The Bank of N.T. Butterfield & Son Limited

Financial Results for the Three Months Ended 31 March 2014

Butterfield

The Bank of N.T. Butterfield & Son Limited
Unaudited Consolidated Balance Sheet
(In thousands of Bermuda dollars)

	As at	
	31 March 2014	31 December 2013
Assets		
Cash and demand deposits with banks	**389,651**	411,124
Cash equivalents	**1,375,274**	1,319,348
Total cash and cash equivalents	**1,764,925**	1,730,472
Short-term investments	**51,268**	54,981
Debt and equity securities		
Trading	**10,398**	53,328
Available for sale	**2,473,763**	2,226,921
Held to maturity	**331,485**	333,394
Total investments in debt and equity securities	**2,815,646**	2,613,643
Loans, net of allowance for credit losses	**3,998,446**	4,088,225
Premises, equipment and computer software	**237,312**	240,603
Accrued interest	**20,094**	19,621
Goodwill	**7,131**	7,086
Intangible assets	**11,213**	12,035
Investments in affiliates	**12,533**	12,533
Other real estate owned	**26,373**	27,407
Other assets	**66,521**	64,209
Total assets	**9,011,462**	8,870,815
Liabilities		
Customers deposits		
Non-interest bearing	**1,129,616**	1,012,973
Interest bearing	**6,620,361**	6,584,756
Total customer deposits	**7,749,977**	7,597,729
Bank deposits	**38,987**	40,222
Total deposits	**7,788,964**	7,637,951
Securities sold under agreement to repurchase	**26,750**	25,535
Employee future benefits	**89,191**	89,109
Accrued interest	**4,906**	3,825
Preference Share dividends payable	**616**	616
Pending payable for investments purchased	**53,269**	-
Other liabilities	**105,121**	104,218
Total other liabilities	**279,853**	223,303
Subordinated capital	**117,000**	207,000
Total liabilities	**8,185,817**	8,068,254
Shareholders' equity		
Common share capital (BMD 0.01 par; authorised Shares 26,000,000,000)		
issued and outstanding: 549,853,345 (2013: 549,803,460)	**5,499**	5,498
Preference share capital (USD 0.01 par; USD 1,000 liquidation Preference)		
issued and outstanding: 183,599 (2013: 183,606)	**2**	2
Contingent value convertible preference share capital (USD 0.01 par)		
issued and outstanding: 7,079,190 (2013: 7,129,075)	**70**	71
Additional paid-in capital	**1,342,679**	1,344,755
Accumulated deficit	**(452,153)**	(460,157)
Less: treasury common shares: 7,032,209 Shares (2013: 8,310,421 Shares)	**(10,377)**	(10,948)
Accumulated other comprehensive loss	**(60,075)**	(76,660)
Total shareholders' equity	**825,645**	802,561
Total liabilities and shareholders' equity	**9,011,462**	8,870,815

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

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

	For the three month period ending	
	31 March 2014	31 March 2013
Non-interest income		
Asset management	**4,494**	4,494
Banking	**8,266**	7,213
Foreign exchange revenue	**7,611**	7,066
Trust	**7,677**	7,602
Custody and other administration services	**2,521**	2,464
Other non-interest income	**1,011**	1,026
Total non-interest income	**31,580**	29,865
Interest income		
Loans	**46,692**	45,013
Investments	**17,126**	13,939
Deposits with banks	**1,183**	1,237
Total interest income	**65,001**	60,189
Interest expense		
Deposits	**5,241**	4,885
Subordinated capital	**1,385**	3,089
Securities sold under repurchase agreements	**25**	42
Total interest expense	**6,651**	8,016
Net interest income before provision for credit losses	**58,350**	52,173
Provision for credit losses	**(3,474)**	(4,635)
Net interest income after provision for credit losses	**54,876**	47,538
Net trading gains	**194**	263
Net realised gains on available for sale investments	**-**	40
Net realised / unrealised losses on other real estate owned	**(10)**	(108)
Net other gains	**1,055**	407
Total other gains	**1,239**	602
Total net revenue	**87,695**	78,005
Non-interest expense		
Salaries and other employee benefits	**30,774**	33,247
Technology and communications	**13,806**	13,309
Property	**5,968**	5,826
Professional and outside services	**4,353**	3,251
Non-income taxes	**4,078**	3,528
Amortisation of intangible assets	**875**	844
Marketing	**1,010**	875
Other expenses	**3,530**	3,682
Total non-interest expense	**64,394**	64,562
Net income before income taxes	**23,301**	13,443
Income tax expense	**(139)**	(157)
Net income	**23,162**	13,286
Earnings per common share		
Basic earnings per share	**0.03**	0.02
Diluted earnings per share	**0.03**	0.02

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

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

	For the three month period ending	
	31 March 2014	31 March 2013
Net income	**23,162**	13,286
Other comprehensive income (loss), net of taxes		
Net change in unrealised gains on translation of net investment in foreign operations	**160**	(2,396)
Net change in unrealised gains(losses) on available for sale investments	**17,627**	(5,583)
Employee future benefits adjustments	**(1,202)**	(352)
Other comprehensive income(loss)	**16,585**	(8,331)
Total comprehensive income	**39,747**	4,955

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

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

	For the three month period ending			
	31 March 2014		31 March 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 period	549,803,460	5,498	549,677,803	5,496
Conversion of contingent value preference shares	49,885	1	32,899	1
Balance at end of period	549,853,345	5,499	549,710,702	5,497
Preference shares				
Balance at beginning of period	183,606	2	195,578	2
Repurchase and cancellation of preference shares	(7)	-	(217)	-
Balance at end of period	183,599	2	195,361	2
Contingent value convertible preference shares				
Balance at beginning of period	7,129,075	71	7,254,732	73
Conversion to common shares	(49,885)	(1)	(32,899)	(1)
Balance at end of period	7,079,190	70	7,221,833	72
Additional paid-in capital				
Balance at beginning of period		1,344,755		1,355,689
Stock option plan expense		1,775		1,501
Share based compensation settlements		(3,843)		(2,113)
Reduction of carrying value on repurchase of preference shares		(7)		(217)
Premium paid on repurchase of preference shares		(1)		(50)
Balance at end of period		1,342,679		1,354,810
Accumulated deficit				
Balance at beginning of period		(460,157)		(482,796)
Net income for period		23,162		13,286
Common share cash dividends declared and paid		(11,027)		(22,058)
Cash dividends declared on preference shares		(3,672)		(3,907)
Preference shares guarantee fee		(459)		(489)
Balance at end of period		(452,153)		(495,964)
Treasury common shares				
Balance at beginning of period	8,310,421	(10,948)	7,066,586	(8,767)
Purchase of treasury shares	1,767,672	(3,458)	895,198	(1,183)
Share based compensation settlements	(3,045,884)	4,029	(1,692,065)	2,113
Balance at end of period	7,032,209	(10,377)	6,269,719	(7,837)
Accumulated other comprehensive loss				
Balance at beginning of period		(76,660)		(12,523)
Other comprehensive income(loss), net of taxes		16,585		(8,331)
Balance at end of period		(60,075)		(20,854)
Total shareholders' equity		825,645		835,726

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

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

(In thousands of Bermuda dollars)

	For the three month period ending	
	31 March 2014	31 March 2013
Cash flows from operating activities		
Net income	**23,162**	13,286
Adjustments to reconcile net income to operating cash flows		
Depreciation and amortisation	**10,907**	11,520
Increase in carrying value of investments in affiliates	**-**	33
Share-based payments and settlements	**1,775**	1,501
Net realised / unrealised losses on other real estate owned	**10**	108
Net realised gains on available for sale securities	**-**	(40)
Provision for credit losses	**3,474**	4,635
Changes in operating assets and liabilities		
Increase in accrued interest receivable	**(458)**	(4,414)
Increase in other assets	**(2,174)**	(3,674)
Increase in accrued interest payable	**1,073**	2,937
Increase (decrease) in other liabilities and employee future benefits	**(1,130)**	(3,236)
	36,639	22,656
Net change in trading investments	**42,952**	(183)
Cash provided by operating activities from continuing operations	**79,591**	22,473
Cash flows from investing activities		
Net increase in short-term investments	**3,791**	43,709
Net additions to premises, equipment and computer software	**(2,758)**	(3,803)
Proceeds from other real estate owned	**2,698**	692
Net decrease (increase) in loans	**91,315**	(47,198)
Held to maturity investments: proceeds from pay downs	**1,724**	6,937
Held to maturity investments: purchases	**-**	(30,376)
Available for sale investments: proceeds from sale	**-**	239,585
Available for sale investments: proceeds from maturities and pay downs	**159,446**	366,737
Available for sale investments: purchases	**(335,658)**	(424,005)
Cash (used in) provided by investing activities	**(79,442)**	152,278
Cash flows from financing activities		
Net increase in demand and term deposit liabilities	**138,705**	99,559
Net increase (decrease) in securities sold under agreement to repurchase	**1,215**	(80,033)
Repayment of subordinated capital	**(90,000)**	-
Common shares repurchased	**(3,458)**	(1,183)
Preference shares repurchased	**(8)**	(271)
Proceeds from stock option exercise	**188**	-
Cash dividends paid on preference shares	**(3,672)**	(3,849)
Cash dividends paid on common and contingent value convertible preference shares	**(11,027)**	(22,058)
Preference shares guarantee fee paid	**(459)**	(489)
Cash provided by (used in) financing activities	**31,484**	(8,324)
Net effect of exchange rates on cash and cash equivalents	**2,820**	(33,734)
Net increase in cash and cash equivalents	**34,453**	132,693
Cash and cash equivalents at beginning of the period	**1,730,472**	1,651,547
Cash and cash equivalents at end of the period	**1,764,925**	1,784,240
Non-cash item		
Transfer to other real estate owned	**1,674**	-

The accompanying notes are an integral part of these Consolidated Financial Statements.

(In thousands of Bermuda dollars, except otherwise stated)

Note 1: Nature of Business

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

Butterfield is a full service community bank and a provider of specialised wealth management services. Services offered include retail, private & corporate banking, treasury, custody, asset management and personal & institutional trust services. The Bank provides such services from six jurisdictions: Bermuda, 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

The accompanying unaudited interim consolidated financial statements of The Bank of N.T. Butterfield & Son Limited (the "Bank") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and should be read in conjunction with the Bank's audited financial statements for the year ending 31 December 2013. To facilitate comparison of information across periods, certain reclassifications have been made to prior period amounts to conform to the current period's presentation.

In the opinion of Management, these unaudited interim consolidated financial statements reflect all adjustments (consisting principally of normal recurring accruals) considered necessary for a fair presentation of the Bank's financial position and results of operations as at the end of and for the periods presented. The Bank's results for interim periods are not necessarily indicative of results for the full year.

The preparation of financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While Management believes that the amounts included in the unaudited interim consolidated financial statements reflect its best estimates and assumptions, actual results could differ from those estimates. The Bank's principal estimates include:

i. Allowance for credit losses
ii. Fair value and impairment of financial instruments
iii. Impairment of long-lived assets
iv. Impairment of goodwill
v. Income taxes
vi. Employee future benefits
vii. Share-based payments

The following accounting developments were issued during the three month period ended 31 March 2014:

• 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 Bank is assessing the impact of the adoption of this guidance.

Note 3: Cash and Cash Equivalents

	31 March 2014			31 December 2013		
	Bermuda	**Non-Bermuda**	**Total**	Bermuda	Non-Bermuda	Total
Unrestricted						
Non-interest earning						
Cash and demand deposits	**182,585**	**102,994**	**285,579**	156,190	90,767	246,957
Interest earning						
Demand deposits	**235**	**103,837**	**104,072**	187	163,980	164,167
Cash equivalents	**411,470**	**963,804**	**1,375,274**	407,052	912,296	1,319,348
Sub-total - Interest earning	**411,705**	**1,067,641**	**1,479,346**	407,239	1,076,276	1,483,515
Total cash and cash equivalent	**594,290**	**1,170,635**	**1,764,925**	563,429	1,167,043	1,730,472

(In thousands of Bermuda dollars, except otherwise stated)

Note 4: Short Term Investments

	31 March 2014			31 December 2013		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Term deposits maturing within three months	-	34,133	34,133	-	35,420	35,420
Term deposits maturing between three to six months	-	4,019	4,019	-	6,884	6,884
Term deposits maturing between six to twelve months	-	2,588	2,588	-	3,721	3,721
Total unrestricted short term investments	-	40,740	40,740	-	46,025	46,025
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Interest earning demand deposits	10,413	115	10,528	8,842	114	8,956
Total short-term investments	10,413	40,855	51,268	8,842	46,139	54,981

Note 5: Investments

Amortised cost, carrying amount and estimated fair value

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

	31 March 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	3,010	580	-	3,590	3,000	546	-	3,546
Mutual funds	6,778	877	(847)	6,808	49,799	990	(1,007)	49,782
Total Trading	9,788	1,457	(847)	10,398	52,799	1,536	(1,007)	53,328

	31 March 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
Available for sale								
Certificates of deposit	198,332	528	(47)	198,813	83,789	794	(12)	84,571
US government and federal agencies	1,524,747	10,453	(40,770)	1,494,430	1,390,987	9,382	(52,789)	1,347,580
Debt securities issued								
by non-US governments	75,337	267	(1)	75,603	88,298	184	(28)	88,454
Corporate debt securities	401,840	14,995	(2,557)	414,278	402,921	15,888	(3,405)	415,404
Asset-backed securities - Student loans	82,442	-	(2,344)	80,098	85,980	-	(2,801)	83,179
Commercial mortgage backed securities	155,054	-	(8,918)	146,136	155,374	-	(12,485)	142,889
Residential mortgage backed								
securities - Prime	32,223	4	(1,775)	30,452	32,917	-	(2,080)	30,837
Pass-through note	26,280	7,656	-	33,936	26,791	7,216	-	34,007
Equity securities	17	-	-	17	-	-	-	-
Total available for sale	2,496,272	33,903	(56,412)	2,473,763	2,267,057	33,464	(73,600)	2,226,921

	31 March 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	331,485	681	(10,377)	321,789	333,394	91	(17,951)	315,534
Total held to maturity	331,485	681	(10,377)	321,789	333,394	91	(17,951)	315,534

[1] For the periods ended 31 March 2014 and 31 December 2013 non-credit impairments recognised in AOCL for held to maturity investments were $nil.

(In thousands of Bermuda dollars, except otherwise stated)

Pledged AFS investments

The Bank pledge 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 March 2014, US government and federal agency investment securities with an amortised cost of $409.6 million (31 December 2013: $363.8 million) and fair value of $399.1 million (31 December 2013: $350.7 million) were pledged.

As at 31 March 2014, US government and federal agency investment securities with an amortised cost of $26.7 million (31 December 2013: $25.2 million) and fair market value of $27.9 million (31 December 2013: $25.8 million) were pledged to collateralise repurchase agreements maturing within 90 days.

Pledged HTM investments

As at 31 March 2014, US government and federal agency investment securities with an amortised cost of $117.4 million (31 December 2013: $83.0 million) and fair market value of $113.2 million (31 December 2013: $75.1 million) were pledged to secure Bank deposit products where the secured party did not have the right to sell or repledge the collateral.

Unrealised loss positions

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

31 March 2014	**Less than 12 months**		**More than 12 months**			
	Fair value	**Gross unrealised losses**	**Fair value**	**Gross unrealised losses**	**Total fair value**	**Total gross unrealised losses**
Available for sale						
Certificates of deposit	**117,489**	**(47)**	**-**	**-**	**117,489**	**(47)**
US government and federal agencies	**714,179**	**(20,749)**	**298,691**	**(20,021)**	**1,012,870**	**(40,770)**
Debt securities issued by non-US governments	**43,317**	**(1)**	**-**	**-**	**43,317**	**(1)**
Corporate debt securities	**-**	**-**	**37,443**	**(2,557)**	**37,443**	**(2,557)**
Asset-backed securities - Student loans	**-**	**-**	**80,098**	**(2,344)**	**80,098**	**(2,344)**
Commercial mortgage backed securities	**11,007**	**(554)**	**135,129**	**(8,364)**	**146,136**	**(8,918)**
Residential mortgage backed securities - Prime	**21,983**	**(1,775)**	**-**	**-**	**21,983**	**(1,775)**
Total available-for-sale securities with unrealised losses	**907,975**	**(23,126)**	**551,361**	**(33,286)**	**1,459,336**	**(56,412)**
Held to maturity						
US government and federal agencies	**223,382**	**(6,898)**	**44,304**	**(3,479)**	**267,686**	**(10,377)**
Total held-to-maturity securities with unrealised losses	**223,382**	**(6,898)**	**44,304**	**(3,479)**	**267,686**	**(10,377)**

31 December 2013	Less than 12 months		More than 12 months			
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses	Total fair value	Total gross unrealised losses
Available for sale						
Certificates of deposit	50,464	(12)	-	-	50,464	(12)
US government and federal agencies	831,493	(45,956)	131,669	(6,833)	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	-	-	83,179	(2,801)	83,179	(2,801)
Commercial mortgage backed securities	58,890	(5,619)	83,998	(6,866)	142,888	(12,485)
Residential mortgage backed securities - Prime	30,837	(2,080)	-	-	30,837	(2,080)
Total available-for-sale securities with unrealised losses	1,014,680	(53,695)	335,441	(19,905)	1,350,121	(73,600)
Held to maturity						
US government and federal agencies	259,595	(11,740)	41,161	(6,211)	300,756	(17,951)
Total held-to-maturity securities with unrealised losses	259,595	(11,740)	41,161	(6,211)	300,756	(17,951)

The Bank does not believe that the investment securities that were in an unrealised loss position as of 31 March 2014, which was comprised of 128 securities, or, 62% of the portfolio by market value, represent an other-than-temporary impairment. Total gross unrealised losses were 3.9% of the market value of affected securities and were primarily attributable to changes in market interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Bank does not intend to sell the investment securities that were in an unrealised loss position and it is not more likely than not that the Bank will be required to sell the investment securities before recovery of the amortised cost bases, which may be at maturity.

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

• US government and federal agencies

As at 31 March 2014, gross unrealised losses on securities related to United States ("US") government and federal agencies were $51.1 million (31 December 2013: $70.7 million) of which $27.6 million has been in an unrealised loss position for less than 12 months and $23.5 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 March 2014, gross unrealised losses on corporate debt securities were $2.6 million (31 December 2013: $3.4 million) all of which related to investments that were in an unrealised loss position for greater than 12 months. This relates entirely 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 unrealized loss position is a result of interest rate movements.

• Asset-backed securities − Student loans

As at 31 March 2014, gross unrealised losses on student loan asset-backed securities were $2.3 million (31 December 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 primarily composed of securities collateralised by Federal Family Education Loan Program ("FFELP loans"). FFELP loans benefit from a federal government guarantee of at least 97% of defaulted principal and accrued interest, with additional credit support provided in the form of over-collateralisation, subordination and excess spread, which collectively total in excess of 100%. Accordingly, the vast majority of FFELP loan-backed securities are not exposed to traditional consumer credit risk.

• Commercial mortgage-backed securities

As at 31 March 2014, gross unrealised losses on commercial mortgage backed securities were $8.9 million (31 December 2013: $12.5 million) of which $0.6 million has been in an unrealised loss position for less than 12 months and $8.4 million has been in an unrealised loss position for more than 12 months. The Bank's commercial mortgage-backed securities are predominantly rated "AAA" and possess significant subordination (a form of credit enhancement for the benefit of senior securities, expressed here as the percentage of pool losses that can occur before a senior asset-backed security will incur its first dollar of principal loss). No credit losses were recognised on these securities as management does not believe these securities have any credit losses.

• Residential mortgage-backed securities - Prime

As at 31 March 2014, gross unrealised losses on prime residential mortgage backed securities were $1.8 million respectively (31 December 2013: $2.1 million) all of which has been in an unrealised loss position for less than 12 months. The Bank's prime residential mortgage-backed securities are predominantly rated "AAA" and possess significant subordination (a form of credit enhancement for the benefit of senior securities, expressed here as the percentage of pool losses that can occur before a senior asset-backed security will incur its first dollar of principal loss). No credit losses were recognised on these securities as management does not believe these securities have any credit losses.

(In thousands of Bermuda dollars, except otherwise stated)

Contractual maturities

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

31 March 2014	Remaining term to average contractual maturity						
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	No specific maturity	Carrying amount
Trading							
Debt securities issued by non-US governments	-	-	1,088	1,500	1,002	-	3,590
Mutual funds	-	-	-	-	-	6,808	6,808
Total trading	-	-	1,088	1,500	1,002	6,808	10,398
Available for sale							
Certificates of deposit	83,388	115,425	-	-	-	-	198,813
US government and federal agencies	-	-	77,701	372,156	1,044,573	-	1,494,430
Debt securities issued by non-US governments	30,680	14,005	4,783	26,135	-	-	75,603
Corporate debt securities	-	8,421	405,857	-	-	-	414,278
Asset-backed securities - Student loans	-	-	68,152	517	11,429	-	80,098
Commercial mortgage backed securities	-	-	-	-	146,136	-	146,136
Residential mortgage backed securities - Prime	-	-	-	-	30,452	-	30,452
Pass-through note	-	-	-	33,936	-	-	33,936
Equity securities	-	-	-	-	-	17	17
Total available-for-sale	114,068	137,851	556,493	432,744	1,232,590	17	2,473,763
Held to maturity							
US government and federal agencies	-	-	-	50,791	280,694	-	331,485
Total held-to-maturity	-	-	-	50,791	280,694	-	331,485
Total investments	114,068	137,851	557,581	485,035	1,514,286	6,825	2,815,646
Total by currency							
US dollars	683	44,590	556,492	460,833	1,513,284	5,878	2,581,760
Other	113,385	93,261	1,089	24,202	1,002	947	233,886
Total investments	114,068	137,851	557,581	485,035	1,514,286	6,825	2,815,646

(In thousands of Bermuda dollars, except otherwise stated)

31 December 2013	Remaining term to average contractual maturity						
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	No specific maturity	Carrying amount
Trading							
Debt securities issued by non-US governments	-	-	1,095	1,482	969	-	3,546
Mutual funds	-	-	-	-	-	49,782	49,782
Total trading	-	-	1,095	1,482	969	49,782	53,328
Available for sale							
Certificates of deposit	28,186	56,385	-	-	-	-	84,571
US government and federal agencies	1	-	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 held-to-maturity	-	-	-	51,144	282,250	-	333,394
Total investments	54,659	87,526	504,512	637,022	1,280,142	49,782	2,613,643
Total by currency							
US dollars	17	32,132	503,416	612,839	1,279,173	49,011	2,476,588
Other	54,642	55,394	1,096	24,183	969	771	137,055
Total investments	54,659	87,526	504,512	637,022	1,280,142	49,782	2,613,643

Sale proceeds and realised gains and losses of available for sale securities

During the three months ended 31 March 2014, the Bank did not dispose of any available for sale securities.

During the three months ended 31 March 2013, the Bank disposed of:

- Certificates of deposit totalling $160.1 million in sale proceeds, resulting in a gross realized gain of $0.1 million;
- US agency securities totaling $50.3 million in sale proceeds, resulting in gross realised loss of $0.5 million; and
- Corporate bonds totaling $66.2 million in sale proceeds, resulting in gross realised gain of $0.5 million.

(In thousands of Bermuda dollars, except otherwise stated)

Note 6: Loans

The 'Bermuda' and 'Non-Bermuda' classifications purpose is to reflect management segment reporting as described in Note 11: Segmented Information. The composition of the loan portfolio by reporting segment and collateral type at each of the indicated dates was as follows:

	31 March 2014			31 December 2013		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Commercial loans						
Government	66,746	15,000	81,746	65,725	15,000	80,725
Commercial and industrial	104,661	254,822	359,483	129,865	270,808	400,673
Commercial overdrafts	51,246	5,850	57,096	57,851	8,083	65,934
Total commercial loans	222,653	275,672	498,325	253,441	293,891	547,332
Less specific allowance for credit losses on commercial loans	(252)	(233)	(485)	(240)	(233)	(473)
Total commercial loans after specific allowance for credit losses	222,401	275,439	497,840	253,201	293,658	546,859
Commercial real estate loans						
Commercial mortgage	412,155	331,031	743,186	417,112	343,958	761,070
Construction	-	6,805	6,805	-	2,040	2,040
Total commercial real estate loans	412,155	337,836	749,991	417,112	345,998	763,110
Less specific allowance for credit losses on commercial real estate loans	(3,306)	(159)	(3,465)	(5,123)	-	(5,123)
Total commercial real estate loans after specific allowance for credit losses	408,849	337,677	746,526	411,989	345,998	757,987
Consumer loans						
Automobile financing	14,730	6,478	21,208	15,618	6,654	22,272
Credit card	58,209	15,581	73,790	60,846	16,149	76,995
Overdrafts	13,150	9,562	22,712	10,079	6,311	16,390
Other consumer	46,334	116,158	162,492	47,396	117,960	165,356
Total consumer loans	132,423	147,779	280,202	133,939	147,074	281,013
Less specific allowance for credit losses on consumer loans	(160)	-	(160)	(160)	-	(160)
Total consumer loans after specific allowance for credit losses	132,263	147,779	280,042	133,779	147,074	280,853
Residential mortgage loans	1,298,326	1,224,350	2,522,676	1,309,605	1,239,920	2,549,525
Less specific allowance for credit losses on residential loans	(15,735)	(3,071)	(18,806)	(13,225)	(3,070)	(16,295)
Total residential mortgage loans after specific allowance for credit losses	1,282,591	1,221,279	2,503,870	1,296,380	1,236,850	2,533,230
Total gross loans	2,065,557	1,985,637	4,051,194	2,114,097	2,026,883	4,140,980
Less specific allowance for credit losses	(19,453)	(3,463)	(22,916)	(18,748)	(3,303)	(22,051)
Less general allowance for credit losses	(19,968)	(9,864)	(29,832)	(20,440)	(10,264)	(30,704)
Net loans	2,026,136	1,972,310	3,998,446	2,074,909	2,013,316	4,088,225

(In thousands of Bermuda dollars, except otherwise stated)

Age analysis of past due loans (including non accrual loans)

The following table summarises the past due status of the loans at 31 March 2014 and 31 December 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. An account is generally considered to be contractually delinquent when payments have not been made in accordance with the loan terms.

31 March 2014	30 - 59 days	60 - 89 days	90 days or more	Total past due loans	Total current[1]	Total loans
Commercial loans						
Government	-	-	-	-	81,746	81,746
Commercial and industrial	19	448	526	993	358,490	359,483
Commercial overdrafts	16	1	852	869	56,227	57,096
Total commercial loans	35	449	1,378	1,862	496,463	498,325
Commercial real estate loans						
Commercial mortgage	534	-	28,167	28,701	714,485	743,186
Construction	-	-	-	-	6,805	6,805
Total commercial real estate loans	534	-	28,167	28,701	721,290	749,991
Consumer loans						
Automobile financing	277	138	347	762	20,446	21,208
Credit card	670	262	286	1,218	72,572	73,790
Overdrafts	-	-	259	259	22,453	22,712
Other consumer	482	279	888	1,649	160,843	162,492
Total consumer loans	1,429	679	1,780	3,888	276,314	280,202
Residential mortgage loans	38,056	8,558	71,130	117,744	2,404,932	2,522,676
Total loans	40,054	9,686	102,455	152,195	3,898,999	4,051,194

[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	715,942	761,070
Construction	-	-	-	-	2,040	2,040
Total commercial real estate loans	784	1,386	42,958	45,128	717,982	763,110
Consumer loans						
Automobile financing	253	91	353	697	21,575	22,272
Credit card	834	482	501	1,817	75,178	76,995
Overdrafts	10	8	258	276	16,114	16,390
Other consumer	506	348	2,060	2,914	162,442	165,356
Total consumer loans	1,603	929	3,172	5,704	275,309	281,013
Residential mortgage loans	36,355	16,908	62,700	115,963	2,433,562	2,549,525
Total loans	39,425	19,313	109,963	168,701	3,972,279	4,140,980

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

(In thousands of Bermuda dollars, except otherwise stated)

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

	31 March 2014			31 December 2013		
	Non-Accrual Loans	**Accruing loans past due 90 days**	**Total non-performing loans**	Non-Accrual Loans	Accruing loans past due 90 days	Total non-performing loans
Commercial loans						
Commercial and industrial	**781**	**9**	**790**	520	9	529
Commercial overdrafts	**691**	**176**	**867**	472	132	604
Total commercial loans	**1,472**	**185**	**1,657**	992	141	1,133
Commercial real estate loans	**26,779**	**1,922**	**28,701**	41,236	1,722	42,958
Consumer loans						
Automobile financing	**380**	**-**	**380**	437	8	445
Credit card	**73**	**213**	**286**	69	432	501
Overdrafts	**251**	**8**	**259**	221	37	258
Other consumer	**1,045**	**22**	**1,067**	1,951	283	2,234
Total consumer loans	**1,749**	**243**	**1,992**	2,678	760	3,438
Residential mortgage loans	**60,445**	**15,755**	**76,200**	59,166	9,938	69,104
Total non-performing loans	**90,445**	**18,105**	**108,550**	104,072	12,561	116,633

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

31 March 2014	**Pass**	**Special Mention**	**Substandard**	**Non-Accrual**	**Total gross recorded investments**
Commercial loans					
Government	**81,746**	**-**	**-**	**-**	**81,746**
Commercial and industrial	**352,878**	**3,405**	**2,419**	**781**	**359,483**
Commercial overdrafts	**48,774**	**7,444**	**187**	**691**	**57,096**
Total commercial loans	**483,398**	**10,849**	**2,606**	**1,472**	**498,325**
Commercial Real Estate					
Commercial mortgage	**562,252**	**103,361**	**50,794**	**26,779**	**743,186**
Construction	**5,279**	**362**	**1,164**	**-**	**6,805**
Total commercial real estate loans	**567,531**	**103,723**	**51,958**	**26,779**	**749,991**
Consumer loans					
Automobile financing	**19,840**	**969**	**19**	**380**	**21,208**
Credit card	**73,504**	**-**	**213**	**73**	**73,790**
Overdrafts	**18,954**	**2,503**	**1,004**	**251**	**22,712**
Other consumer	**158,961**	**2,095**	**391**	**1,045**	**162,492**
Total consumer loans	**271,259**	**5,567**	**1,627**	**1,749**	**280,202**
Residential mortgage loans	**2,367,329**	**56,228**	**38,674**	**60,445**	**2,522,676**
Total loans	**3,689,517**	**176,367**	**94,865**	**90,445**	**4,051,194**

(In thousands of Bermuda dollars, except otherwise stated)

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	570,761	99,174	49,899	41,236	761,070
Construction	883	-	1,157	-	2,040
Total commercial real estate loans	571,644	99,174	51,056	41,236	763,110
Consumer loans					
Automobile financing	20,794	1,033	8	437	22,272
Credit card	76,494	-	432	69	76,995
Overdrafts	14,954	1,008	207	221	16,390
Other consumer	160,959	2,295	151	1,951	165,356
Total consumer loans	273,201	4,336	798	2,678	281,013
Residential mortgage loans	2,383,773	63,979	42,607	59,166	2,549,525
Total gross recorded loans	3,760,003	179,216	97,689	104,072	4,140,980

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

Quality classification definitions

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

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

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

• Non-accrual:
Either where management is of the opinion full payment of principal or interest is in doubt or when principal or interest is 90 days past due and for residential loans which are not well secured and in the process of collection.

The table below presents the gross loans evaluated for impairment:

	31 March 2014		31 December 2013	
	Individually evaluated	**Collectively evaluated**	Individually evaluated	Collectively evaluated
Commercial	**3,072**	**495,253**	2,642	544,690
Commercial Real Estate	**48,868**	**701,123**	63,264	699,846
Consumer	**1,863**	**278,339**	2,793	278,220
Residential	**69,358**	**2,453,318**	66,408	2,483,117
Total gross loans evaluated for impairment	**123,161**	**3,928,033**	135,107	4,005,873

(In thousands of Bermuda dollars, except otherwise stated)

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

	31 March 2014					31 December 2013
	Commercial	**Commercial Real Estate**	**Consumer**	**Residential**	**Total**	Total
Allowances at beginning of period	**8,340**	**9,816**	**3,442**	**31,157**	**52,755**	55,957
Provision taken (released) during the period	**(433)**	**933**	**(316)**	**3,290**	**3,474**	14,825
Recoveries	**20**	**-**	**525**	**12**	**557**	5,826
Charge-offs	**21**	**(2,759)**	**(449)**	**(867)**	**(4,054)**	(23,706)
Other	**2**	**1**	**7**	**6**	**16**	(147)
Allowances at end of period	**7,950**	**7,991**	**3,209**	**33,598**	**52,748**	52,755
Ending Balance: individually evaluated for impairment	**485**	**3,465**	**160**	**18,806**	**22,916**	22,051
Ending Balance: collectively evaluated for impairment	**7,465**	**4,526**	**3,049**	**14,792**	**29,832**	30,704

Impaired loans

A loan is considered to be impaired when, based on current information and events, the Bank determines that it will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Impaired loans include all non-accrual loans and all loans modified in a troubled debt restructuring ("TDR") even if full collectability is expected following the restructuring. For the three month period ending 31 March 2014, the amount of gross interest income would have been recorded had impaired loans been current was $1.4 million (31 March 2013: $1.5 million). The table below present information about the Bank's impaired loans:

31 March 2014	**Impaired loans with an allowance**			**Impaired loans without an allowance**	**Total impaired loans**		
	Gross recorded investment	**Specific Allowance**	**Net loans**	**Gross recorded investment**	**Gross recorded investment**	**Specific Allowance**	**Net loans**
Commercial loans							
Commercial and industrial	**456**	**(385)**	**71**	**1,924**	**2,380**	**(385)**	**1,995**
Commercial overdrafts	**177**	**(100)**	**77**	**515**	**692**	**(100)**	**592**
Total commercial loans	**633**	**(485)**	**148**	**2,439**	**3,072**	**(485)**	**2,587**
Commercial real estate mortgage loans	**15,678**	**(3,465)**	**12,213**	**33,190**	**48,868**	**(3,465)**	**45,403**
Consumer loans							
Automobile financing	**201**	**(75)**	**126**	**179**	**380**	**(75)**	**305**
Credit card	**-**	**-**	**-**	**73**	**73**	**-**	**73**
Overdrafts	**-**	**-**	**-**	**251**	**251**	**-**	**251**
Other consumer	**128**	**(85)**	**43**	**1,031**	**1,159**	**(85)**	**1,074**
Total consumer loans	**329**	**(160)**	**169**	**1,534**	**1,863**	**(160)**	**1,703**
Residential mortgage loans	**50,510**	**(18,806)**	**31,704**	**18,848**	**69,358**	**(18,806)**	**50,552**
Total impaired loans	**67,150**	**(22,916)**	**44,234**	**56,011**	**123,161**	**(22,916)**	**100,245**

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

(In thousands of Bermuda dollars, except otherwise stated)

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

	31 March 2014		31 December 2013	
Impaired loans	**Average gross recorded investment**	**Interest income recognised**	Average gross recorded investment	Interest income recognised
Commercial loans				
Commercial and industrial	**2,275**	**23**	3,744	97
Commercial overdrafts	**582**	**-**	382	-
Total commercial loans	**2,857**	**23**	4,126	97
Commercial real estate loans	**56,066**	**102**	64,002	256
Consumer loans				
Automobile financing	**409**	**-**	509	-
Credit card	**71**	**-**	35	-
Overdrafts	**236**	**-**	219	-
Other consumer	**1,613**	**-**	2,025	4
Total consumer loans	**2,329**	**-**	2,788	4
Residential mortgage loans	**67,883**	**73**	63,159	386
Total impaired loans	**129,135**	**198**	134,075	743

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

					Effect of modification on recorded investment	
31 March 2014	**Number of contracts**	**Recorded investment (1)**	**Pre-modification outstanding recorded investment**	**Post-modification outstanding recorded investment**	**Changes in the amount and/(or) timing of interest payments**	**Interest capitalisation**
Commercial loans	**3**	**1,733**	**1,912**	**1,912**	**-**	**-**
Commercial real estate loans	**8**	**28,505**	**35,270**	**35,419**	**-**	**149**
Consumer loans	**1**	**114**	**119**	**119**	**-**	**-**
Residential mortgage loans	**20**	**13,654**	**13,653**	**13,890**	**-**	**237**
Total loans modified in a TDR	**32**	**44,006**	**50,954**	**51,340**	**-**	**386**

¹The total recorded investment is comprised of $11.3 million of non-accrual loans and $32.7 million of loans on accrual status.

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

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

For the period ended 31 March 2014, the Bank has 4 loans modified in a TDR that subsequently defaulted (i.e. 90 days or more past due following a modification) with a recorded investment amounting to $3.5 million.

(In thousands of Bermuda dollars, except 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 primarily evaluated by industry and by geographic region of loan origination. In the consumer portfolio, concentrations are primarily evaluated by products. Credit exposures include loans, guarantees and acceptances, letters of credit and commitments for undrawn lines of credit. Unconditionally cancellable credit cards and overdrafts 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 is gross of collateral held.

	31 March 2014			31 December 2013		
	Loans	Off-balance sheet	Total credit exposure	Loans	Off-balance sheet	Total credit exposure
Banks and financial services	293,356	352,163	645,519	358,079	367,162	725,241
Commercial and merchandising	213,853	110,504	324,357	258,693	129,698	388,391
Governments	76,944	802	77,746	75,780	4,767	80,547
Individuals	2,606,403	113,728	2,720,131	2,473,662	97,184	2,570,846
Primary industry and manufacturing	50,906	-	50,906	57,001	-	57,001
Real estate	673,992	3,063	677,055	789,259	9,849	799,108
Hospitality industry	106,183	-	106,183	100,019	-	100,019
Transport and communication	6,641	-	6,641	6,436	-	6,436
Sub-total	4,028,278	580,260	4,608,538	4,118,929	608,660	4,727,589
General allowance	(29,832)	-	(29,832)	(30,704)	-	(30,704)
Total	3,998,446	580,260	4,578,706	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 are disclosed in Note 5: Investments:

	31 March 2014				31 December 2013			
	Cash and equivalent and Short-term	Loans	Off-balance sheet	Total credit exposure	Cash and equivalent and Short-term investments	Loans	Off-balance sheet	Total credit exposure
Bermuda	176,871	2,267,483	275,780	2,720,134	162,371	2,331,616	301,603	2,795,590
Canada	4,867	-	-	4,867	47,111	-	-	47,111
Cayman	203,097	580,514	181,948	965,559	85,959	589,807	179,367	855,133
Guernsey	-	565,316	66,584	631,900	-	563,669	84,493	648,162
Norway	50,008	-	-	50,008	-	-	-	-
The Bahamas	3,620	37,464	-	41,084	4,932	39,990	-	44,922
United Kingdom	890,322	577,501	55,948	1,523,771	983,609	593,847	43,197	1,620,653
United States	430,525	-	-	430,525	474,943	-	-	474,943
Other	56,883	-	-	56,883	26,528	-	-	26,528
Sub-total	1,816,193	4,028,278	580,260	6,424,731	1,785,453	4,118,929	608,660	6,513,042
General allowance	-	(29,832)	-	(29,832)	-	(30,704)	-	(30,704)
Total	1,816,193	3,998,446	580,260	6,394,899	1,785,453	4,088,225	608,660	6,482,338

(In thousands of Bermuda dollars, except otherwise stated)

Note 8: Customer Deposits and Deposits from Banks

By Maturity	31 March 2014			31 December 2013		
	Customers	Banks	Total	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	1,129,616	493	1,130,109	1,012,973	385	1,013,358
Demand deposits - Interest bearing	4,735,064	12,014	4,747,078	4,631,149	11,701	4,642,850
Sub-total - demand deposits	5,864,680	12,507	5,877,187	5,644,122	12,086	5,656,208
Term deposits having a denomination of less than $100,000						
Term deposits maturing within six months	53,938	76	54,014	51,118	-	51,118
Term deposits maturing between six to twelve months	19,349	-	19,349	16,392	-	16,392
Term deposits maturing after twelve months	18,147	-	18,147	18,205	-	18,205
Sub-total - term deposits having a denomination of less than $100,000	91,434	76	91,510	85,715	-	85,715
Term deposits having a denomination of $100,000 or more						
Term deposits maturing within six months	1,476,197	19,791	1,495,988	1,576,273	16,150	1,592,423
Term deposits maturing between six to twelve months	155,765	6,613	162,378	94,802	11,986	106,788
Term deposits maturing after twelve months	161,901	-	161,901	196,817	-	196,817
Sub-total - term deposits having a denomination of $100,000 or more	1,793,863	26,404	1,820,267	1,867,892	28,136	1,896,028
Sub-total - term deposits	1,885,297	26,480	1,911,777	1,953,607	28,136	1,981,743
Total	7,749,977	38,987	7,788,964	7,597,729	40,222	7,637,951

By Type and Segment	31 March 2014			31 December 2013		
	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	2,723,443	948,167	3,671,610	2,532,572	1,018,417	3,550,989
Banks	601	2,706	3,307	494	1,036	1,530
Cayman						
Customers	1,622,551	428,286	2,050,837	1,677,092	394,338	2,071,430
Banks	10,350	23,774	34,124	10,627	27,100	37,727
Guernsey						
Customers	1,186,308	183,947	1,370,255	1,085,862	204,646	1,290,508
Banks	1,457	-	1,457	965	-	965
The Bahamas						
Customers	55,483	9,397	64,880	68,257	9,980	78,237
United Kingdom						
Customers	276,895	315,500	592,395	280,339	326,226	606,565
Banks	99	-	99	-	-	-
Total Customers	5,864,680	1,885,297	7,749,977	5,644,122	1,953,607	7,597,729
Total Banks	12,507	26,480	38,987	12,086	28,136	40,222
Total	5,877,187	1,911,777	7,788,964	5,656,208	1,981,743	7,637,951

(In thousands of Bermuda dollars, except otherwise stated)

Note 9: 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 expense constituents of the Bank's defined benefit pension plans and the Bank's post-retirement medical benefit plan:

	For the three month period ending	
	31 March 2014	31 March 2013
Defined benefit pension expense		
Service cost	**388**	382
Interest cost	**1,831**	1,693
Expected return on plan assets	**(2,338)**	(2,272)
Amortisation of net actuarial loss (gain)	**275**	386
Total defined benefit pension expense	**156**	189
Post-retirement medical benefit expense		
Service cost	**206**	261
Interest cost	**1,126**	1,063
Amortisation of net actuarial loss	**231**	606
Amortisation of past service cost	**(1,680)**	(1,680)
Total post-retirement medical benefit expense	**(117)**	250

Note 10: Credit Related Arrangements and Commitments

Credit-Related Arrangements

Standby letters of credit and letters of guarantee are issued at the request of a Bank customer in order to secure the customer's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Bank to pay the third party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the customer. Generally, the term of the standby letters of credit does not exceed one year, 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 March 2014			31 December 2013		
	Gross	**Collateral**	**Net**	Gross	Collateral	Net
Standby letters of credit	**289,102**	**287,412**	**1,690**	294,572	292,204	2,368
Letters of guarantee	**12,260**	**8,624**	**3,636**	12,391	9,088	3,303
Total	**301,362**	**296,036**	**5,326**	306,963	301,292	5,671

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 March 2014	31 December 2013
Commitments to extend credit	**277,128**	299,062
Documentary and commercial letters of credit	**1,770**	2,635
Total unfunded commitments to extend credit	**278,898**	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 March 2014, $144.8 million (31 December 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 not be material to the consolidated financial position of the Bank.

(In thousands of Bermuda dollars, except otherwise stated)

Note 11: Segmented Information

As at 31 March 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 in Bank's audited financial statements for the year ending 31 December 2013.

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, 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 comprise 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.

	31 March 2014	31 December 2013
Total Assets by Segment		
Bermuda	**4,685,012**	4,624,281
Cayman	**2,333,216**	2,309,380
Guernsey	**1,521,099**	1,437,873
Switzerland	**2,246**	2,206
The Bahamas	**78,630**	91,758
United Kingdom	**815,765**	828,295
Total assets before inter-segment eliminations	**9,435,968**	9,293,793
Less: inter-segment eliminations	**(424,506)**	(422,978)
Total	**9,011,462**	8,870,815

	Net interest income								
For the three month period ending 31 March 2014	**Customer**	**Inter- segment**	**Provision for credit losses**	**Non-interest income**	**Revenue before gains and losses**	**Total expenses**	**Net income before gains and losses and central allocations**	**Gains and losses**	**Net income**
Bermuda	**35,043**	**410**	**(3,708)**	**15,138**	**46,883**	**35,457**	**11,426**	**1,239**	**12,665**
Cayman	**13,787**	**279**	**256**	**8,261**	**22,583**	**13,544**	**9,039**	**-**	**9,039**
Guernsey	**4,989**	**-**	**1**	**5,084**	**10,074**	**9,062**	**1,012**	**-**	**1,012**
Switzerland	**-**	**-**	**-**	**508**	**508**	**682**	**(174)**	**-**	**(174)**
The Bahamas	**(12)**	**53**	**-**	**1,391**	**1,432**	**1,336**	**96**	**-**	**96**
United Kingdom	**4,543**	**(742)**	**(23)**	**1,976**	**5,754**	**5,230**	**524**	**-**	**524**
Total before eliminations	**58,350**	**-**	**(3,474)**	**32,358**	**87,234**	**65,311**	**21,923**	**1,239**	**23,162**
Add / (deduct): inter-segment eliminations / transactions	**-**	**-**	**-**	**(778)**	**(778)**	**(778)**	**-**	**-**	**-**
Total from continuing operations	**58,350**	**-**	**(3,474)**	**31,580**	**86,456**	**64,533**	**21,923**	**1,239**	**23,162**

(In thousands of Bermuda dollars, except otherwise stated)

For the three month period ending 31 March 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	Gains and losses	Net income
Bermuda	31,758	362	(4,344)	14,313	42,089	37,449	4,640	453	5,093
Cayman	11,711	294	(224)	7,833	19,614	14,411	5,203	(485)	4,718
Guernsey	4,920	1	(67)	4,833	9,687	7,532	2,155	-	2,155
Switzerland	-	-	-	388	388	591	(203)	-	(203)
The Bahamas	18	30	-	1,422	1,470	1,209	261	-	261
United Kingdom	3,766	(687)	-	1,611	4,690	4,062	628	149	777
Total before eliminations	52,173	-	(4,635)	30,400	77,938	65,254	12,684	117	12,801
Add / (deduct): inter-segment eliminations / transactions	-	-	-	(535)	(535)	(535)	-	485	485
Total from continuing operations	52,173	-	(4,635)	29,865	77,403	64,719	12,684	602	13,286

Note 12: Accounting for Derivative Instruments and Risk Management

The Bank uses derivatives in the asset and liability management ("ALM") of positions and to meet the needs of its customers with their risk management objectives. The Bank's derivative contracts principally involve over-the-counter transactions that are privately negotiated between the Bank and the counterparty to the contract and include interest rate contracts and foreign exchange contracts.

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

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

All derivative financial instruments, whether designated as hedges or not, are recorded on the Consolidated Balance Sheet at fair value within Other assets or Other liabilities. These amounts include the effect of netting. The accounting for changes in the fair value of a derivative in the Consolidated Statement of Operations depends on whether the contract has been designated as a hedge and qualifies for hedge accounting.

Notional amounts

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

Fair value

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

Risk management derivatives

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

• Fair value hedges

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

• Net investment hedges

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

For derivatives designated as net investment hedges, the Bank follows the forward-rate method in measuring the amount of ineffectiveness in a net investment hedge. According to that method, all changes in fair value, including changes related to the forward-rate component and the time value of currency swaps, are recorded in the foreign currency translation adjustment account within Accumulated other comprehensive income (loss). 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, except otherwise stated)

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

31 March 2014	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk Management Derivatives					
Net investment hedges	Currency swaps	136,191	-	(10,609)	(10,609)
Derivatives not formally designated as hedging instruments	Currency swaps	90,260	-	(390)	(390)
Subtotal risk management derivatives		226,451	-	(10,999)	(10,999)
Client Services Derivatives	Spot and forward foreign exchange	3,090,671	3,985	(3,477)	508
Total derivative instruments		3,317,122	3,985	(14,476)	(10,491)

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)

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 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 March 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	4,656	(1,830)	2,826	921	3,747	-	3,747
Derivative liabilities							
Spot and forward foreign exchange and Currency swaps	1,977	(15,550)	(13,573)	(665)	(14,238)	10,314	(3,924)
Total derivative instruments			(10,747)		(10,491)		(177)

31 December 2013	Gross amounts recognised	Gross amounts offset in consolidated balance sheet	Net amounts in consolidated balance sheet	Gross Amounts not offset in consolidated balance sheet	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	2,723	10,436	-	10,436
Derivative liabilities							
Spot and forward foreign exchange and Currency swaps	4,217	(30,302)	(26,085)	(2,657)	(28,742)	19,210	(9,532)
Total derivative instruments			(18,372)		(18,306)		904

The following table shows the location and amount of gains (losses) recorded in the Consolidated Statement of Operations on derivatives outstanding as at 31 March 2014 and 2013.

		For three month period ending	
Derivative Instrument	**Consolidated Statement of Operations line item**	**31 March 2014**	31 March 2013
Interest rate swaps	Net other gains	-	37
Spot and forward foreign exchange	Foreign exchange revenue	475	496
Total net gains recognised in net income		475	533

(In thousands of Bermuda dollars, except otherwise stated)

Note 13: 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 of the Bank's audited financial statements for the year ending 31 December 2013.

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

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

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

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

Items that are recognised at fair value on a recurring basis

	31 March 2014				31 December 2013			
	Fair value			Total carrying amount /	Fair value			Total carrying amount /
	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3	Fair value
Financial assets								
Trading investments								
Debt securities issued by non-US governments	-	3,590	-	3,590	-	3,546	-	3,546
Mutual funds	5,877	931	-	6,808	5,842	43,940	-	49,782
Total trading	5,877	4,521	-	10,398	5,842	47,486	-	53,328
Available for sale investments								
Certificates of deposit	-	198,813	-	198,813	-	84,571	-	84,571
US government and federal agencies	-	1,494,430	-	1,494,430	-	1,347,580	-	1,347,580
Debt securities issued by non-US governments	-	75,603	-	75,603	-	88,454	-	88,454
Corporate debt securities	-	414,278	-	414,278	-	415,404	-	415,404
Asset-backed securities - Student loans	-	68,669	11,429	80,098	-	71,882	11,297	83,179
Commercial mortgage backed securities	-	146,136	-	146,136	-	142,889	-	142,889
Residential mortgage backed securities - Prime	-	30,452	-	30,452	-	30,837	-	30,837
Pass-through note	-	-	33,936	33,936	-	-	34,007	34,007
Equity securities	-	17	-	17	-	-	-	-
Total available for sale	-	2,428,398	45,365	2,473,763	-	2,181,617	45,304	2,226,921
Other assets - Derivatives	-	3,985	-	3,985	-	11,246	-	11,246
Financial liabilities								
Other liabilities - Derivatives	-	(14,476)	-	(14,476)	-	(29,552)	-	(29,552)

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

(In thousands of Bermuda dollars, except otherwise stated)

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

Financial Instrument Type	Valuation Technique	31 March 2014
Asset-backed securities - Student loans	Unadjusted third party priced	11,429
Pass-through note	Unadjusted third party priced	33,936

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

• Unadjusted third party price

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

- Asset-backed securities ("ABS") – The ABS is a Federal Family Education Loan 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 consists of a pool of floating rate income securities (typically US sub prime collateralised mortgage obligations and mortgage-backed securities). The third-party investment manager of the PTN determines the fair value of each underlying security within the PTN. The investment manager uses a variety of valuation techniques consistent with those disclosed in Note 2 in Bank's audited financial statements for the year ending 31 December 2013. Despite relying on the fair values provided by the investment manager, management is still responsible for the final fair valuation used.

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

Level 3 reconciliation

	31 March 2014		31 March 2013	
	Available-for-sale investments	Closed ended fund	Available-for-sale investments	Closed ended fund
Carrying amount at beginning of period	45,304	-	41,810	4,397
Purchases	-	-	-	-
Proceeds from sales, paydowns and maturities	(975)	-	(1,669)	(4,111)
Accretion recognised in net income	462	-	467	-
Realised and unrealised gains (losses) recognised in other comprehensive income	574	-	6,622	-
Foreign exchange translation adjustment	-	-	-	(286)
Carrying amount at end of period	45,365	-	47,230	-

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

	31 March 2014				31 December 2013			
	Fair value			Total carrying amount /	Fair value			Total carrying amount /
	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3	Fair value
Other real estate owned	-	26,373	-	26,373	-	27,407	-	27,407

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

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

		31 March 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	1,764,925	1,764,925	-	1,730,472	1,730,472	-
Short-term investments	Level 1	51,268	51,268	-	54,981	54,981	-
Investments held to maturity	Level 2	331,485	321,789	(9,696)	333,394	315,534	(17,860)
Loans, net of allowance for credit losses	Level 2	3,998,446	3,995,374	(3,072)	4,088,225	4,082,741	(5,484)
Financial liabilities							
Customer deposits							
Demand deposits	Level 2	5,864,680	5,864,680	-	5,644,122	5,644,122	-
Term deposits	Level 2	1,885,297	1,886,784	(1,487)	1,953,607	1,955,096	(1,489)
Deposits from banks	Level 2	38,987	38,987	-	40,222	40,222	-
Securities sold under agreement to repurchase	Level 2	26,750	26,750	-	25,535	25,543	(8)
Subordinated capital	Level 2	117,000	114,881	2,119	207,000	203,521	3,479

(In thousands of Bermuda dollars, except otherwise stated)

Note 14: Interest Rate Risk

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

31 March 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	1,479	-	-	-	-	286	1,765
Short term investments	44	4	3	-	-	-	51
Investments	525	105	19	489	1,671	7	2,816
Loans	3,595	159	9	133	46	56	3,998
Other assets	-	-	-	-	-	381	381
Total assets	5,643	268	31	622	1,717	730	9,011
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	826	826
Demand deposits	4,747	-	-	-	-	1,130	5,877
Term deposits	1,372	178	182	180	-	-	1,912
Securities sold under agreement to repurchase	27	-	-	-	-	-	27
Other liabilities	-	-	-	-	-	252	252
Subordinated capital	47	-	-	70	-	-	117
Total liabilities and shareholders' equity	6,193	178	182	250	-	2,208	9,011
Interest rate sensitivity gap	(550)	90	(151)	372	1,717	(1,478)	-
Cumulative interest rate sensitivity gap	(550)	(460)	(611)	(239)	1,478	-	-

31 December 2013	Earlier of contractual maturity or repricing date						
(in $ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash and deposits with banks	1,483	-	-	-	-	247	1,730
Short term investments	44	7	4	-	-	-	55
Investments	347	55	32	496	1,634	50	2,614
Loans	3,581	253	19	138	27	70	4,088
Other assets	-	-	-	-	-	384	384
Total assets	5,455	315	55	634	1,661	751	8,871
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	803	803
Demand deposits	4,587	57	-	-	-	1,012	5,656
Term deposits	1,432	212	123	215	-	-	1,982
Securities sold under agreement to repurchase	26	-	-	-	-	-	26
Other liabilities	-	-	-	-	-	197	197
Subordinated capital	137	-	-	70	-	-	207
Total liabilities and shareholders' equity	6,182	269	123	285	-	2,012	8,871
Interest rate sensitivity gap	(727)	46	(68)	349	1,661	(1,261)	-
Cumulative interest rate sensitivity gap	(727)	(681)	(749)	(400)	1,261	-	-

Note 15: 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 three month period ending	
	31 March 2014	31 March 2013
Basic earnings per share	**0.03**	0.02
Basic earnings per share	**0.03**	0.02
Net income	**23,162**	13,286
Less: Preference dividends declared and guarantee fee	**(4,131)**	(4,396)
Less: Premium on preference share buyback	**(1)**	(50)
Net income attributable for common shareholders	**19,030**	8,840
Weighted average number of common shares issued	**556,933**	556,933
Weighted average number of common shares held as treasury stock	**(7,343)**	(6,956)
Adjusted weighted average number of common shares (in thousands)	**549,590**	549,977
Diluted earnings per share	**0.03**	0.02
Diluted earnings per share	**0.03**	0.02
Net income attributable for common shareholders	**19,030**	8,840
Adjusted weighted average number of common shares issued	**549,589**	549,977
Weighted average number of dilutive share-based awards	**6,463**	3,925
Adjusted weighted average number of diluted common shares	**556,052**	553,902

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

During the three months ended 31 March 2014, weighted-average options to purchase 31.3 million (31 March 2013: 32.9 million) shares of common stock (see Note 16), were outstanding. Only options where the option's expense that will be recognised in the future and its exercise price was lower than the average market price of the Bank's common stock were considered dilutive and, therefore, included in the computation of diluted earnings per share. The dilution effect of such options is a net increase of 3.3 million (31 March 2013: 1.4 million) of the weighted-average number of common shares outstanding on a fully diluted basis. The awards' yet unrecognised expense is considered to be the proceeds the employees would need to pay to purchase accelerated vesting of the awards.

During the three months ended 31 March 2014 the weighted-average number of outstanding awards of unvested common shares (see Note 16) was 9.7 million (31 March 2013: 7.9 million). All unvested awards of common shares were considered dilutive because each award's unrecognised expense was lower than the average market price of the Bank's common stock. The awards' unrecognised expense is considered to be the proceeds the employees would need to pay to purchase accelerated vesting of the awards. For purpose of calculating dilution, such proceeds are assumed to be used by the Bank to buy-back shares at the average market price. The weighted-average number of outstanding awards net of the assumed weighted-average number of shares bought-back is included in the number of diluted participating shares.

Warrants issued to the Government of Bermuda in exchange for the Government's guarantee of the preference shares, with an exercise price of $3.49 (31 December 2013: $3.51) for 4.30 million shares of common stock (31 December 2013: 4.28 million) were not included in the computation of earnings per share for the years ended 31 March 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, except otherwise stated)

Note 16: Share-Based Payments

As at 31 March 2014, the Bank has three share-based compensation plans, which are described below.

1997 Stock Option Plan

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

2010 Stock Option Plan

In conjunction with the capital raise, the board of directors approved the 2010 Stock Option Plan. Under the Plan, five per cent of the Bank's fully diluted common shares, equal to approximately 29.5 million shares, are available for grant to certain officers. In May 2012 the board of directors approved an increase to the options allowed to be granted under the 2010 Stock Option Plan to 50 million shares. Under the 2010 Stock Option Plan, options are awarded to Bank employees and executive management, based on predetermined vesting conditions that entitle the holder to purchase one common share at a subscription price usually equal to the last-traded common share price when granted and have a term of 10 years. Two types of vesting conditions upon which the options will be awarded comprise the 2010 Stock Option Plan i.e.:

• Time Vesting Condition

50% of each option award is granted in the form of Time Vested Options and vests 25% on each of the second, third, fourth and fifth anniversaries of the effective grant date, subject to the option's holder continued employment with the Bank.

• Performance Vesting Condition

50% of each option award is granted in the form of Performance Options and vests on a "Valuation Event" date (date any of the 2 March 2010 Investors transfers at least 5% of total number of shares or the date that there is a change in control and any of the New Investors achieve a Multiple of Invested Capital ("MOIC") based on predetermined MOIC tiers). In the event of a Valuation Event and the MOIC reaching 200% of the original $1.21 per share invested capital, all Performance Options would vest. The Bank determined that at 31 March 2014 the Performance Options granted have an aggregate fair value of $9.5 million (2013: $9.5 million). If the probability of a Valuation Event becomes more likely than not, some or all of the $9.5 million unrecognised expense relating to the Performance Options will be recognised as an expense.

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

For the three month period ended 31 March 2014

	Number of shares transferable upon exercise (thousands)		
	1997 Stock Option Plan	**2010 Stock Option Plan**	**Total**
Outstanding at beginning of period	**3,992**	**27,808**	**31,800**
Exercised	**-**	**(160)**	**(160)**
Forfeited / cancelled	**(339)**	**(1)**	**(340)**
Resignation / Retirement / Redundancy	**-**	**22**	**22**
Expiration at end of plan life	**(31)**	**-**	**(31)**
Outstanding at the end of the period	**3,622**	**27,669**	**31,291**

For the three month period ended 31 March 2013

	Number of shares transferable upon exercise (thousands)		
	1997 Stock Option Plan	2010 Stock Option Plan	Total
Outstanding at beginning of period	4,759	28,568	33,327
Forfeited / cancelled	(1)	(1)	(2)
Resignation / Retirement / Redundancy	(198)	-	(198)
Expiration at end of plan life	(152)	(60)	(212)
Outstanding at the end of the period	4,408	28,507	32,915

(In thousands of Bermuda dollars, except otherwise stated)

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

	For the three month period ending	
	31 March 2014	31 March 2013
	Number of shares transferable upon vesting	Number of shares transferable upon vesting (thousands)
Outstanding at beginning of period	**2,183**	1,976
Granted	**1,469**	943
Vested	**(999)**	(757)
Resignation / Retirement / Redundancy	**(4)**	(139)
Outstanding at the end of the period	**2,649**	2,023

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

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

• Time Vesting Condition

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

• Performance Vesting Condition

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

2014 and 2013 Executive Long-Term Incentive Share plan ("2014 and 2013 ELTIP")

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

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

	For the three month period ending	
	31 March 2014	31 March 2013
	Number of shares transferable upon vesting	Number of shares transferable upon vesting (thousands)
Outstanding at beginning of period	**6,441**	5,231
Granted	**2,423**	2,538
Vested	**(1,824)**	(905)
Forfeited / cancelled	**-**	(843)
Resignation / Retirement / Redundancy	**(15)**	(141)
Outstanding at the end of the period	**7,025**	5,880

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

	For the three month period ending					
	31 March 2014			31 March 2013		
	Stock option plan	**ELTIP and DIP**	**Total**	Stock option plan	ELTIP and DIP	Total
Share-based compensation plans						
Awards granted in year 2010 and after	**325**	**1,450**	**1,775**	307	1,194	1,501
Total share-based compensation	**325**	**1,450**	**1,775**	307	1,194	1,501
Share-based settlement plans						
Directors shares and retainers settlement plan			**-**			-
Total share-based payments			**1,775**			1,501

(In thousands of Bermuda dollars, except otherwise stated)

The following table presents the unrecognised expense attributable each plan.

	As at	
Unrecognised expense	**31 March 2014**	31 March 2013
2010 Stock Option Plan		
Time Vesting Options	**1,505**	3,076
Performance Vesting Options	**9,484**	9,516
EDIP	**3,663**	2,254
2011, 2012, 2013 ELTIP		
Time Vesting shares	**534**	1,573
Performance Vesting shares	**7,453**	4,598
Total unrecognised expense	**22,639**	21,017

Directors' Compensation

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

Note 17: 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 Bermuda Stock Exchange. The BSX must be advised monthly of shares repurchased and cancelled by the Bank.

Common Share Buy-back Programme

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

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

During the first quarter 2014, the Board approved, with effect from 1 April 2014, the 2014 common share buy-back programme authorising the purchase and a cancellation of up to 15 million common shares.

Cumulative common share buy-backs is as follows:

	For the three months ending 31 March 2014	For the year ending 31 December 2013	For the year ending 31 December 2012	Total
Acquired number of shares (to the nearest 1)	**1,767,672**	4,038,482	7,260,051	13,066,205
Average cost per common share	**1.96**	1.39	1.24	1.38
Total cost (in Bermuda dollars)	**3,458,301**	5,610,907	8,999,061	18,068,269

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 of the Bank 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.

Cumulative preference share buy-backs as at 31 March is as follows:

	For the three months ending 31 March 2014	For the year ending 31 December 2013	For the year ending 31 December 2012	Total
Acquired number of shares (to the nearest 1)	**7**	11,972	4,422	16,401
Average cost per preference share	**1,184.19**	1,230.26	1,218.40	1,227.04
Total cost (in Bermuda dollars)	**8,289**	14,728,624	5,387,777	20,124,690

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

(In thousands of Bermuda dollars, except otherwise stated)

Note 18: Accumulated Other Comprehensive Income (Loss)

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

31 March 2014	**Unrealised losses on translation of net investment in foreign**	**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 period	**(7,632)**	**(40,136)**	**(35,616)**	**6,724**	**(28,892)**	**(76,660)**
Other comprehensive income (loss), net of taxes	**160**	**17,627**	**247**	**(1,449)**	**(1,202)**	**16,585**
Balance at end of period	**(7,472)**	**(22,509)**	**(35,369)**	**5,275**	**(30,094)**	**(60,075)**

31 March 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 period	(10,487)	44,781	(47,995)	1,178	(46,817)	(12,523)
Other comprehensive income (loss), net of taxes	(2,396)	(5,583)	386	(738)	(352)	(8,331)
Balance at end of period	(12,883)	39,198	(47,609)	440	(47,169)	(20,854)

The net change in each component of Accumulated Other Comprehensive Income (Loss) is as follows:

	Line item in the Consolidated Statement of Operations, if any	For the three month period ending **31 March 2014**	For the three month period ending 31 March 2013
Net unrealised (loss) gains on translation of net investment in foreign operations adjustments			
Foreign currency translation adjustments		**1,362**	(13,871)
Net investment hedge gains (losses)	N/A	**(1,202)**	11,475
Net change		**160**	(2,396)
Available for sale investment adjustments			
Gross unrealised gains (losses) arising during the year		**17,559**	(7,286)
Reclassification of realised gains (losses) to net income	Net realised gains on available for sale investments	**-**	40
Foreign currency translation adjustments of related balances	N/A	**68**	1,663
Net change		**17,627**	(5,583)
Employee future benefits adjustments			
Net actuarial gain (loss) arising during the year on defined benefit pension	N/A	**-**	-
Net actuarial gain (loss) arising during the year on post-retirement medical benefit	N/A	**-**	-
Amortisation of actuarial gains (losses) on defined benefit pension	Salaries and other employee benefits	**275**	386
Amortisation of prior period service credit on post-retirement medical benefit	Salaries and other employee benefits	**(1,680)**	(1,680)
Amortisation of actuarial gains (losses) on post-retirement medical benefit	Salaries and other employee benefits	**231**	942
Change in deferred taxes	N/A	**-**	
Foreign currency translation adjustments of related balances	N/A	**(28)**	-
Net change		**(1,202)**	(352)
Other comprehensive income (loss)		**16,585**	(8,331)

(In thousands of Bermuda dollars, except otherwise stated)

Note 19: Capital Structure

Dividend declared

During the three months ending 31 March 2014, the Bank declared and paid cash dividends totaling $0.02 (2013: $0.04) for each common share and contingent value convertible preference shares on record as of the related record dates. During the three months ending 31 March 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 published final rules, effective 1 January 2009, with respect to the implementation of the Basel II framework. From this date the Bank has calculated its capital requirement on the Standardised approach under Basel II requirements.

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

	31 March 2014	31 December 2013
Capital		
Tier 1 capital	829,812	823,577
Tier 2 capital	138,999	169,221
Deductions	-	-
Total capital	968,811	992,798
Weighted Risk Assets		
Total weighted risk assets	4,185,889	4,197,744
Capital Ratios (%)		
Tier 1 common	15.4%	15.2%
Tier 1 Total	19.8%	19.6%
Total Capital	23.1%	23.7%

Note 20: Business Combinations

During the first quarter of 2014, the Bank announced that it had reached an agreement in principle to expand its trust and fiduciary services presence in Guernsey—one of Butterfield’s core markets—through the acquisition of Legis T & C Holdings Limited ("Legis"). 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. On 1 April 2014, the Bank acquired all of the outstanding common shares of Legis for a total consideration transferred of up to $37.5 million which includes a maximum of $5.5 million of contingent consideration, payable dependent on certain revenue targets and the satisfaction of warranties and representations. Given the recent date of acquisition, management is in the process of finalising the detailed allocation between intangible assets and goodwill.

Note 21: Related Party Transactions

Financing transactions

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 March 2014, related party director loan balances were $61.7 million (2013: $68.6 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 March 2014, $69 million was outstanding under this agreement. For the three month period ending 31 March 2014, $0.8 million of interest income has been recognised in the Consolidated Statement of Operations.

Capital transaction

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

Note 22: Comparative Information

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

Note 23: Subsequent Events

On 28 April 2014, the board of directors declared an interim dividend of $0.01 per common and contingent value convertible preference share to be paid on 30 May 2014 to shareholders of record on 16 May 2014.

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

The Bank has performed an evaluation of subsequent events through to 28 April 2014, the date the financial statements were issued.