The Bank of N.T. Butterfield & Son Limited

Financial Results for the Twelve Months Ended 31 December 2014

Butterfield

26 February 2015

Independent Auditor's Report

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

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

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Bank of N.T. Butterfield & Son Limited and its subsidiaries at 31 December 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

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The Bank of N.T. Butterfield & Son Limited
Consolidated Balance Sheets

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

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

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

Brendan McDonagh
Chairman & Chief Executive Officer

The Bank of N.T. Butterfield & Son Limited
Consolidated Statements of Operations

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

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

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

The Bank of N.T. Butterfield & Son Limited
Consolidated Statements of Comprehensive Income
(In thousands of Bermuda dollars)

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

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

The Bank of N.T. Butterfield & Son Limited
Consolidated Statements of Changes in Shareholders' Equity

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

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

The Bank of N.T. Butterfield & Son Limited
Consolidated Statements of Cash Flows

(In thousands of Bermuda dollars)

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

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

Note 1: Nature of business

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

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

Note 2: Significant accounting policies

a. Basis of Presentation and Use of Estimates and Assumptions

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

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

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

b. Basis of Consolidation

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

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

c. Foreign Currency Translation

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

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

d. Assets Held in Trust or Custody

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

e. Cash and Cash Equivalents

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

f. Short-Term Investments

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

g. Investments

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

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

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

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

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

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

Recognition of other-than-temporary impairments

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

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

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

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

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

h. Loans

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

Acquired loans

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

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

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

Impaired loans

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

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

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

Non-accrual

Commercial, commercial real estate and consumer loans (excluding credit card consumer loans) are placed on non-accrual status generally if:
• in the opinion of management, full payment of principal or interest is in doubt; or
• principal or interest is 90 days past due.

Residential mortgages are placed on non-accrual status immediately if:
• in the opinion of management, full payment of principal or interest is in doubt; or
• when principal or interest is 90 days past due, unless the loan is well secured and any ongoing collection efforts are reasonably expected to result in repayment of all amounts due under the contractual terms of the loan.

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

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

Loans are returned to accrual status when:
• none of the principal or accrued interest is past due (with certain exceptions as noted below) and the Bank expects repayment of the remaining contractual obligation; or
• when the loan becomes well secured and in the process of collection.

Loans modified in a TDR

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

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

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

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

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

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

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

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

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

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

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

Delinquencies

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

Charge-offs

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

Commercial and consumer loans are either fully or partially charged-off down to the fair value of collateral securing the loans when:
- management judges the loan to be uncollectible;
- repayment is expected to be protracted beyond reasonable time frames;
- the asset has been classified as a loss by either the Bank's internal loan review process or external examiners; or
- the customer has filed bankruptcy and the loss becomes evident owing to a lack of assets or cash flow.

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

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

i. Allowance for Credit Losses

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

Specific allowances

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

General allowances

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

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

j. Business Combinations, Goodwill and Intangible Assets

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

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

k. Premises, Equipment and Computer Software

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

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

l. Other Real Estate Owned

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

m. Derivatives

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

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

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

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

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

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

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

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

n. Securities Sold Under Agreements to Repurchase

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

o. Collateral

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

p. Employee Future Benefits

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

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

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

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

q. Share-Based Compensation

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

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

r. Revenue Recognition

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

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

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

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

s. Fair Values

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

Level 1, 2 and 3 valuation inputs

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

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

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

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

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

Cash and cash equivalents

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Derivatives

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

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

Goodwill

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

t. Impairment or Disposal of Long-Lived Assets

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

u. Credit-Related Arrangements

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

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

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

v. Income Taxes

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

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

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

w. Consolidated Statements of Cash Flows

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

x. Earnings Per Share

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

y. New Accounting Pronouncements

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

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

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

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

Revenue recognition

In May 2014, the FASB and International Accounting Standards Board ("IASB") issued converged final standards on revenue recognition. The core principle of the new standards is that revenue is recognized when a customer obtains control of a good or service compared to the existing model that is based on the transfer of risks and rewards. As a result of the change, revenue could be recognized earlier or later than it is today and in addition, the standards require extensive new disclosures. The revenue standard is effective for the first interim period within annual reporting periods beginning after 15 December 2016 for GAAP public reporting entities and early adoption is not permitted. The Bank is assessing impact of the adoption of this guidance.

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

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

Note 3: Cash and cash equivalents

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 4: Short-term investments

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

Note 5: Investments

Amortised Cost, Carrying Amount and Fair Value

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

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

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

Pledged AFS Investments

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

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

Pledged HTM Investments

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

(In thousands of Bermuda dollars, unless otherwise stated)

Unrealised Loss Positions

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

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

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

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

US government and federal agencies

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

Corporate debt securities

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

Asset-backed securities − Student loans

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

Commercial mortgage-backed securities

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

Residential mortgage-backed securities - Prime

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

Contractual Maturities

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

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

Sale Proceeds and Realised Gains and Losses of AFS Securities

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

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

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 6: Loans

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

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

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

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

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

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

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

Loans' Credit Quality

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

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

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

Quality classification definitions

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

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

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

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

[1] Excludes purchased credit-impaired loans.

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

Impaired Loans

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

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

[1] Excludes purchased credit-impaired loans.

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

(In thousands of Bermuda dollars, unless otherwise stated)

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

Loans Modified in a TDR

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

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

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

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

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

Purchased credit-impaired loans

Changes in the contractual principal outstanding for all purchased credit-impaired loans	31 December 2014
Balance at beginning of year	-
Purchases	7,197
Advances	19
Balance at end of year	7,216

Changes in the non-accretable balance for purchased credit-impaired loans	
Balance at beginning of year	-
Estimate of contractual principal not expected to be collected (non-accretable difference) at acquisition	3,804
Balance at end of year	3,804

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 7: Credit risk concentrations

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

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

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

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 8: Premises, equipment and computer software

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

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

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

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

Note 9: Goodwill and other intangible assets

Goodwill

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

Customer Relationship Intangible Assets

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

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 10: Customer deposits and deposits from banks

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 11: Employee future benefits

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

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

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

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

Amounts recognised in accumulated other comprehensive loss consist of:				
Net actuarial loss, excluding deferred taxes	(53,970)	(29,874)	(36,384)	(14,904)
Prior service credit, net of prior service cost	-	7,008	-	21,628
Deferred income taxes assets	801	-	768	-
Net amount recognised in accumulated other comprehensive loss	(53,169)	(22,866)	(35,616)	6,724

Guernsey Defined Benefit Pension Plan

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

Bermuda Defined Benefit Post Retirement Healthcare Plan

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

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

Annual Benefit Expense	For the year ended 31 December 2014 Pension plans	31 December 2014 Post-retirement medical benefit plan	31 December 2013 Pension plans	31 December 2013 Post-retirement medical benefit plan
Expense component				
Service cost	1,203	825	1,553	930
Interest cost	7,760	4,503	6,971	4,215
Expected return on plan assets	(10,653)	-	(9,076)	-
Amortisation of past service cost	-	(6,719)	-	(6,719)
Amortisation of net actuarial loss	1,058	922	1,695	2,242
Defined benefit expense (income)	(632)	(469)	1,143	668
Defined contribution expense	6,892	-	6,042	-
Total benefit expense (income)	6,260	(469)	7,185	668
Other Changes Recognised in Other Comprehensive (Loss) Income				
Net gain (loss) arising during the year	(18,947)	(15,892)	11,755	10,023
Prior service cost arising during the year	-	(7,901)	-	-
Amortisation of past service credit	-	(6,719)	-	(6,719)
Amortisation of net actuarial loss	1,058	922	1,644	2,242
Change in deferred taxes	83	-	(1,656)	-
Foreign exchange adjustment	253	-	636	-
Total changes recognised in other comprehensive (loss) income	(17,553)	(29,590)	12,379	5,546

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

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

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

Post-retirement medical benefit plan sensitivity to trend rate assumptions

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

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

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

Investments Policies and Strategies

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

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

Fair Value Measurements of Pension Plans' Assets

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

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

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

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

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 12: Credit related arrangements and commitments

Commitments

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

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

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

Credit-Related Arrangements

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

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

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

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

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

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

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

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

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

Legal Proceedings

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 13: Loans Interest income

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

Note 14: Segmented information

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

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

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

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

The Switzerland segment provides fiduciary services.

The Bahamas segment provides fiduciary and ancillary services.

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

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

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

Note 15: Derivative instruments and risk management

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

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

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

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

Notional Amounts

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

Fair Value

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

Risk Management Derivatives

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

Fair value hedges

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

Net investment hedges

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

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

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

Derivatives not formally designated as hedges

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

Client service derivatives

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

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

31 December 2014	**Derivative instrument**	**Notional amounts**	**Positive fair value**	**Negative fair value**	**Net fair value**
Risk management derivatives					
Net investment hedges	Currency swaps	**180,333**	**29**	**(3,102)**	**(3,073)**
Derivatives not formally designated as hedging instruments	Currency swaps	**48,408**	**253**	**(1,108)**	**(855)**
Subtotal risk management derivatives		**228,741**	**282**	**(4,210)**	**(3,928)**
Client services derivatives	Spot and forward foreign exchange	**2,529,159**	**16,648**	**(15,032)**	**1,616**
Total derivative instruments		**2,757,900**	**16,930**	**(19,242)**	**(2,312)**

31 December 2013	Derivative instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk management derivatives					
Net investment hedges	Currency swaps	171,396	-	(10,004)	(10,004)
Derivatives not formally designated as hedging instruments	Currency swaps	168,343	-	(9,381)	(9,381)
Subtotal risk management derivatives		339,739	-	(19,385)	(19,385)
Client services derivatives	Spot and forward foreign exchange	2,871,361	11,246	(10,167)	1,079
Total derivative instruments		3,211,100	11,246	(29,552)	(18,306)

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

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

31 December 2014	**Gross amounts recognised**	**Gross amounts offset in consolidated balance sheet**	**Net amounts offset in consolidated balance sheet**	**Gross amounts not offset in consolidated balance sheet**	**Net amounts in consolidated balance sheet**	**Collateral pledged**	**Amounts net of collateral in consolidated balance sheet**
Derivative assets							
Spot and forward foreign exchange and currency swaps	**16,222**	**(2,585)**	**13,637**	**3,293**	**16,930**	**11,375**	**28,305**
Derivative liabilities							
Spot and forward foreign exchange and currency swaps	**2,839**	**(19,283)**	**(16,444)**	**(2,798)**	**(19,242)**	**9,041**	**(10,201)**
Total derivative instruments			**(2,807)**		**(2,312)**		**18,104**

31 December 2013	Gross amounts recognised	Gross amounts offset in consolidated balance sheet	Net amounts offset in consolidated balance sheet	Gross amounts not offset in consolidated balance sheet	Net amounts in consolidated balance sheet	Collateral pledged	Amounts net of collateral in consolidated balance sheet
Derivative assets							
Spot and forward foreign exchange and currency swaps	11,075	(3,362)	7,713	3,533	11,246	9,611	20,857
Derivative liabilities							
Spot and forward foreign exchange and currency swaps	4,217	(30,302)	(26,085)	(3,467)	(29,552)	9,599	(19,953)
Total derivative instruments			(18,372)		(18,306)		904

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 16: Fair value of financial instruments

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

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

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

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

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

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

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

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

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

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

Unadjusted third-party price

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

• Asset-backed securities ("ABS") – The ABS is a federal family education loan program guaranteed student loan security and is valued using a non-binding broker quote. The fair value provided by the broker is based on the last trading price of similar securities but as the market for the security is illiquid, a Level 2 classification is not supported.

• Pass-through note ("PTN") – The PTN consisted of a pool of floating rate income securities (typically US sub-prime collateralised mortgage obligations and mortgage-backed securities). The third-party investment manager of the PTN determined the fair value of each underlying security within the PTN. The investment manager used a variety of valuation techniques consistent with those disclosed in Note 2. Despite relying on the fair values provided by the investment manager, management is still responsible for the final fair valuation used. The PTN was sold in 2014.

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

Level 3 Reconciliation	**31 December 2014**	31 December 2013	
	Available-for-sale investments	Available-for-sale investments	Closed ended fund
Carrying amount at beginning of year	**45,304**	41,810	4,397
Proceeds from sales, paydowns and maturities	**(36,438)**	(5,542)	(4,111)
Accretion recognised in net income	**915**	1,929	-
Realised and unrealised gains (losses) recognised in other comprehensive income	**(6,286)**	7,107	-
Realised and unrealised gains recognised in net income	**8,732**	-	-
Foreign exchange translation adjustment	**-**	-	(286)
Carrying amount at end of year	**12,227**	45,304	-

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

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

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

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 17: Interest rate risk

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

31 December 2014	**Earlier of contractual maturity or repricing date**						
(in $ millions)	**Within 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**After 5 years**	**Non-interest bearing funds**	**Total**
Assets							
Cash and deposits with banks	1,923	-	-	-	-	140	2,063
Short-term investments	155	224	16	-	-	-	395
Investments	422	37	105	470	1,948	7	2,989
Loans	3,684	133	20	89	44	49	4,019
Other assets	-	-	-	-	-	392	392
Total assets	6,184	394	141	559	1,992	588	9,858
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	849	849
Demand deposits	5,142	64	-	-	-	1,559	6,765
Term deposits	1,168	344	316	79	-	-	1,907
Other liabilities	-	-	-	-	-	220	220
Subordinated capital	47	-	45	25	-	-	117
Total liabilities and shareholders' equity	6,357	408	361	104	-	2,628	9,858
Interest rate sensitivity gap	(173)	(14)	(220)	455	1,992	(2,040)	-
Cumulative interest rate sensitivity gap	(173)	(187)	(407)	48	2,040	-	-

31 December 2013	Earlier of contractual maturity or repricing date						
(in $ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash and deposits with banks	1,593	-	-	-	-	137	1,730
Short-term investments	44	7	4	-	-	-	55
Investments	347	55	32	496	1,634	50	2,614
Loans	3,581	253	19	138	27	70	4,088
Other assets	-	-	-	-	-	384	384
Total assets	5,565	315	55	634	1,661	641	8,871
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	803	803
Demand deposits	4,587	57	-	-	-	1,012	5,656
Term deposits	1,432	212	123	215	-	-	1,982
Securities sold under agreement to repurchase	26	-	-	-	-	-	26
Other liabilities	-	-	-	-	-	197	197
Subordinated capital	137	-	-	70	-	-	207
Total liabilities and shareholders' equity	6,182	269	123	285	-	2,012	8,871
Interest rate sensitivity gap	(617)	46	(68)	349	1,661	(1,371)	-
Cumulative interest rate sensitivity gap	(617)	(571)	(639)	(290)	1,371	-	-

(In thousands of Bermuda dollars, unless otherwise stated)

Note 18: Subordinated capital

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

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

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

No interest was capitalised during the years 2014 and 2013.

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

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

Note 19: Earnings per share

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

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

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

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 20: Share-based payments

Stock Option Plans

1997 Stock Option Plan

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

2010 Stock Option Plan

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

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

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

Time vesting condition

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

Performance vesting condition

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

In addition to the time and performance vesting conditions noted above, the options will generally vest immediately:
• by reason of the employee's death or disability,
• upon termination, by the Bank, of the holder's employment, unless if in relation with the holder's misconduct, or
• in limited circumstances and specifically approved by the board, as stipulated in the holder's employment contract.

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

Changes in Outstanding Stock Options

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

	Number of shares transferable upon exercise (thousands)			Weighted average exercise price ($)		Weighted average remaining life (years)		
For the year ended 31 December 2013	1997 Stock Option Plan	2010 Stock Option Plan	Total	1997 Stock Option Plan	2010 Stock Option Plan	1997 Stock Option Plan	2010 Stock Option Plan	Aggregate intrinsic value ($ thousands)
Outstanding at beginning of year	4,577	28,750	33,327	12.77	1.18			
Exercised	-	(596)	(596)	-	1.17			
Forfeitures and cancellations	(1)	(302)	(303)	15.78	1.17			
Resignations, retirements, redundancies	-	(44)	(44)	-	1.17			
Expiration at end of plan life	(584)	-	(584)	12.70	-			
Outstanding at end of year	3,992	27,808	31,800	12.78	1.18	3.12	6.65	8,636
Vested and exercisable at end of year	3,992	6,429	10,421	12.78	1.17	3.12	6.41	

Share Based Plans

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

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

Employee Deferred Incentive Plan ("EDIP")

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

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

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

2012 and 2011 ELTIP

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

2014 and 2013 ELTIP

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

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

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

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

Directors' Compensation

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 21: Share buy-back plans

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

Common Share Buy-Back Programme

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

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

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

On 26 February 2015, the Board approved, with effect from 1 April 2015, the common 2015 common share buy-back programme, authorising the purchase for treasury of up to 8 million common shares.

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

Preference Share Buy-Back Programme

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

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

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

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

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 22: Accumulated other comprehensive loss

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

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

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

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 23: Capital structure

Authorised Capital

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

Preference Shares

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

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

Holders of preference shares will be entitled to receive, on each preference share only when, as and if declared by the Board of Directors, non-cumulative cash dividends at a rate per annum equal to 8.00% on the liquidation preference of $1,000 per preference share payable quarterly in arrears. In exchange for the Government's commitment, the Bank issued to the Government 4,279,601 warrants to purchase common shares of the Bank at an exercise price of $7.01. The warrants expire on 22 June 2019. During 2010, the warrants issued to the Government were adjusted in accordance with the terms of the guarantee and as a result the Government now holds 4,299,010 warrants with an exercise price of $3.49 as at 31 December 2014.

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

Dividend Declared

During the year ended 31 December 2014, the Bank declared cash dividends totalling $0.05 (2013: $0.07) for each common share and CVCP share on record as of the related record dates. During the years ended 31 December 2014 and 2013, the Bank declared the full 8.00% cash dividends on preference shares in each quarter.

Regulatory Capital

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

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

The Bank is fully compliant with all regulatory capital requirements and maintains capital ratios in excess of regulatory minimums as at 31 December 2014 and 2013. The following table sets forth the Bank's capital adequacy in accordance with Basel II framework:

	31 December 2014	31 December 2013
Capital		
Tier 1 capital	**781,743**	823,577
Tier 2 capital	**130,788**	169,221
Total capital	**912,531**	992,798
Weighted Risk Assets	**4,113,404**	4,197,744
Capital Ratios (%)		
Tier 1 common	**14.6%**	15.2%
Tier 1 Total	**19.0%**	19.6%
Total Capital	**22.2%**	23.7%

(In thousands of Bermuda dollars, unless otherwise stated)

Note 24: Investments in affiliates

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

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

Note 25: Income taxes

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

For the years ended 31 December 2014 and 2013, the Bank did not record any unrecognised tax benefits or expenses and has no uncertain tax positions as at 31 December 2014 and 2013.

The Bank records income taxes based on the enacted tax laws and rates applicable in the relevant jurisdictions for each of the years ended 31 December 2014 and 2013. For the years ended 31 December 2014 and 2013, the Bank did not incur any interest or pay any penalties.

Income taxes in consolidated statements of operations	**31 December 2014**	31 December 2013
Current tax expense (benefit)	**(169)**	859
Deferred tax expense	**-**	32
Total tax expense (benefit)	**(169)**	891

Reconciliation between the Effective Income Tax Rate And The Statutory Income Tax Rate

	For the year ended			
	31 December 2014		31 December 2013	
	$	**%**	$	%
Income tax expense at Bermuda corporation tax rate of 0%	**-**	**-**	-	-
Income tax expense in international offices taxed at different rates	**1,501**	**2**	1,714	2
Change in valuation allowance	**(1,429)**	**(2)**	(1,116)	(1)
Prior year tax adjustments	**(956)**	**(1)**	587	1
Other - net	**715**	**1**	(294)	-
Income tax expense (benefit) at effective tax rate	**(169)**	**-**	891	2

Deferred income taxes	**31 December 2014**	31 December 2013
Deferred income tax asset		
Tax loss carried forward	**2,641**	4,173
Pension liability	**800**	201
Fixed assets	**1,067**	815
Allowance for compensated absence	**10**	10
Onerous leases	**11**	12
Deferred income tax asset before valuation allowance	**4,529**	5,211
Less: valuation allowance	**(3,068)**	(4,304)
Net deferred income tax assets	**1,461**	907
Deferred income tax liability		
Other	**-**	(5)
Net deferred income tax asset	**1,461**	902

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred in the UK bank over the period ended 31 December 2014. Such objective evidence limits the ability to consider other subjective evidence such as projections for future growth.

On the basis of this evaluation, as of 31 December 2014, a valuation allowance of $3.1 million (2013: $4.3 million) has been recognised to record only the portion of the deferred tax asset that more likely than not will be realised. The amount of the deferred tax asset considered realisable, however, could be adjusted if estimates of future taxable income during the carry-forward period are reduced or increased, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth.

The Bank has net taxable loss carry forwards related to the Bank's international operations of approximately $12.3 million (2013: $20.0 million), which have an indefinite life.

(In thousands of Bermuda dollars, unless otherwise stated)

Note 26: Business combinations

Legis Acquisition

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

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

The contingent consideration of $2.9 million is included in other liabilities in the consolidated balance sheet. The final consideration payable may differ from the initial estimated liability with any changes in the liability recorded in other gains (losses) in the consolidated statement of operations until the liability is settled. Subsequent to the acquisition date, the estimated fair value of the contingent consideration liability increased to $3.9 million as at 31 December 2014 primarily as a result of change in payment probabilities as estimates are updated for actual results.

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

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

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

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

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

The following selected pro forma financial information has been provided to present a summary of the combined results of the Bank and Legis, assuming the transaction had been effected on 1 January 2013. The pro forma data is for informational purposes only and does not necessarily represent results that would have occurred if the transaction had taken place on the basis assumed above.

For the year ended	**31 December 2014**	31 December 2013
Total net revenue	**373,554**	350,755
Total non-interest operating expense (including income tax expense)	**272,550**	271,773
Net income	**101,004**	78,982

(In thousands of Bermuda dollars, unless otherwise stated)

HSBC Acquisition

During the third quarter of 2014, the Bank announced that it had reached an agreement to acquire parts of the corporate and retail banking business of HSBC Bank (Cayman) Limited ("HSBC Cayman"). The acquisition was undertaken to enhance the Bank's market presence and expand its community banking customer base in the Cayman Islands.

On 7 November, 2014, the Bank via one of its subsidiaries, Butterfield Bank (Cayman) Limited ("BNTB Cayman") acquired substantially all the retail loans and deposits of HSBC Cayman for a cash purchase price of $5.3 million. The acquisition was accounted for as business combination as the Bank acquired substantially all the loans and deposits of HSBC Cayman and deemed to obtain control over the business.

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

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

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

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

Disclosure of the pro forma financial information to present a summary of the combined results of the Bank and HSBC Cayman acquisition is impracticable. The disclosure is impracticable as the Bank did not acquire the legal entity and therefore does not have access to the historical revenue and expense data as it relates to the loans and deposits acquired.

Note 27: Related party transactions

Financing Transactions

As of 17 May 2005, the Bank established a programme to offer loans with preferential rates to eligible Bank employees, subject to certain conditions set by the Bank and provided that such employees meet certain credit criteria. Loan payments are serviced by automatically debiting the employee's chequing or savings account with the Bank. Applications for loans are handled according to the same policies as those for the Bank's regular retail banking clients. The Bank's ability to offer preferential rates on loans depends upon a number of factors, including market conditions, regulations and the Bank's overall profitability. The Bank has the right to change its employee loan policy at any time after notifying participants. The staff loans outstanding at 31 December 2014 amount to $208.0 million (2013: $222.2 million) resulting in an interest rate benefit to employees of $6.4 million (2013: $5.7 million).

Certain Directors of the Bank, companies in which they are principal owners, and trusts in which they are involved, have loans with the Bank. These loans were made in the ordinary course of business at normal credit terms, including interest rate and collateral requirements. As at 31 December 2014, related party Director loan balances were $58.0 million (2013: $66.3 million).

On 27 June 2013, the Bank executed a $95 million loan agreement with an investment fund managed by a significant shareholder which provides for maturity on 30 June 2017. This loan was made in the ordinary course of business on normal commercial terms. At 31 December 2014, $65.7 million (2013: $95.0 million) was outstanding under this agreement. For the year ended 31 December 2014, $2.7 million (2013: $1.8 million) of interest income has been recognised in the consolidated statements of operations.

Capital Transaction

Canadian Imperial Bank of Commerce ("CIBC") and funds associated with the Carlyle Group each hold approximately 19%, of the Bank's equity voting power, along with the right to each designate two persons for nomination for election by the shareholders as members of the Bank's Board of Directors.

Repurchase Facility Agreement

During 2013, the Bank entered into a repurchase agreement with CIBC for a $225 million line at market rates and terms. At 31 December 2014, the repurchase agreement balance with CIBC was $nil (2013: $25.5 million).

Financial Instruments With Related Parties

At 31 December 2014, the Bank held $239.3 million (2013: $112.1 million) in cash and cash equivalents with CIBC. As at 31 December 2014, the Bank held forward exchange contracts with CIBC with a notional amount of $372.9 million (2013: $317.1 million) with unrealised losses of $6.2 million (2013: gain of $1.1 million).

Note 28: Comparative information

Certain prior-year figures have been reclassified to conform to current year presentation. Non-interest bearing cash as at 31 December 2013 has been reduced by $110 million with a corresponding increase in Interest earning cash. The change in classification results from demand deposits with banks that are earning interest at a negligible rate, which the Bank now classifies as interest bearing although interest earned is minimal.

Note 29: Subsequent events

On 26 February 2015, the Board of Directors declared a fourth interim dividend of $0.01 per common and CVCP share and a special dividend of $0.01 per common and CVCP share to be paid on 27 March 2015 to shareholders of record on 13 March 2015.

The Bank has performed an evaluation of subsequent events through to 26 February 2015, the date the financial statements were issued.