The Bank of N.T. Butterfield & Son Limited
Annual Report 2013

Butterfield

CORE EARNINGS

$76.6 million

↑ 39.5%

NET INCOME

$78.2 million

↑ 205.5%

CORE CASH RETURN ON TANGIBLE COMMON EQUITY

10.3%

↑ 370 bps

CORE CASH EARNINGS PER SHARE

$0.11

↑ 37.5%

CORE EFFICIENCY RATIO

71.6%

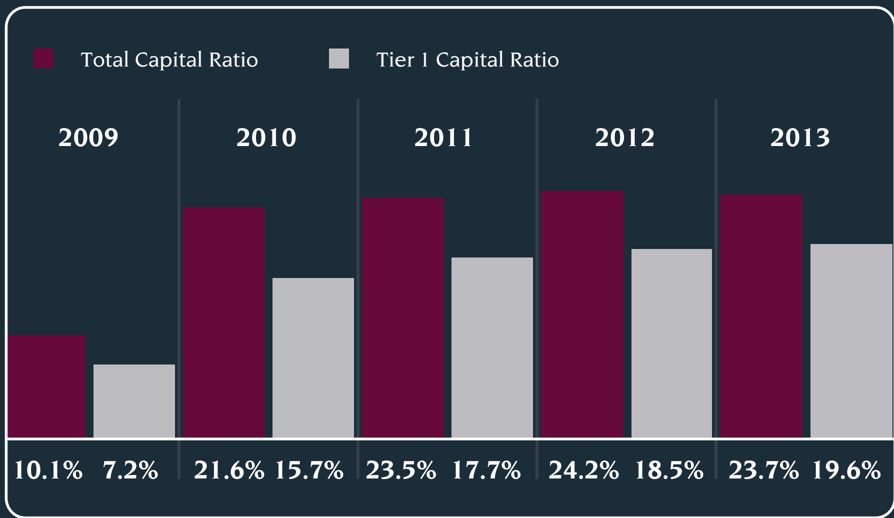
680 bps improvement

About Butterfield

Butterfield is a diversified financial services group operating in six international financial centres. We are a leading community bank in Bermuda and the Cayman Islands, and we provide wealth management services in all of the jurisdictions in which we operate. We have total assets of $8.9 billion. We employ 1,133 people around the world. The parent company, The Bank of N.T. Butterfield & Son Limited, is a publicly traded company with a primary share listing on the Bermuda Stock Exchange.

Find out more at www.butterfieldgroup.com

Capital Strength



Awards

THE BAHAMAS | BERMUDA | CAYMAN ISLANDS | GUERNSEY | SWITZERLAND | UNITED KINGDOM

Chairman & Chief Executive Officer's Report to the Shareholders

In 2013, Butterfield had core earnings of $76.6 million, or $0.11 per share, an increase of 39.5% over 2012. The improvement in earnings drove a similar increase in the core cash return on tangible common equity, which rose to 10.3% from 6.6% last year.

Net income in 2013 was $78.2 million, up from $25.6 million in 2012; last year's net income having been affected by write-downs of goodwill and downward market valuations of real estate held and used by the Bank in its operations.

The increase in core earnings against a backdrop of ongoing economic difficulties in key markets was a pleasing result and a validation of the effectiveness of our strategy.

BUSINESS AND PRODUCT DEVELOPMENT

The Bank remains strategically focused on balancing capital preservation with appropriate expenditures on initiatives that will strengthen our core businesses over the long term. To that end, the Bank introduced new products in 2013 and continued to invest in technology solutions and organisational realignments that will strengthen our client relationships and further improve our operating efficiency.

Within our community banking markets—Bermuda and the Cayman Islands—our priority was enhancing electronic banking services for clients. We introduced mobile banking applications for leading smart phones and tablets in both markets simultaneously, leveraging our recent investment in a banking system that is shared by both jurisdictions. In Bermuda, we were the first to market with Chip and PIN credit card technology that will offer consumers and merchants added protection against fraud. In Cayman, we enhanced our suite of credit cards with the introduction of new cards featuring American Airlines® AAdvantage® travel rewards.

Within our Corporate Banking division, our innovative, secured deposit product, which is designed to address the liquidity, security and return preferences of high value, institutional clients, continued to attract new deposits. At year end, secured deposit balances totalled $409 million, an increase of 45% over 2012.

International trust services have been a cornerstone of Butterfield's wealth management offering for decades, and judiciously expanding our presence in that business to build non-interest income is a key part of the Bank's overall growth strategy. In January 2014, in keeping with that goal, we announced that we had reached an agreement to acquire the trust and fiduciary services business of Legis Group, an independent, Guernsey-based financial services company.

Legis Group's fiduciary client base is an excellent complement to our existing book of business. The acquisition—Butterfield's first since 2007—allows us to add scale to our international trust business and depth to our international trust team without having to expand our geographic footprint.

Our efforts to enhance and expand our services and deepen client relationships have been recognised with several prestigious awards. Butterfield was named Bank of the Year – 2013 in our two largest markets, Bermuda and the Cayman Islands, by industry publication, *The Banker*. *Citywealth* named Butterfield Trust Company of the Year in both Switzerland and the Caribbean, and Private Bank of the Year in the Caribbean in its 2014 International Financial Centre Awards. Most recently, *Euromoney* named Butterfield Best Private Bank in Bermuda.

ORGANISATIONAL DESIGN

In 2013, we completed the conversion of our Guernsey and UK banking systems to an upgraded, shared platform, complementing an earlier Bermuda/Cayman conversion. The installation of common core banking systems has facilitated the restructuring of operations and the streamlining of back-office processing.

A key objective of restructuring is the creation of business and support teams with multi-jurisdictional responsibilities. In 2013, we built upon our past success in centralising Human Resources, Information Technology, Finance, Asset Management and Trust by bringing Operations and Marketing personnel in different jurisdictions together under common reporting lines. The benefits of this kind of restructuring include not only improved operating efficiency and the ability to introduce new products and services to multiple markets more quickly, but also the creation of new leadership opportunities for Butterfield employees around the globe.

CAPITAL MANAGEMENT

At year end, Butterfield's capital position remained very strong, with a Tier 1 Capital ratio of 19.6% and a Total Capital ratio of 23.7%, well in excess of regulatory requirements.

During the year, we continued the practice of returning excess capital that was not deployed for business development initiatives directly to our shareholders in the form of dividends and through share buy-back programmes. The Bank declared a special dividend of $0.04 per common and contingent value convertible preference share in February 2013 and thereafter, interim dividends of $0.01 per common and contingent value convertible preference share in the second, third and fourth quarters, totalling $38.5 million. We also repurchased 4 million common shares and 12,000 preference shares during the year.

In addition, in May, Butterfield redeemed $53 million of Series A 2018 Subordinated Notes, reducing annual interest expenses by $4 million.

Core non-interest expenses were reduced by a total of $18.1 million (6.7%) in 2013 as a result of careful cost management that saw reductions in technology, communications, professional and outside services expenses, in addition to reductions in costs associated with the streamlining of operations. The Bank's core efficiency ratio stood at 71.6% at year end, which represents an improvement of 680 basis points over the 2012 ratio.

BOARD MATTERS

The composition of the Board today is appropriately reflective of Butterfield's geography, ownership and business interests. During 2013, we welcomed Wendall Brown and Caroline Foulger as new Directors and bade farewell to Sheila Lines and Pauline Richards, who retired from the Board in May after five and seven years of service, respectively. We thank Sheila and Pauline for their contributions and dedication to Butterfield during their tenure on the Board.

I look forward to working with my fellow Directors and colleagues as we seek to continue to build sustainable value in Butterfield Group by delivering leading products and services to our clients, and supporting the communities in which we operate.

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 the people in our communities.

In 2013, Butterfield was pleased to provide support to the following organisations and events:

HEALTH & HUMAN SERVICES

AIDS FOUNDATION OF THE BAHAMAS supporting the fight against HIV/AIDS: donation (The Bahamas)

THE BACK UP TRUST supporting individuals who suffer from spinal cord injuries: donation (UK)

BAHAMAS CRISIS CENTRE providing services to victims of physical, sexual and emotional abuse: donation (The Bahamas)

BERMUDA HOSPITALS CHARITABLE TRUST *Why It Matters* campaign supporting the construction of the Acute Care Wing at King Edward VII Memorial Hospital: $500,000 donation (Bermuda)

BERMUDA BLOOD DONOR CENTRE: employee volunteers (blood donations) (Bermuda)

BILNEY LANE CHILDREN'S HOME, an orphanage and foster home for children aged five to 18: donation (The Bahamas)

BREAST CANCER FOUNDATION raising funds to support the fight against breast cancer: donation (Cayman Islands)

CAYMAN HOSPICE CARE providing specialised nursing services and bereavement programmes: donation (Cayman Islands)

CAYMAN HEART FUND developing programmes to reduce and help prevent cardiovascular disease: donation (Cayman Islands)

CHILDREN'S EMERGENCY HOSTEL providing temporary accommodation, food, clothing, medical care and other necessities to abandoned and neglected children: donation (The Bahamas)

THE FAMILY CENTRE strengthening children, families and systems to create a healthier community: Butterfield Hope Award recipient – March 2013 (Bermuda)

GIVE A CHILD A RIDE cycling programme raising funds for the advancement and education of children residing in local orphanages: sponsorship of employee participation (The Bahamas)

HANDS ON LONDON distributing donated coats to 100 charitable organisations: employee volunteers (UK)

LIONS CLUB OF CAYMAN BRAC supporting a wellness programme promoting healthy diets, exercise and screenings: donation (Cayman Islands)

MACMILLAN CANCER SUPPORT providing practical medical and financial support for better cancer care: donation (UK)

THE PRINCESS MARGARET HOSPITAL: donation (The Bahamas)

QUEEN ELIZABETH'S FOUNDATION FOR DISABLED PEOPLE working with people with physical and learning disabilities: sponsorship and employee event participation in fundraising triathlon (UK)

THE RANFURLY HOME FOR CHILDREN: sponsorship of employee participation in *Fun, Run, Walk* event (The Bahamas)

THE SALVATION ARMY: donations (Bermuda and The Bahamas)

THE SUNSHINE LEAGUE enhancing the lives of foster children: Butterfield Hope Award recipient – June 2013 (Bermuda)

TEEN SERVICES/TEEN HAVEN assisting in the empowerment of youth, by promoting healthy development through ongoing education, counselling and support: Butterfield Hope Award recipient – May 2013 (Bermuda)

WOMEN'S RESOURCE CENTRE providing assistance to victims of domestic violence and sexual abuse: Butterfield Hope Award recipient – September 2013 (Bermuda)

ARTS & CULTURAL EVENTS

BERMUDA NATIONAL GALLERY: Butterfield Hope Award recipient – October 2013 (Bermuda)

BERMUDA NATIONAL TRUST Christmas Walkabout in St. George's: sponsorship (Bermuda)

CAYMAN ARTS FESTIVAL bringing varied and diverse performances to the island to help entertain and educate: sponsorship (Cayman Islands)

GUERNSEY EISTEDDFOD annual music, drama, dance and art festival: sponsorship (Guernsey)

GUERNSEY SINFONIETTA fifth anniversary concert: sponsorship (Guernsey)

GUERNSEY YOUTH THEATRE 2014 production, *Footloose - The Musical*: sponsorship (Guernsey)

JUNKANOO national cultural festival of The Bahamas: sponsorship (The Bahamas)

MISS JACKIE'S SCHOOL OF DANCE *FortyTude* performance celebrating 40 years of dance, with proceeds to the Cayman Islands Diabetes Foundation: sponsorship (Cayman Islands)

NATIONAL CHILDREN'S FESTIVAL OF THE ARTS: Butterfield Young Musician of the Year Award presented to Hannah Fowler (Cayman Islands)

NATIONAL GALLERY OF THE CAYMAN ISLANDS Art of Assemblage Exhibition and Workshop 2013: sponsorship (Cayman Islands)

YOUNG MUSICIANS' ANNUAL CONCERT AT ST. JAMES: sponsorship (Guernsey)

EDUCATION & INSTRUCTION

3 TOUCH VOLLEYBALL CLUB teaching sports skills to youth aged eight to 16: sponsorship (Guernsey)

ALPHA PHI ALPHA FRATERNITY providing mentoring to local students: Butterfield Hope Award recipient – December 2013 (Bermuda)

BAHAMAS CHAMBER OF COMMERCE education initiatives: sponsorship (The Bahamas)

BERMUDA SCHOOL OF MUSIC providing music education to island residents: Butterfield Hope Award recipient – July 2013 (Bermuda)

BERMUDA SEA CADETS: summer intern/employee volunteership and Butterfield Hope Award recipient – January 2013 (Bermuda)

BUTTERFIELD UNDERGRADUATE SCHOLARSHIP awarded to Justino Rodriques (Cayman Islands)

C.A.R.E. LEARNING CENTRE assisting primary, middle and senior secondary students in upgrading their academic skills: Butterfield Hope Award Recipient – February 2013 (Bermuda)

CAYMAN NATIONAL CULTURAL FOUNDATION *Young at Arts* programme providing after-school instruction in the performing arts: sponsorship (Cayman Islands)

HARMONY LEARNING CENTRE assisting learning disabled adults in Cayman Brac: donation (Cayman Islands)

MUSIC SERVICE WIDER OPPORTUNITIES SCHEME providing musical instruments for local school children: donation (Guernsey)

NATIONAL DANCE FOUNDATION providing world-class training opportunities to dancers, teachers and choreographers: Butterfield Hope Award recipient – April 2013 (Bermuda)

OKTOBERFEST STUDENT MUSIC OUTREACH PROGRAMME providing music workshops for local school children: sponsorship (Bermuda)

RALEIGH BERMUDA organising overseas expeditions for young people: Butterfield Hope Award recipient – November 2013 (Bermuda)

THE READING CLINIC assisting students with learning difficulties (particularly dyslexia) involving the basic language skills of reading, writing and spelling: Butterfield Hope Award recipient – August 2013 (Bermuda)

SAILING TRUST acquisition of a new Laser boat to be used in children's sailing instruction: sponsorship (Guernsey)

SIR HARRY D. BUTTERFIELD SCHOLARSHIP awarded to Akeila Richardson (Bermuda)

SIR DUDLEY A. SPURLING POSTGRADUATE SCHOLARSHIP awarded to Kevin Minors (Bermuda)

SPORTING EVENTS

BUTTERFIELD BERMUDA GRAND PRIX 2013 cycling event: title sponsorship and employee volunteers (Bermuda)

CLASSIC CHANNEL REGATTA yacht race: sponsorship (Guernsey)

LE GRANDE MARE JUNIOR GOLF competition: sponsorship (Guernsey)

NATWEST ISLAND GAMES BERMUDA 2013: Local event sponsorship and employee volunteers (Bermuda)

Athlete bursaries for six students (Guernsey)

Athletes' uniforms (Cayman Islands)

ST. PATRICK'S DAY 5K IRISH JOG fundraiser for the Sunrise Adult Training Centre: title sponsorship (Cayman Islands)

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

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

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

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

1,2,4
VICTOR DODIG
Senior Executive Vice-President and
Group Head, Wealth Management, CIBC

2,4
CAROLINE FOULGER*
Retired Partner, PwC

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

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

1,3,5
RICHARD VENN
Senior Executive Vice-President,
Advisor to the CEO Office, CIBC

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 & 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 & HUMAN RESOURCES COMMITTEE
Focuses on compensation and benefits, employee development and succession.

DIRECTORS' CODE OF PRACTICE AND GROUP CODE 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. A *Group Code of Conduct & Ethics* applies to Directors and employees and imposes 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

Table of Contents

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 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 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 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 capital is impacted. The TE/TA ratio is calculated as (Common Equity + Preferred Equity - Intangible Assets - Goodwill) / 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 other forms of capital, other than common equity, are impacted. The TCE/TA ratio is calculated as (Common Equity - Intangible Assets - Goodwill) / Tangible Assets. Tangible Common Equity does not include the 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 the 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. 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

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 community 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.

according to a formula determined by the Regulator. The Bank follows the Basel Committee on Banking Supervision ("BCBS") guidelines in setting formulae for asset risk weights.

Tier 1 Common Ratio

The Tier 1 common ratio is the same as the Tier 1 capital ratio but only includes common equity in the numerator and deducts the preference shareholders' equity.

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 Return on Average Assets ("CROAA")

CROAA is an indicator used to assess the core profitability of average total assets and demonstrates how efficiently management is utilising its assets to generate core net income. CROAA is calculated by taking the annualised core net income as a percentage of average total assets and calculated as Core Net Income / Average Total Assets. 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 are 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 calculated as (Non-Interest Expenses – Amortisation of Intangible Assets) / (Non-Interest Income + Net Interest Income Before Provision for Credit Losses). Cash non-interest expenses exclude income taxes and amortisation of intangible assets.

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 calculated as (Core Non-Interest Expenses – Amortisation of Intangible Assets) / (Core Non-Interest Income + Core Net Interest Income Before Provision for Credit Losses). Core cash non-interest expenses exclude income taxes and amortisation of intangible assets.

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 services 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 relative to our total income. Despite the current economic environment reducing the volume of customer activity, our fee income remains at almost 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 throughout the credit crisis. In 2013, we focused on these core deposits and pricing discipline to significantly improve their contribution to net interest income. This contribution reflects the strength of being a deposit-led organisation even in times of low interest rates.

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 recent investment 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.

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 2013, we had $4.4 billion of cash and investments representing 50% 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 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 increased the held-to-maturity ("HTM") portfolio to $334 million at year end.

2013 OVERVIEW

In 2013, the Bank made solid progress streamlining and coordinating operations across jurisdictions, focusing on effective expense management, and continuing with the Share Buy-Back Programme. Core earnings improved as a result by $21.7 million to $76.6 million, building on our very strong capital position with Total and Tier 1 capital ratios of 23.7% and 19.6%, respectively. The Board continues to monitor capital levels, maintaining a conservative capital management philosophy such that Butterfield remains well capitalised. To further enhance common shareholder returns, the Board declared a fourth interim dividend of $0.01 per common share and a special dividend of $0.01 per common share on 25 February 2014. On a going-forward basis, 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 $802.6 million, of which $183.6 million is 8% preference shareholders' equity and $619 million is common and contingent value convertible preference shareholders' equity ("common equity"). Total assets remained stable, growing slightly by $38 million to $8.9 billion. Underlying this stability, cash and loans grew by $320 million while investments declined by $289 million. All other assets increased by $7 million. Total liabilities increased by $92 million as customer deposit levels showed resilience in this low interest rate environment growing $331 million over 2012, a reflection of Butterfield's strategic targeting of certain segments of the deposit market. Bank deposits were down $86 million, other liabilities were down $99 million, and shareholders' equity declined by $54 million due mainly to changes in other comprehensive income.

Key accomplishments in 2013 were as follows:

- **Core profitability:** The Bank delivered good growth in core net income, up $21.7 million (39.5%) to $76.6 million from $54.9 million in 2012.

- **Capital**: We maintained a strong capital position, with $1.0 billion of regulatory capital, a Tier 1 capital ratio of 19.6% at 31 December 2013, and a TCE/TA ratio of 6.8%.

- **Investment strategy:** NIM remained stable at 264 basis points compared to 266 basis points in 2012. Underlying this stability, earning asset yields declined by 8 basis points as the paydown of higher yielding loans more than offset new loan volumes at lower rates and an increase in investment portfolio yields. Liability costs were down due to the retirement of $53 million of subordinated capital, revised pricing strategies, and higher levels of non-interest bearing balances.

- **Expenses:** Non-interest expenses decreased by $12.2 million (4.4%), from $274.8 million in 2012, to $262.6 million in 2013, whilst core expenses decreased by $18.1 million from $271.8 million to $253.7 million, an improvement of 6.7%.

- **Headcount:** Across the Group, headcount on a full-time equivalency basis, excluding students, was reduced by 98 (8.0%) from 1,231 as at 31 December 2012 to 1,133 at the end of 2013.

- **Deposits:** Customer deposits increased by $331 million, whilst deposit costs decreased by 3 basis points from 33 basis points in 2012 to 30 basis points in 2013.

- **Loan quality:** As at 31 December 2013, the Bank had gross non-accrual loans of $104.1 million representing 2.5% of total gross loans, reflecting an improvement from the $113.4 million, or 2.8%, of total loans at year-end 2012. Net non-accrual loans were $82 million, equivalent to 2.0% of net loans, after specific provisions of $22.1 million, reflecting a decreased specific provision coverage ratio of 21.2%, down from 23.6% at 31 December 2012.

- **Systems:** Butterfield completed major banking platform conversions in Europe and introduced electronic mobile banking in Bermuda and Cayman in 2013.

- **Ratings:** Moody's at A3, Standard & Poor's at BBB+; and Fitch at A-.

MARKET ENVIRONMENT

The global economic recovery from the recession is expected to continue in an inconsistent manner. A few countries are showing clear signs of growth and improvement, whilst most regions improve slowly or continue to experience economic challenges. The breadth, depth, speed, and sustainability of the world's recovery remains a matter of discussion and there is no clear consensus, though most economic forecasts remain cautiously optimistic the global recovery will show slow and modest improvement.

The United States ("US") economy experienced modest but broadly based improvement in 2013. The Federal Reserve's quantitative easing stimulus and higher levels of business investment by the corporate and commercial sector spurred an increase in gross domestic product ("GDP"). This resulted in improved employment figures further supporting increases in consumer confidence, consumer spending, and contributed to continued stabilisation in the housing market. These advancements, combined with the 2014 budget agreement averting the fiscal cliff, provided the Federal Reserve with sufficient evidence to begin a cautious tapering of the quantitative easing stimulus.

The Eurozone remained weak in 2013 with record high unemployment and minimal GDP growth. Although signs of improvement were noted with fourth quarter employment figures, Spain exiting its recession, and lower inflation, the broader European economy remained weak with few signs of growth or meaningful improvement. In the UK, economic signals were slightly better, but still mixed as GDP moved marginally higher, driven by the services sector and supported by manufacturing and property values. Unemployment however remained elevated and mild inflation placed additional pressure on both consumer confidence and spending.

The Bermuda economy remains challenged but showed progress in some areas during 2013. Unemployment improved from 2012 and the decline in GDP slowed. Still, the GDP growth rate remained negative and pressured banking activities in our Bermuda results. The Cayman Islands experienced GDP growth in 2013 with strength noted in the hotel, restaurant, real estate, construction, and business activity sectors. The consumer price index also showed a modest increase, with higher costs for household goods, clothing, and footwear.

The mixed economic climate in our two largest operations in 2013 resulted in limited loan demand and more pressure on customers' ability to service loan payment obligations. Conversely, our private banking business in Europe continued to enjoy strong loan demand resulting in growth in consumer lending and our high quality, low loan-to-value residential mortgage portfolio to high net worth customers.

Amidst this macroeconomic uncertainty, the Bank continues to maintain a highly liquid balance sheet with a low risk investment portfolio and minimal reliance on wholesale money markets for liquidity.

2014 OUTLOOK

We are cautiously optimistic that improvements noted in certain areas of the global economy during 2013 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. Despite the difficulties, there are emerging themes that show promise for 2014. Broadly, the US economy showed surprising strength in 2013, particularly with respect to GDP growth and employment. This strength is expected to continue.

Similarly, the UK showed marked, albeit inconsistent, improvement over 2012. The UK economy is projected to consolidate those gains with a broader recovery in 2014. In the Eurozone, the economy remains challenged. Despite a growing German economy, the overall Eurozone remains a basket of economies with inconsistent performance and its economic outlook remains weak. In the Eurozone, debt levels and unemployment remain stubbornly high, while confidence and expectations for a short-term improvement remain low.

Whilst various agencies project a decline in Bermuda's GDP during 2014, they also note progress in the Bermuda economy particularly in the areas of stable and improving employment, wage levels, government support for improving the economy, and increases in average hours worked. In the Cayman Islands, GDP is expected to improve from 2013 with continuing strength in hospitality, construction, and real estate. Additionally, unemployment is expected to remain stable, though inflation pressures will continue.

With respect to interest rates, long-term rates are beginning to rise above historic lows, but given the central banks' intent of maintaining low interest rates, many financial institutions remain focused on optimising their business models and adjusting to the current economic conditions; Butterfield is no exception.

Our asset and liability management strategy focuses on net interest income at risk in varying interest rate environments and this means we position our balance sheet to maximise net interest income over a three to five-year period. We match our expected investment flows with our maturities and turnover on the liability side of the balance sheet, whilst partially neutralising 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. 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 2014, our strategy remains relatively unchanged as we continue to focus our attention on the development of our core businesses, which we expect will drive revenue growth. We expect to be able to continue to improve our efficiency ratio in 2014, based on leveraging our investments in technology, redesigning processes, and centralising support services. In addition, we aligned our incentive plans more closely with business development and targeted financial results.

Subsequent to year-end, we announced our intention to expand our trust and fiduciary services presence in Guernsey—one of our core markets—through the acquisition of Legis Group's trust business; Butterfield's first acquisition in seven years. Legis Group was recently recognised as one of the leading international finance firms at the *Citywealth* International Financial Centre Awards and named Guernsey's 2013 Trust Company of the Year. This transaction, which is expected to be completed during the first quarter of 2014, will enhance our trust client base and associated long-term revenues without the need to expand our geographic footprint.

FINANCIAL SUMMARY (in $ thousands, except per share data)

As at 31 December	2013	2012	2011	2010	2009
Cash and cash equivalents	**1,730,472**	1,542,526	1,902,726	2,222,934	1,932,189
Short-term investments	**54,981**	76,213	20,280	18,157	14,881
Investments in debt and equity securities	**2,613,643**	2,881,704	2,061,639	2,764,723	2,899,668
Loans, net of allowance for credit losses	**4,088,225**	3,955,960	4,069,419	3,858,138	4,025,981
Premises, equipment and computer software	**240,603**	243,321	272,472	257,468	240,010
Goodwill and intangible assets	**19,121**	22,276	46,100	51,435	62,867
Total assets from continuing operations	**8,870,815**	8,833,009	8,517,306	9,346,914	9,313,282
Assets of discontinued operations	**-**	-	307,044	276,573	281,524
Total assets	**8,870,815**	8,833,009	8,824,350	9,623,487	9,594,806
Total deposits	**7,637,951**	7,393,238	7,256,561	7,988,501	8,451,311
Subordinated capital	**207,000**	260,000	267,755	282,799	283,085
Shareholders' equity					
Preference shareholders' equity	**183,606**	195,578	200,000	200,000	200,000
Common and contingent value convertible preference shareholders' equity	**618,955**	661,596	629,725	609,289	155,460

For the year ended 31 December	2013	2012	2011	2010	2009
Interest income					
Loans	**187,042**	190,691	188,043	181,786	195,490
Investments	**60,875**	49,117	43,816	26,161	44,166
Deposits with banks	**5,291**	4,999	9,636	11,015	12,641
Interest expense	**(29,399)**	(33,102)	(39,246)	(52,937)	(77,589)
Net interest income before provision for credit losses	**223,809**	211,705	202,249	166,025	174,708
Non-interest income	**125,963**	128,543	132,349	143,264	148,473
Provision for credit losses	**(14,825)**	(14,190)	(13,169)	(40,262)	(102,716)
Salaries and other employee benefits	**(131,064)**	(137,433)	(145,136)	(153,246)	(151,346)
Other non-interest expenses (including income taxes)	**(132,472)**	(143,352)	(141,186)	(143,174)	(135,898)
Net income (loss) before gains and losses	**71,411**	45,273	35,107	(27,393)	(66,779)
Other gains (losses)	**6,749**	(27,312)	4,238	(180,366)	(147,635)
Net income (loss) from continuing operations	**78,160**	17,961	39,345	(207,759)	(214,414)
Net income (loss) from discontinued operations	**-**	7,620	1,127	144	1,001
Net income (loss)	**78,160**	25,581	40,472	(207,615)	(213,413)
Non-core items	**(1,600)**	29,300	(2,700)	222,400	234,400
Core net income (loss)	**76,560**	54,881	37,772	14,785	20,987
Dividends and guarantee fee of preference shares	**(16,990)**	(18,000)	(21,270)	(18,000)	(9,450)
Premium paid on preference shares bought back	**(2,756)**	(967)	-	-	-
Core cash earnings to common shareholders	**62,928**	41,921	21,869	2,063	17,363
Common dividends paid	**38,531**	-	-	-	14,938

Financial Ratios	2013	2012	2011	2010	2009
Core cash return on average assets	**0.9%**	0.6%	0.4%	0.2%	0.2%
Core cash return on average tangible common equity	**10.3%**	6.6%	3.8%	0.6%	4.0%
Return on common shareholders' equity	**9.2%**	1.1%	3.0%	(44.3%)	(47.0%)
Tier 1 capital ratio	**19.6%**	18.5%	17.7%	15.7%	7.2%
Total capital ratio	**23.7%**	24.2%	23.5%	21.6%	10.1%
Tangible common equity ratio	**6.8%**	7.3%	6.9%	5.8%	0.9%
Tangible total equity / tangible assets	**8.9%**	9.5%	9.3%	7.9%	3.0%
Net interest margin	**2.64%**	2.66%	2.42%	1.91%	1.90%
Efficiency ratio	**74.1%**	79.3%	84.1%	95.0%	87.3%
Core efficiency ratio	**71.6%**	78.4%	83.6%	88.2%	86.8%

Per participating share [1] ($)					
Net income (diluted)	**0.11**	0.01	0.03	(0.47)	(2.34)
Cash dividends	**0.07**	-	-	-	0.12
Net book value	**1.13**	1.20	1.14	1.10	1.63
Tangible net book value	**1.09**	1.16	1.05	1.00	0.93
Core cash earnings per share (diluted)	**0.11**	0.08	0.04	0.01	0.19

Number of employees [2]					
Bermuda	**554**	624	664	732	761
Overseas	**579**	607	606	649	708
Total	**1,133**	1,231	1,270	1,381	1,469

Other data					
Weighted average number of participating shares on a fully diluted basis [3]	**553,571**	556,357	555,615	477,225	95,065
Risk-weighted assets	**4,197,744**	4,275,055	4,425,639	4,934,569	5,734,096

[1] Includes both common and contingent value convertible preference shareholders' equity.

[2] On a full-time equivalency basis and excluding students.

[3] All prior-period per common share data and number of common shares, with the exception of dividends, have been restated to reflect the $0.04 stock dividend declared for March, May, August and November 2009.

CONSOLIDATED RESULTS OF OPERATIONS AND DISCUSSION FOR FISCAL YEAR ENDED 31 DECEMBER 2013

Net Income

The Bank reported net income of $78.2 million for the year ended 31 December 2013, compared to $25.6 million in 2012. Results in both years were adversely affected by various non-core gains (losses) and expenses. After deduction of preference dividends and guarantee fees ($17.0 million) and the premium paid on preference shares bought back ($2.8 million), the net income available to common shareholders was $58.4 million ($0.11 per share) in 2013 compared to $6.6 million ($0.01) in 2012.

The following table states reported earnings for 2013 compared to 2012:

	Year ended 31 December			
(in $ millions)	**2013**	**2012**	**$ change**	**% change**
Non-interest income	**126.0**	128.5	(2.5)	(1.9%)
Net interest income before provision for credit losses	**223.8**	211.7	12.1	5.7%
Total revenue before provision for credit losses and gains and losses	**349.8**	340.2	9.6	2.8%
Provision for credit losses	**(14.8)**	(14.2)	(0.6)	(4.2%)
Net gains (losses)	**6.7**	(27.3)	34.0	124.5%
Total net revenue	**341.7**	298.7	43.0	14.4%
Non-interest expenses	**(262.6)**	(274.8)	12.2	4.4%
Net income before taxes	**79.1**	23.9	55.2	231.0%
Income tax (expense) benefit	**(0.9)**	(5.9)	5.0	84.7%
Net income from continuing operations	**78.2**	18.0	60.2	334.4%
Net income from discontinued operations	-	7.6	(7.6)	(100.0%)
Net income	**78.2**	25.6	52.6	205.5%
Dividends and guarantee fee of preference shares	**(17.0)**	(18.0)	1.0	5.6%
Premium paid on preference shares bought back	**(2.8)**	(1.0)	(1.8)	(180.0%)
Net earnings attributable to common shareholders	**58.4**	6.6	51.8	784.8%
Net earnings per common share				
Basic	**0.11**	0.01	0.10	1000.0%
Diluted	**0.11**	0.01	0.10	1000.0%

Core Earnings

The following table reconciles the Bank's US GAAP net income for 2013 and 2012 to core earnings attributable to common shareholders:

	Year ended 31 December	
(in $ millions)	**2013**	**2012**
Net income	**78.2**	25.6
Non-core items:		
Impairment of fixed assets	-	14.5
Impairment of goodwill and intangible assets	-	18.6
Net gain on sale of affiliate	**(0.4)**	(4.2)
Additional consideration from previously disposed of entities	**(0.8)**	-
Impairment of investment in affiliate	**3.8**	-
Realised gain on legal settlement	**(13.1)**	-
Early retirement programme and redundancies	**8.9**	2.2
Onerous leases	-	0.8
Deferred tax valuation allowance and tax adjustments	-	5.0
Net income from discontinued operations	-	(7.6)
Total one-time items	**(1.6)**	29.3
Core earnings	**76.6**	54.9
Preference dividend and guarantee fee	**(17.0)**	(18.0)
Amortisation of intangible assets	**3.4**	5.0
Core cash earnings to common shareholders	**63.0**	41.9
Core earnings per common share [1]		
EPS impact of non-core items - fully diluted	-	0.05
EPS core earnings - fully diluted	**0.11**	0.07
Core cash earnings per share - fully diluted	**0.11**	0.08

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

Impairment of Fixed Assets

In 2012, the Bank recognised $14.5 million of write-downs on properties deemed impaired as the carrying value was not considered recoverable.

Impairment of Goodwill and Intangible Assets

In 2012, the Bank's annual impairment test concluded that the carrying value of goodwill and intangible assets in certain segments was considered fully impaired due to a continuous period of losses incurred and future estimated profitability being unable to sustain current valuations.

Net Gain on Sale of Affiliate

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

In the second quarter of 2012, the Bank sold its 27.8% interest in Island Heritage Holdings Ltd., a Cayman-based insurance company, to BF&M Limited for gross proceeds of $18.5 million, resulting in a gain of $4.2 million.

Additional Consideration from Previously Disposed of Entities

During 2013, the Bank received additional sale consideration for the disposal of Island Heritage of $0.4 million and expense repayments from a previously disposed of subsidiary of $0.4 million.

Impairment of Investment in Affiliate

At 31 December 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.

Early Retirement Programme and Redundancies

As part of the Bank's cost reduction programme, incentive packages for redundancies and optional early retirement were offered to eligible employees. In 2013 and 2012, the cost of this programme, recorded in salaries and other employee benefits, amounted to $8.9 million and $2.2 million, respectively.

Onerous Leases

The Bank leases certain properties in the normal course of business and certain of the leased premises have been sublet. If the net present value of the lease obligations exceeds the expected rent receipts, an onerous lease charge is recognised. During 2012, $0.8 million of such charges were recognised.

Deferred Tax Valuation Allowance and Tax Adjustments

As of 31 December 2012, our UK bank incurred cumulative losses over a three-year period, triggering a $4.1 million write-down of a related deferred tax asset. Additional UK tax expense adjustments relating to 2011 of $0.9 million were also included in 2012.

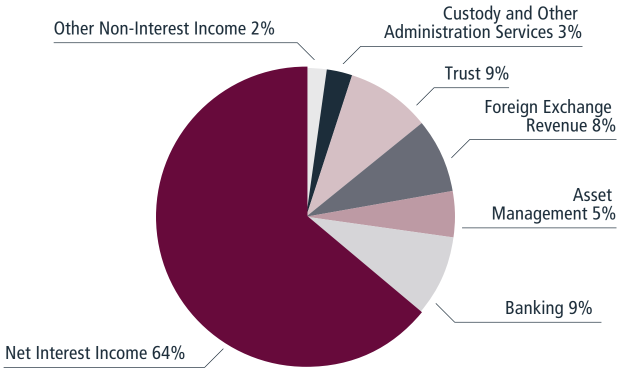
Net Income from Discontinued Operations

During 2012, Butterfield sold its Barbados operations for a net gain of $7.2 million. As a result, Barbados is reported as discontinued operations. Year-to-date net income includes $7.6 million of discontinued operations in 2012.

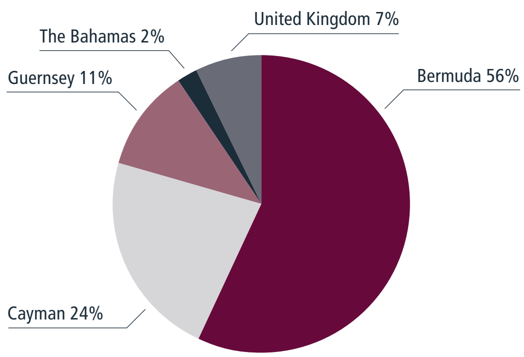
Revenue

Total revenue before provisions for credit losses and gains and losses for 2013 was $349.8 million, up $9.6 million (2.8%) from 2012. Net interest income before provisions for credit losses increased from $211.7 million in 2012 to $223.8 million in 2013, an improvement of $12.1 million (5.7%). This was partially offset by a decrease in non-interest income which was down $2.5 million (1.9%). The increase in net interest income was driven by higher investment portfolio balances of $199.4 million, an increase in related investment yields of 29 basis points, and a decrease in liability costs of 8 basis points. These improvements more than offset a decline in loan yields of 9 basis points. The overall NIM remained stable at 264 basis points compared to 266 basis points in 2012.

DISTRIBUTION OF 2013 TOTAL REVENUES BEFORE PROVISIONS FOR CREDIT LOSSES AND GAINS AND LOSSES



DISTRIBUTION OF 2013 TOTAL REVENUES BY LOCATION BEFORE PROVISIONS 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 declined from $128.5 million in 2012 to $126.0 million in 2013 and represents 36% of total revenues before provisions for credit losses and gains and losses, down 2% from 38% in 2012.

The following table presents the components of non-interest income for the years ended 31 December 2013 and 2012:

(in $ thousands)	2013	2012	$ change	% change
Asset management	**18,067**	22,323	(4,256)	(19.1%)
Banking	**32,490**	33,713	(1,223)	(3.6%)
Foreign exchange revenue	**29,311**	26,524	2,787	10.5%
Trust	**30,410**	29,122	1,288	4.4%
Custody and other administration services	**10,232**	10,646	(414)	(3.9%)
Other non-interest income	**5,453**	6,215	(762)	(12.3%)
Total non-interest income	**125,963**	128,543	(2,580)	(2.0%)

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 $18.1 million in 2013, compared to $22.3 million in 2012. The decrease is due to the full-year impact of the termination of the Bentley Reid management agreement in the second quarter of 2012, 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.

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

(in $ thousands)	2013	2012	$ change
Butterfield Funds	**2,304**	2,869	(565)
Discretionary	**1,892**	1,871	21
Total assets under management	**4,196**	4,740	(544)

Banking

During 2013, 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, telephone banking, 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 decreased by 3.6% in 2013 to $32.5 million, compared to $33.7 million in 2012, due primarily to loan prepayment penalty fees received during 2012.

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 84% of the Group's foreign exchange revenue (2012: 83%). The Bank does not maintain a proprietary trading book. Foreign exchange income is generated from client-driven transactions and totalled $29.3 million in 2013, compared with $26.5 million in 2012. The $2.8 million year-on-year increase reflects increasing client activity and related volumes in both retail and institutional foreign exchange flows.

Trust

We provide both personal and institutional trust services from our operations in Bermuda, The Bahamas, the Cayman Islands, Guernsey and Switzerland. Trust 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 24% of the Bank's non-interest income, up slightly from 23% in 2012. In 2013, trust revenues totalled $30.4 million, an increase of $1.3 million or 4.4% over 2012. Revenue growth was supported by structured, proactive business development activities. Improved new business results were seen in our Switzerland and Bermuda businesses and in institutional trust services, whilst increasing pipelines were also noted in our Bahamas, Guernsey and Cayman businesses.

Trust assets under administration were $53.3 billion at year-end 2013 compared to $47.1 billion the prior year, an increase of $6.2 billion or 13.1%.

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 2013, revenues were $10.2 million compared to $10.6 million in 2012, down 3.9%, in part due to lower transaction volumes and expired mandates. Total custody and other administration assets under administration (which includes the administered banking services operations provided by our Guernsey business) were $43.7 billion as at 31 December 2013, up from $39.9 billion the prior year.

Other Non-Interest Income

The components of other non-interest income for the years ended 31 December 2013 and 2012 are set forth in the following table:

(in $ thousands)	2013	2012
Net share of earnings from investments in affiliates	**1,068**	920
Rental income	**3,194**	3,062
Other	**1,191**	2,233
Total other non-interest income	**5,453**	6,215

In 2013, we recorded equity pickup income of $1.1 million, an increase of $0.2 million from the prior year. Rental income increased by $0.1 million to $3.2 million in 2013 from an increase in rented premises previously occupied by the Bank for its operations. Included in the "other" category are maintenance fees from leased premises, directors' 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 2013 and 2012:

	2013			2012		
(in $ millions)	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets						
Cash and cash equivalents and short-term investments	**1,794.7**	**5.3**	**0.30%**	1,494.4	5.0	0.33%
Investments	**2,655.3**	**60.9**	**2.29%**	2,455.9	49.1	2.00%
Loans	**4,014.6**	**187.0**	**4.66%**	4,012.1	190.7	4.75%
Interest-earning assets	**8,464.6**	**253.2**	**2.99%**	7,962.4	244.8	3.07%
Other assets	**359.3**	**-**	**-**	417.1	-	-
Total assets	**8,823.9**	**253.2**	**2.87%**	8,379.5	244.8	2.92%
Liabilities						
Deposits	**6,559.5**	**(20.0)**	**(0.30%)**	6,205.7	(20.5)	(0.33%)
Securities sold under agreement to repurchase	**63.8**	**(0.2)**	**(0.31%)**	1.3	-	-
Subordinated capital	**228.7**	**(9.2)**	**(4.02%)**	261.3	(12.6)	(4.82%)
Interest-bearing liabilities	**6,852.0**	**(29.4)**	**(0.43%)**	6,468.3	(33.1)	(0.51%)
Non-interest-bearing current accounts	**990.9**			975.0		
Other liabilities	**264.8**			212.1		
Total liabilities	**8,107.7**	**(29.4)**	**(0.36%)**	7,655.4	(33.1)	(0.43%)
Shareholders' equity	**716.2**			724.1		
Total liabilities and shareholders' equity	**8,823.9**			8,379.5		
Non-interest-bearing funds net of non-interest earning assets (free balance)	**1,612.6**			1,494.1		
Net interest margin		**223.8**	**2.64%**		211.7	2.66%

Net interest income before provisions for credit losses of $223.8 million increased $12.1 million or 5.7% over 2012. Net interest income is largely generated by the Bank's Bermuda and Cayman jurisdictions, which account for 83% of total net interest income. Interest income increased by $8.4 million and was driven by improved investment portfolio performance where an increase in average balances of $199.4 million, combined with a yield improvement of 29 basis points partially due to a duration extension to approximately five years, generated an increase in investment income of $11.8 million. Partially offsetting the investment portfolio improvement was a decrease in loan-related interest income, as higher yielding loans paid down and were replaced by new volumes at lower yields. This reduced overall total loan yields by 9 basis points and drove a $3.7 million reduction in loan income.

Interest-bearing liability costs decreased by 8 basis points, driving an improvement in interest expense of $3.7 million, largely from the paydown of $53 million in subordinated capital in May 2013, which was at a rate of 7.59%.

Average free balances for 2013 were $1.6 billion (2012: $1.5 billion) including non-interest-bearing current accounts of $990.9 million (2012: $975.0 million), shareholders' equity of $716.2 million (2012: $724.1 million), and net other assets and other liabilities of $95 million (2012: $205 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 2013 was $14.8 million compared to $14.2 million in 2012. Incremental provisions of $20.6 million were required principally for the specific reserves pertaining to commercial and residential mortgages, 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 2013 and 2012:

(in $ thousands)	2013	2012
Net trading gains	315	268
Net realised (losses) gains on available-for-sale investments	(61)	2,028
Net realised/unrealised losses on other real estate owned	(5,000)	(2,053)
Impairment of fixed assets	-	(14,527)
Impairment of intangible assets	-	(9,143)
Impairment of goodwill	-	(9,505)
Gain on sale of subsidiary and affiliates	1,227	4,231
Impairment of investment in affiliate	(3,800)	-
Net other gains	14,068	1,389
Other gains (losses)	**6,749**	(27,312)

Net Trading Gains

A $0.3 million gain was recorded with respect to trading securities in 2013 compared to a gain of $0.3 million in 2012, which relates primarily to the fair value adjustments of the Bank's seed capital in shares of the Butterfield Select Funds and the BNY Mellon Butterfield Income Advantage Fund.

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

Net realised losses of $0.1 million (2012: gain of $2.0 million) were recorded on securities sold in the normal course of business as part of our asset and liability management strategy.

Net Realised / Unrealised Losses on Other Real Estate Owned

Valuation adjustments related to real estate held for sale were $5.0 million compared to $2.1 million in 2012, the increase being largely attributable to write-downs in the hospitality portfolio.

Impairment of Fixed Assets

The Bank conducts an annual property impairment assessment that determined there were no impairment write-downs required in 2013. The year-to-year improvement is driven by 2012 write-downs relating to the impairment of foreclosed properties of $6.5 million and a reclassification of certain Bermuda properties that were being used in the Bank's operations but are now held for sale. The reclassification resulted in an $8 million write-down of the carrying amount to its fair value less cost to sell.

Impairment of Goodwill and Intangible Assets

The 2013 annual impairment test of goodwill and intangible assets concluded the carrying value of goodwill and intangible assets was appropriate. Therefore, no impairments were recorded in 2013 and the favourable improvement of $18.6 million from 2012 is entirely attributable to 2012 impairments for goodwill and intangible assets of $9.5 million and $9.1 million, respectively.

Gain on Sale of Subsidiary and Affiliates

During December 2013, the Bank sold its 30% interest in Freisenbruch-Meyer Insurance Ltd., a Bermuda-based insurance company, for $3.4 million, resulting in a gain of $0.4 million. In the second quarter of 2012, the Bank sold its 27.8% interest in Island Heritage Holdings Ltd., a Cayman-based insurance company, to BF&M Limited for gross proceeds of $18.5 million, resulting in a gain of $4.2 million.

During 2013, the Bank received additional sale consideration for the disposal of Island Heritage of $0.4 million and expense repayments from a previously disposed of subsidiary of $0.4 million.

Impairment of Investment in Affiliates

At 31 December 2013, the Bank recognised a $3.8 million impairment loss in one of its investments in affiliates as the decline in the fair value of the investment was considered other than temporary.

Net Other Gains

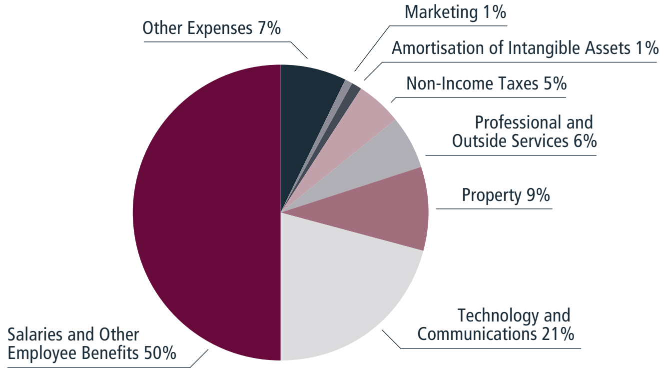
Net other gains (losses) were $14.1 million in 2013 compared to net other gains of $1.4 million in 2012. The primary driver of this change is the legal settlement reached relating to a previously disposed of investment, resulting in a one-off receipt of $13.1 million in 2013.

Non-Interest Expenses

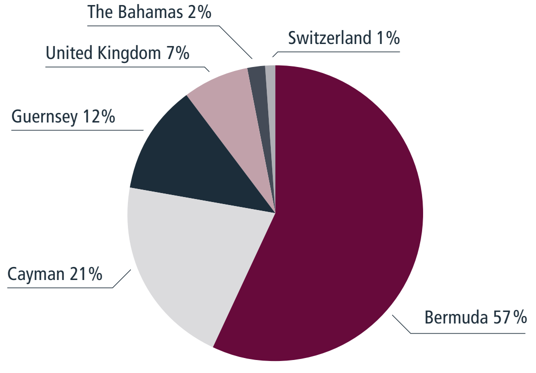
Expense management continued to be a key focus of Butterfield in 2013 as the Bank continues to adapt to the persistently low interest rate environment. Total non-interest expenses in 2013 were $262.6 million compared to $274.8 million recorded in 2012. These figures include non-core expenses in 2013 and 2012 of $8.9 million and $3.0 million, respectively. After adjusting for these non-core items, 2013 core expenses were down $18.1 million or 6.7%. The improvement was driven mainly by salary and compensation-related decreases and other cost saving initiatives.

Salary and employee benefits account for 50% of non-interest expenses with technology, communications and property making up 30% combined. Bermuda expenses (including head office costs) represent the majority of the Group costs at 57% of total non-interest expenses.

DISTRIBUTION OF 2013 NON-INTEREST EXPENSES



DISTRIBUTION OF 2013 EXPENSES BY LOCATION



The following table presents the components of non-interest expenses for the years ended 31 December 2013 and 2012:

(in $ thousands)	2013	2012	$ change	% change
Salaries and other employee benefits	131,064	137,433	(6,369)	(4.6%)
Technology and communications	54,223	57,715	(3,492)	(6.1%)
Property	24,309	26,129	(1,820)	(7.0%)
Professional and outside services	15,012	15,409	(397)	(2.6%)
Non-income taxes	13,682	13,158	524	4.0%
Amortisation of intangible assets	3,358	5,040	(1,682)	(33.4%)
Marketing	3,484	3,963	(479)	(12.1%)
Other non-interest expenses	17,513	16,048	1,465	9.1%
Total non-interest expense	**262,645**	274,895	(12,250)	(4.5%)
Non-core items	(8,900)	(3,000)	(5,900)	196.7%
Core non-interest expense	**253,745**	271,895	(18,150)	(6.7%)

Salaries and Other Employee Benefits

Total salaries and benefits costs were $131.1 million in 2013, down $6.4 million compared to 2012. 2013 included $8.5 million of early retirement, redundancy, and other staff-related non-core costs, compared to $2.2 million of non-core personnel costs in 2012. Excluding these non-core costs, core salaries and benefits costs were down $12.7 million, or 9.4%, driven by staff reductions on a full-time equivalency basis of 98, year-on-year. Staff count on a full-time equivalency basis at year-end 2013 was 1,133 (excluding students), compared to 1,231 a year ago.

Technology and Communications

Technology and communications costs were $54.2 million in 2013, down $3.5 million from the $57.7 million recorded in 2012 as a result of expense control measures and IT infrastructure rationalisation initiatives.

Property

Property costs, which reflect occupancy expenses, building maintenance, and depreciation of property, plant and equipment, decreased by $1.8 million to $24.3 million in 2013 from $26.1 million in 2012. The decrease was due primarily to lower depreciation resulting from the 2012 write-down of certain properties and improved management of property maintenance costs.

Professional and Outside Services

Professional and outside services primarily include consulting, legal, audit, and other professional services. In 2013, the expense was $15.0 million, down $0.4 million compared to $15.4 million incurred in 2012 from reduced consulting expenditures and other cost control initiatives.

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 2013, the expense was $13.7 million, up $0.5 million due to increases in bank licensing fees and payroll taxes associated with redundancy costs.

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 $3.4 million in 2013 compared to $5.0 million in 2012. The lower amortisation levels were driven by write-downs in 2012.

Marketing

Marketing expenses reflect costs incurred in advertising and promoting our products and services. They totalled $3.5 million in 2013, down $0.5 million from 2012. Marketing expenses represented 1.0% of total net revenues before gains and losses and provisions for credit losses in 2013 compared to 1.2% in 2012.

Other Non-Interest Expenses

(in $ thousands)	**2013**	**2012**	**$ change**	**% change**
Stationery and supplies	**1,320**	1,421	(101)	(7.1%)
Custodian and handling	**1,647**	1,417	230	16.2%
Charitable donations	**1,139**	911	228	25.0%
Insurance	**2,367**	2,456	(89)	(3.6%)
Other expenses				
Maintenance fees for liquidity facility	**298**	306	(8)	(2.61%)
Cheque processing	**1,319**	1,488	(169)	(11.4%)
Dues and subscriptions	**517**	541	(24)	(4.4%)
Registrar and transfer agent fee	**1,012**	739	273	36.9%
Agent commission fees	**468**	492	(24)	(4.9%)
Foreign bank charges	**564**	370	194	52.4%
Directors' fees	**914**	1,021	(107)	(10.5%)
ATM fees	**-**	455	(455)	(100.0%)
General expenses	**2,541**	1,417	1,124	79.3%
Other	**3,407**	3,014	393	13.0%
Total other non-interest expenses	**17,513**	16,048	1,465	9.1%

Other non-interest expenses were $17.5 million in 2013, an increase of $1.5 million compared to 2012. This was driven principally by operational losses experienced in 2013.

Income Taxes

(in $ thousands)	2013	2012	$ change	% change
Income taxes	891	5,890	(4,999)	(84.9%)
Non-core items	-	(5,000)	5,000	100.0%
Core income tax	**891**	890	1	0.1%

In 2013, income tax expenses netted to $0.9 compared to $5.9 million in 2012. The improvement is driven by 2012 tax activity that includes a $4.1 million valuation allowance against deferred income tax assets and a $0.9 million tax adjustment booked in our UK business.

CONSOLIDATED BALANCE SHEET AND DISCUSSION

The following table shows the consolidated balance sheet as reported as at 31 December 2013 and 31 December 2012:

(in $ millions)	2013	2012	$ change	% change
Assets				
Cash and cash equivalents	1,730	1,543	187	12.1%
Short-term investments, debt and equity securities	2,669	2,958	(289)	(9.8%)
Loans, net of allowance for credit losses	4,088	3,956	132	3.3%
Premises, equipment and computer software	241	243	(2)	(0.8%)
Goodwill and intangibles	19	22	(3)	(13.6%)
Other assets	124	111	13	11.7%
Total assets	**8,871**	8,833	38	0.4%
Liabilities				
Total deposits	7,638	7,393	245	3.3%
Total other liabilities	223	323	(100)	(31.0%)
Subordinated capital	207	260	(53)	(20.4%)
Total liabilities	**8,068**	7,976	92	1.2%
Preference shareholders' equity	184	196	(12)	(6.1%)
Common and contingent value convertible preference shareholders' equity	619	661	(42)	(6.4%)
Total shareholders' equity	**803**	857	(54)	(6.3%)
Total liabilities and shareholders' equity	**8,871**	8,833	38	0.4%
Capital Ratios				
Risk-weighted assets	4,198	4,275		
Tangible common equity (TCE)	600	639		
Tangible assets (TA)	8,852	8,811		
TCE/TA	6.8%	7.3%		
Tier 1 common ratio	15.2%	14.0%		
Tier 1 capital ratio	19.6%	18.5%		
Total capital ratio	23.7%	24.2%		

The Bank maintains a highly liquid balance sheet and is well capitalised. At 31 December 2013, total cash and cash equivalents, short-term investments and other investments represented $4.4 billion, or 50.0% of total assets, down from 51.0% at year-end 2012. The Bank's balance sheet remains strong; with shareholders' equity ending the year down $54 million to $803 million, of which $184 million is preference shareholders' equity and $619 million is common equity.

Total assets grew by $38 million to $8.9 billion, primarily reflecting a $245 million increase in deposits, partially offset by decreases relating to funding from repurchase agreements of $83 million, a decrease in shareholders' equity of $54 million due primarily to changes in other comprehensive income and the redemption of subordinated capital of $53 million.

At 31 December 2013, Butterfield's capital ratios were strong, but declined from year-end 2012, with the TCE/TA ratio ending 2013 at 6.8% (2012: 7.3%), whilst the Total capital and Tier 1 capital ratios were 23.7% (2012: 24.2%) and 19.6% (2012: 18.5%), 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. As at 31 December 2013, cash and cash equivalents and short-term investments were $1.8 billion, compared to $1.6 billion as at 31 December 2012.

See "Note 4: Cash and Cash Equivalents" and "Note 5: Short-Term Investments" in the 31 December 2013 consolidated financial statements for additional tables and information.

Investments

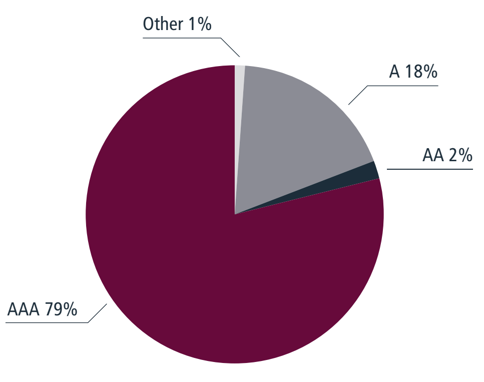
Our investment policy requires management to maintain a portfolio of securities that provide the liquidity necessary to cover the Bank's obligations as they come due, and mitigate our overall exposure to credit and interest rate risk, whilst achieving a satisfactory return on the funds invested. The 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.

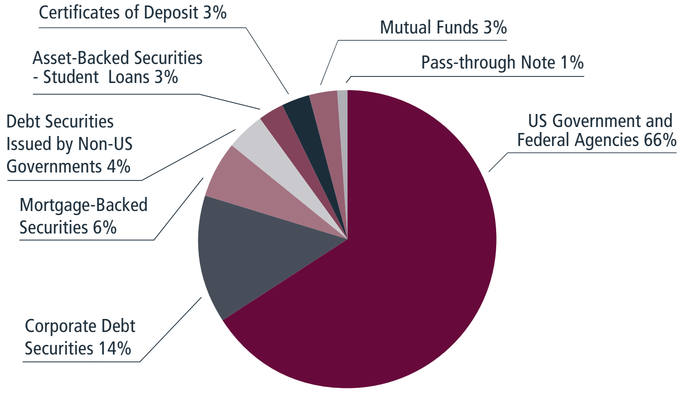
As part of this transfer, balance sheet simulation analysis, which includes: interest rate sensitivity, economic value at risk, interest at risk and stress testing; cash flows and net interest income forecasting; deposit behaviour analysis, and pricing strategies, is performed using in-house technology and professional services.

Consistent with industry and rating agency designations, the Bank defines investment grade as "BBB" or higher. As at 31 December 2013, 99% (2012: 99%) of our total investments were investment grade and rated A or better.

31 DECEMBER 2013 INVESTMENT PORTFOLIO BY LONG-TERM DEBT RATING



31 DECEMBER 2013 INVESTMENT PORTFOLIO BY TYPE



The following table presents the carrying value of investments by balance sheet category as at 31 December 2013 and 2012:

(in $ millions)	2013	2012	$ change	% change
Trading	53	62	(9)	(14.5%)
Available for sale	2,227	2,581	(354)	(13.7%)
Held to maturity	334	239	95	39.7%
Total investments	**2,614**	2,882	(268)	(9.3%)

The investment portfolio was $2.6 billion as at 31 December 2013, compared to $2.9 billion as at 31 December 2012. A net decrease in certificates of deposit of $0.5 billion was partially reinvested ($0.3 billion) in US government and federal agency securities that totalled $1.7 billion, or 65.7% of the total investment portfolio. The investment yield improved year-on-year by 29 basis points to 2.29% in 2013, partially due to duration extension to five years. Total net unrealised losses of the investment portfolio were $57.5 million, compared to an unrealised gain of $48.8 million at year-end 2012. The movement in unrealised losses for the year to date related to the impact of changes in interest rates on the longer duration assets and is not credit related.

Trading securities, consisting of holdings of non-US government securities, corporate equities and seed capital invested in mutual funds managed by the Bank, totalled $53 million at year-end 2013, compared to $62 million at year-end 2012. Trading securities primarily reflect the $43 million seed capital invested by the Bank in the BNY Mellon Butterfield Income Advantage Fund and $5 million invested in other Butterfield Select Funds totalling $48 million.

Available-for-sale ("AFS") securities totalled $2.2 billion at year-end 2013, compared to $2.6 billion at year-end 2012. As at 31 December 2013, 62.2% or $1.4 billion (2012: 45.7% or $1.2 billion) of AFS securities consisted of holdings of mortgage-backed securities implicitly and explicitly guaranteed by US government agencies. Corporate debt securities totalled $379 million or 17.0%, (2012: 17.6% or $453 million), and certificates of deposit represented 3.8% or $85 million (2012: 21.8% or $561 million).

The remaining 17% of AFS securities is comprised primarily of commercial mortgage-backed securities (6.4% or $143 million), government guaranteed student loan-backed securities (3.7% or $83 million), debt securities issued by non-US governments (4.0% or $88 million), residential mortgage-backed securities (1.4% or $31 million) and one pass-through note ("PTN") (1.5% or $34 million), which was formerly a structured investment vehicle ("SIV").

Held-to-maturity ("HTM") investments were $334 million as at 31 December 2013 (2012: $239 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 6: Investments" in the 31 December 2013 consolidated financial statements for additional tables and information.

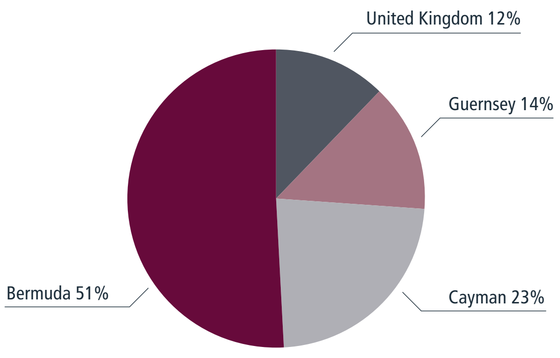
Loans

The loan portfolio stood at $4.1 billion at 31 December 2013, up $0.1 billion from $4.0 billion the year before, due primarily to increases in commercial loans and mortgages of $68.9 million and an increase in residential mortgages of $52 million. At 31 December 2013, the loan portfolio represented 46% of total assets, compared to 45% at 31 December 2012, whilst loans as a percentage of customer deposits were 54% (2012: 54%).

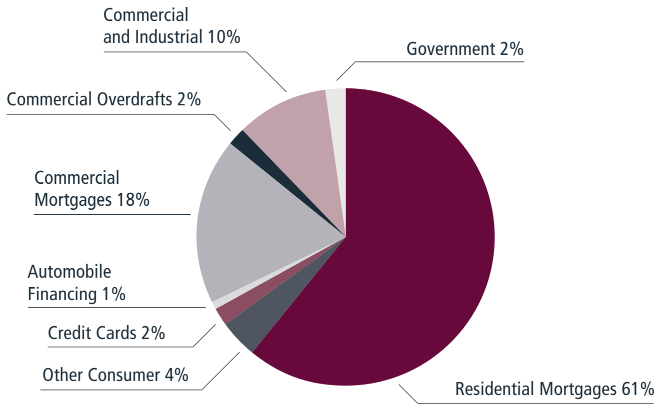
Allowance for credit losses at 31 December 2013 totalled $53 million, a decrease of $3.2 million from 2012. The movement in the allowance is mainly the result of additional provisions of $20.6 million before recoveries of $5.8 million taken during 2013 and net of $23.9 million in charge-offs and foreign exchange movement. Of the total allowance, the general allowance was $30.7 million (2012: $29.2 million) and the specific allowance was $22.1 million (2012: $26.7 million), reflecting a specific coverage ratio of 21.2%, compared to 23.6% at 31 December 2012. The decrease in the coverage ratio reflects the changing mix of non-accrual loans that are more heavily weighted towards well-collateralised residential mortgages.

Gross non-accrual loans totalled $104.1 million at 31 December 2013, down $9.3 million from $113.4 million at 31 December 2012, and represented 2.5% of the total loan portfolio at 31 December 2013, compared to 2.8% in 2012. During 2013, the Bank held other real estate owned ("OREO") properties amounting to $27.4 million comprising commercial real estate of $14.2 million (2012: $19.3 million), foreclosed residential properties of $9.2 million (2012: $7.6 million) and property held for sale reclassified during 2013 of $4 million (2012: $7.5 million).

31 DECEMBER 2013 LENDING BY LOCATION



31 DECEMBER 2013 GROUP LOANS BY TYPE



Government

Loans to governments increased by $12 million, primarily as a result of the Bank's continued investment in the Bermuda economy.

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 mortgages 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.

Commercial loans of $1.3 billion at 31 December 2013 increased by $57 million from the previous year, driven by corporate loan growth partially offset by repayments of commercial lending facilities.

Residential Mortgages

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 2013, residential mortgages totalled $2.5 billion (or 61.6% of total gross loans), an increase of $52 million from 31 December 2012. Our Guernsey and United Kingdom offices increased high quality, low loan-to-value residential mortgage lending to high net worth individuals, secured by high-end properties in London during the year, resulting in a $94 million increase in non-Bermuda residential mortgages in the portfolio.

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 7: Loans” and “Note 8: Credit Risk Concentrations” in the 31 December 2013 consolidated financial statements.

Deposits

Deposits are our principal funding source for use in lending, investing 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 2013 with 2012.

	Year ended 31 December			Average balance		
(in $ millions)	**2013**	**2012**	**$ change**	**2013**	**2012**	**$ change**
Bermuda	**3,551**	3,256	295	3,531	3,285	246
Cayman	**2,071**	1,862	209	1,878	1,791	87
Guernsey	**1,291**	1,370	(79)	1,376	1,389	(13)
The Bahamas	**78**	70	8	88	62	26
United Kingdom	**607**	709	(102)	635	730	(95)
Total deposits	**7,598**	7,267	331	7,508	7,257	251

Average customer deposits increased by $0.3 billion to $7.5 billion in 2013. On a year-end basis, customer deposits were up $0.3 billion to $7.6 billion from $7.3 billion at year-end 2012.

Customer demand deposits, which include chequing accounts (both interest-bearing and non-interest-bearing), savings and call accounts, totalled $5.6 billion, or 74.3% of total customer deposits at year-end 2013, compared to $5.3 billion, or 73.3%, at year-end 2012. Customer term deposits remained flat at $2 billion compared to the prior year.

The cost of funds on deposits improved from 0.33% in 2012 to 0.30% in 2013 due to disciplined deposit pricing and re-pricing initiatives that contributed to the improvement in net interest income.

See “Note 11: Customer Deposits and Deposits from Banks” in the 31 December 2013 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 2013, deposits from banks totalled $40 million, a decrease of $86 million from the prior year.

Employee Future Benefits

The Bank maintains trusteed 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.

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. As at 31 December 2013, the Bank had a net obligation for employee future benefits in the amount of $70.2 million, down $30.9 million from $101.1 million at year-end 2012 driven by higher interest rates and improved returns on plan assets.

See “Note 12: Employee Future Benefits” in the 31 December 2013 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 $207 million as at 31 December 2013, all issued in US dollars, compared to $260 million as at 31 December 2012. All but $68.5 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 $53 million Series A note was due 2018 with a fixed coupon of 7.59% until 27 May 2013 after which the coupon rate became floating and the principal became redeemable in whole at the Bank’s option. During May 2013, the Bank exercised its option to redeem all of the Series A notes outstanding at face value of $53 million.

Subsequent to year-end, the Bank also called a $90 million (35%) tranche bringing the outstanding subordinated debt capital balance to $117 million from $260 million at the end of 2012.

The following table presents the contractual maturity, interest rates and principal outstanding as at 31 December 2013:

Subordinated capital (in $ millions)	Earliest date redeemable	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 A	2 July 2010	2 July 2015	4.81%	3 months US$ LIBOR + 1.095%	90
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					**207**

See “Note 19: Subordinated Capital” in the 31 December 2013 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 2013, $25.0 million of repurchase agreements were outstanding compared to $109.0 million at 31 December 2012. As at 31 December 2013, US government and federal agency investment securities with an amortised cost of $25.2 million (31 December 2012: $120.9 million) and fair market value of $25.8 million (31 December 2012: $122.4 million) were pledged to collateralise repurchase agreements maturing within 90 days.

Shareholders’ Equity

Shareholders’ equity decreased during the year ended 31 December 2013 by $54.6 million to $802.6 million.

Increases totalling $106.1 million include:

- $78.2 million net income for the year
- $17.9 million net increase in employee future benefits from the decline in interest rates used to discount the future cash flows, and higher than expected return on plan assets
- $6.5 million of share-based compensation
- $0.6 million of share-based settlements for stock options exercised
- $2.9 million translation adjustments on foreign operations

These increases were offset by decreases totalling $160.7 million:

- $84.9 million from unrealised losses on AFS securities
- $38.5 million of common share dividends
- $17.0 million preference share dividends and guarantee fees
- $14.7 million from the buy-back and cancellation of preference shares
- $5.6 million from the purchase of treasury common shares

Capital Resources

One of management's primary objectives is to maintain a strong capital base to promote confidence in the Bank among our clients, the investing public, bank regulators, rating agencies, and shareholders. 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 & 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.

The Bank is 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 Bermuda Monetary Authority issued a Basel III consultation paper for comments from stakeholders and final rules are expected to be issued in 2015. The Bank does not expect the changes being proposed to the capital adequacy ratios under Basel III to have a material impact on the Bank's capital ratios.

The Bank is fully compliant with all regulatory capital requirements and maintains capital ratios well in excess of regulatory minimums as at 31 December 2013.

As at 31 December 2013, the Bank's regulatory capital stood at $1.0 billion with the consolidated Tier 1 and Total capital ratios of 19.6% and 23.7%, respectively (31 December 2012: 18.5% and 24.2%, respectively).

The following table sets forth our capital adequacy as at 31 December 2013 and 31 December 2012 in accordance with the Basel II framework:

	Year ended 31 December	
(in $ millions)	**2013**	**2012**
Capital		
Tier 1 capital	**824.0**	792.0
Tier 2 capital	**169.0**	244.0
Deductions	**-**	(3.0)
Total capital	**993.0**	1,033.0
Risk-weighted assets		
Cash and cash equivalents and investments	**742.9**	913.8
Loans	**2,381.8**	2,232.3
Other assets	**345.2**	350.7
Off-balance sheet items	**193.6**	261.7
Operational risk charge	**534.2**	516.5
Total risk-weighted assets	**4,197.7**	4,275.0
Capital ratios (%)		
Tier 1 common	**15.2%**	14.0%
Tier 1 total	**19.6%**	18.5%
Total capital	**23.7%**	24.2%

Under Basel II Pillar III (market disclosure) 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 2013 will be published on the corporate website, www.butterfieldgroup.com, shortly after the publication of the consolidated financial statements.

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 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 107.6 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 Financial 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 ("BSX") 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 2013, there were 7.1 million CVCP shares outstanding with 0.1 million shares converted to common shares at the holders' option during the year ended 31 December 2013. As at 31 December 2013, 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 2013 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 2013, the carrying value of the covered loans was $23.7 million (2012: $26.9 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 Bermuda Stock Exchange. The BSX must be advised monthly of shares repurchased and cancelled by the Bank.

Common Share Buy-Back Programme

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

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

	2013	**2012**	**Total**
Acquired number of shares (to the nearest 1)	**4,038,482**	7,260,051	11,298,533
Average cost per common share	**1.39**	1.24	1.29
Total cost (in Bermuda dollars)	**5,610,907**	8,999,061	14,609,968

Preference Share Buy-Back Programme

The Board 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.

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

	2013	2012	Total
Acquired number of shares (to the nearest 1)	**11,972**	4,422	16,394
Average cost per preference share	**1,230.26**	1,218.40	1,227.06
Total cost (in Bermuda dollars)	**14,728,624**	5,387,777	20,116,401

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 bought back pursuant to the programme, but under BSX regulations such trades must not be pre-arranged and all buy-backs 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.

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 4.28 million (31 December 2012: 4.15 million) warrants with an exercise price of $3.51 (31 December 2012: $3.61) and an expiration date of 22 June 2019.

Dividends

During the year ended 31 December 2013, the Bank declared cash dividends totalling $38.5 million or $0.07 for each common share and contingent value convertible preference share 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, both to be paid on 28 March 2014 to shareholders of record on 14 March 2014.

During the years ended 31 December 2013 and 2012, the Bank declared the full 8.00% cash dividends on preference shares in each quarter. Preference share dividends declared and paid were $15.0 million during 2013 (2012: $16.0 million). Guarantee fees paid to the Government of Bermuda were $1.9 million during 2013 (2012: $2.0 million).

Cash Flows

Cash and cash equivalents were $1.7 billion as at 31 December 2013, compared to $1.5 billion in the prior year. The increase is described below by category of operating, investing and financing activities.

For the year ended 31 December 2013, net cash provided by operating activities totalled $119.1 million (2012: $132.9 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 decreased by $13.8 million from 2012 to 2013, due primarily to an increase in other assets offset by rising core earnings that generated higher cash earnings compared to the prior year and an increase in trading investments due to the receipt of seed capital 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 of loan structuring. Net cash provided by investing activities for the year ending 31 December 2013 totalled $55.7 million, compared to cash used in investing activities of $627.4 million in 2012. The $683.1 million increase in cash provided by investing activities in 2013 was mainly due to reduced investment purchases and sales of AFS securities netting a $918.3 million decrease, offset by an increase in loan balances of $270.6 million year over year.

Net cash provided by financing activities totalled $4.1 million in 2013, compared to net cash provided by financing activities of $108.9 million in 2012. The $104.8 million change primarily reflects the $53 million repayment of subordinated debt in 2013, resulting in a net $45 million decrease, $38.5 million common share dividend payments in 2013, net deposit and repurchase agreement increases of $16.9 million and the $6.0 million increase of share buy-backs.

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.

As at 31 December	2013			2012		
(in $ millions)	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	**294.6**	**292.2**	**2.4**	280.1	277.3	2.8
Letters of guarantee	**12.4**	**9.1**	**3.3**	11.2	8.7	2.5
Total	**307.0**	**301.3**	**5.7**	291.3	286.0	5.3

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.

Effective 1 October 2010, the Bank had retained Carlyle Investment Management LLC, an affiliated company of the Carlyle Group, to provide balance sheet management advisory services, including advisory services on valuation assignments, for an annual fee of $4 million for a three-year period. 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 to Alumina.

The Bank has a facility, by one of its custodians, whereby the Bank may offer up to $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 2013, $149.2 million (31 December 2012: $137.0 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 19: Subordinated Capital" in the 31 December 2013 consolidated financial statements for terms of subordinated debt arrangements and interest obligations.

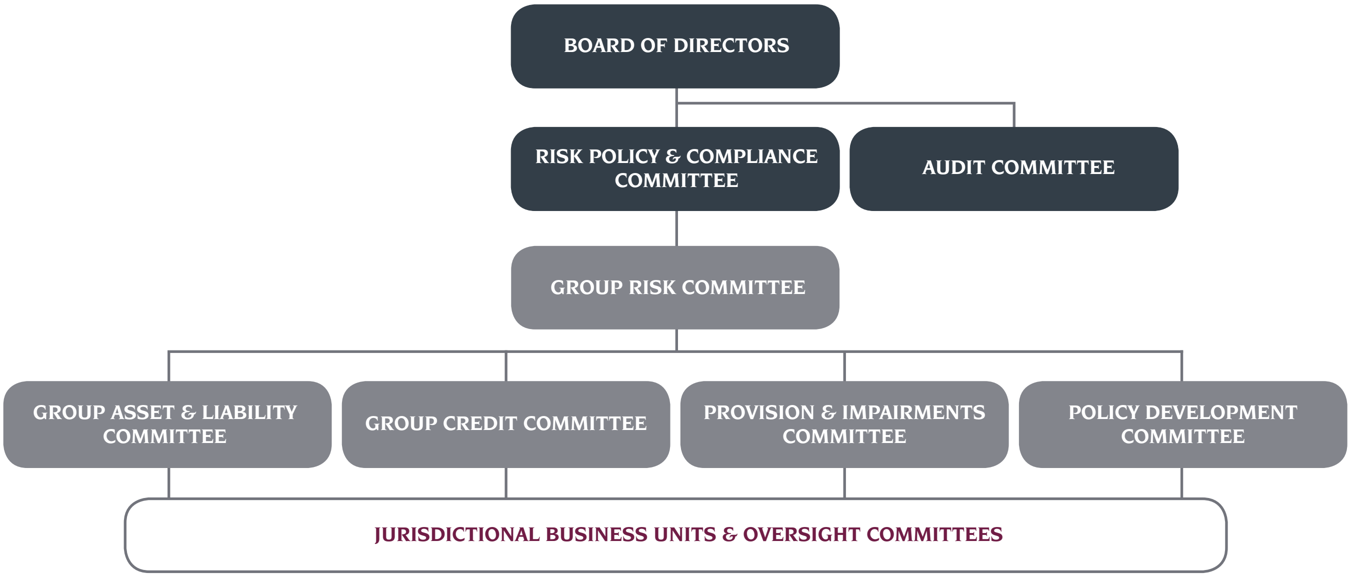
The $75.4 million contractual obligation in respect of sourcing—for Bermuda and the Cayman Islands— relates to an eight-year agreement entered into in October 2008 with global technology service provider Hewlett Packard (“HP”) (previously EDS) to supply technology infrastructure and application development 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 & 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 & Compliance and Audit Committees are supported in the execution of their respective mandates by the dedicated Audit, Compliance & 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 & 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 & Liability Committees in each of the Bank's jurisdictional business units.

The Group Credit Committee ("GCC") is comprised of executive and senior management team members 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 & 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 & 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;
- 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 challenge of 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 & 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 & regulatory; governance; process & technology; people; country & 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 2013	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 as Bermuda's Bank of the Year by *The Banker* and Bermuda's Best Private Bank by *Euromoney*, 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 trust. Butterfield also provides services to corporate and institutional clients in Bermuda, which include asset management and corporate trust services.

Net income before gains and losses was $33.8 million for the year ended 31 December 2013, up $8.7 million from $25.1 million in the prior year, despite a $3.8 million drop in revenue, due principally to cost management initiatives and higher income from our investment portfolio. Net gains of $7.0 million during the year were favourable by $19.9 million compared to net losses of $13.0 million in 2012, primarily due to one-off gains and reduced valuation allowances required on foreclosed properties. Net income after gains and losses was $40.8 million, an increase of $28.7 million from $12.1 million in the prior year.

Net interest income before provisions for credit losses increased by $6.1 million to $136.9 million in 2013 due to an increase of $11.2 million in investment income and $3.3 million in lower subordinated debt interest expense. This was partially offset by reduced loan revenue of $8.4 million as a result of prepayments and soft loan demand, which drove a decline in the loan portfolio.

Provisions for credit losses were $12.7 million, up $6.3 million from the prior year due largely to increased impairment of non-performing hospitality loans and residential mortgages.

Non-interest income of $62.0 million for the year ended 31 December 2013 was down $3.6 million, or 5.5%, reflecting lower revenues of $6.0 million from banking, asset management and custody fees, which were partially offset by increased foreign exchange revenues of $2.2 million.

Non-interest expenses declined by $12.5 million to $152.3 million in 2013 due to reduced headcount, a reduction in senior management compensation, savings from technology, and other expense management initiatives.

Total assets as at 31 December 2013 were $4.6 billion, consistent with year-end 2012. Customer deposits ended the year at $3.6 billion, up $0.3 billion from year-end 2012, and loan balances ended the year at $2.1 billion, a decrease of $0.1 billion from year-end 2012.

Client assets under administration for the trust and custody businesses were $35.6 billion and $31.2 billion, respectively, whilst assets under management decreased by $0.3 billion to $2.8 billion from year-end 2012.

(in $ thousands)	2013	2012	$ change	% change
Net interest income	**136,900**	130,780	6,120	4.7%
Provision for credit losses	**(12,708)**	(6,372)	(6,336)	(99.4%)
Non-interest income	**61,986**	65,559	(3,573)	(5.5%)
Revenue before gains and losses	**186,178**	189,967	(3,789)	(2.0%)
Total expenses	**(152,344)**	(164,879)	12,535	7.6%
Net income before gains and losses	**33,834**	25,088	8,746	34.9%
Net gains (losses)	**6,953**	(12,974)	19,927	153.6%
Net income	**40,787**	**12,114**	**28,673**	**236.7%**
As at 31 December				
(in $ millions)				
Customer deposits	**3,551**	3,256	295	9.1%
Loans, net of allowance for credit losses	**2,075**	2,208	(133)	(6.0%)
Total assets	**4,624**	**4,624**	**-**	**-**
Assets under administration				
Custody and other administration services	**31,198**	27,819	3,379	12.1%
Trust	**35,621**	30,062	5,559	18.5%
Assets under management				
Butterfield Funds	**1,956**	2,335	(379)	(16.2%)
Other assets under management	**805**	747	58	7.8%
Total assets under management	**2,761**	**3,082**	**(321)**	**(10.4%)**
Number of employees	**554**	**624**	**(70)**	**(11.2%)**

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 by *The Banker*, Butterfield enhanced its client delivery channels through the introduction of mobile banking and the American Airlines® affinity credit card products during the year. 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 for the year ending 31 December 2013 was $25.9 million, up $6.5 million from the prior year. The increase was due primarily to an improvement in loan and investment income, banking fees, foreign exchange and trust revenues, coupled with a reduction in salaries and technology expenses. Net income for the year was $25.4 million, an increase of $1.5 million from the prior year.

Net interest income before loan loss provisions was $52.0 million in 2013, an improvement of $7.4 million compared to 2012. The increase was driven primarily by an improvement in loan income of $3.8 million as loans increased by $246 million. Investment income was up $3.3 million resulting from an average $148 million increase in available-for-sale securities, but partially offset by a reduction of $86 million in floating rate notes. Deposit liability costs were $0.5 million lower following the maturity of the step-up deposit product in 2012.

Provisions for credit losses were $3.6 million compared to $1.3 million in the prior year. The increase of $2.3 million resulted primarily from a general provision increase relating to the increase in loans and specific provisions on certain residential mortgages and commercial loans.

Non-interest income was $32.2 million, up $1.2 million from the prior year. The increase was due primarily to higher banking fees driven by net card revenues, foreign exchange revenues, and trust income, partially offset by lower asset management revenues.

Non-interest expenses decreased $0.2 million, year over year, to $54.7 million (including $1.1 million in early retirement and severance costs). Improvements were noted in salaries that declined by $0.5 million due to lower headcount, technology costs, which declined by $0.8 million due to lower outsourcing costs, and marketing costs that were lower by $0.1 million. These reductions were largely offset by increased government license and work permit fees of $0.7 million and increased loan administration fees of $0.5 million.

Total assets at 31 December 2013 were $2.3 billion, up $0.2 billion from year-end 2012, reflecting higher client deposit levels. Net loans increased by $0.2 billion from year-end 2012 to end at $1.0 billion. The available-for-sale investments at $0.5 billion at the end of fiscal 2013 were down $0.1 billion, year over year.

Client assets under administration for the trust and custody businesses were $1.6 billion and $1.3 billion, respectively, whilst assets under management were $0.7 billion at year-end 2013.

(in $ thousands)	2013	2012	$ change	% change
Net interest income	**51,981**	44,633	7,348	16.5%
Provision for credit losses	**(3,554)**	(1,291)	(2,263)	(175.3%)
Non-interest income	**32,175**	30,940	1,235	4.0%
Revenue before gains and losses	**80,602**	74,282	6,320	8.5%
Total expenses	**(54,674)**	(54,829)	155	0.3%
Net income before gains and losses	**25,928**	19,453	6,475	33.3%
Net gains (losses)	**(492)**	4,497	(4,989)	(110.9%)
Net income	**25,436**	**23,950**	**1,486**	**6.2%**
As at 31 December				
(in $ millions)				
Customer deposits	**2,071**	1,862	209	11.2%
Loans, net of allowance for credit losses	**951**	705	246	34.9%
Total assets	**2,309**	**2,117**	**192**	**9.1%**
Assets under administration				
Custody and other administration services	**1,323**	1,417	(94)	(6.6%)
Trust	**1,591**	1,710	(119)	(7.0%)
Assets under management				
Butterfield Funds	**139**	176	(37)	(21.0%)
Other assets under management	**541**	621	(80)	(12.9%)
Total assets under management	**680**	**797**	**(117)**	**(14.7%)**
Number of employees	**273**	**297**	**(24)**	**(8.1%)**

Guernsey

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

Guernsey posted net income before gains and losses of $7.4 million in 2013, compared to $9.8 million in 2012, a decrease of $2.4 million, due primarily to higher interest and non-interest expenses.

Net interest income before provisions for credit losses declined by $1.8 million to $19.8 million in 2013, compared to $21.6 million last year, attributable to lower yields on our investment portfolio and higher interest expense. This was partially offset by higher loan interest income from an increase in average loan balances. Interest expense increased by $1.2 million as a greater proportion of customer deposits moved towards higher rate, longer-term notice accounts.

Provisions for credit losses were $0.1 million compared to $1.0 million in 2012.

Non-interest income decreased $0.3 million to $19.7 million due to adverse exchange rate fluctuations. Underlying the foreign exchange fluctuations, improvements in foreign exchange activities and higher banking services revenues were offset by lower asset management and banking services income.

Total expenses at $31.9 million were $1.1 million higher than 2012 due to increases in technology, property and other expenses.

Total assets at 31 December 2013 of $1.4 billion were lower than year-end 2012, driven by lower customer deposit balances that reduced investment balances.

Client assets under administration for the trust business were $10.1 billion in 2013, up slightly from $9.9 billion in 2012. Similarly, assets under administration for the custody and administered banking businesses were $9.7 billion, up $0.7 billion (7.8%) over 2012. Client assets under management were lower than the prior year at $0.4 billion from loss of client mandates.

(in $ thousands)	2013	2012	$ change	% change
Net interest income	**19,808**	21,564	(1,756)	(8.1%)
Provision for credit losses	**(125)**	(980)	855	87.2%
Non-interest income	**19,678**	20,005	(327)	(1.6%)
Revenue before gains and losses	**39,361**	40,589	(1,228)	(3.0%)
Total expenses	**(31,945)**	(30,810)	(1,135)	(3.7%)
Net income before gains and losses	**7,416**	9,779	(2,363)	(24.2%)
Net gains (losses)	**(378)**	(31)	(347)	(1,119.2%)
Net income	**7,038**	**9,748**	**(2,710)**	**(27.8%)**

As at 31 December (in $ millions)				
Customer deposits	**1,291**	1,370	(79)	(5.8%)
Loans, net of allowance for credit losses	**563**	533	30	5.6%
Total assets	**1,438**	**1,522**	**(84)**	**(5.5%)**
Assets under administration				
Custody and other administration services	**9,660**	8,958	702	7.8%
Trust	**10,108**	9,905	203	2.0%
Assets under management				
Butterfield Funds	**72**	246	(174)	(70.7%)
Other assets under management	**352**	343	9	2.6%
Total assets under management	**424**	**589**	**(165)**	**(28.0%)**
Number of employees	**175**	**175**	**-**	**-**

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 UK recorded net income of $4.2 million in 2013, up $28.8 million as compared to a loss of $24.6 million in 2012. The improvement is driven largely by 2012 events that included $16.6 million of goodwill and intangible write-downs and a $5.0 million one-time tax adjustment. After excluding these 2012 items and adjusting 2013 net income for $1.1 million of non-core redundancy costs, core earnings were $5.3 million in 2013 compared to a 2012 loss of $3.0 million, an improvement of $8.3 million.

Net interest income before credit provisions of $14.9 million was up $0.7 million from $14.2 million at year-end 2012. The increase was due to a revised pricing strategy on customer deposit products, more reflective of the UK market and higher levels of interest income collected on past due loans.

Provisions for loan losses improved by $7.0 million as 2013 recorded a net recovery of $1.5 million following recoveries from two previously written off facilities. This compares to loan losses of $5.5 million in 2012, relating to legacy commercial loan facilities.

Total assets at $828.3 million at year-end 2013 were down $97.1 million from $925.4 million at year-end 2012. Loan balances were $497 million in 2013, stable from year-end 2012. Customer deposit balances at year-end 2012 of $709.3 million fell by $102.7 million to $606.6 million, due largely to a strategy adopted to focus on high net worth private clients and exit non-core clients.

Assets under management of $291 million were up $54 million from $237 million at year-end 2012. Custody client assets under administration at the end of 2013 amounted to $1.5 billion.

(in $ thousands)	2013	2012	$ change	% change
Net interest income	**14,932**	14,197	735	5.2%
Provision for credit losses	**1,504**	(5,547)	7,051	127.1%
Non-interest income	**7,384**	8,177	(793)	(9.7%)
Revenue before gains and losses	**23,820**	16,827	6,993	41.6%
Total expenses	**(19,841)**	(24,565)	4,724	19.2%
Net income before gains and losses	**3,979**	(7,738)	11,717	151.4%
Net gains (losses)	**181**	(16,895)	17,076	101.1%
Net income	**4,160**	**(24,633)**	**28,793**	**116.9%**

As at 31 December (in $ millions)				
Customer deposits	**607**	709	(102)	(14.4%)
Loans, net of allowance for credit losses	**497**	507	(10)	(2.0%)
Total assets	**828**	**925**	**(97)**	**(10.5%)**
Assets under administration – custody	**1,506**	**1,662**	**(156)**	**(9.4%)**
Assets under management				
Butterfield Funds	**97**	77	20	26.0%
Other assets under management	**194**	160	34	21.3%
Total assets under management	**291**	**237**	**54**	**22.8%**
Number of employees	**97**	**98**	**(1)**	**(1.0%)**

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 from Bermuda and the Cayman Islands as part of Butterfield's community banking platform.

Group Asset Management revenue was $18.1 million in 2013, compared to $22.3 million in 2012. The decrease of $4.2 million is due principally to lower short-term interest rates and their trickle-down effect on Money Market Fund management fee income. In addition, the prior year's revenue was higher with Bentley Reid's investment management agreement in the United Kingdom still in effect for the first half of 2012.

Assets under management were $4.2 billion at year-end 2013, compared to $4.7 billion at the end of 2012. Withdrawals of Money Market Fund balances during the year were responsible for the $0.5 billion decline, as clients continued to seek out better-yielding alternatives for short-term investments. Assets under discretionary management increased slightly from year-end 2012 as investors returned to the markets.

Total assets under management ("AUM") at 31 December:

	2013			2012		
(in $ millions)	Butterfield Funds	Other assets	Total AUM	Butterfield Funds	Other assets	Total AUM
Bermuda	**1,956**	**805**	**2,761**	2,335	747	3,082
Cayman Islands	**139**	**541**	**680**	176	621	797
Guernsey	**72**	**352**	**424**	246	343	589
The Bahamas	**40**	**-**	**40**	35	-	35
UK	**97**	**194**	**291**	77	160	237
Total	**2,304**	**1,892**	**4,196**	2,869	1,871	4,740

Group Trust

Our trust and corporate services specialists deliver fiduciary 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. Butterfield was recently recognised as one of the leading international finance firms at the *Citywealth* International Financial Centre Awards, receiving two awards: 2013 Trust Company of the Year - Caribbean; and Trust Company of the Year - Switzerland.

Alongside our traditional strengths in providing services to families and institutions connected with the United Kingdom, North America, and Europe, in 2013 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 and competencies 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 2013. Active participation by our personnel in their 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 areas of expertise.

Trust 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 2013, trust revenues totalled $30.4 million, an increase of 4.4% from 2012. Significant new business development and growth occurred in Switzerland, Bermuda, and in our corporate and institutional trust services area. In addition, increasing pipelines were noted in our Bahamas, Guernsey and Cayman businesses. Trust revenues represented 24.1% of total non-interest income in 2013, up from 22.7% in 2012.

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

(in $ millions)	**2013**	**2012**	**$ change**	**% change**
Bermuda	**35,621**	30,062	5,559	18.5%
Cayman Islands	**1,591**	1,710	(119)	(7.0%)
Guernsey	**10,108**	9,905	203	2.0%
Switzerland	**2,566**	2,142	424	19.8%
The Bahamas	**3,370**	3,250	120	3.7%
Total	**53,256**	**47,069**	**6,187**	**13.1%**

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, 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 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
25 February 2014

John Maragliano
Executive Vice President & Chief Financial Officer
25 February 2014

pwc

February 25, 2014

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 December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and 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, Chartered Accountants, P.O. Box HM 1171, Hamilton HM EX, Bermuda
T: +1 (441) 295 2000, F:+1 (441) 295 1242, www.pwc.com/bermuda

pwc

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 December 31, 2013 and 2012, 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.

PricewaterhouseCoopers

Chartered Accountants

Reference: Independent Auditor's Report on the Financial Statements of The Bank of N.T. Butterfield & Son Limited as at December 31, 2013 and 2012 and for the years then ended
February 25, 2013
Page 2 of 2

Consolidated Balance Sheet

(in thousands of Bermuda dollars)

	As at	
	31 December 2013	31 December 2012
Assets		
Cash and demand deposits with banks	**411,124**	367,050
Cash equivalents	**1,319,348**	1,175,476
Total cash and cash equivalents	**1,730,472**	1,542,526
Short-term investments	**54,981**	76,213
Debt and equity securities		
Trading	**53,328**	61,785
Available for sale	**2,226,921**	2,580,577
Held to maturity	**333,394**	239,342
Total investments in debt and equity securities	**2,613,643**	2,881,704
Loans, net of allowance for credit losses	**4,088,225**	3,955,960
Premises, equipment and computer software	**240,603**	243,321
Accrued interest	**19,621**	18,975
Goodwill	**7,086**	6,949
Intangible assets	**12,035**	15,327
Investments in affiliates	**12,533**	18,637
Other real estate owned	**27,407**	34,360
Other assets	**64,209**	39,037
Total assets	**8,870,815**	8,833,009
Liabilities		
Customer deposits		
Non-interest bearing	**1,012,973**	918,814
Interest bearing	**6,584,756**	6,347,958
Total customer deposits	**7,597,729**	7,266,772
Bank deposits	**40,222**	126,466
Total deposits	**7,637,951**	7,393,238
Securities sold under agreement to repurchase	**25,535**	109,021
Employee future benefits	**89,109**	103,135
Accrued interest	**3,825**	2,795
Preference share dividends payable	**616**	662
Other liabilities	**104,218**	106,984
Total other liabilities	**223,303**	322,597
Subordinated capital	**207,000**	260,000
Total liabilities	**8,068,254**	7,975,835
Shareholders' equity		
Common share capital (BMD 0.01 par; authorised shares 26,000,000,000) issued and outstanding: 549,803,460 (2012: 549,677,803)	**5,498**	5,496
Preference share capital (USD 0.01 par; USD 1,000 liquidation preference) issued and outstanding: 183,606 (2012: 195,578)	**2**	2
Contingent value convertible preference share capital (USD 0.01 par) issued and outstanding: 7,129,075 (2012: 7,254,732)	**71**	73
Additional paid-in capital	**1,344,755**	1,355,689
Accumulated deficit	**(460,157)**	(482,796)
Less: treasury common shares: 8,310,421 shares (2012: 7,066,586 shares)	**(10,948)**	(8,767)
Accumulated other comprehensive loss	**(76,660)**	(12,523)
Total shareholders' equity	**802,561**	857,174
Total liabilities and shareholders' equity	**8,870,815**	8,833,009

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 2013	31 December 2012
Non-interest income		
Asset management	**18,067**	22,323
Banking	**32,490**	33,713
Foreign exchange revenue	**29,311**	26,524
Trust	**30,410**	29,122
Custody and other administration services	**10,232**	10,646
Other non-interest income	**5,453**	6,215
Total non-interest income	**125,963**	128,543
Interest income		
Loans	**187,042**	190,691
Investments	**60,875**	49,117
Deposits with banks	**5,291**	4,999
Total interest income	**253,208**	244,807
Interest expense		
Deposits	**19,973**	20,511
Subordinated capital	**9,186**	12,573
Securities sold under repurchase agreements	**240**	18
Total interest expense	**29,399**	33,102
Net interest income before provision for credit losses	**223,809**	211,705
Provision for credit losses	**(14,825)**	(14,190)
Net interest income after provision for credit losses	**208,984**	197,515
Net trading gains	**315**	268
Net realised (losses) gains on available for sale investments	**(61)**	2,028
Net realised / unrealised losses on other real estate owned	**(5,000)**	(2,053)
Impairment of fixed assets	-	(14,527)
Impairment of intangible assets	-	(9,143)
Impairment of goodwill	-	(9,505)
Net gain on sales of affiliates and subsidiary	**1,227**	4,231
Impairment of investment in affiliate	**(3,800)**	-
Net other gains	**14,068**	1,389
Total other gains (losses)	**6,749**	(27,312)
Total net revenue	**341,696**	298,746
Non-interest expense		
Salaries and other employee benefits	**131,064**	137,433
Technology and communications	**54,223**	57,715
Property	**24,309**	26,129
Professional and outside services	**15,012**	15,409
Non-income taxes	**13,682**	13,158
Amortisation of intangible assets	**3,358**	5,040
Marketing	**3,484**	3,963
Other expenses	**17,513**	16,048
Total non-interest expense	**262,645**	274,895
Net income before income taxes from continuing operations	**79,051**	23,851
Income tax expense	**(891)**	(5,890)
Net income from continuing operations	**78,160**	17,961
Discontinued operations		
Income from discontinued operations before income tax expense	-	693
Gain on sale of discontinued operations	-	7,240
Income tax expense	-	(313)
Net income from discontinued operations	-	7,620
Net income	**78,160**	25,581
Earnings per common share		
Basic earnings per share	**0.11**	0.01
Diluted earnings per share	**0.11**	0.01
Basic earnings per share from continuing operations	**0.11**	-
Diluted earnings per share from continuing operations	**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 2013	31 December 2012
Net income	**78,160**	25,581
Other comprehensive (loss) income, net of taxes		
Net change in unrealised gains on translation of net investment in foreign operations	**2,855**	834
Net change in unrealised (losses) gains on available-for-sale investments	**(84,917)**	43,118
Employee future benefits adjustments	**17,925**	(15,173)
Other comprehensive (loss) income	**(64,137)**	28,779
Total comprehensive income	**14,023**	54,360

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 2013		31 December 2012	
	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	**549,677,803**	**5,496**	549,468,349	5,494
Conversion of contingent value preference shares	**125,657**	**2**	209,454	2
Balance at end of year	**549,803,460**	**5,498**	549,677,803	5,496
Preference shares				
Balance at beginning of year	**195,578**	**2**	200,000	2
Repurchase and cancellation of preference shares	**(11,972)**	**-**	(4,422)	-
Balance at end of year	**183,606**	**2**	195,578	2
Contingent value convertible preference shares				
Balance at beginning of year	**7,254,732**	**73**	7,464,186	75
Conversion to common shares	**(125,657)**	**(2)**	(209,454)	(2)
Balance at end of year	**7,129,075**	**71**	7,254,732	73
Additional paid-in capital				
Balance at beginning of year		**1,355,689**		1,377,556
Stock option plan expense		**6,347**		5,184
Share-based compensation settlements		**(2,553)**		(21,662)
Reduction of carrying value on repurchase of preference shares		**(11,972)**		(4,422)
Premium paid on repurchase of preference shares		**(2,756)**		(967)
Balance at end of year		**1,344,755**		1,355,689
Accumulated deficit				
Balance at beginning of year		**(482,796)**		(490,377)
Net income for year		**78,160**		25,581
Common share cash dividends declared and paid ($0.07 per share)		**(38,531)**		-
Cash dividends declared on preference shares		**(15,094)**		(16,000)
Preference shares guarantee fee		**(1,896)**		(2,000)
Balance at end of year		**(460,157)**		(482,796)
Treasury common shares				
Balance at beginning of year	**7,066,586**	**(8,767)**	2,163,958	(21,723)
Share-based settlement	**(119,873)**	**173**	(150,000)	293
Purchase of treasury shares	**4,038,482**	**(5,611)**	7,260,051	(8,999)
Share-based compensation settlements	**(2,674,774)**	**3,257**	(2,207,423)	21,662
Balance at end of year	**8,310,421**	**(10,948)**	7,066,586	(8,767)
Accumulated other comprehensive loss				
Balance at beginning of year		**(12,523)**		(41,302)
Other comprehensive (loss) income, net of taxes		**(64,137)**		28,779
Balance at end of year		**(76,660)**		(12,523)
Total shareholders' equity		**802,561**		857,174

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 2013	31 December 2012
Cash flows from operating activities		
Net income	**78,160**	25,581
Less: Net income from discontinued operations	-	(7,620)
Net income from continuing operations	**78,160**	17,961
Adjustments to reconcile net income from continuing operations to operating cash flows		
Depreciation and amortisation	**44,957**	46,958
Impairment of goodwill	-	9,505
Impairment of intangible assets	-	9,143
Impairment of fixed assets	-	14,527
Increase in carrying value of investments in affiliates	**(1,068)**	(288)
Share-based payments and settlements	**6,520**	5,477
Realised gains on legal settlement	**(13,108)**	-
Net gain on sales of affiliates and subsidiary	**(1,227)**	(4,231)
Impairment of investment in affiliate	**3,800**	-
Net realised / unrealised losses on other real estate owned	**5,000**	2,053
Net realised losses (gains) on available-for-sale securities	**61**	(2,028)
Provision for credit losses	**14,825**	14,190
Changes in operating assets and liabilities		
(Increase) decrease in accrued interest receivable	**(585)**	5,393
(Increase) decrease in other assets	**(24,716)**	22,813
Increase (decrease) in accrued interest payable	**1,011**	(5,129)
Decrease in other liabilities and employee future benefits	**(2,965)**	(4,498)
	110,665	131,846
Net change in trading investments	**8,464**	1,069
Cash provided by operating activities from continuing operations	**119,129**	132,915
Cash flows from investing activities		
Net increase (decrease) in short-term investments	**21,393**	(55,498)
Net proceeds on sale of affiliate	**4,598**	18,464
Net proceeds on sale of subsidiary	-	41,862
Net proceeds on sale of customer relationships intangible assets	-	1,428
Proceeds from legal settlement	**13,108**	-
Net additions to premises, equipment and computer software	**(19,169)**	(17,761)
Proceeds from other real estate owned	**8,619**	4,726
Net (increase) decrease in loans	**(133,503)**	137,077
Held-to-maturity investments: proceeds from pay downs	**19,435**	16,127
Held-to-maturity investments: purchases	**(114,588)**	(191,305)
Available-for-sale investments: proceeds from sale	**387,149**	414,347
Available-for-sale investments: proceeds from maturities and pay downs	**1,073,069**	1,514,538
Available-for-sale investments: purchases	**(1,204,440)**	(2,511,423)
Cash provided by (used in) investing activities	**55,671**	(627,418)
Cash flows from financing activities		
Net increase in demand and term deposit liabilities	**215,800**	40,222
Net (decrease) increase in securities sold under agreement to repurchase	**(83,486)**	109,021
Repayment of subordinated capital	**(53,000)**	(7,946)
Common shares repurchased	**(5,611)**	(8,999)
Preference shares repurchased	**(14,852)**	(5,452)
Proceeds from stock option exercise	**706**	-
Cash dividends paid on preference shares	**(15,015)**	(15,989)
Cash dividends paid on common and contingent value convertible preference shares	**(38,531)**	-
Preference shares guarantee fee paid	**(1,896)**	(2,000)
Cash provided by financing activities	**4,115**	108,857
Net effect of exchange rates on cash and cash equivalents	**9,031**	25,446
Net increase (decrease) in cash and cash equivalents	**187,946**	(360,200)
Cash and cash equivalents at beginning of the year	**1,542,526**	1,902,726
Cash and cash equivalents at end of the year	**1,730,472**	1,542,526
Supplemental disclosure of cash flow information		
Cash interest paid	**30,410**	28,620
Cash income tax paid	**911**	1,230
Non-cash item		
Transfer to other real estate owned	**6,719**	13,755

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 license 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 and a provider of specialised wealth management services. Services offered include retail, private & corporate banking, treasury, custody, asset management and personal & institutional trust services. The Bank provides such services from six jurisdictions: Bermuda, the Cayman Islands, 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
- Income taxes
- 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 consolidates VIEs where it is considered to be the primary beneficiary. 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 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 statement of operations.

The assets and liabilities of foreign currency-based subsidiaries are translated at the rate of exchange prevailing on the balance sheet date, whilst 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 statement of operations only when realised.

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.

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 statement 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 statement 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 statement 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 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 uses the net asset 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"), management compares cash flow projections to fair value and amortised cost to determine if any credit losses exist. Management's cash flow forecast for the PTN was created in conjunction with a specialist in analytical cash flow modelling. Management also performs 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.

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 restored to accrual status only when interest and principal payments are brought current and future payments are reasonably assured.

Loans Modified in a troubled debt restructuring

A modification of a loan constitutes a troubled debt restructuring ("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.

Loans modified in a TDR are typically already on non-accrual status and partial charge-offs have, in some cases, already been taken against the outstanding loan balances.

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, internal risk ratings, and 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 installment, 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 purchase method. Identifiable intangible assets (mostly customer relationships) are recognised separately from goodwill and are initially valued using discounted cash flow calculations and other recognised valuation techniques. Goodwill represents the excess of the price paid for the acquisition of a business over the fair value of the net assets acquired.

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.

l. 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 statement of operations. Subsequent decreases in the property's fair value and 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); 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. When the hedge is highly effective, 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"), until earnings are affected by the variability of cash flows of the hedged transaction. Any hedge ineffectiveness is recorded in current year 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, depending on whether the hedging relationship satisfies the criteria for a fair value or cash flow hedge when the hedge is highly effective. 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 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 objective and strategy 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. When it is determined that a derivative has ceased to be highly effective as a hedge, the Bank discontinues hedge accounting prospectively.

For those hedge relationships that are terminated, hedge designations that are removed, or forecasted transactions that are no longer expected to occur, 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 account. For fair value hedges, any changes to the hedged item remain as part of the basis of the asset or liability and are ultimately reflected as an element of the yield. For cash flow hedges, any changes in fair value of the end-user derivative remain in OCL and are included in retained earnings of future periods when earnings are also affected by the variability of the hedged cash flows. If the forecasted transaction is no longer likely to occur, any changes in fair value of the end-user derivatives are recognised in net income.

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 trusteed pension plans for substantially all employees as either non-contributory defined benefit plans or defined contribution plans. Benefits under the defined benefit plans are based primarily 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 experienced 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 (liability) recognised for accounting purposes is 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 statement 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 statement 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 fees from the clients, as long as there are no contingencies associated with the fees.

Banking services fees include primarily 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 statement 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 available for sale, 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 equate to the fair value.

Cash equivalents include unrestricted term deposits, certificates of deposits 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 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 including defined benefit pension plan equity securities and mutual funds

Trading investments include 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 "Available-for-sale and held-to-maturity investments including defined benefit pension plan fixed income securities" below for valuation techniques and inputs of fixed income securities.

Available-for-sale and held-to-maturity investments including defined benefit pension plan fixed income securities
The fair values for available-for-sale 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 use market approaches for valuations using primarily Level 2 inputs(in the vast majority of valuations), or some form of discounted cash flow analysis, to obtain investment values for a small percentage of fixed income securities.

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.

Information of this nature is a trigger to acquire further corroborating market data. When these inputs are not available, they 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. 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.

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.

Broker/dealer quotations are used to value 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.

Other real estate owned
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.

Reporting units

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. 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 13 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.

u. 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 statement 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.

v. Consolidated Statement of Cash Flows

For the purposes of the consolidated statement 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.

w. Earnings Per Share

Earnings per share have been calculated using the weighted average number of common shares outstanding during the year (see also Note 20). 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.

x. 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.

y. Charitable Trust

In July 2000, the Bank established a charitable trust with the irrevocable purpose to make charitable donations to persons ordinarily resident in Bermuda (the "Charitable Trust"). The Charitable Trust came to an end December 2012 when its remaining assets were transferred to various charities in Bermuda. As a not-for-profit organisation, the Charitable Trust is not consolidated in the Bank's consolidated financial statements. As the Charitable Trust's trustees are representatives of the Bank, the Bank's endowment donations to the Charitable Trust were recognised at their recoverable amount in other assets in the consolidated balance sheet until dispersed by the Charitable Trust, at which time, donations were recognised in other expenses in the consolidated statement of operations.

z. New Accounting Pronouncements

Disclosures About Offsetting Assets and Liabilities

In December 2011, the FASB issued an Accounting Standards Update that required entities to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Entities are required to disclose both gross information and net information about instruments and transactions eligible for offset in the statement of financial position and those which are subject to an agreement similar to a master netting arrangement. The new guidance became effective for all annual and interim periods beginning 1 January 2013. Additionally, entities are required to provide the disclosures for all comparative periods. In January 2013, the FASB issued another Accounting Standards Update to clarify the instruments and transactions to which the guidance in the previously issued Accounting Standards Update would apply. The adoption of the guidance in these Accounting Standards Updates did not have an impact on the Bank's consolidated financial position or results of operations since it only amends the disclosure requirements for offsetting financial instruments. See "Note 16: Accounting for Derivative Instruments and Risk Management" for derivative offsetting disclosures.

Reclassification out of Accumulated Other Comprehensive Loss

In February 2013, the FASB issued an Accounting Standards Update that adds new disclosure requirements for items reclassified out of accumulated other comprehensive loss. The new guidance was effective for all annual and interim periods beginning 1 January 2013 and was applied prospectively. The adoption of this guidance did not have an impact on the Bank's consolidated financial position or results of operations. The new disclosure requirements of this Accounting Standards Update are included in "Note 23: Accumulated Other Comprehensive Income (Loss)."

Obligations Arising from Joint and Several Liability Arrangement

During February 2013, the FASB issued an Accounting Standards Update concerning the obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The objective of the amendment in the update is to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements. The guidance will require an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date. The guidance will also require an entity to disclose the nature and amount of the obligation, as well as other information about the obligations. The amendments will be effective for periods beginning after 15 December 2013, and must be shown for all periods presented on the balance sheet (i.e., applied retrospectively). This new guidance is not expected to have a material impact on the Bank's consolidated financial position or results of operations.

Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Group of Assets

In March 2013, the FASB issued the final guidance related to the release of a cumulative translation adjustment ("CTA") upon derecognition of subsidiaries or 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 is effective prospectively from 1 January 2014. The adoption of this guidance is not expected to have 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 clarify 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 Bank is assessing the impact of the adoption of this guidance.

NOTE 3: DISCONTINUED OPERATIONS

On 7 May 2012, the Bank announced its agreement to sell Butterfield Bank (Barbados) Limited, a wholly-owned subsidiary which is the entire Barbados segment, to First Citizens Bank Limited. The sale was completed on 27 August 2012 with gross proceeds, subject to normal adjustments, of $45 million, resulting in a net gain of $7.2 million included in net income from discontinued operations in the consolidated statements of operations.

The Bank determined that the requirements had been met to report the results of the subsidiary sold as discontinued operations effective from the second quarter in 2012. The following table summarises the results of the Barbados operating segment:

	For the year ended	
	31 December 2013	31 December 2012
Non-interest income	-	1,701
Net interest income	-	7,267
Provision for credit losses	-	(548)
Revenue before gains	-	8,420
Gains	-	249
Total net revenue	-	8,669
Non-interest expenses	-	(7,976)
Net income before income taxes	-	693
Gain on sale of discontinued operations	-	7,240
Income tax expense	-	(313)
Net income from discontinued operations	-	7,620

NOTE 4: CASH AND CASH EQUIVALENTS

	31 December 2013			31 December 2012		
	Bermuda	**Non-Bermuda**	**Total**	Bermuda	Non-Bermuda	Total
Unrestricted						
Non-interest earning						
Cash and demand deposits	**156,190**	**90,767**	**246,957**	172,179	44,425	216,604
Interest earning						
Demand deposits	**187**	**163,980**	**164,167**	143	150,303	150,446
Cash equivalents	**407,052**	**912,296**	**1,319,348**	334,835	840,641	1,175,476
Sub-total - Interest earning	**407,239**	**1,076,276**	**1,483,515**	334,978	990,944	1,325,922
Total cash and cash equivalents	**563,429**	**1,167,043**	**1,730,472**	507,157	1,035,369	1,542,526

NOTE 5: SHORT-TERM INVESTMENTS

	31 December 2013			31 December 2012		
	Bermuda	**Non-Bermuda**	**Total**	Bermuda	Non-Bermuda	Total
Unrestricted						
Term deposits maturing within three months	**-**	**35,420**	**35,420**	-	56,727	56,727
Term deposits maturing between three to six months	**-**	**6,884**	**6,884**	-	7,672	7,672
Term deposits maturing between six to twelve months	**-**	**3,721**	**3,721**	-	4,761	4,761
Total unrestricted short-term investments	**-**	**46,025**	**46,025**	-	69,160	69,160
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Interest earning demand deposits	**8,842**	**114**	**8,956**	6,942	111	7,053
Total short-term investments	**8,842**	**46,139**	**54,981**	6,942	69,271	76,213

NOTE 6: INVESTMENTS

Amortised Cost, Carrying Amounts and Estimated Fair Value

The amortised cost, carrying amounts and fair values are as follows:

	31 December 2013				31 December 2012			
	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	4,301	930	-	5,231
Mutual funds	49,799	990	(1,007)	49,782	56,779	511	(736)	56,554
Total Trading	52,799	1,536	(1,007)	53,328	61,080	1,441	(736)	61,785

	31 December 2013				31 December 2012			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value
Available-for-sale								
Certificates of deposit	83,789	794	(12)	84,571	558,668	2,706	(14)	561,360
US government and federal agencies	1,430,987	9,382	(56,194)	1,384,175	1,156,307	23,613	(1,134)	1,178,786
Debt securities issued by non-US governments	88,298	184	(28)	88,454	89,609	438	(5)	90,042
Corporate debt securities guaranteed by non-US governments	-	-	-	-	32,021	5	-	32,026
Corporate debt securities	362,921	15,888	-	378,809	400,980	20,105	-	421,085
Asset-backed securities - Student loans	85,980	-	(2,801)	83,179	139,304	-	(3,203)	136,101
Commercial mortgage-backed securities	155,374	-	(12,485)	142,889	130,526	231	(279)	130,478
Residential mortgage-backed securities - Prime	32,917	-	(2,080)	30,837	-	-	-	-
Pass-through note	26,791	7,216	-	34,007	30,404	242	-	30,646
Equity securities	-	-	-	-	126	-	(73)	53
Total available-for-sale	2,267,057	33,464	(73,600)	2,226,921	2,537,945	47,340	(4,708)	2,580,577

	31 December 2013				31 December 2012			
	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	333,394	91	(17,951)	315,534	239,342	6,691	(1,240)	244,793
Total held-to-maturity	333,394	91	(17,951)	315,534	239,342	6,691	(1,240)	244,793

[1] For the years ended 31 December 2013 and 31 December 2012, non-credit impairments recognised in AOCL for held-to-maturity investments were $nil.

Pledged AFS Investments

The Bank pledges United States ("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 2013, US government and federal agency investment securities with an amortised cost of $363.8 million (31 December 2012: $255.7 million) and fair value of $350.7 million (31 December 2012: $262.7 million) were pledged.

As at 31 December 2013, US government and federal agency investment securities with an amortised cost of $25.2 million (31 December 2012: $120.9 million) and fair value of $25.8 million (31 December 2012: $122.4 million) were pledged to collateralise repurchase agreements maturing within 90 days.

Pledged HTM Investments

As at 31 December 2013, US government and federal agency investment securities with an amortised cost of $83.0 million (31 December 2012: $45.7 million) and fair value of $75.1 million (31 December 2012: $44.5 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 available-for-sale and held-to-maturity 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 cost basis.

31 December 2013	Less than 12 months		12 months or more			
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses	Total fair value	Total gross unrealised losses
Available-for-sale						
Certificates of deposit	**50,464**	**(12)**	**-**	**-**	**50,464**	**(12)**
US government and federal agencies	**831,493**	**(45,956)**	**168,264**	**(10,238)**	**999,757**	**(56,194)**
Debt securities issued by non-US governments	**42,996**	**(28)**	**-**	**-**	**42,996**	**(28)**
Asset-backed securities - Student loans	**-**	**-**	**83,179**	**(2,801)**	**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	**1,014,680**	**(53,695)**	**335,441**	**(19,905)**	**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)**

31 December 2012	Less than 12 months		12 months or more			
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses	Total fair value	Total gross unrealised losses
Available-for-sale						
Certificates of deposit	82,477	(14)	-	-	82,477	(14)
US government and federal agencies	191,492	(342)	65,792	(792)	257,284	(1,134)
Debt securities issued by non-US governments	56,797	(5)	-	-	56,797	(5)
Asset-backed securities - Student loans	-	-	136,101	(3,203)	136,101	(3,203)
Commercial mortgage-backed securities	92,306	(279)	-	-	92,306	(279)
Equity securities	-	-	53	(73)	53	(73)
Total available-for-sale securities with unrealised losses	423,072	(640)	201,946	(4,068)	625,018	(4,708)
Held-to-maturity						
US government and federal agencies	44,496	(1,240)	-	-	44,496	(1,240)
Total held-to-maturity securities with unrealised losses	44,496	(1,240)	-	-	44,496	(1,240)

The Bank does not believe that the investment securities that were in an unrealised loss position as of 31 December 2013, which was comprised of 133 securities, or 65% of the portfolio by fair value, represent an other-than-temporary impairment. Total gross unrealised losses were 5.5% of the fair value of affected securities and were primarily attributable 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 2013, gross unrealised losses on securities related to US government and federal agencies were $74.1 million (31 December 2012: $2.4 million) of which $57.7 million has been in an unrealised loss position for less 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.

Asset-backed securities – Student loans
As at 31 December 2013, gross unrealised losses on student loan asset-backed securities were $2.8 million (31 December 2012: $3.2 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 ("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 2013, gross unrealised losses on commercial mortgage-backed securities were $12.5 million (31 December 2012: $0.3 million) of which $5.6 million has been in an unrealised loss position for less than 12 months and $6.9 million has 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 the percentage of pool losses that can occur before a senior asset-backed security will incur its first dollar of principal loss). No credit losses were recognised on these securities as management does not believe these securities have any credit losses.

Residential mortgage-backed securities – Prime
As at 31 December 2013, gross unrealised losses on prime residential mortgage-backed securities were $2.1 million (31 December 2012: $nil) all of which has been in an unrealised loss position for less 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 the percentage of pool losses that can occur before a senior asset-backed security will incur its first dollar of principal loss). No credit losses were recognised on these securities as management does not believe these securities have any credit losses.

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 2013	Remaining term to average contractual maturity						
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	No specific maturity	Carrying amount
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	-	119,263	310,676	954,235	-	1,384,175
Debt securities issued by non-US governments	26,472	31,141	4,783	26,058	-	-	88,454
Corporate debt securities	-	-	378,809	-	-	-	378,809
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 held-to-maturity	-	-	-	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

31 December 2012	Remaining term to average contractual maturity						
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	No specific maturity	Carrying amount
Trading							
Debt securities issued by non-US governments	-	1,382	1,157	1,611	1,081	-	5,231
Mutual funds	-	-	-	-	-	56,554	56,554
Total trading	-	1,382	1,157	1,611	1,081	56,554	61,785
Available-for-sale							
Certificates of deposit	255,624	274,357	31,379	-	-	-	561,360
US government and federal agencies	-	-	162,545	361,476	654,765	-	1,178,786
Debt securities issued by non-US governments	32,473	50,081	5,600	1,888	-	-	90,042
Corporate debt securities guaranteed by non-US governments	32,026	-	-	-	-	-	32,026
Corporate debt securities	-	-	421,085	-	-	-	421,085
Asset-backed securities - Student loans	-	-	2,506	82,825	50,770	-	136,101
Commercial mortgage-backed securities	-	-	-	130,478	-	-	130,478
Pass-through note	-	-	-	30,646	-	-	30,646
Equity securities	-	-	-	-	-	53	53
Total available-for-sale	320,123	324,438	623,115	607,313	705,535	53	2,580,577
Held-to-maturity							
US government and federal agencies	-	-	-	11,003	228,339	-	239,342
Total held-to-maturity	-	-	-	11,003	228,339	-	239,342
Total investments	320,123	325,820	624,272	619,927	934,955	56,607	2,881,704
Total by currency							
US dollars	166,289	179,536	623,115	618,315	933,874	55,513	2,576,642
Other	153,834	146,284	1,157	1,612	1,081	1,094	305,062
Total investments	320,123	325,820	624,272	619,927	934,955	56,607	2,881,704

Sale Proceeds and Realised Gains and Losses

During the twelve months ended 31 December 2013, the Bank disposed of:

- US government and federal agency investment 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.

During the twelve months ended 31 December 2012, the Bank disposed of:

- Certificates of deposit totalling $170.1 million in sale proceeds, resulting in gross realised gains of $0.1 million
- US government and federal agency investment securities totalling $60.4 million in sale proceeds, resulting in gross realised gains of $0.5 million and gross realised losses of $0.1 million;
- Corporate bonds totalling $165.6 million in sale proceeds, resulting in gross realised gains of $1.0 million and gross realised losses of $0.3 million; and
- Other securities totalling $18.2 million in sale proceeds, resulting in gross realised gains of $0.8 million.

Gains and Losses on Investments

For the year ended	31 December 2013				31 December 2012			
	Trading	Available-for-sale	Held-to-maturity	Total	Trading	Available-for-sale	Held-to-maturity	Total
Gains (losses) other than OTTI recognised in net income	315	(61)	-	254	268	2,028	-	2,296
Net gains (losses) recognised in net income	315	(61)	-	254	268	2,028	-	2,296
Gross unrealised (losses) gains recorded in OCL	-	(84,978)	-	(84,978)	-	45,146	-	45,146
Realised losses (gains) transferred to net income	-	61	-	61	-	(2,028)	-	(2,028)
Total net (losses) gains recognised in OCL	-	(84,917)	-	(84,917)	-	43,118	-	43,118
Non-credit-related impairments recognised in OCL	-	-	-	-	-	-	-	-
Effect of HTM to AFS transfer of investments	-	-	-	-	-	-	-	-
Total net (losses) gains recognised in OCL	-	(84,917)	-	(84,917)	-	43,118	-	43,118

NOTE 7: LOANS

The "Bermuda" and "Non-Bermuda" classifications' purpose is to reflect management segment reporting as described in "Note 15: Segmented Information." The composition of the loan portfolio by reporting segment and collateral type at each of the indicated dates was as follows:

	31 December 2013			31 December 2012		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Commercial loans						
Government	65,725	15,000	80,725	64,534	4,050	68,584
Commercial and industrial	129,865	270,808	400,673	121,947	190,002	311,949
Commercial overdrafts	57,851	8,083	65,934	58,973	22,929	81,902
Total commercial loans	253,441	293,891	547,332	245,454	216,981	462,435
Less specific allowance for credit losses on commercial loans	(240)	(233)	(473)	(166)	(1,250)	(1,416)
Total commercial loans after specific allowance for credit losses	253,201	293,658	546,859	245,288	215,731	461,019
Commercial real estate loans						
Commercial mortgage	417,112	343,958	761,070	495,466	281,456	776,922
Construction	-	2,040	2,040	109	2,119	2,228
Total commercial real estate loans	417,112	345,998	763,110	495,575	283,575	779,150
Less specific allowance for credit losses on commercial real estate loans	(5,123)	-	(5,123)	(8,772)	(4,711)	(13,483)
Total commercial real estate loans after specific allowance for credit losses	411,989	345,998	757,987	486,803	278,864	765,667
Consumer loans						
Automobile financing	15,618	6,654	22,272	19,663	6,050	25,713
Credit card	60,846	16,149	76,995	58,500	15,446	73,946
Overdrafts	10,079	6,311	16,390	8,488	3,933	12,421
Other consumer	47,396	117,960	165,356	66,044	94,819	160,863
Total consumer loans	133,939	147,074	281,013	152,695	120,248	272,943
Less specific allowance for credit losses on consumer loans	(160)	-	(160)	(160)	-	(160)
Total consumer loans after specific allowance for credit losses	133,779	147,074	280,853	152,535	120,248	272,783
Residential mortgage loans	1,309,605	1,239,920	2,549,525	1,351,680	1,145,709	2,497,389
Less specific allowance for credit losses on residential mortgage loans	(13,225)	(3,070)	(16,295)	(7,743)	(3,930)	(11,673)
Total residential mortgage loans after specific allowance for credit losses	1,296,380	1,236,850	2,533,230	1,343,937	1,141,779	2,485,716
Total gross loans	2,114,097	2,026,883	4,140,980	2,245,404	1,766,513	4,011,917
Less specific allowance for credit losses	(18,748)	(3,303)	(22,051)	(16,841)	(9,891)	(26,732)
Less general allowance for credit losses	(20,440)	(10,264)	(30,704)	(20,817)	(8,408)	(29,225)
Net loans	2,074,909	2,013,316	4,088,225	2,207,746	1,748,214	3,955,960

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 2013 is 4.66% (31 December 2012: 4.75%).

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

The following table summarises the past due status of the loans at 31 December 2013 and 31 December 2012. 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. An account is generally considered to be contractually delinquent when payments have not been made in accordance with the loan terms.

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	715,942	761,070
Construction	-	-	-	-	2,040	2,040
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 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.

31 December 2012	30-59 days	60-89 days	90 days or more	Total past due loans	Total current [1]	Total loans
Commercial loans						
Government	-	-	-	-	68,584	68,584
Commercial and industrial	349	2,048	3,022	5,419	306,530	311,949
Commercial overdrafts	17	199	301	517	81,385	81,902
Total commercial loans	366	2,247	3,323	5,936	456,499	462,435
Commercial real estate loans						
Commercial mortgage	3,852	1,190	55,584	60,626	716,296	776,922
Construction	-	-	-	-	2,228	2,228
Total commercial real estate loans	3,852	1,190	55,584	60,626	718,524	779,150
Consumer loans						
Automobile financing	466	96	425	987	24,726	25,713
Credit card	623	445	601	1,669	72,277	73,946
Overdrafts	3	37	227	267	12,154	12,421
Other consumer	1,091	693	1,595	3,379	157,484	160,863
Total consumer loans	2,183	1,271	2,848	6,302	266,641	272,943
Residential mortgage loans	38,334	21,914	69,551	129,799	2,367,590	2,497,389
Total loans	44,735	26,622	131,306	202,663	3,809,254	4,011,917

[1] Loans less than 30 days past due are included in current loans.

Non-accrual loans and accruing loans 90 days or more past due are summarised in the following table:

	31 December 2013			31 December 2012		
	Non-accrual loans	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	520	9	529	3,606	-	3,606
Commercial overdrafts	472	132	604	292	9	301
Total commercial loans	992	141	1,133	3,898	9	3,907
Commercial real estate loans	41,236	1,722	42,958	55,167	417	55,584
Consumer loans						
Automobile financing	437	8	445	581	57	638
Credit card	69	432	501	-	600	600
Overdrafts	221	37	258	217	10	227
Other consumer	1,951	283	2,234	1,984	76	2,060
Total consumer loans	2,678	760	3,438	2,782	743	3,525
Residential mortgage loans	59,166	9,938	69,104	51,506	27,229	78,735
Total non-performing loans	104,072	12,561	116,633	113,353	28,398	141,751

The table below presents information about the credit quality of the Bank's loan portfolio:

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					
Commercial mortgage	570,761	99,174	49,899	41,236	761,070
Construction	883	-	1,157	-	2,040
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 loans	3,760,003	179,216	97,689	104,072	4,140,980

31 December 2012	Pass	Special mention	Substandard	Non-accrual	Total gross recorded investments
Commercial loans					
Government	68,584	-	-	-	68,584
Commercial and industrial	301,747	6,078	518	3,606	311,949
Commercial overdrafts	72,669	8,742	199	292	81,902
Total commercial loans	443,000	14,820	717	3,898	462,435
Commercial real estate loans					
Commercial mortgage	562,042	118,203	41,510	55,167	776,922
Construction	493	1,735	-	-	2,228
Total commercial real estate loans	562,535	119,938	41,510	55,167	779,150
Consumer loans					
Automobile financing	23,765	1,183	184	581	25,713
Credit card	73,352	-	594	-	73,946
Overdrafts	11,945	186	73	217	12,421
Other consumer	154,966	3,218	695	1,984	160,863
Total consumer loans	264,028	4,587	1,546	2,782	272,943
Residential mortgage loans	2,309,945	68,531	67,407	51,506	2,497,389
Total gross recorded loans	3,579,508	207,876	111,180	113,353	4,011,917

The four credit quality classifications set out above 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.

Quality classification definitions

Pass:

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.

Special mention:

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.

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.

Non-accrual:

Either where 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.

The table below presents the gross loans evaluated for impairment:

	31 December 2013		31 December 2012	
	Individually evaluated	**Collectively evaluated**	Individually evaluated	Collectively evaluated
Commercial	**2,642**	**544,690**	5,609	456,826
Commercial Real Estate	**63,264**	**699,846**	64,739	714,411
Consumer	**2,793**	**278,220**	2,782	270,161
Residential mortgage loans	**66,408**	**2,483,117**	59,910	2,437,479
Total gross loans evaluated for impairment	**135,107**	**4,005,873**	133,040	3,878,877

The table below presents the continuity of the general and specific allowances:

	31 December 2013					31 December 2012
	Commercial	Commercial real estate	Consumer	Residential mortgage loans	Total	Total
Allowances at beginning of year	6,596	18,394	5,440	25,527	55,957	55,491
Provision taken (released) during the year	760	7,041	(2,429)	9,453	14,825	14,190
Recoveries	2,699	-	3,078	49	5,826	3,746
Charge-offs	(1,714)	(15,579)	(2,676)	(3,737)	(23,706)	(17,770)
Other	(1)	(40)	29	(135)	(147)	300
Allowances at end of year	8,340	9,816	3,442	31,157	52,755	55,957
Ending balance: individually evaluated for impairment	473	5,123	160	16,295	22,051	26,732
Ending balance: collectively evaluated for impairment	7,867	4,693	3,282	14,862	30,704	29,225

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 troubled debt restructuring ("TDR") even if full collectability is expected following the restructuring. For the year ended 31 December 2013, the amount of gross interest income that would have been recorded had impaired loans been current was $5.7 million (2012: $7.7 million). The table below presents information about the Bank's impaired loans:

31 December 2013	Impaired loans with an allowance			Impaired loans without an allowance	Total impaired loans		
	Gross recorded investment	Specific allowance	Net loans	Gross recorded investment	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	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

31 December 2012	Impaired loans with an allowance			Impaired loans without an allowance	Total impaired loans		
	Gross recorded investment	Specific allowance	Net loans	Gross recorded investment	Gross recorded investment	Specific allowance	Net loans
Commercial loans							
Commercial and industrial	1,471	(1,390)	81	3,846	5,317	(1,390)	3,927
Commercial overdrafts	26	(26)	-	266	292	(26)	266
Total commercial loans	1,497	(1,416)	81	4,112	5,609	(1,416)	4,193
Commercial real estate loans	52,607	(13,483)	39,124	12,132	64,739	(13,483)	51,256
Consumer loans							
Automobile financing	227	(75)	152	354	581	(75)	506
Credit card	-	-	-	-	-	-	-
Overdrafts	-	-	-	217	217	-	217
Other consumer	128	(85)	43	1,856	1,984	(85)	1,899
Total consumer loans	355	(160)	195	2,427	2,782	(160)	2,622
Residential mortgage loans	36,064	(11,673)	24,391	23,846	59,910	(11,673)	48,237
Total impaired loans	90,523	(26,732)	63,791	42,517	133,040	(26,732)	106,308

The following table presents information about the Bank's average impaired loan balances and interest income recognised on the impaired loans:

	31 December 2013		31 December 2012	
Impaired loans	**Average gross recorded investment**	**Interest income recognised**	Average gross record investment	Interest income recognised
Commercial loans				
Commercial and industrial	**3,744**	**97**	6,163	105
Commercial overdrafts	**382**	**-**	3,509	-
Total commercial loans	**4,126**	**97**	9,672	105
Commercial real estate loans	**64,002**	**256**	64,020	523
Consumer loans				
Automobile financing	**509**	**-**	782	-
Credit card	**35**	**-**	-	-
Overdrafts	**219**	**-**	141	-
Other consumer	**2,025**	**4**	1,887	-
Total consumer loans	**2,788**	**4**	2,810	-
Residential mortgage loans	**63,159**	**386**	55,560	388
Total impaired loans	**134,075**	**743**	132,062	1,016

The following table presents information about the Bank's loans modified in a troubled debt restructuring ("TDR"):

					Effect of modification on recorded investment	
31 December 2013	**Number of contracts**	**Recorded investment [1]**	**Pre-modification outstanding recorded investment**	**Post-modification outstanding 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.

					Effect of modification on recorded investment	
31 December 2012	Number of contracts	Recorded investment [1]	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Changes in the amount and / (or) timing of principal or interest payments	Interest capitalisation
Commercial loans	3	2,083	2,290	2,326	-	36
Commercial real estate loans	7	22,854	24,402	24,463	-	61
Residential mortgage loans	15	10,977	9,185	9,926	-	741
Total loans modified in a TDR	25	35,914	35,877	36,715	-	838

[1]The total recorded investment is comprised of $16.2 million of non-accrual loans and $19.7 million of loans on accrual status.

For the year ended 31 December 2013, 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 $3.5 million.

NOTE 8: 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.

	31 December 2013			31 December 2012		
	Loans	**Off-balance sheet**	**Total credit exposure**	Loans	Off-balance sheet	Total credit exposure
Banks and financial services	**358,079**	**367,162**	**725,241**	277,273	394,858	672,131
Commercial and merchandising	**258,693**	**129,698**	**388,391**	263,723	88,551	352,274
Governments	**75,780**	**4,767**	**80,547**	58,811	28,153	86,964
Individuals	**2,473,662**	**97,184**	**2,570,846**	2,334,272	94,430	2,428,702
Primary industry and manufacturing	**57,001**	**-**	**57,001**	65,608	6,161	71,769
Real estate	**789,259**	**9,849**	**799,108**	887,178	36,523	923,701
Hospitality industry	**100,019**	**-**	**100,019**	90,978	-	90,978
Transport and communication	**6,436**	**-**	**6,436**	7,342	-	7,342
Sub-total	**4,118,929**	**608,660**	**4,727,589**	3,985,185	648,676	4,633,861
General allowance	**(30,704)**	**-**	**(30,704)**	(29,225)	-	(29,225)
Total	**4,088,225**	**608,660**	**4,696,885**	3,955,960	648,676	4,604,636

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 6: Investments."

`	31 December 2013				31 December 2012			
	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
Bermuda	**162,371**	**2,331,616**	**301,603**	**2,795,590**	170,146	2,300,661	335,184	2,805,991
Canada	**47,111**	**-**	**-**	**47,111**	188,908	-	-	188,908
Cayman	**85,959**	**589,807**	**179,367**	**855,133**	208,278	547,779	194,634	950,691
Guernsey	**-**	**563,669**	**84,493**	**648,162**	-	534,226	72,961	607,187
The Bahamas	**4,932**	**39,990**	**-**	**44,922**	4,610	47,883	180	52,673
United Kingdom	**983,609**	**593,847**	**43,197**	**1,620,653**	773,649	554,636	45,717	1,374,002
United States	**474,943**	**-**	**-**	**474,943**	187,683	-	-	187,683
Other	**26,528**	**-**	**-**	**26,528**	85,465	-	-	85,465
Sub-total	**1,785,453**	**4,118,929**	**608,660**	**6,513,042**	1,618,739	3,985,185	648,676	6,252,600
General allowance	**-**	**(30,704)**	**-**	**(30,704)**	-	(29,225)	-	(29,225)
Total	**1,785,453**	**4,088,225**	**608,660**	**6,482,338**	1,618,739	3,955,960	648,676	6,223,375

NOTE 9: PREMISES, EQUIPMENT AND COMPUTER SOFTWARE

The following table summarises land, buildings, equipment and computer software:

	31 December 2013			31 December 2012		
	Cost	Accumulated depreciation	Net carrying value	Cost	Accumulated depreciation	Net carrying value
Land	**13,290**	**-**	**13,290**	13,290	-	13,290
Buildings	**153,737**	**(56,423)**	**97,314**	154,903	(52,109)	102,794
Equipment	**47,140**	**(40,893)**	**6,247**	47,060	(37,552)	9,508
Computer hardware and software in use	**195,656**	**(77,460)**	**118,196**	172,511	(63,743)	108,768
Computer software in development	**5,556**	**-**	**5,556**	8,961	-	8,961
Total	**415,379**	**(174,776)**	**240,603**	396,725	(153,404)	243,321

	31 December 2013	31 December 2012
Depreciation charged to operating expenses		
Buildings (included in property expense)	**4,478**	6,823
Equipment (included in property expense)	**2,100**	2,735
Computer hardware and software (included in technology & communication expense)	**16,300**	16,194
Total depreciation charged to operating expenses	**22,878**	25,752
Impairment		
Write-off of buildings (included in impairment of fixed assets)	**-**	14,527

During the year ended 31 December 2012, the Bank's intended use of five Bermuda properties changed and therefore the properties were assessed for impairment. The properties are subsequently held for rental income or possible sale and it was determined that the carrying values were not recoverable based on the undiscounted cash flow analysis. The carrying amount of the Bermuda segment's buildings was impaired and was written down by $6.5 million at 31 December 2012 because their respective fair values were lower than the carrying amounts. The fair values of the properties were calculated based on the market approach and, where applicable, a fair value discount rate was applied.

At the end of 2012, the Bank changed its commitment with respect to certain Bermuda properties which were being used in its operations but are now contemplated for disposal and therefore the properties have been reclassified as held for sale and included in OREO assets in the consolidated balance sheet. The reclassification resulted in an $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 10: GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents goodwill and other intangible assets by business segment:

Goodwill	Business segment		
	Guernsey	United Kingdom	Total
Balance as at 31 December 2011	6,634	9,303	15,937
Impairment	-	(9,505)	(9,505)
Foreign exchange translation adjustment	315	202	517
Balance as at 31 December 2012	6,949	-	6,949
Foreign exchange translation adjustment	**137**	**-**	**137**
Balance as at 31 December 2013	**7,086**	**-**	**7,086**

Customer relationship intangible assets

	31 December 2013				31 December 2012			
	Cost	Accumulated impairment	Accumulated amortisation	Net carrying amount	Cost	Accumulated impairment	Accumulated amortisation	Net carrying amount
Bermuda - Wealth Management	**8,342**	**-**	**(5,146)**	**3,196**	8,342	-	(4,590)	3,752
Cayman	**1,211**	**-**	**(934)**	**277**	1,211	-	(853)	358
Guernsey	**42,953**	**-**	**(34,391)**	**8,562**	42,952	-	(31,735)	11,217
The Bahamas	**-**	**-**	**-**	**-**	5,234	(2,019)	(3,215)	-
United Kingdom	**-**	**-**	**-**	**-**	16,927	(7,124)	(9,803)	-
Total	**52,506**	**-**	**(40,471)**	**12,035**	74,666	(9,143)	(50,196)	15,327

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.

During the 2012 annual review process, the carrying amount of goodwill relating to the United Kingdom segment was considered fully impaired due to a continuous period of losses incurred and future estimated profitability being unable to sustain current valuations including the goodwill and the customer intangible assets and was therefore fully written off. The carrying amount of the United Kingdom and Bahamas segments' customer relationship intangible assets were fully written off as at 31 December 2012 as the carrying amounts were deemed unrecoverable and the present values of net cash flows expected to be derived for the segments' recurring customer bases were deemed immaterial.

For the year ended 31 December 2012, intangible asset impairments of $9.1 million were recognised. During the year ended 31 December 2013, the amortisation expense amounted to $3.4 million (2012: $5.0 million) and the foreign exchange translation adjustment increased the net carrying amount by $0.1 million (2012: decreased by $0.2 million). The estimated aggregate amortisation expense for each of the succeeding five years (until 31 December 2018) is $12.0 million.

NOTE 11: CUSTOMER DEPOSITS AND DEPOSITS FROM BANKS

By Maturity	31 December 2013			31 December 2012		
	Customers	**Banks**	**Total**	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	**1,012,973**	**385**	**1,013,358**	918,814	567	919,381
Demand deposits - Interest bearing	**4,631,149**	**11,701**	**4,642,850**	4,405,291	99,573	4,504,864
Sub-total - demand deposits	**5,644,122**	**12,086**	**5,656,208**	5,324,105	100,140	5,424,245
Term deposits having a denomination of less than $100,000						
Term deposits maturing within six months	**51,118**	**-**	**51,118**	57,377	45	57,422
Term deposits maturing between six to twelve months	**16,392**	**-**	**16,392**	16,680	-	16,680
Term deposits maturing after twelve months	**18,205**	**-**	**18,205**	20,930	-	20,930
Sub-total - term deposits having a denomination of less than $100,000	**85,715**	**-**	**85,715**	94,987	45	95,032
Term deposits having a denomination of $100,000 or more						
Term deposits maturing within six months	**1,576,273**	**16,150**	**1,592,423**	1,706,138	15,919	1,722,057
Term deposits maturing between six to twelve months	**94,802**	**11,986**	**106,788**	81,371	10,240	91,611
Term deposits maturing after twelve months	**196,817**	**-**	**196,817**	60,171	122	60,293
Sub-total - term deposits having a denomination of $100,000 or more	**1,867,892**	**28,136**	**1,896,028**	1,847,680	26,281	1,873,961
Sub-total - term deposits	**1,953,607**	**28,136**	**1,981,743**	1,942,667	26,326	1,968,993
Total	**7,597,729**	**40,222**	**7,637,951**	7,266,772	126,466	7,393,238

By Type and Segment

	31 December 2013			31 December 2012		
	Payable on demand	**Payable on a fixed date**	**Total**	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	**2,532,572**	**1,018,417**	**3,550,989**	2,364,433	890,886	3,255,319
Banks	**494**	**1,036**	**1,530**	88,169	249	88,418
Cayman						
Customers	**1,677,092**	**394,338**	**2,071,430**	1,468,025	394,159	1,862,184
Banks	**10,627**	**27,100**	**37,727**	10,643	26,077	36,720
Guernsey						
Customers	**1,085,862**	**204,646**	**1,290,508**	1,073,711	296,255	1,369,966
Banks	**965**	**-**	**965**	1,281	-	1,281
The Bahamas						
Customers	**68,257**	**9,980**	**78,237**	65,587	4,413	70,000
United Kingdom						
Customers	**280,339**	**326,226**	**606,565**	352,349	356,954	709,303
Banks	**-**	**-**	**-**	47	-	47
Total Customers	**5,644,122**	**1,953,607**	**7,597,729**	5,324,105	1,942,667	7,266,772
Total Banks	**12,086**	**28,136**	**40,222**	100,140	26,326	126,466
Total	**5,656,208**	**1,981,743**	**7,637,951**	5,424,245	1,968,993	7,393,238

NOTE 12: EMPLOYEE FUTURE BENEFITS

The Bank maintains trusteed 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 2013 and 2012:

	31 December 2013		31 December 2012	
	Pension plans	Post-retirement medical benefit plan	Pension plans	Post-retirement medical benefit plan
Accumulated benefit obligation at end of year	160,762	-	163,106	-
Continuity of projected benefit obligation				
Opening projected benefit obligation	167,683	97,126	152,472	91,880
Service cost	1,553	930	1,687	944
Employee contributions	124	-	215	-
Interest cost	6,971	4,215	7,061	4,205
Benefits paid	(7,889)	(3,139)	(7,754)	(2,951)
Actuarial (gain) loss	(2,690)	(10,023)	10,696	3,048
Foreign exchange translation adjustment	1,717	-	3,306	-
Closing projected benefit obligation	167,469	89,109	167,683	97,126
Continuity of plan assets				
Opening fair value of plan assets	163,701	-	145,323	-
Actual return on plan assets	18,089	-	9,040	-
Employer contribution	10,070	3,139	13,439	2,951
Employee contributions	124	-	215	-
Benefits paid	(7,889)	(3,139)	(7,754)	(2,951)
Foreign exchange translation adjustment	2,317	-	3,438	-
Closing fair value of plan assets	186,412	-	163,701	-
Amounts recognised in the consolidated balance sheet consist of:				
Prepaid benefit cost included in other assets	18,943	-	2,027	-
Accrued pension benefit cost included in employee future benefits liability	-	(89,109)	(6,009)	(97,126)
Surplus (deficit) of plan assets over projected benefit obligation at measurement date	18,943	(89,109)	(3,982)	(97,126)
Amounts recognised in Accumulated Other Comprehensive Loss consist of:				
Net actuarial gain (loss), excluding deferred taxes	(36,384)	(14,904)	(49,261)	(27,169)
Past service credit	-	21,628	-	28,347
Deferred income taxes assets (liabilities)	768	-	2,470	-
Net amount recognised in Accumulated Other Comprehensive Loss	(35,616)	6,724	(46,791)	1,178

Effective 31 December 2011, the Bermuda defined benefit pension plan was amended to freeze credited service and final average earnings for remaining active members. The benefits amendment resulted in a further reduction in the Bermuda defined benefit pension liability of $1.8 million as at 31 July 2011. As a result, effective January 2012, all the participants of the Bermuda defined benefit pension plan are deemed inactive. In accordance with 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 deemed 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.

The following table presents the expense constituents of the Bank's defined benefit pension plans and the Bank's post-retirement medical benefit plan:

	For the year ended			
	31 December 2013		31 December 2012	
	Pension plans	Post-retirement medical benefit plan	Pension plans	Post-retirement medical benefit plan
Annual benefit expense				
Service cost	1,553	930	1,687	944
Interest cost	6,971	4,215	7,061	4,205
Expected return on plan assets	(9,076)	-	(8,145)	-
Amortisation of past service cost	-	(6,719)	-	(6,719)
Amortisation of net actuarial loss	1,695	2,242	1,366	2,074
Defined benefit expense	1,143	668	1,969	504
Defined contribution expense	6,042	-	5,593	-
Total benefit expense	7,185	668	7,562	504
Other changes recognised in Other Comprehensive Income (Loss)				
Net gain (loss) arising during the year	11,755	10,023	(9,864)	(3,048)
Amortisation of past service credit	-	(6,719)	-	(6,719)
Amortisation of net actuarial loss	1,644	2,242	1,366	2,074
Change in deferred taxes	(1,656)	-	955	-
Foreign exchange adjustment	636	-	63	-
Total changes recognised in Other Comprehensive Income (Loss)	12,379	5,546	(7,480)	(7,693)

The estimated portion of the net actuarial loss for the pension plans that will be amortised from AOCL into benefit expense over the 2014 fiscal year is $1.1 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 2014 fiscal year is $0.9 million for the net actuarial loss and a credit of $6.7 million for the past service credit.

	For the year ended			
	31 December 2013		31 December 2012	
	Pension plans	Post-retirement medical benefit plan	Pension plans	Post-retirement medical benefit plan
Actuarial assumptions used to determine annual benefit expense				
Weighted average discount rate	4.20%	4.40%	4.65%	4.60%
Weighted average rate of compensation increases[(1)]	3.85%	N/A	3.95%	N/A
Weighted average expected long-term rate of return on plan assets	5.65%	N/A	5.60%	N/A
Weighted average annual medical cost increase rate	N/A	7.5% 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	4.75%	5.10%	4.20%	4.40%
Weighted average rate of compensation increases	4.30%	N/A	1.80%	N/A
Weighted average annual medical cost increase rate	N/A	7.3% to 4.5% in 2027	N/A	7.5% to 4.5% in 2027

For 2013, 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 a $0.9 million increase (2012: $1.1 million increase) and a $0.8 million decrease (2012: $0.9 million), respectively, and on the benefit obligation a $14.1 million increase (2012: $19.1 million) and a $11.6 million decrease (2012: $15.3 million), respectively.

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 funds. 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.

Investment 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.

The weighted average actual and target asset allocations of the pension plans by asset category are as follows:

	31 December 2013		31 December 2012	
	Actual allocation	Target allocation	Actual allocation	Target allocation
Asset category				
Debt securities (including debt mutual funds)	41%	48%	48%	51%
Equity securities (including equity mutual funds)	59%	50%	50%	47%
Other	0%	2%	2%	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 2013 Fair value determination				31 December 2012 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	-	7,737	-	7,737	-	9,389	-	9,389
Corporate debt securities	-	54,036	-	54,036	-	57,491	-	57,491
Debt securities issued by non-US governments	-	14,978	-	14,978	-	12,232	-	12,232
Equity securities and mutual funds	12,807	96,228	109	109,144	10,830	70,282	-	81,112
Other	-	517	-	517	-	3,477	-	3,477
Total fair value of plans' assets	12,807	173,496	109	186,412	10,830	152,871	-	163,701

At 31 December 2013, 35.6% (2012: 32.9 %) 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 2013, 0.2% and 1.2% (2012: 0.2% and 1.4%) 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 2014 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 2014	4,885	3,298
Estimated benefit payments by year:		
2014	6,800	3,298
2015	7,200	3,530
2016	7,400	3,768
2017	7,500	4,002
2018	7,400	4,274
2019-2022	36,900	25,596

The projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets as at 31 December 2013 was $nil (31 December 2012: $137.8 million and $131.9 million).

NOTE 13: CREDIT-RELATED ARRANGEMENTS AND COMMITMENTS

Commitments

As at 31 December 2013, the Bank was committed to expenditures under contract for sourcing and leases of $52.6 million and $21.5 million, respectively (2012: $75.4 million and $24.7 million, respectively). Rental expense for premises leased on a long-term basis for the year ended 31 December 2013 amounted to $4.9 million (2012: $4.7 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
2014	18,928	5,025	2,325	26,278
2015	18,456	4,492	1,763	24,711
2016	15,169	3,537	80	18,786
2017	-	2,931	80	3,011
2018	-	2,753	40	2,793
2019 & thereafter	-	2,770	-	2,770
Total commitments	52,553	21,508	4,288	78,349

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 2013			31 December 2012		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	294,572	292,204	2,368	280,089	277,259	2,830
Letters of guarantee	12,391	9,088	3,303	11,207	8,694	2,513
Total	306,963	301,292	5,671	291,296	285,953	5,343

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 2013	31 December 2012
Commitments to extend credit	299,062	356,122
Documentary and commercial letters of credit	2,635	1,258
Total unfunded commitments to extend credit	301,697	357,380

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 2013, $149.2 million (31 December 2012: $137.0 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 not be material to the consolidated financial position of the Bank.

NOTE 14: INTEREST INCOME

Loans

The following table presents the components of loan interest income:

	For the year ended	
	31 December 2013	31 December 2012
Contractual interest earned on mortgages	**88,292**	88,263
Contractual interest earned on other loans	**95,689**	100,594
	183,981	188,857
Amortisation of fair value hedge	**(1,724)**	(2,578)
Amortisation of loan origination fees (net of amortised costs)	**4,785**	4,412
Total loan interest income	**187,042**	190,691
Balance of unamortised fair value hedge as at year-end	**(7,354)**	(9,078)
Balance of unamortised loan fees as at year-end	**7,380**	7,452

NOTE 15: SEGMENTED INFORMATION

At 31 December 2013, 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 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 telephone banking, mobile banking, Internet 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, automated teller machines ("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.

The Barbados segment was sold on 27 August 2012 as disclosed in "Note 3: Discontinued operations."

	31 December 2013	31 December 2012
Total Assets by Segment		
Bermuda	**4,624,281**	4,624,036
Cayman	**2,309,380**	2,116,520
Guernsey	**1,437,873**	1,522,429
Switzerland	**2,206**	1,521
The Bahamas	**91,758**	82,712
United Kingdom	**828,295**	925,389
Total assets from continuing operations	**9,293,793**	9,272,607
Less: inter-segment eliminations	**(422,978)**	(439,598)
Total	**8,870,815**	8,833,009

For the year ended 31 December 2013	Net interest income Customer	Inter-segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses and central allocations	Gains and losses	Net income
Bermuda	135,404	1,496	(12,708)	61,986	186,178	152,344	33,834	6,953	40,787
Cayman	50,809	1,172	(3,554)	32,175	80,602	54,674	25,928	(492)	25,436
Guernsey	19,805	3	(125)	19,678	39,361	31,945	7,416	(378)	7,038
Switzerland	1	-	-	1,747	1,748	2,418	(670)	-	(670)
The Bahamas	17	170	58	5,613	5,858	4,934	924	-	924
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)	128,583	337,567	266,156	71,411	6,264	77,675
Add / (deduct): inter-segment eliminations / transactions	-	-	-	(2,620)	(2,620)	(2,620)	-	485	485
Total from continuing operations	223,809	-	(14,825)	125,963	334,947	263,536	71,411	6,749	78,160

For the year ended 31 December 2012	Net interest income Customer	Inter-segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses and central allocations	Gains and losses	Net income
Bermuda	129,464	1,316	(6,372)	65,559	189,967	164,879	25,088	(12,974)	12,114
Cayman	43,413	1,220	(1,291)	30,940	74,282	54,829	19,453	4,497	23,950
Guernsey	21,618	(54)	(980)	20,005	40,589	30,810	9,779	(31)	9,748
Switzerland	1	-	-	1,442	1,443	2,464	(1,021)	-	(1,021)
The Bahamas	135	395	-	4,761	5,291	5,579	(288)	(2,018)	(2,306)
United Kingdom	17,074	(2,877)	(5,547)	8,177	16,827	24,565	(7,738)	(16,895)	(24,633)
Total before eliminations	211,705	-	(14,190)	130,884	328,399	283,126	45,273	(27,421)	17,852
Add / (deduct): inter-segment eliminations / transactions	-	-	-	(2,341)	(2,341)	(2,341)	-	109	109
Total from continuing operations	211,705	-	(14,190)	128,543	326,058	280,785	45,273	(27,312)	17,961

NOTE 16: ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

The Bank uses derivatives in the asset and liability management ("ALM") of positions and to meet the needs of its customers with their risk management objectives. The Bank's derivative contracts principally involve over-the-counter 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 statement 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 2013	Derivative instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk management derivatives					
Fair value hedges of fixed-rate loans	Interest rate swaps	-	-	-	-
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)

31 December 2012	Derivative instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk management derivatives					
Fair value hedges of fixed-rate loans	Interest rate swaps	8,529	-	(89)	(89)
Net investment hedges	Currency swaps	42,523	-	(116)	(116)
Derivatives not formally designated as hedging instruments	Currency swaps	301,161	113	(10,779)	(10,666)
Subtotal risk management derivatives		352,213	113	(10,984)	(10,871)
Client services derivatives	Spot and forward foreign exchange	2,444,357	14,312	(13,972)	340
Total derivative instruments		2,796,570	14,425	(24,956)	(10,531)

In addition to the above, foreign denominated deposits, totalling $nil at 31 December 2013 (31 December 2012: $133.6 million), were designated as a hedge of foreign exchange risk associated with the net investment in foreign operations.

The "net amounts" 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 2013	Gross amounts recognised	Gross amounts offset in consolidated balance sheet	Net amounts in consolidated balance sheet	Gross amounts not offset in consolidated balance sheet	Collateral pledged	Amounts net of collateral in consolidated balance sheet
Derivative assets						
Currency swaps and forward foreign exchange contracts	11,075	(3,362)	7,713	2,723	-	10,436
Derivative liabilities						
Currency swaps and forward foreign exchange contracts	4,217	(30,302)	(26,085)	(2,657)	19,210	(9,532)

31 December 2012	Gross amounts recognised	Gross amounts offset in consolidated balance sheet	Net amounts in consolidated balance sheet	Gross amounts not offset in consolidated balance sheet	Collateral pledged	Amounts net of collateral in consolidated balance sheet
Derivative assets						
Currency swaps and forward foreign exchange contracts	8,963	(982)	7,981	192	-	8,173
Derivative liabilities						
Currency swaps and forward foreign exchange contracts	2,932	(21,462)	(18,530)	(174)	8,185	(10,519)

The following table shows the location and amount of gains (losses) recorded in the consolidated statement of operations on derivatives outstanding as at 31 December 2013 and 2012.

Derivative instrument	Consolidated statement of operations line item	For the year ended 31 December 2013	31 December 2012
Interest rate swaps	Net other gains	**86**	-
Spot and forward foreign exchange	Foreign exchange revenue	**2,030**	1,823
Foreign currency options	Foreign exchange revenue	**-**	(852)
Total net gains recognised in net income		**2,116**	971

NOTE 17: 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 listed equity shares and 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 non-redeemable private equity shares, corporate bonds, 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 2013 Fair value				31 December 2012 Fair value			
	Level 1	**Level 2**	**Level 3**	**Total carrying amount / fair value**	Level 1	Level 2	Level 3	Total carrying amount / fair value
Financial assets								
Trading investments								
Debt securities issued by non-US governments	**-**	**3,546**	**-**	**3,546**	-	5,231	-	5,231
Mutual funds	**5,842**	**43,940**	**-**	**49,782**	5,337	51,217	-	56,554
Total trading	**5,842**	**47,486**	**-**	**53,328**	5,337	56,448	-	61,785
Available-for-sale investments								
Certificates of deposit	**-**	**84,571**	**-**	**84,571**	-	561,360	-	561,360
US government and federal agencies	**-**	**1,384,175**	**-**	**1,384,175**	-	1,178,786	-	1,178,786
Debt securities issued by non-US governments	**-**	**88,454**	**-**	**88,454**	-	90,042	-	90,042
Corporate debt securities guaranteed by non-US governments	**-**	**-**	**-**	**-**	-	32,026	-	32,026
Corporate debt securities	**-**	**378,809**	**-**	**378,809**	-	421,085	-	421,085
Asset-backed securities - Student loans	**-**	**71,882**	**11,297**	**83,179**	-	124,937	11,164	136,101
Commercial mortgage-backed securities	**-**	**142,889**	**-**	**142,889**	-	130,478	-	130,478
Residential mortgage-backed securities - Prime	**-**	**30,837**	**-**	**30,837**		-	-	-
Pass-through note	**-**	**-**	**34,007**	**34,007**	-	-	30,646	30,646
Equity securities	**-**	**-**	**-**	**-**	-	53	-	53
Total available-for-sale	**-**	**2,181,617**	**45,304**	**2,226,921**	-	2,538,767	41,810	2,580,577
Other assets - Derivatives	**-**	**11,246**	**-**	**11,246**	-	(8,481)	-	(8,481)
Other assets - Fund	**-**	**-**	**-**	**-**	-	-	4,397	4,397
Financial liabilities								
Other liabilities - Derivatives	**-**	**(29,552)**	**-**	**(29,552)**	-	(1,889)	-	(1,889)

There were no transfers between Level 1 and Level 2 during the years ended 31 December 2013 and 31 December 2012.

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 2013
Asset-backed securities - Student loans	Unadjusted third-party priced	11,297
Pass-through note	Unadjusted third-party priced	34,007

The valuation techniques used for the Level 3 assets as presented in the above 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 consists 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 determines the fair value of each underlying security within the PTN. The investment manager uses 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.

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 2013		31 December 2012	
	Available-for-sale investments	Closed ended fund	Available-for-sale investments	Closed ended fund
Carrying amount at beginning of year	41,810	4,397	38,155	6,199
Purchases	-	-	-	-
Proceeds from sales, paydowns and maturities	(5,542)	(4,111)	(4,992)	(1,154)
Accretion recognised in net income	1,929	-	1,701	-
Realised and unrealised gains (losses) recognised in other comprehensive income	7,107	-	6,946	33
Foreign exchange translation adjustment	-	(286)	-	(681)
Carrying amount at end of year	45,304	-	41,810	4,397

Items that are recognised at fair value on a non-recurring basis

	31 December 2013 Fair value				31 December 2012 Fair value			
	Level 1	Level 2	Level 3	Total carrying amount / fair value	Level 1	Level 2	Level 3	Total carrying amount / fair value
Other real estate owned	-	27,407	-	27,407	-	34,360	-	34,360

The current carrying value of other real estate owned will be adjusted to fair value only when there is devaluation below cost.

Items other than those recognised at fair value on a recurring basis

		31 December 2013			31 December 2012		
	Level	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
Financial assets							
Cash and cash equivalents	Level 1	1,730,472	1,730,472	-	1,542,526	1,542,526	-
Short-term investments	Level 1	54,981	54,981	-	76,213	76,213	-
Investments held to maturity	Level 2	333,394	315,534	(17,860)	239,342	244,793	5,451
Loans, net of allowance for credit losses	Level 2	4,088,225	4,082,741	(5,484)	3,955,960	3,946,081	(9,879)
Financial liabilities							
Customer deposits							
Demand deposits	Level 2	5,644,122	5,644,122	-	5,324,105	5,324,105	-
Term deposits	Level 2	1,953,607	1,955,096	(1,489)	1,942,667	1,944,531	(1,864)
Deposits from banks	Level 2	40,222	40,222	-	126,466	126,466	-
Securities sold under agreement to repurchase	Level 2	25,535	25,543	(8)	109,021	109,021	-
Subordinated capital	Level 2	207,000	203,521	3,479	260,000	254,127	5,873

All of the held-to-maturity securities held by the Bank as at 31 December 2013 and 31 December 2012 are classified as Level 2 of the fair value hierarchy.

NOTE 18: INTEREST RATE RISK

The following table sets 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 this table 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 2013	Earlier of contractual maturity or repricing date						
(in $ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash and deposits with banks	1,483	-	-	-	-	247	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	5,455	315	55	634	1,661	751	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	(727)	46	(68)	349	1,661	(1,261)	-
Cumulative interest rate sensitivity gap	(727)	(681)	(749)	(400)	1,261	-	-

31 December 2012	Earlier of contractual maturity or repricing date						
(in $ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash and deposits with banks	1,326	-	-	-	-	217	1,543
Short-term investments	64	8	4	-	-	-	76
Investments	673	314	43	559	1,236	57	2,882
Loans	3,490	180	41	100	94	51	3,956
Other assets	-	-	-	-	-	376	376
Total assets	5,553	502	88	659	1,330	701	8,833
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	857	857
Demand deposits	4,505	-	-	-	-	919	5,424
Term deposits	1,576	204	108	81	-	-	1,969
Securities sold under agreement to repurchase	109	-	-	-	-	-	109
Other liabilities	-	-	-	-	-	214	214
Subordinated capital	90	100	-	45	25	-	260
Total liabilities and shareholders' equity	6,280	304	108	126	25	1,990	8,833
Interest rate swaps	8	-	(8)	-	-	-	-
Interest rate sensitivity gap	(719)	198	(28)	533	1,305	(1,289)	-
Cumulative interest rate sensitivity gap	(719)	(521)	(549)	(16)	1,289	-	-

NOTE 19: 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 2 April 2004, in conjunction with the acquisition of Leopold Joseph, the Bank assumed a subordinated debt of £5 million. The issuance was by way of private placement in the United Kingdom and paid a fixed coupon of 9.29% until February 2012 when it became redeemable in whole at the option of the Bank and 10.29% thereafter until February 2017. During February 2012, the Bank exercised its option to redeem the United Kingdom note outstanding at face value.

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.

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 2013 and 2012.

The following table presents the contractual maturity and interest payments for subordinated capital issued by the Bank as at 31 December 2013. The interest payments are calculated until contractual maturity using the current LIBOR rates.

Subordinated capital	Earliest date redeemable	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**	**1,056**	**3,693**	**-**
2005 issuance - Series A	2-Jul-2010	2-Jul-2015	4.81%	3 months US$ LIBOR + 1.095%	**90,000**	**1,207**	**903**	**-**
2005 issuance - Series B	2-Jul-2015	2-Jul-2020	5.11%	3 months US$ LIBOR + 1.695%	**45,000**	**2,300**	**5,143**	**1,529**
2008 issuance - Series B	27-May-2018	27-May-2023	8.44%	3 months US$ LIBOR + 4.929%	**25,000**	**2,110**	**8,037**	**5,820**
Total					**207,000**	**6,673**	**17,776**	**7,349**

NOTE 20: 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 2013	31 December 2012
Basic earnings per share[1]	**0.11**	0.01
Basic earnings per share from continuing operations	**0.11**	-
Basic earnings per share from discontinued operations	**-**	0.01
Net income from continuing operations	**78,160**	17,961
Less: Preferred dividends declared and guarantee fee	**(16,990)**	(18,000)
Less: Premium on preferred share buyback	**(2,756)**	(967)
Net income from continuing operations attributable to common shareholders	**58,414**	(1,006)
Net income from discontinued operations	**-**	7,620
Net income attributable to common shareholders	**58,414**	6,614
Weighted average number of common shares issued	**556,933**	556,933
Weighted average number of common shares held as treasury stock	**(7,567)**	(2,515)
Adjusted weighted average number of common shares (in thousands)	**549,366**	554,418
Diluted earnings per share[1]	**0.11**	0.01
Diluted earnings per share from continuing operations	**0.11**	-
Diluted earnings per share from discontinued operations	**-**	0.01
Net (loss) income attributable to common shareholders	**58,414**	(1,006)
Net income from discontinued operations	**-**	7,620
Net income attributable to common shareholders	**58,414**	6,614
Adjusted weighted average number of common shares issued	**549,366**	554,418
Weighted average number of dilutive share-based awards	**4,205**	1,939
Adjusted weighted average number of diluted common shares	**553,571**	556,357

[1] Due to rounding, earnings per share on continuing and discontinued operations may not sum to earnings per share amount on net income

The contingent value convertible preference 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 2013, weighted-average options to purchase 31.8 million (31 December 2012: 33.3 million) shares of common stock (see Note 21), were outstanding. Only options where the option's expense that will be recognised in the future and its exercise price 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. The dilution effect of such options is a net increase of 1.2 million of the weighted-average number of common shares outstanding on a fully diluted basis. The awards' yet unrecognised expense is considered to be the proceeds the employees would need to pay to purchase accelerated vesting of the awards.

During the year ended 31 December 2013, the weighted-average number of outstanding awards of unvested common shares (see Note 21) was 8.6 million (31 December 2012: 7.2 million). All unvested awards of common shares were considered dilutive because each award's unrecognised expense was lower than the average market price of the Bank's common stock. The awards' unrecognised expense is 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 shares at the average market price. The weighted-average number of outstanding awards net of the assumed weighted-average number of 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 $3.51 (31 December 2012: $3.61) for 4.28 million shares of common stock (31 December 2012: 4.15 million) were not included in the computation of earnings per share for the years ended 31 December 2013 and 2012 because the exercise price was greater than the average market price of the Bank's common stock.

NOTE 21: SHARE-BASED PAYMENTS

As at 31 December 2013, the Bank has three share-based compensation plans, which are described below.

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. Two types of vesting conditions upon which the options will be awarded comprise the 2010 Stock Option Plan, i.e.:

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, subject to the option holder's continued employment with the Bank.

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 transfers 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. The Bank determined that at 31 December 2013 the performance options granted have an aggregate fair value of $9.5 million (2012: $9.6 million). If the probability of a valuation event becomes more likely than not, some or all of the $9.5 million unrecognised expense relating to the performance options will be recognised as an expense.

The table below presents the weighted average fair value of stock options granted:

	Time vested options	Performance options
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
Weighted average fair value of stock options granted in the year ended 31 December 2010	$0.62	$0.66

The table below presents the number of shares transferable upon exercise of the options outstanding:

For the year ended 31 December 2013

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

For the year ended 31 December 2012

	Number of shares transferable upon exercise (thousands)			Weighted average exercise price ($)		Weighted average remaining life (years)		
	1997 Stock Option Plan	2010 Stock Option Plan	Total	1997 Stock Option Plan	2010 Stock Option Plan	1997 Stock Option Plan	2010 Stock Option Plan	Aggregate intrinsic value ($ thousands)
Outstanding at beginning of year	5,269	28,363	33,632	12.75	1.22			-
Granted	-	3,100	3,100		1.25			-
Exercised		(5)	(5)					-
Forfeited / cancelled	(543)	(2,062)	(2,605)	13.82	1.21			-
Resignation / Retirement / Redundancy	-	(646)	(646)	-	1.21			-
Expiration at end of plan life	(149)	-	(149)	6.87				-
Outstanding at the end of the year	4,577	28,750	33,327	12.81	1.22	3.98	7.64	1,245
Vested and exercisable at the end of the year	4,577	3,598	8,175	12.81	1.21	3.98	7.37	

Employee Deferred Incentive Plan ("EDIP")

Under the Bank's EDIP, 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, subject to the employee's continued employment with the Bank.
The table below presents the number of shares transferable upon vesting of the shares:

	For the year ended	
	31 December 2013	31 December 2012
	Number of shares transferable upon vesting (thousands)	Number of shares transferable upon vesting (thousands)
Outstanding at beginning of year	**1,976**	1,276
Granted	**1,367**	1,554
Vested	**(755)**	(477)
Forfeited / cancelled	**(8)**	(377)
Resignation / Retirement / Redundancy	**(397)**	-
Outstanding at the end of the year	**2,183**	1,976

2011 and 2012 Executive Long-Term Incentive Share Plan ("ELTIP")

Under the Bank's ELTIP, shares were awarded to Bank employees and executive management based on predetermined vesting conditions. Two types of vesting conditions upon which the shares will be awarded comprise the ELTIP:

Time Vesting Condition

50% of each share award is granted in the form of time vested shares, vesting equally over a three-year period from the effective grant date, subject to the employee's continued employment; and

Performance Vesting Condition

50% of each share award is granted in the form of performance shares, vesting upon the achievement of certain performance targets in the three-year period from the effective grant date.

2013 Executive Long-Term Incentive Share Plan ("2013 ELTIP")

Under the Bank's 2013 ELTIP, performance shares were awarded to executive management. These shares will vest upon the achievement of certain performance targets in the three-year period from the effective grant date.

The Board of Directors approved the 2013 Employee Deferred Incentive Plan and the 2013 Executive Long-Term Incentive Share Plan on 26 February 2013.

The table below presents the number of shares transferable upon vesting of the shares:

	For the year ended	
	31 December 2013	31 December 2012
	Number of shares transferable upon vesting (thousands)	Number of shares transferable upon vesting (thousands)
Outstanding at beginning of year	**5,231**	2,515
Granted	**3,520**	4,056
Vested	**(900)**	(928)
Forfeited / cancelled	**(1,110)**	(412)
Resignation / Retirement / Redundancy	**(300)**	-
Outstanding at the end of the year	**6,441**	5,231

The following table presents the share-based compensation cost that has been charged against net income and the value of share-based settlements.

	For the year ended					
	31 December 2013			31 December 2012		
	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 - continuing operations	**1,486**	**4,861**	**6,347**	1,398	3,723	5,121
Awards granted in year 2010 and after - discontinued operations	**-**	**-**	**-**	-	63	63
Total share-based compensation	**1,486**	**4,861**	**6,347**	1,398	3,786	5,184
Share-based settlement plans						
Directors' shares and retainers settlement plan			**173**			293
Total share-based payments			**6,520**			5,477

The following table presents the unrecognised expense attributable to each plan.

	As at	
Unrecognised expense	**31 December 2013**	31 December 2012
2010 Stock Option Plan		
Time vesting options	**1,826**	3,665
Performance vesting options	**9,479**	9,608
EDIP	**1,614**	1,557
2011, 2012, 2013 ELTIP		
Time vesting shares	**727**	1,914
Performance vesting shares	**3,978**	2,358
Total unrecognised expense	**17,624**	19,102

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 22: 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 repurchased and cancelled by the Bank.

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. 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.

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

	2013	2012	Total
Acquired number of shares (to the nearest 1)	**4,038,482**	7,260,051	11,298,533
Average cost per common share	**1.39**	1.24	1.29
Total cost (in Bermuda dollars)	**5,610,907**	8,999,061	14,609,968

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.

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

	2013	2012	Total
Acquired number of shares (to the nearest 1)	**11,972**	4,422	16,394
Average cost per preference share	**1,230.26**	1,218.40	1,227.06
Total cost (in Bermuda dollars)	**14,728,624**	5,387,777	20,116,401

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.

NOTE 23: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The table below presents the changes in Accumulated Other Comprehensive Income (Loss) ("AOCL") by component for the year ended:

			Employee future benefits			
31 December 2013	**Unrealised losses on translation of net investment in foreign operations**	**Unrealised gains (losses) on available-for-sale investments**	**Pension**	**Post-retirement healthcare**	**Subtotal - employee future benefits**	**Total AOCL**
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)**

31 December 2012	Unrealised losses on translation of net investment in foreign operations	Unrealised gains (losses) on available-for-sale investments	Employee future benefits: Pension	Employee future benefits: Post-retirement healthcare	Employee future benefits: Subtotal - employee future benefits	Total AOCL
Balance at beginning of year	(11,321)	1,663	(40,515)	8,871	(31,644)	(41,302)
Other comprehensive income (loss), net of taxes	834	43,118	(7,480)	(7,693)	(15,173)	28,779
Balance at end of year	(10,487)	44,781	(47,995)	1,178	(46,817)	(12,523)

The net change in each component of AOCL is as follows:

	Line item in the consolidated statement of operations, if any	For the year ended 31 December 2013	For the year ended 31 December 2012
Net unrealised (loss) gains on translation of net investment in foreign operations adjustments			
Foreign currency translation adjustments		**5,963**	9,957
Net investment hedge gains (losses)	N/A	**(3,108)**	(9,123)
Net change		**2,855**	834
Available-for-sale investment adjustments			
Gross unrealised gains (losses) arising during the year		**(84,139)**	39,427
Reclassification of realised gains (losses) to net income	Net realised gains on available-for-sale investments	**(61)**	2,028
Foreign currency translation adjustments of related balances	N/A	**(717)**	1,663
Net change		**(84,917)**	43,118
Employee future benefits adjustments			
Net actuarial gain (loss) arising during the year on defined benefit pension	N/A	**11,755**	(9,864)
Net actuarial gain (loss) arising during the year on post-retirement medical benefits	N/A	**10,023**	(3,048)
Amortisation of actuarial gains (losses) on defined benefit pension	Salaries and other employee benefits	**1,644**	1,366
Amortisation of prior period service credit on post-retirement medical benefits	Salaries and other employee benefits	**(6,719)**	(6,719)
Amortisation of actuarial gains (losses) on post-retirement medical benefits	Salaries and other employee benefits	**2,242**	2,074
Change in deferred taxes	N/A	**(1,656)**	955
Foreign currency translation adjustments of related balances	N/A	**636**	63
Net change		**17,925**	(15,173)
Other comprehensive income (loss)		**(64,137)**	28,779

NOTE 24: CAPITAL STRUCTURE

Authorised Capital

The Bank's total authorised share capital as of 31 December 2013 and 2012 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 22: 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, 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 $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 4,150,774 warrants with an exercise price of $3.61 as at 31 December 2013.

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 contingent value convertible preference ("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 is explained in detail in the prospectus of the rights offering.

Dividend Declared

During the year ended 31 December 2013, the Bank declared cash dividends totalling $0.07 (2012: nil) for each common share and contingent value convertible preference share on record as of the related record dates. During the years ended 31 December 2013 and 2012, 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 Bermuda Monetary Authority 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.

The Bank is fully compliant with all regulatory capital requirements and maintains capital ratios in excess of regulatory minimums as at 31 December 2013 and 31 December 2012. The following table sets forth the Bank's capital adequacy in accordance with Basel II framework:

	31 December 2013	31 December 2012
Capital		
Tier 1 capital	**823,577**	792,266
Tier 2 capital	**169,221**	244,225
Deductions	-	(2,935)
Total capital	**992,798**	1,033,556
Weighted Risk Assets		
Total weighted risk assets	**4,197,744**	4,275,055
Capital Ratios (%)		
Tier 1 common	**15.2%**	14.0%
Tier 1 Total	**19.6%**	18.5%
Total capital	**23.7%**	24.2%

NOTE 25: INVESTMENT IN AFFILIATES

On 5 April 2012, the Bank sold its 27.76% interest in Island Heritage Holdings Ltd., a Cayman-based insurance company, to BF&M Limited. The sale was completed in the second quarter of 2012 with gross proceeds on the sale of $18.5 million, resulting in a gain of $4.2 million.

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 affiliate as the decline in fair value of the investment was considered other than temporary.

NOTE 26: VARIABLE INTEREST ENTITIES

The Bank had no investments in variable interest entities for which it was deemed the primary beneficiary for the years ended 31 December 2013 and 2012.

The Bank has equitable mortgages in two hospitality-related companies that have been placed under receivership, and as the Bank is an equity holder at risk, the hospitality-related companies were considered to be variable interest entities. As the Bank did not have the legal power to direct the activities of the companies that most significantly impact the company's economic performance, it was considered not to be the primary beneficiary.

NOTE 27: 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, Barbados (prior to disposal) and Switzerland are subject to the tax laws of those jurisdictions.

For the years ended 31 December 2013 and 2012, the Bank did not record any unrecognised tax benefits or expenses and has no uncertain tax positions as at 31 December 2013 and 2012.

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 2013 and 2012. For the years ended 31 December 2013 and 2012, the Bank did not incur any interest or pay any penalties.

The components of income taxes attributable to the Bank's subsidiaries' operations were as follows:

	31 December 2013	31 December 2012
Income taxes in consolidated statement of operations		
Current tax expense	859	936
Deferred tax expense	32	4,954
Total tax expense	891	5,890

The reconciliation between the Bank's effective tax rate on income from continuing operations and the statutory tax rate is as follows:

	For the year ended			
	31 December 2013		31 December 2012	
	$	%	$	%
Income tax expense at Bermuda corporation tax rate of 0%	-	-	-	-
Income tax expense in international offices taxed at different rates	1,714	2	841	4
Change in valuation allowance	(1,116)	(1)	4,132	17
Prior year tax adjustments	587	1	900	4
Tax loss carried forward	-	-	-	-
Other - net	(294)	-	17	-
Income tax expense (benefit) at effective tax rate	891	2	5,890	25

	31 December 2013	31 December 2012
Deferred income tax asset		
Tax loss carried forward	4,173	5,818
Pension liability	201	615
Fixed assets	815	510
Allowance for compensated absence	10	10
Onerous leases	12	12
Other	-	(225)
Deferred income tax asset	5,211	6,740
Less: valuation allowance	(4,304)	(5,378)
Net deferred income tax assets	907	1,362
Deferred income tax liability		
Other	(5)	-
Net deferred income tax asset	902	1,362

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 three-year period ended 31 December 2012. 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 2013, a valuation allowance of $4.3 million (2012: $5.4 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.

Operating Loss and Tax Credit Carry Forward

The Bank has net taxable losses carry forwards related to the Bank's international operations of approximately $20 million, which have an indefinite life.

NOTE 28: RELATED PARTY TRANSACTIONS

Charitable Trust

The Bank historically has provided a loan facility to the Charitable Trust. During December 2012, the carrying value of the loan was repaid and subsequently the Charitable Trust was terminated.

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 2013 amount to $222.2 million (2012: $225.7 million) resulting in an interest rate benefit to employees of $5.7 million (2012: $6.2 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 2013, related party Director loan balances were $68.6 million (2012: $3.1 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 2013, $95 million was outstanding under this agreement. For the year ended 31 December 2013, $1.8 million of interest income has been recognised in the consolidated statement 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 facility agreement for a $225 million line of repurchase facility at market rates and terms with CIBC. At 31 December 2013, the repurchase agreement balance with CIBC was $25.5 million (2012: $nil).

Financial Instruments With Related Parties

At 31 December 2013, the Bank held $112.1 million (2012: $125.3 million) in cash and cash equivalents with CIBC. As at 31 December 2013 the Bank held forward foreign exchange contracts with CIBC with a notional amount of $317.1 million (2012: $318.6 million) with unrealised gains of $1.1 million (2012: gain of $0.7 million) and foreign currency swaps with a notional amount of $nil (2012: $89.4 million) with unrealised losses of $nil (2012: loss of $8.7 million).

Balance Sheet Management Advisory Agreement

From 1 October 2010, the Bank had retained Carlyle Investment Management LLC, an affiliated company of the Carlyle Group, to provide balance sheet management advisory services, including advisory services on valuation assignments. 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 to Alumina. The Carlyle Group holds a 15% interest in Alumina and as Alumina is not considered affiliated with the Carlyle Group, the related-party transaction ceased on the effective date.

NOTE 29: COMPARATIVE INFORMATION

Certain prior-year figures have been reclassified to conform to current year presentation. Cash and cash equivalents and deposits as at 31 December 2012 have been reduced by $109 million with a corresponding reduction in cash flows provided by financing activities.

NOTE 30: SUBSEQUENT EVENTS

On 2 January 2014, the Bank fully redeemed the 2005 issuance Series A subordinated debt for its nominal value of $90 million.

On 13 January 2014, the Bank reached an agreement in principle to acquire the trust and corporate services business of Legis Group, an independent financial services company based in Guernsey.

On 25 February 2014, the Board of Directors 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 28 March 2014 to shareholders of record on 14 March 2014.

The Bank has performed an evaluation of subsequent events through to 25 February 2014, 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 2013 was 4,127,901 shares. In addition, this group also has interests in 70 non-cumulative perpetual limited voting preference shares. As of 31 December 2013, Executive Officers also had interests in 14,600,000 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 2013 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 on 5 April 2015.

Save for the foregoing contract, and those arrangements described in Note 28 to the Bank's 31 December 2013 consolidated financial statements, there are no other contracts of significance subsisting during or at the end of the financial year ended 31 December 2013 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) and the Cayman Islands Stock Exchange (CSX), which are located at:

BERMUDA STOCK EXCHANGE

(Primary Listing)
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

CAYMAN ISLANDS STOCK EXCHANGE

(Secondary Listing)
Elizabethan Square, 4th Floor
P.O. Box 2408
George Town, Grand Cayman KY1-1105
Cayman Islands
Tel: (345) 945 6060
Fax: (345) 945 6061
www.csx.com.ky

SHARE DEALING SERVICE

Butterfield Securities (Bermuda) Limited
65 Front Street
Hamilton, HM 12
Bermuda
Tel: (441) 299 3972
Fax: (441) 292 9947
E-mail: info@butterfieldgroup.com

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.

REGISTRAR AND TRANSFER AGENT

Mitsubishi UFJ Fund Services
26 Burnaby Street
Hamilton, HM 11
Bermuda
Tel: (441) 299 3882
Fax: (441) 295 6759
E-mail: bntbshareholders@mitsubishiufjfundservices.com

MEDIA RELATIONS / PUBLICATION REQUESTS

Vice President, Communications, Brand & Public Affairs
Tel: (441) 299 1624
E-mail: mark.johnson@butterfieldgroup.com

INVESTOR RELATIONS

Executive Vice President, Chief Financial Officer
Tel: (441) 298 4758
E-mail: john.maragliano@butterfieldgroup.com

WRITTEN NOTICE OF SHARE REPURCHASE PROGRAMME — BSX REGULATION 6.38

Common Share Buy-Back Programme: The Board of Directors approved the 2012 common share buy-back programme on 1 May 2012 with up to 6 million common shares authorised to be acquired. 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 from 10 million to 15 million.

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 from 15,000 to 26,600.

During 2013, the Bank repurchased 4,038,482 common shares to be held as treasury shares at a cost of $5.6 million, and 11,972 preference shares, which were subsequently cancelled, at a cost of $14.7 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.

In addition, and separate to the above, the Bank's Stock Option Trust may from time to time purchase shares of the Bank through the BSX to satisfy the Bank's obligations with respect to the Stock Option Plan. No shares were purchased this way in the 12 months to 31 December 2013.

The Bank will continue to advise the BSX monthly of shares repurchased and cancelled by the Bank and shares purchased by the Bank's Stock Option Trust.

LARGE SHAREHOLDERS

As at 31 December 2013, the following were registered holders of 5% or more of the issued share capital:*

Carlyle Global Financial Services Partners LP, 19.38%
Canadian Imperial Bank of Commerce, 18.85%
Wellcome Trust Investments, 6.89%
Ithan Creek Master Investor (Cayman) LP, 6.79%
Rosebowl Western, 6.79%

**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
E-mail: info@butterfieldgroup.com

Butterfield Securities (Bermuda) Limited
Brokerage Services
65 Front Street
Hamilton, HM 12
Bermuda
Tel: (441) 299 3972
Fax: (441) 292 9947
E-mail: info@butterfieldgroup.com

Butterfield Trust (Bermuda) Limited
Grosvenor Trust Company Limited
Trust & Fiduciary Services
Managing Director: Martin Pollock
65 Front Street
Hamilton, HM 12
Bermuda
Tel: (441) 299 3980
Fax: (441) 292 1258
E-mail: info@butterfieldgroup.com

THE BAHAMAS

Butterfield Trust (Bahamas) Limited
Trust & Fiduciary Services
Managing Director: Julien Martel
3rd Floor, Montague Sterling Centre,
East Bay Street
P.O. Box N-3242
Nassau, N.P.
The Bahamas
Tel: (242) 393 8622
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
Trust & Fiduciary Services
Managing Director: Brian Balleine
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands
Tel: (345) 949 7055
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
P.O. Box 25
Regency Court
Glategny Esplanade
St Peter Port
Guernsey GY1 3AP
Channel Islands
Tel: (44) 1481 711 521
Fax: (44) 1481 714 533
E-mail: guernsey@butterfieldgroup.com

Butterfield Trust (Guernsey) Limited
Trust & Fiduciary Services
Managing Director: Paul Hodgson
P.O. Box 25
Regency Court
Glategny Esplanade
St Peter Port
Guernsey GY1 3AP
Channel Islands
Tel: (44) 1481 711 521
Fax: (44) 1481 728 665
E-mail: guernsey@butterfieldgroup.com

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
Managing Director: Raymond Sykes
99 Gresham Street
London, EC2V 7NG
United Kingdom
Tel: (44) 207 776 6700
Fax: (44) 207 776 6701
E-mail: info@uk.butterfieldgroup.com

MIX
Paper from responsible sources
FSC® C101537
www.fsc.org

Butterfield is committed to environmentally conscious printing. The following savings to our natural resources were realised in the printing of this Annual Report:

Energy: 8,611,804 BTUs
Trees: 12
Wastewater: 19,550 liters
Air Emissions: 510 kg
Solid Waste: 259 kg

Butterfield

The Bank of N.T. Butterfield & Son Limited
65 Front Street, Hamilton, Bermuda

www.butterfieldgroup.com