ANNUAL REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2024

BUTTERFIELD BANK (GUERNSEY) LIMITED

BUTTERFIELD

Butterfield Bank (Guernsey) Limited

Contents

Butterfield Bank (Guernsey) Limited
Company Information

Directors:	Mark Lynch	Chairman
	Richard Saunders	Managing Director
	Alan Bain	
	Andrew Henton	
	Robert Kirkby	

Independent Auditor:

PricewaterhouseCoopers CI LLP
Royal Bank Place
PO Box 321
1 Glategny Esplanade
St Peter Port
Guernsey
Channel Islands
GY1 4ND

Registered Office:

Regency Court
Glategny Esplanade
St Peter Port
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Butterfield Bank (Guernsey) Limited is a wholly owned subsidiary of The Bank of N.T. Butterfield & Son Limited. The Directors regard The Bank of N.T. Butterfield & Son Limited, which is incorporated in Bermuda, as the ultimate controlling party.

Copies of the financial statements of The Bank of N.T. Butterfield & Son Limited are publicly available.

The Directors submit their annual report and the audited consolidated financial statements of Butterfield Bank (Guernsey) Limited, ("the Company") and its subsidiaries ("the Bank") for the year ended 31 December 2024.

In accordance with Section 244(5) of The Companies (Guernsey) Law, 2008, the Directors are not required to prepare individual financial statements for the Company, as the Directors have presented consolidated financial statements.

Activities

The Bank carries on the business of banking and related financial services. It has assets under management and administration amounting to approximately £9.9 billion (2023: £10.7 billion) which are not included in these consolidated financial statements.

Results

The results of the Bank are shown in the Consolidated Statement of Operations, Consolidated Statement of Comprehensive Income and Consolidated Statement of Changes in Shareholders' Equity on pages 7, 8 and 10 respectively.

Dividends

Dividends of 14.2459p per share (total of £35m) were paid during the year (2023: nil).

Transfer of assets

The Bank of N.T. Butterfield & Son Limited has restructured its operations in Jersey, whereby after regulatory approval in May 2024, the business operations as well as substantially all assets and liabilities of Butterfield Bank (Jersey) Limited were transferred with effect from 1 June 2024 to the newly set-up Butterfield Bank (Guernsey) Limited, Jersey branch ("Jersey branch") with the final assets transferred to Jersey branch prior to October 2024. Butterfield Bank (Jersey) Limited ("BBJL") was subsequently dissolved in October 2024.

The transfer was accounted for as a transaction between entities under common control under US GAAP as both the Company and BBJL were both controlled by The Bank of N. T. Butterfield & Son Limited. US GAAP also requires retrospective combination of the Company and BBJL for all periods presented on the consolidated financial statements as if the combination had been in effect since the inception of common control. Therefore, the 31 December 2023 corresponding figures have been adjusted to reflect the recast of prior period information. Refer to Note 30 for further details.

Directors

The current Directors of the Company are as stated on page 1.

Company Secretary

The business opted not to appoint an individual as Company Secretary and instead adopted an approach of electing a Secretary at each and every meeting.

Directors' Responsibilities for the consolidated financial statements

The Directors are required by The Protection of Investors (Bailiwick of Guernsey) Law, 2020, The Banking Supervision (Bailiwick of Guernsey) Law, 2020, The Lending, Credit and Finance (Bailiwick of Guernsey) Law, 2022 and The Companies (Guernsey) Law, 2008, as amended, and accounting principles generally accepted in the United States of America to prepare consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these financial statements the Directors are required to: -

~ select suitable accounting policies and then apply them consistently;
~ make judgements and estimates that are reasonable and prudent;
~ state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the consolidated financial statements; and
~ prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the consolidated financial statements.

Directors' Responsibilities for the consolidated financial statements (continued)

So far as the Directors are aware, there is no relevant audit information of which the Bank’s Auditor is unaware, and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Bank’s Auditor is aware of that information.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with The Protection of Investors (Bailiwick of Guernsey) Law, 2020, The Banking Supervision (Bailiwick of Guernsey) Law, 2020, The Lending, Credit and Finance (Bailiwick of Guernsey) Law, 2022 and The Companies (Guernsey) Law, 2008, as amended. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate Governance

The Directors have considered the effectiveness of their corporate governance practices and are satisfied with their degree of compliance with the Principles set out in the Guernsey Financial Services Commission ("GFSC") Finance Sector Code of Corporate Governance in the context of the nature, scale and complexity of the business.

Independent Auditor

The independent Auditor, PricewaterhouseCoopers CI LLP has expressed a willingness to continue in office.

Andrew Henton
Director
17 February 2025

Richard Saunders
Managing Director

Independent auditor's report to the members of Butterfield Bank (Guernsey) Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Butterfield Bank (Guernsey) Limited (the "company") and its subsidiaries (together the "group") as at 31 December 2024, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America and have been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008, The Banking Supervision (Bailiwick of Guernsey) Law, 2020, The Lending, Credit and Finance (Bailiwick of Guernsey) Law, 2022 and The Protection of Investors (Bailiwick of Guernsey) Law, 2020.

What we have audited

The group's consolidated financial statements comprise:

- the Consolidated Balance Sheet as at 31 December 2024;
- the Consolidated Statement of Operations for the year then ended;
- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Changes in Shareholders' Equity for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended; and
- the notes to the consolidated financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

The directors are responsible for the other information. The other information comprises all the information included in the Annual Report and Audited Consolidated Financial Statements but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with accounting principles generally accepted in the United States of America, the requirements of Guernsey law and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Butterfield Bank (Guernsey) Limited (continued)

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of this report

This independent auditor's report, including the opinions, has been prepared for and only for the members as a body in accordance with Section 262 of The Companies (Guernsey) Law, 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Report on other legal and regulatory requirements

Under The Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- proper accounting records have not been kept; or
- the consolidated financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

PricewaterhouseCoopers CI LLP

PricewaterhouseCoopers CI LLP
Chartered Accountants
Guernsey, Channel Islands
17 February 2025

The maintenance and integrity of the group’s website is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Butterfield Bank (Guernsey) Limited
Consolidated Statement of Operations

	Notes	Year ended 31 December 2024 £'000	Year ended 31 December 2023* £'000
Interest income			
Cash and cash equivalents, securities purchased under agreements to resell and short-term investments		**68,561**	39,175
Interest and fees on loans	2	**80,309**	81,711
Investments - Available-for-sale		**2,239**	3,010
Investments - Held-to-maturity		**7,484**	8,256
Total interest income		**158,593**	132,152
Interest expense			
Deposits		**(109,018)**	(89,376)
Subordinated debt	16, 20	**-**	(1,614)
Securities sold under agreement to repurchase		**(1,505)**	(7)
Total interest expense		**(110,523)**	(90,997)
Net interest earned before provision for credit losses		**48,070**	41,155
Provision for credit losses	7	**(417)**	194
Net interest earned after provision for credit losses		**47,653**	41,349
Non-interest income			
Custodian services		**5,814**	5,924
Investment services and asset management		**5,908**	5,328
Banking services		**2,614**	1,893
Foreign exchange revenue		**7,907**	6,947
Other non-interest income		**478**	912
Total non-interest income		**22,721**	21,004
Other gains/(losses)			
Investment gains/(losses)		**147**	(2)
Losses on disposal of fixed assets		**(251)**	(22)
Other gains/(losses)		**331**	(179)
Total other gains/(losses)		**227**	(203)
Total income		**70,601**	62,150
Non-interest expenses			
Salaries and other employee benefits		**(21,877)**	(24,292)
Property		**(5,832)**	(4,877)
Systems and communications		**(7,790)**	(8,142)
Marketing		**(989)**	(1,248)
Amortisation of intangible assets	12	**(1,345)**	(1,345)
Other expenses		**(12,503)**	(11,928)
Total non-interest expenses		**(50,336)**	(51,832)
Net income before income taxes		**20,265**	10,318
Income taxes	3	**(2,104)**	(1,144)
Net income for the year		**18,161**	9,174

The accompanying notes are an integral part of these consolidated financial statements.
* Adjusted to reflect the recast of prior period information due to the transfer of operations and net assets from Butterfield Bank (Jersey) Limited to the Company, which was accounted for as a transaction between entities under common control (refer to Note 30)

Butterfield Bank (Guernsey) Limited
Consolidated Statement of Comprehensive Income

	Notes	Year ended 31 December 2024 £'000	Year ended 31 December 2023* £'000
Net income for the year		**18,161**	9,174
Other comprehensive income/(loss), net of taxes			
Net change in unrealised gains and losses on available-for-sale investments		**532**	9,884
Net change in accrued pension benefit cost		**(1,088)**	(2,371)
Other comprehensive (loss)/income, net of taxes		**(556)**	7,513
Total comprehensive income		**17,605**	16,687

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* Adjusted to reflect the recast of prior period information due to the transfer of operations and net assets from Butterfield Bank (Jersey) Limited to the Company, which was accounted for as a transaction between entities under common control (refer to Note 30)

Butterfield Bank (Guernsey) Limited
Consolidated Balance Sheet

	Notes	As at 31 December 2024 £'000	As at 31 December 2023* £'000
Assets			
Cash and deposits with banks:			
Cash and demand deposits with banks		56,925	21,984
Cash equivalents		319,793	505,221
Total cash and cash equivalents	4	376,718	527,205
Securities purchased under agreements to resell	18	891,010	-
Investment in securities:			
Short term investments	5	250,871	531,103
Available-for-sale at fair value (including assets pledged that secured parties are permitted to sell or repledge: £74,711,775 (2023: nil))	6	159,727	291,095
Held-to-maturity	6	371,292	392,902
Total investments		781,890	1,215,100
Loans, net of allowance for credit losses	7, 8	1,436,692	1,431,347
Premises, equipment and computer software	9	11,558	7,676
Accrued interest receivable		7,782	17,534
Other assets	10	56,590	41,370
Goodwill	12	4,277	4,277
Other intangible assets	12	12,775	14,120
Total Assets		3,579,292	3,258,629
Liabilities			
Deposits:			
Customer deposits		3,176,906	2,752,645
Bank and Group deposits		56,866	215,722
Total deposits	14	3,233,772	2,968,367
Securities sold under agreement to repurchase	18	73,988	-
Accrued interest payable		5,599	6,595
Other liabilities	15	31,262	31,601
Total other liabilities		110,849	38,196
Total Liabilities		3,344,621	3,006,563
Shareholders' Equity			
Ordinary share capital	17	245,686	245,686
Retained earnings		16,436	33,275
Accumulated other comprehensive loss		(27,451)	(26,895)
Total Shareholders' Equity		234,671	252,066
Total Liabilities and Shareholders' Equity		3,579,292	3,258,629

The financial statements on pages 7 to 54 were approved by the Board of Directors on 17 February 2025 and were signed on its behalf by:

Andrew Henton
Director

Richard Saunders
Managing Director

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

* Adjusted to reflect the recast of prior period information due to the transfer of operations and net assets from Butterfield Bank (Jersey) Limited to the Company, which was accounted for as a transaction between entities under common control (refer to Note 30)

Butterfield Bank (Guernsey) Limited
Consolidated Statement of Changes in Shareholders' Equity

	Notes	Year ended 31 December 2024 £'000	Year ended 31 December 2023* £'000
Ordinary Share Capital			
Issued and outstanding at beginning of year	17	245,686	235,686
Issued during the year	17	-	10,000
Balance at end of year		245,686	245,686
Retained Earnings			
Balance at beginning of year		33,275	24,101
Net income for year		18,161	9,174
Dividend paid during the year	17	(35,000)	-
Balance at end of year		16,436	33,275
Accumulated Other Comprehensive Loss			
Balance at beginning of year		(26,895)	(34,408)
Other comprehensive (losses)/income, net of taxes		(556)	7,513
Balance at end of year		(27,451)	(26,895)
Total Shareholders' Equity		234,671	252,066

The accompanying notes are an integral part of these consolidated financial statements.
* Adjusted to reflect the recast of prior period information due to the transfer of operations and net assets from Butterfield Bank (Jersey) Limited to the Company, which was accounted for as a transaction between entities under common control (refer to Note 30)

Butterfield Bank (Guernsey) Limited
Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2024 £'000	Year ended 31 December 2023* £'000
Operating Activities			
Net Income for the year		18,161	9,174
Reconciliation of net income to net cash used in operating activities			
Depreciation and amortisation		4,831	5,089
Decrease/(increase) in accrued interest receivable		9,752	(1,741)
(Increase)/decrease in other assets		(7,980)	1,916
(Decrease)/increase in accrued interest payable		(996)	3,948
(Decrease)/increase in other liabilities		(4,462)	3,378
Other non-cash items		-	41
Cash provided by Operating Activities		19,306	21,805
Investing Activities			
Decrease in short term investments		377,111	9,445
Net additions to premises, equipment and software		(6,457)	(2,907)
Net (increase)/decrease in loans		(6,449)	239,817
Available-for-sale investments: proceeds from maturities and pay downs		133,255	8,807
Securities purchased under repurchase agreement		(891,010)	-
Securities sold under agreement to repurchase		73,988	-
Held-to-maturity investments: proceeds from pay downs		26,998	29,263
Cash (used in)/provided by Investing Activities		(292,564)	284,425
Financing Activities			
Cash dividend paid		(35,000)	-
Issuance of share capital		-	10,000
Repayment of subordinated debt		-	(25,000)
Net increase/(decrease) in demand and term deposit liabilities		205,890	(410,086)
Cash provided by/(used in) Financing Activities		170,890	(425,086)
Net effect of exchange rates on cash, cash equivalents and restricted cash		(1,128)	(30,628)
Net decrease in cash, cash equivalents and restricted cash		(103,496)	(149,484)
Cash, cash equivalents and restricted cash at beginning of year		529,426	678,910
Cash, cash equivalents and restricted cash at end of year		425,930	529,426
Components of cash, cash equivalents and restricted cash at end of year			
Cash due from banks	4	376,718	527,205
Restricted cash included in short-term investments on the consolidated balance sheet	5	49,212	2,221
Total cash, cash equivalents and restricted cash at end of year		425,930	529,426
Supplemental Disclosure of Cash flow information			
Interest paid on deposits during the year		111,519	87,048
Income tax paid during the year		1,767	1,275

The accompanying notes are an integral part of these consolidated financial statements.
* Adjusted to reflect the recast of prior period information due to the transfer of operations and net assets from Butterfield Bank (Jersey) Limited to the Company, which was accounted for as a transaction between entities under common control (refer to Note 30)

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Use of Estimates and Assumptions

The accounting and financial reporting policies of Butterfield Bank (Guernsey) Limited (“the Company”) and its subsidiaries ("the Bank") 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 period, 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 our future financial condition and results of operations. We believe that our most critical accounting policies upon which our financial condition depends, and which involves the most complex or subjective decisions or assessments, are as follows:

i. Allowance for credit losses
ii. Fair value of financial instruments
iii. Impairment of long-lived assets
iv. Impairment of goodwill
v. Employee benefit plans

Certain monetary amounts, percentages and other figures included in this report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% or, as applicable, when aggregated may not be the arithmetic aggregation of the percentages that precede them.

(b) Retrospective Combination of historical Financial statements

On 14 May 2024 the Royal Court of Jersey approved the transfer of all assets and liabilities of Butterfield Bank (Jersey) Limited, a subsidiary of the Bank's parent company, The Bank of N. T. Butterfield & Son Limited, to Butterfield Bank (Guernsey) Limited, Jersey branch. The transaction was accounted for as a transaction between entities under common control in accordance with Accounting Standards Codification ("ASC") 805-50, Business Combination - Related Issues, which requires retrospective combination of entities for all periods presented, as if the combination had been in effect since the inception of common control. The consolidated financial statements of Butterfield Bank (Guernsey) Limited and notes thereto are presented on a combined basis, as if both Butterfield Bank (Guernsey) Limited and Butterfield Bank (Guernsey) Limited, Jersey branch were under common control for all periods presented. Refer to Note 30 for more information on the transaction.

Transactions with Butterfield Bank (Jersey) Limited that were previously accounted for as transactions between related parties were eliminated in the consolidated financial statements for all periods presented. All intercompany transactions and account balances between Butterfield Bank (Guernsey) Limited and Butterfield Bank (Jersey) Limited have been eliminated upon consolidation for all periods presented.

(c) Basis of Consolidation

The consolidated financial statements include the accounts of Butterfield Bank (Guernsey) Limited and its majority-owned subsidiaries. Intercompany accounts and transactions have been eliminated on consolidation. The Bank consolidates subsidiaries where it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control.

(d) Foreign Currency Translation

Assets and liabilities arising from foreign currency transactions are translated into Sterling at the rates of exchange prevailing at the Consolidated Balance Sheet date. The resulting gains or losses are included in foreign exchange revenue in the Consolidated Statement of Operations.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Foreign Currency Translation (continued)

Revenues and expenses arising from foreign currency transactions are translated into Sterling at the rates of exchange prevailing at the dates of transactions.

(e) Assets Held in Trust or Custody

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

(f) Cash and Cash Equivalents

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

(g) Securities Purchased Under Agreement to Resell and Securities Sold Under Agreements to Repurchase

Securities purchased under agreement to resell are treated as collateralised lending transactions. The obligation to resell is recorded at the amount at which the securities will be subsequently sold.

Securities sold under agreements to repurchase (securities financing agreements) are treated as collateralised financing transactions. The obligation to repurchase is recorded at the amount at which the securities will be subsequently repurchased.

(h) 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.

(i) Investments

Investments in debt and equity securities are classified as trading, available for sale ("AFS") or held-to-maturity ("HTM"). Investments are classified as trading when management either has the intent to sell these investments for profit or has taken the fair value option to hold them against customer call deposits in foreign currencies. Debt and equity securities classified as trading investments are carried at fair value in the Consolidated Balance Sheet, with unrealised gains and losses included in the Consolidated Statement of Operations as net realised / unrealised gains (losses) on trading investments. Investments are classified primarily as AFS when used to manage the Bank's exposure to interest rate and liquidity movements, as well as to make strategic longer-term investments. AFS investments are carried at fair value in the Consolidated Balance Sheet with unrealised gains and losses reported in accumulated other comprehensive income (loss), net of allowance for credit losses. Investments that the Bank has the positive intent and ability to hold to maturity are classified as HTM and are carried at amortised cost in the Consolidated Balance Sheet, net of allowance for credit losses. 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 trading and AFS investments, which are included in investments gains (losses) in the Consolidated Statement of Operations.

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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Investments (continued)

Impairment and credit losses

For debt securities, where management does not expect to recover the entire amortized cost basis of the security and 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 amortized cost, it recognizes an impairment loss equal to the full difference between the amortized cost basis and the fair value of those securities through the income statement. Following the recognition of impairment, the security's new amortized cost basis is the previous basis less impairment.

When management does not intend to sell or it is more likely than not that the Bank will hold such securities until recovering the amortized cost, management determines whether any credit losses exist.

(j) Loans

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

Impaired Loans

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

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 immediately 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 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.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Loans (continued)

Loans are restored to accrual status when:

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

Loan Modifications

The Bank evaluates whether a modified loan represents a new loan or a continuation of an existing loan. If the effective yield on the restructured loan is at least equal to the effective yield for comparable loans with similar collection risks and the modifications to the original loan are more than minor, the Bank will derecognize the existing loan and recognize the restructured loan as a new loan. If a loan restructuring does not meet these conditions, the Bank will account for the modification as a continuation of the existing loan. See Note 7: Loans for the required disclosures.

Delinquencies

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

Charge Offs

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

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

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

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

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

(k) Allowance for Credit Losses

The Bank uses a current expected credit loss model ("CECL") which is based on expected losses. The CECL model is applied by the Bank to the measurement of credit losses on financial instruments at amortized cost, including loan receivables and debt securities. The Bank also applies the CECL model to certain off-balance sheet credit exposures such as undrawn loan commitments, standby letters of credit, financial guarantees, and other similar instruments. In line with Topic 326, the Bank will present credit losses on securities as a valuation allowance rather than as a direct write-down. Changes in expected credit losses are recorded through the respective credit loss allowances on the consolidated balance sheets as well as in the provision for credit losses (or recoveries) in the consolidated statements of operations.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Allowance for Credit Losses (continued)

Accounting for Financial instruments - Credit losses

Under the CECL model, the Bank collects and maintains attributes as they relate to its financial instruments that are within the scope of CECL including fair value of collateral, expected performance over the lifetime of the instruments and reasonable and supportable assumptions about future economic conditions. The Bank's measurement of expected losses takes into account historical loss information and is primarily based on the product of: the respective instrument’s probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”). For AFS securities, any allowance for credit losses is based on an impairment assessment.

The Bank made the accounting policy election to write off accrued interest receivable on loans that are placed on non-accrual status by reversing the then accrued interest balance against interest income revenue.

The Bank maintains an allowance for credit losses, which in management’s opinion is adequate to absorb all estimated credit-related losses that are incurred in its lending and off-balance sheet credit-related arrangements at the balance sheet date.

Management measures expected credit losses on HTM and AFS debt securities on a collective basis by major security type when similar risk characteristics exist, or failing that, on an individual basis.

For AFS debt securities in an unrealized loss position, the Bank first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security’s amortized cost basis is written down to fair value through income. For AFS debt securities that do not meet the aforementioned criteria, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Losses are charged against the allowance when management believes the uncollectibility of an AFS debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

The allowance for credit losses on loans is a valuation account that is deducted from the loans’ amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries cannot exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in the current-loan specific risk characteristics such as differences in underwriting practices, vintage, portfolio mix, delinquency level, term as well as changes in environmental conditions, such as changes in macroeconomic factors and collateral values.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Allowance for Credit Losses (continued)

Accounting for Financial instruments - Credit losses (continued)

The allowance for credit losses is measured on a collective pool basis when similar risk characteristics exist. The Bank has identified the following portfolio segments: Residential mortgages, Consumers loans (including overdrafts), Commercial loans, Commercial overdrafts and Commercial real estate loans. For Loans and overdrafts, Management uses a PD and LGD model to estimate the allowance for credit losses. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation.

Expected credit losses are estimated over the contractual term of the loans. The contractual term excludes potential extensions, renewals and modifications unless management has a reasonable expectation at the reporting date that the extension or renewal options included in the original contract will occur or that a troubled debt restructuring will be executed.

Specific Allowances

Specific allowances are determined on an exposure-by-exposure basis identified through the Bank's internal risk rating framework and reflect the associated estimated credit loss. The specific allowance for an individual loan is computed as the difference between the recorded investment in the loan and the present value of expected future cash flows and is dependent upon the assumptions on the timing and amounts of the receipts or the fair value of collateral-dependent loans. 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 recognizes impairment by creating an allowance with a corresponding charge to provision for credit losses.

For all commercial and commercial real estate loan modifications due to the borrowers experiencing financial difficulty, the Bank conducts further analysis to determine the probable amount of loss and establishes a specific allowance for the loan, if appropriate. The Bank estimates the impairment amount by comparing the loan’s carrying amount to the estimated present value of its future cash flows or the fair value of its underlying collateral. For collateral-dependent impaired commercial and commercial real estate loans, the excess of the Company’s recorded investment in the loan over the fair value of the collateral, less cost to sell, is charged off to the specific allowance.

For consumer and residential mortgage loan modifications due to the borrowers experiencing financial difficulty that are not collateral-dependent, allowances are developed using the present value of expected future cash flows, compared to the recorded investment in the loans. Expected re-default factors are considered in this analysis. The fair value of collateral is periodically monitored subsequent to the modification.

General Allowance

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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Business Combinations, Goodwill and Intangible Assets

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

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

(m) Premises, Equipment and Computer Software

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 3 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 costs 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 5 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.

If there is a disposition of premises, equipment and computer software, a gain is recorded if the difference of the proceeds on disposition is in excess of the asset's carrying value. Otherwise, a loss is recorded. If there is an abandonment out of premises, equipment and computer software, the full carrying value of the asset is recognized as a loss.

(n) Leases

In the normal course of operation, the Bank enters into leasing agreements either as the lessee or the lessor. The Bank recognizes right-of-use assets and lease liabilities for operating leases and for finance leases. Lease liabilities are measured as the present value of future lease payments, including term renewals that are reasonably certain to occur, discounted using the Bank’s incremental borrowing interest rate. Right-of-use assets are measured as the carrying amount of the related lease liabilities adjusted for: prepaid or accrued lease payments, unamortized lease incentive received, unamortized initial direct costs and any impairment of the right-of-use asset.

The Bank made accounting policy elections not to separate lease components from non-lease components for all classes of underlying assets; and not to recognize a right-of-use asset and a lease liability for leases with a term at inception of 12 months or less, including renewal options that are reasonably certain to be exercised (referred to as “short term leases”)

(o) Derivatives

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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Derivatives (continued)

Changes in the fair value of trading and non-hedging derivative instruments are reported in the consolidated statements of operations.

All instruments utilized as a hedging instrument in a fair value hedge or cash flow hedge must have one or more underlying notional amounts, or a minimal net initial investment and a provision for net settlement in the contract to meet the definition of a derivative instrument.

The changes in the fair value for 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 the consolidated statement of operations.

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 income (loss) and the ineffective portion is recorded in the consolidated statement of operations. 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 the consolidated statement of operations.

The changes in the fair value of a derivative that is designated and qualifies as a foreign currency hedge is recorded in either current period earnings or other comprehensive income, depending on whether the hedging relationship satisfies the criteria for a fair value or cash flow hedge. Changes in the fair value of derivative trading and non-hedging instruments are reported in the consolidated statement of operations.

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 where 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 other comprehensive income (loss) unless it is probable that the forecasted transaction will not occur in the originally specified time period.

(q) Collateral

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

(r) Employee Future Benefits

The Bank maintains trustee pension plans for substantially all employees as either non-contributory defined benefit plans or defined contribution plans. Benefits under the defined benefit plans are primarily based on the employee's years of credited service and average annual salary during the final years of employment as defined in the plans.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Employee Future Benefits (continued)

Expense for the defined benefit pension plans is comprised of (a) the actuarially determined benefits for the current years' service, (b) imputed interest on the actuarially determined liability of the plan, (c) 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. 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 arising on adoption of revised accounting standards.

For the defined benefit pension plan the asset or liability recognised for accounting purposes is reported in other assets or other liabilities.

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 by the Bank are expensed in the period.

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. Under the terms of the closure, defined benefit scheme members became eligible for membership of the defined contribution plan.

(s) Share Based Payment

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 (in The Bank of N.T. Butterfield & Son Limited) granted on the date of the grant. The cost of the employee services received in respect of the shares or share options granted is recognised in the Consolidated Statement of Operations over the shorter of the vesting or service period.

The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the current share price, the risk free interest rate, expected dividend rate, the expected volatility of the share price over the life of the option and other relevant factors. Time vesting conditions are taken into account by adjusting the number of shares or share options included in the measurement of the costs of employee services so that ultimately, the amount recognised in the income statement reflects the number of vested shares or share options. The Bank recognises compensation costs 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).

(t) Revenue Recognition

Custodian services fees include fees for private and institutional custody services. These fees are recognised as revenue 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 other contingencies associated with the fee.

Asset management fees include fees for investment management and brokerage services. Investment management fees are recognised over the period in which the related service is provided, on a net asset value basis. Brokerage services fees are recognised in the period in which the related service is provided.

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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Revenue Recognition (continued)

Foreign exchange revenue includes fees earned on currency exchange transactions which are recognized when such transactions occur, as well as gains and losses recognized 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 deferred and recognised as an adjustment of yield over the life of the related loan. Loan origination and commitment fees are offset by their related direct cost and only the net amounts are deferred and amortised into interest income.

Dividend and interest income on all securities, including amortisation of premiums and discounts on debt securities held for investment, are included in investment income in the Consolidated Statement of Operations.

Dividend and interest income, including amortization 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 amortized cost and carrying amount.

(u) Fair Value of Financial Instruments

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 standard describes three levels of inputs that may be used to measure fair value. Investments classified as trading and available for sale, and derivative assets and liabilities are recognised in the Consolidated Balance Sheet at fair value.

Level 1, 2 and 3 Valuation Inputs

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

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

Fair value inputs are considered Level 2 when based on internally developed models or based on prices published by independent pricing services using proprietary models. To qualify for Level 2, all significant inputs used in these models must be observable in the 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 price for identical assets but for which the market is not considered active due to low trading volumes.

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

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

Cash and Cash Equivalents

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

Cash equivalents include unrestricted term deposits, certificates of deposits and treasury bills with a maturity of less than 3 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.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Fair Value of Financial Instruments (continued)

Level 1, 2 and 3 Valuation Inputs (continued)
Short Term Investments
Short term investments comprise restricted term and demand deposits, certificates of deposit and treasury bills 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.

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.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Fair Value of Financial Instruments (continued)

Loans

Variable rate loans re-price in response to changes in market rates and hence management estimates that the fair value of variable rate loans is not significantly different than their carrying amount. The fair value of significant fixed-rate loan exposures may be hedged by entering into corresponding pay-fixed-receive-floating interest rate swaps. These swaps would be considered effective hedges of the fair value of fixed-rate loans and are designated as such. Accordingly, the carrying amount of hedged fixed-rate loans would be adjusted to reflect their fair value.

Accrued Interest

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

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.

Derivatives

Derivative contracts can be exchange traded or OTC derivative contracts and may include forward, swap and option contracts relating to interest rates or foreign currencies.

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

Goodwill

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

(v) Impairment or Disposal of Long-Lived Assets

Potential impairment losses are initially assessed by comparing the carrying amount of an asset group to the sum of the undiscounted cash flows expected from its use and disposal. The impairment recognized 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.

(w) 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:

i) 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;

ii) 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

iii) Documentary and commercial letters of credit, primarily related to the import of goods by customers, which represent agreements to honour drafts presented by third parties upon completion of specific activities.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Credit Related Arrangements (continued)

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 18 Credit related arrangements, repurchase agreements and commitments 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.

(x) Income Taxes

The Bank uses the asset and liability method whereby income taxes reflect the expected future tax consequences of temporary differences between the 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. Income taxes on the Consolidated Statement of Operations include the current and deferred portions of the income taxes. Income taxes applicable to items charged or credited directly to shareholders' equity are included in such items.

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.

The Bank initially recognises the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. The Bank recognises interest accrued and penalties related to unrecognised tax benefits in operating expenses.

(y) Consolidated Statement of Cash Flows

For the purposes of the Consolidated Statement of Cash Flows cash and cash equivalents 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.

Foreign currency transactions in the Consolidated Statement of Cash Flows are being presented in the reporting currency equivalent of foreign currency cash flows using weighted average exchange rates for the reporting period, and the Consolidated Statement of Cash Flows separately discloses the effect of exchange rate changes on cash balances held in foreign currencies as part of the reconciliation of the change in cash and cash equivalents during the reporting period.

NOTE 2: INTEREST AND FEES ON LOANS

The following table presents the components of loans and mortgages interest income:

	2024	2023
	£'000	£'000
Mortgages and other loans	79,293	80,498
Loan origination fees	887	955
Amortisation of fair value adjustment on purchased loans	129	258
Total loan interest income	80,309	81,711
Balance of unamortised loan fees net of associated deferred costs	800	761

NOTE 2: INTEREST AND FEES ON LOANS (CONTINUED)

As a consequence of the acquisition of ABN AMRO (Channel Islands) Limited and the 'Day 1 accounting' review, a specific provision and a 'fair value' adjustment was calculated encompassing the following:

	2019 £'000
Specific provision	1,140
Fair value adjustment	1,762
Total	2,902

The fair value adjustment resulted from a series of assumptions around the cash flows emanating from a collection of loans in which there was doubt as to collectability. Therefore an appropriate discount factor was applied resulting in the fair value adjustment. The fair value adjustment is being amortised on a straight-line basis over five years.

The adjustment was fully amortised during 2024. As at 31 December 2024, the outstanding balance amounted to nil (2023:£129,172) having reduced from a combination of loan repayments from loans with specific provisions and the amortization of the fair value adjustment.

NOTE 3: INCOME TAXES

BBGL, as a Guernsey resident bank, is subject to tax at 10% on its banking income. On the basis that the banking license covers all activities of the bank, including those of a permanent establishment in another jurisdiction, the profits of BBGL, Jersey Branch are also taxable in Guernsey at 10% with a credit available for tax suffered on the same profits in Jersey.

	2024 £'000	2023 £'000
Income taxes in Consolidated Statement of Operations		
Current	2,143	876
Deferred Income Tax	(39)	268
Total income taxes	2,104	1,144

	2024 £'000	2023 £'000
Reconciliation to statutory tax rate		
Net income before income taxes	20,265	10,318
Total Net Income before income taxes for the year	20,265	10,318
Effective tax charge at 10%	2,027	1,032
Increase in taxes resulting from:		
Other adjustments	1	(39)
Prior year tax over/(under) provisions	115	(117)
Deferred tax provision	(39)	268
Total tax expense	2,104	1,144

NOTE 3: INCOME TAXES (CONTINUED)

Significant components of deferred tax assets and liabilities		
Deferred income tax (liabilities)/assets		
Excess capital allowances over depreciation	(401)	(399)
Provision for compensated absence	18	18
Net deferred income tax (liabilities)/assets	(383)	(381)

NOTE 4: CASH AND CASH EQUIVALENTS

	2024 £'000	2023 £'000
Cash and demand deposits		
Non-interest bearing		
Cash and demand deposits with Third Party Banks	2	(9)
Interest bearing		
Cash and demand deposits with Third Party Banks	55,657	19,257
Cash and demand deposits with Parent	976	2,029
Cash and demand deposits with Fellow Subsidiaries	290	707
Total interest bearing cash and deposits with banks	56,923	21,993
Total cash and deposits with banks	56,925	21,984
Cash equivalents		
Term deposits - interest earning Third Party Banks	236,727	279,860
Treasury Bills	83,066	225,361
Total cash equivalents	319,793	505,221
Cash and demand deposits	56,925	21,984
Cash equivalents	319,793	505,221
Total cash and cash equivalents	376,718	527,205

NOTE 5: SHORT TERM INVESTMENTS

	2024 £'000	2023 £'000
Unrestricted		
Interest earning		
Treasury Bills maturing within three months	201,659	354,279
Treasury Bills maturing within three to six months	-	134,243
Treasury Bills maturing within six to twelve months	-	40,360
Total unrestricted short term investments	201,659	528,882
Restricted (Margin reserve requirements)		
Interest earning		
Call deposit	48,415	1,436
Term deposit maturity within three months	797	785
Total restricted short term investments	49,212	2,221
Total short term investments	250,871	531,103

NOTE 6: INVESTMENT IN SECURITIES

The amortised cost and fair values are as follows:

2024	Amortised Cost £'000	Gross unrealised gains £'000	Gross unrealised losses £'000	Fair Value £'000
Held-to-Maturity				
US Government and federal agencies	371,292	-	(79,627)	291,665
	371,292	-	(79,627)	291,665
Available-for-sale				
US Government and federal agencies	111,520	-	(26,505)	85,015
UK Gilts	74,980	-	(268)	74,712
	186,500	-	(26,773)	159,727
Total investments	557,792	-	(106,400)	451,392

2023	Amortised Cost £'000	Gross unrealised gains £'000	Gross unrealised losses £'000	Fair Value £'000
Held-to-Maturity				
US Government and federal agencies	392,902	-	(70,513)	322,389
	392,902	-	(70,513)	322,389
Available-for-sale				
US Government and federal agencies	118,705	-	(23,888)	94,817
UK Gilts	199,695	-	(3,417)	196,278
	318,400	-	(27,305)	291,095
Total investments	711,302	-	(97,818)	613,484

The following is a description of the Bank's main investments:

US Government and Federal Agencies and UK Gilts
As of 31 December 2024, gross unrealised losses on securities related to United States ("US") government and federal agencies and UK Gilts were £106,400,488 (2023: £97,818,458). Management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery. Unrealised losses were attributable primarily to changes in market interest rates, relative to when the investment securities were purchased, and changes in foreign exchange rates, where applicable, and not due to the credit quality of the investment securities. The issuers continue to make timely principal and interest payments on the securities.

Management believes that all the ("US") government and federal agencies securities and UK gilts do not have any credit losses, given the explicit and implicit guarantees provided by the US federal government and the UK Government.

Pledged Investments
The Bank also pledges certain UK Gilts to secure the Bank's repurchase agreements. Where the secured party has the right to sell or pledge the collateral, the Bank discloses such pledged financial assets separately in the accompanying consolidated balance sheet.

NOTE 6: INVESTMENTS (CONTINUED)

The following tables present securities by remaining term to maturity:

	Remaining term to maturity					2024
	Within 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	No specific maturity £'000	Carrying value £'000
Held-to-Maturity						
US Government and federal agencies	-	-	-	371,292	-	371,292
Total Held-to-Maturity	-	-	-	371,292	-	371,292
Available-for-sale						
Equity securities	-	-	-	-	-	-
US Government and federal agencies	-	-	-	85,015	-	85,015
UK Gilts	74,712	-	-	-	-	74,712
Total Available-for-Sale	74,712	-	-	85,015	-	159,727
Total investments	74,712	-	-	456,307	-	531,019
Total by currency						
Sterling	74,712	-	-	-	-	74,712
US dollars	-	-	-	456,307	-	456,307
Total investments	74,712	-	-	456,307	-	531,019

	Remaining term to maturity					2023
	Within 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	No specific maturity £'000	Carrying value £'000
Held-to-Maturity						
US Government and federal agencies	-	-	-	392,902	-	392,902
Total Held-to-Maturity	-	-	-	392,902	-	392,902
Available-for-sale						
US Government and federal agencies	-	-	-	94,817	-	94,817
UK Gilts	124,513	-	71,765	-	-	196,278
Total Available-for-Sale	124,513	-	71,765	94,817	-	291,095
Total investments	124,513	-	71,765	487,719	-	683,997
Total by currency						
Sterling	124,513	-	71,765	-	-	196,278
US dollars	-	-	-	487,719	-	487,719
Total investments	124,513	-	71,765	487,719	-	683,997

NOTE 7: LOANS

The principal means of securing residential mortgages, personal and business loans are charges over assets and guarantees. Mortgage loans are generally repayable over periods of up to twenty five years and personal and business loans are generally repayable over terms not exceeding five years. Government loans are repayable over a variety of terms which are individually negotiated. The effective yield on total loans as at 31 December 2024 is 5.62% (2023: 5.23%). The interest receivable is included in Accrued Interest and other assets on the consolidated balance sheet and is excluded from all loan amounts disclosed in this note.

Loans' Credit Quality

The four credit quality classifications 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. Loans' internal credit ratings are assigned by the Bank's customer relationship managers as well as members of the Bank's and Group Credit Committees. The borrowers' financial condition is documented at loan origination and maintained periodically thereafter at a frequency which can be up to monthly for certain loans. The loans' performing status, as well as current economic trends, are continuously monitored. The Bank's and Group Credit Committees meet on at least a monthly basis. The Bank also has a Group Provision and Impairments Committee which is responsible for approving significant provisions and other impairment charges.

Quality classification definitions

Pass:
A pass loan shall mean a loan that is expected to be repaid as agreed. A loan is classified as pass where the Bank is not expected to face repayment difficulties because the present and projected cash flows are sufficient to repay the debt and the repayment schedule as established by the agreement is being followed. Loans in this category are reviewed by the Bank's management on a least an annual basis.

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

Substandard:
A substandard loan shall mean a loan whose evident unreliability makes repayment doubtful and there is a threat of loss to the Bank unless the unreliability is averted. Loans in this category are under close monitoring by the Bank's management on at least a quarterly basis.

Non-accrual:
Either where management is of the opinion full payment of principal or interest is in doubt or when principal or interest is 90 days past due and for residential loans which are not well secured and in the process of collection. Loans in this category are under close monitoring by the Bank's management on at least a quarterly basis.

NOTE 7: LOANS (CONTINUED)

The table below presents information about the credit quality classification and allowance for expected credit losses by of the Bank's loan portfolio:

31 December 2024	Pass	Special mention	Sub-standard	Non-accrual	Total Gross Loan	Allowance for expected credit losses	Total net loans
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Commercial loans							
Government	24,050	-	-	-	24,050	-	24,050
Commercial and industrial	31,922	-	-	-	31,922	(449)	31,473
Commercial overdrafts	81,797	-	-	-	81,797	(6)	81,791
Total commercial loans	137,769	-	-	-	137,769	(455)	137,314
Commercial real estate loans							
Commercial mortgage	28,281	-	-	-	28,281	-	28,281
Construction	1,960	-	-	-	1,960	-	1,960
Total commercial real estate loans	30,241	-	-	-	30,241	-	30,241
Consumer loans							
Other consumer	11,019	-	-	-	11,019	(38)	10,981
Credit cards	3,873	-	-	-	3,873	(70)	3,803
Overdrafts	18,499	-	-	-	18,499	(4)	18,495
Total consumer loans	33,391	-	-	-	33,391	(112)	33,279
Residential mortgage loans	1,179,990	18,879	26,322	10,852	1,236,043	(185)	1,235,858
Total loans	1,381,391	18,879	26,322	10,852	1,437,444	(752)	1,436,692

31 December 2023	Pass	Special mention	Sub-standard	Non-accrual	Total Gross Loan	Allowance for expected credit losses	Total net loans
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Commercial loans							
Government	13,200	-	-	-	13,200	-	13,200
Commercial and industrial	5,413	-	-	-	5,413	-	5,413
Commercial overdrafts	76,317	-	-	-	76,317	(8)	76,309
Total commercial loans	94,930	-	-	-	94,930	(8)	94,922
Commercial real estate loans							
Commercial mortgage	40,671	-	-	-	40,671	-	40,671
Total commercial real estate loans	40,671	-	-	-	40,671	-	40,671
Consumer loans							
Other consumer	4,590	-	1,320	-	5,910	(36)	5,874
Credit cards	424	-	-	-	424	-	424
Overdrafts	20,525	-	-	-	20,525	(6)	20,519
Total consumer loans	25,539	-	1,320	-	26,859	(42)	26,817
Residential mortgage loans	1,213,879	12,619	33,870	8,836	1,269,204	(267)	1,268,937
Total loans	1,375,019	12,619	35,190	8,836	1,431,664	(317)	1,431,347

NOTE 7: LOANS (CONTINUED)

In 2016 the Bank entered into a sub participation agreement with a fellow subsidiary, Butterfield Mortgages Limited. The ultimate credit risk rests with the Bank for each sub participation which it has funded. As at 31 December 2024 the value of these loans was £816,399,743 (2023: £794,755,547).

The table below presents loans by year of origination and credit quality classification as at 31 December 2024:

	Pass	Special mention	Sub-standard	Non-accrual	Total gross loan
Loans by origination year	£’000	£’000	£’000	£’000	£’000
2024	223,725	-	-	-	223,725
2023	122,622	-	-	-	122,622
2022	292,553	618	600	-	293,771
2021	134,928	543	-	-	135,471
2020	81,754	360	25,722	-	107,836
Prior	417,037	17,358	-	10,852	445,247
Overdrafts and credit cards	108,772	-	-	-	108,772
Total loans	1,381,391	18,879	26,322	10,852	1,437,444

The table below presents loans by year of origination and credit quality classification as at 31 December 2023:

	Pass	Special mention	Sub-standard	Non-accrual	Total gross loan
Loans by origination year	£’000	£’000	£’000	£’000	£’000
2023	121,532	-	-	-	121,532
2022	224,283	-	-	-	224,283
2021	108,718	-	-	-	108,718
2020	68,644	358	17,944	-	86,946
2019	51,955	-	-	2,232	54,187
Prior	692,623	12,261	17,246	6,604	728,734
Overdrafts and credit cards	107,264	-	-	-	107,264
Total loans	1,375,019	12,619	35,190	8,836	1,431,664

The table below sets forth information about the Bank’s non-accrual loans:

	2024	2024	2023	2023
	90 days past due	Non-accrual gross recorded investments	90 days past due	Non-accrual gross recorded investments
	£’000	£’000	£’000	£’000
Residential mortgage loans	6,691	10,852	6,603	8,836
Total loans with an allowance	6,691	10,852	6,603	8,836

NOTE 7: LOANS (CONTINUED)

The gross non-accrual loans are recorded net of interest in suspense. At 31 December 2024, the amount of gross interest income that would have been recorded had non-accrual loans been current was £473,957 (2023: £451,515).

Changes in Allowance for credit losses

The increase in the provision for credit losses during the year was primarily attributable to one commercial loan that generated individual allowance. As per the Bank's accounting policy, as disclosed in Note 1, the Bank continuously collects and maintains attributes related to financial instruments within the scope of CECL, including current conditions, and reasonable and supportable assumptions about future economic conditions.

	2024					2023
	Commercial	Commercial real estate	Consumer	Residential mortgage	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Allowances at beginning of year	8	-	42	267	317	679
Provision taken during the year	447	-	70	(82)	435	(177)
Recoveries	-	-	-	-	-	-
Charge-offs	-	-	-	-	-	(185)
Other	-	-	-	-	-	-
Allowances at end of year	455	-	112	185	752	317
Ending balance: individually evaluated for impairment	455	-	112	185	752	317

Loan Modifications Made to Borrowers Experiencing Financial Difficulty

The following table summarises the amortised cost basis of loan modifications made to borrowers experiencing financial difficulty during the year ended 31 December 2024.

	Amortised cost basis				Weighted average financial effects	
31-Dec-24	Interest rate reduction £'000	Term extension £'000	Temporary payment relief £'000	In % of the class of loans	Months of term extension	Months of relief
Residential Mortgage loans	-	4,601	479	0.37%	12	6

	Amortised cost basis				Weighted average financial effects	
31-Dec-23	Interest rate reduction £'000	Term extension £'000	Temporary payment relief £'000	In % of the class of loans	Months of term extension	Months of relief
Residential Mortgage loans	-	1,695	-	0.14%	28	-

NOTE 8: CREDIT RISK CONCENTRATIONS

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

The following table summarises the credit exposure by the Bank by business sector:

				2024
	Cash and cash equivalents, resell ageements and short-term investments	Loans	Off- balance sheet	Total credit exposure
	£'000	£'000	£'000	£'000
Bank and financial services	1,233,875	148,216	35,924	184,140
Commercial and merchandising	-	48,780	23,299	72,079
Government	284,724	24,050	50,950	75,000
Individuals	-	851,258	91,410	942,668
Primary industry	-	15,535	8,500	24,035
Real estate	-	348,568	37,589	386,157
Hospitality industry	-	1,037	-	1,037
Total	1,518,599	1,437,444	247,672	1,685,116

				2023
	Cash and cash equivalents and short-term investments	Loans	Off- balance sheet	Total credit exposure
	£'000	£'000	£'000	£'000
Bank and financial services	304,065	117,629	29,419	147,048
Commercial and merchandising	-	36,776	31,127	67,903
Government	754,243	13,200	61,800	75,000
Individuals	-	855,217	69,937	925,154
Primary industry	-	9,035	15,000	24,035
Real estate	-	398,770	74,920	473,690
Hospitality industry	-	1,037	-	1,037
Total	1,058,308	1,431,664	282,203	1,713,867

NOTE 9: PREMISES, EQUIPMENT AND COMPUTER SOFTWARE

The following table summarises leasehold improvements, equipment and computer software:

			2024			2023
	Cost	Accumulated depreciation	Net carrying value	Cost	Accumulated depreciation	Net carrying value
	£'000	£'000	£'000	£'000	£'000	£'000
Leasehold improvements	10,767	(3,458)	7,309	6,053	(3,082)	2,971
Computer software	19,618	(16,663)	2,955	20,379	(16,228)	4,151
Other equipment	3,353	(2,103)	1,250	3,086	(2,680)	406
Computer software in development	44	-	44	148	-	148
Total	33,782	(22,224)	11,558	29,666	(21,990)	7,676

NOTE 9: PREMISES, EQUIPMENT AND COMPUTER SOFTWARE (CONTINUED)

	2024	2023
	£'000	£'000
Depreciation		
Leasehold improvements	641	335
Computer software	1,561	2,628
Other equipment	121	104
Total depreciation charged to operating expenses	2,323	3,067

Leasehold improvements incurred in relation to Regency Court, Glategny Esplanade, St Peter Port, Guernsey, are being amortised from the date of occupancy (1 June 2004). Additional Leasehold improvements are capitalised at date of acquisition and amortised over the period to termination of the tenancy agreement. Ongoing maintenance and repairs for Regency Court are covered by annual service fees paid to the leasehold Service Agent, £244,352 (2023: £249,758).

Leasehold improvements incurred in relation to Martello Court, Admiral Park, St Peter Port, Guernsey, are being amortised from the date of occupancy (21 July 2005). Additional Leasehold improvements are capitalised at date of acquisition and amortised over the period to termination of the tenancy agreement. In December 2024, the Bank has extended the lease for Martello court till 31 December 2039. The Bank is liable for all maintenance and repairs for Martello Court.

In 2024 the Bank started refurbishment of Martello Court premises, which were partially completed in 2024 with the rest of the works expected to be finalised in 2025. Leasehold improvements related to this project are capitalised and depreciated till the end of the lease.

Leasehold improvements incurred in relation to IFC6 are capitalised at date of acquisition and amortised over the period to termination of the tenancy agreement.

NOTE 10: OTHER ASSETS

	2024	2023
	£'000	£'000
Due from parent	-	125
Due from fellow subsidiary	5,951	1,033
Taxation asset	837	2,700
Deferred tax	18	18
Pension scheme asset	8,997	9,787
Derivative fair value	14,274	1,161
Operating leases right-of-use assets	21,290	21,302
Prepayments and accrued income	5,223	5,244
Total	56,590	41,370

NOTE 11: ACCOUNTING FOR DERIVATIVE INSTRUMENTS

The Bank uses derivatives for risk management purposes. The Bank's derivative contracts principally involve over-the-counter ("OTC") transactions that are negotiated privately between the Bank and the counterparty to the contract and include 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"). 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.

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 statement of operations depends on whether the contract has been designated as a hedge and qualifies for hedge accounting.

NOTE 11: ACCOUNTING FOR DERIVATIVE INSTRUMENTS (CONTINUED)

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 upfront 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, such that previously contracted derivative transactions have become more or less favourable than what can be negotiated under current market conditions for contracts with the same remaining period to maturity. 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 uses foreign currency derivatives instruments to hedge its exposure to foreign currency risk. Certain hedging relationships are formally designated and qualify for hedge accounting as fair value hedges. Risk management derivatives comprise fair value hedges and derivatives not formally designated as hedges as described below.

Fair value hedges include designated currency swaps that are used to minimise the Bank's exposure to variability in the fair value of AFS investments due to movements in foreign exchange rates. The effective portion of changes in the fair value of the hedging instrument is recognised in current year earnings consistent with the related change in fair value of the hedged items attributable to foreign exchange rates. For fair value hedges, hedging effectiveness of the hedged item and the hedging instrument are assessed and managed at inception on an ongoing basis using a partial-term last-of-layer method.

The following table provides the aggregate notional amounts of derivative contracts outstanding listed by type and divided between those used for hedging and those used in asset and liability management ("ALM") activities. The notional amounts are not recorded as assets or liabilities on the Consolidated Balance Sheet as they represent the face amount of the contract to which a rate or price is applied to determine the amount of cash flows to be exchanged.

			2024			2023
	Fair Value Hedges £'000	ALM £'000	Total Value £'000	Fair Value Hedges £'000	ALM £'000	Total Value £'000
Foreign exchange contracts						
Spot and forward foreign exchange and currency swaps	108,000	805,598	913,598	122,500	662,191	784,691
Total notional amount of financial derivatives outstanding	108,000	805,598	913,598	122,500	662,191	784,691

The bank has outstanding derivative contracts with parent as at 31 December 2024 amounting to £108,000,000 (2023:£122,500,000) for ALM activities, and £108,000,000 are designated as Fair Value Hedges (2023:£122,500,000).

The following table shows the marked to market fair value of all derivative contracts outstanding. This is defined as the profit or loss associated with replacing the derivative contracts at prevailing market prices. 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.

NOTE 11: ACCOUNTING FOR DERIVATIVE INSTRUMENTS (CONTINUED)

Risk Management Derivatives (continued)

			2024
	Gross positive fair value £'000	Gross negative fair value £'000	Net exposure £'000
Derivative financial instruments			
Fair value hedge	-	(3,327)	(3,327)
Spot and forward foreign exchange and currency swaps	18,689	(2,180)	16,509
Less: offset applied under netting agreements	(4,415)	4,415	-
Total	**14,274**	**(1,092)**	**13,182**

			2023
	Gross positive fair value £'000	Gross negative fair value £'000	Net exposure £'000
Derivative financial instruments			
Fair value hedge	4,198	-	4,198
Spot and forward foreign exchange and currency swaps	3,443	(10,085)	(6,642)
Less: offset applied under netting agreements	(6,480)	6,480	-
Total	1,161	(3,605)	(2,444)

The bank has outstanding derivative contracts with the parent as at 31 December 2024 with a total negative fair value £7,174 (2023: £6,745).

Remaining maturity

The following table summarises the remaining term to maturity of the notional amounts of the Bank's derivative instruments by type:

	0-6 mths £'000	6-12 mths £'000	1-3 years £'000	3-5 years £'000	5-10 years £'000	2024 Total £'000
Foreign Exchange Contracts						
Fair value hedge	108,000	-	-	-	-	108,000
Spot and forwards foreign exchange and currency swaps	785,629	19,969	-	-	-	805,598
Total by remaining maturity	893,629	19,969	-	-	-	913,598

	0-6 mths £'000	6-12 mths £'000	1-3 years £'000	3-5 years £'000	5-10 years £'000	2023 Total £'000
Foreign Exchange Contracts						
Fair value hedge	122,500	-	-	-	-	122,500
Spot and forward foreign exchange and currency swaps	604,520	57,671	-	-	-	662,191
Total by remaining maturity	727,020	57,671	-	-	-	784,691

NOTE 12: GOODWILL AND OTHER INTANGIBLE ASSETS

The following tables present goodwill and other intangible assets:

Goodwill	2024 £'000	2023 £'000
Opening balance	4,277	4,277
Goodwill acquired during the year	-	-
Balance at 31 December	4,277	4,277

Other Intangible Assets	2024			2023		
	Gross carrying amount £'000	Accumulated amortisation £'000	Net carrying amount £'000	Gross carrying amount £'000	Accumulated amortisation £'000	Net carrying amount £'000
Customer relationships	46,201	(33,426)	12,775	46,201	(32,081)	14,120

There have been no impairment losses for the years ended 31 December 2024 and 2023.

The estimated aggregate amortisation expenses are:

Year	£'000
2025	1,345
2026	1,345
2027	1,345
2028	1,345
2029	1,345

Customer relationships are initially valued based on the present value of net cash flows expected to be derived solely from the recurring customer base existing as at the date of acquisition. Customer relationship intangible assets may or may not arise from contracts.

During 2018, the Bank capitalised costs incurred from the acquisition of the banking and custody business of Deutsche Bank International Limited – Guernsey Branch, £127,155.

During 2019, the Bank capitalised cost incurred from the acquisition of ABN AMRO (Channel Islands) Limited, £19,500,000.

The total amortisation expense amounted to £1,345,064 (2023: £1,345,064).

NOTE 13: INVESTMENT IN SUBSIDIARIES

	2024 £	2023 £
100% holding in the following companies:		
Rose Nominees Limited	100	100
Butterfield Custody Services Limited	7	7
Butterfield Service Company (Guernsey) Limited	1	1
Butterfield (Jersey) Nominees Limited	1	1
	109	109

The balances and results of the above subsidiaries are included in the consolidated financial statements.

NOTE 14: DEPOSITS

(a) By maturity

	2024 £'000	2023 £'000
Non-interest bearing non group demand deposits		
Customer deposits	19,753	18,980
Non group demand deposits		
Customer deposits	1,514,490	1,392,774
Bank deposits	15,406	-
	1,529,896	1,392,774
Group demand deposits	12,987	12,086
Total demand deposits	1,562,636	1,423,840
Non group term deposits		
Customer term deposits		
Term deposits maturing within six months	1,458,361	1,131,242
Term deposits maturing within six to twelve months	183,242	208,993
Term deposits maturing after twelve months	1,060	655
	1,642,663	1,340,890
Group term deposits		
Term deposits maturing within six months	28,473	7,480
Term deposits maturing within six to twelve months	-	39,231
Term deposits maturing after twelve months	-	156,926
	28,473	203,637
Total term deposits	1,671,136	1,544,527
Total	3,233,772	2,968,367

(b) By type

	2024 Payable on demand £'000	2024 Payable on a fixed date £'000	2024 Total £'000	2023 Payable on demand £'000	2023 Payable on a fixed date £'000	2023 Total £'000
Customer	1,534,244	1,642,662	3,176,906	1,411,754	1,340,891	2,752,645
Bank	15,405	-	15,405	-	-	-
Group	12,987	28,474	41,461	12,086	203,636	215,722
Total	1,562,636	1,671,136	3,233,772	1,423,840	1,544,527	2,968,367

The average interest rate on customer deposits at 31 December 2024 was 3.42% (2023: 3.06%).

NOTE 15: OTHER LIABILITIES

	2024	2023
	£'000	£'000
Due to parent	453	23
Due to fellow subsidiary	207	247
Operating lease liabilities	21,400	20,888
Derivative fair value	1,092	3,605
Deferred Tax liability	401	440
Dormant accounts	1,678	1,674
Items in the course of collection	-	1
Asset retirement obligation	1,692	724
Leasehold repairs provision	-	25
Accrued liabilities	3,444	3,145
Other liabilities	895	829
Total	31,262	31,601

NOTE 16: SUBORDINATED DEBT CAPITAL

The subordinated loan from fellow subsidiary was due to Butterfield Bank (Cayman) Limited, Grand Cayman, Cayman Islands. It was subordinate to all other liabilities of the Bank and bore interest at 2.5% above the Bank of England Base Rate, with a minimum rate of 3%. The loan which was repayable in full by 15 July 2029 was repaid on 12 December 2023.

NOTE 17: ORDINARY SHARE CAPITAL

	2024	2023
Authorised	£'000	£'000
Unlimited Share Capital Ordinary Shares of £1 each	-	-
Issued		
245,685,567 Ordinary Shares of £1 each fully paid (2023: 200,685,567)	245,686	245,686

During 2024 45,000,000 ordinary shares were issued and fully paid (2023: 10,000,000).

Dividends Declared

Dividends of 14.2459p per share (total of £35m) were paid during the year (2023: nil).

NOTE 18: CREDIT RELATED ARRANGEMENTS, REPURCHASE AGREEMENTS AND COMMITMENTS

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, while 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.

NOTE 18: CREDIT RELATED ARRANGEMENTS, REPURCHASE AGREEMENTS AND COMMITMENTS (CONTINUED)

The following table presents the credit related arrangements with contractual amounts representing credit risk:

			2024			2023
	Gross	Collateral	Net	Gross	Collateral	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Commitments to extend credit	247,065	192,952	54,113	280,747	217,505	63,242
Guarantees	607	607	-	1,456	1,456	-
Total	247,672	193,559	54,113	282,203	218,961	63,242
Allowances for credit losses			(3)			(21)

Collateral is shown at estimated market value less selling costs, where cash is the collateral given, this is shown gross including interest income.

Commitments
The Bank entered into contractual commitments to extend credit to the States of Jersey. These facilities are unsecured but are Guaranteed by the States of Jersey. Commitment as at 31 December 2024 was £50,950,000 (2023: £61,800,000).

The contractual terms of the guarantees vary but are generally under one year with multi-year agreements required to be renewed on an annual basis.

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 expected credit losses.

Repurchase agreements
The Bank utilizes repurchase agreements and resell agreements (reverse repurchase agreements) to manage liquidity that are carried at the amounts at which securities will be subsequently sold or repurchased. The risks of these transactions include changes in the fair value of the securities posted or received as collateral and other credit related events. The Bank manages these risks by ensuring that the collateral involved is appropriate and by monitoring the value of the securities posted or received as collateral on a daily basis.

As at 31 December 2024, the Bank had 14 open positions (2023: none) in resell agreements wih a remaining maturity of less than 120 days involving pools of UK and Germany government debt securities. As at 31 December 2024 the carrying value of these resell agreements is £891,010,000 (2023:nil) and is included in securities purchased under agreements to resell on the balance sheet. As at 31 December 2024, there were no positions (2023: no positions), which were offset on the balance sheet to arrive at the carrying value, and there was no collateral amount which was available to offset against the future settlement amount.

As at 31 December 2024, the Bank had one open position (2023: nil) in a repurchase agreement with a remaining maturity of less than 30 days involving one UK government debt security, with the carrying value of the repurchase agreement being £73,987,500 (2023: nil).

NOTE 19: LEASES

The Bank enters into operating lease agreements either as the lessee or the lessor, mostly for office and parking spaces as well as for small office equipment. The terms of the existing leases, including renewal options that are reasonably certain to be exercised, extend up to the year 2039.

	2024	2023
	£'000	£'000
Lease costs		
Operating lease costs	3,789	3,831
Sublease income	(453)	(903)
Total net lease cost	3,336	2,928

	2024	2023
	£'000	£'000
Other information for the year		
Operating cash flows from operating leases	3,230	3,902
Other information at end of year		
Operating leases right-of-use assets	21,290	21,302
Operating leases liabilities	21,400	20,888
Weighted average remaining lease term for operating leases (in years)		
- Guernsey offices	14.81	10.77
- Jersey offices	13.10	12.55
Weighted average discount rate of operating leases	5.71%	5.25%

The Bank applies a single discount rate as determined by its parent, The Bank of N.T. Butterfield and Son Limited, the rate is based on the parent's most recent long term debt issuance.

The following table summarises the maturity analysis of the Bank's commitments for long-term leases as at 31 December 2024.

	£'000
2025	1,723
2026	1,650
2027	2,325
2028	2,325
2029	2,325
2030 & thereafter	22,336
Total commitments	32,684
Less: effect of discounting cash flows to their present value	(11,284)
Operating lease liabilities	21,400

Onerous Lease - Guernsey

On 31st March 2021 the Bank declared an onerous lease on premises it rents for Business Continuity purposes. Following COVID 19, the Bank has concluded that this facility is no longer required due to the majority of employees now having the ability to work from home. The Right of Use Asset was fully impaired, and a provision made for costs relating to reinstatement of the premises to its original condition, resulting in a realised loss of £443,827.

The lease agreement for the premises expires on 31 May 2026, the Bank has an operating lease obligation as at 31 December 2024 of £128,691 (2023: £225,745).

Onerous Lease - Jersey

In 2023 the Bank recognised an impairment loss on St Paul Gate leasehold Right of Use Asset of £184,104 which is the excess of its carrying amount over its fair value. The Bank made a decision to sublet the offices and therefore considered it reasonable to use future cashflows based on market rent of similar properties to measure the fair value of the Right of Use Asset. Using the present value techinique the fair value as at 30 November 2023 was £490,215 while the carrying amount was £674,319. In 2024 due to the efforts to secure a tenant not materialising over the last year and due to the consideration of remaining time horizon of the lease term the Bank has recognised a further impairment loss on these premises and fully impaired the asset.

NOTE 19: LEASES (CONTINUED)

The lease agreement for the premises expires on 25 August 2025, the Bank has an operating lease liability as at 31 December 2024 of £163,969 (2023: £542,532).

NOTE 20: RELATED PARTY TRANSACTIONS

	2024 £'000	2023 £'000
Cash and deposits with banks		
Cash and demand deposits parent	976	2,029
Cash and demand deposits fellow subsidiaries	290	707
Loans		
Directors, officers and employees loans & mortgages	20,060	23,207
Other assets		
Due from parent	-	125
Due from fellow subsidiaries	5,951	853
Deposits		
Demand deposits from fellow subsidiaries	12,987	12,087
Term deposit from parent	19,935	196,155
Term deposit fellow subsidiaries	8,538	7,480
Accrued Interest		
Accrued interest payable parent	13	303
Accrued interest payable fellow subsidiaries	1	2
Other liabilities		
Due to parent	461	30
Due to fellow subsidiaries	207	247
Interest income/(expense)		
Interest income received from parent	797	638
Interest income received from fellow subsidiaries	23	452
Interest expense paid to parent	(5,557)	(307)
Interest expense paid to fellow subsidiaries	(74)	(92)
Interest expense subordinated debt paid to fellow subsidiaries	-	(1,614)
Other income/(expenses)		
Administration and guarantee fees paid to parent	-	(54)
Administration fee paid to fellow subsidiaries	(3,680)	(4,171)
Net Service charges received/paid to parent	(111)	(128)
Net Service charges paid/received to fellow subsidiaries	(1,346)	(1,644)
Other income received from Parent	12	13
Directors Fees	(284)	(305)
Other transactions with parent		
Dividends paid	(35,000)	-

In the ordinary course of business, the Bank provides to its affiliated and other related corporations, normal banking services on terms similar to those offered to non-related parties. The Bank also provides as a benefit to all directors, officers and employees loan facilities, at fixed and variable rates which are at preferred lending rates.

NOTE 20: RELATED PARTY TRANSACTIONS (CONTINUED)

Subordinated debt

The subordinated loan from fellow subsidiary was due to Butterfield Bank (Cayman) Limited, Grand Cayman, Cayman Islands. It was subordinate to all other liabilities of the Bank and bore interest at 2.5% above the Bank of England Base Rate, with a minimum rate of 3%. The loan which was repayable in full by 15 July 2029 and was repaid on 12 December 2023.

Sub participation agreements

In 2016 the Bank entered into a sub participation agreement with a fellow subsidiary, Butterfield Mortgages Limited. Under the terms of the agreement the Bank pays an administration fee based on the value of the loan participations.

In 2019 the Bank entered into a sub participation agreement with the parent, The Bank of N.T. Butterfield and Son Limited. Under the terms of the agreement the Bank pays an administration fee based on the value of the loan participations. These loan participations were repaid in November 2020. During 2021 the Bank entered into new sub participation agreements under the same terms. These loan participations were repaid during 2023.

In 2019 the Bank entered into a sub participation agreement with its fellow subsidiary, Butterfield Bank (Cayman) Limited. The ultimate credit risk rests with the Bank for each sub participation which it has funded. These loans were repaid in 2023 (value as at 31 December 2022: £31,698,591).

Service charges

The Bank has paid or received service charges to parent and fellow subsidiaries for a range of services received or delivered.

During the year 2024 the Bank paid £449,597 (2023: £631,288) in relation to prior year staff bonuses that related to employees of Butterfield Trust (Guernsey) Limited, (BTGL) (a fellow subsidiary of the parent). This amount has not been recharged. As at the 2023 year end, the Bank has collectively provided for staff bonuses of the Bank and BTGL, the allocation between the two parties has not been determined and it was not the intention of the Bank to recharge BTGL for any such allocation. From 2024, BTGL is responsible for the cost of staff bonuses.

NOTE 21: EMPLOYEE FUTURE BENEFITS

The Bank maintains trustee pension plans, including a defined benefit plan and a defined contribution plan. The defined benefit provisions under the pension plan are generally based upon years of service and average salary during the final years of employment. The defined benefit plan is non-contributory and the funding required is provided by the Bank, based upon the advice of an independent actuary. There is provision for employees to voluntarily contribute in order to increase the years of service accrued.

Effective 1 January 2004, the Bank implemented a defined contribution pension plan. Funding of the plan is determined based upon the provisions of the plan and is shared with the employees. All employees joining the Bank after this date are eligible to join this defined contribution scheme. Entry to the defined benefit scheme for new members closed at 31 December 2002.

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 the remaining active members. The benefits amendment resulted in a further reduction in the Guernsey defined benefit pension liability of £2.9 million as at 30 September 2014. Under the terms of the closure, defined benefit scheme members became eligible for membership of the defined contribution plan.

Effective 1 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 34 years. As of 31 December 2024 the expected average life expectancy of the members of the plan was estimated as 33 years.

NOTE 21: EMPLOYEE FUTURE BENEFITS (CONTINUED)

The assets of all schemes are held separately from those of the Bank. The total pension cost during the year including contributions for the Guernsey group was £2,325,299 (2023: £2,542,148), of which £1,712,903 (2023: £1,880,487) related to the Bank, the remainder was paid by a fellow subsidiary.

The following table presents the financial position of the Bank's defined benefit pension plans. The benefit obligations and plan assets for 2024 and 2023 were measured at 31 December respectively.

	2024	2023
	£'000	£'000
Accumulated benefit obligation at end of year	22,601	26,085
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	26,085	24,799
Interest cost	1,162	1,178
Benefits paid	(994)	(873)
Actuarial loss/(gain)	(3,652)	981
Projected benefit obligation at end of year	22,601	26,085

	2024	2023
	£'000	£'000
Change in plan assets		
Fair value of plan assets at beginning of year	35,872	36,643
Actual return on plan assets	(3,280)	102
Benefits paid	(994)	(873)
Fair value of plan assets at end of year	31,598	35,872
Funded Status		
Surplus of plan assets over projected benefit obligation at end of year	8,997	9,787
Net amount recognised	8,997	9,787
Amounts recognised in balance sheet consist of:		
Prepaid benefit cost included in other assets	8,997	9,787
Net amount recognised	8,997	9,787

The following table presents the expense constituents of the Bank's defined benefit pension plan:

Annual benefit expense	2024	2023
	£'000	£'000
Interest cost	1,162	1,178
Expected return on plan assets	(1,460)	(1,492)
Defined benefit income	(298)	(314)
Defined contribution expense	1,713	1,880
Total benefit expense	1,415	1,566

Actuarial assumptions used to determine annual benefit expense	2024	2023
	%	%
Weighted average discount rate	4.50	4.80
Weighted average rate of compensation increases	n/a	n/a
Weighted average expected long term rate of return on plan assets	4.10	4.10

NOTE 21: EMPLOYEE FUTURE BENEFITS (CONTINUED)

Actuarial assumptions used to determine benefit obligations at end of year	2024	2023
	%	%
Weighted average discount rate	5.60	4.50
Weighted average rate of compensation increases	n/a	n/a

To develop the expected long term rate of return on assets assumption for each plan, the Bank considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocations of the funds.

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

	2024	2023
	Actual	Actual
	%	%
Gilts	99	99
Cash	1	1
Total	100	100

The investments of the pension funds were generally invested in gilts.

The Bank contribution for the year was £nil (2023: £nil).

The estimated benefit payments for the next ten years under the defined benefit pension plan are as follows:

	£'000
2025	633
2026	584
2027	1,150
2028	811
2029	1,051
2030 - 2034	5,985

NOTE 22: SHARE-BASED PAYMENTS

As at 31 December 2024, the Bank participates in the Share-Based Incentive Program of The Bank of N.T. Butterfield & Son Limited's 2020 Omnibus Plan. The Bank participates in the Employee Deferred Incentive Program ("EDIP") and the Executive Long-Term Incentive Share Program ("ELTIP").

Under the EDIP, shares are 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.

Under the ELTIP, performance shares as well as time-vested shares were awarded to executive management. The performance shares will generally vest upon the achievement of certain performance targets in the three-year period from the effective grant date. The time-vested shares will generally vest over the three-year period from the effective grant date.

Detailed disclosures of the various Plans have been included in the Annual Report and Financial Statements of The Bank of N.T. Butterfield & Son Limited, which are publicly available.

The Bank recognises its share of the Share-based compensation plan costs in the Consolidated Statement of Operations. The cost for the year to 31 December 2024 was £925,365 (31 December 2023: £1,344,134).

NOTE 23: SEGMENT INFORMATION

For management reporting purposes, the operations of the Parent are grouped into four business segments based upon the geographic location of the Butterfield Bank Group's operations. Accordingly in these financial statements, the Bank reflects Channel Islands and the UK as the reporting business segment.

The Guernsey segment (including fellow subsidiaries) provides a broad range of services to private clients and financial institutions, including, general banking and treasury services, internet banking, and wealth management & fiduciary services.

NOTE 24: GEOGRAPHICAL ANALYSIS OF ASSETS AND LIABILITIES

	Assets 2024 £'000	Liabilities & Equity 2024 £'000	Assets 2023 £'000	Liabilities & Equity 2023 £'000
United Kingdom and Channel Islands	2,619,810	3,090,517	1,966,412	2,643,914
Other European Union Countries	16,501	123,409	24,989	125,868
Other Countries	942,981	365,366	1,267,228	488,847
	3,579,292	3,579,292	3,258,629	3,258,629

NOTE 25: RISK MANAGEMENT AND CONTROL

The financial instruments of the Bank other than forward foreign exchange contracts, comprise borrowings to finance its operations, some cash and liquid resources and various items such as loans and advances to customers or customer accounts which arise directly from the Bank's operations. Forward foreign exchange contracts are undertaken by the Bank to eliminate any exposure to foreign exchange rate movements on any customer currency liabilities or assets. The Bank utilises a combination of instruments to manage and increase the return obtained from the interest earning assets.

The main risks arising from the Bank's financial instruments are credit risk, market risk and liquidity risk.

The Parent Company, The Bank of N.T. Butterfield & Son Limited, approves policy and limits with respect to credit risk, market risk, and liquidity risk and has delegated its monitoring and control responsibilities to the management of the Bank. The Board of the Bank adopts policy and limits in alignment with Parent Company policy.

Credit Risk

Credit risk arises primarily from financial instrument assets and contingencies generated through the Bank's operations, including cash deposits placed with other banks, investments, loans and advances to customers and banks, investments and guarantees issued on behalf of customers.

The Parent Company's Credit Risk Management principles, policies and guidelines manual lays down the fundamental credit principles within which the Bank operates. Clear procedures for credit approvals are set out, including the discretion given to local management in Guernsey. The quality of all lending is monitored and measured using portfolio grading tools and proactive quality assurance measures. These are supplemented with credit risk related management information. A robust arrears process ensures that the impact of delinquent loans on the Bank's performance is minimised. A review of counter-party limits is regularly undertaken by the Parent Company's Credit Risk Management function.

The entire credit risk process is overseen by the Credit Risk Management function and the European Credit and Guernsey Committees. In turn this function is independently reviewed by the Parent Company's Credit Risk Management function and Internal Audit.

The Bank places cash deposits and investments with other financial institutions in accordance with the range of counter-parties and limits issued by the Parent Company's Credit Risk Department and approved by the European Credit Committee.

NOTE 25: RISK MANAGEMENT AND CONTROL (CONTINUED)

Market Risk

Market risk is the potential adverse change in the Bank's income or the value of the Bank's net worth resulting from movements in interest rates or other market prices. Market risk arises from the structure of the balance sheet. The Bank recognises that the effective management of market risk is essential to the maintenance of stable earnings, the preservation of shareholder value and achievement of the Bank's corporate objectives.

The Bank's exposure to market risk is governed by policy approved by the Board of Directors. This policy sets out the nature of risk which may be taken, the types of financial instrument which may be used to increase or reduce risk and the way in which risk is controlled.

Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in realising assets or otherwise raising funds to meet commitments. It is a Parent Company Group policy to ensure that resources are at all times available to meet the Bank's obligations arising from withdrawal of customer deposits and asset expansion. The development and implementation of this policy is the responsibility of the Channel Islands Asset and Liability Committee and the Parent Company's Asset and Liability Committee ("ALCO"). Daily cash needs are met by maturing interbank deposits, through general overdraft facilities and loans from approved counter-parties if required.

Currency Risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. All open currency positions are held within strict limits approved by the Board and the Parent Company and are reported daily to senior management in Guernsey and to the Parent Company's Treasury Risk Management function.

Derivatives

The Bank uses derivatives in the management of its asset and liability positions, for trading purposes, and to assist customers with their risk management objectives. The Bank primarily enters into derivative contracts as part of the overall interest rate risk management and foreign currency risk management strategy to minimise significant unplanned fluctuations in earnings that are caused by interest rate and exchange rate volatility. The Bank's goal is to manage interest rate and exchange rate sensitivity by modifying the repricing or maturity characteristics of certain Consolidated Balance Sheet assets and liabilities.

The Bank's derivative contracts principally involve over the counter transactions that are privately negotiated between the Bank and the counter-party to the contract. Derivative instruments that are used as part of the Bank's interest rate risk management and foreign currency risk management strategy include interest rate swaps and currency option contracts. Interest rate swaps generally involve the exchange of a fixed rate and variable rate interest payment between two parties, based on a common notional principal and maturity date. Currency options represent contracts that allow the holder of the option to convert currency at a specified rate at a specific future date.

By using derivative instruments, the Bank exposes itself to credit and market risk. If a counter-party fails to fulfil its performance obligations under a derivative contract, the Bank's credit risk will equal the fair value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counter-party owes the Bank, thus creating a repayment risk for the Bank. When the fair value of a derivative contract is negative, the Bank owes the counter-party and, therefore, assumes no repayment risk.

The Bank minimises the credit risk in derivative instruments by entering into transactions with the Parent Bank or high quality counterparties that are reviewed periodically by the Bank's credit committee.

NOTE 25: RISK MANAGEMENT AND CONTROL (CONTINUED)

Interest Rate Risk

The following table sets out the assets and liabilities on the date of the earlier of contractual maturity or the re-pricing date. Use of this table to derive information about the Bank's interest rate risk position is limited by the fact that customers may choose to terminate their financial instruments at a date earlier than 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 and certain investments which have call or prepayment features.

2024	Within 3 mths	3 mths but within 6 mths	6 mths but within 1 year	1 year but within 5 years	After 5 years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash and deposits with banks	56,923	-	-	-	-	2	56,925
Cash equivalents	319,793	-	-	-	-	-	319,793
Securities purchased under agreements to resell	841,010	50,000	-	-	-	-	891,010
Short term investments	250,871	-	-	-	-	-	250,871
Investments	74,712	-	-	-	456,307	-	531,019
Loans	846,051	54,231	66,699	415,966	43,126	10,619	1,436,692
Other assets	-	-	-	-	-	81,424	81,424
Total assets	2,389,360	104,231	66,699	415,966	499,433	92,045	3,567,734
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	234,671	234,671
Deposits	2,865,748	163,969	183,242	1,060	-	19,753	3,233,772
Other liabilities	73,988	-	-	-	-	36,861	110,849
Total liabilities and shareholders'	2,939,736	163,969	183,242	1,060	-	291,285	3,579,292
Interest rate sensitivity gap	(550,376)	(59,738)	(116,543)	414,906	499,433	(199,240)	
Cumulative interest rate sensitivity gap	(550,376)	(610,114)	(726,657)	(311,751)	187,682	(11,558)	

NOTE 25: RISK MANAGEMENT AND CONTROL (CONTINUED)

2023	Within 3 mths £'000	3 mths but within 6 mths £'000	6 mths but within 1 year £'000	1 year but within 5 years £'000	After 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and deposits with banks	21,993	-	-	-	-	(9)	21,984
Cash equivalents	505,221	-	-	-	-	-	505,221
Short term investments	356,500	134,243	40,360	-	-	-	531,103
Investments	124,513	-	-	71,765	487,719	-	683,997
Loans	731,175	45,034	100,304	490,563	55,881	8,390	1,431,347
Other assets	-	-	-	-	-	77,301	77,301
Total assets	1,739,402	179,277	140,664	562,328	543,600	85,682	3,250,953
Liabilities and shareholders' equity							
Shareholders’ equity	-	-	-	-	-	252,066	252,066
Deposits	2,312,868	230,716	248,224	157,579	-	18,980	2,968,367
Other liabilities	-	-	-	-	-	38,196	38,196
Total liabilities and shareholders'	2,312,868	230,716	248,224	157,579	-	309,242	3,258,629
Interest rate sensitivity gap	(573,466)	(51,439)	(107,560)	404,749	543,600	(223,560)	
Cumulative interest rate sensitivity gap	(573,466)	(624,905)	(732,465)	(327,716)	215,884	(7,676)	

NOTE 26: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the financial assets and liabilities that are measured at fair value on a recurring basis and classifies such fair value based on the type of input used in the related valuations as described in Note 1(s) of these financial statements.

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 in Note 1(s).

Financial instruments in Level 1 include equity shares actively traded and redeemable shares of mutual funds.

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

Financial instruments in Level 3 include non-redeemable private equity shares, corporate bonds, mortgage-backed securities and other asset-backed securities for which the market is relatively illiquid and for which information about actual trading prices is not readily available.

During the year ended December 31, 2024, there were no transfers between Level 1 and Level 2 or Level 2 and Level 3 (2023: none).

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

				2024
	Quoted prices in active markets for identical assets Level 1 £’000	Significant other observable inputs Level 2 £’000	Significant unobservable inputs Level 3 £’000	Total carrying value/ fair value £’000
Financial assets:				
Securities available-for-sale	-	159,727	-	159,727
Other assets – Derivatives	-	14,274	-	14,274
Financial liabilities:				
Other liabilities – Derivatives	-	(1,092)	-	(1,092)

				2023
	Quoted prices in active markets for identical assets Level 1 £’000	Significant other observable inputs Level 2 £’000	Significant unobservable inputs Level 3 £’000	Total carrying value/ fair value £’000
Financial assets:				
Securities available-for-sale	-	291,095	-	291,095
Other assets – Derivatives	-	1,161	-	1,161
Financial liabilities:				
Other liabilities – Derivatives	-	(3,605)	-	(3,605)

NOTE 26: FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Items measured on a recurring basis using significant unobservable inputs:

There were no items measured using significant unobservable inputs during 2024 or 2023.

(c) Items other than those recognised at fair value on a recurring basis:

			2024			2023
	Carrying value £'000	Fair value £'000	Appreciation/ (depreciation) £'000	Carrying value £'000	Fair value £'000	Appreciation/ (depreciation) £'000
Financial assets:						
Cash and cash equivalents	376,718	376,718	-	527,205	527,205	-
Securities purchased under agreements to resell	891,010	891,010	-	-	-	-
Short term investments	250,871	250,871	-	531,103	531,103	-
Investments - Held-to-maturity	371,292	291,665	(79,627)	392,902	322,388	(70,514)
Loans:						
Commercial loans, net of allowance for loan losses	137,314	137,760	446	94,922	94,922	-
Commercial mortgages, net of allowance for loan losses	30,240	30,240	-	40,671	40,671	-
Consumer loans, net of allowance for loan losses	33,280	33,219	(61)	26,817	26,732	(85)
Residential mortgage loans, net of allowance for loan losses	1,235,858	1,227,566	(8,292)	1,268,937	1,256,021	(12,916)
Other assets	25,927	25,927	-	58,904	58,904	-
Financial liabilities:						
Customer deposits:						
Demand deposits	1,534,243	1,534,243	-	1,411,755	1,411,755	-
Term deposits	1,642,664	1,642,664	-	1,340,891	1,340,891	-
Bank and group deposits	56,865	56,865	-	215,721	215,721	-
Other liabilities	109,757	109,757	-	38,197	38,197	-

NOTE 27: REGULATORY CAPITAL

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. The Bank produces and submits its Internal Capital Adequacy Assessment document and agrees this with the Regulator. The Bank needs to maintain a capital base in excess of the Financial Capital Guidance issued by the Regulator. The Bank is required to hold a minimum regulatory capital comprising both Pillar I and Pillar II components. The Pillar I component may be variable but the Pillar II requirement is either 100% of Pillar I or a fixed amount.

NOTE 28: AUDIT AND NON AUDIT EXPENSES

Audit fees for the year amounted to £396,506 (2023: £364,756) and non audit service fees amounted to £40,500 (2023: £125,100).

NOTE 29: ULTIMATE HOLDING COMPANY

Butterfield Bank (Guernsey) Limited is a wholly owned subsidiary of The Bank of N. T. Butterfield & Son Limited, Hamilton, Bermuda. The directors regard The Bank of N. T. Butterfield & Son Limited as the ultimate controlling party. The country of incorporation of the ultimate controlling party is Bermuda.

NOTE 30: ACQUISITION OF ASSETS AND LIABILITIES OF BUTTERFIELD BANK (JERSEY) LIMITED

The Bank of N.T. Butterfield & Son Limited has restructured its operations in Jersey, whereby after regulatory approval in May 2024, the business operations as well as substantially all assets and liabilities of Butterfield Bank (Jersey) Limited were transferred with effect from 1 June 2024 to Butterfield Bank (Guernsey) Limited, operating through its newly set up Jersey branch. Butterfield Bank (Jersey) Limited was subsequently dissolved in October 2024.

The transfer was accounted for as a transaction between entities under common control. Assets and liabilities (net of £5m) transferred were recorded by the Bank at historical carrying amounts of BBJL on the date of the transfer, hence there was no gain or loss as a result of the transaction. Transactions with BBJL that were previously accounted for as transactions between related parties were eliminated in the consolidated financial statements for all periods presented.

The effect of the change from combination to the consolidated balance sheet and statement of operations was as follows:

	31 December 2024	31 December 2023
	£'000	£'000
Loans, net of allowance for credit losses	296,337	278,963
Total assets	872,039	861,936
Customer deposits	856,610	745,440
Total liabilities	(862,778)	(812,950)

	For the year ended 31 December 2024	31 December 2023
	£'000	£'000
Net interest earned after provision for credit losses	13,520	14,139
Total non-interest income	2,706	2,560
Total non-interest expenses	(10,166)	(9,688)
Net income for the year	5,274	6,161

NOTE 31: ACCOUNTING DEVELOPMENTS

The following accounting developments were issued during the year ended 31 December 2024 or are accounting standards pending adoption:

In November 2024, the Financial Accounting Standards Board ("FASB") published ASU 2024-03, Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosures (Subtopic 220-40). The new guidance requires additional disclosure of the nature of the expenses included in the income statement. The new standard requires disclosures about specific types of expenses included in the expense captions presented. The ASU is effective for all public entities with fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027. The amendments in this Update should be applied either (1) prospectively to financial statements issued for reporting periods after the effective date of this Update or (2) retrospectively to any or all prior periods presented in the financial statements. Early adoption is permitted. The Bank has determined that this ASU will not have a material impact on its consolidated financial statements.

NOTE 32: SUBSEQUENT EVENTS

As at 17 February 2025, the date the Financial Statements were available for issue, there were no material subsequent events requiring disclosure.

In accordance with The Banking Supervision (Accounts, Disclosure and Reporting) Rules and Guidance, 2021 the Bank is required to make available on request and publish online the following additional information. The ratios provided are as at the balance sheet date and are consistent with the information reported to the Commission.

	31 December 2024 Combined	31 December 2023 Standalone	31 December 2023 Combined*
Capital Ratios			
Common Equity Tier 1 ("CET1")	20.05%	20.98%	14.90%
Leverage Ratio	5.16%	6.33%	4.34%
Liquidity Coverage Ratio	159%	173%	155%
Net Stable Funding Ratio	146%	150%	136%

*The Bank, including the Jersey branch. For 2023 combined, the ratio is calculated as if the combination had been in effect at the date.

BUTTERFIELD

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