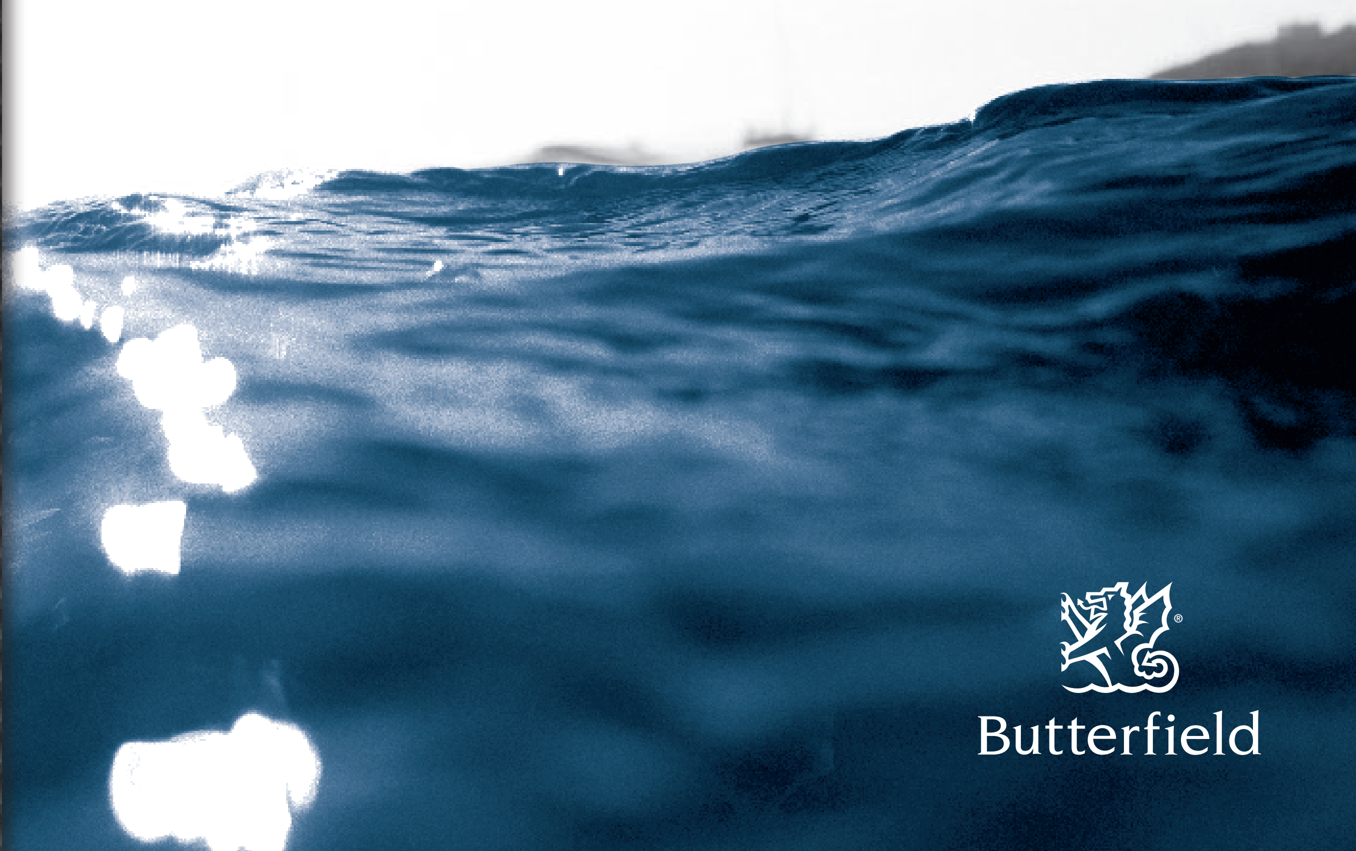
ANNUAL REPORT 2015 | THE BANK OF N.T. BUTTERFIELD & SON LIMITED

IN OUR ELEMENT.



BUTTERFIELD GROUP

- Community Banking
- Wealth Management
- UK Residential Property Lending

Assets: $10.3 billion
Employees: 1,141

2015 CORE EARNINGS
$113.9 MILLION
↑ 7.1%

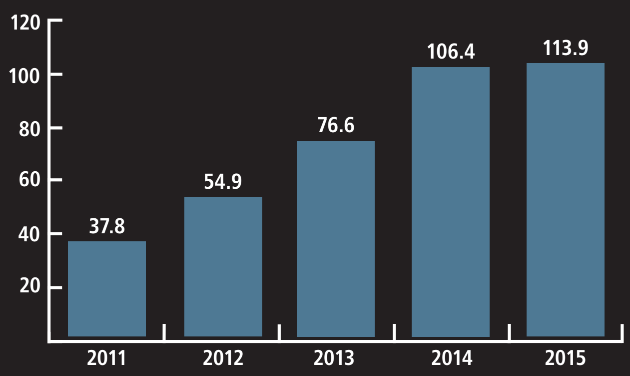
2015 NET INCOME
$77.7 MILLION
↓ 28.1%

2015 CORE CASH RETURN ON AVERAGE TANGIBLE COMMON EQUITY
18.4%
↑ 330 bps

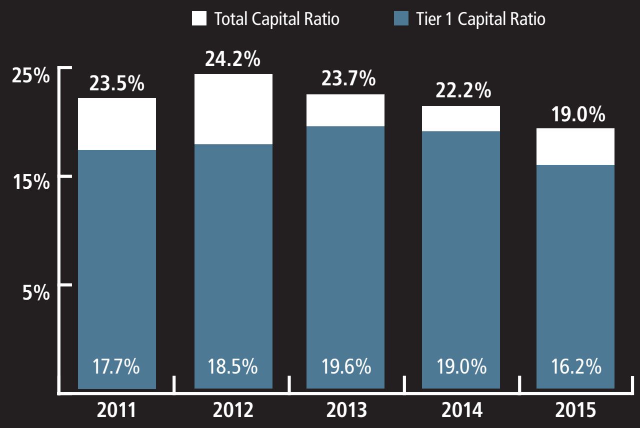
2015 CORE CASH EARNINGS PER SHARE (DILUTED)
$0.20
↑ 17.6%

2015 CORE EFFICIENCY RATIO
66.0%
170 bps IMPROVEMENT

CORE EARNINGS (IN $ MILLIONS)



CAPITAL



AWARDS

The Banker
Bank of the Year 2015
BERMUDA

The Banker
Bank of the Year 2015
CAYMAN ISLANDS

PWM / The Banker
Best Private Bank 2015
BERMUDA

Global Finance
Best Developed Market Bank 2015
BERMUDA

Global Finance
Best Private Bank 2015
BERMUDA

Euromoney
Private Banking Survey - Award for Services for Super Affluent Clients
CAYMAN ISLANDS

Euromoney
Private Banking Survey - Award for Succession Planning Advice & Trusts
GUERNSEY

STEP
Trust Company of the Year
INTERNATIONAL

Find out more at
www.butterfieldgroup.com

CHAIRMAN'S LETTER TO THE SHAREHOLDERS

Dear shareholders,

During 2015, Butterfield's overall financial and competitive position improved. The Bank's core businesses produced stable, healthy earnings, contributing to already-strong capital reserves and enabling us to make strategic changes that will enhance the Bank's capacity for sustainable growth.

With a view to returning value to our shareholders over the long term, your Board effected and oversaw changes in four key areas during the year: the Bank's ownership structure; governance structure; growth strategy; and business portfolio.

In May, Butterfield repurchased for cancellation the majority of Canadian Imperial Bank of Commerce's 19% ownership stake in Butterfield. 80 million common shares were purchased from CIBC and subsequently cancelled, with the balance of CIBC's shareholding taken up by the Carlyle Group and other shareholders. This reduced the number of Butterfield common shares outstanding by 14.0%, benefitting our remaining shareholders by increasing their percentage ownership in the Bank, which should serve to enhance future investment returns. This significant transaction contributed to a reduction of our Tier 1 capital ratio to 16.2% at year-end 2015, a decrease of 280 basis points from year-end 2014, but still comfortably in excess of regulatory minimums.

Concurrently with its full divestment in Butterfield, CIBC ceased to have rights to Board representation, and Shawn Beber resigned as a Butterfield Director. In other Board changes, Michael Collins joined as an Executive Director upon his appointment to the role of Chief Executive Officer at the end of July, and Brendan McDonagh, Executive Chairman, retired from the Bank and Board in October, whereupon I was honoured to take up the Chairmanship at the request of my fellow Directors.

Working closely with Michael and the executive management team, your Board authorised the restructuring of management within several key functions that was implemented subsequent to year end. The restructuring finalises the alignment of major functions and business lines to Group reporting structures, which will, in turn, foster improved communication within the organisation and enable the Bank to run more efficiently and respond more effectively to business opportunities and challenges.

The current dislocation in the international banking sector, which has seen several global banks exit our home markets, continues to present a significant opportunity for Butterfield. It is the view of your Board that the most efficacious path to enhancing value for shareholders is to build the Bank's presence in quality international jurisdictions in which we have expertise and a long history of success. Echoing the theme of this year's Annual Report, it is in those markets that Butterfield, as an independent financial institution, is "in its element" and enjoys competitive advantages.

The growth strategy for Butterfield will, therefore, centre on acquisitions of complementary businesses in markets where we can achieve economies of scale to drive strong returns. Previous acquisitions of trust and banking businesses to complement our existing operations in Guernsey and Cayman have proved accretive to earnings, and the agreement to acquire HSBC's private banking trust and investment management businesses in Bermuda—announced in October and anticipated to be completed during the second quarter of 2016—is expected to similarly benefit the Bank's bottom line going forward.

Subsequent to year end, Butterfield announced the orderly winding down of its deposit taking and investment management businesses in London, a highly competitive market segment in which the Bank does not have sufficient scale to generate strong returns. The closure of the UK bank will free up capital to be deployed to development of our other businesses and markets.

Maximising long-term returns for our shareholders requires striking an optimal balance between capital preservation, allocating funds to business investment initiatives, and rewarding shareholders more directly for their ownership in the Bank. Your Board declared dividends of $0.01 per common share and $20 per preference share from earnings in each quarter of 2015. The Board, however, decided to forego the declaration of a special dividend from annual earnings, opting to maintain a capital margin to fund future, opportune investments.

Outside of the CIBC share repurchase, under the Bank's buy-back programmes, Butterfield purchased for treasury 2.5 million common shares at a total cost of $4.9 million, and for cancellation, 183 preference shares at a cost of $0.2 million.

It is the view of your Board that, over time, the integration of acquired businesses, particularly wealth businesses that will generate steady, fee-based income to complement banking revenues, rising interest rates and improving economic conditions will enhance the growth and stability in the Bank's earnings, enabling us to progressively increase cash dividends.

On behalf of my fellow Directors, I thank the management and employees of Butterfield who have done an exceptional job running the Bank in a challenging regulatory and economic environment. Group wide, Butterfield is fortunate to have experienced, knowledgeable professionals on staff who dedicate their careers to meeting the needs of our clients and communities. I also extend my thanks to you, our shareholders, for your ongoing support.

Barclay Simmons

Barclay Simmons
Chairman of the Board

CHIEF EXECUTIVE OFFICER'S REPORT

Butterfield continued to execute its strategy in 2015, building wealth management through acquisitions, while growing community banking organically. We took decisive steps to address legacy management and structural issues, positioning the Bank to deliver an improved run rate in 2016 and beyond.

We had core earnings of $113.9 million for the year, an increase of 7.1% over 2014. Core cash earnings per share increased to $0.20 from $0.17, and core cash return on average tangible common equity improved 330 basis points to 18.4%. Butterfield's performance improved through acquisitions, organic growth, and cost initiatives, despite historically low interest rates and weak demand for loans in our key markets.

Following our wealth management acquisitions in Guernsey and Cayman, we announced the acquisition of HSBC's private banking trust and investment management businesses in Bermuda. In each of these transactions, we deployed capital in jurisdictions where we have scale and a deep understanding of the social and economic landscape.

We have shown a unique ability to identify, acquire, and integrate private trust companies, a sector in which Butterfield has excelled for over seven decades. Butterfield's trust and banking services have been tailored to meet the needs of family office clients, while our culture engenders a work environment that is conducive to hiring and retaining the best trust professionals in the industry. Butterfield has increased its trust and custody assets under administration to over $100 billion by developing and acquiring an ultra high net worth client base in Europe, Asia, and Latin America. We are able to retain these multi-generational family relationships by delivering exceptional service, management continuity, and fiduciary expertise.

"Butterfield continued to execute its strategy in 2015, building wealth management through acquisitions, while growing community banking organically."

Community banking in Bermuda and Cayman also grew during the year with a 6% increase in deposits, a result of gradually recovering economies and our drive to win market share. We will continue to invest in new products designed for the personal and corporate clients who live and work in these two high quality international financial centres. Our diverse client base ranges from local families who have banked with us for generations to global insurers, hedge funds, shipping enterprises, and biotech companies.

With the increase in deposits and limited lending opportunities, our investment portfolio grew by over $200 million. Net interest income was flat in 2015 as our margin declined by 26 basis points due to a restructuring of the portfolio, weighting it more heavily in shorter duration securities to take advantage of expected rate increases over the next few years.

Non-interest income improved to $140.2 million from $134.8 million in 2014. The increase was due primarily to higher demand for foreign exchange—another positive sign of economic stability—and improved trust revenue associated with the first full-year impact of the Legis trust business acquired in Guernsey in 2014.

Core non-interest operating expenses decreased by $2.0 million, improving our core efficiency ratio by 170 basis points to 66%. Expense reductions were achieved through tight control over headcount and a reduction in both property costs and consulting fees.

The Bank incurred non-core charges of $36.2 million, primarily in the fourth quarter, which reduced Butterfield's net income by the same amount. Recognising these losses in 2015 addresses legacy issues, including the wind down of our London bank, US tax compliance remediation, and severance associated with a senior management restructuring. We also incurred non-core charges related to the exploration of US stock exchange listing, which would provide access to capital for future trust and wealth management acquisitions. There will be some additional expenses associated with these projects, but taking these charges now allows us to execute our growth strategy, while providing greater predictability of earnings and an enhanced run rate going forward.

The performance of the loan portfolio improved with the net provision for credit losses in 2015 dropping to $5.7 million from $8.0 million the previous year, an encouraging indication of economic recovery in our credit markets. We continue to invest heavily in "know your client", anti-money laundering, and tax reporting technology and headcount to ensure that, as Butterfield employees, compliance is the most important thing we do every day.

After six years with Butterfield, it was my honour to be appointed Chief Executive Officer, and I am pleased to be part of a leadership team that is composed of financial professionals with extensive experience in their respective fields. In 2015, we welcomed Michael Schrum as our Chief Financial Officer and Beth Bauman as our Group Head of Human Resources. Together, the management team is focused on leveraging Butterfield's history, culture, and earnings capacity to become a leading independent bank and wealth manager in the highest quality jurisdictions.

Our success in serving clients and building our core businesses was recognised during the year with a number of industry accolades, including *The Banker's* Bank of the Year awards in Bermuda and Cayman, the third consecutive year we have received these awards. Butterfield was named Private Bank of the Year in Bermuda by both *PWM/The Banker* and *Global Finance* magazine. *Global Finance* also named Butterfield Best Bank in Bermuda in its annual listing of the world's best developed market banks. Additionally, Butterfield Trust was named Trust Company of the Year at the prestigious STEP Private Client Awards, underlining Butterfield's leading position in the global trust industry.

As in previous years, Butterfield was pleased to provide donations and support to worthy charities and events in the communities we serve, a complete listing of which is provided overleaf. We are proud to have been named an Official Supplier and the Official Bermuda Bank of the 2017 America's Cup, and to be a part of this prestigious event and its associated community and youth programmes.

In closing, I would like to thank our valued clients for their many years of business and all of my colleagues for their dedication to Butterfield.

Michael W. Collins

Michael Collins
Chief Executive Officer

COMMUNITY INVOLVEMENT

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

In 2015, Butterfield was pleased to provide support to the following organisations and events:

CULTURAL ORGANISATIONS & EVENTS

Alderney Performing Arts Festival of music and dance, featuring talented performers from near and far (Guernsey)

Bermuda Chamber of Commerce *Harbour Nights annual summer street festival* (Bermuda)

Bermuda Festival of the Performing Arts creating an international hub for cultural exchange and artistic growth by presenting a schedule of artistic performances that appeal to a wide and diverse audience (Bermuda)

Bermuda International Film Festival exhibiting a wide spectrum of foreign films with the hope that its programmes will entertain, enlighten and inspire film appreciation for all (Bermuda)

Bermuda National Trust *Christmas Walkabout in St. George* (Bermuda)

Cayman Arts Festival bringing varied and diverse performances to Cayman to help entertain and educate (Cayman Islands)

Cayman Drama Society promoting drama, music and allied arts, and producing dramatic and artistic entertainment (Cayman Islands)

Cayman International Film Festival promoting Cayman as a film-making destination and supporting Cayman's aspiring film makers (Cayman Islands)

Cayman National Cultural Foundation stimulating, facilitating and preserving cultural expression (Cayman Islands)

Cedarbridge Academy *sponsorship of "Annie" production* (Bermuda)

Guernsey Air Display annual air show (Guernsey)

Guernsey Concert Brass, *RGLI commemorative concert* (Guernsey)

Guernsey Eisteddfod annual music, drama, dance and art festival (Guernsey)

Guernsey Sinfonietta (Guernsey)

Junior Batabano student street parade (Cayman Islands)

La Vallette Project to restore storm-damaged and deteriorating historic bathing pools (Guernsey)

Liberation Day Celebrations marking the 70th anniversary of Guernsey's liberation from German occupation in WWII (Guernsey)

Masterworks Museum of Bermuda Art enriching the community through art and education (Bermuda)

National Children's Festival of the Arts *Butterfield Young Musician of the Year Award* (Cayman Islands)

National Gallery of the Cayman Islands promoting and encouraging the appreciation and practice of the visual arts of and in the Cayman Islands (Cayman Islands)

National Trust for the Cayman Islands protecting the future of Cayman's heritage (Cayman Islands)

Rocquaine Regatta community day (Guernsey)

St. James Concert and Assembly Hall (Guernsey)

TEDx Seven Mile Beach, an independently organised TED event devoted to sharing world-changing ideas (Cayman Islands)

Victor Hugo in Guernsey Festival celebrating Hugo's works written whilst in exile (Guernsey)

EDUCATION & INSTRUCTION

100 Women in Hedge Funds Gala supporting Literacy is For Everyone (LIFE) and its mission to significantly increase literacy levels across the Cayman Islands (Cayman Islands)

America's Cup Endeavour Youth Sailing Programme enabling students across Bermuda to learn more about sailing, science, technology, engineering, arts and math (Bermuda)

Bermuda Institute of Ocean Sciences *Risk Prediction Initiative* (Bermuda)

Butterfield Bursary Scheme awarded to Evie Offen and Elise Prince (Guernsey)

Butterfield Undergraduate Scholarship awarded to Leanni Tibbetts (Cayman Islands)

Cayman Islands Chamber of Commerce supporting business development across the Cayman Islands (Cayman Islands)

Cayman Islands Society of Professional Accountants promoting and preserving the accounting profession (Cayman Islands)

Central Caribbean Marine Institute creating a hopeful future for coral reefs (Cayman Islands)

CFA Society Institute promoting ethical and professional standards within the investment industry (Cayman Islands)

Community Driven Development programme of the Department of Human Affairs, strengthening skills, competencies and abilities of unemployed or underemployed women (Bermuda)

Delwood Middle School (Bermuda)

Duke of Edinburgh Awards, the world's leading youth awards, giving young people the opportunity to be the very best they can be (Bermuda)

Francis Patton Primary School (Bermuda)

Guernsey Music Centre *Winter Concert* and *Liberation Jazz Concert* (Guernsey)

Guernsey Youth & Community Theatre promoting, fostering and facilitating drama and theatre arts for young people and the wider community (Guernsey)

Jordan Prince Williams School *office procedures training* (The Bahamas)

Set Sail Trust providing opportunities for people to join in maritime activities and supporting educational initiatives for a cross section of the community (Guernsey)

Sir Harry D. Butterfield Scholarship awarded to Jade Robinson (Bermuda)

Sir Dudley A. Spurling Postgraduate Scholarship awarded to Brittany Hassell (Bermuda)

Summer Youth Outreach Educational Camp (The Bahamas)

Young Caymanian Leadership Awards working to keep the Island's youth on track by providing them with excellent role models with whom they can identify (Cayman Islands)

YouthNet, a school-based mentoring programme working to unlock the potential in Bermuda's youth (Bermuda)

SPORTS PROGRAMMES & SPORTING EVENTS

2017 America's Cup international sailing competition—*Official Supplier and Official Bermuda Bank* (Bermuda)

Atlantic to Mediterranean Charity Bike Ride benefitting the Bermuda Heart Foundation (Bermuda)

Bermuda Basketball Association, the governing body for basketball in Bermuda (Bermuda)

Butterfield Bermuda Grand Prix 2015 cycling event (Bermuda)

Cayman Islands Amateur Swimming Association dedicated to the promotion and development of all aquatic sports in the Cayman Islands (Cayman Islands)

Cayman Islands Equestrian Federation providing training, organising competitions and working to prevent equine abuse (Cayman Islands)

Cayman Islands Gymnastics Foundation providing scholarships to young gymnasts to further their development within the sport (Cayman Islands)

Cayman Islands Little League Association youth t-ball and baseball programme (Cayman Islands)

Cayman Islands National Squash Association, the governing body of squash in the Cayman Islands (Cayman Islands)

Cayman Islands Sailing Club providing youth sailing instruction (Cayman Islands)

Cayman Islands Tennis Federation promoting and supporting tennis in the Cayman Islands, with a focus on junior tennis (Cayman Islands)

Classic Channel Regatta biennial boating regatta (Guernsey)

Guernsey Sailing Trust enabling children from all walks of life to experience and enjoy sailing (Guernsey)

Insurance Managers Association of Cayman (Cayman Islands)

Island Games *team sponsorship* (Cayman Islands)

Kappa Classic Football Tournament showcasing the talents of young footballers aged seven to 12 (Bermuda)

Pilot Gig Club bringing rowing gig racing to Bermuda (Bermuda)

St. Patrick's Day 5K Irish Jog supporting Special Olympics Cayman Islands (Cayman Islands)

HEALTH & HUMAN SERVICES

Action for Children making life better for children and their families (Guernsey)

Active Guernsey helping local people with learning difficulties go on holidays or take part in leisure activities (Guernsey)

Age Concern enhancing the quality of life for older adults (Bermuda)

Age Concern Guernsey providing support and social events for elderly people (Guernsey)

Bahamas Association for Social Health managing a residential substance dependency treatment and rehabilitation programme (The Bahamas)

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

Bahamas Red Cross improving the lives of the most vulnerable — *Nepal earthquake appeal* (The Bahamas)

BBC Children in Need funding projects for disadvantaged youth (UK)

Beating Bowel Cancer, the support and campaigning charity for everyone affected by bowel cancer (UK)

Bermuda Cancer & Health providing early cancer detection, support and education services (Bermuda)

Bermuda Hospitals Board providing comprehensive diagnostic, treatment and rehabilitative services in response to Bermuda's full spectrum of medical and mental health needs (Bermuda)

Bermuda Red Cross helping vulnerable people within the community (Bermuda)

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

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

Broomfield Hospital providing a comprehensive range of acute and community-based services (UK)

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

Cat Cuddles promoting and strengthening the feline-human bond (UK)

Cayman AIDS Foundation improving the quality of life of persons infected and affected by HIV/AIDS (Cayman Islands)

Cayman's ARK supporting local families in crisis (Cayman Islands)

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

Cayman HospiceCare providing specialised nursing services and bereavement programmes (Cayman Islands)

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

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

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

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

Disasters Emergency Committee, an umbrella group comprising 13 UK charities associated with disaster-related issues—*Nepal earthquake appeal* (UK)

Family Centre strengthening families and support systems to create a healthier Bermuda for children (Bermuda)

Financial Services Cares *Bahamas Financial Services Board Hurricane Joaquin relief campaign* (The Bahamas)

Guernsey Cancer Support offering support to cancer patients, carers and family members (Guernsey)

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

Guernsey Velo Club *defibrillator for Delancey Park initiative* (Guernsey)

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

Hurricane Joaquin Food Supply Donation (The Bahamas)

International Association for Suicide Prevention dedicated to suicide prevention and to the alleviation of the effects of suicide (Cayman Islands)

KATKiDs dedicated to supporting projects that help children in Nepal, Southern Africa and Bermuda—*Nepal earthquake relief* (Bermuda)

Les Bourgs Hospice providing the highest levels of compassionate and professional care to patients suffering from life-limiting illnesses (Guernsey)

Lions Club of Tropical Gardens *breast cancer awareness programme* (Cayman Islands)

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

Meals On Wheels delivering meals to seniors (Cayman Islands)

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

Nazareth Centre providing residential care to abused, abandoned and neglected children (The Bahamas)

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

North Middlesex Hospital General Charitable Fund benefitting patients and staff at the North Middlesex University Hospital NHS Trust, providing equipment, educational aids, furniture and refurbishment works (UK)

Norwood Ravenswood supporting vulnerable children, families and people with learning disabilities (UK)

Parkinson's Society offering information, friendship and support to local people with Parkinson's (Guernsey)

Pathways Bermuda providing adults, adolescents and family members with professional addiction assessments, evaluations, outpatient services and access to treatment (Bermuda)

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

Rotaract Blue, an organisation of young people (aged 18 to 30) who are addressing needs of the community whilst promoting international understanding and peace through a framework of friendship and service (Cayman Islands)

Rotary Club of Grand Cayman community service club (Cayman Islands)

Rotary Club of Guernsey raising funds for community projects and local charities—*Saffery Champness Walk* (Guernsey)

The Rotary Club of South East Nassau raising funds for community projects and local charities (The Bahamas)

Royal Commonwealth Society committed to improving the lives and prospects of Commonwealth citizens across the world (Cayman Islands)

St Martin-in-the-Fields *Christmas Appeal* (UK)

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

Samaritans working to alleviate emotional distress and reduce the incidence of suicide feelings and suicidal behaviour (Guernsey)

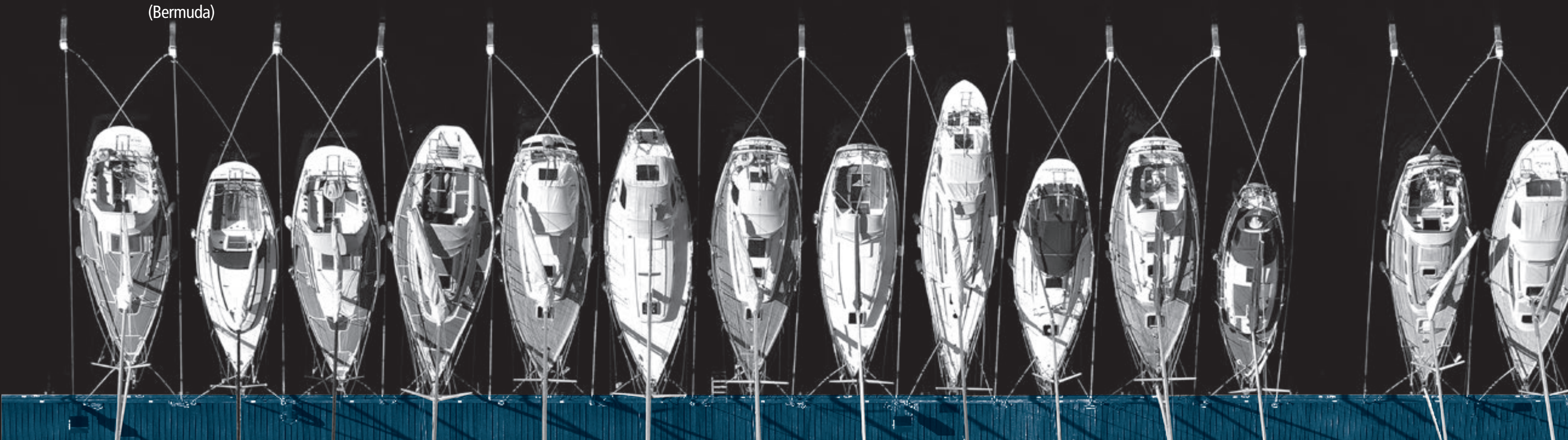
SCARS working to reduce the risk of child sexual abuse and advocating for children who have been sexually molested (Bermuda)

Sister Sister breast cancer support group (The Bahamas)

Sunshine League providing holistic and success-driven programmes and services for Bermuda's children and young people (Bermuda)

Teen Services/Teen Haven assisting in the empowerment of Bermuda's youth by promoting healthy development through ongoing education, counselling and support (Bermuda)

WindReach serving people with a wide range of physical and intellectual disabilities (Bermuda)



BOARD OF DIRECTORS & PRINCIPAL BOARD COMMITTEES

COMMITTEES INDICATED BY NUMBERS

1,3,5
CHAIRMAN
BARCLAY SIMMONS*
Chief Executive Officer
ASW Law Ltd.

1,2,4
ALASTAIR BARBOUR*
Retired Partner
KPMG

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

1
MICHAEL COLLINS
Chief Executive Officer
The Bank of N.T. Butterfield & Son Limited

1,2,4
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, Ltd.

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

3,4
JOHN WRIGHT*
Retired Chief Executive Officer
Clydesdale & Yorkshire Banks

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* and a *Director's Code of Conduct & Ethics* applies to employees and Directors, respectively, and impose Butterfield's principles of business, including ethics and conflicts of interest. Copies of the *Codes* can be accessed on www.butterfieldgroup.com.

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

GROUP EXECUTIVE COMMITTEE

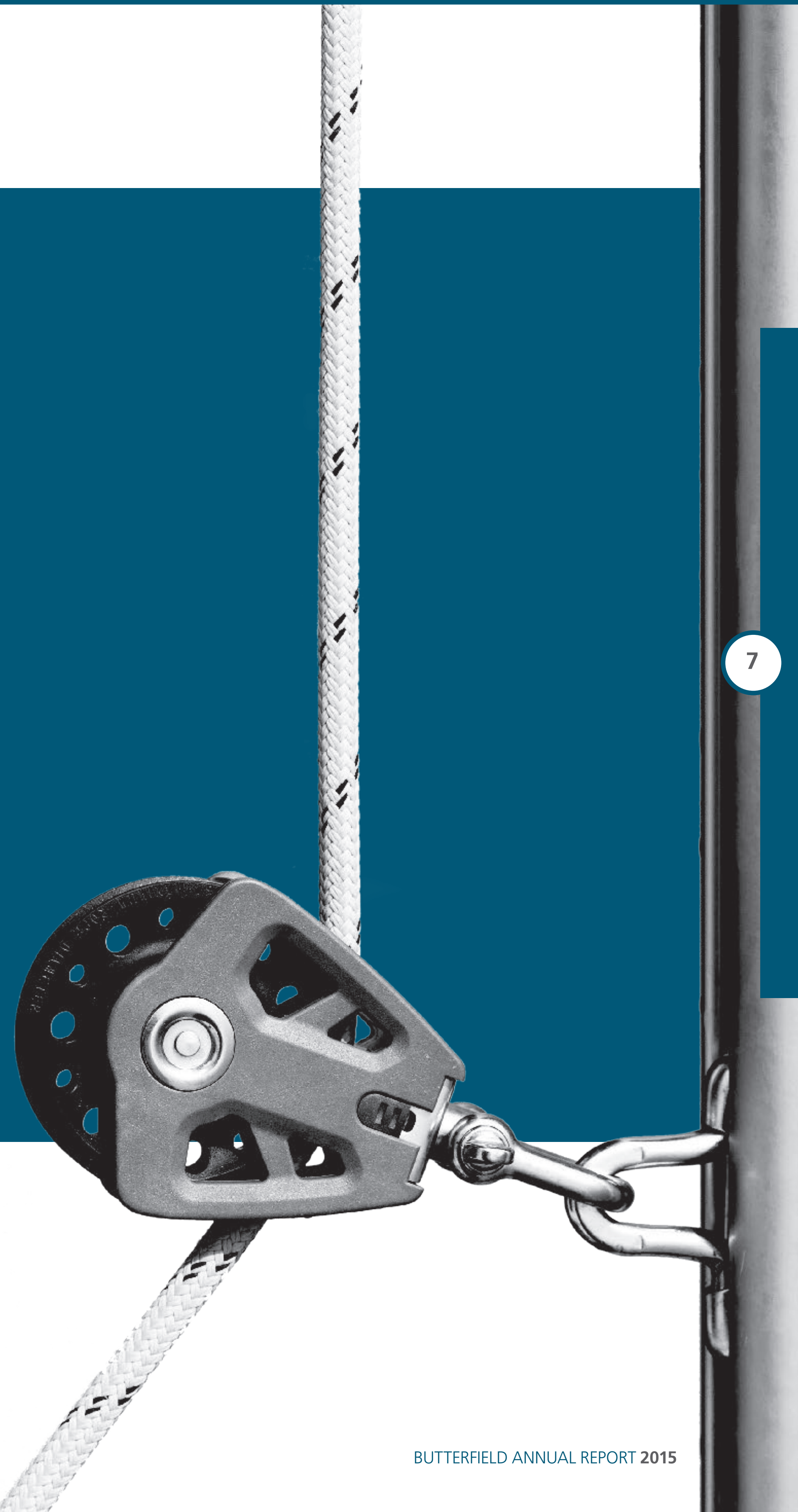
MICHAEL COLLINS
Chief Executive Officer

MICHAEL SCHRUM
Chief Financial Officer

DANIEL FRUMKIN
Group Chief Risk Officer

ELIZABETH BAUMAN
Group Head of Human Resources

SHAUN MORRIS
General Counsel, Group Chief Legal Officer



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

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

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

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

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

TE/TA is used to determine how significant of an unexpected loss can be incurred by the Bank before long-term debt 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 significant of an unexpected loss can be incurred by the Bank 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 14.46%. In effect, this means that 14.46% of the risk-weighted assets ("RWA") 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 RWA. RWA are the total of all assets held by the Bank weighted by credit risk 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.

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

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

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 due from banks, investments, loans and other interest earning assets minus the interest paid for deposits, short-term borrowings and long-term debt. The average interest earning assets is calculated using daily average balances of interest earning assets.

Efficiency Ratio

The efficiency ratio is an indicator used to assess operating efficiencies and demonstrates how efficiently management is controlling expenses relative to generating revenues. The efficiency ratio is calculated by taking the cash non-interest expenses as a percentage of total net revenue before provision for credit losses and other gains and losses and is 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 net revenue before provision for credit losses and other gains and losses and is calculated as (Core Non-Interest Expenses – Amortisation of Intangible Assets) / (Core Non-Interest Income + Core Net Interest Income Before Provision for Credit Losses). 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 service needs.

The wide range of products on offer is reflective of our strategy of pursuing opportunities in diversified businesses including community banking, private banking, asset management, custody, corporate trust and personal trust services. These diverse businesses directly contribute to the high level of fee income at 36.9% of net revenue before provision for credit losses and other gains or losses.

Building on our community banking and wealth management strategies will also leverage our strong and loyal client base. Unlike many banks, Butterfield is almost exclusively funded by our shareholders and customers. Our core customer deposits have been very stable even throughout the credit crisis. Our core deposit base includes $1.9 billion of non-interest earning deposits and together with $750.4 million of equity, the Bank can invest in longer duration assets and earn a higher yield on over $2.9 billion of assets with very low interest rate risk. This contribution reflects the strength of being a deposit-led organisation even in times of low interest rates.

Given the large, loyal customer deposit base enjoyed in our main jurisdictions, and the relatively low volume of lending demand from our customer base, our investment strategy is more important than is the case for most financial institutions. At 31 December 2015, we had $5.9 billion of cash and investment in securities representing 58% 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 investment strategy during the recent year was largely positioned to be reactive to an increase in the target range for the US Federal Funds rate, involving acquiring floating rate securities, which will be less reactive in price changes and more reactive in interest earning potential. During the fourth quarter, we repositioned the mix of our investments between available-for-sale ("AFS") and held-to-maturity ("HTM") in an effort to further reduce the volatility of our other comprehensive income. Simultaneous to this transfer, we also sold certain lower yielding US government and federal agency investments out of our AFS portfolio and acquired highly rated corporate debt securities issued by large US corporations which carry a higher investment yield. These strategies have resulted in an investment portfolio which is well positioned for a rising rate environment, whilst complying with our stringent credit safety requirements.

To support our strategy, the Bank aligns our management structure to focus on lines of business and central support services to improve consistency in our approach and delivery of products and services in each operating 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.

2015 OVERVIEW

In 2015, the Bank made solid progress in building value for shareholders, raising the core cash return on average tangible common equity to 18.4% and core cash EPS (diluted) to $0.20, up substantially from 15.1% and $0.17, respectively, in 2014. That progress was driven by a continued focus on prudent expansion within our core businesses and markets, and diligent management of capital, expenses and risks. The integration of accretive acquisitions completed in 2014 coupled with our ongoing diligence in the management of our balance sheet, has translated into the ability to effectively deploy capital, not only to the share repurchase programme and the payment of common dividends, but also to the one-off repurchase and retirement of 84 million common shares. Butterfield has also continued to investigate means to unlock value and provide liquidity to our shareholders. As a result of our focused strategy, Butterfield is building a reputable franchise, core earnings are stable and growing, and asset quality is strong.

Core earnings improved by $7.5 million to $113.9 million, building on our strong capital position with Total and Tier 1 capital ratios of 19.0% and 16.2%, respectively. To enhance common shareholder returns, the Board declared a fourth interim dividend of $0.01 per common share on 19 February 2016. 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 $750.4 million, of which $182.9 million is 8% preference shareholders' equity and $567.5 million is common shareholders' equity ("common equity".) Total assets increased by $0.4 billion to $10.3 billion, driven by a $0.5 billion increase in customer deposit levels reinvested in short-term investments and investments in securities which grew by $0.2 billion, in addition to $0.2 billion remaining in cash due from banks, further enhancing the Bank's overall liquidity. Shareholders' equity decreased by $99.0 million due mainly to the repurchase and cancellation in 2015 of 80 million shares held by CIBC for a total of $120 million and the repurchase and cancellation of four million shares held by two other shareholders for a total of $6 million, offset by net income earned during 2015 net of dividends to shareholders.

In October 2015, the Bank announced that it had reached an agreement to acquire Bermuda Trust Company Ltd. and the private banking investment management operations of HSBC Bank Bermuda Limited. HSBC Bank Bermuda Limited has also entered into an agreement to refer its existing private banking clients to the Bank. The transaction is expected to be completed in the first half of 2016.

In February 2016, the Bank announced the planned wind down of the deposit taking and investment management businesses in the UK. This wind down is expected to be completed by year-end 2016.

Key accomplishments in 2015 were as follows:

- **Core profitability:** The Bank delivered excellent growth in core net income, up $7.5 million (7.1%) to $113.9 million from $106.4 million in 2014.

- **Net interest margin:** While NIM decreased by 26 basis points to 248 basis points compared to 274 basis points in 2014, the cost of funding declined by 5 basis points to 21 basis points. The primary driver of the decrease in NIM was in investment portfolio yields due to an average decrease in the long-term yield of US treasuries, causing a decline in the yield of our investment portfolio by 19 basis points to 216 basis points.

- **Core expenses:** Core non-interest expenses decreased by $2.1 million, from $257.0 million in 2014, to $254.9 million in 2015 as a result of lower property costs and professional services costs, slightly offset by an increase in core salaries and benefits due to higher post-retirement healthcare costs. The core efficiency ratio improved from 67.7% in 2014 to 66.0% in 2015, reflecting the rate of revenue increase over the marginal decrease in expenses.

- **Headcount:** Across the Group, headcount on a full-time equivalency basis, excluding students, decreased slightly by 23 from 1,164 as at 31 December 2014 to 1,141 at the end of 2015 due to certain expired mandates in administered banking and trust services.

- **Deposits:** Customer deposits increased by $0.5 billion due to both organic deposit growth and additional take-on from the acquisition of HSBC Cayman deposits in November 2014, whilst interest bearing deposit costs decreased by 5 basis point from 31 basis points in 2014 to 26 basis points in 2015. Together with non-interest bearing deposits totalling $1.9 billion at 31 December 2015, the average cost of deposits decreased by 5 basis points to 21 basis points.

- **Loan quality:** As at 31 December 2015, the Bank had gross non-accrual loans of $65.3 million representing 1.6% of total gross loans, reflecting an improvement from the $71.8 million, or 1.8%, of total loans at year-end 2014. Net non-accrual loans were $46.1 million, equivalent to 1.2% of net loans, after specific provisions of $19.1 million, reflecting an improved specific provision coverage ratio of 29.3%, up from 26.2% at 31 December 2014.

- **Investment grade ratings:** Moody's at A3; Standard & Poor's at BBB; and Fitch at A-.

MARKET ENVIRONMENT

The global economy showed signs of recovery alongside indications of continued weakness, creating continued inconsistency and volatility across geographic regions. In the United States ("US"), the Federal Reserve increased its target rate range from zero to 0.25% to 0.25% to 0.50% in December. Meanwhile, the European Central Bank ("ECB") cut rates on overnight deposit facilities further during the fourth quarter to -0.30% and announced an expansion of its asset purchase programme by €360 billion (initially worth €1.2 trillion) in response to continued weakness across the European region.

In the US, the year saw increased market volatility, but with overarching indications of improvement. Inflationary measures began to turn the corner by the fourth quarter after weathering several months of price decreases caused by a wide-spread depression in commodity and natural resource prices. Continued strength in the job markets has been an often discussed point of strength for the US economy, with jobless rates at the lowest they have been since 2008. Forecasts are for inflation to rise to the target levels of 2.0% over the medium term due to these strong labour market indicators, as well as increases in household spending and business fixed investments. As a result of this, the US Federal Reserve announced the aforementioned first increase in their target range for federal funds since 2006.

Meanwhile, the Eurozone has weathered another difficult year with some signs of stabilisation. Continued negative deposit rates and large quantitative easing programmes by the ECB have been aimed at strengthening the weaker economies whilst bolstering growth in the stronger economies. The year saw a relapse in the Greek debt crisis, with the issue coming to a head in July with a new €86 billion bailout package being approved, which caused temporary shocks to the value of the Euro. Meanwhile in both the UK and Germany, domestic demand has taken hold as the main driver of economic growth amidst positive outlooks. Capital investment from the private sector has also been a sign of strength, which has continued to grow as a result of growing exports and continued low interest rates. The UK finished the year with Gross Domestic Product ("GDP") growth of 2.4%, down slightly from 2014's growth rate of just under 3% as a result of drag from the sluggish Eurozone recovery and capital market risks associated with downturns in Chinese and other emerging markets.

During the second half of 2015, the price of oil decreased significantly. The Bank does not have significant exposures to customers in the oil business and broadly views the price fall as beneficial to input factors, such as energy consumption costs for the Bank and its clients.

In Bermuda, we continued to face difficult trading conditions during 2015, with signs that the economy is on the road to recovery with continued growth in retail sales, construction expenditures and ultimately GDP. The latest economic indicators show a year-over-year increase on current account balances of $62 million to $224 million, driven by a variety of factors, which is positive news highlighting this growth potential. Bermuda got its first taste of the 2017 America's Cup while hosting the America's Cup World Series event in October. The weekend drove a 44% increase in tourism visitors to the island for the month of October 2015 relative to October 2014. Tourism continues to be a focus of the Bermudian domestic economy, and signs of strength include four hotels undergoing significant rebuilds or renovations, with planning approval being issued for two new hotel developments. Retail sales have shown positive signs for Bermuda with increases in customer confidence rising to the highest levels since 2007. However, the Bermuda economy still faces medium-term challenges from high unemployment and significant government debt. Overcoming these challenges is a key focus of the Bermuda Government and sustainable growth for the Bermudian economy will be driven largely by successful management over these two areas.

The Cayman Islands experienced GDP growth in 2015 of 1.7%, with strength noted in the real estate, renting and business services, construction and other services activity sectors. Tourist arrivals by air and cruise ship continued to record year-over-year improvements, but at a slower pace than previous years. The completion and opening of the new 265 room Kimpton Seafire Hotel in late 2016 will complement the island's tourist offering. The Owen Roberts International Airport expansion project is also underway, which, when completed in 2018, will provide a better overall travel experience for tourists, business visitors and residents alike. While several significant infrastructure projects have been deferred, the Cayman Islands Government continues to record growing surpluses and overall external debt reduction. The consumer price index showed a modest decrease in 2015 from its higher 2014 levels, with higher costs for education, clothing and communication offset by lower costs for transport, driven by lower fuel costs, miscellaneous goods and services and household equipment. While commercial credits saw declines in 2015, credits to households reported increases in domestic property, vehicle, education and technology loans, which plays to the Bank's strength in the Cayman Islands and is reflected in the growth of our domestic personal loan book.

The mixed economic climate in our two largest operations in 2015 resulted in limited loan demand and continued pressure on customers' ability to service loan payment obligations. Similarly, our private banking business in Europe experienced limited loan growth due to increased competition and pricing pressures.

The Bank continues to maintain a cautious stance with a highly liquid balance sheet with a low-risk investment portfolio and no reliance on wholesale money markets for liquidity. Total liquid cash and investments, excluding held-to-maturity investments, made up 50.8% of the Bank's balance sheet at year-end 2015, which is down slightly from 51.8% at the end of 2014.

2016 OUTLOOK

We remain moderately positive as the global economy for 2016 continues to recover in key areas from 2015. However, the ability of economic forecasters to accurately assess the economic future is challenged by inconsistent key economic indicators, which continue to contribute to volatile market conditions.

The US economy faces the challenge of short-term policy rates continuing to increase slightly over the forthcoming year. Current market forecasts have modest rate increases being made in 2016. The end of seven years of near zero federal rates will herald new challenges for the US economy. The S&P 500 faces continued pricing pressures as a result of an increased US dollar value relative to a basket of peers. Inflation will be limited due to the increase in the cost of credit. These factors will have a downside impact on both Bermuda and Cayman, but domestic factors in both nations will allow them to continue their GDP growth.

The UK will likely continue to grow its GDP as supported by continued growth in both consumer spending and business investments. However downward inflationary pressure will be felt in the UK as a result of continued sluggish growth in the remainder of Europe, and as a result, the Bank of England is not likely to match the US Federal Reserve's interest rate hike until later in 2016. Meanwhile, there are continued expectations that the UK will vote in a referendum on whether or not to remain in the European Union, a vote that could have significant repercussions on the UK economy's future. The remainder of Europe will likely gain strength from continued economic stimulus via large scale purchase programmes of European sovereign debt and negative deposit rates coupled with a weakened Euro. This strength however will have to overcome growth challenges from several Euro nations such as Spain and Italy, with continued challenges faced by the Greek government's austerity measures. The Euro will ultimately continue to remain threatened by sluggish growth, Euro scepticism about the continuity of the European Union and ultimately the currency itself.

Continued development in Bermuda's hotel sector, alongside increased consumer confidence, position Bermuda well for modest GDP growth in 2016. However this GDP growth will still have underlying issues caused by unemployment and the increased costs of servicing government debt. The expenditure on development of infrastructure in preparation for the 2017 America's Cup will stimulate demand and we expect modest GDP growth in Bermuda for 2016.

In the Cayman Islands, modest growth in GDP is expected in 2016 with continued strength in real estate activity, construction, road work and airport infrastructure projects. Additionally, unemployment is expected to register a slight improvement, though inflation pressures in categories not directly impacted by fuel costs will continue.

Our asset and liability management strategy focuses on net interest income at risk in various interest rate environments. We match our expected investment flows with maturities and expected deposit behaviour on the customer deposit side of the balance sheet, which neutralises the impact of changing interest rates in any given reporting period. These investments position us so we are not reliant on rising rates to achieve adequate profitability. However, as 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 2016, our strategy remains unchanged as we continue to focus our attention on the development of our core businesses, which we expect will drive revenue growth and improve our efficiency ratio as we maintain our focus on cost containment. The long-term success of our growing brand and franchise continues to be strongly dependent on our ability to provide service excellence in our core community banking markets and drive further shareholder value through expansion.

FINANCIAL SUMMARY

As at 31 December (in $ thousands, except per share data)	2015	2014	2013	2012	2011
Cash due from banks	**2,288,890**	2,063,311	1,730,472	1,542,526	1,902,726
Short-term investments	**409,482**	394,770	54,981	76,213	20,280
Investment in securities	**3,223,930**	2,989,111	2,613,643	2,881,704	2,061,639
Loans, net of allowance for credit losses	**4,000,155**	4,019,128	4,088,225	3,955,960	4,069,419
Premises, equipment and computer software	**183,378**	215,123	240,603	243,321	272,472
Goodwill and intangible assets	**51,131**	57,862	19,121	22,276	46,100
Total assets from continuing operations	**10,275,563**	9,858,440	8,870,815	8,833,009	8,517,306
Assets of discontinued operations	**-**	-	-	-	307,044
Total assets	**10,275,563**	9,858,440	8,870,815	8,833,009	8,824,350
Total deposits	**9,182,146**	8,671,577	7,637,951	7,393,238	7,256,561
Long-term debt	**117,000**	117,000	207,000	260,000	267,755
Shareholders' equity					
Preference shareholders' equity	**182,863**	183,046	183,606	195,578	200,000
Common and contingent value convertible preference shareholders' equity	**567,491**	666,328	618,955	661,596	629,725

For the year ended 31 December	2015	2014	2013	2012	2011
Interest income					
Loans	**186,486**	191,986	187,042	190,691	188,043
Investments	**69,578**	67,757	60,875	49,117	43,816
Deposits with banks	**6,517**	5,358	5,291	4,999	9,636
Interest expense	**(23,315)**	(26,614)	(29,399)	(33,102)	(39,246)
Net interest income before provision for credit losses	**239,266**	238,487	223,809	211,705	202,249
Non-interest income	**140,172**	134,830	125,963	128,543	132,349
Provision for credit losses	**(5,741)**	(8,048)	(14,825)	(14,190)	(13,169)
Salaries and other employee benefits	**(134,917)**	(129,761)	(131,064)	(137,433)	(145,136)
Other non-interest expenses (including income taxes)	**(151,604)**	(143,037)	(132,472)	(143,352)	(141,186)
Net income before other gains (losses)	**87,176**	92,471	71,411	45,273	35,107
Total other gains (losses)	**(9,437)**	15,688	(8,796)	(26,356)	11,249
Net income from continuing operations	**77,739**	108,159	62,615	18,917	46,356
Net income from discontinued operations	**-**	-	-	7,620	1,127
Net income	**77,739**	108,159	62,615	26,537	47,483
Non-core items	**36,201**	(1,756)	13,971	28,368	(9,279)
Core net income	**113,939**	106,403	76,586	54,905	37,772
Dividends and guarantee fee of preference shares	**(16,455)**	(16,546)	(16,990)	(18,000)	(21,270)
Amortisation of intangible assets	**4,424**	4,281	3,358	5,040	5,367
Core cash earnings to common shareholders	**101,908**	94,138	62,954	41,945	22,301
Common dividends paid	**(24,846)**	(27,440)	(38,531)	-	-

Financial ratios	2015	2014	2013	2012	2011
Core cash return on average tangible assets (1)	**1.2%**	1.2%	0.9%	0.7%	0.5%
Core cash return on average tangible common equity	**18.4%**	15.1%	10.3%	6.6%	3.8%
Return on common shareholders' equity	**10.1%**	13.7%	6.8%	1.1%	4.1%
Tier 1 capital ratio	**16.2%**	19.0%	19.6%	18.5%	17.7%
Total capital ratio	**19.0%**	22.2%	23.7%	24.2%	23.5%
Tangible common equity ratio	**5.1%**	6.2%	6.8%	7.3%	6.9%
Tangible total equity / tangible assets	**6.8%**	8.1%	8.9%	9.5%	9.3%
Net interest margin	**2.48%**	2.74%	2.64%	2.66%	2.42%
Efficiency ratio	**74.0%**	72.0%	74.1%	79.3%	84.1%
Core efficiency ratio	**66.0%**	67.7%	71.6%	78.4%	83.6%

Per participating share (1) ($)	2015	2014	2013	2012	2011
Net income (diluted)	**0.12**	0.16	0.08	0.01	0.04
Core cash earnings per share (diluted)	**0.20**	0.17	0.11	0.08	0.04
Cash dividends	**0.05**	0.05	0.07	-	-
Net book value	**1.22**	1.22	1.13	1.20	1.14
Tangible net book value	**1.11**	1.12	1.09	1.16	1.05

Number of employees (2)	2015	2014	2013	2012	2011
Bermuda	**529**	537	554	624	664
Overseas	**612**	627	579	607	606
Total	**1,141**	1,164	1,133	1,231	1,270

Other data	2015	2014	2013	2012	2011
Year-end number of participating shares	**463,692**	544,162	548,622	549,866	554,769
Weighted average number of participating shares on a fully diluted basis	**500,028**	556,482	553,571	556,357	555,605
Risk-weighted assets	**4,305,350**	4,113,404	4,197,744	4,275,055	4,425,639

(1) Includes both common and, for the years ended prior to 31 March 2015, contingent value convertible preference shareholders' equity. The contingent value convertible preference shareholders' equity was converted to common equity as of 31 March 2015.
(2) On a full-time equivalency basis and excluding students.

CONSOLIDATED RESULTS OF OPERATIONS AND DISCUSSION FOR FISCAL YEAR ENDED 31 DECEMBER 2015

Net Income

The Bank reported net income of $77.7 million for the year ended 31 December 2015, compared to $108.2 million in 2014, with the difference being largely driven by non-core gains (losses) and expenses, which increased $38.0 million year on year. After deduction of preference dividends and guarantee fees (2015: $16.5 million, 2014: $16.5 million) and the premium paid on preference share buy-backs (2015: nil, 2014: $0.1 million), the net income available to common shareholders was $61.2 million ($0.12 per share) in 2015 compared to $91.6 million ($0.16 per share) in 2014. Per share amounts were significantly augmented by the repurchase and cancellation of 84 million shares during the year ended 31 December 2015.

The following table states reported earnings for 2015 compared to 2014:

	Year ended 31 December			
(in $ millions)	**2015**	**2014**	**$ change**	**% change**
Non-interest income	**140.2**	134.8	5.4	4.0%
Net interest income before provision for credit losses	**239.3**	238.5	0.8	0.3%
Total net revenue before provision for credit losses and other gains (losses)	**379.5**	373.3	6.2	1.7%
Provision for credit losses	**(5.7)**	(8.0)	2.3	(28.8%)
Total other gains (losses)	**(9.5)**	15.7	(25.2)	(160.5%)
Total net revenue	**364.3**	381.0	(16.7)	(4.4%)
Non-interest expenses	**(285.3)**	(273.0)	(12.3)	4.5%
Net income before income taxes	**79.0**	108.0	(29.0)	(26.9%)
Income tax (expense) benefit	**(1.3)**	0.2	(1.5)	(750.0%)
Net income	**77.7**	108.2	(30.5)	(28.2%)
Dividends and guarantee fee of preference shares	**(16.5)**	(16.5)	-	-
Premium paid on preference shares bought back	**-**	(0.1)	0.1	(100.0%)
Net earnings attributable to common shareholders	**61.2**	91.6	(30.4)	(33.2%)
Net earnings per common share				
Basic	**0.13**	0.17	(0.04)	(23.5%)
Diluted	**0.12**	0.16	(0.04)	(25.0%)

Core Earnings

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

(in $ millions)	Year ended 31 December 2015	2014	$ change
Non-interest income	**140.2**	134.8	5.4
Net interest income before provision for credit losses	**239.3**	238.5	0.8
Total net revenue before provision for credit losses and other gains (losses)	**379.5**	373.3	6.2
Provision for credit losses	**(5.7)**	(8.0)	2.3
Total other gains (losses)	**(3.7)**	(1.1)	(2.6)
Total net revenue	**370.1**	364.2	5.9
Non-interest expenses	**(254.9)**	(257.0)	2.1
Net income before income taxes	**115.2**	107.2	8.0
Income tax expense	**(1.3)**	(0.8)	(0.5)
Core net income	**113.9**	106.4	7.5

The following table reconciles the Bank's US GAAP net income for 2015 and 2014 to core earnings attributable to common shareholders:

(in $ millions)	Year ended 31 December 2015	2014
Net income	**77.7**	108.2
Non-core items:		
Impairment of fixed assets (including software)	**5.1**	2.0
Gain on disposal of a Pass-through note investment (formerly a SIV)	**-**	(8.7)
Additional consideration from previously disposed of entities	**-**	(0.3)
Realised gain on private equity investment	**-**	(1.1)
Early retirement programme, redundancies and other one-off compensation costs	**8.2**	2.7
Tax compliance review costs	**3.8**	10.2
Provision for settlement amount arising from tax compliance review	**4.8**	-
Business acquisition costs	**1.0**	4.3
Restructuring charges and related professional service fees	**2.5**	-
One-off income tax refund	**-**	(1.0)
Investigation of an international stock exchange listing costs	**10.1**	-
Change in unrealised gains (losses) on certain investments	**0.7**	(9.9)
Total non-core items	**36.2**	(1.8)
Core earnings	**113.9**	106.4
Dividends and guarantee fee of preference shares	**(16.5)**	(16.5)
Amortisation of intangible assets	**4.4**	4.3
Core cash earnings to common shareholders	**101.8**	94.2
Core cash earnings per common share (1)		
Impact of non-core items on earnings per share - fully diluted	**0.07**	-
Core cash earnings per share - fully diluted	**0.20**	0.17

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

Impairment of Fixed Assets (Including Software)

In 2015, the Bank recognised $5.1 million of impairment write-downs on the core banking system in the UK related to the orderly wind down of the deposit taking and investment management businesses.

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

One-off compensation costs includes incentive packages for redundancies, optional early retirement packages and other one-off compensation costs offered to eligible employees. In 2015 and 2014, the cost amounted to $8.2 million and $2.7 million, respectively. The increase from 2014 to 2015 was largely driven by one-off compensation paid to three former senior executives who stepped down from their positions during the year.

One-off Project – Tax Compliance Review Costs

As publicly announced, in November 2013, the US Attorney's Office for the Southern District of New York applied for and secured the issuance of so-called John Doe Summonses to six US financial institutions with which the Bank had correspondent bank relationships. The Bank has been fully cooperating with the US Authorities in their ongoing investigation. Specifically, the Bank has conducted an extensive review and account remediation exercise to determine the US tax compliance status of US person account holders. The review process and results have been shared with the US Authorities. Costs associated with this remediation exercise during the year ended 31 December 2015 amounted to $3.8 million (2014: $10.2 million), comprised largely of professional fees of $2.8 million (2014 - $6.9 million).

Provision for Settlement Amount Arising from Tax Compliance Review

Although the Bank is unable to determine the amount of financial consequences, fine and/or penalties resulting from this tax compliance review, management believes that, at this stage, a provision of $4.8 million is appropriate based on the methodology used in similar settlements for other financial institutions. As the investigation remains ongoing at this time, the timing and terms of the final resolution, including any fines or penalties, remain uncertain and the financial impact to the Bank could exceed the amount of the provision. In this regard, we note that the US authorities have not approved or commented on the adequacy or reasonableness of the estimate.

Business Acquisition Costs

During 2015, the Bank expensed $1.0 million relating to the acquisition of the Bermuda Trust Company Ltd. and the private banking investment management operations of HSBC Bank Bermuda Limited, which included $1.0 million of legal and professional fees. During 2014, the Bank expensed $4.3 million relating to the acquisitions of Legis and HSBC Cayman, which included $2.8 million of legal and professional fees.

Restructuring Charges and Related Professional Service Fees

The Bank incurred costs of $2.5 million relating to the announcement to commence an orderly wind down of the deposit taking and investment management businesses of Butterfield Bank (UK) Limited. Of this amount, $0.6 million pertained to staff redundancy expenses, $1.5 million pertained to professional services fees directly related to the orderly wind down, with an additional $0.4 million spent on professional services fees associated with investigating strategic options prior to approving the orderly wind down.

One-off Project – Investigation of an International Stock Exchange Listing Costs

The Bank incurred $10.1 million in professional and legal fees for the investigation of an international stock exchange listing for its common shares.

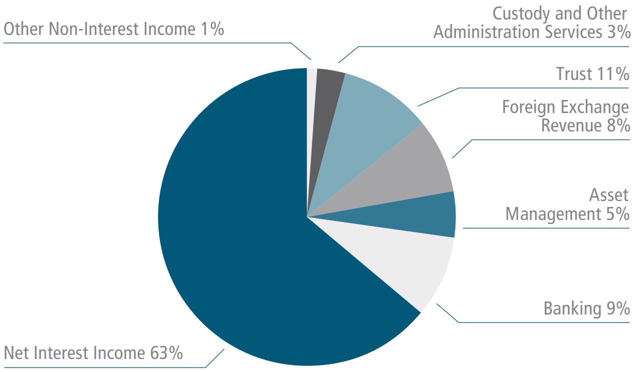
Net Change in Unrealised Gains (Losses) on Certain Investments

During the year ended 31 December 2015, the Bank determined that certain investments classified as AFS for its operations in Guernsey and the UK should have been classified as trading securities since 2011. The net change in unrealised gains (losses) on these securities were $0.7 million of net losses in 2015, and $9.9 million of net gains in 2014.

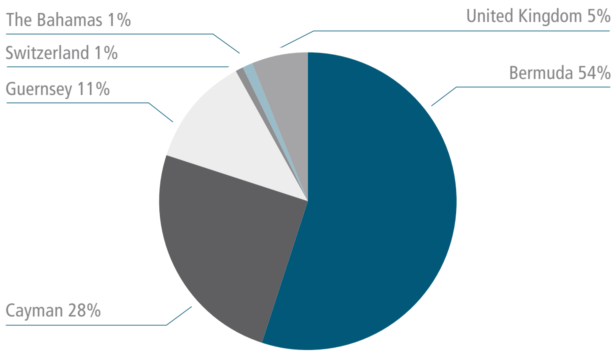
REVENUE

Total net revenue before provision for credit losses and other gains and losses for 2015 was $379.5 million, up $6.1 million (1.6%) from 2014. Net interest income before provision for credit losses increased from $238.5 million in 2014 to $239.3 million in 2015, an improvement of $0.8 million (0.3%). The increase in net interest income was driven primarily by higher average investment portfolio balances of $339.3 million and a decrease in liability costs driven by a decrease in interest expense on long-term debt of 7 basis points, which was slightly offset by a decrease in related investment yields of 19 basis points and a decrease in average loan balances of $48.3 million. The overall NIM decreased by 26 basis points from 274 basis points in 2014 to 248 basis points in 2015. In addition, non-interest income was up $5.3 million (4.0%) attributable to increased trust revenues earned from the recently acquired Legis Group business, along with new business growth in asset management, and transaction volume increases in foreign exchange revenue.

DISTRIBUTION OF 2015 TOTAL NET REVENUE BEFORE PROVISION FOR CREDIT LOSSES AND OTHER GAINS AND LOSSES



DISTRIBUTION BY LOCATION OF 2015 TOTAL NET REVENUE BEFORE PROVISION FOR CREDIT LOSSES AND OTHER GAINS AND LOSSES



Non-Interest Income

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

Total non-interest income increased from $134.8 million in 2014 to $140.2 million in 2015. Non-interest income as a percentage of total net revenue before provision for credit losses and other gains and losses increased slightly from 36.1% in 2014 to 36.9% in 2015.

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

(in $ thousands)	2015	2014	$ change	% change
Asset management	**18,910**	17,728	1,182	6.7%
Banking	**35,221**	34,280	941	2.7%
Foreign exchange revenue	**31,896**	29,379	2,517	8.6%
Trust	**40,264**	38,268	1,996	5.2%
Custody and other administration services	**9,522**	10,166	(644)	(6.3%)
Other non-interest income	**4,359**	5,009	(650)	(13.0%)
Total non-interest income	**140,172**	134,830	5,342	4.0%

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 UK. Revenues from asset management were $18.9 million in 2015, compared to $17.7 million in 2014. The increase is mainly due to fees earned upon the launch of a new private equity fund in 2015, and higher fees earned on the Butterfield Money Market Fund ("BMMF") owing to higher short-term interest rates. This increase was partially offset by a decline in commissions earned on lower transaction volumes.

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 $ millions)	2015	2014	$ change
Butterfield Funds	**1,871**	2,164	(293)
Discretionary	**1,741**	1,638	103
Total assets under management	**3,612**	3,802	(190)

Banking

During 2015, Butterfield provided a full range of community, commercial, and private banking services in select jurisdictions. Community banking services are offered to individuals and small to medium-sized businesses through branch locations, Internet banking, automated teller machines, debit cards, and mobile banking in Bermuda and the Cayman Islands, whilst private banking services are offered in Bermuda, the Cayman Islands, Guernsey and the UK. Banking revenues reflect loan, transaction processing, and other fees earned in these jurisdictions. Banking fee revenues increased by 2.7% in 2015 to $35.2 million, compared to $34.3 million in 2014, due primarily to higher credit card activity and increased wire fees in 2015, which were partially offset by the termination of a tailor-made banking product for one of our major clients in Guernsey in 2014, decreased electronic banking revenues due to the release of a collections reserve in 2014, and a large volume of loan exit fees charged in 2014 on repayment of some significant commercial facilities.

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 87% of the Group's foreign exchange revenue (2014: 86%). The Bank does not maintain a proprietary trading book. Foreign exchange income is generated from client-driven transactions and totalled $31.9 million in 2015, compared with $29.4 million in 2014. The $2.5 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 fiduciary services from our operations in Bermuda, The Bahamas, the Cayman Islands, Guernsey and Switzerland. Revenues are derived from a combination of fixed fees, fees based on the market values of assets held in trust and fees based on time spent in relation to the range of personal trust and company administration services and pension and employee benefit trust services we provide. Trust revenues represent 28.7% of the Bank's non-interest income, up from 28.4% in 2014. In 2015, trust revenues totalled $40.3 million, an increase of $2.0 million or 5.2% over 2014, attributable largely to the acquisition of the Legis Group business, which closed on 1 April 2014. Revenue growth was supported by structured, proactive business development activities. Improved new business results were seen in all of our businesses in both personal and institutional fiduciary services.

Trust assets under administration were $81.8 billion at year-end 2015 compared to $84.4 billion the prior year, a decrease of $2.6 billion or 3.0%, which is attributable largely to unfavourable foreign exchange movements.

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 UK, and other administration services — primarily administered banking — in Guernsey. In 2015, revenues were $9.5 million, the slight decrease of $0.6 million due to lower transaction volumes and expired mandates. Total assets under administration for the custody and other administration services business (which includes the administered banking services operations provided by our Guernsey business) were $39.2 billion as at 31 December 2015, down from $42.5 billion the prior year.

Other Non-Interest Income

The components of other non-interest income for the years ended 31 December 2015 and 2014 are set forth in the following table:

(in $ thousands)	2015	2014
Net share of earnings from equity method investments	**979**	834
Rental income	**1,379**	2,726
Other	**2,001**	1,449
Total other non-interest income	**4,359**	5,009

In 2015, we recorded equity pickup income of $1.0 million, an increase of $0.1 million from the prior year due to higher earnings by investees. Rental income decreased by $1.3 million to $1.4 million in 2015 due to a reduction in rented properties. Included in the "Other" category are maintenance fees from leased premises, director's fee income, and other miscellaneous income.

Net Interest Income Before Provision For Credit Losses

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

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

	2015			2014		
(in $ millions)	**Average balance**	**Interest**	**Average rate**	**Average balance**	**Interest**	**Average rate**
Assets						
Cash due from banks and short-term investments	**2,407.9**	**6.5**	**0.27%**	1,752.9	5.4	0.31%
Investment in securities	**3,217.0**	**69.6**	**2.16%**	2,877.8	67.7	2.35%
Loans	**4,026.7**	**186.5**	**4.63%**	4,075.0	192.0	4.71%
Interest earning assets	**9,651.6**	**262.6**	**2.72%**	8,705.7	265.1	3.05%
Other assets	**371.5**			410.8		
Total assets	**10,023.1**	**262.6**	**2.62%**	9,116.5	265.1	2.91%
Liabilities						
Deposits	**7,156.7**	**(18.4)**	**(0.26%)**	6,741.6	(20.9)	(0.31%)
Securities sold under agreement to repurchase	**2.1**	**-**	**-**	22.0	(0.1)	(0.38%)
Long-term debt	**117.0**	**(4.9)**	**(4.15%)**	117.2	(5.6)	(4.80%)
Interest bearing liabilities	**7,275.8**	**(23.3)**	**(0.32%)**	6,880.8	(26.6)	(0.39%)
Non-interest bearing current accounts	**1,720.7**			1,211.0		
Other liabilities	**196.8**			187.2		
Total liabilities	**9,193.3**	**(23.3)**	**(0.25%)**	8,279.0	(26.6)	(0.32%)
Shareholders' equity	**829.8**			837.5		
Total liabilities and shareholders' equity	**10,023.1**			9,116.5		
Non-interest bearing funds net of non-interest earning assets (free balance)	**2,375.8**			1,824.9		
Net interest margin		**239.3**	**2.48%**		238.5	2.74%

Net interest income before provision for credit losses of $239.3 million increased $0.8 million or 0.3% over 2014. Net interest income is generated largely by the Bank's Bermuda and Cayman jurisdictions, which account for 88.6% of total net interest income. Interest income decreased by $2.5 million and was driven by lower loan income, offset by improved investment portfolio performance and increased income on deposits. Investment income increased by $1.8 million from an increase of $339.2 million in average balances, which was slightly offset by a yield decrease of 19 basis points. The yield decrease resulted from unfavourable prepayment speeds on US agency securities despite a shortening of duration to approximately 3.5 years attributable to increased investments in adjustable-rate US agency securities. Loan interest income was lower by $5.5 million due primarily to a $48.3 million decrease in average balances, and an 8 basis point decrease in yield.

Interest bearing liability costs decreased by 7 basis points, driving an improvement in interest expense of $3.3 million, largely from the long-term debt paydown of $90 million in January 2014 and lower levels of interest bearing deposit volumes in 2015.

Average free balances for 2015 were $2.4 billion (2014: $1.8 billion) including non-interest bearing current accounts of $1.7 billion (2014: $1.2 billion), shareholders' equity of $829.8 million (2014: $837.5 million), net of other assets and other liabilities totalling $174.7 million (2014: $223.6 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 2015 was $5.7 million compared to $8.0 million in 2014, a decrease of $2.3 million. Incremental provisions of $8.6 million were required principally for specific reserves pertaining to commercial, residential mortgages and other consumer loans, partially offset by recoveries of $2.9 million. This compares to 2014, when the Bank required incremental provisions relating to specific reserves of $10.4 million that were partially offset by recoveries of $2.3 million.

OTHER GAINS (LOSSES)

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

(in $ thousands)	2015	2014
Net trading gains	(562)	10,070
Net realised gains (losses) on available-for-sale investments	(4,407)	8,680
Net realised / unrealised gains (losses) on other real estate owned	277	(1,804)
Impairment of fixed assets	(5,083)	(1,986)
Net gain on sale of equity method investments	-	277
Net other gains	338	451
Other gains (losses)	(9,437)	15,688

Net Trading Gains

A $0.6 million loss was recorded with respect to trading securities in 2015 compared to net trading gains of $10.1 million in 2014, which relates primarily to the fair value adjustments of the Bank's US government and federal agency securities held in the Bank's operations in the UK and Guernsey. The decline was due primarily to movements in long-term US treasury rates.

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

Net realised losses of $4.4 million were recorded in 2015 as a result of a strategic repositioning of the investment portfolio which is detailed further in "Investment in Securities" to follow. The losses were realised as a result of the sale of certain lower yielding investments from our US government and federal agency portfolio. In 2014, the Bank recorded an $8.7 million net realised gain on the sale of the Bank's investment in the Avenir Pass-through Note, which was formerly a structured investment vehicle.

Net Realised / Unrealised Gains (Losses) on Other Real Estate Owned

Valuation adjustments and realised gains and losses related to real estate held for sale were gains of $0.3 million compared to losses of $1.8 million in 2014, the increase attributable largely to the sale of certain properties in Bermuda and Cayman triggering a small gain relative to valuation losses booked in 2014.

Impairment of Fixed Assets

The Bank conducts annual property impairment assessments on its properties held for sale and rent as well as other fixed assets which resulted in $5.1 million of write downs in 2015 as a result of an impairment in the UK's core banking system due to the planned orderly wind down, and $2.0 million in write downs in 2014 to reflect current market values of properties held for sale and rent.

Net Gain on Sale of Equity Method Investments

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

Net Other Gains

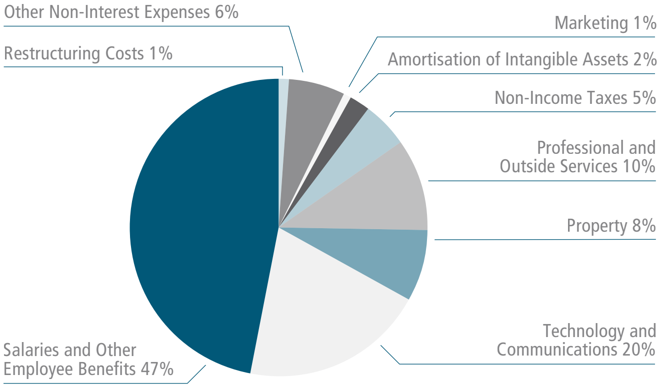
Net other gains were $0.3 million in 2015 compared to net other gains of $0.5 million in 2014.

NON-INTEREST EXPENSES

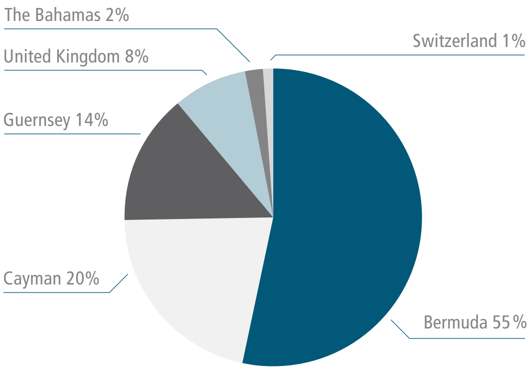
Expense management continued to be a key focus in 2015 as the Bank continues to adapt to the persistently low interest rate environment. Total non-interest expenses in 2015 were $285.2 million compared to $273.0 million recorded in 2014. These figures include non-core expenses in 2015 and 2014 of $30.5 million and $16.0 million, respectively. After adjusting for these non-core items, 2015 core expenses were down $2.2 million (0.8%) with an improvement in core efficiency ratio to 66.0% from 67.7% in 2014.

Salary and employee benefits account for 47.3% of non-interest expenses, with technology and communications and property making up 27.6% combined. Bermuda expenses include all head office costs.

DISTRIBUTION OF 2015 NON-INTEREST EXPENSES



DISTRIBUTION OF 2015 NON-INTEREST EXPENSES BY LOCATION



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

(in $ thousands)	2015	2014	$ change	% change
Salaries and other employee benefits	**134,917**	129,761	5,156	4.0%
Technology and communications	**57,069**	57,119	(50)	(0.1%)
Property	**21,539**	24,312	(2,773)	(11.4%)
Professional and outside services	**27,638**	24,022	3,616	15.1%
Non-income taxes	**13,882**	14,175	(293)	(2.1%)
Amortisation of intangible assets	**4,424**	4,281	143	3.3%
Marketing	**3,919**	3,802	117	3.1%
Restructuring costs	**2,183**	-	2,183	-
Other non-interest expenses	**19,674**	15,495	4,179	27.0%
Total non-interest expenses	**285,245**	272,967	12,278	4.5%
Non-core items	**(30,475)**	(16,045)	(14,430)	89.9%
Core non-interest expenses	**254,770**	256,922	(2,152)	(0.8%)

Salaries and Other Employee Benefits

Total salaries and other employee benefits costs were $134.9 million in 2015, up $5.2 million compared to 2014. Included in 2015's expenses is $8.7 million of severance, early retirement and project-related non-core costs, compared to $5.6 million of severance and project-related non-core costs in 2014. Core salaries and other employee benefits costs were $126.2 million in 2015, up $2.1 million compared to 2014 due to increased post-retirement medical costs resulting from higher healthcare costs, which were partially offset by a headcount reduction and favourable foreign exchange fluctuations from foreign-denominated subsidiaries. Also helping offset these costs was a $1.0 million one-time release in 2014 of pension expense from the closure of a defined benefit pension plan. Headcount on a full-time equivalency basis at year-end was 1,141, down 23 compared to 1,164 a year ago due to certain expired mandates in administered banking and trust services, as well as a decrease in temporary staffing (included into full-time equivalent) that were involved in the integration of acquisitions in the prior year, as well as the tax compliance review.

Technology and Communications

Technology and communication costs remained stable at $57.1 million in 2015 and 2014.

Property

Property costs, which reflect occupancy expenses, building maintenance, and depreciation of property, plant and equipment, were $21.5 million in 2015, down $2.8 million from the $24.3 million recorded in 2014 due primarily to decreased property management and maintenance costs resulting from the sale of hotel properties in the third quarter of 2014, as well as reduced electrical costs due to ongoing implemented cost savings initiatives.

Professional and Outside Services

Professional and outside services include primarily consulting, legal, audit, and other professional services. The current year expense of $27.6 million included $14.0 million of non-core project-related costs with $8.4 million relating to the evaluation of the merits of an international listing of Butterfield common shares and $2.8 million relating to the internal review and account remediation programme surrounding the historical compliance of our customer data with heightened international standards for tax compliance and costs associated with the HSBC business acquisition in Bermuda. When excluded, professional fees from our core business decreased by $0.9 million from reduced consulting expenditures.

Non-Income Taxes

These taxes reflect taxes levied in the jurisdictions in which we operate, including employee-related payroll taxes, customs duties, and business licences. In 2015, the expense was $13.9 million, down $0.3 million mainly due to value-added tax recoveries in the UK. Of the $13.9 million in non-income taxes, $9.6 million was paid to the Bermuda government agencies for payroll tax, business licences and land taxes, $0.7 million for value-added taxes paid in our UK business and $3.6 million paid to other governments for business licences, insurance tax and work permit fees.

Amortisation of Intangible Assets

Intangible assets relate to client relationships acquired from business acquisitions and are amortised on a straight-line basis over their estimated useful lives, not exceeding 15 years. The estimated lives of these acquired intangible assets are re-evaluated annually and tested for impairment. The amortisation expense associated with intangible assets was $4.4 million in 2015 compared to $4.3 million in 2014. The higher amortisation levels were driven by an increase in identifiable, limited life intangible assets acquired in the Legis Group and HSBC Cayman acquisitions completed in 2014.

Marketing

Marketing expenses reflect costs incurred in advertising and promoting our products and services. Marketing expenses totalled $3.9 million in 2015, up $0.1 million, but remained consistent as a percentage of total net revenue before provision for credit losses and other gains and losses at 1.0%.

Other Non-Interest Expenses

(in $ thousands)	2015	2014	$ change	% change
Stationery & supplies	**1,419**	1,343	76	5.7%
Custodian & handling	**1,563**	1,753	(190)	(10.8%)
Charitable donations	**757**	787	(30)	(3.8%)
Insurance	**2,139**	2,230	(91)	(4.1%)
Other expenses				
Agent commission fees	**644**	439	205	46.7%
Cheque processing	**1,211**	1,328	(117)	(8.8%)
Directors' fees	**1,245**	899	346	38.5%
Dues and subscriptions	**261**	535	(274)	(51.2%)
Foreign bank charges	**755**	572	183	32.0%
General expenses	**50**	713	(663)	(93.0%)
Maintenance fees for liquidity facility	**175**	175	-	-
Registrar and transfer agent fee	**547**	707	(160)	(22.6%)
Provision for settlement amount arising from tax compliance review	**4,800**	-	4,800	100%
Other	**4,108**	4,014	94	2.3%
Total other non-interest expenses	**19,674**	15,495	4,179	27.0%

Other non-interest expenses were $19.7 million in 2015, an increase of $4.2 million compared to 2014. This was driven principally by the $4.8 million provision for fines arising from tax compliance review in 2015 compared to lower operational losses experienced in 2014.

INCOME TAXES

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

The Bank's subsidiaries in the UK, Guernsey and Switzerland are subject to the tax laws of those jurisdictions. The corporate tax rate in the UK is 20%, whilst in Guernsey, the banking profits are subject to a 10% flat corporate tax rate. In 2015, income tax expense netted to $1.3 million compared to an income tax benefit of $0.2 million in 2014. The movement is due to the write-off of a previously accrued deferred tax asset in 2015 compared to a tax refund received in 2014.

CONSOLIDATED BALANCE SHEET AND DISCUSSION

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

(in $ millions)	2015	2014	$ change	% change
Assets				
Cash due from banks	**2,289**	2,063	226	11.0%
Short-term investments	**409**	395	14	3.5%
Investment in securities	**3,224**	2,989	235	7.9%
Loans, net of allowance for credit losses	**4,000**	4,019	(19)	(0.5%)
Premises, equipment and computer software	**183**	215	(32)	(14.9%)
Goodwill and intangibles	**51**	58	(7)	(12.1%)
Other assets	**120**	119	1	0.8%
Total assets	**10,276**	9,858	418	4.2%
Liabilities				
Total deposits	**9,182**	8,672	510	5.9%
Total other liabilities	**227**	220	7	3.2%
Long-term debt	**117**	117	-	-
Total liabilities	**9,526**	9,009	517	5.7%
Preference shareholders' equity	**183**	183	-	-
Common and contingent value convertible preference shareholders' equity	**567**	666	(99)	(14.9%)
Total shareholders' equity	**750**	849	(99)	(11.7%)
Total liabilities and shareholders' equity	**10,276**	9,858	418	4.2%

Capital Ratios	2015	2014
Risk-weighted assets	**4,305**	4,113
Tangible common equity (TCE)	**516**	608
Tangible assets (TA)	**10,225**	9,800
TCE/TA	**5.1%**	6.2%
Tier 1 common ratio	**12.0%**	14.6%
Tier 1 capital ratio	**16.2%**	19.0%
Total capital ratio	**19.0%**	22.2%

The Bank maintains a highly liquid balance sheet and is well capitalised. At 31 December 2015, total cash due from banks, short-term investments and investment in securities (excluding held-to-maturity investments) represented $5.2 billion, or 50.8% of total assets, down slightly from 51.8% at year-end 2014 due to a decrease in available-for-sale securities to fund an increase in held-to-maturity investments. The Bank's balance sheet remains strong with shareholders' equity ending the year at $750.4 million down from $849.4 million at year-end 2014 due primarily to the repurchase and cancellation of 84 million common shares. Of the 2015 shareholders' equity, $182.9 million is preference shareholders' equity and $567.5 million is common equity.

Total assets grew by $0.4 billion to $10.3 billion, primarily reflecting a $0.5 billion increase in customer deposit levels reinvested in short-term investments and investment in securities, which grew by $0.2 billion, with an additional $0.2 billion remaining in cash due from banks.

At 31 December 2015, Butterfield's capital ratios were strong, but declined from year-end 2014 because of balance sheet growth and the repurchase and cancellation of 84 million shares from CIBC and other shareholders, which is discussed in greater detail in the "Shareholders' Equity" section to follow. The TCE/TA ratio ended 2015 at 5.1% (2014: 6.2%), whilst the Total capital ratio and Tier 1 capital ratios were 19.0% (2014: 22.2%) and 16.2% (2014: 19.0%), respectively. These ratios are well in excess of regulatory minimums.

CASH DUE FROM BANKS AND SHORT-TERM INVESTMENTS

The Bank only places deposits with highly-rated institutions and ensures there is appropriate geographic and sector 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 due from banks to include cash on hand, cash items in the process of collection, amounts due from correspondent banks and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in fair value. Such investments are those with less than three months' maturity from the date of acquisition and include unrestricted term deposits, certificates of deposit and treasury bills. Investments of a similar nature that are either restricted or have a maturity of more than three months but less than one year are classified as short-term investments. From August 2014, certificates of deposits with less than one year but greater than three months' maturity from the date of acquisition are designated as short-term investments as the investments are highly liquid and subject to a very low risk of change in fair value. As at 31 December 2015, cash due from banks and short-term investments were $2.7 billion, compared to $2.5 billion as at 31 December 2014. The increase was due to a $0.5 million increase in customer and bank deposits in 2015 that were partially invested in investments with the remainder being held in cash due from banks, and also due to a regulatory requirement in the UK to increase intraday cash buffer levels.

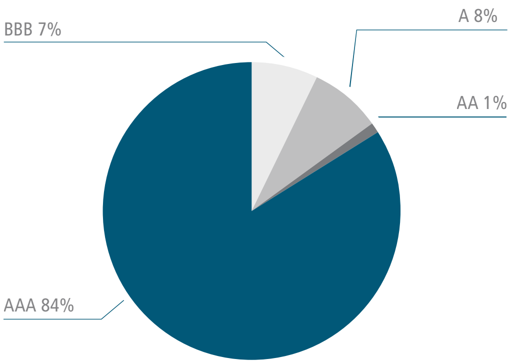
See "Note 3: Cash Due from Banks" and "Note 4: Short-Term Investments" in the 31 December 2015 consolidated financial statements for additional tables and information.

INVESTMENT IN SECURITIES

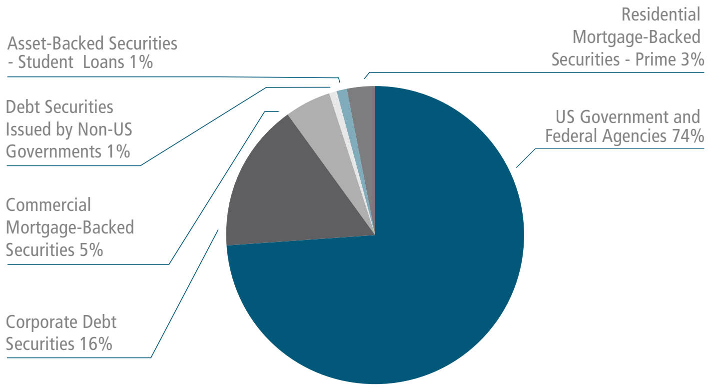
Our investment policy requires management to maintain a portfolio of securities that provide the liquidity necessary to cover the Bank's obligations as they come due, and mitigate our overall exposure to credit and interest rate risk, whilst achieving a satisfactory return on the funds invested. The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

Consistent with industry and rating agency designations, the Bank defines investment grade as "BBB" or higher. As at 31 December 2015, 99.8% (2014: 99.8%) of our total investments were investment grade. Of these securities, 93.1% (2014: 99.8%) are rated "A" or higher.

31 DECEMBER 2015 INVESTMENT PORTFOLIO BY LONG-TERM DEBT RATING



31 DECEMBER 2015 INVESTMENT PORTFOLIO BY TYPE



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

(in $ millions)	2015	2014	$ change	% change
Trading	**321**	417	(96)	(23.0%)
Available-for-sale	**2,201**	2,234	(33)	(1.5%)
Held-to-maturity	**702**	338	364	107.4%
Total investment in securities	**3,224**	2,989	235	7.9%

The investment portfolio was $3.2 billion as at 31 December 2015, compared to $3.0 billion as at 31 December 2014. The increased portfolio size was due to purchases of liquid US government and federal agency securities using cash provided by the increased deposit base primarily as a result of acquisitions and organic business growth. New investments were placed primarily in US government and federal agency securities that totalled $2.4 billion, based upon carrying value, or 74.0% of the total investment portfolio, as of 31 December 2015. Certificates of deposit of $37.7 million were reinvested in sovereign debt classified as short-term investments. The investment yield decreased year-on-year by 19 basis points to 2.16% in 2015 due primarily to $76.4 million of corporate bond maturities early in the year, and unfavourable prepayment speeds on US agency securities, despite a strategic shortening of duration to 3.5 years. These maturities were reinvested in lower yielding but higher quality US federal agency securities, and during the fourth quarter, higher yielding corporate bonds. However these higher yielding assets were invested late in the year, and accordingly did not materially impact the yield. Total net unrealised gains of the investment portfolio were $0.5 million, compared to net unrealised gains of $9.9 million at year-end 2014. The movement in unrealised gains for the year was primarily driven by an increase in longer-term US treasury interest rates. The 10-year treasury rate was 2.27% as at 31 December 2015 compared to 2.17% the year before.

Trading securities totalled $321.3 million at year-end 2015, compared to $417.4 million at year-end 2014. As at 31 December 2015, trading securities consisted of 86.9% or $279.3 million (2014: 74.9%, or $312.5 million) of holdings of securities issued by the US government and federal agencies, debt securities issued by non-US governments of 2.3%, or $7.5 million (2014: 1.8%, or $7.7 million), guaranteed student loan-backed securities of 8.8%, or $28.3 million (2014: 12.6%, or $52.6 million), holdings of real estate mutual funds and seed capital invested in mutual funds managed by the Bank of 2.0%, or $6.2 million (2014: 1.7%, or $6.9 million), and certificates of deposit of $nil (2014: 9.0%, or $37.7 million).

Available-for-sale ("AFS") securities totalled $2.2 billion at year-end 2015, compared to $2.2 billion at year-end 2014. As at 31 December 2015, 63.8% or $1.4 billion (2014: 70.5%, or $1.6 billion) of AFS securities consisted of holdings of securities issued by the US government and federal agencies. The US government guarantees 35.8% or $502.5 million (2014: 5.8%, or $91.9 million) of these securities. Corporate debt securities represented 23.0%, or $506.1 million (2014: 17.9% or $399.3 million) of the AFS portfolio. As of 31 December 2015, the remaining 13.2%, or $290.7 million of AFS securities (2014: 11.6% or $258.9 million) was comprised primarily of commercial mortgage-backed securities of 6.8%, or $148.7 million (2014: 6.8%, or $151.2 million), guaranteed student loan-backed securities of 0.6%, or $12.2 million (2014: 0.5%, or $12.2 million), debt securities issued by non-US governments of 1.3%, or $29.6 million (2014: 1.4%, or $30.7 million) and residential mortgage-backed securities of 4.6%, or $100.2 million (2014: 2.9%, or $64.8 million). Corporate debt securities increased as a percentage of the overall AFS portfolio as part of the strategic repositioning of the investment portfolio in order to diversify the asset classes in the portfolio.

Held-to-maturity ("HTM") investments were $701.3 million as at 31 December 2015 (2014: $338.2 million) and consisted entirely of mortgage-backed securities issued by US federal agencies that management does not intend to sell before maturity. The increase in the HTM portfolio was also related to the strategic repositioning of the investment portfolio in order to reduce valuation volatility.

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.

As detailed previously, management made a strategic repositioning of the investment portfolio during the year, which resulted in the sale of AFS securities triggering realised losses of $4.4 million. The securities sold were primarily long duration, fixed income securities which were highly sensitive to interest rate risk and were sold in the lead-up to the announcement for a rate rise in the US. Management does not have the intention to sell any further securities which are in an unrealised loss position, and accordingly, management has concluded that this sale does not result in an OTTI for any remaining securities in a loss position as at 31 December 2015.

See "Note 5: Investments In Securities" in the 31 December 2015 consolidated financial statements for additional tables and information.

LOANS

The loan portfolio remained stable at $4.0 billion at 31 December 2015, compared to 2014, due primarily to significant prepayments on the commercial and residential mortgage portfolio and unfavourable foreign exchange rate movements offset by growth related to the acquisition of the HSBC Cayman loan portfolio in November 2014.

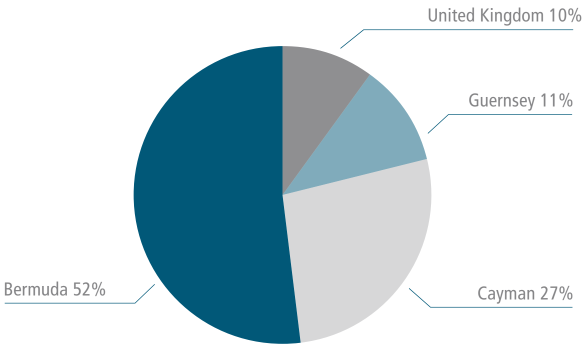
During the year, gross loans written totalled $767.3 million offset by pay downs of $734.8 million.

The loan portfolio represented 38.9% of total assets at 31 December 2015 (2014: 40.8%), whilst loans as a percentage of customer deposits decreased from 46.6% at year-end 2014 to 43.6% in 2015.

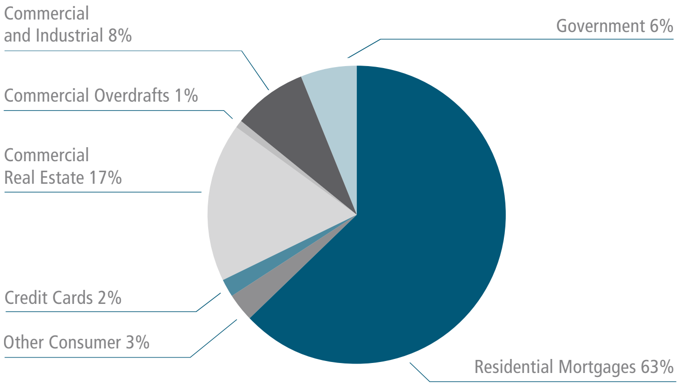
Allowance for credit losses at 31 December 2015 totalled $49.3 million, an increase of $1.8 million from the prior year. The movement in the allowance was mainly the result of additional provisions of $8.6 million (including recoveries of $2.9 million) recorded during the year, and $6.8 million in charge-offs and foreign exchange movements. Of the total allowance, the general allowance was $30.2 million (2014: $28.7 million) and the specific allowance was $19.1 million (2014: $18.8 million), reflecting a specific coverage ratio of 29.3%, compared to 26.2% at 31 December 2014. The improvement in the specific coverage ratio reflects the resolution of several large commercial loans, as well as several large value residential mortgages, which in turn amplifies the coverage ratio on the more diversified and less concentrated remaining balance.

Gross non-accrual loans totalled $65.3 million at 31 December 2015, down $6.5 million from $71.8 million at 31 December 2014, and represented 1.6% of the total loan portfolio at 31 December 2015, compared to 1.8% in 2014. During 2015, the Bank held other real estate owned properties ("OREO") amounting to $11.2 million (2014: $19.3 million) comprising commercial real estate of $6.7 million (2014: $9.2 million), foreclosed residential properties of $4.5 million (2014: $6.7 million) and property held for sale reclassified during 2015 of $nil (2014: $3.4 million).

31 DECEMBER 2015 LENDING BY LOCATION



31 DECEMBER 2015 GROUP LOANS BY TYPE



Government

Loans to governments showed a $111.7 million increase from 2014, due primarily to new government lending in Bermuda offsetting repayments in the Cayman portfolio.

Commercial

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

Commercial real estate loans are offered to real estate investors, developers and builders domiciled primarily in Bermuda and the UK. To manage our credit exposure on such loans, the principal collateral is real estate held for commercial purposes and is supported by a registered mortgage. Cash flows from the properties, primarily from rental income, are generally supported by long-term leases to high quality international businesses. These cash flows are principally sufficient to service the loan. The portfolio has decreased by $39.7 million to $676.0 million due primarily to repayments of loans in our European jurisdictions.

Commercial loans of $383.9 million at 31 December 2015 decreased by $64.5 million from the previous year, driven by repayments of commercial lending facilities principally in Cayman and Bermuda.

Residential

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

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

At 31 December 2015, residential mortgages totalled $2.5 billion (or 62.6% of total gross loans), a $25.5 million increase from 31 December 2014. This increase was mainly attributed to new volume levels in the UK residential mortgage portfolio, which offset reductions in the residential mortgages portfolio across the remaining jurisdictions and unfavourable foreign exchange movements within the portfolio.

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. At 31 December 2015, other consumer loans totalled $227.5 million (or 5.6% of total gross loans), a $50.4 decrease from 31 December 2014. The decrease was due to repayments and expiration of loan facilities without sufficient new loan origination.

Our loan portfolio and contractual obligations and arrangements are discussed in more detail in "Note 6: Loans" and "Note 7: Credit Risk Concentrations" in the 31 December 2015 consolidated financial statements.

DEPOSITS

Deposits are our principal funding source for use in lending, investments and liquidity. Butterfield is a deposit-led Bank and does not require the use of wholesale or institutional markets 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 fund and insurance clients to meet quarter-end cyclical cash flow requirements.

The table below shows the year-end and average customer deposit balances by jurisdiction, comparing 31 December 2015 and 2014:

	As at 31 December			Average balance		
(in $ millions)	**2015**	**2014**	**$ change**	**2015**	**2014**	**$ change**
Bermuda	**4,272**	3,870	402	**4,013**	3,758	255
Cayman	**3,013**	2,591	422	**2,804**	2,018	786
Guernsey	**1,245**	1,496	(251)	**1,366**	1,440	(74)
The Bahamas	**40**	61	(21)	**66**	78	(12)
UK	**598**	614	(16)	**611**	621	(10)
Total customer deposits	**9,168**	8,632	536	**8,860**	7,915	945

Average customer deposits increased by $0.9 billion to $8.9 billion in 2015. On a year-end basis, customer deposits were up $0.6 billion to $9.2 billion from $8.6 billion at year-end 2014.

Customer demand deposits, which include chequing accounts (both interest bearing and non-interest bearing), savings and call accounts, totalled $7.7 billion, or 83.5% of total customer deposits at year-end 2015, compared to $6.7 billion, or 78.1%, at year-end 2014. Customer term deposits declined by $0.4 billion to $1.5 billion compared to the prior year. The cost of funds on deposits improved from 26 basis points in the full year ended 2014 to 21 basis points in 2015 as a result of an increase in average non-interest bearing deposits by $0.5 billion to $1.7 billion.

See "Note 10: Customer Deposits and Deposits from Banks" in the 31 December 2015 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 2015, deposits from banks totalled $14.5 million, a decrease of $25.4 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 healthcare benefits to its qualifying retirees. The defined benefit provisions under the pension plans are generally based upon years of service and average salary during the final years of employment. The defined benefit pension and post-retirement healthcare plans are not open to new participants and are non-contributory and the funding required is provided by the Bank, based upon the advice of an independent actuary.

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

Effective 30 September 2014, the defined benefit pension benefits of the Bank's Guernsey operations were amended to freeze credited service and final average earnings for remaining active members. The benefits amendment resulted in a further reduction in the Guernsey defined benefit pension liability of $4.6 million as at 30 September 2014.

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

Guernsey participants being inactive, the net actuarial loss of the Guernsey defined benefit pension plan was amortised to net income over the estimated average remaining service period for active members of 15 years.

For the year ended 31 December 2014, numerous changes in the plan provisions were made to align the plan provisions with the administrative practices of the Bank resulting in a further increase in the Bermuda defined benefit post-retirement healthcare plan liability of $7.9 million. The Bank amortises prior service credit resulting from plan amendments that occurred when plan members were active employees, on a linear basis over the expected average remaining service period (to full eligibility) of active members expected to receive benefits under the plan. Such remaining service periods are as follow: 3.1 years for the 2010 plan amendments and 4.6 years for the 2011 plan amendments. Plan amendments occurring in 2014 resulted in the recognition of new prior service cost on 31 December 2014 on a plan for which substantially all members are now inactive and, in accordance with US GAAP, the Bank has elected to amortise this new prior service cost on a linear basis over 21 years, which is the average remaining life expectancy of members eligible for benefits under the plan at the time of the amendments.

As at 31 December 2015, the Bank had a net obligation for employee future benefits in the amount of $106.0 million, down $3.5 million (3.3%) from $109.5 million at year-end 2014. The increase was driven by valuation changes caused by discount factor changes relating to interest rate fluctuations slightly offset by increased healthcare costs.

See "Note 11: Employee Benefit Plans" in the 31 December 2015 consolidated financial statements for additional tables and information.

LONG-TERM DEBT, INTEREST PAYMENTS AND MATURITIES

We have outstanding issuances of long-term debt with a carrying value of $117.0 million as at 31 December 2015 and 31 December 2014, all issued in US dollars. As of 31 December 2015, $89.0 million of our outstanding long-term debt is eligible for inclusion in our Tier 2 regulatory capital base and is limited to 50% of Tier 1 Capital, down from $102.1 million at year-end 2014.

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

The following table presents the contractual maturity, interest rates and principal outstanding as at 31 December 2015:

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

See "Note 19: Long-Term Debt" in the 31 December 2015 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 2015 and 31 December 2014, there were no repurchase agreements outstanding.

SHAREHOLDERS' EQUITY

Shareholders' equity decreased during the year ended 31 December 2015 by $99.0 million to $750.4 million.

Increases totalling $88.2 million include:

- $77.7 million net income for the year
- $1.6 million net decreases in employee benefit plan adjustments
- $7.7 million of share-based compensation
- $0.8 million of share-based settlements for stock options exercised
- $0.4 million from accretion of net unrealised losses on HTM investments transferred from AFS investments

These increases were offset by decreases totalling $187.2 million:

- $126.0 million from the purchase and cancellation of common shares
- $11.8 million from net change in unrealised gains (losses) on AFS investments
- $24.8 million of common share dividends
- $4.9 million from the purchase of treasury common shares
- $0.2 million from the purchase and cancellation of preference shares
- $16.5 million of preference share dividends and guarantee fees
- $3.0 million translation adjustments on foreign operations

On 30 April 2015, Butterfield repurchased and cancelled 80,000,000 shares held by CIBC for $1.50 per share, for a total of $120.0 million. The remaining CIBC shareholding in Butterfield (representing 23,434,232 shares) was taken up by Carlyle Global Financial Services, L.P. at $1.50 per share and subsequently sold to other investors.

On 13 August 2015, Butterfield repurchased and cancelled 4,000,000 shares held by two shareholders for $1.49 per share, for a total of $6.0 million.

CAPITAL RESOURCES

The Bank manages its capital both on a total Group basis and, where appropriate, on a legal entity basis. The Finance function 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's regulatory capital is determined in accordance with guidelines issued by our lead regulator, the Bermuda Monetary Authority ("BMA"), which are based on the risk-based capital adequacy framework ("Basel II Framework") developed by the Basel Committee on Banking Supervision ("BCBS") and has been endorsed by the central bank governors and heads of bank supervision of the G10 countries. The Bank is fully compliant with all regulatory capital requirements and maintains capital ratios well in excess of regulatory minimums as at 31 December 2015.

As at 31 December 2015, the Bank's regulatory capital stood at $818.3 million with the consolidated Tier 1 and Total capital ratios of 16.2% and 19.0%, respectively (2014: 19.0% and 22.2%, respectively).

The following table sets forth our capital adequacy as at 31 December 2015 and 2014 in accordance with the Basel II framework:

(in $ millions)	2015	2014
Capital		
Tier 1 capital	**699.2**	781.7
Tier 2 capital	**119.1**	130.8
Total capital	**818.3**	912.5
Risk Weighted Assets		
Cash due from banks and investments	**1,004.6**	683.2
Loans	**2,201.7**	2,364.9
Other assets	**278.5**	314.0
Off-balance sheet items	**216.2**	177.7
Operational risk charge	**604.3**	573.6
Total risk-weighted assets	**4,305.3**	4,113.4
Capital Ratios (%)		
Tier 1 common	**12.0%**	14.6%
Tier 1 total	**16.2%**	19.0%
Total capital	**19.0%**	22.2%

Under Basel II Pillar III (market disclosure) the Bank publishes further information about the risks to which it is exposed. The Bank's Pillar III disclosures for the year ended 31 December 2015 will be published on the corporate website, www.butterfieldgroup.com, shortly after the publication of the consolidated financial statements.

Effective 1 January 2015, the BMA implemented the capital reforms proposed by the BCBS and referred to as the Basel III regulatory framework. Basel III aims to raise the quality, consistency and transparency of the capital base, limit the build-up of excess leverage and increase capital requirements for the banking sector. Basel III adopts Common Equity Tier 1 ("CET1") capital as the predominant form of regulatory capital with the CET1 ratio as a new metric. Basel III also adopts the new Leverage Ratio and Liquidity Coverage Ratio ("LCR") regimes.

The Basel III regulatory framework adopts a phased implementation approach for Bermuda banks with full implementation on 1 January 2019, consistent with BCBS recommendations. When fully phased-in, the Bank will be subject to the following requirements:

- CET1 ratio of at least 7.0% of risk-weighted assets ("RWA"), inclusive of a minimum CET1 ratio of 4.5% and the new capital conservation buffer of 2.5%;
- Tier 1 capital of at least 8.5% of RWA, inclusive of the 2.5% capital conservation buffer;
- Total capital of at least 10.5% of RWA, inclusive of the 2.5% capital conservation buffer;
- The Bank is considered to be a Domestic Systemically Important Bank ("D-SIB") and will be subject to a 3% surcharge composed of CET1-eligible capital implemented by the BMA effective 30 September 2015. This is based upon its assessment of the extent to which the Bank (individually and collectively with the other Bermuda banks) poses a degree of material systemic risk to the economy of Bermuda due to its role in deposit taking, corporate lending, payment systems and other core economic functions;
- Counter-cyclical buffer of up to 2.5% composed of CET1-eligible capital may be implemented by the BMA when macroeconomic indicators provide an assessment of excessive credit or other pressures building in the banking sector;
- Leverage ratio must be at 5.0% or higher; and
- LCR with a minimum requirement of 100%, subject to the phase in rules.

We expect, based on our understanding of the current BMA guidelines for capital adequacy, that Basel III will result in lower CET1 capital and higher RWA as compared to Basel II. As at 31 December 2015, the Bank maintained ratios in excess of the required regulatory minimums, with a pro-forma CET1 ratio of 10.7%.

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 by the 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.

CONTINGENT VALUE CONVERTIBLE PREFERENCE SHARES ("CVCP shares") (see the *Rights Offering Prospectus* for details)

On 31 March 2015, all remaining issued and outstanding CVCP shares were converted to common shares at a conversion ratio of 1:1.

Share Buy-Back Programme

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

Common Share Buy-Back Programme

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

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

On 19 February 2016, the Board approved, with effect from 1 April 2016, the 2016 common share buy-back programme, authorising the purchase for treasury of up to eight million common shares.

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

	2015	2014	2013	2012	Total
Acquired number of shares (to the nearest 1)	**2,503,707**	8,567,340	4,038,482	7,260,051	22,369,580
Average cost per common share	**1.94**	1.99	1.39	1.24	1.63
Total cost (in Bermuda dollars)	**4,862,248**	17,018,412	5,610,907	8,999,061	36,490,628

On 30 April 2015, Butterfield repurchased and cancelled 80,000,000 shares held by CIBC for $1.50 per share, for a total of $120.0 million. The remaining CIBC shareholding in Butterfield (representing 23,434,232 shares) was taken up by Carlyle Global Financial Services, L.P. at $1.50 per share and subsequently sold to other investors.

On 13 August 2015, Butterfield repurchased and cancelled 4,000,000 shares held by two shareholders for $1.49 per share, for a total of $6.0 million.

Preference Share Buy-Back Programme

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

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

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

	2015	2014	2013	2012	Total
Acquired number of shares (to the nearest 1)	**183**	560	11,972	4,422	17,137
Average cost per preference share	**1,151.55**	1,172.26	1,230.26	1,218.40	1,224.46
Total cost (in Bermuda dollars)	**210,734**	656,465	14,728,624	5,387,777	20,983,600

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

Warrants

Following the capital raise on 2 March 2010, the terms of the 4,279,601 warrants with an exercise price of $7.01 previously issued to the Government of Bermuda in conjunction with the issuance of the preference shares in 2009 were adjusted in accordance with the terms of the Guarantee. Subsequently, the Government of Bermuda now holds 4.32 million (2014: 4.30 million) warrants with an exercise price of $3.47 (2014: $3.49) with an expiration date of 22 June 2019.

Dividends

During the year ended 31 December 2015, the Bank declared cash dividends totalling $24.8 million or $0.05 for each common share and CVCP share on record as of the related record dates (2014: $27.4 million or $0.05 for each common share and CVCP share on record). The CVCP shares were all converted to common shares on 31 March 2015.

The Board also declared a fourth interim dividend of $0.01 per common share to be paid on 24 March 2016 to shareholders of record on 11 March 2016.

During the years ended 31 December 2015 and 2014, the Bank declared the full 8.00% cash dividends on preference shares in each quarter. Preference share dividends declared and paid were $14.6 million during 2015 (2014: $14.7 million). Guarantee fees paid to the Government of Bermuda were $1.8 million during 2015 (2014: $1.8 million).

CASH FLOWS

Cash due from banks was $2.3 billion as at 31 December 2015, compared to $2.1 billion in the prior year. The increase is described below by category of operating, investing and financing activities.

For the year ended 31 December 2015, net cash provided by operating activities totalled $155.5 million (2014: $143.8 million). Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income. Cash provided by operating activities increased by $11.7 million from 2014 to 2015, due primarily to an increase in other liabilities and employee benefit plans, and the movement in net realised gains (losses) on AFS investments, offset by a decrease in net income that generated lower cash earnings compared to the prior year, and an increase in other assets.

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 origination. Net cash used in investing activities for the year ending 31 December 2015 totalled $325.8 million, compared to cash used in investing activities of $258.7 million in 2014. The $67.1 million increase in cash used in investing activities in 2015 was mainly attributable to a $315.4 million decrease in purchases of short-term investments, a $237.5 million increase in proceeds from maturities and pay-downs on AFS investments, and a $108.3 million increase in proceeds from sales on AFS investments, which was partially offset by a $217.9 million increase in purchases of AFS investments, a decrease in loans movement of $181.9 million and the $310.6 relative decrease from the deposits acquired in the HSBC acquisition in Cayman in 2014.

Net cash provided by financing activities totalled $426.9 million in 2015, compared to net cash provided by financing activities of $461.7 million in 2014. The $34.8 million decrease is mainly due to a $39.1 million decrease in deposit growth, a $113.8 million increase in common shares repurchased attributable to the share repurchase and cancellation of the majority of CIBC's shareholding and repurchases from two other shareholders, which was partially offset by a $90.0 million decrease in repayment of long-term debt due to the redemption of the $90 million Series A note in 2014 and a $25.5 million decrease in securities sold under agreement to repurchase.

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 arrangements 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.

	2015			2014		
(in $ millions)	**Gross**	**Collateral**	**Net**	**Gross**	**Collateral**	**Net**
Standby letters of credit	**258.9**	**257.2**	**1.7**	225.7	224.2	1.5
Letters of guarantee	**9.1**	**8.4**	**0.7**	10.2	7.6	2.6
Total	**268.0**	**265.6**	**2.4**	235.9	231.8	4.1

Contractual Obligations (Including Long-term debt)

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

The Bank has a facility by one of its custodians, whereby the Bank may offer up to US$200 million of standby letters of credit to its customers on a fully secured basis. Under the standard terms of the facility, the custodian has the right to set-off against securities held of 110% of the utilised facility. At 31 December 2015, $123.7 million (2014: $91.8 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 long-term 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 long-term debt are based on principal payment dates.

See "Note 19: Long-term Debt" in the 31 December 2015 consolidated financial statements for terms of long-term debt arrangements and interest obligations.

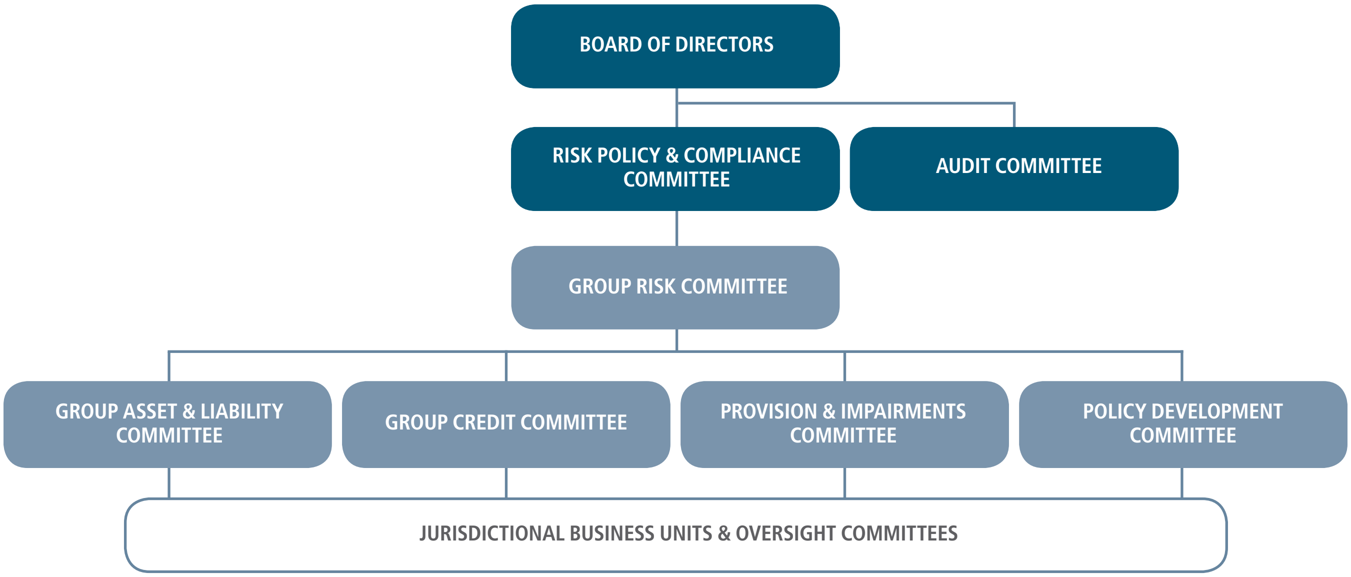
We also have an outstanding contractual obligation relating to an eight-year agreement entered into in October 2008 with global technology service provider Hewlett Packard ("HP") to supply technology infrastructure and application development management, information security and technical support for our locations in Bermuda and the Cayman Islands. Under our agreement with HP, server management and maintenance, technology field support, application support and development and help desk functions are managed by HP. Our remaining payment obligations to HP under this agreement amounted to $16.3 million as of 31 December 2015 (2014: $33.1 million).

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

RISK MANAGEMENT

Risk Governance

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



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

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

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

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

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

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

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

Risk Management

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

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

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

- Making recommendations to the Group Risk Committee regarding the constitution of the Risk Appetite Framework;
- Setting risk strategies that are designed to manage risk exposures assumed in the course of pursuing our business strategies and aligning them with agreed appetites;
- Establishing and communicating policies, procedures and limits to control risks in alignment with these risk strategies;
- Measuring, monitoring and reporting on risk levels;
- Opining on specific transactions that fall outside delegated risk limits; and
- Identifying and assessing emerging risks.

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

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

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

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

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

The third "line of defence" is provided by our Group Internal Audit function, which performs oversight and ongoing review, and challenges the effectiveness of the internal controls that are executed by both the business and Risk Management.

The Risk Appetite Framework

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

Our framework comprises the following elements:

(i) Nine broad categories of risk: credit; market; liquidity; legal and regulatory; governance; process and technology; people; country and political; and reputational. These represent the various risks that the Group assumes across the entirety of its operations in the pursuit of its strategic goals.

(ii) For each risk category, there is a declared risk appetite. To ensure consistency in our risk conversations, these have been distilled into the three options set out in the following table, 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.

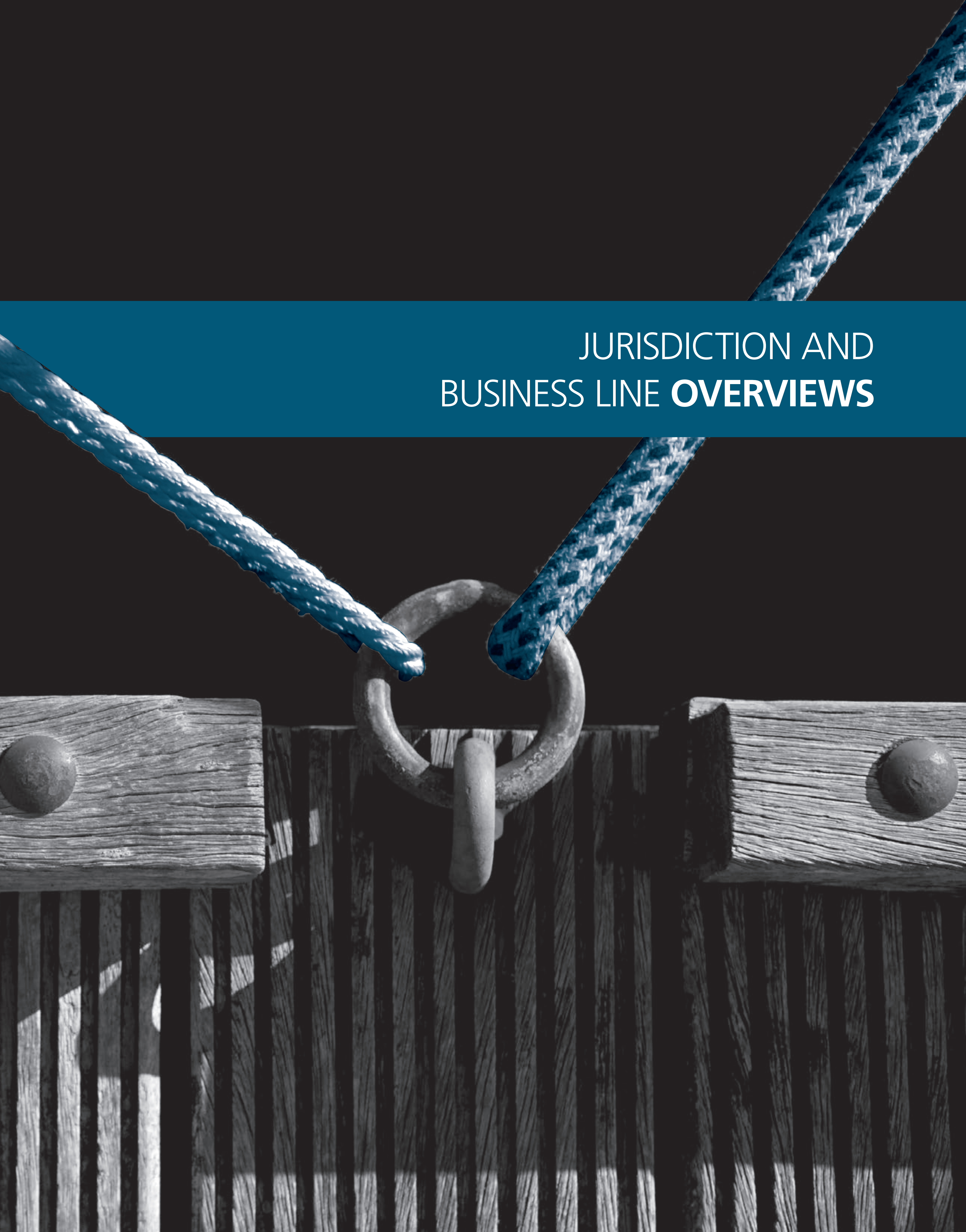
Specific performance measures and tolerance thresholds in respect of each risk category, combining quantitative and qualitative targets (which are designed to reflect both forward looking as well as historical perspectives), are designed to provide executive management and the Board with an indication of the "direction" of our exposure relative to our declared risk appetite and an early warning of material adverse developments requiring remedial action. The measures 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.

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. In 2015, Butterfield was named the Official Bermuda Bank of the 2017 America's Cup. Recognised in 2013, 2014 and 2015 as Bermuda's Bank of the Year by *The Banker*, Butterfield is Bermuda's largest independent bank, offering a full range of community banking services and wealth management services, including private banking, asset management and personal trusts. Butterfield also provides services to corporate and institutional clients in Bermuda, which includes asset management and corporate trust services.

Net income before other gains and losses was $43.0 million at 31 December 2015, down $10.3 million from $53.3 million in the prior year, due principally to increased project-related professional fees, increased severance and early retirement costs, a provision in connection with an ongoing US regulatory compliance matter, partially offset by lower provisions for credit losses.

Other losses of $2.5 million during the year were unfavourable by $9.4 million compared to net gains of $6.9 million in 2014. Other losses in 2015 were due primarily to realised losses upon the sale of certain AFS investments of $2.8 million due to the strategic repositioning of the investment portfolio partially offset by decreased valuation allowances taken on foreclosed properties. In 2014, an $8.7 million gain was recorded from the sale of a pass-through note. Net income after gains and losses was $40.5 million, a decrease of $19.7 million from $60.2 million in the prior year.

Net interest income before provision for credit losses increased by $0.4 million to $145.1 million in 2015. The increase was driven primarily by investment income that increased by $1.5 million due to a higher volume of investments, deposit income that increased by $0.2 million due to a greater volume of deposits placed, lower deposit interest expense of $0.6 million due to a lower volume of interest bearing deposits, and lower long-term debt interest expense of $0.8 million due to one tranche of long-term debt rolling over into a lower interest rate. This was partially offset by lower loan interest income of $2.7 million from lower loan volumes.

Provision for credit losses was $3.6 million, down $2.8 million from the prior year, which resulted primarily from large provisions for commercial loans and residential mortgages that were taken in 2014, compared to much lower required provisions in 2015, combined with increased recoveries, which were partially offset by unfavourable growth in new loans written and some quicker than expected prepayments in 2015.

Non-interest income increased by $0.4 million to $61.0 million in 2015, due primarily to increased asset management revenue from increased money market fund rates and other one-time fees, increased banking revenues resulting primarily from increased electronic banking revenues, which was partially offset by decreased rental income from the sale of hotel properties in 2014 and decreased foreign exchange and trust revenues due to decreased volumes.

Operating expenses increased by $13.8 million to $159.5 million in 2015 due to higher project-related professional fees, increased salaries and other benefits expense relating to increased severance and post-retirement medical expense partially offset by reduced headcount and incentive compensation, a provision in connection with an ongoing US regulatory compliance matter, and increased non-income taxes from higher payroll taxes, partially offset by decreased property management and maintenance costs resulting from the sale of hotel properties in 2014 as well as cost savings initiatives resulting in lower electrical costs.

Total assets as at 31 December 2015 were $5.1 billion, up $0.3 billion from year-end 2014. Customer deposits ended the year at $4.3 billion, up $0.4 billion from year-end 2014 from organic customer growth, and loan balances ended the year at $2.1 billion, up $0.1 billion from year-end 2014 primarily from a growth in government lending.

Client assets under administration for the trust and custody businesses were $32.1 billion and $29.4 billion, respectively, whilst assets under management were $2.1 billion. This compares with $33.7 billion, $29.8 billion and $2.3 billion, respectively, at 31 December 2014.

ATLANTIC OCEAN | 32.2930° N 64.7820° W

(in $ thousands)	2015	2014	$ change	% change
Net interest income	**145,088**	144,692	396	0.3%
Provision for credit losses	**(3,625)**	(6,425)	2,800	(43.6%)
Non-interest income	**61,050**	60,692	358	0.6%
Net revenue before other gains (losses)	**202,513**	198,959	3,554	1.8%
Operating expenses	**(159,474)**	(145,696)	(13,778)	9.5%
Net income before other gains (losses)	**43,039**	53,263	(10,224)	(19.2%)
Total other gains (losses)	**(2,503)**	6,908	(9,411)	(136.2%)
Net income	**40,536**	60,171	(19,635)	(32.6%)
As at 31 December				
(in $ millions)				
Customer deposits	**4,272**	3,870	402	10.4%
Loans, net of allowance for credit losses	**2,097**	2,031	66	3.2%
Total assets	**5,114**	4,797	317	6.6%
Assets under administration				
Custody and other administration services	**29,367**	29,824	(457)	(1.5%)
Trust	**32,064**	33,650	(1,586)	(4.7%)
Assets under management				
Butterfield Funds	**1,644**	1,893	(249)	(13.2%)
Other assets under management	**479**	404	75	18.6%
Total assets under management	**2,123**	2,297	(174)	(7.6%)
Number of employees	**529**	537	(8)	(1.5%)

CAYMAN ISLANDS

Butterfield in the Cayman Islands offers a comprehensive range of personal and corporate financial services. In addition to our strong retail presence, Butterfield is focused on the provision of wealth management services including private banking, asset management and trust services.

Named Bank of the Year in the Cayman Islands in 2013, 2014 and 2015 by *The Banker*, Butterfield continued to enhance its client delivery channels including online and mobile banking, and introduced new American Airlines affinity credit card products in the market. With three Banking Centres in excellent locations and 13 ATMs strategically located in Grand Cayman, Butterfield continues to be a leading provider of financial services locally.

Net income before other gains and losses at 31 December 2015 was $47.9 million, up $14.4 million from $33.5 million in 2014. The increase was due primarily to increases in interest income on loans and investments and non-interest income led by volume-driven foreign exchange income, banking, trust and asset management fees, partially offset by increased amortisation of intangible assets.

Net interest income before provision for credit losses was $66.9 million in 2015, an improvement of $7.6 million compared to 2014. The increase was driven primarily by an improvement in loan income of $4.3 million from a $104.0 million increase in average loans attributable largely to the acquisition of loans and deposits from HSBC Bank (Cayman) Limited in the fourth quarter of 2014. Investment income was up $3.5 million, resulting from an average increase of $204.3 million in fixed rate AFS securities and $217.5 million in floating rate notes. Deposit liability costs increased from $1.9 million in 2014 to $2.1 million in 2015 on growth in average customer deposits of $785.8 million.

Provision for credit losses of $0.5 million in 2015 was $0.1 million lower than provision for credit losses in 2014.

Non-interest income was $39.5 million, up $6.0 million year over year. The increase was due primarily to volume-driven increases in foreign exchange and banking fees led by wire transfer, account service charges and card volumes, along with asset management and trust fees. These increases were partially offset by lower rental income.

Other losses at 31 December 2015 were $0.8 million, an increase of $0.8 million from the prior year, which resulted primarily from investment sales as a part of the strategic repositioning of the investment portfolio, partially offset by the gain on the sale of Butterfield House, a building formerly occupied by the Bank.

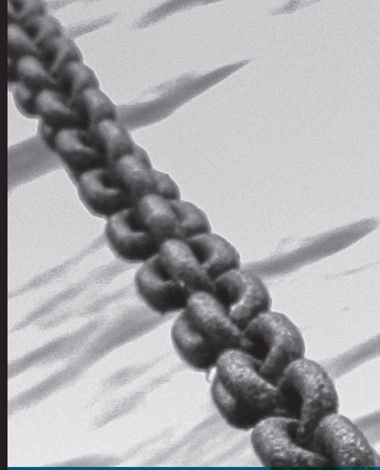
Operating expenses decreased $0.7 million, year over year, to $58.1 million, driven primarily by acquisition integration and other project costs in 2014, along with lower technology and communication costs in the current year, which were partially offset by increased salary and employee benefit costs and amortisation of intangible assets following the acquisition of loans and deposits from HSBC Bank (Cayman) Limited in the fourth quarter of 2014.

Total assets at 31 December 2015 were $3.3 billion, up $0.4 billion from year-end 2014, reflecting higher client deposit levels, in addition to the acquisition of loans and deposits from HSBC Cayman in November 2014. Net loans remained flat from year-end 2014 to end the year at $1.1 billion. The AFS investments, at $1.0 billion at the end of fiscal 2015, were up $0.2 billion, year over year.

Client assets under administration for the trust and custody businesses were $3.5 billion and $2.0 billion, respectively, whilst assets under management were $0.9 billion at year end. This compares with $3.4 billion, $1.5 billion and $0.8 billion, respectively, at 31 December 2014.

CARIBBEAN SEA | 19.3034° N 81.3863° W

(in $ thousands)	2015	2014	$ change	% change
Net interest income	**66,925**	59,370	7,555	12.7%
Provision for credit losses	**(466)**	(557)	91	(16.3%)
Non-interest income	**39,508**	33,515	5,993	17.9%
Net revenue before other gains (losses)	**105,967**	92,328	13,639	14.8%
Operating expenses	**(58,115)**	(58,829)	714	(1.2%)
Net income before other gains (losses)	**47,852**	33,499	14,353	42.8%
Total other gains (losses)	**(793)**	36	(829)	(2302.8%)
Net income	**47,059**	33,535	13,524	40.3%
As at 31 December				
(in $ millions)				
Customer deposits	**3,013**	2,591	422	16.3%
Loans, net of allowance for credit losses	**1,065**	1,104	(39)	(3.5%)
Total assets	**3,282**	2,864	418	14.6%
Assets under administration				
Custody and other administration services	**2,008**	1,464	544	37.2%
Trust	**3,463**	3,432	31	0.9%
Assets under management				
Butterfield Funds	**83**	111	(28)	(25.2%)
Other assets under management	**768**	696	72	10.3%
Total assets under management	**851**	807	44	5.5%
Number of employees	**293**	293	-	-



GUERNSEY

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

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

Guernsey posted net income before gains and losses of $2.8 million in 2015, compared to $5.1 million in 2014. The year-on-year reduction is due mainly to increased expenses, primarily salaries and benefits, as a result of the full year of increased full-time headcount from the Legis transaction, as well as adverse exchange rate movements affecting revenues.

Other losses of $1.1 million during the year were up by $5.5 million compared to net gains of $4.4 million in 2014, due primarily to valuation changes on certain US government and federal agency securities. Net income after gains and losses was $1.7 million, a decrease of $7.8 million from $9.6 million in the prior year.

Net interest income before provision for credit losses decreased by $1.5 million to $16.6 million in 2015, compared to $18.1 million in 2014, primarily due to lower interest income earned on investments from lower yields, as well as adverse exchange rate movements.

Provision for credit losses was $0.1 million, compared to $0.2 million in 2014.

Non-interest income decreased $0.6 million to $26.2 million in 2015, attributable to lower banking revenue from the termination of a tailor-made banking product for one of our major clients in 2014, and adverse exchange rate movements offset by increased trust revenues as a result of new business growth and the impact of the Legis transaction in the prior year.

Operating expenses at $39.9 million were $0.3 million higher than 2014 due to higher staff expenses from headcount increases, offset by favourable exchange rate movements and lower amortisation, as intangibles from a previous acquisition were fully amortised by year-end 2014.

Total assets of $1.4 billion as at 31 December 2015 were down from $1.6 billion at year-end 2014.

Client assets under administration for the trust and custody businesses were $31.3 billion and $6.3 billion, respectively, whilst assets under management were $0.4 billion at 31 December 2015. This compares with $41.0 billion, $9.2 billion and $0.4 billion, respectively, at 31 December 2014.

ENGLISH CHANNEL | 49.4555° N 2.5368° W

(in $ thousands)	2015	2014	$ change	% change
Net interest income	**16,598**	18,061	(1,463)	(8.1%)
Provision for credit losses	**(103)**	(154)	51	(33.1%)
Non-interest income	**26,171**	26,814	(643)	(2.4%)
Net revenue before other gains (losses)	**42,666**	44,721	(2,055)	(4.6%)
Operating expenses	**(39,872)**	(39,580)	(292)	0.7%
Net income before other gains (losses)	**2,794**	5,141	(2,347)	(45.7%)
Total other gains (losses)	**(1,066)**	4,432	(5,498)	(124.1%)
Net income	**1,728**	9,573	(7,845)	(81.9%)
As at 31 December				
(in $ millions)				
Customer deposits	**1,245**	1,496	(251)	(16.8%)
Loans, net of allowance for credit losses	**433**	527	(94)	(17.8%)
Total assets	**1,391**	1,639	(248)	(15.1%)
Assets under administration				
Custody and other administration services	**6,253**	9,247	(2,994)	(32.4%)
Trust	**31,339**	41,016	(9,677)	(23.6%)
Assets under management				
Butterfield Funds	**55**	46	9	19.6%
Other assets under management	**355**	355	-	-
Total assets under management	**410**	401	9	2.2%
Number of employees	**203**	211	(8)	(3.8%)

UNITED KINGDOM

In the UK in 2015, Butterfield provided a range of traditional private banking, lending, treasury and investment management services, inclusive of the provision of family office services to high net worth international clients through the expertise within the Butterfield Group. Subsequent to year end, the Bank announced the orderly wind down of the deposit-taking and investment management business in the UK.

The UK recorded a net loss of $12.0 million in 2015, down $17.2 million from net income of $5.2 million in 2014. Costs associated with the orderly wind down of the UK's operations, inclusive of impairment charges and other restructuring charges, as well as lower net interest income attributable primarily to lower loan balances, accounts for the majority of the decrease.

Other losses of $5.1 million were down $9.4 million from gains in the prior year of $4.3 million, due primarily to the impairment of the core banking system as a result of the orderly wind down of the UK's operations, compared to a change in unrealised gains recorded in 2014 pertaining to certain US government and federal agency securities.

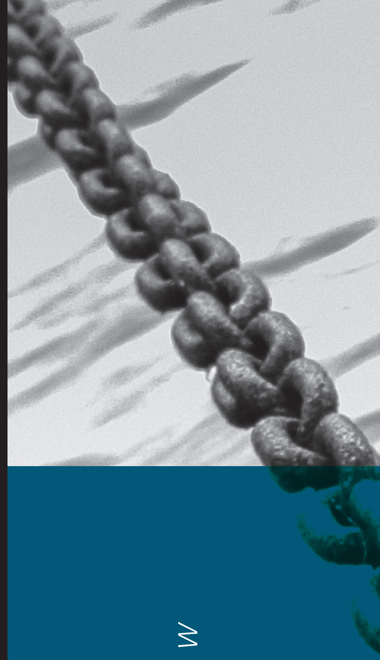
Net interest income before provision for credit losses of $10.5 million was down $5.7 million from $16.2 million in 2014. The decrease was due primarily to reduced loan interest income, which resulted from the combination of a reduction in commercial loan balances with a corresponding decrease in average interest rates earned on loans, as well as adverse exchange rate movements.

Provision for credit losses was $1.5 million in 2015 compared to $0.9 million in 2014. Additional provisions of $1.7 million were raised on two commercial loan facilities and were offset by a $0.2 million recovery on a commercial facility that was written off in 2014.

Operating expenses at $22.3 million in 2015 were $0.1 million higher than in 2014, due primarily to restructuring charges of $2.2 million recorded in 2015, as well as a $0.2 million increase in professional and outside services fees, which were slightly offset by reductions in salaries and other employee benefits from a drop in headcount, a decrease in non-income taxes from a value-added tax recovery, a decrease in rental expense, as well as favourable foreign exchange movements.

Total assets at year-end 2015 were consistent with year-end 2014 at $0.8 billion. Loan balances and customer deposit balances both remained flat from the year-end 2014 position at $0.4 billion and $0.6 billion, respectively.

Custody client assets under administration at the end of 2015 amounted to $1.6 billion, down from $1.9 billion at 31 December 2014. Assets under management were $0.2 billion at 31 December 2015, down from $0.3 billion at 31 December 2014.



RIVER THAMES | 51.5072° N 0.1275° W

(in $ thousands)	2015	2014	$ change	% change
Net interest income	**10,531**	16,213	(5,682)	(35.0%)
Provision for credit losses	**(1,547)**	(912)	(635)	69.6%
Non-interest income	**6,307**	7,717	(1,410)	(18.3%)
Net revenue before other gains (losses)	**15,291**	23,018	(7,727)	(33.6%)
Operating expenses	**(22,251)**	(22,164)	(87)	0.4%
Net income before other gains (losses)	**(6,960)**	854	(7,814)	(915.0%)
Total other gains (losses)	**(5,076)**	4,312	(9,388)	(217.7%)
Net income	**(12,036)**	5,166	(17,202)	(333.0%)
As at 31 December				
(in $ millions)				
Customer deposits	**598**	614	(16)	(2.6%)
Loans, net of allowance for credit losses	**404**	357	47	13.2%
Total assets	**788**	833	(45)	(5.4%)
Assets under administration – Custody	**1,573**	1,920	(347)	(18.1%)
Assets under management				
Butterfield Funds	**70**	88	(18)	(20.5%)
Other assets under management	**139**	183	(44)	(24.0%)
Total assets under management	**209**	271	(62)	(22.9%)
Number of employees	**80**	85	(5)	(5.9%)

GROUP TRUST

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

Alongside our traditional strengths in providing services to families and institutions connected with the UK, North America, and Europe, in 2015 we continued to build relationships with clients connected to the Asian, Middle East and Latin American regions.

Our goal is to deliver consistently reliable service to our clients underpinned by the technical expertise of our multi-jurisdictional team, which operates through separately incorporated trust businesses in our jurisdictions of choice: The Bahamas, Bermuda, the Cayman Islands, Guernsey and Switzerland. To this end, training and continual professional development for our staff remained a priority in 2015. Active participation in the local branches of leading trust industry associations and bodies such as the Society of Trust and Estate Practitioners (STEP), the worldwide professional association for those advising families across generations, also assists our employees in remaining at the forefront of their specialisations.

Our multi-jurisdictional expertise in trust and fiduciary services has been recognised by a number of prestigious wealth services industry awards in 2015. Butterfield Trust was named Trust Company of the Year at the tenth annual STEP Private Client Awards. STEP Private Client Awards are highly respected in the industry, with nominees put through a rigorous, practitioner-led judging process. Winners are considered by STEP to be the best in the industry in their areas of specialisation.

Butterfield won recognition from the UK-based publisher of wealth-management industry news and directories, *Citywealth* by being named Best Trust Company – Caribbean and runner up in the category of Best Trust Company – Switzerland at *Citywealth's* International Financial Centre Awards in January 2016. This followed our successes as runners up in the categories of Best Trust Company – Caribbean and Best Trust Company – Guernsey in last year's awards.

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

Butterfield Trust was also named as one of *eprivateclient's* Top 25 Trust Companies for 2015. *eprivateclient* is a leading provider of specialist news, analysis and comparative data for the international wealth industry.

Butterfield Trust was a prominent participant in international fiduciary services industry events through sponsorship of leading events such as the 2015 STEP Asia conference, which took place in Singapore in October, the inaugural Transcontinental Trusts Conference in Bermuda in April and the International Bar Association's 20th Wealth Transfer Conference in London in March 2015.

In 2015, trust revenues totalled $40.3 million, an increase of 5.2% from 2014, attributable to the full-year effect of the 2014 acquisition of the Legis Group's trust and corporate administration business in Guernsey, and also to strong new business results. Close relationships with our clients and their advisers, as well as structured, proactive business development activities led to an increase in new business in both personal and institutional fiduciary services in all of our businesses.

Trust revenues 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.

Trust revenues represented 28.7% of total non-interest income in 2015, up from 28.4% in 2014.

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

(in $ millions)	2015	2014	$ change	% change
Bermuda	**32,064**	33,650	(1,586)	(4.7%)
Cayman Islands	**3,463**	3,432	31	0.9%
Guernsey	**31,339**	41,016	(9,677)	(23.6%)
Switzerland	**10,752**	3,097	7,655	247.2%
The Bahamas	**4,211**	3,203	1,008	31.5%
Total	**81,829**	84,398	(2,569)	(3.0%)

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.

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

Group Asset Management revenue was $18.9 million in 2015, compared to $17.7 million in 2014. The increase of $1.2 million is mainly due to the fees earned from the launch of the BAM Private Equity II Fund as well as new business growth.

Assets under management were $3.6 billion at year-end 2015, compared to $3.8 billion at the end of 2014. The decrease of $0.2 billion is due primarily to the withdrawals of Money Market Fund balances as clients seek better-yielding alternatives for short-term investments. This is partly offset by an increase in discretionary clients.

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

	2015			2014		
(in $ millions)	**Butterfield Funds**	**Other assets**	**Total AUM**	**Butterfield Funds**	**Other assets**	**Total AUM**
Bermuda	**1,644**	**479**	**2,123**	1,893	404	2,297
Cayman Islands	**83**	**768**	**851**	111	696	807
Guernsey	**55**	**355**	**410**	46	355	401
The Bahamas	**19**	**-**	**19**	26	-	26
UK	**70**	**139**	**209**	88	183	271
Total	**1,871**	**1,741**	**3,612**	2,164	1,638	3,802

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 Group Head of 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 Audit 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 statements of operations of the Bank, and regular meetings with the senior management of the Bank. Such regular reviews are intended to satisfy the Bermuda Monetary 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.

Michael W. Colli

Michael Collins
Chief Executive Officer
22 February 2016

Michael Schrum

Michael Schrum
Chief Financial Officer
22 February 2016

22 February 2016

Independent Auditor's Report

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of The Bank of N.T. Butterfield & Son Limited and its subsidiaries at 31 December 2015 and 2014, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

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

CONSOLIDATED BALANCE SHEETS

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

	As at 31 December 2015	31 December 2014
Assets		
Cash and demand deposits with banks	**489,524**	482,286
Cash equivalents	**1,799,366**	1,581,025
Cash due from banks	**2,288,890**	2,063,311
Short-term investments	**409,482**	394,770
Investment in securities		
Trading	**321,299**	417,385
Available-for-sale	**2,201,349**	2,233,549
Held-to-maturity	**701,282**	338,177
Total investment in securities	**3,223,930**	2,989,111
Loans, net of allowance for credit losses	**4,000,155**	4,019,128
Premises, equipment and computer software	**183,378**	215,123
Accrued interest	**17,460**	19,241
Goodwill	**23,462**	24,821
Intangible assets	**27,669**	33,041
Equity method investments	**12,786**	12,838
Other real estate owned	**11,206**	19,300
Other assets	**77,145**	67,756
Total assets	**10,275,563**	9,858,440
Liabilities		
Customer deposits		
Non-interest bearing	**1,881,745**	1,558,122
Interest bearing	**7,285,923**	7,073,549
Total customer deposits	**9,167,668**	8,631,671
Bank deposits	**14,478**	39,906
Total deposits	**9,182,146**	8,671,577
Employee benefit plans	**122,135**	117,897
Accrued interest	**2,744**	4,754
Preference share dividends payable	**654**	655
Other liabilities	**100,530**	97,183
Total other liabilities	**226,063**	220,489
Long-term debt	**117,000**	117,000
Total liabilities	**9,525,209**	9,009,066
Shareholders' equity		
Common share capital (BMD 0.01 par; authorised shares 26,000,000,000) issued and outstanding: 472,932,535 (2014: 550,023,138)	**4,729**	5,500
Preference share capital (USD 0.01 par; USD 1,000 liquidation preference) issued and outstanding: 182,863 (2014: 183,046)	**2**	2
Contingent value convertible preference share capital (USD 0.01 par) issued and outstanding: nil (2014: 6,909,397)	**-**	69
Additional paid-in capital	**1,221,088**	1,348,465
Accumulated deficit	**(368,618)**	(405,056)
Less: treasury common shares, at cost: 9,240,317 shares (2014: 12,770,604)	**(16,350)**	(22,086)
Accumulated other comprehensive loss	**(90,497)**	(77,520)
Total shareholders' equity	**750,354**	849,374
Total liabilities and shareholders' equity	**10,275,563**	9,858,440

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

Barclay Simmons

Barclay Simmons
Chairman of the Board

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended	
	31 December 2015	31 December 2014
Non-interest income		
Asset management	**18,910**	17,728
Banking	**35,221**	34,280
Foreign exchange revenue	**31,896**	29,379
Trust	**40,264**	38,268
Custody and other administration services	**9,522**	10,166
Other non-interest income	**4,359**	5,009
Total non-interest income	**140,172**	134,830
Interest income		
Loans	**186,486**	191,986
Investments	**69,578**	67,757
Deposits with banks	**6,517**	5,358
Total interest income	**262,581**	265,101
Interest expense		
Deposits	**18,446**	20,903
Long-term debt	**4,861**	5,628
Securities sold under repurchase agreements	**8**	83
Total interest expense	**23,315**	26,614
Net interest income before provision for credit losses	**239,266**	238,487
Provision for credit losses	**(5,741)**	(8,048)
Net interest income after provision for credit losses	**233,525**	230,439
Net trading gains	**(562)**	10,070
Net realised gains (losses) on available-for-sale investments	**(4,407)**	8,680
Net realised / unrealised gains (losses) on other real estate owned	**277**	(1,804)
Impairment of fixed assets	**(5,083)**	(1,986)
Net gain on sale of equity method investments	**-**	277
Net other gains	**338**	451
Total other gains (losses)	**(9,437)**	15,688
Total net revenue	**364,260**	380,957
Non-interest expense		
Salaries and other employee benefits	**134,917**	129,761
Technology and communications	**57,069**	57,119
Property	**21,539**	24,312
Professional and outside services	**27,638**	24,022
Non-income taxes	**13,882**	14,175
Amortisation of intangible assets	**4,424**	4,281
Marketing	**3,919**	3,802
Restructuring costs	**2,183**	-
Other expenses	**19,674**	15,495
Total non-interest expense	**285,245**	272,967
Net income before income taxes	**79,015**	107,990
Income tax benefit (expense)	**(1,276)**	169
Net income	**77,739**	108,159
Earnings per common share		
Basic earnings per share	**0.13**	0.17
Diluted earnings per share	**0.12**	0.16

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Bermuda dollars)

	Year ended 31 December 2015	Year ended 31 December 2014
Net income	**77,739**	108,159
Other comprehensive income (loss), net of taxes		
Net change in unrealised gains and losses on translation of net investment in foreign operations	**(3,139)**	(2,874)
Accretion of net unrealised losses on held-to-maturity investments transferred from available-for-sale investments	**365**	-
Net change in unrealised gains and losses on available-for-sale investments	**(11,793)**	40,085
Employee benefit plans adjustments	**1,590**	(47,143)
Other comprehensive (loss), net of taxes	**(12,977)**	(9,932)
Total comprehensive income	**64,762**	98,227

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 2015		31 December 2014	
	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	**550,023,138**	**5,500**	549,803,460	5,498
Conversion of contingent value preference shares	**6,909,397**	**69**	219,678	2
Retirement of shares	**(84,000,000)**	**(840)**	-	-
Balance at end of year	**472,932,535**	**4,729**	550,023,138	5,500
Preference shares				
Balance at beginning of year	**183,046**	**2**	183,606	2
Repurchase and cancellation of preference shares	**(183)**	**-**	(560)	-
Balance at end of year	**182,863**	**2**	183,046	2
Contingent value convertible preference shares				
Balance at beginning of year	**6,909,397**	**69**	7,129,075	71
Conversion to common shares	**(6,909,397)**	**(69)**	(219,678)	(2)
Balance at end of year	-	-	6,909,397	69
Additional paid-in capital				
Balance at beginning of year		**1,348,465**		1,344,755
Share-based compensation		**7,703**		8,869
Share-based settlements		**(9,749)**		(4,503)
Reduction of carrying value on repurchase of preference shares		**(183)**		(560)
Premium paid on repurchase of preference shares		**(28)**		(96)
Retirement of shares		**(125,120)**		-
Balance at end of year		**1,221,088**		1,348,465
Accumulated deficit				
Balance at beginning of year		**(405,056)**		(460,157)
Reclassification from accumulated other comprehensive loss		**-**		(9,072)
Net income for year		**77,739**		108,159
Common share cash dividends declared and paid, $0.05 per share (2014: $0.05 per share)		**(24,846)**		(27,440)
Cash dividends declared on preference shares, $80.00 per share (2014: $80.00 per share)		**(14,631)**		(14,712)
Preference shares guarantee fee		**(1,824)**		(1,834)
Balance at end of year		**(368,618)**		(405,056)
Treasury common shares				
Balance at beginning of year	**12,770,604**	**(22,086)**	8,310,421	(10,948)
Purchase of treasury common shares	**2,503,707**	**(4,862)**	8,567,340	(17,018)
Share-based settlements	**(6,033,994)**	**10,598**	(4,107,157)	5,880
Balance at end of year	**9,240,317**	**(16,350)**	12,770,604	(22,086)
Accumulated other comprehensive loss				
Balance at beginning of year		**(77,520)**		(76,660)
Reclassification to accumulated deficit		**-**		9,072
Other comprehensive income (loss), net of taxes		**(12,977)**		(9,932)
Balance at end of year		**(90,497)**		(77,520)
Total shareholders' equity		**750,354**		849,374

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 2015	31 December 2014
Cash flows from operating activities		
Net income	**77,739**	108,159
Adjustments to reconcile net income from continuing operations to operating cash flows		
Depreciation and amortisation	**50,069**	45,116
Impairment of fixed assets	**5,083**	1,986
Increase in carrying value of equity method investments	**(980)**	(834)
Share-based payments and settlements	**7,913**	9,049
Fair value adjustments of a contingent payment	**(143)**	1,070
Net realised (gains) losses on available-for-sale investments	**4,407**	(8,680)
Equity pick up on private equity partnership investment	**(224)**	(458)
Net (gains) losses on other real estate owned	**(277)**	1,804
Loss on sale of premises and equipment	**28**	-
Net gain on sales of equity method investments	**-**	(277)
Provision for credit losses	**5,741**	8,048
Changes in operating assets and liabilities		
Decrease in accrued interest receivable	**1,417**	594
(Increase) in other assets	**(10,259)**	(3,955)
Increase (decrease) in accrued interest payable	**(1,907)**	1,040
Increase (decrease) in other liabilities and employee benefit plans	**16,932**	(18,885)
Cash provided by operating activities from operations	**155,539**	143,777
Cash flows from investing activities		
Net increase in short-term investments	**(28,358)**	(343,773)
Net change in trading investments	**96,086**	134,905
Available-for-sale investments: proceeds from sale	**238,756**	130,453
Available-for-sale investments: proceeds from maturities and pay downs	**435,827**	198,311
Available-for-sale investments: purchases	**(1,018,759)**	(800,865)
Held-to-maturity investments: proceeds from maturities and pay downs	**26,965**	12,426
Held-to-maturity investments: purchases	**(50,283)**	(18,073)
Net (increase) decrease in loans	**(36,876)**	145,023
Net additions to premises, equipment and computer software	**(1,477)**	(6,128)
Proceeds from sale of other real estate owned	**11,238**	12,389
Equity method investments: net proceeds on sale, dividends received and return on capital	**1,032**	806
Net amounts received for assuming deposits acquired from another bank	**-**	310,578
Purchase of subsidiary	**-**	(34,757)
Cash used in investing activities	**(325,849)**	(258,705)
Cash flows from financing activities		
Net increase in demand and term deposit liabilities	**598,578**	637,705
Net decrease in securities sold under agreement to repurchase	**-**	(25,535)
Repayment of long-term debt	**-**	(90,000)
Common shares repurchased	**(130,822)**	(17,018)
Preference shares repurchased	**(211)**	(656)
Proceeds from stock option exercises	**640**	1,198
Cash dividends paid on common and contingent value convertible preference shares	**(24,846)**	(27,440)
Cash dividends paid on preference shares	**(14,631)**	(14,673)
Preference shares guarantee fee paid	**(1,824)**	(1,834)
Cash provided by financing activities	**426,884**	461,747
Net effect of exchange rates on cash due from banks	**(30,995)**	(13,980)
Net increase in cash due from banks	**225,579**	332,839
Cash due from banks at beginning of year	**2,063,311**	1,730,472
Cash due from banks at end of year	**2,288,890**	2,063,311
Supplemental disclosure of cash flow information		
Cash interest paid	**21,408**	27,654
Cash income tax paid	**596**	985
Non-cash items		
Transfer to other real estate owned	**3,400**	6,086
Transfer of available-for-sale investments to held-to-maturity investments	**340,969**	-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Bermuda dollars unless otherwise stated)

NOTE 1: NATURE OF BUSINESS

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

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation and Use of Estimates and Assumptions

The accounting and financial reporting policies of the Bank and its subsidiaries conform to generally accepted accounting principles in the United States of America ("GAAP"). The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year, and actual results could differ from those estimates.

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

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

b. Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries (collectively the "Bank"), and those variable interest entities ("VIEs") where the Company is the primary beneficiary. Intercompany accounts and transactions have been eliminated. The Bank consolidates subsidiaries where it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. The Bank is deemed to have a controlling financial interest and is the primary beneficiary of a VIE if it has both the power to direct the activities of the VIE that most significantly impact the VIE economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The determination of whether the Bank meets the criteria to be considered the primary beneficiary of a VIE requires a periodic evaluation of all transactions (such as investments, loans and fee arrangements) with the entity. During the periods under review, the Bank had no interests in VIEs where the Bank was considered the primary beneficiary.

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

c. Foreign Currency Translation

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

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

d. Assets Held in Trust or Custody

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

e. Cash Due From Banks

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

f. Short-Term Investments

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

g. Investments

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

Investments are classified as trading when management has the intent to sell these investments either for profit or to invest the cash received by taking customer deposits in foreign currencies. Debt and equity securities classified as trading investments are carried at fair value in the consolidated balance sheets, with unrealised gains and losses included in the consolidated statements of operations as net realised / unrealised gains (losses) on trading investments. 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 sheets with unrealised gains and losses reported as net increase or decrease to AOCL. 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 sheets. Unrecognised gains and losses on HTM securities are disclosed in the notes to the consolidated financial statements.

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

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

Contained within other assets are investments in private equity for which the Bank does not have sufficient rights or ownership interests to follow the equity method of accounting. 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.

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

Recognition of other-than-temporary impairments

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

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

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

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

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

h. Loans

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

Acquired loans

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

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

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

Impaired loans

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

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

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

Non-accrual

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

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

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

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

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

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

Loans are returned to accrual status when:

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

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

Commercial and industrial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor is often requested. Commercial mortgage and construction loans modified in a TDR often involve extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a new borrower or guarantor. Construction loans modified in a TDR may also involve extending the interest-only payment period.

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

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

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

- If the loan was appropriately on accrual status prior to the restructuring, the borrower has demonstrated performance under the previous terms, and the Bank's credit evaluation shows the borrower's capacity to continue to perform under the restructured terms (both principal and interest payments), it is likely that the appropriate conclusion is for the loan to remain on accrual at the time of the restructuring. This evaluation must include consideration of the borrower's sustained historical repayment performance for a reasonable period prior to the date on which the loan was restructured. A sustained period of repayment performance generally would be a minimum of six months and would involve payments of cash or cash equivalents; or

- If the loan was on non-accrual status before the restructuring, but the Bank's credit evaluation shows the borrower's capacity to meet the restructured terms, the loan would likely remain as non-accrual until the borrower has demonstrated a reasonable period of sustained repayment performance. As noted above, this period generally would be at least six months (thereby providing reasonable assurance as to the ultimate collection of principal and interest in full under the modified terms). Sustained performance before the restructuring may be taken into account.

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

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

A loan that had previously been modified in a TDR and is subsequently refinanced under current underwriting standards at a market rate with no concessionary terms is accounted for as a new loan and is no longer reported as a TDR.

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 more than 30 days 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 generally written off and reported as charge-offs.

i. Allowance for Credit Losses

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

Specific allowances

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

General allowances

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

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

j. Business Combinations, Goodwill and Intangible Assets

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

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 is carried at cost. 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 initially recorded at fair value less estimated costs to sell the property. If the recorded investment in the loan exceeds the property's fair value at the time of acquisition, a charge-off is recorded against the specific allowance. If the carrying value of the real estate exceeds the property's fair value at the time of reclassification, an impairment charge is recorded in the consolidated statements of operations. Subsequent decreases in the property's fair value below the new cost basis are recorded through the use of a valuation allowance. Subsequent increases in the fair value of a property may be used to reduce the allowance but not below zero. Any operating expenses of the property are recognised through charges to non-interest expense.

m. Derivatives

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

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

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

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

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

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

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

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

n. Securities Sold Under Agreements to Repurchase

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

o. Collateral

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

p. Employee Benefit Plans

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

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

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

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

q. Share-Based Compensation

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

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

r. Revenue Recognition

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

Banking services fees primarily include fees for letters of credit and other financial guarantees, compensating balances, overdraft facilities and other financial services-related products, as well as credit card fees. Letters of credit and other financial guarantees fees are recognised as revenue over the period in which the related guarantee is outstanding. Credit card fees are comprised of merchant discounts, late fees and membership fees, net of interchange and rewards costs. Credit card fees are recognised in the period in which the service is provided. All other fees are recognised as revenue in the period in which the service is provided.

Foreign exchange revenue includes fees earned on currency exchange transactions, which are recognised when such transactions occur, as well as gains and losses recognised when translating financial instruments held or due in currencies other than the local functional currency at the rates of exchange prevailing at the balance sheet date.

Loan interest income includes the amortisation of deferred non-refundable loan origination and commitment fees. These fees are recognised as an adjustment of yield over the life of the related loan. Loan origination and commitment fees are offset by their related direct costs and only the net amounts are deferred and amortised into interest income.

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

s. Fair Values

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Bank determines the fair values of assets and liabilities based on the fair value hierarchy which requires an entity to maximise the use of observable inputs and minimise the use of unobservable inputs when measuring fair value. The relevant accounting standard describes three levels of inputs that may be used to measure fair value. Investments classified as trading and AFS, and derivative assets and liabilities are recognised in the consolidated balance sheets 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 marketplace 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 due from banks
The carrying amount of cash and demand deposits with banks, being short-term in nature, is deemed to approximate fair value.

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

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

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

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

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

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

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

Loans

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

Accrued interest

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

OREO

OREO assets are carried at the lower of cost or fair value less estimated costs to sell. The determination of fair value, which aims at estimating the realisable value of the properties, is based either on third-party appraisals, when available, or on internal valuation models. 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.

Long-term debt

The fair value of the long-term debt has been estimated by discounting the contractual cash flows, using current market interest rates.

Derivatives

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

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

Goodwill

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

t. Impairment or Disposal of Long-Lived Assets

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

u. Credit-Related Arrangements

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

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

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

v. Income Taxes

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

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

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

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

w. Consolidated Statements of Cash Flows

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

x. Earnings Per Share

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

y. New Accounting Pronouncements

The following accounting developments were issued during the year ended 31 December 2015:

In February 2015, the Financial Accounting Standards Board ("FASB") published Accounting Standards Update No. 2015-02 Consolidation (Topic 810) which provides amendments to the current consolidation analysis which affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to re-evaluation under the revised consolidation model. Specifically, the amendments: modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; eliminate the presumption that a general partner should consolidate a limited partnership; affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and provide a scope exception for entities required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The update is effective for public business entities for annual periods, and interim periods within those fiscal years, beginning after 15 December 2015. Early adoption is permitted, including adoption in an interim period. The Bank has early adopted this guidance and has applied a full retrospective adoption approach. There has not been a material impact on the Bank's consolidated financial position or results of operations.

In April 2015, FASB published Accounting Standards Update No. 2015-03 Interest - Imputation of Interest (Subtopic 835-30) which requires that debt issuance costs related to a recognised debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The update is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after 15 December 2015. Early adoption is permitted for financial statements that have not been previously issued. The Bank has assessed the adoption of this guidance based upon its current balance of debt issuance costs and determined that the adoption of this guidance is not expected to have an impact on the Bank's consolidated financial position.

In April 2015, FASB published Accounting Standards Update No. 2015-05 Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) to provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If not, the arrangement should be accounted for as a service contract. The update is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after 15 December 2015. Early adoption is permitted. The Bank is assessing the impact of the adoption of this guidance.

In April 2015, FASB published Accounting Standards Update No. 2015-07 Fair Value Measurement (Topic 820), which removes the requirement to categorise within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Current US GAAP requires that investments for which fair value is measured at net asset value (or its equivalent) using the practical expedient in Topic 820 be categorised within the fair value hierarchy using criteria that differs from the criteria used to categorise other fair value measurements within the hierarchy. Under the amendments in this update, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient should not be categorised in the fair value hierarchy. The update is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after 15 December 2015 and should be applied retrospectively to all periods presented. Early application is permitted. The Bank is assessing the impact of the adoption of this guidance.

In July 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-12, (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient. The ASU (1) requires a pension plan to use contract value as the only measure for fully benefit-responsive investment contracts, (2) simplifies and increases the effectiveness of the investment disclosure requirements for employee benefit plans, and (3) provides benefit plans with a measurement-date practical expedient which provides guidance for when a benefit plan's fiscal year end does not coincide with the end of a calendar month. The Bank does not have a fully benefit responsive investment contract, and the Bank's benefit plans each have a fiscal year coinciding with a month end, and accordingly the Bank has concluded that Part I and Part III are not applicable. The amendments in all three parts of this Update are effective for fiscal years beginning after 15 December 2015. Earlier application is permitted. The Bank has concluded that its current disclosures meet the requirements as directed under Part II, and therefore the adoption of this guidance is not expected to have an impact on the Bank's consolidated financial statements.

In August 2015, FASB published Accounting Standards Update No. 2015-14 Revenue from Contracts with Customers (Topic 606) which defers the effective date of Accounting Standards Update No. 2014-09 for all entities by one year. Public business entities should apply the guidance in Update 2014-09 to annual reporting periods beginning after 15 December 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after 15 December 2016, including interim reporting periods within that reporting period.

NOTE 3: CASH DUE FROM BANKS

	31 December 2015			31 December 2014		
	Bermuda	**Non-Bermuda**	**Total**	Bermuda	Non-Bermuda	Total
Unrestricted						
Non-interest earning						
Cash and demand deposits with banks	**31,199**	**79,696**	**110,895**	23,609	116,056	139,665
Interest earning[1]						
Demand deposits with banks	**130,589**	**248,040**	**378,629**	203,572	139,049	342,621
Cash equivalents	**691,439**	**1,107,927**	**1,799,366**	469,388	1,111,637	1,581,025
Sub-total - Interest earning	**822,028**	**1,355,967**	**2,177,995**	672,960	1,250,686	1,923,646
Total cash due from banks	**853,227**	**1,435,663**	**2,288,890**	696,569	1,366,742	2,063,311

[1] Interest earning cash due from banks includes certain demand deposits with banks as at 31 December 2015 in the amount of $306.9 million (31 December 2014: $311.6 million) that are earning interest at a negligible rate.

NOTE 4: SHORT-TERM INVESTMENTS

	31 December 2015			31 December 2014		
	Bermuda	**Non-Bermuda**	**Total**	Bermuda	Non-Bermuda	Total
Unrestricted term deposits, certificate of deposits and treasury bills						
Maturing within three months	**-**	**104,249**	**104,249**	-	144,632	144,632
Maturing between three to six months	**99,810**	**192,118**	**291,928**	-	223,563	223,563
Maturing between six to twelve months	**-**	**796**	**796**	-	15,694	15,694
Total unrestricted short-term investments	**99,810**	**297,163**	**396,973**	-	383,889	383,889
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Interest earning demand deposits	**12,509**	**-**	**12,509**	9,141	1,740	10,881
Total short-term investments	**112,319**	**297,163**	**409,482**	9,141	385,629	394,770

NOTE 5: INVESTMENTS IN SECURITIES

Amortised Cost, Carrying Amount and Fair Value

On the consolidated balance sheets trading and available-for-sale ("AFS") investments are carried at fair value and held-to-maturity ("HTM") investments are carried at amortised cost.

	31 December 2015				31 December 2014			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Fair value
Trading								
Certificates of deposit	-	-	-	-	37,724	19	-	37,743
US government and federal agencies	278,500	2,347	(1,504)	279,343	311,061	3,448	(2,002)	312,507
Debt securities issued by non-US governments	7,483	6	-	7,489	7,600	52	-	7,652
Asset-backed securities - Student loans	28,845	-	(560)	28,285	52,847	-	(250)	52,597
Mutual funds	5,739	903	(460)	6,182	6,793	1,037	(944)	6,886
Total trading	320,567	3,256	(2,524)	321,299	416,025	4,556	(3,196)	417,385
Available-for-sale								
US government and federal agencies	1,399,456	8,812	(3,769)	1,404,499	1,570,665	13,694	(8,996)	1,575,363
Debt securities issued by non-US governments	29,275	300	-	29,575	30,654	144	(125)	30,673
Corporate debt securities	505,139	3,779	(2,774)	506,144	391,059	9,393	(1,163)	399,289
Asset-backed securities - Student loans	13,291	-	(1,130)	12,161	13,290	-	(1,064)	12,226
Commercial mortgage-backed securities	153,046	9	(4,329)	148,726	154,211	33	(3,075)	151,169
Residential mortgage-backed securities - Prime	101,382	-	(1,138)	100,244	65,167	264	(602)	64,829
Total available-for-sale	2,201,589	12,900	(13,140)	2,201,349	2,225,046	23,528	(15,025)	2,233,549
Held-to-maturity[1]								
US government and federal agencies	701,282	5,365	(5,152)	701,495	338,177	6,330	(518)	343,989
Total held-to-maturity	701,282	5,365	(5,152)	701,495	338,177	6,330	(518)	343,989

[1] For the years ended 31 December 2015 and 2014, non-credit impairments recognised in accumulated other comprehensive loss ("AOCL") for HTM investments were $nil.

Investments with Unrealised Loss Positions

In the following tables, debt securities with unrealised losses that are not deemed to be other-than-temporarily-impaired ("OTTI") are categorised as being in a loss position for "less than 12 months" or "12 months or more" based on the point in time that the fair value most recently declined below the amortised cost basis.

	Less than 12 months		12 months or more			
31 December 2015	**Fair value**	**Gross unrealised losses**	**Fair value**	**Gross unrealised losses**	**Total fair value**	**Total gross unrealised losses**
Available-for-sale securities with unrealised losses						
US government and federal agencies	364,939	(865)	177,224	(2,904)	542,163	(3,769)
Debt securities issued by non-US governments	-	-	-	-	-	-
Corporate debt securities	253,991	(1,480)	38,706	(1,294)	292,697	(2,774)
Asset-backed securities - Student loans	-	-	12,160	(1,130)	12,160	(1,130)
Commercial mortgage-backed securities	-	-	147,822	(4,329)	147,822	(4,329)
Residential mortgage-backed securities - Prime	90,220	(660)	10,024	(478)	100,244	(1,138)
Total available-for-sale securities with unrealised losses	709,150	(3,005)	385,936	(10,135)	1,095,086	(13,140)
Held-to-maturity securities with unrealised losses						
US government and federal agencies	217,768	(2,138)	241,855	(3,014)	459,623	(5,152)

	Less than 12 months		12 months or more			
31 December 2014	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses	Total fair value	Total gross unrealised losses
Available-for-sale securities with unrealised losses						
US government and federal agencies	281,469	(2,294)	263,586	(6,702)	545,055	(8,996)
Debt securities issued by non-US governments	22,588	(125)	-	-	22,588	(125)
Corporate debt securities	8,090	(8)	38,845	(1,155)	46,935	(1,163)
Asset-backed securities - Student loans	-	-	12,226	(1,064)	12,226	(1,064)
Commercial mortgage-backed securities	-	-	150,216	(3,075)	150,216	(3,075)
Residential mortgage-backed securities - Prime	-	-	18,116	(602)	18,116	(602)
Total available-for-sale securities with unrealised losses	312,147	(2,427)	482,989	(12,598)	795,136	(15,025)
Held-to-maturity securities with unrealised losses						
US government and federal agencies	-	-	60,556	(518)	60,556	(518)

The Bank does not believe that the investment securities that were in an unrealised loss position as of 31 December 2015, which were comprised of 99 securities representing 54% of the portfolio's fair value, represent an OTTI. Total gross unrealised losses were 1.1% of the fair value of affected securities and were attributable primarily to changes in market interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. Due to a strategic change in the investment portfolio composition during the year ended 31 December 2015, several AFS securities were sold while being in an unrealised loss position. The Bank considers this to be a one-time event, and has determined that it is more likely than not that the Bank will not be required to sell any of the remaining investment securities before recovery of the amortised cost basis.

The following describes the processes for identifying credit impairment in security types with the most significant unrealised losses as shown in the preceding tables.

Management believes that all the **US government and federal agencies** securities do not have any credit losses, given the explicit and implicit guarantees provided by the US federal government.

The unrealised losses in **corporate debt securities** relate primarily to one debt security issued by a US government-sponsored enterprise and is implicitly backed by the US federal government. Management believes that the value of this security will recover and the current unrealised loss position is a result of interest rate movements.

Investments in **asset-backed securities - student loans** are composed primarily of securities collateralised by Federal Family Education Loan Program loans ("FFELP loans"). FFELP loans benefit from a US 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.

Investments in **commercial mortgage-backed securities** are predominantly senior securities rated "AAA" and possess significant subordination, a form of credit enhancement expressed hereafter as the percentage of pool losses that can occur before the senior securities held by the Bank will incur its first dollar of principal loss. No credit losses were recognised on these securities as credit support and loan-to-value ratios ("LTV") range from 5% - 36% and 24% - 61%, respectively. Current credit support is significantly greater than any delinquencies experienced on the underlying mortgages.

Investments in **residential mortgage-backed securities - prime** are predominantly rated "AAA" and possess significant credit enhancement as described above. No credit losses were recognised on these securities as there are no delinquencies over 30 days on the underlying mortgages and the weighted average credit support and LTV ratios range from 8% - 16% and 58% - 69%, respectively.

Investments' 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.

	Remaining term to average contractual maturity						
31 December 2015	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**5 to 10 years**	**Over 10 years**	**No specific maturity**	**Carrying amount**
Trading							
US government and federal agencies	-	24,874	8,497	53,248	192,724	-	279,343
Debt securities issued by non-US governments	7,489	-	-	-	-	-	7,489
Asset-backed securities - Student loans	-	-	28,285	-	-	-	28,285
Mutual funds	-	-	-	-	-	6,182	6,182
Total trading	7,489	24,874	36,782	53,248	192,724	6,182	321,299
Available-for-sale							
US government and federal agencies	-	-	126,163	202,385	1,075,951	-	1,404,499
Debt securities issued by non-US governments	-	1,360	5,399	22,816	-	-	29,575
Corporate debt securities	60,493	55,649	351,296	38,706	-	-	506,144
Asset-backed securities - Student loans	-	-	-	-	12,161	-	12,161
Commercial mortgage-backed securities	-	-	-	42,532	106,194	-	148,726
Residential mortgage-backed securities - Prime	-	-	-	-	100,244	-	100,244
Total available-for-sale	60,493	57,009	482,858	306,439	1,294,550	-	2,201,349
Held-to-maturity							
US government and federal agencies	-	-	-	45,664	655,618	-	701,282
Total investments	67,982	81,883	519,640	405,351	2,142,892	6,182	3,223,930
Total by currency							
US dollars	67,982	81,883	519,640	405,351	2,142,892	5,903	3,223,651
Other	-	-	-	-	-	279	279
Total investments	67,982	81,883	519,640	405,351	2,142,892	6,182	3,223,930

31 December 2014	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							
Certificates of deposit	18,246	19,497	-	-	-	-	37,743
US government and federal agencies	-	-	34,479	49,262	228,766	-	312,507
Debt securities issued by non-US governments	-	-	7,652	-	-	-	7,652
Asset-backed securities - Student loans	-	-	52,597	-	-	-	52,597
Mutual funds	-	-	-	-	-	6,886	6,886
Total trading	18,246	19,497	94,728	49,262	228,766	6,886	417,385
Available-for-sale							
US government and federal agencies	-	-	65,826	286,507	1,223,030	-	1,575,363
Debt securities issued by non-US governments	-	1,360	6,724	22,589	-	-	30,673
Corporate debt securities	8,090	121,930	230,424	38,845	-	-	399,289
Asset-backed securities - Student loans	-	-	-	-	12,226	-	12,226
Commercial mortgage-backed securities	-	-	-	43,128	108,041	-	151,169
Residential mortgage-backed securities - Prime	-	-	-	6,448	58,381	-	64,829
Total available-for-sale	8,090	123,290	302,974	397,517	1,401,678	-	2,233,549
Held-to-maturity							
US government and federal agencies	-	-	-	48,820	289,357	-	338,177
Total investments	26,336	142,787	397,702	495,599	1,919,801	6,886	2,989,111
Total by currency							
US dollars	13,088	123,290	397,702	495,599	1,919,801	6,037	2,955,517
Other	13,248	19,497	-	-	-	849	33,594
Total investments	26,336	142,787	397,702	495,599	1,919,801	6,886	2,989,111

Pledged Investments

The Bank pledges certain US government and federal agencies investment securities to further secure the Bank's issued customer deposit products. The secured party does not have the right to sell or repledge the collateral. The amounts of investments pledged are as follows:

	31 December 2015 **Amortised cost**	**Fair value**	31 December 2014 Amortised cost	Fair value
Classified as available-for-sale	**304,493**	**307,513**	381,434	383,665
Classified as held-to-maturity	**372,546**	**372,868**	107,837	110,175

Sale Proceeds and Realised Gains and Losses of AFS Securities

	Year ended **31 December 2015** **Sale proceeds**	**Realised gains (losses)**	**Transfers to HTM[(1)]**	31 December 2014 Sale proceeds	Realised gains (losses)
Certificates of deposit	**-**	**-**	**-**	-	-
US government and federal agencies	**232,372**	**(4,465)**	**340,969**	96,031	(52)
Debt securities issued by non-US governments	**-**	**-**	**-**	-	-
Residential mortgage-backed securities - Prime	**6,056**	**(270)**	**-**	-	-
Pass-through note	**328**	**328**	**-**	34,422	8,732
Net realised gains (losses) recognised in net income	**238,756**	**(4,407)**	**340,969**	130,453	8,680

[(1)]During 2015, certain investments were transferred out of the AFS categorisation and into HTM. The transfers were recorded at fair value of the securities on the date of transfer. The related net unrealised losses of $2.7 million that was recorded in AOCI will be accreted over the remaining life of the transferred investments using the effective interest rate method.

NOTE 6: LOANS

The "Bermuda" and "Non-Bermuda" classifications' purpose is to reflect management segment reporting as described in Note 15: Segmented information.

	31 December 2015			31 December 2014		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Commercial loans						
Government	**202,776**	**22,402**	**225,178**	66,708	46,776	113,484
Commercial and industrial	**121,466**	**221,243**	**342,709**	137,053	251,392	388,445
Commercial overdrafts	**34,997**	**5,736**	**40,733**	48,107	11,194	59,301
Total gross commercial loans	**359,239**	**249,381**	**608,620**	251,868	309,362	561,230
Less specific allowance for credit losses on commercial loans	**(590)**	**-**	**(590)**	(352)	(65)	(417)
Total commercial loans after specific allowance for credit losses	**358,649**	**249,381**	**608,030**	251,516	309,297	560,813
Commercial real estate loans						
Commercial mortgage	**415,747**	**249,622**	**665,369**	415,315	281,663	696,978
Construction	**5,396**	**8,211**	**13,607**	-	20,617	20,617
Total gross commercial real estate loans	**421,143**	**257,833**	**678,976**	415,315	302,280	717,595
Less specific allowance for credit losses on commercial real estate loans	**(727)**	**(2,224)**	**(2,951)**	(770)	(1,052)	(1,822)
Total commercial real estate loans after specific allowance for credit losses	**420,416**	**255,609**	**676,025**	414,545	301,228	715,773
Consumer loans						
Automobile financing	**12,308**	**7,556**	**19,864**	12,639	7,716	20,355
Credit card	**59,119**	**19,839**	**78,958**	58,500	20,684	79,184
Overdrafts	**4,750**	**8,165**	**12,915**	12,935	8,208	21,143
Other consumer	**32,022**	**84,062**	**116,084**	43,679	113,941	157,620
Total gross consumer loans	**108,199**	**119,622**	**227,821**	127,753	150,549	278,302
Less specific allowance for credit losses on consumer loans	**(274)**	**-**	**(274)**	(355)	-	(355)
Total consumer loans after specific allowance for credit losses	**107,925**	**119,622**	**227,547**	127,398	150,549	277,947
Residential mortgage loans	**1,243,221**	**1,290,819**	**2,534,040**	1,270,867	1,238,616	2,509,483
Less specific allowance for credit losses on residential mortgage loans	**(13,411)**	**(1,879)**	**(15,290)**	(14,771)	(1,446)	(16,217)
Total residential mortgage loans after specific allowance for credit losses	**1,229,810**	**1,288,940**	**2,518,750**	1,256,096	1,237,170	2,493,266
Total gross loans	**2,131,802**	**1,917,655**	**4,049,457**	2,065,803	2,000,807	4,066,610
Less specific allowance for credit losses	**(15,002)**	**(4,103)**	**(19,105)**	(16,248)	(2,563)	(18,811)
Less general allowance for credit losses	**(20,176)**	**(10,021)**	**(30,197)**	(18,992)	(9,679)	(28,671)
Net loans	**2,096,624**	**1,903,531**	**4,000,155**	2,030,563	1,988,565	4,019,128

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, business and government loans are generally repayable over terms not exceeding five years. Amounts owing on credit cards are revolving and typically a minimum amount is due within 30 days from billing. The effective yield on total loans as at 31 December 2015 is 4.57% (31 December 2014: 4.51%).

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

The following tables summarise the past due status of the loans as at 31 December 2015 and 2014. The aging of past due amounts are determined based on the contractual delinquency status of payments under the loan and this aging may be affected by the timing of the last business day at period end.

31 December 2015	30-59 days	60-89 days	More than 90 days	Total past due loans	Total current [1]	Total loans
Commercial loans						
Government	-	-	-	-	225,178	225,178
Commercial and industrial	11	14	608	633	342,076	342,709
Commercial overdrafts	-	-	25	25	40,708	40,733
Total commercial loans	11	14	633	658	607,962	608,620
Commercial real estate loans						
Commercial mortgage	1,133	-	6,658	7,791	657,578	665,369
Construction	-	-	-	-	13,607	13,607
Total commercial real estate loans	1,133	-	6,658	7,791	671,185	678,976
Consumer loans						
Automobile financing	194	81	78	353	19,511	19,864
Credit card	1,459	337	132	1,928	77,030	78,958
Overdrafts	-	-	538	538	12,377	12,915
Other consumer	832	979	1,231	3,042	113,042	116,084
Total consumer loans	2,485	1,397	1,979	5,861	221,960	227,821
Residential mortgage loans	40,793	8,911	65,343	115,047	2,418,993	2,534,040
Total gross loans	44,422	10,322	74,613	129,357	3,920,100	4,049,457

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

31 December 2014	30-59 days	60-89 days	More than 90 days	Total past due loans	Total current [1]	Total loans
Commercial loans						
Government	-	-	-	-	113,484	113,484
Commercial and industrial	357	29	1,776	2,162	386,283	388,445
Commercial overdrafts	-	-	61	61	59,240	59,301
Total commercial loans	357	29	1,837	2,223	559,007	561,230
Commercial real estate loans						
Commercial mortgage	909	1,001	9,054	10,964	686,014	696,978
Construction	-	-	-	-	20,617	20,617
Total commercial real estate loans	909	1,001	9,054	10,964	706,631	717,595
Consumer loans						
Automobile financing	165	19	152	336	20,019	20,355
Credit card	753	384	202	1,339	77,845	79,184
Overdrafts	-	-	10	10	21,133	21,143
Other consumer	856	270	1,653	2,779	154,841	157,620
Total consumer loans	1,774	673	2,017	4,464	273,838	278,302
Residential mortgage loans	29,577	15,889	80,812	126,278	2,383,205	2,509,483
Total gross loans	32,617	17,592	93,720	143,929	3,922,681	4,066,610

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

Loans' Credit Quality

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

31 December 2015	Pass	Special mention	Substandard	Non-accrual[1]	Total gross recorded investments
Commercial loans					
Government	213,928	11,250	-	-	225,178
Commercial and industrial	333,853	4,133	4,106	617	342,709
Commercial overdrafts	36,017	4,493	197	26	40,733
Total commercial loans	583,798	19,876	4,303	643	608,620
Commercial real estate loans					
Commercial mortgage	542,195	86,285	26,629	10,260	665,369
Construction	13,607	-	-	-	13,607
Total commercial real estate loans	555,802	86,285	26,629	10,260	678,976
Consumer loans					
Automobile financing	19,378	388	-	98	19,864
Credit card	78,826	-	132	-	78,958
Overdrafts	11,618	54	1,232	11	12,915
Other consumer	112,426	1,308	1,056	1,294	116,084
Total consumer loans	222,248	1,750	2,420	1,403	227,821
Residential mortgage loans	2,391,723	42,578	46,793	52,946	2,534,040
Total gross recorded loans	3,753,571	150,489	80,145	65,252	4,049,457

[1] Excludes purchased credit-impaired loans.

31 December 2014	Pass	Special mention	Substandard	Non-accrual[1]	Total gross recorded investments
Commercial loans					
Government	98,484	15,000	-	-	113,484
Commercial and industrial	381,560	4,254	1,898	733	388,445
Commercial overdrafts	55,439	3,452	304	106	59,301
Total commercial loans	535,483	22,706	2,202	839	561,230
Commercial real estate loans					
Commercial mortgage	544,832	91,500	48,373	12,273	696,978
Construction	20,617	-	-	-	20,617
Total commercial real estate loans	565,449	91,500	48,373	12,273	717,595
Consumer loans					
Automobile financing	19,615	564	-	176	20,355
Credit card	78,982	-	202	-	79,184
Overdrafts	20,933	167	-	43	21,143
Other consumer	153,226	1,917	714	1,763	157,620
Total consumer loans	272,756	2,648	916	1,982	278,302
Residential mortgage loans	2,344,836	49,819	58,124	56,704	2,509,483
Total gross recorded loans	3,718,524	166,673	109,615	71,798	4,066,610

[1] Excludes purchased credit-impaired loans.

Quality classification definitions

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

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

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

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

Non-Performing Loans

	31 December 2015			31 December 2014		
	Non-accrual[(1)]	Past due more than 90 days and accruing[(1)]	Total non-performing loans	Non-accrual[(1)]	Past due more than 90 days and accruing[(1)]	Total non-performing loans
Commercial loans						
Commercial and industrial	617	-	617	733	1,057	1,790
Commercial overdrafts	26	10	36	106	4	110
Total commercial loans	643	10	653	839	1,061	1,900
Commercial real estate loans						
Commercial mortgage	10,260	737	10,997	12,273	779	13,052
Consumer loans						
Automobile financing	98	-	98	176	-	176
Credit card	-	132	132	-	202	202
Overdrafts	11	527	538	43	-	43
Other consumer	1,294	85	1,379	1,763	255	2,018
Total consumer loans	1,403	744	2,147	1,982	457	2,439
Residential mortgage loans	52,946	12,760	65,706	56,704	23,443	80,147
Total non-performing loans	65,252	14,251	79,503	71,798	25,740	97,538

[(1)]Excludes purchased credit-impaired loans.

Gross Loans Evaluated For Impairment

	31 December 2015		31 December 2014	
	Individually evaluated	Collectively evaluated	Individually evaluated	Collectively evaluated
Commercial	13,607	595,013	839	560,391
Commercial real estate	38,019	640,957	33,898	683,697
Consumer	1,882	225,939	2,068	276,234
Residential mortgage	116,176	2,417,864	105,777	2,403,706
Total gross loans evaluated for impairment	169,684	3,879,773	142,582	3,924,028

Changes in General and Specific Allowances For Credit Losses

	Year ended 31 December 2015				
	Commercial	Commercial real estate	Consumer	Residential mortgage	Total
Allowances at beginning of year	7,831	5,920	2,797	30,934	47,482
Provision taken	440	1,027	586	3,688	5,741
Recoveries	788	182	1,455	427	2,852
Charge-offs	(318)	(513)	(2,031)	(3,701)	(6,563)
Other	(18)	(104)	(44)	(44)	(210)
Allowances at end of year	8,723	6,512	2,763	31,304	49,302
Allowances at end of year: individually evaluated for impairment	590	2,951	274	15,290	19,105
Allowances at end of year: collectively evaluated for impairment	8,133	3,561	2,489	16,014	30,197

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

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 original 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. During the year ended 31 December 2015, the amount of gross interest income that would have been recorded had impaired loans been current was $3.1 million (31 December 2014: $5.2 million). The tables below present information about the Bank's impaired loans:

	Impaired loans with an allowance			Gross recorded investment of impaired loans without an allowance	Total impaired loans[1]		
31 December 2015	**Gross recorded investment**	**Specific allowance**	**Net loans**		**Gross recorded investment**	**Specific allowance**	**Net loans**
Commercial loans							
Commercial and industrial	**599**	**(590)**	**9**	**1,096**	**1,695**	**(590)**	**1,105**
Commercial overdrafts	**-**	**-**	**-**	**26**	**26**	**-**	**26**
Total commercial loans	**599**	**(590)**	**9**	**1,122**	**1,721**	**(590)**	**1,131**
Commercial real estate loans							
Commercial mortgage	**6,127**	**(2,951)**	**3,176**	**17,198**	**23,325**	**(2,951)**	**20,374**
Consumer loans							
Automobile financing	**-**	**-**	**-**	**98**	**98**	**-**	**98**
Overdrafts	**-**	**-**	**-**	**11**	**11**	**-**	**11**
Other consumer	**366**	**(274)**	**92**	**1,008**	**1,374**	**(274)**	**1,100**
Total consumer loans	**366**	**(274)**	**92**	**1,117**	**1,483**	**(274)**	**1,209**
Residential mortgage loans	**42,145**	**(15,290)**	**26,855**	**39,283**	**81,428**	**(15,290)**	**66,138**
Total impaired loans	**49,237**	**(19,105)**	**30,132**	**58,720**	**107,957**	**(19,105)**	**88,852**

[1] Excludes purchased credit-impaired loans.

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

[1] Excludes purchased credit-impaired loans.

Average Impaired Loan Balances and Related Recognised Interest Income

	31 December 2015		31 December 2014	
	Average gross recorded investment	Interest income recognised[1]	Average gross recorded investment	Interest income recognised[1]
Commercial loans				
Commercial and industrial	1,214	-	1,452	-
Commercial overdrafts	66	-	289	-
Total commercial loans	1,280	-	1,741	-
Commercial real estate loans				
Commercial mortgage	28,612	311	48,581	675
Consumer loans				
Automobile financing	137	-	307	-
Credit card	-	-	35	-
Overdrafts	27	-	132	-
Other consumer	1,617	2	1,963	5
Total consumer loans	1,781	2	2,437	5
Residential mortgage loans	78,433	1,442	70,923	1,021
Total impaired loans	110,106	1,755	123,682	1,701

[1]All interest income recognised on impaired loans relates to loans previously modified in a TDR.

Loans modified in a TDR

	TDRs entered into during the year ended 31 December 2015					TDRs outstanding as at 31 December 2015	
		Pre-modification	Effects of modifications		Post-modification		
	Number of contracts	recorded investment	Amount of repayments	Interest capitalisation	recorded investment	Accrual	Non-accrual
Commercial loans	1	1,000	-	87	1,087	1,078	-
Commercial real estate loans	-	-	-	-	-	13,065	1,608
Consumer loans	-	-	-	-	-	80	-
Residential mortgage loans	20	13,283	-	1,081	14,364	28,482	7,175
Total loans modified in a TDR	21	14,283	-	1,168	15,451	42,705	8,783

	TDRs entered into during the year ended 31 December 2014					TDRs outstanding as at 31 December 2014	
		Pre-modification	Effects of modifications		Post-modification		
	Number of contracts	recorded investment	Amount of repayments	Interest capitalisation	recorded investment	Accrual	Non-accrual
Commercial real estate loans	-	-	-	-	-	21,625	4,297
Consumer loans	-	-	-	-	-	96	-
Residential mortgage loans	20	13,857	-	259	14,116	18,733	4,613
Total loans modified in a TDR	20	13,857	-	259	14,116	40,454	8,910

As at 31 December 2015, the Bank has one loan (31 December 2014: four loans) that was modified in a TDR during the preceding 12 months that subsequently defaulted (i.e., 90 days or more past due following a modification) with a recorded investment of $0.8 million (31 December 2014: $2.4 million).

Purchased Credit-Impaired Loans

	Year ended 31 December 2015				Year ended 31 December 2014			
	Contractual principal	**Non-accretable difference**	**Carrying amount**	**Accretable yield[1]**	Contractual principal	Non-accretable difference	Carrying amount	Accretable yield[1]
Balance at beginning of year	**11,020**	**(3,804)**	**7,216**	**-**	-	-	-	-
Purchases	**-**	**-**	**-**		11,001	(3,804)	7,197	-
Advances and increases in cash flows expected to be collected	**150**	**631**	**150**	**(631)**	19	-	19	-
Reductions resulting from repayments	**(1,554)**	**107**	**(1,447)**	**107**	-	-	-	-
Reductions resulting from charge-offs	**(907)**	**818**	**(89)**	**-**	-	-	-	-
Accretion	**-**	**-**	**-**	**(107)**	-	-	-	-
Balance at end of year	**8,709**	**(2,248)**	**5,830**	**(631)**	11,020	(3,804)	7,216	-

[1]The accretable yield represents the excess of a loan's cash flows expected to be collected over the loan's initial carrying amount.

NOTE 7: CREDIT RISK CONCENTRATIONS

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

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

	31 December 2015			31 December 2014		
Business sector	**Loans**	**Off-balance sheet**	**Total credit exposure**	Loans	Off-balance sheet	Total credit exposure
Banks and financial services	**243,776**	**320,934**	**564,710**	307,835	299,934	607,769
Commercial and merchandising	**230,376**	**107,545**	**337,921**	248,129	113,432	361,561
Governments	**223,699**	**102,782**	**326,481**	113,484	-	113,484
Individuals	**2,532,209**	**95,956**	**2,628,165**	2,483,275	75,224	2,558,499
Primary industry and manufacturing	**36,299**	**978**	**37,277**	70,298	570	70,868
Real estate	**632,548**	**15,891**	**648,439**	710,905	5,703	716,608
Hospitality industry	**125,471**	**14,854**	**140,325**	107,538	275	107,813
Transport and communication	**5,974**	**-**	**5,974**	6,335	-	6,335
Sub-total	**4,030,352**	**658,940**	**4,689,292**	4,047,799	495,138	4,542,937
General allowance	**(30,197)**	**-**	**(30,197)**	(28,671)	-	(28,671)
Total	**4,000,155**	**658,940**	**4,659,095**	4,019,128	495,138	4,514,266

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

	31 December 2015				31 December 2014			
Geographic region	**Cash and cash equivalents and short-term investments**	**Loans**	**Off-balance sheet**	**Total credit exposure**	Cash and cash equivalents and short-term investments	Loans	Off-balance sheet	Total credit exposure
Australia	**14,187**	**-**	**-**	**14,187**	7,521	-	-	7,521
Barbados	**-**	**11,250**	**-**	**11,250**	-	15,000	-	15,000
Belgium	**3,352**	**-**	**-**	**3,352**	-	-	-	-
Bermuda	**22,009**	**2,269,635**	**371,687**	**2,663,331**	18,486	2,269,748	263,407	2,551,641
Canada	**340,037**	**-**	**-**	**340,037**	16,648	-	-	16,648
Cayman	**19,086**	**713,468**	**207,139**	**939,693**	196,746	692,496	145,796	1,035,038
Guernsey	**1**	**434,531**	**53,750**	**488,282**	1,741	527,560	70,976	600,277
Japan	**23,424**	**-**	**-**	**23,424**	32,464	-	-	32,464
New Zealand	**999**	**-**	**-**	**999**	3,384	-	-	3,384
Saint Lucia	**-**	**65,285**	**-**	**65,285**	-	55,883	-	55,883
Sweden	**3,659**	**-**	**-**	**3,659**	2,419	-	-	2,419
Switzerland	**3,905**	**-**	**-**	**3,905**	7,954	-	-	7,954
The Bahamas	**3,196**	**28,736**	**-**	**31,932**	4,423	31,809	-	36,232
United Kingdom	**1,103,088**	**507,447**	**26,364**	**1,636,899**	1,300,686	455,303	14,959	1,770,948
United States	**1,161,106**	**-**	**-**	**1,161,106**	864,361	-	-	864,361
Other	**323**	**-**	**-**	**323**	1,248	-	-	1,248
Sub-total	**2,698,372**	**4,030,352**	**658,940**	**7,387,664**	2,458,081	4,047,799	495,138	7,001,018
General allowance	**-**	**(30,197)**	**-**	**(30,197)**	-	(28,671)	-	(28,671)
Total	**2,698,372**	**4,000,155**	**658,940**	**7,357,467**	2,458,081	4,019,128	495,138	6,972,347

NOTE 8: PREMISES, EQUIPMENT AND COMPUTER SOFTWARE

	31 December 2015			31 December 2014		
Category	**Cost**	**Accumulated depreciation**	**Net carrying value**	Cost	Accumulated depreciation	Net carrying value
Land	**9,008**	**-**	**9,008**	11,569	-	11,569
Buildings	**135,684**	**(55,030)**	**80,654**	147,421	(58,141)	89,280
Equipment	**31,108**	**(27,620)**	**3,488**	36,956	(32,678)	4,278
Computer hardware and software in use	**174,162**	**(88,582)**	**85,580**	166,896	(63,138)	103,758
Computer software in development	**4,648**	**-**	**4,648**	6,238	-	6,238
Total	**354,610**	**(171,232)**	**183,378**	369,080	(153,957)	215,123

	Year ended	
Depreciation charged to operating expenses	**31 December 2015**	31 December 2014
Buildings (included in Property expense)	**4,183**	4,434
Equipment (included in Property expense)	**1,605**	1,728
Computer hardware and software (included in Technology and communication expense)	**19,076**	18,588
Total depreciation charged to operating expenses	**24,864**	24,750
Impairment of buildings' carrying value (included in Impairment of fixed assets)	**-**	1,986

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

At the end of 2014, the Bank changed its commitment with respect to a Bermuda property which was being used in its operations but is now contemplated for disposal and therefore the property has been reclassified as held for sale and included in OREO assets in the consolidated balance sheet. The reclassification resulted in an $0.8 million write down during 2014 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.

During the year ended 31 December 2015, the Bank sold four Bermuda properties and one Cayman property which were classified as premises, equipment and computer software as at 31 December 2014. The properties were sold for total proceeds of $11.2 million and a gain of $0.5 million, which is recognised on the consolidated statements of operations under net realised / unrealised gains (losses) on other real estate owned. For the Cayman property, the Bank has entered into a leaseback agreement for two floors with lease payments of $0.4 million per year for three years.

During the year ended 31 December 2015, the Bank recognised impairment of $5.1 million regarding the core banking system in the UK as described in Note 13: Exit Cost Obligations.

NOTE 9: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

	For the year ended	
Guernsey segment	**31 December 2015**	31 December 2014
Balance at beginning of year	**24,821**	7,086
Acquisitions during the year (see Note 26)	**-**	19,291
Foreign exchange translation adjustment	**(1,359)**	(1,556)
Balance at end of year	**23,462**	24,821

Customer Relationship Intangible Assets

	31 December 2015			31 December 2014		
Business Segment	**Cost**	**Accumulated amortisation**	**Net carrying amount**	Cost	Accumulated amortisation	Net carrying amount
Bermuda	**8,342**	**(6,258)**	**2,084**	8,342	(5,702)	2,640
Cayman	**12,324**	**(1,960)**	**10,364**	12,324	(1,138)	11,186
Guernsey	**58,420**	**(43,199)**	**15,221**	58,420	(39,205)	19,215
Total	**79,086**	**(51,417)**	**27,669**	79,086	(46,045)	33,041

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

During the year ended 31 December 2015, the Bank did not acquire any new customer intangible assets (31 December 2014: $26.6 million), the amortisation expense amounted to $4.4 million (31 December 2014: $4.3 million) and the foreign exchange translation adjustment decreased the net carrying amount by $0.9 million (31 December 2014: decreased by $1.3 million). The estimated aggregate amortisation expense for each of the succeeding five years is $4.4 million.

NOTE 10: CUSTOMER DEPOSITS AND DEPOSITS FROM BANKS

By Maturity

	31 December 2015			31 December 2014		
	Customers	**Banks**	**Total**	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	**1,881,745**	**403**	**1,882,148**	1,558,122	408	1,558,530
Demand deposits - Interest bearing	**5,772,898**	**10,176**	**5,783,074**	5,179,522	26,512	5,206,034
Total demand deposits	**7,654,643**	**10,579**	**7,665,222**	6,737,644	26,920	6,764,564
Term deposits having a denomination of less than $100 thousand						
Term deposits maturing within six months	**50,251**	**202**	**50,453**	57,451	82	57,533
Term deposits maturing between six to twelve months	**14,273**	**-**	**14,273**	18,310	-	18,310
Term deposits maturing after twelve months	**16,257**	**-**	**16,257**	18,492	-	18,492
Total term deposits having a denomination of less than $100 thousand	**80,781**	**202**	**80,983**	94,253	82	94,335
Term deposits having a denomination of $100 thousand or more						
Term deposits maturing within six months[1]	**1,230,789**	**3,697**	**1,234,486**	1,445,072	9,368	1,454,440
Term deposits maturing between six to twelve months	**138,973**	**-**	**138,973**	294,175	3,536	297,711
Term deposits maturing after twelve months	**62,482**	**-**	**62,482**	60,527	-	60,527
Total term deposits having a denomination of $100 thousand or more	**1,432,244**	**3,697**	**1,435,941**	1,799,774	12,904	1,812,678
Total term deposits	**1,513,025**	**3,899**	**1,516,924**	1,894,027	12,986	1,907,013
Total deposits	**9,167,668**	**14,478**	**9,182,146**	8,631,671	39,906	8,671,577

[1] As at 31 December 2015, $192 million (2014: $nil) of the term deposits having a denomination of $100 thousand or more, bear a special interest rate of 0%.

The weighted-average interest rate on interest-bearing demand deposits as at 31 December 2015 is 0.10% (31 December 2014: 0.16%).

By Type and Segment

	31 December 2015			31 December 2014		
	Payable on demand	**Payable on a fixed date**	**Total**	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	**3,739,829**	**531,877**	**4,271,706**	2,914,440	955,683	3,870,123
Banks	**403**	**-**	**403**	9,508	-	9,508
Cayman						
Customers	**2,596,642**	**416,489**	**3,013,131**	2,153,500	437,259	2,590,759
Banks	**9,365**	**3,899**	**13,264**	15,797	12,986	28,783
Guernsey						
Customers	**996,343**	**248,866**	**1,245,209**	1,350,377	145,132	1,495,509
Banks	**669**	**-**	**669**	1,307	-	1,307
The Bahamas						
Customers	**36,078**	**3,602**	**39,680**	53,317	7,514	60,831
United Kingdom						
Customers	**285,751**	**312,191**	**597,942**	266,010	348,439	614,449
Banks	**142**	**-**	**142**	308	-	308
Total Customers	**7,654,643**	**1,513,025**	**9,167,668**	6,737,644	1,894,027	8,631,671
Total Banks	**10,579**	**3,899**	**14,478**	26,920	12,986	39,906
Total deposits	**7,665,222**	**1,516,924**	**9,182,146**	6,764,564	1,907,013	8,671,577

NOTE 11: EMPLOYEE BENEFIT PLANS

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 relevant 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 independent actuaries.

Bermuda Defined Benefit Post-Retirement Healthcare Plan

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

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

Guernsey Defined Benefit Pension Plan

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

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

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 Bank measures the benefit obligations and plan assets annually on each 31 December and therefore, the most recent measurement date is 31 December 2015.

	31 December 2015		31 December 2014	
	Pension plans	Post-retirement medical benefit plan	Pension plans	Post-retirement medical benefit plan
Accumulated benefit obligation at end of year	166,815	-	188,890	-
Change in projected benefit obligation				
Projected benefit obligation at beginning of year	188,890	114,640	167,469	89,109
Service cost	-	341	1,203	825
Employee contributions	-	-	99	-
Interest cost	6,958	4,745	7,760	4,503
Benefits paid	(7,573)	(2,871)	(8,771)	(3,590)
Plan amendment	-	-	-	7,901
Settlement and curtailment of liability	(2,509)	-	(4,662)	-
Actuarial (gain) loss	(14,157)	2,252	31,604	15,892
Foreign exchange translation adjustment	(4,794)	-	(5,812)	-
Projected benefit obligation at end of year	166,815	119,107	188,890	114,640
Change in plan assets				
Fair value of plan assets at beginning of year	194,007	-	186,412	-
Actual return on plan assets	687	-	18,451	-
Employer contribution	808	2,871	4,172	3,590
Employee contributions	-	-	99	-
Plan settlement	(2,424)	-	-	-
Benefits paid	(7,573)	(2,871)	(8,771)	(3,590)
Foreign exchange translation adjustment	(5,544)	-	(6,356)	-
Fair value of plan assets at end of year	179,961	-	194,007	-
Amounts recognised in the consolidated balance sheets consist of:				
Prepaid benefit cost included in other assets	16,174	-	8,374	-
Accrued pension benefit cost included in employee benefit plans liability	(3,028)	(119,107)	(3,257)	(114,640)
Surplus (deficit) of plan assets over projected benefit obligation at measurement date	13,146	(119,107)	5,117	(114,640)

As at 31 December 2015, the pension plans of the Guernsey and United Kingdom subsidiaries were in a surplus position (i.e., net surplus presented in other assets in the consolidated balance sheets) while the pension plan of the Bermuda operations was in a deficit position with projected benefit obligations of $88.0 million and plan assets of $85.0 million.

	Year ended			
	31 December 2015		31 December 2014	
	Pension plans	**Post-retirement medical benefit plan**	Pension plans	Post-retirement medical benefit plan
Amounts recognised in accumulated other comprehensive loss consist of:				
Net actuarial loss, excluding deferred taxes	**(46,696)**	**(28,779)**	(53,970)	(29,874)
Prior service credit, net of prior service cost	**-**	**665**	-	7,008
Deferred income taxes assets	**365**	**-**	801	-
Net amount recognised in accumulated other comprehensive loss	**(46,331)**	**(28,114)**	(53,169)	(22,866)
Annual Benefit Expense				
Expense component				
Service cost	**-**	**341**	1,203	825
Interest cost	**6,958**	**4,745**	7,760	4,503
Expected return on plan assets	**(9,585)**	**-**	(10,653)	-
Amortisation of prior service credit	**-**	**(6,343)**	-	(6,719)
Amortisation of net actuarial losses	**1,607**	**3,347**	1,058	922
Loss on settlement	**101**	**-**	-	-
Defined benefit expense (income)	**(919)**	**2,090**	(632)	(469)
Defined contribution expense	**6,907**	**-**	6,892	-
Total benefit expense (income)	**5,988**	**2,090**	6,260	(469)
Other Changes Recognised in Other Comprehensive (Loss) Income				
Net gain (loss) arising during the year	**5,096**	**(2,252)**	(18,947)	(15,892)
Prior service cost arising during the year	**-**	**-**	-	(7,901)
Amortisation of prior service credit	**-**	**(6,343)**	-	(6,719)
Amortisation of net actuarial losses	**1,703**	**3,347**	1,058	922
Change in deferred taxes	**(391)**	**-**	83	-
Foreign exchange adjustment	**430**	**-**	253	-
Total changes recognised in other comprehensive (loss) income	**6,838**	**(5,248)**	(17,553)	(29,590)

The estimated portion of the net actuarial loss for the pension plans that will be amortised from AOCL into benefit expense over the 2016 full fiscal year is $1.7 million. The estimated portion of the net actuarial loss and the prior service credit for the post-retirement medical benefit plan that will be amortised from AOCL into benefit expense over the 2016 full fiscal year is $2.6 million for the net actuarial loss and a credit of $6.3 million for the net prior service credit.

Actuarial Assumptions

	Year ended			
	31 December 2015		31 December 2014	
	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	**3.80%**	**4.20%**	4.75%	5.10%
Weighted average rate of compensation increases[1]	**2.20%**	**N/A**	4.30%	N/A
Weighted average expected long-term rate of return on plan assets	**5.10%**	**N/A**	5.80%	N/A
Weighted average annual medical cost increase rate (sensitivity shown below)	**N/A**	**7.1% to 4.5% in 2027**	N/A	7.3% to 4.5% in 2027

[1] Excludes the inactive Bermuda defined benefit pension plan.

Actuarial assumptions used to determine benefit obligations at end of year				
Weighted average discount rate	**4.20%**	**4.70%**	3.80%	4.20%
Weighted average rate of compensation increases	**2.30%**	**N/A**	2.80%	N/A
Weighted average annual medical cost increase rate (sensitivity shown below)	**N/A**	**8.0% to 4.5% in 2035**	N/A	7.1% to 4.5% in 2027

Post-retirement medical benefit plan sensitivity to trend rate assumptions

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

a. One percent increase in trend rate				
i. Effect on total service cost and interest cost components for the year	**N/A**	**909**	N/A	952
ii. Effect on benefit obligation at year-end	**N/A**	**18,792**	N/A	20,339
b. One percent decrease in trend rate				
i. Effect on total service cost and interest cost components for the year	**N/A**	**(781)**	N/A	(771)
ii. Effect on benefit obligation at year-end	**N/A**	**(15,496)**	N/A	(16,514)

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

Investments Policies and Strategies

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

	31 December 2015		31 December 2014	
	Actual allocation	**Target allocation**	Actual allocation	Target allocation
Weighted average actual and target asset allocations of the pension plans by asset category				
Debt securities (including debt mutual funds)	**42%**	**53%**	49%	50%
Equity securities (including equity mutual funds)	**58%**	**47%**	45%	48%
Other	**0%**	**0%**	6%	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 2015				31 December 2014			
	Fair value determination				Fair value determination			
	Level 1	**Level 2**	**Level 3**	**Total fair value**	Level 1	Level 2	Level 3	Total fair value
US government and federal agencies	**-**	**7,532**	**-**	**7,532**	-	7,707	-	7,707
Corporate debt securities	**-**	**68,166**	**-**	**68,166**	-	62,466	-	62,466
Debt securities issued by non-US governments	**-**	**-**	**-**	**-**	-	17,342	-	17,342
Equity securities and mutual funds	**11,845**	**91,702**	**-**	**103,547**	12,747	92,962	-	105,709
Other	**-**	**716**	**-**	**716**	-	783	-	783
Total fair value of plans' assets	**11,845**	**168,116**	**-**	**179,961**	12,747	181,260	-	194,007

At 31 December 2015, 34.8% (31 December 2014: 35.9%) 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 2015, 0.3% and 1.2% (31 December 2014: 0.3% and 1.1%) 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 2016 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 full year ending 31 December 2016	**592**	**4,183**
Estimated benefit payments by year:		
2016	**7,400**	**4,183**
2017	**7,400**	**4,496**
2018	**7,400**	**4,822**
2019	**7,400**	**5,167**
2020	**7,400**	**5,511**
2021-2024	**37,000**	**32,986**

NOTE 12: CREDIT RELATED ARRANGEMENTS AND COMMITMENTS

Commitments

As at 31 December 2015, the Bank was committed to expenditures under contract for sourcing and leases of $16.3 million and $20.0 million, respectively (31 December 2014: $33.1 million and $20.0 million, respectively). Rental expense for premises leased on a long-term basis for the year ended 31 December 2015 amounted to $4.8 million (31 December 2014: $5.3 million).

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

Year ending 31 December	Sourcing	Leases	Other	Total
2016	**16,312**	**5,235**	**2,376**	**23,923**
2017	**-**	**4,212**	**536**	**4,748**
2018	**-**	**3,346**	**497**	**3,843**
2019	**-**	**2,523**	**458**	**2,981**
2020	**-**	**2,382**	**458**	**2,840**
2021 & thereafter	**-**	**2,294**	**458**	**2,752**
Total commitments	**16,312**	**19,992**	**4,783**	**41,087**

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:

	31 December 2015			31 December 2014		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	**258,851**	**257,200**	**1,651**	225,718	224,158	1,560
Letters of guarantee	**9,137**	**8,418**	**719**	10,227	7,594	2,633
Total	**267,988**	**265,618**	**2,370**	235,945	231,752	4,193

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:

	31 December 2015	31 December 2014
Commitments to extend credit	**390,497**	257,266
Documentary and commercial letters of credit	**455**	1,927
Total unfunded commitments to extend credit	**390,952**	259,193

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 2015, $123.7 million (31 December 2014: $91.8 million) of standby letters of credit were issued under this facility.

Legal Proceedings

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

As publicly announced, in November 2013, the US Attorney's Office for the Southern District of New York applied for and secured the issuance of so-called John Doe Summonses to six US financial institutions with which the Bank had correspondent bank relationships. The Bank has been fully cooperating with the US authorities in their ongoing investigation. Specifically, the Bank has conducted an extensive review and account remediation exercise to determine the US tax compliance status of US person account holders. The review process and results have been shared with the US authorities.

Management believes that, at this stage, a provision of $4.8 million, which has been recorded as of 31 December 2015, is appropriate based on the methodology used in similar settlements for other financial institutions. As the investigation remains ongoing at this time, the timing and terms of the final resolution, including any fines or penalties, remain uncertain and the financial impact to the Bank could exceed the amount of the provision. In this regard, we note that the US authorities have not approved or commented on the adequacy or reasonableness of the estimate. The provision is included on the consolidated balance sheets under other liabilities and on the consolidated statements of operations under other expenses.

Pending business acquisition

In October 2015, the Bank announced that it had reached an agreement to acquire Bermuda Trust Company Ltd. and the private banking investment management operations of HSBC Bank Bermuda Limited. HSBC Bank Bermuda Limited has also entered into an agreement to refer its existing private banking clients to the Bank. The transaction is expected to be completed in the first half of 2016.

NOTE 13: EXIT COST OBLIGATIONS

During December 2015, the Bank agreed to commence an orderly wind-down of the deposit taking and investment management businesses in the United Kingdom segment as reflected in management segment reporting described in Note 15: Segmented Information. In making this determination, the Bank considered the increasing regulatory pressure along with periods of negative profitability and made the determination that an orderly wind-down of the deposit taking and investment management businesses in the United Kingdom was prudent for Butterfield as a group. The orderly wind-down is expected to be completed over the next 12 months. Certain expenses and related liabilities have been recognised during and as of the year ended 31 December 2015 pertaining to this orderly wind-down plan. The table below presents information about these liabilities and expenses:

		Year ended 31 December 2015		
	Total costs expected to be incurred	**Expense recognised**	**Amounts paid**	**Exit cost liability as at 31 December 2015**
Staff redundancy expenses	**3,955**	**634**	**-**	**634**
Professional services	**4,125**	**1,549**	**-**	**1,549**
Lease termination expenses	**2,210**	**-**	**-**	**-**
Other expenses	**1,620**	**-**	**-**	**-**
Total	**11,910**	**2,183**	**-**	**2,183**

The amounts expensed above are all included in the consolidated statements of operations as "Restructuring costs" under non-interest expenses.

Related to this orderly wind-down, it was determined that the core banking system utilised in the operations of the United Kingdom segment was impaired (currently held under "Premises, equipment and computer software" on the consolidated balance sheets). This determination was based upon the realisable value of this software upon completion of the orderly wind-down. A total of $5.1 million was incurred and expensed during the year ended 31 December 2015 and is included as "Impairment of fixed assets" on the consolidated statements of operations.

NOTE 14: LOAN INTEREST INCOME

	Year ended	
Contractual interest	**31 December 2015**	31 December 2014
Contractual interest earned on mortgages	**104,194**	106,321
Contractual interest earned on other loans	**79,506**	82,395
Subtotal contractual interest earned	**183,700**	188,716
Amortisation		
Amortisation of fair value hedge	**(1,471)**	(1,548)
Amortisation of loan origination fees (net of amortised costs)	**4,257**	4,818
Total loan interest income	**186,486**	191,986
Balance of unamortised fair value hedge as at year end	**(4,335)**	(5,806)
Balance of unamortised loan fees as at year end	**8,107**	7,526

NOTE 15: SEGMENTED INFORMATION

As at 31 December 2015, for Management reporting purposes, the operations of the Bank are grouped into the following six business segments based upon the geographic location of the Bank's operations: Bermuda, Cayman, Guernsey, Switzerland, The Bahamas and the United Kingdom. Accounting policies of the reportable segments are the same as those described in Note 2.

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

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

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

The **Switzerland** segment provides fiduciary services.

The **Bahamas** segment provides fiduciary and ancillary services.

The **United Kingdom** segment provides a broad range of services including private banking and treasury services, Internet banking and wealth management and fiduciary services to high net worth individuals and privately owned businesses. As described in Note 13, during December 2015, the Bank agreed to commence an orderly wind-down plan of the deposit taking and investment management businesses in the United Kingdom segment.

Total Assets by Segment	**31 December 2015**	31 December 2014
Bermuda	**5,113,718**	4,797,235
Cayman	**3,282,319**	2,863,624
Guernsey	**1,391,126**	1,639,334
Switzerland	**2,713**	2,000
The Bahamas	**49,434**	70,265
United Kingdom	**788,433**	832,591
Total assets before inter-segment eliminations	**10,627,743**	10,205,049
Less: inter-segment eliminations	**(352,180)**	(346,609)
Total	**10,275,563**	9,858,440

Year ended 31 December 2015	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	Gains and losses	Net income
Bermuda	142,488	2,600	(3,625)	61,050	202,513	159,474	43,039	(2,503)	40,536
Cayman	66,317	608	(466)	39,508	105,967	58,115	47,852	(793)	47,059
Guernsey	17,025	(427)	(103)	26,171	42,666	39,872	2,794	(1,066)	1,728
Switzerland	-	-	-	3,420	3,420	3,320	100	-	100
The Bahamas	8	116	-	5,295	5,419	5,068	351	1	352
United Kingdom	13,428	(2,897)	(1,547)	6,307	15,291	22,251	(6,960)	(5,076)	(12,036)
Total before eliminations	239,266	-	(5,741)	141,751	375,276	288,100	87,176	(9,437)	77,739
Inter-segment eliminations	-	-	-	(1,579)	(1,579)	(1,579)	-	-	-
Total	239,266	-	(5,741)	140,172	373,697	286,521	87,176	(9,437)	77,739

Year ended 31 December 2014	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	Gains and losses	Net income
Bermuda	141,528	3,164	(6,425)	60,692	198,959	145,696	53,263	6,908	60,171
Cayman	58,442	928	(557)	33,515	92,328	58,829	33,499	36	33,535
Guernsey	19,303	(1,242)	(154)	26,814	44,721	39,580	5,141	4,432	9,573
Switzerland	-	-	-	2,486	2,486	2,867	(381)	-	(381)
The Bahamas	(15)	166	-	5,492	5,643	5,548	95	-	95
United Kingdom	19,229	(3,016)	(912)	7,717	23,018	22,164	854	4,312	5,166
Total before eliminations	238,487	-	(8,048)	136,716	367,155	274,684	92,471	15,688	108,159
Inter-segment eliminations	-	-	-	(1,886)	(1,886)	(1,886)	-	-	-
Total	238,487	-	(8,048)	134,830	365,269	272,798	92,471	15,688	108,159

NOTE 16: DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

Notional Amounts

The notional amounts are not recorded as assets or liabilities on the consolidated balance sheets 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 in foreign operations, the translation gain or loss that is recorded in AOCL is based on the spot exchange rate between the reporting currency of the Bank and the functional currency 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 Banks' 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 foreign exchange 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 sheets 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 2015	Derivative instrument	Notional amounts	Gross positive fair value	Gross negative fair value	Net fair value
Risk management derivatives					
Net investment hedges	Currency swaps	77,670	4,122	-	4,122
Derivatives not formally designated as hedging instruments	Currency swaps	77,881	273	(95)	178
Subtotal risk management derivatives		155,551	4,395	(95)	4,300
Client services derivatives	Spot and forward foreign exchange	2,572,525	16,426	(15,961)	465
Total derivative instruments		2,728,076	20,821	(16,056)	4,765

31 December 2014	Derivative instrument	Notional amounts	Gross positive fair value	Gross negative fair value	Net fair value
Risk management derivatives					
Net investment hedges	Currency swaps	114,759	1,095	(3,559)	(2,464)
Derivatives not formally designated as hedging instruments	Currency swaps	113,981	284	(1,749)	(1,465)
Subtotal risk management derivatives		228,740	1,379	(5,308)	(3,929)
Client services derivatives	Spot and forward foreign exchange	2,424,176	20,856	(20,500)	356
Total derivative instruments		2,652,916	22,235	(25,808)	(3,573)

In addition to the above, as at 31 December 2015, foreign denominated deposits of $39.4 million (31 December 2014: $15.7 million), were designated as a hedge of foreign exchange risk associated with the net investment in foreign operations.

We manage derivative exposure by monitoring the credit risk associated with each counterparty using counterparty-specific credit risk limits, using master netting arrangements where appropriate, and obtaining collateral. The Bank elected to offset in the consolidated balance sheets certain gross derivative assets and liabilities subject to netting agreements.

The Bank also elected not to offset certain derivative assets or liabilities and all collaterals received or paid that the Bank or the counterparties could legally offset in the event of default. In the tables below, these positions are deducted from the net fair value presented in the consolidated balance sheets in order to present the net exposures.The collateral values presented in the following table are limited to the related net derivative asset or liability balance and, accordingly, do not include excess collateral received or paid.

				Less: positions not offset in the consolidated balance sheets		
31 December 2015	**Gross fair value recognised**	**Less: offset applied under master netting agreements**	**Net fair value presented in the consolidated balance sheets**	**Gross fair value of derivatives**	**Cash collateral received / paid**	**Net exposures**
Derivative assets						
Spot and forward foreign exchange and currency swaps	**20,821**	**(7,127)**	**13,694**	**(78)**	**(232)**	**13,384**
Derivative liabilities						
Spot and forward foreign exchange and currency swaps	**16,056**	**(7,127)**	**8,929**	**(78)**	**(148)**	**8,703**
Net positive fair value			**4,765**			

				Less: positions not offset in the consolidated balance sheets		
31 December 2014	Gross fair value recognised	Less: offset applied under master netting agreements	Net fair value presented in the consolidated balance sheets	Gross fair value of derivatives	Cash collateral received / paid	Net exposures
Derivative assets						
Spot and forward foreign exchange and currency swaps	22,235	(5,384)	16,851	-	(3,411)	13,440
Derivative liabilities						
Spot and forward foreign exchange and currency swaps	25,808	(5,384)	20,424	-	(5,073)	15,351
Net negative fair value			(3,573)			

The following table shows the location and amount of gains (losses) recorded in the consolidated statements of operations on derivative instruments outstanding:

Derivative instrument	Consolidated statements of operations line item	Year ended 31 December 2015	31 December 2014
Spot and forward foreign exchange	Foreign exchange revenue	**(228)**	(332)
Total net losses recognised in net income		**(228)**	(332)

NOTE 17: FAIR VALUE MEASUREMENTS

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 type of inputs used in their respective fair value determination as described in Note 2.

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

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

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

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

	31 December 2015 Fair value			Total carrying amount /	31 December 2014 Fair value			Total carrying amount /
	Level 1	Level 2	Level 3	fair value	Level 1	Level 2	Level 3	fair value
Items that are recognised at fair value on a recurring basis:								
Financial assets								
Trading investments								
Certificates of deposit	-	-	-	-	-	37,743	-	37,743
US government and federal agencies	-	279,343	-	279,343	-	312,507	-	312,507
Debt securities issued	-	7,489	-	7,489	-	7,652	-	7,652
Asset-backed securities - Student loans	-	28,285	-	28,285	-	52,597	-	52,597
Mutual funds	5,903	279	-	6,182	6,038	848	-	6,886
Total trading	5,903	315,396	-	321,299	6,038	411,347	-	417,385
Available-for-sale investments								
US government and federal agencies	-	1,404,499	-	1,404,499	-	1,575,363	-	1,575,363
Debt securities issued by non-US governments	-	29,575	-	29,575	-	30,673	-	30,673
Corporate debt securities	-	506,144	-	506,144	-	399,289	-	399,289
Asset-backed securities - Student loans	-	-	12,161	12,161	-	-	12,226	12,226
Commercial mortgage-backed securities	-	148,726	-	148,726	-	151,169	-	151,169
Residential mortgage-backed securities - Prime	-	100,244	-	100,244	-	64,829	-	64,829
Total available-for-sale	-	2,189,188	12,161	2,201,349	-	2,221,323	12,226	2,233,549
Other assets - Derivatives	-	13,694	-	13,694	-	16,851	-	16,851
Financial liabilities								
Other liabilities - Derivatives	-	8,929	-	8,929	-	20,424	-	20,424

There were no transfers between Level 1 and Level 2 during the year ended 31 December 2015 and 2014.

The Level 3 Asset-backed securities - Student loans 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.

Significant increases (decreases) in any of the preceding 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 2015	31 December 2014
Carrying amount at beginning of year	12,226	45,304
Proceeds from sales, paydowns and maturities	-	(36,439)
Accretion recognised in net income	-	915
Realised and unrealised gains (losses) recognised in other comprehensive income	(65)	(6,286)
Realised and unrealised gains recognised in net income	-	8,732
Carrying amount at end of year	12,161	12,226

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

		31 December 2015			31 December 2014		
	Level	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
Financial assets							
Cash due from banks	Level 1	2,288,890	2,288,890	-	2,063,311	2,063,311	-
Short-term investments	Level 1	409,482	409,482	-	394,770	394,770	-
Investments held-to-maturity	Level 2	701,282	701,495	213	338,177	343,989	5,812
Loans, net of allowance for credit losses	Level 2	4,000,155	3,996,443	(3,712)	4,019,128	4,015,764	(3,364)
Other real estate owned[(1)]	Level 2	11,206	11,206	-	19,300	19,300	-
Financial liabilities							
Customer deposits							
Demand deposits	Level 2	7,654,643	7,654,643	-	6,737,644	6,737,644	-
Term deposits	Level 2	1,513,025	1,514,126	(1,101)	1,894,027	1,895,558	(1,531)
Deposits from banks	Level 2	14,478	14,478	-	39,906	39,906	-
Long-term debt	Level 2	117,000	116,606	394	117,000	115,936	1,064

[(1)]The current carrying value of OREO is adjusted to fair value only when there is devaluation below carrying value.

NOTE 18: INTEREST RATE RISK

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

31 December 2015	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 due from banks	2,178	-	-	-	-	111	2,289
Short-term investments	117	291	1	-	-	-	409
Investments	871	79	19	620	1,629	6	3,224
Loans	3,735	84	53	67	47	14	4,000
Other assets	-	-	-	-	-	354	354
Total assets	6,901	454	73	687	1,676	485	10,276
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	750	750
Demand deposits	5,783	-	-	-	-	1,882	7,665
Term deposits	989	296	153	79	-	-	1,517
Other liabilities	-	-	-	-	-	227	227
Long-term debt	92	-	-	25	-	-	117
Total liabilities and shareholders' equity	6,864	296	153	104	-	2,859	10,276
Interest rate sensitivity gap	37	158	(80)	583	1,676	(2,374)	-
Cumulative interest rate sensitivity gap	37	195	115	698	2,374	-	-

31 December 2014	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 due from banks	1,923	-	-	-	-	140	2,063
Short-term investments	155	224	16	-	-	-	395
Investments	422	37	105	470	1,948	7	2,989
Loans	3,685	133	20	112	45	24	4,019
Other assets	-	-	-	-	-	392	392
Total assets	6,185	394	141	582	1,993	563	9,858
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	849	849
Demand deposits	5,142	64	-	-	-	1,559	6,765
Term deposits	1,168	344	316	79	-	-	1,907
Other liabilities	-	-	-	-	-	220	220
Long-term debt	47	-	45	25	-	-	117
Total liabilities and shareholders' equity	6,357	408	361	104	-	2,628	9,858
Interest rate sensitivity gap	(172)	(14)	(220)	478	1,993	(2,065)	-
Cumulative interest rate sensitivity gap	(172)	(186)	(406)	72	2,065	-	-

NOTE 19: LONG-TERM DEBT

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

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

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

No interest was capitalised during the years ended 31 December 2015 and 2014.

The following table presents the contractual maturity and interest payments for long-term debt issued by the Bank as at 31 December 2015. The interest payments are calculated until contractual maturity using the current LIBOR rates.

Long-term debt	Earliest date redeemable at the Bank's option	Contractual maturity date	Interest rate until date redeemable	Interest rate from earliest date redeemable to contractual maturity	Principal outstanding	Interest payments until contractual maturity: Within 1 year	1 to 5 years	After 5 years
Bermuda								
2003 issuance - Series B	27-May-2013	27-May-2018	5.15%	3 months US$ LIBOR + 2.000%	47,000	1,248	1,862	-
2005 issuance - Series B	2-Jul-2015	2-Jul-2020	5.11%	3 months US$ LIBOR + 1.695%	45,000	1,056	3,949	-
2008 issuance - Series B	27-May-2018	27-May-2023	8.44%	3 months US$ LIBOR + 4.929%	25,000	2,110	6,686	3,506
Total					117,000	4,414	12,497	3,506

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.

	Year ended 31 December 2015	Year ended 31 December 2014
Basic Earnings Per Share	**0.13**	0.17
Net income	**77,739**	108,159
Less: Preference dividends declared and guarantee fee	**(16,455)**	(16,546)
Less: Premium on preference share buyback	**(28)**	(96)
Net income attributable for common shareholders	**61,256**	91,517
Weighted average number of common shares issued	**500,009**	556,933
Weighted average number of common shares held as treasury stock	**(10,788)**	(9,336)
Adjusted weighted average number of common shares (in thousands)	**489,221**	547,597
Diluted Earnings Per Share	**0.12**	0.16
Net income attributable for common shareholders	**61,256**	91,517
Adjusted weighted average number of common shares issued	**489,221**	547,597
Net dilution impact related to options to purchase common shares	**4,718**	3,927
Net dilution impact related to awards of unvested common shares	**6,089**	4,958
Adjusted weighted average number of diluted common shares (in thousands)	**500,028**	556,482

Prior to their conversion into common shares on 31 March 2015, outstanding contingent value convertible preference ("CVCP") shares were classified as participating securities as they were entitled to dividends declared to common shareholders on a 1:1 basis and were therefore included in the basic earnings per share calculation.

During the year ended 31 December 2015, options to purchase an average of 29.0 million (31 December 2014: 31.1 million) shares of common stock, were outstanding. During the year ended 31 December 2015, the average number of outstanding awards of unvested common shares was 9.2 million (31 December 2014: 9.5 million). Only awards for which the sum of 1) the expense that will be recognised in the future (i.e., the unrecognised expense) and 2) its exercise price, if any, was lower than the average market price of the Bank's common stock were considered dilutive and, therefore, included in the computation of diluted earnings per share. An award's unrecognised expense is also considered to be the proceeds the employees would need to pay to purchase accelerated vesting of the awards. For purposes of calculating dilution, such proceeds are assumed to be used by the Bank to buy back common shares at the average market price. The weighted-average number of outstanding awards, net of the assumed weighted-average number of common shares bought back, is included in the number of diluted participating shares.

Warrants issued to the Government of Bermuda in exchange for the Government's guarantee of the preference shares, with an exercise price of $3.47 (31 December 2014: $3.49) for 4.32 million shares of common stock (31 December 2014: 4.30 million) were not included in the computation of earnings per share as at 31 December 2015 and 2014 because the exercise price was greater than the average market price of the Bank's common stock.

NOTE 21: SHARE-BASED PAYMENTS

Stock Option Plans

1997 Stock Option Plan

Prior to the capital raise on 2 March 2010, the Bank granted stock options to employees and Directors of the Bank that entitle the holder to purchase one common share at a subscription price equal to the market price on the effective date of the grant. Generally, the options granted vest 25 percent at the end of each year for four years, however as a result of the 2010 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 price of the most recently traded common share when granted and have a term of 10 years. The subscription price will be reduced for all special dividends declared by the Bank.

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

Time vesting condition

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

Performance vesting condition

50% of each option award is granted in the form of performance options and vests (partially or fully) on a "valuation event" date (date any of the 2 March 2010 new investors transfers at least 5% of the total number of common shares or the date that there is a change in control and any of the new investors realises a predetermined multiple of invested capital ("MOIC")). In the event of a valuation event and the MOIC reaching 200% of the original $1.21 per share invested capital, all performance options would vest. As at 31 December 2015 the grant date fair value not yet recognised in expenses of outstanding performance options is $8.7 million (31 December 2014: $8.9 million). If the probability of a valuation event becomes more likely than not, some or all of the unrecognised expense relating to the performance options will be recognised as an expense.

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

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

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

Weighted average fair value of stock options granted	Time vested options	Performance vested options
Year ended 31 December 2012 (most recent year during which options were granted)	$0.42	$0.44
Year ended 31 December 2011	$0.41	$0.43

The weighted average fair value of stock options granted in the years ended 31 December 2012 and 2011 was calculated using the Black-Scholes-Merton option-pricing model for the time vested options and a lattice-based binomial option-pricing model for the performance options using the following weighted average assumptions:

	Time vested options	Performance vested options
Projected dividend yield	0% for 2011-2013	0% for 2011-2013
	1.0% for 2014	1.0% for 2014
	2.0% for 2015 and later years	2.0% for 2015 and later years
Risk-free interest rate	0.94% to 1.44%	0% to 2.09%
Projected volatility	36% to 38%	36% to 38%
Expected life (years)	6.75 years	8 to 10 years

Changes in Outstanding Stock Options

Year ended 31 December 2015	Number of shares transferable upon exercise (thousands) 1997 Stock Option Plan	2010 Stock Option Plan	Total	Weighted average exercise price ($) 1997 Stock Option Plan	2010 Stock Option Plan	Weighted average remaining life (years) 1997 Stock Option Plan	2010 Stock Option Plan	Aggregate intrinsic value ($ thousands)
Outstanding at beginning of year	3,525	26,780	30,305	13.07	1.17			
Exercised	-	(554)	(554)	-	1.15			
Forfeitures and cancellations	(1,349)	(24)	(1,373)	12.33	1.15			
Resignations, retirements, redundancies	-	(132)	(132)	-	1.15			
Outstanding at end of year	2,176	26,070	28,246	13.52	1.16	1.78	4.67	20,594
Vested and exercisable at end of year	2,176	12,423	14,599	13.52	1.16	1.78	4.94	

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

Share Based Plans

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

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

Employee Deferred Incentive Plan ("EDIP")

Under the Bank's EDIP Plan, shares were awarded to Bank employees and executive management based on the time vesting condition, which states that the shares will vest equally over a three-year period from the effective grant date.

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

2012 and 2011 ELTIP

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

2015, 2014 and 2013 ELTIP

The 2015 ELTIP was approved on 11 February 2015. Under the Bank's 2015, 2014 and 2013 ELTIP, performance shares were awarded to executive management. These shares will generally vest upon the achievement of certain performance targets in the three-year period from the effective grant date.

Number of shares transferable upon vesting of the ELTIP and EDIP shares (in thousands of shares)

	Year ended			
	31 December 2015		31 December 2014	
	EDIP	**ELTIP**	EDIP	ELTIP
Outstanding at beginning of year	**2,660**	**7,062**	2,183	6,441
Granted	**1,739**	**2,530**	1,510	2,550
Vested	**(2,071)**	**(3,220)**	(1,029)	(1,852)
Resignations, retirements, redundancies	**(73)**	**(311)**	(4)	(77)
Outstanding at end of year	**2,255**	**6,061**	2,660	7,062

Share-based Compensation Cost Recognised in Net Income

	Year ended					
	31 December 2015			31 December 2014		
	Stock option plans	**EDIP and ELTIP**	**Total**	Stock option plans	EDIP and ELTIP	Total
Share-based compensation cost	**521**	**7,182**	**7,703**	1,915	6,954	8,869

Unrecognised Expense Attributable to Each Plan

	31 December 2015	31 December 2014
2010 Stock Option Plan		
Time vesting options	**8**	477
Performance vesting options	**8,689**	8,864
EDIP	**2,098**	1,900
ELTIP		
Time vesting shares	**21**	129
Performance vesting shares	**3,432**	4,165
Total unrecognised expense	**14,248**	15,535

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 purchased pursuant to each programme.

Common Share Buy-Back Programme

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

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

	Years ended				
Common share buy-backs	**2015**	2014	2013	2012	Total
Acquired number of shares (to the nearest 1)	**2,503,707**	8,567,340	4,038,482	7,260,051	22,369,580
Average cost per common share	**1.94**	1.99	1.39	1.24	1.63
Total cost (in Bermuda dollars)	**4,862,248**	17,018,412	5,610,907	8,999,061	36,490,628

Preference Share Buy-Back Programme

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

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

	Years ended				
Preference share buy-backs	**2015**	2014	2013	2012	Total
Acquired number of shares (to the nearest 1)	**183**	560	11,972	4,422	17,137
Average cost per preference share	**1,151.55**	1,172.26	1,230.26	1,218.40	1,224.46
Total cost (in Bermuda dollars)	**210,734**	656,465	14,728,624	5,387,777	20,983,600

From time to time the Bank's associates, insiders and insiders' associates as defined by the BSX regulations may sell shares which may result in such shares being repurchased pursuant to each programme, provided no more than any such person's pro-rata share of the listed securities is repurchased. Pursuant to the BSX regulations, all repurchases made by any issuer pursuant to a securities repurchase programme must be made: (1) in the open market and not by private agreement; and (2) for a price not higher than the last independent trade for a round lot of the relevant class of securities. See Note 24, in which certain large one-time share buy-backs transactions are described.

NOTE 23: ACCUMULATED OTHER COMPREHENSIVE LOSS

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

				Employee benefit plans			
31 December 2015	**Unrealised (losses) on translation of net investment in foreign operations**	**HTM investments**	**Unrealised gains (losses) on AFS investments**	**Pension**	**Post-retirement healthcare**	**Subtotal - employee benefits plans**	**Total AOCL**
Balance at beginning of year	**(10,506)**	**-**	**9,021**	**(53,169)**	**(22,866)**	**(76,035)**	**(77,520)**
Transfer of AFS investments to HTM investments	**-**	**(2,715)**	**2,715**	**-**	**-**	**-**	**-**
Other comprehensive income (loss), net of taxes	**(3,139)**	**365**	**(11,793)**	**6,838**	**(5,248)**	**1,590**	**(12,977)**
Balance at end of year	**(13,645)**	**(2,350)**	**(57)**	**(46,331)**	**(28,114)**	**(74,445)**	**(90,497)**

				Employee benefit plans			
31 December 2014	Unrealised (losses) on translation of net investment in foreign operations	HTM investments	Unrealised gains (losses) on AFS investments	Pension	Post-retirement healthcare	Subtotal - employee benefits plans	Total AOCL
Balance at beginning of year	(7,632)	-	(40,136)	(35,616)	6,724	(28,892)	(76,660)
Other comprehensive income (loss), net of taxes	(2,874)	-	40,085	(17,553)	(29,590)	(47,143)	(9,932)
Reclassification to accumulated deficit	-	-	9,072	-	-	-	9,072
Balance at end of year	(10,506)	-	9,021	(53,169)	(22,866)	(76,035)	(77,520)

Net Change of AOCL Components

	Line item in the consolidated statements of operations, if any	Year ended 31 December 2015	31 December 2014
Net unrealised gains (losses) on translation of net investment in foreign operations adjustments			
Foreign currency translation adjustments	N/A	**(9,723)**	(10,574)
Gains on net investment hedge	N/A	**6,584**	7,700
Net change		**(3,139)**	(2,874)
Held-to-maturity investment adjustments			
Net unamortised losses transferred from AFS during the year	N/A	**(2,715)**	-
Amortisation of net losses to net income	Interest income on investments	**378**	-
Foreign currency translation adjustments of related balances	N/A	**(13)**	-
Net change		**(2,350)**	-
Available-for-sale investment adjustments			
Gross unrealised gains (losses) arising during the year	N/A	**(16,337)**	48,703
Net unrealised losses transferred to HTM during the year	N/A	**2,715**	-
Transfer of realised (gains) losses to net income	Net realised gains (losses) on AFS investments	**4,407**	(8,680)
Foreign currency translation adjustments of related balances	N/A	**137**	62
Net change		**(9,078)**	40,085
Employee benefit plans adjustments			
Defined benefit pension plan			
Net actuarial gain (loss)	N/A	**5,096**	(18,947)
Amortisation of actuarial losses	Salaries and other employee benefits	**1,703**	1,058
Change in deferred taxes	N/A	**(391)**	83
Foreign currency translation adjustments of related balances	N/A	**430**	253
Net change		**6,838**	(17,553)
Post-retirement healthcare plan			
Net actuarial (loss)	N/A	**(2,252)**	(15,892)
Prior service cost	N/A	**-**	(7,901)
Amortisation of net actuarial losses	Salaries and other employee benefits	**3,347**	922
Amortisation of prior service credit	Salaries and other employee benefits	**(6,343)**	(6,719)
Net change		**(5,248)**	(29,590)
Other comprehensive (loss), net of taxes		**(12,977)**	(9,932)

NOTE 24: CAPITAL STRUCTURE

Authorised Capital

The Bank’s total authorised share capital as of 31 December 2015 and 2014 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.

On 30 April 2015, Butterfield repurchased and cancelled 80,000,000 shares held by CIBC for $1.50 per share, for a total of $120 million. The remaining CIBC shareholding in Butterfield (representing 23,434,232 shares) was taken up by Carlyle Global Financial Services, L.P. at $1.50 per share and subsequently sold to other investors.

On 13 August 2015, Butterfield repurchased and cancelled 4,000,000 shares held by two shareholders for $1.49 per share, for a total of $5.96 million.

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 BMA, the Bank may redeem, in whole or in part, any preference shares at the time issued and outstanding, at a redemption price equal to the liquidation preference plus any unpaid dividends at the time.

Holders of preference shares will be entitled to receive, on each preference share only when, as and if declared by the Board of Directors, non-cumulative cash dividends at a rate per annum equal to 8.00% on the liquidation preference of US $1,000 per preference share payable quarterly in arrears. In exchange for the Government's commitment, the Bank issued to the Government 4,279,601 warrants to purchase common shares of the Bank at an exercise price of $7.01. The warrants expire on 22 June 2019. During 2010, the warrants issued to the Government were adjusted in accordance with the terms of the guarantee and as a result the Government now holds 4,320,613 warrants with an exercise price of $3.47 as at 31 December 2015.

On 11 May 2010, the Bank's Rights offering was over subscribed with the maximum allowable number of rights of 107,438,016 exercised and subsequently converted on the ratio of 0.07692 CVCP shares for each right unit exercised amounting to 8,264,157 CVCP shares issued. The CVCP shares have specific rights and conditions attached, which are explained in detail in the prospectus of the rights offering. On 31 March 2015, all remaining CVCP shares were converted to common shares at a ratio of 1:1.

Dividends Declared

During the year ended 31 December 2015, the Bank declared cash dividends totalling $0.05 (31 December 2014: $0.05) for each common share and CVCP share on record (CVCP shares were all converted to common shares on 31 March 2015) as of the related record dates. During the years ended 31 December 2015 and 2014, the Bank declared the full 8.00% cash dividends on preference shares in each quarter.

The Bank is required to comply with Section 54 of the Companies Act 1981 issued by the Government of Bermuda (the "Companies Act") each time a dividend is declared or paid by the Bank and also obtain prior written approval from the BMA pursuant to the Banks and Deposit Companies Act 1999 for any dividends declared. The Bank has complied with Section 54 and has obtained BMA approval for all dividends declared during the periods under review.

Regulatory Capital

The Bank is subject to Basel II, which is a risk-based capital adequacy framework developed by the Basel Committee on Banking Supervision (the "Basel Committee") and has been endorsed by the central bank governors and heads of bank supervision of the G10 countries. In December 2008, the BMA published final rules, effective 1 January 2009, with respect to the implementation of the Basel II framework. From this date the Bank has calculated its capital requirement on the Standardised approach under Basel II requirements.

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

The Bank is fully compliant with all regulatory capital requirements and maintains capital ratios in excess of regulatory minimums as at 31 December 2015 and 2014. The following table sets forth the Bank's capital adequacy in accordance with Basel II framework:

	31 December 2015		31 December 2014	
	Actual	**Regulatory minimum**	Actual	Regulatory minimum
Capital				
Tier 1 capital	**699,173**	**N/A**	781,743	N/A
Tier 2 capital	**119,163**	**N/A**	130,788	N/A
Total capital	**818,336**	**N/A**	912,531	N/A
Risk Weighted Assets	**4,305,350**	**N/A**	4,113,404	N/A
Capital Ratios (%)				
Tier 1 common	**12.0%**	**N/A**	14.6%	N/A
Tier 1 Total	**16.2%**	**4.0%**	19.0%	4.0%
Total capital	**19.0%**	**14.46%**	22.2%	14.64%

NOTE 25: INCOME TAXES

The Bank is incorporated in Bermuda, and pursuant to Bermuda law is not taxed on either income or capital gains. The Bank's subsidiaries in the Cayman Islands and The Bahamas are not subject to any taxes in their respective jurisdictions on either income or capital gains under current law applicable in the respective jurisdictions. The Bank's subsidiaries in the United Kingdom, Guernsey, and Switzerland are subject to the tax laws of those jurisdictions.

For the years ended 31 December 2015 and 2014, the Bank did not record any unrecognised tax benefits or expenses and has no uncertain tax positions as at 31 December 2015 and 2014.

The Bank records income taxes based on the enacted tax laws and rates applicable in the relevant jurisdictions for the years ended 31 December 2015 and 2014. For the years ended 31 December 2015 and 2014, the Bank did not incur any interest or pay any penalties.

	Year ended	
Income taxes in consolidated statements of operations	**31 December 2015**	31 December 2014
Current tax expense (benefit)	**819**	(169)
Deferred tax expense	**457**	-
Total tax expense (benefit)	**1,276**	(169)

Reconciliation Between the Effective Income Tax Rate and the Statutory Income Tax Rate

	Year ended			
	31 December 2015		31 December 2014	
	$	**%**	$	%
Income tax expense at Bermuda corporation tax rate of 0%	**-**	**-**	-	-
Income tax expense in international offices taxed at different rates	**(904)**	**(1)**	1,501	2
Change in valuation allowance	**466**	**1**	(1,429)	(2)
Prior year tax adjustments	**80**	**-**	(956)	(1)
Other - net	**1,634**	**2**	715	1
Income tax expense (benefit) at effective tax rate	**1,276**	**2**	(169)	-

Deferred income taxes	**31 December 2015**	31 December 2014
Deferred income tax asset		
Tax loss carried forward	**2,540**	2,641
Pension liability	**365**	800
Fixed assets	**741**	1,067
Allowance for compensated absence	**9**	10
Onerous leases	**11**	11
Deferred income tax asset before valuation allowance	**3,666**	4,529
Less: valuation allowance	**(3,105)**	(3,068)
Net deferred income tax assets	**561**	1,461
Deferred income tax liability		
Other	**-**	-
Net deferred income tax asset	**561**	1,461

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 year ended 31 December 2015. 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 2015, a valuation allowance of $3.1 million (31 December 2014: $3.1 million) has been recognised to record only the portion of the deferred tax asset that more likely than not will be realised. The amount of the deferred tax asset considered realisable, however, could be adjusted if estimates of future taxable income during the carry-forward period are reduced or increased, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth.

The Bank has net taxable loss carry forwards related to the Bank's international operations of approximately $13.6 million (31 December 2014: $12.3 million), which have an indefinite life.

NOTE 26: BUSINESS COMBINATIONS

Legis Acquisition

On 1 April 2014, the Bank via one of its subsidiaries, Butterfield Trust (Guernsey) Limited ("BTGL"), acquired all of the outstanding common shares of Legis T & C Holdings Limited ("Legis") for a maximum purchase price of up to $39.6 million. Legis is a Guernsey-based trust and corporate services business. The acquisition was undertaken to enhance the Bank's market presence and widen the Bank's range of corporate and institutional trust services for private clients and institutional and corporate clients.

The acquisition date fair value of the cash consideration transferred amounted to $34.8 million comprising cash settlement of $31.9 million paid on 1 April 2014 and a contingent consideration of $2.9 million. The contingent consideration is dependent on revenue performance and representation and warranties being met. The undiscounted contingent consideration ranges from $2.3 million to $5.4 million. The fair value is calculated as the discounted amount payable based on various case scenarios with equal probabilities assigned to the payouts being made under each scenario.

The fair value of the net assets acquired and allocation of purchase is summarised as follows:

	As at 1 April 2014
Total consideration transferred	**34,757**
Assets acquired	
Cash due from banks	**1,466**
Intangible assets	**15,466**
Other assets	**158**
Total assets acquired	**17,090**
Liabilities acquired	**1,624**
Excess purchase price (Goodwill)	**19,291**

The final consideration payable may differ from the initial estimated liability with any changes in the liability recorded in other gains (losses) in the consolidated statements of operations until the liability is settled. Subsequent to the acquisition date, and primarily as a result of the change in payment probabilities as estimates were updated for actual results, the estimated fair value of the contingent consideration liability increased to $3.7 million as at 31 December 2014. At 31 December 2015, the estimated fair value of the contingent consideration liability was down to $2.7 million primarily as a result of payments made, as well as changes in expected payments to be made in accordance with the terms of the acquisition. The contingent consideration is included in other liabilities in the consolidated balance sheets.

The purchase price paid by the Bank was for intangible assets in the form of customer relationships of $15.5 million with an estimated finite useful life of 15 years and resulting goodwill of $19.3 million. Goodwill is made up of expected cash flows to be derived from new business and expected synergies resulting from leveraging existing support services and infrastructure within the Bank.

The Bank incurred transaction expenses, comprising legal and professional fees, related to the Legis acquisition in the amount of $1.2 million, which were expensed during the year ended 31 December 2014.

Effective 1 April 2014, the operating results of Legis are included in the consolidated financial statements. For the year ended 31 December 2015, net revenue of $7.8 million (31 December 2014: $6.4 million) and operating expenses of $6.2 million (31 December 2014: $4.9 million) from the Legis business are included in the consolidated financial statements.

The following selected unaudited pro forma financial information has been provided to present a summary of the combined results of the Bank and Legis, assuming the transaction had been effected on 1 January 2014. The unaudited pro forma data is for informational purposes only and does not necessarily represent results that would have occurred if the transaction had taken place on the basis assumed above. No unaudited pro forma data is prepared for the year ended 31 December 2015 as the operating results of Legis were fully integrated throughout the year and are included in the consolidated statements of operations.

For the year ended 31 December 2014	
Total net revenue	373,554
Total non-interest operating expense (including income tax expense)	273,750
Pro forma net income post business combination	99,804

HSBC Acquisition

On 7 November 2014, the Bank via one of its subsidiaries, Butterfield Bank (Cayman) Limited ("BNTB Cayman"), acquired substantially all the retail loans and deposits of HSBC Bank (Cayman) Limited ("HSBC Cayman") for a cash purchase price of $5.3 million. The acquisition was undertaken to enhance the Bank's market presence and expand its community banking customer base in the Cayman Islands. The acquisition was accounted for as a business combination as the Bank acquired substantially all the loans and deposits of HSBC Cayman and deemed to obtain control over the business.

Disclosure of the unaudited pro forma financial information to present a summary of the combined results of the Bank and HSBC Cayman acquisition is impracticable for the year ended 31 December 2014. The disclosure is impracticable as the Bank did not acquire the legal entity and therefore does not have access to the historical revenue and expense data as it relates to the loans and deposits acquired. No unaudited pro forma data is prepared for the year ended 31 December 2015 as the operating results of HSBC Cayman were fully integrated throughout the year and are included in the consolidated statements of operations.

The fair value of the net assets aquired and allocation of purchase is summarised as follows:

	As at 7 November 2014		
	Acquisition value	Fair value adjustment	Fair value
Total consideration transferred			5,341
Assets acquired			
Cash due from banks	315,919	-	315,919
Loans			
Performing loans			
Residential mortgages[(a)]	112,491	(1,784)	110,707
Government loans[(a)]	20,000	(120)	19,880
Commercial loans[(a)]	1,721	(21)	1,700
Other loans[(a)]	4,175	(43)	4,132
Purchased credit impaired loans - residential mortgages[(a)]	11,001	(3,804)	7,197
Accrued interest receivable	522	-	522
Total tangible assets acquired	465,829	(5,772)	460,057
Liabilities assumed			
Deposits	465,810	-	465,810
Accrued interest payable	19	-	19
Total tangible liabilities assumed	465,829	-	465,829
Intangible assets[(b)]	-	11,113	11,113
Excess purchase price (Goodwill)			-

[(a)]Adjustment reflects the fair value adjustments based on the Bank's evaluation of the acquired loan portfolio. When assessing the fair value adjustment, the Bank has considered prepayments for purchased credit impaired loans by estimating the future cash flows of liquidated collateral.
[(b)]Estimated finite useful life of 15 years.

The Bank incurred transaction expenses, comprising legal and professional fees, related to the HSBC Cayman acquisition in the amount of $1.6 million, which was expensed during the year ended 31 December 2014.

NOTE 27: RELATED PARTY TRANSACTIONS

Financing Transactions

As of 17 May 2005, the Bank established a programme to offer loans with preferential rates to eligible Bank employees, subject to certain conditions set by the Bank and provided that such employees meet certain credit criteria. Loan payments are serviced by automatically debiting the employee's chequing or savings account with the Bank. Applications for loans are handled according to the same policies as those for the Bank's regular retail banking clients. The Bank's ability to offer preferential rates on loans depends upon a number of factors, including market conditions, regulations and the Bank's overall profitability. The Bank has the right to change its employee loan policy at any time after notifying participants. The staff loans outstanding at 31 December 2015 amount to $207.2 million (31 December 2014: $208.0 million) resulting in an interest rate benefit to employees of $5.4 million (31 December 2014: $6.4 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 2015, related party Director loan balances were $61.1 million (31 December 2014: $58.0 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 2015, $nil (31 December 2014: $65.7 million) was outstanding under this agreement. For the year ended 31 December 2015, $1.0 million (31 December 2014: $2.7 million) of interest income has been recognised in the consolidated statements of operations.

Capital Transaction

Investments partnerships associated with the Carlyle Group hold approximately 23% of the Bank's equity voting power along with the right to designate two persons for nomination for election by the shareholders as members of the Bank's Board of Directors. Prior to 30 April 2015, Canadian Imperial Bank of Commerce ("CIBC") held approximately 19% of the Bank's equity voting power. On 30 April 2015, the Bank completed the transaction with CIBC to repurchase for cancellation approximately 77% of CIBC's shares for $1.50 per share, or a total of $120 million, representing 80,000,000 common shares. The remaining 23% of CIBC's shareholding in Butterfield (representing 23.4 million shares) were taken up by Carlyle Global Financial Services, L.P. and subsequently sold to other investors.

Financial Transactions With Related Parties

The Bank holds seed investments in several Butterfield mutual funds, which are managed by a wholly-owned subsidiary of the Bank. As at 31 December 2015, these investments have a fair value of $5.0 million with an unrealized gain of $0.9 million (31 December 2014: $5.0 million and $1.0 million respectively) and were included in trading investments at their fair value. During the year-ended 31 December 2015, the Bank earned $6.4 million (2014: $4.3 million) in asset management revenue from funds managed by a wholly-owned subsidiary of the Bank.

At 31 December 2014, the Bank held $239.3 million in cash due from banks with CIBC. As at 31 December 2014, the Bank held forward exchange contracts with CIBC with a notional amount of $372.9 million with unrealised losses of $6.2 million. From 30 April 2015 onward, CIBC was no longer considered a related party to the Bank.

Repurchase Facility Agreement

During 2013, the Bank entered into a repurchase agreement with CIBC for a $225 million line at market rates and terms. From 30 April 2015 onward, CIBC was no longer considered a related party to the Bank. As at 31 December 2014 and since that time, the repurchase agreement balance with CIBC was $nil.

NOTE 28: COMPARATIVE INFORMATION

Certain prior year figures have been reclassified or revised to conform to current year presentation.

During the year ended 31 December 2015, the Bank determined that certain investments classified as AFS for its operations in Guernsey and the United Kingdom should have been classified as trading securities since 2011. There is no impact to comprehensive income or total shareholders' equity in previous years as a result of this mis-classification. The Bank has revised the relevant 2014 amounts presented in the comparative year's results, and presented the accumulated effect of these revised classifications prior to 2014 as an increase of $9.1 million to accumulated deficit and a corresponding decrease to accumulated other comprehensive loss on 1 January 2014. Included in the $9.1 million amount are amounts of $15.5 million unrealised losses, $0.9 million unrealised gains and $5.5 million unrealised gains relating to 2013, 2012 and 2011, respectively. Further, the 2014 revisions include an increase and corresponding decrease of $9.8 million to net income and other comprehensive loss respectively as well as the re-classification of $410.5 million of investments from AFS to trading.

NOTE 29: SUBSEQUENT EVENTS

Subsequent to year-end, the Bank's subsidiary operating in the United Kingdom announced plans to commence an orderly wind-down of the deposit taking and investment management businesses of Butterfield Bank (UK) Limited. As the announcement of the orderly wind-down was more likely than not as of 31 December 2015, certain expenses relating to this were accrued for and expensed at 31 December 2015, as seen in Note 13: Exit Cost Obligations.

On 19 February 2016, the Board of Directors declared a fourth interim dividend of $0.01 per common share to be paid on 24 March 2016 to shareholders of record on 11 March 2016.

On 19 February 2016, the Board approved, with effect from 1 April 2016, the 2015 common share buy-back programme, authorising the purchase for treasury of up to eight million common shares.

The Bank has performed an evaluation of subsequent events through to 22 February 2016, the date the consolidated financial statements were approved for issuance.

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 of the Bank held by all Directors and Executive Officers* at 31 December 2015 was 5,598,576 shares. In addition, this group also has interests in 50 non-cumulative perpetual limited voting preference shares. As of 31 December 2015, Executive Officers also had interests in 10,790,000 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 2015 and, as of that date, there were no other equity securities issued by the Bank.

Save for those arrangements described in Note 27 to the Bank's 31 December 2015 consolidated financial statements, there are no contracts of significance subsisting during or at the end of the financial year ended 31 December 2015 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. Please note that the composition of the Group Executive Committee presented on page 7 reflects revisions to membership that were effected subsequent to the year-ended 31 December 2015. The figure as presented above includes three former members of the Group Executive Committee who have retired or are no longer included on the Group Executive Committee.*

EXCHANGE LISTING

The Bank's Shares are listed on the Bermuda Stock Exchange (BSX), which is located at:

BERMUDA STOCK EXCHANGE
30 Victoria Street
Hamilton, HM 12
P.O. Box HM 1369
Hamilton HM FX
Bermuda
Tel: (441) 292 7212
Fax: (441) 292 7619
www.bsx.com

SHARE DEALING SERVICE

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

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke, HM 08
Bermuda
Tel: (441) 299 3882
Fax: (441) 295 6759
E-mail: bntbshareholders2@mfsadmin.com

MEDIA RELATIONS / PUBLICATION REQUESTS

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

INVESTOR RELATIONS

Michael Schrum
Executive Vice President, Chief Financial Officer
Tel: (441) 298 4758
E-mail: michael.schrum@butterfieldgroup.com

WRITTEN NOTICE OF SHARE REPURCHASE PROGRAMME — BSX REGULATION 6.38

The Bank renewed the Common Share Repurchase Programme for a twelve-month period, with effect from 1 April 2016, authorising the purchase for treasury of up to eight million common shares.

Under the Bank's share buy-back programmes, the total shares acquired or purchased for cancellation during the year ended 31 December 2015 amounted to 2.5 million common shares to be held as treasury shares at an average cost of $1.94 per share (total cost of $4.9 million) and 183 preference shares at an average cost of $1,152 per share (total cost of $0.2 million).

From time to time, the Bank's associates, insiders and insiders' associates as defined by the BSX regulations may sell shares, which may result in such shares being repurchased pursuant to the Programme, but under BSX regulations, such trades must not be pre-arranged and all repurchases must be made in the open market. Prices paid by the Bank must not, according to BSX regulations, be higher than the last independent trade for a "round lot" defined as 100 shares or more.

The Bank will advise the BSX monthly of shares repurchased and cancelled by the Bank.

LARGE SHAREHOLDERS

As at 31 December 2015, the following were registered holders of 5% or more of the issued share capital:*

Carlyle Global Financial Services Partners LP, 21.42%
Wellcome Trust Investments, 7.95%
Ithan Creek Master Investor (Cayman) LP, 7.29%
Rosebowl Western Ltd, 5.70%
Wyndham Holdings Inc., 5.17%

**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

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
Rosebank Centre
11 Bermudiana Road
Hamilton, HM 08
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: Timothy Colclough
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
(retiring 26 April 2016)
Managing Director Designate: Michael McWatt
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
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: Richard Saunders
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*
UK Residential Property Lending
Chief Executive Officer: Cameron Marr
99 Gresham Street
London, EC2V 7NG
United Kingdom
Tel: (44) 207 776 6700
Fax: (44) 207 776 6701
E-mail: info@uk.butterfieldgroup.com

**The deposit taking and investment management businesses of Butterfield Bank (UK) Limited are being wound down.*

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

Energy: 5,000,000 BTUs
Trees: 11
Wastewater: 19,120 litres

Air Emissions: 422.7 kg
Solid Waste: 153.3 kg

Butterfield

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