,571

The contingent value convertible preference ("CVCP") shares are classified as participating securities as they are entitled to dividends declared to common shareholders on a 1:1 basis and are therefore included in the basic earnings per share calculation.

During the year ended 31 December 2014, options to purchase 30.3 million (2013: 31.8 million) shares of common stock (see Note 20), were outstanding. During the year ended 31 December 2014, the number of outstanding awards of unvested common shares (see Note 20) was 9.7 million (2013: 8.6 million). Only awards for which the sum of 1) the expense that will be recognised in the future (i.e., the unrecognised expense) and 2) its exercise price, if any, was lower than the average market price of the Bank's common stock were considered dilutive and, therefore, included in the computation of diluted earnings per share. An award's unrecognised expense is also considered to be the proceeds the employees would need to pay to purchase accelerated vesting of the awards. For purposes of calculating dilution, such proceeds are assumed to be used by the Bank to buy back common shares at the average market price. The weighted-average number of outstanding awards, net of the assumed weighted-average number of common shares bought back, is included in the number of diluted participating shares.

Warrants issued to the Government of Bermuda in exchange for the Government's guarantee of the preference shares, with an exercise price of \$3.49 (2013: \$3.51) for 4.30 million shares of common stock (2013: 4.28 million) were not included in the computation of earnings per share as at 31 December 2014 and 2013 because the exercise price was greater than the average market price of the Bank's common stock.

NOTE 20: SHARE-BASED PAYMENTS

Stock Option Plans

1997 Stock Option Plan

Prior to the capital raise on 2 March 2010, the Bank granted stock options to employees and Directors of the Bank that entitle the holder to purchase one common share at a subscription price equal to the market price on the effective date of the grant. Generally, the options granted vest 25 percent at the end of each year for four years, however as a result of the capital raise, the options granted under the Bank's 1997 Stock Option Plan to employees became fully vested and options awarded to certain executives were surrendered.

2010 Stock Option Plan

In conjunction with the capital raise, the Board of Directors approved the 2010 Stock Option Plan. Under the Plan, five per cent of the Bank's fully diluted common shares, equal to approximately 29.5 million shares, are available for grant to certain officers. In May 2012, the Board of Directors approved an increase to the options allowed to be granted under the 2010 Stock Option Plan to 50 million shares.

Under the 2010 Stock Option Plan, options are awarded to Bank employees and executive management, based on predetermined vesting conditions that entitle the holder to purchase one common share at a subscription price usually equal to the last-traded common share price when granted and have a term of 10 years. The subscription price will be reduced for all special dividends declared by the Bank.

The 2010 Stock Option Plan will vest based on two specific types of vesting conditions (i.e., time and performance conditions), as detailed below:

Time vesting condition

50% of each option award is granted in the form of time vested options and vests 25% on each of the second, third, fourth and fifth anniversaries of the effective grant date.

Performance vesting condition

50% of each option award is granted in the form of performance options and vests on a "valuation event" date (date any of the 2 March 2010 investors transfer at least 5% of total number of shares or the date that there is a change in control and any of the new investors achieve a multiple of invested capital ("MOIC") based on predetermined MOIC tiers). In the event of a valuation event and the MOIC reaching 200% of the original \$1.21 per share invested capital, all performance options would vest. As at 31 December 2014 the grant date fair value of outstanding performance options is \$8.9 million (2013: \$9.5 million). If the probability of a valuation event becomes more likely than not, some or all of the unrecognised expense relating to the performance options will be recognised as an expense.

In addition to the time and performance vesting conditions noted above, the options will generally vest immediately:

- by reason of the employee's death or disability,
- upon termination, by the Bank, of the holder's employment, unless if in relation with the holder's misconduct, or
- in limited circumstances and specifically approved by the board, as stipulated in the holder's employment contract.

In the event of the employee's resignation, any unvested portion of the awards shall generally be forfeited and any vested portion of the options shall generally remain exercisable during the 90-day period following the termination date or, if earlier, until the expiration date, and any vested portion of the options not exercised as of the expiration of such period shall be forfeited without any consideration therefore.

Weighted average fair value of stock options granted	Time vested options	Performance options
No options were granted in the year ended 31 December 2014	N/A	N/A
No options were granted in the year ended 31 December 2013	N/A	N/A
Weighted average fair value of stock options granted in the year ended 31 December 2012	\$0.42	\$0.44
Weighted average fair value of stock options granted in the year ended 31 December 2011	\$0.41	\$0.43

Changes in Outstanding Stock Options

For the year ended 31 December 2014	Number of shares transferable upon exercise (thousands)			Weighted average exercise price (\$)		Weighted average remaining life (years)		Aggregate intrinsic value (\$ thousands)
	1997 Stock Option Plan	2010 Stock Option Plan	Total	1997 Stock Option Plan	2010 Stock Option Plan	1997 Stock Option Plan	2010 Stock Option Plan	
Outstanding at								
beginning of year	3,992	27,808	31,800	12.83	1.17			
Exercised	-	(1,027)	(1,027)	-	1.16			
Forfeitures and cancellations	(436)	(1)	(437)	10.86	1.16			
Resignations, retirements, redundancies	-	-	-	-	1.16			
Expiration at end of plan life	(31)	-	(31)	13.76	-			
Outstanding at end of year	3,525	26,780	30,305	13.07	1.17	2.38	5.66	22,233
Vested and exercisable								
at end of year	3,525	8,677	12,202	13.07	1.17	2.38	5.65	

For the year ended 31 December 2014	Number of shares transferable upon exercise (thousands)			Weighted average exercise price (\$)		Weighted average remaining life (years)		Aggregate intrinsic value (\$ thousands)
	1997 Stock Option Plan	2010 Stock Option Plan	Total	1997 Stock Option Plan	2010 Stock Option Plan	1997 Stock Option Plan	2010 Stock Option Plan	
Outstanding at								
beginning of year	4,577	28,750	33,327	12.77	1.18			
Exercised	-	(596)	(596)	-	1.17			
Forfeitures and cancellations	(1)	(302)	(303)	15.78	1.17			
Resignations, retirements, redundancies	-	(44)	(44)	-	1.17			
Expiration at end of plan life	(584)	-	(584)	12.70	-			
Outstanding at end of year	3,992	27,808	31,800	12.78	1.18	3.12	6.65	8,636
Vested and exercisable								
at end of year	3,992	6,429	10,421	12.78	1.17	3.12	6.41	

Share-Based Plans

Recipients of unvested shares awards are entitled to the related common shares at no cost, at the time the award vests. Recipients of unvested shares may be entitled to receive additional unvested shares having a value equal to the cash dividends that would have been paid had the unvested shares been issued and vested. Such additional unvested shares granted as dividend equivalents are subject to the same vesting schedule and conditions as the underlying unvested shares.

Unvested shares subject only to time-vesting condition immediately vest upon retirement, death, disability or upon termination, by the Bank, of the holder's employment unless in relation with the holder's misconduct. Unvested shares subject to both time-vesting and performance vesting condition remain outstanding and unvested upon retirement and will vest only if the performance conditions are met. Unvested shares can also vest in limited circumstances and if specifically approved by the board, as stipulated in the holder's employment contract. Unvested shares are generally forfeited when employment ends.

Employee Deferred Incentive Plan ("EDIP")

Under the Bank's EDIP Plan, shares were awarded to Bank employees and executive management based on time-vesting condition, which states that the shares will vest equally over a three-year period from the effective grant date. The table below presents the number of shares transferable upon vesting of the shares under the EDIP:

Number of shares transferable upon vesting of EDIP shares (in thousands of shares)	For the year ended	
	31 December 2014	31 December 2013
Outstanding at beginning of year	2,183	1,976
Granted	1,510	1,367
Vested	(1,029)	(755)
Forfeitures and cancellations	-	(8)
Resignations, retirements, redundancies	(4)	(397)
Outstanding at end of year	2,660	2,183

Executive Long-Term Incentive Share Plan ("ELTIP")

2012 and 2011 ELTIP

Under the Bank's 2012 and 2011 ELTIP, shares were awarded to Bank employees and executive management, based on predetermined vesting conditions. Two types of vesting conditions upon which the shares were awarded comprise the ELTIP: 1) 50% of each share award were granted in the form of time vested shares, generally vesting equally over a three-year period from the effective grant date; and 2) 50% of each share award were granted in the form of performance shares, generally vesting upon the achievement of certain performance targets in the three-year period from the effective grant date.

2014 and 2013 ELTIP

The 2014 EDIP and the 2014 ELTIP were approved on 24 February 2014. Under the Bank's 2014 and 2013 ELTIP, performance shares were awarded to executive management. These shares will generally vest upon the achievement of certain performance targets in the three-year period from the effective grant date.

Number of shares transferable upon vesting of the 2011 to 2014 ELTIP shares (in thousands of shares)	For the year ended	
	31 December 2014	31 December 2013
Outstanding at beginning of year	6,441	5,231
Granted	2,550	3,520
Vested	(1,852)	(900)
Forfeitures and cancellations	-	(1,110)
Resignations, retirements, redundancies	(77)	(300)
Outstanding at end of year	7,062	6,441

Share-based Compensation Cost Recognised in Net Income

	For the year ended					
	31 December 2014			31 December 2013		
	Stock option plan	EDIP and ELTIP	Total	Stock option plan	EDIP and ELTIP	Total
Share-based compensation plans						
Awards granted in year 2010 and after	1,915	6,954	8,869	1,486	4,861	6,347
Total share-based compensation	1,915	6,954	8,869	1,486	4,861	6,347
Share-based settlement plans						
Directors shares and retainers settlement plan			180			173
Total share-based payments			9,049			6,520

Unrecognised Expense Attributable to Each Plan

	As at	
	31 December 2014	31 December 2013
2010 Stock Option Plan		
Time vesting options	477	1,826
Performance vesting options	8,864	9,479
EDIP	1,900	1,614
2011, 2012, 2013, 2014 ELTIP		
Time vesting shares	129	727
Performance vesting shares	4,165	3,978
Total unrecognised expense	15,535	17,624

Directors' Compensation

The Bank's Non-Executive Directors received their annual retainer compensation in the form of cash or fully vested and unrestricted Bank shares.

NOTE 21: SHARE BUY-BACK PLANS

The Bank initially introduced two share buy-back programmes on 1 May 2012 as a means to improve shareholder liquidity and facilitate growth in share value. Each programme was approved by the Board of Directors for a period of 12 months, in accordance with the regulations of the BSX. The BSX must be advised monthly of shares purchased pursuant to each programme.

Common Share Buy-Back Programme

The Board of Directors approved the 2012 common share buy-back programme on 1 May 2012 with up to six million common shares authorised to be acquired for treasury. On 10 December 2012, the Board approved increasing the number of common shares to be acquired up to 10 million.

Effective 1 April 2013, the Board cancelled the 2012 common share buy-back programme and approved the 2013 common share buy-back programme for the purchase of up to 10 million common shares. On 2 December 2013, the Board increased the total number of common shares authorised to be purchased for treasury to 15 million.

Effective 1 April 2014, the Board approved the 2014 common share buy-back programme authorising the purchase for treasury of up to 15 million common shares.

On 26 February 2015, the Board approved, with effect from 1 April 2015, the 2015 common share buy-back programme, authorising the purchase for treasury of up to eight million common shares.

Common share buy-backs	For the years ended			Total
	2014	2013	2012	
Acquired number of shares (to the nearest 1)	8,567,340	4,038,482	7,260,051	19,865,873
Average cost per common share	1.99	1.39	1.24	1.59
Total cost (in Bermuda dollars)	17,018,412	5,610,907	8,999,061	31,628,380

Preference Share Buy-Back Programme

The Board of Directors approved the 2012 preference share buy-back programme on 1 May 2012 with up to 2,000 preference shares authorised to be purchased for cancellation. On 10 December 2012, the Board approved increasing the number of preference shares to be purchased for cancellation up to 8,000.

During the second quarter of 2013, the Board approved the 2013 preference share buy-back programme authorising in total the purchase and cancellation of up to 15,000 preference shares. On 2 December 2013, the Board increased the total number of preference shares authorised to be repurchased and cancelled to 26,600 preference shares.

On 28 April 2014, the Board approved the 2014 preference share buy-back programme, authorising the purchase and cancellation of up to 26,600 preference shares.

On 26 February 2015, the Board approved, with effect from 4 May 2015, the 2015 preference share buy-back programme, authorising the purchase for cancellation of up to 5,000 preference shares.

Preference share buy-backs	For the years ended			Total
	2014	2013	2012	
Acquired number of shares (to the nearest 1)	560	11,972	4,422	16,954
Average cost per preference share	1,172.26	1,230.26	1,218.40	1,225.25
Total cost (in Bermuda dollars)	656,465	14,728,624	5,387,777	20,772,866

From time to time, the Bank's associates, insiders and insiders' associates as defined by the BSX regulations may sell shares, which may result in such shares being repurchased pursuant to each programme, provided no more than any such person's pro-rata share of the listed securities is repurchased. Pursuant to the BSX regulations, all repurchases made by any issuer pursuant to a securities repurchase programme must be made: (1) in the open market and not by private agreement; and (2) for a price not higher than the last independent trade for a round lot of the relevant class of securities.

NOTE 22: ACCUMULATED OTHER COMPREHENSIVE LOSS

The table below presents the changes in AOCL by component for the year ended:

31 December 2014	Unrealised losses on translation of net investment in foreign operations	Unrealised gains (losses) on available-for-sale investments	Employee future benefits			Total AOCL
			Pension	Post-retirement healthcare	Subtotal - employee future benefits	
Balance at beginning of year	(7,632)	(40,136)	(35,616)	6,724	(28,892)	(76,660)
Other comprehensive income (loss), net of taxes	(2,874)	49,905	(17,553)	(29,590)	(47,143)	(112)
Balance at end of year	(10,506)	9,769	(53,169)	(22,866)	(76,035)	(76,772)

31 December 2013	Unrealised losses on translation of net investment in foreign operations	Unrealised gains (losses) on available-for-sale investments	Employee future benefits			Total AOCL
			Pension	Post-retirement healthcare	Subtotal - employee future benefits	
Balance at beginning of year	(10,487)	44,781	(47,995)	1,178	(46,817)	(12,523)
Other comprehensive income (loss), net of taxes	2,855	(84,917)	12,379	5,546	17,925	(64,137)
Balance at end of year	(7,632)	(40,136)	(35,616)	6,724	(28,892)	(76,660)

Net change of AOCL Components

	Line item in the consolidated statements of operations, if any	For the year ended	
		31 December 2014	31 December 2013
Net unrealised (loss) gains on translation of net investment in foreign operations adjustments			
Foreign currency translation adjustments		(10,574)	5,963
Net investment hedge gains (losses)	N/A	7,700	(3,108)
Net change		(2,874)	2,855
Available-for-sale investment adjustments			
Gross unrealised gains (losses) arising during the year		58,523	(84,261)
Reclassification of realised (gains) losses to net income	Net realised gains on available-for-sale investments	(8,680)	61
Foreign currency translation adjustments of related balances	N/A	62	(717)
Net change		49,905	(84,917)
Employee future benefits adjustments			
Defined benefit pension plan			
Net actuarial gain (loss)	N/A	(18,947)	11,755
Amortisation of actuarial gains (losses)	Salaries and other employee benefits	1,058	1,644
Change in deferred taxes	N/A	83	(1,656)
Foreign currency translation adjustments of related balances	N/A	253	636
Net change		(17,553)	12,379
Post-retirement healthcare plan			
Net actuarial gain (loss)	N/A	(15,892)	10,023
Prior service cost	N/A	(7,901)	-
Amortisation of actuarial gains (losses)	Salaries and other employee benefits	922	2,242
Amortisation of prior period service credit	Salaries and other employee benefits	(6,719)	(6,719)
Net change		(29,590)	5,546
Other comprehensive loss		(112)	(64,137)

NOTE 23: CAPITAL STRUCTURE

Authorised Capital

The Bank's total authorised share capital as of 31 December 2014 and 2013 consisted of (i) 26 billion common shares of par value BD\$0.01, (ii) 100,200,001 preference shares of par value US\$0.01 and (iii) 50 million preference shares of par value £0.01.

Preference Shares

On 22 June 2009, the Bank issued 200,000 Government guaranteed, 8.00% non-cumulative perpetual limited voting preference shares (the "preference shares"). The issuance price was US\$1,000 per share. The preference share buy-backs are disclosed in Note 21: Share Buy-Back Plans.

The preference share principal and dividend payments are guaranteed by the Government of Bermuda. At any time after the expiry of the guarantee offered by the Government of Bermuda, and subject to the approval of the Bermuda Monetary Authority ("BMA"), the Bank may redeem, in whole or in part, any preference shares at the time issued and outstanding, at a redemption price equal to the liquidation preference plus any unpaid dividends at the time.

Holders of preference shares will be entitled to receive, on each preference share only when, as and if declared by the Board of Directors, non-cumulative cash dividends at a rate per annum equal to 8.00% on the liquidation preference of US\$1,000 per preference share payable quarterly in arrears. In exchange for the Government's commitment, the Bank issued to the Government 4,279,601 warrants to purchase common shares of the Bank at an exercise price of \$7.01. The warrants expire on 22 June 2019. During 2010, the warrants issued to the Government were adjusted in accordance with the terms of the guarantee and as a result the Government now holds 4,299,010 warrants with an exercise price of \$3.49 as at 31 December 2014.

On 11 May 2010, the Bank's Rights offering was over subscribed with the maximum allowable number of rights of 107,438,016 exercised and subsequently converted on the ratio of 0.07692 CVCP shares for each right unit exercised amounting to 8,264,157 CVCP shares issued. The CVCP shares have specific rights and conditions attached, which are explained in detail in the prospectus of the rights offering. On 31 March 2015, all remaining CVCP shares will be converted to common shares.

Dividend Declared

During the year ended 31 December 2014, the Bank declared cash dividends totalling \$0.05 (2013: \$0.07) for each common share and CVCP share on record as of the related record dates. During the years ended 31 December 2014 and 2013, the Bank declared the full 8.00% cash dividends on preference shares in each quarter.

Regulatory Capital

The Bank is subject to Basel II which is a risk-based capital adequacy framework developed by the Basel Committee on Banking Supervision (the "Basel Committee") and has been endorsed by the central bank governors and heads of bank supervision of the G10 countries. In December 2008, the BMA published final rules, effective 1 January 2009, with respect to the implementation of the Basel II framework. From this date the Bank has calculated its capital requirement on the Standardised approach under Basel II requirements.

Effective 1 January 2015, the BMA adopted capital and liquidity regulatory requirements consistent with Basel III, a framework released by the Basel Committee on Banking Supervision. The finalisation of the implementation is subject to ongoing consultation with the BMA regarding the implementation and interpretation of these new rules. The Bank is assessing the impact of the adoption of this guidance.

The Bank is fully compliant with all regulatory capital requirements and maintains capital ratios in excess of regulatory minimums as at 31 December 2014 and 2013. The following table sets forth the Bank's capital adequacy in accordance with Basel II framework:

	31 December 2014	31 December 2013
Capital		
Tier 1 capital	781,743	823,577
Tier 2 capital	130,788	169,221
Total capital	912,531	992,798
Weighted Risk Assets	4,113,404	4,197,744
Capital Ratios (%)		
Tier 1 common	14.6%	15.2%
Tier 1 Total	19.0%	19.6%
Total Capital	22.2%	23.7%

NOTE 24: INVESTMENTS IN AFFILIATES

During December 2013, the Bank sold its 30% interest in Friesenbruch-Meyer Insurance Ltd., a Bermuda-based insurance company, for \$3.4 million, resulting in a gain of \$0.4 million.

At 31 December 2013, the Bank recognised a \$3.8 million impairment loss in one of its investments in affiliates as the decline in fair value of the investment was considered other-than-temporary.

NOTE 25: INCOME TAXES

The Bank is incorporated in Bermuda, and pursuant to Bermuda law is not taxed on either income or capital gains. The Bank's subsidiaries in the Cayman Islands and The Bahamas are not subject to any taxes in their respective jurisdictions on either income or capital gains under current law applicable in the respective jurisdictions. The Bank's subsidiaries in the United Kingdom, Guernsey, and Switzerland are subject to the tax laws of those jurisdictions.

For the years ended 31 December 2014 and 2013, the Bank did not record any unrecognised tax benefits or expenses and has no uncertain tax positions as at 31 December 2014 and 2013.

The Bank records income taxes based on the enacted tax laws and rates applicable in the relevant jurisdictions for each of the years ended 31 December 2014 and 2013. For the years ended 31 December 2014 and 2013, the Bank did not incur any interest or pay any penalties.

Income taxes in consolidated statement of operations	31 December 2014	31 December 2013
Current tax expense (benefit)	(169)	859
Deferred tax expense	-	32
Total tax expense (benefit)	(169)	891

Reconciliation Between the Effective Income Tax Rate and the Statutory Income Tax Rate

	For the year ended			
	31 December 2014		31 December 2013	
	\$	%	\$	%
Income tax expense at Bermuda corporation tax rate of 0%	-	-	-	-
Income tax expense in international offices taxed at different rates	1,501	2	1,714	2
Change in valuation allowance	(1,429)	(2)	(1,116)	(1)
Prior year tax adjustments	(956)	(1)	587	1
Other - net	715	1	(294)	-
Income tax expense (benefit) at effective tax rate	(169)	-	891	2

Deferred income taxes	31 December 2014	31 December 2013
Deferred income tax asset		
Tax loss carried forward	2,641	4,173
Pension liability	800	201
Fixed assets	1,067	815
Allowance for compensated absence	10	10
Onerous leases	11	12
Deferred income tax asset before valuation allowance	4,529	5,211
Less: valuation allowance	(3,068)	(4,304)
Net deferred income tax assets	1,461	907
Deferred income tax liability		
Other	-	(5)
Net deferred income tax asset	1,461	902

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred in the UK bank over the period ended 31 December 2014. Such objective evidence limits the ability to consider other subjective evidence, such as projections for future growth.

On the basis of this evaluation, as of 31 December 2014, a valuation allowance of \$3.1 million (2013: \$4.3 million) has been recognised to record only the portion of the deferred tax asset that more likely than not will be realised. The amount of the deferred tax asset considered realisable, however, could be adjusted if estimates of future taxable income during the carry-forward period are reduced or increased, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth.

The Bank has net taxable loss carry forwards related to the Bank's international operations of approximately \$12.3 million (2013: \$20.0 million), which have an indefinite life.

NOTE 26: BUSINESS COMBINATIONS

Legis Acquisition

On 1 April, 2014, the Bank via one of its subsidiaries, Butterfield Trust (Guernsey) Limited ("BTGL"), acquired all of the outstanding common shares of Legis T & C Holdings Limited ("Legis") for a maximum purchase price of up to \$39.6 million. Legis is a Guernsey-based trust and corporate services business. The acquisition was undertaken to enhance the Bank's market presence and widen the Bank's range of corporate and institutional trust services for private clients and institutional and corporate clients.

The acquisition date fair value of the cash consideration transferred amounted to \$34.8 million comprising cash settlement of \$31.9 million paid on 1 April 2014 and a contingent consideration of \$2.9 million. The contingent consideration is dependent on revenue performance and representation and warranties being met. The undiscounted contingent consideration ranges from \$2.3 million to \$5.4 million. The fair value is calculated as the discounted amount payable based on various case scenarios with equal probabilities assigned to the payouts being made under each scenario.

The contingent consideration of \$2.9 million is included in other liabilities in the consolidated balance sheet. The final consideration payable may differ from the initial estimated liability with any changes in the liability recorded in other gains (losses) in the consolidated statement of operations until the liability is settled. Subsequent to the acquisition date, the estimated fair value of the contingent consideration liability increased to \$3.9 million as at 31 December 2014, primarily as a result of change in payment probabilities as estimates are updated for actual results.

The fair value of the net assets acquired and allocation of purchase is summarised as follows:

	<u>As at 1 April 2014</u>
Total consideration transferred	34,757
Assets acquired	
Cash and cash equivalents	1,466
Intangible assets	15,466
Other assets	158
Total assets acquired	17,090
Liabilities acquired	
Other liabilities	1,624
Liabilities acquired	1,624
Excess purchase price (Goodwill)	19,291

The purchase price paid by the Bank was for intangible assets in the form of customer relationships of \$15.5 million with an estimated finite useful life of 15 years and resulting goodwill of \$19.3 million. Goodwill is made up of expected cash flows to be derived from new business and expected synergies resulting from leveraging existing support services and infrastructure within the Bank.

The Bank incurred transaction expenses, comprising legal and professional fees, related to the Legis acquisition in the amount of \$1.2 million, which were expensed during the year.

Effective 1 April 2014, the operating results of Legis are included in the consolidated financial statements. For the year ended 31 December 2014, net revenue of \$6.4 million and operating expenses of \$4.9 million from the Legis business are included in the consolidated financial statement.

The following selected pro forma financial information has been provided to present a summary of the combined results of the Bank and Legis, assuming the transaction had been effected on 1 January 2013. The pro forma data is for informational purposes only and does not necessarily represent results that would have occurred if the transaction had taken place on the basis assumed above.

For the year ended	31 December 2014	31 December 2013
Total net revenue	373,554	350,755
Total non-interest operating expense (including income tax expense)	272,550	271,773
Net income	101,004	78,982

HSBC Acquisition

During the third quarter of 2014, the Bank announced that it had reached an agreement to acquire parts of the corporate and retail banking business of HSBC Bank (Cayman) Limited ("HSBC Cayman"). The acquisition was undertaken to enhance the Bank's market presence and expand its community banking customer base in the Cayman Islands.

On 7 November 2014, the Bank via one of its subsidiaries, Butterfield Bank (Cayman) Limited ("BNTB Cayman"), acquired substantially all the retail loans and deposits of HSBC Cayman for a cash purchase price of \$5.3 million. The acquisition was accounted for as a business combination as the Bank acquired substantially all the loans and deposits of HSBC Cayman and deemed to obtain control over the business.

The fair value of the net assets acquired and allocation of purchase is summarised as follows:

	As at 7 November 2014		
	Acquisition value	Fair value adjustment	Fair value
Total consideration transferred			5,341
Assets acquired			
Cash and cash equivalents	315,919	-	315,919
Loans			
Performing loans			
Residential mortgages ^(a)	112,491	(1,784)	110,707
Government loans ^(a)	20,000	(120)	19,880
Commercial loans ^(a)	1,721	(21)	1,700
Other loans ^(a)	4,175	(43)	4,132
Purchased credit impaired loans - residential mortgages ^(a)	11,001	(3,804)	7,197
Accrued interest receivable	522	-	522
Total tangible assets acquired	465,829	(5,772)	460,057
Liabilities assumed			
Deposits	465,810	-	465,810
Accrued interest payable	19	-	19
Total tangible liabilities assumed	465,829	-	465,829
Intangible assets ^(b)	-	11,113	11,113
Excess purchase price (Goodwill)			-

^(a) Adjustment reflects the fair value adjustments based on the Bank's evaluation of the acquired loan portfolio. When assessing the fair value adjustment, the Bank has considered prepayments for purchased credit impaired loans by estimating the future cash flows of liquidated collateral.

^(b) Estimated finite useful life of 15 years.

The Bank incurred transaction expenses, comprising legal and professional fees, related to the HSBC Cayman acquisition in the amount of \$1.6 million, which were expensed during the year.

Disclosure of the pro forma financial information to present a summary of the combined results of the Bank and HSBC Cayman acquisition is impracticable. The disclosure is impracticable as the Bank did not acquire the legal entity and therefore does not have access to the historical revenue and expense data as it relates to the loans and deposits acquired.

NOTE 27: RELATED PARTY TRANSACTIONS

Financing Transactions

As of 17 May 2005, the Bank established a programme to offer loans with preferential rates to eligible Bank employees, subject to certain conditions set by the Bank and provided that such employees meet certain credit criteria. Loan payments are serviced by automatically debiting the employee's chequing or savings account with the Bank. Applications for loans are handled according to the same policies as those for the Bank's regular retail banking clients. The Bank's ability to offer preferential rates on loans depends upon a number of factors, including market conditions, regulations and the Bank's overall profitability. The Bank has the right to change its employee loan policy at any time after notifying participants. The staff loans outstanding at 31 December 2014 amount to \$208.0 million (2013: \$222.2 million) resulting in an interest rate benefit to employees of \$6.4 million (2013: \$5.7 million).

Certain Directors of the Bank, companies in which they are principal owners, and trusts in which they are involved, have loans with the Bank. These loans were made in the ordinary course of business at normal credit terms, including interest rate and collateral requirements. As at 31 December 2014, related party Director loan balances were \$58.0 million (2013: \$66.3 million).

On 27 June 2013, the Bank executed a \$95 million loan agreement with an investment fund managed by a significant shareholder which provides for maturity on 30 June 2017. This loan was made in the ordinary course of business on normal commercial terms. At 31 December 2014, \$65.7 million (2013: \$95.0 million) was outstanding under this agreement. For the year ended 31 December 2014, \$2.7 million (2013: \$1.8 million) of interest income has been recognised in the consolidated statements of operations.

Capital Transaction

Canadian Imperial Bank of Commerce ("CIBC") and funds associated with the Carlyle Group each hold approximately 19%, of the Bank's equity voting power, along with the right to each designate two persons for nomination for election by the shareholders as members of the Bank's Board of Directors.

Repurchase Facility Agreement

During 2013, the Bank entered into a repurchase agreement with CIBC for a \$225 million line at market rates and terms. At 31 December 2014, the repurchase agreement balance with CIBC was \$nil (2013: \$25.5 million).

Financial Instruments With Related Parties

At 31 December 2014, the Bank held \$239.3 million (2013: \$112.1 million) in cash and cash equivalents with CIBC. As at 31 December 2014, the Bank held forward exchange contracts with CIBC with a notional amount of \$372.9 million (2013: \$317.1 million) with unrealised losses of \$6.2 million (2013: gain of \$1.1 million).

NOTE 28: COMPARATIVE INFORMATION

Certain prior-year figures have been reclassified to conform to current year presentation. Non-interest bearing cash as at 31 December 2013 has been reduced by \$110 million with a corresponding increase in Interest earning cash. The change in classification results from demand deposits with banks that are earning interest at a negligible rate, which the Bank now classifies as interest bearing although interest earned is minimal.

NOTE 29: SUBSEQUENT EVENTS

On 26 February 2015, the Board of Directors declared a fourth interim dividend of \$0.01 per common and CVCP share and a special dividend of \$0.01 per common and CVCP share to be paid on 27 March 2015 to shareholders of record on 13 March 2015.

The Bank has performed an evaluation of subsequent events through to 26 February 2015, the date the financial statements were issued.



SHAREHOLDER INFORMATION

DIRECTORS' AND EXECUTIVE OFFICERS' SHARE INTERESTS AND DIRECTORS' SERVICE CONTRACTS

In accordance with Regulation 6.8(3) of Section IIA of the Bermuda Stock Exchange Listing Regulations, the total interests in common shares and contingent value convertible preference shares of the Bank by all Directors and Executive Officers* at 31 December 2014 was 5,293,191 shares. In addition, this group also has interests in 70 non-cumulative perpetual limited voting preference shares. As of 31 December 2014, Executive Officers also had interests in 14,640,000 stock options pursuant to the 2010 Stock Option Plan that vest in accordance with timelines established by the Plan. None of the Directors or Executive Officers had any interest in any debt securities issued by the Bank or its subsidiaries as at 31 December 2014 and, as of that date, there were no other equity securities issued by the Bank.

There are no service contracts with Directors, except for that of Brendan McDonagh, Chairman & Chief Executive Officer, whose contract expires 5 April 2017.

Save for the foregoing contract, and those arrangements described in Note 27 to the Bank's 31 December 2014 consolidated financial statements, there are no other contracts of significance subsisting during or at the end of the financial year ended 31 December 2014 in which a Director of the Bank is or was materially interested, either directly or indirectly.

*As listed on pages 6 and 7 of this Annual Report.

EXCHANGE LISTING

The Bank's Shares are listed on the Bermuda Stock Exchange ("BSX"), which is located at:

BERMUDA STOCK EXCHANGE

30 Victoria Street
Hamilton, HM 12
P.O. Box HM 1369
Hamilton HM FX
Bermuda
Tel: (441) 292 7212
Fax: (441) 292 7619
www.bsx.com

SHARE DEALING SERVICE

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SHARE PRICE

Published daily in *The Royal Gazette* in Bermuda and available on *Bloomberg Financial Markets* (symbol: NTB BH). Also available on the BSX website.

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Executive Vice President, Chief Financial Officer
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E-mail: john.maragliano@butterfieldgroup.com

WRITTEN NOTICE OF SHARE REPURCHASE PROGRAMME

— BSX REGULATION 6.38

The Bank renewed the Common Share Repurchase Programme for a twelve-month period, with effect from 1 April 2015, authorising the Board to repurchase up to 8,000,000 common shares. The Bank renewed the Preference Share Repurchase Programme for a twelve-month period, with effect from 4 May 2015, authorising the Board to repurchase up to 5,000 preference shares.

During 2014, the Bank repurchased 8,567,340 common shares to be held as treasury shares at a cost of \$17.0 million, and 560 preference shares, which were subsequently cancelled, at a cost of \$0.7 million.

From time to time, the Bank's associates, insiders and insiders' associates as defined by the BSX regulations may sell shares, which may result in such shares being repurchased pursuant to the Programme, but under BSX regulations, such trades must not be pre-arranged and all repurchases must be made in the open market. Prices paid by the Bank must not, according to BSX regulations, be higher than the last independent trade for a "round lot" defined as 100 shares or more.

The Bank will advise the BSX monthly of shares repurchased and cancelled by the Bank.

LARGE SHAREHOLDERS

As at 31 December 2014, the following were registered holders of 5% or more of the issued share capital*:

Carlyle Global Financial Services Partners LP, 19.55%
Canadian Imperial Bank of Commerce, 19.01%
Wellcome Trust Investments, 6.86%
Ithan Creek Master Investor (Cayman) LP, 6.85%
Rosebowl Western, 6.85%

*Includes common and contingent value convertible preference shares and excludes treasury shares held.

PRINCIPAL OFFICES & SUBSIDIARIES

This list does not include all companies in the Group.

The Bank of N.T. Butterfield & Son Limited

Group Parent Company, Community Banking,
Corporate Banking, Private Banking,
Credit and Treasury Services

Head Office

65 Front Street
Hamilton, HM 12
Bermuda
Tel: (441) 295 1111
Fax: (441) 292 4365
SWIFT: BNTB BM HM
E-mail: info@butterfieldgroup.com

Mailing Address:

P.O. Box HM 195
Hamilton, HM AX
Bermuda

BERMUDA

Country Head: Michael Collins,
Senior Executive Vice President

Butterfield Asset Management Limited

Investment Management
Managing Director: Michael Neff
65 Front Street
Hamilton, HM 12
Bermuda
Tel: (441) 299 3817
Fax: (441) 292 9947
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Butterfield Securities (Bermuda) Limited

Brokerage Services
65 Front Street
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Tel: (441) 299 3972
Fax: (441) 292 9947
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Butterfield Trust (Bermuda) Limited

Grosvenor Trust Company Limited
Trust & Fiduciary Services
Managing Director: Martin Pollock
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Fax: (441) 292 1258
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THE BAHAMAS

Butterfield Trust (Bahamas) Limited

Trust & Fiduciary Services
Managing Director: Timothy Colclough
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East Bay Street
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Nassau, N.P.
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Fax: (242) 393 3772
E-mail: bahamas@butterfieldgroup.com

CAYMAN ISLANDS

Butterfield Bank (Cayman) Limited

Community Banking, Corporate Banking,
Private Banking, Asset Management
Managing Director: Conor O'Dea
Butterfield Place
12 Albert Panton Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands
Tel: (345) 949 7055
Fax: (345) 949 7004
E-mail: cayman@butterfieldgroup.com

Butterfield Trust (Cayman) Limited

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Managing Director: Brian Balleine
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Cayman Islands
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Fax: (345) 949 7004
E-mail: trust.cayman@butterfieldgroup.com

GUERNSEY

Butterfield Bank (Guernsey) Limited

Private Client and Institutional Banking, Credit,
Investment Management, Custody and Custodian
Trustee Services, Administered Banking
Managing Director: John Robinson
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Regency Court
Gategny Esplanade
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Butterfield Trust (Guernsey) Limited

Trust & Fiduciary Services
Managing Director: Paul Hodgson
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Gategny Esplanade
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Fax: (44) 1481 728 665
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SWITZERLAND

Butterfield Trust (Switzerland) Limited

Trust & Fiduciary Services
Managing Director: Jim Parker
Boulevard des Tranchées 16
1206 Geneva
Switzerland
Tel: (41) 22 839 0000
Fax: (41) 22 839 0099
E-mail: switzerland@butterfieldgroup.com

UNITED KINGDOM

Butterfield Bank (UK) Limited

Private Banking, Asset Management,
Credit and Treasury Services
Interim Chief Executive Officer: Charles Gregory
99 Gresham Street
London, EC2V 7NG
United Kingdom
Tel: (44) 207 776 6700
Fax: (44) 207 776 6701
E-mail: info@uk.butterfieldgroup.com



Butterfield is committed to environmentally conscious printing. The following savings to our natural resources were realised in the printing of this Annual Report:

Energy: 6,798,654 BTUs
Trees: 10
Wastewater: 15,434 liters

Air Emissions: 403 kg
Solid Waste: 205 kg



The Bank of N.T. Butterfield & Son Limited
65 Front Street, Hamilton, Bermuda
www.butterfieldgroup.com