The Bank of N.T. Butterfield & Son Limited

Financial Results for the Nine Months Ended 30 September 2014

Butterfield

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

	As at	
	30 September 2014	31 December 2013
Assets		
Cash and demand deposits with banks	**496,138**	411,124
Cash equivalents	**966,903**	1,319,348
Total cash and cash equivalents	**1,463,041**	1,730,472
Short-term investments	**186,316**	54,981
Debt and equity securities		
Trading	**6,893**	53,328
Available for sale	**2,613,783**	2,226,921
Held to maturity	**324,032**	333,394
Total investments in debt and equity securities	**2,944,708**	2,613,643
Loans, net of allowance for credit losses	**3,996,818**	4,088,225
Premises, equipment and computer software	**225,625**	240,603
Accrued interest	**19,127**	19,621
Goodwill	**25,817**	7,086
Intangible assets	**23,852**	12,035
Investments in affiliates	**12,668**	12,533
Other real estate owned	**17,161**	27,407
Other assets	**96,436**	64,209
Total assets	**9,011,569**	8,870,815
Liabilities		
Customers deposits		
Non-interest bearing	**1,334,502**	1,012,973
Interest bearing	**6,428,492**	6,584,756
Total customer deposits	**7,762,994**	7,597,729
Bank deposits	**41,225**	40,222
Total deposits	**7,804,219**	7,637,951
Securities sold under agreement to repurchase	**23,779**	25,535
Employee future benefits	**89,563**	89,109
Accrued interest	**5,032**	3,825
Preference Share dividends payable	**614**	616
Other liabilities	**114,965**	104,218
Total other liabilities	**233,953**	223,303
Subordinated capital	**117,000**	207,000
Total liabilities	**8,155,172**	8,068,254
Shareholders' equity		
Common share capital (BMD 0.01 par; authorised Shares 26,000,000,000) issued and outstanding: 549,910,006 (2013: 549,803,460)	**5,499**	5,498
Preference share capital (USD 0.01 par; USD 1,000 liquidation Preference) issued and outstanding: 183,113 (2013: 183,606)	**2**	2
Contingent value convertible preference share capital (USD 0.01 par) issued and outstanding: 7,022,529 (2013: 7,129,075)	**70**	71
Additional paid-in capital	**1,345,329**	1,344,755
Accumulated deficit	**(421,056)**	(460,157)
Less: treasury common shares: 11,338,529 Shares (2013: 8,310,421 Shares)	**(19,073)**	(10,948)
Accumulated other comprehensive loss	**(54,374)**	(76,660)
Total shareholders' equity	**856,397**	802,561
Total liabilities and shareholders' equity	**9,011,569**	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 ended		For the nine month period ended	
	30 September 2014	30 September 2013	**30 September 2014**	30 September 2013
Non-interest income				
Asset management	**4,427**	4,188	**13,376**	13,364
Banking	**7,654**	7,898	**25,058**	23,040
Foreign exchange revenue	**7,124**	7,288	**21,937**	21,818
Trust	**9,994**	7,479	**28,023**	22,351
Custody and other administration services	**2,681**	2,421	**7,684**	7,548
Other non-interest income	**1,636**	1,772	**4,080**	4,101
Total non-interest income	**33,516**	31,046	**100,158**	92,222
Interest income				
Loans	**49,345**	48,187	**143,118**	139,858
Investments	**16,715**	15,787	**51,227**	44,635
Deposits with banks	**1,277**	1,384	**3,728**	3,791
Total interest income	**67,337**	65,358	**198,073**	188,284
Interest expense				
Deposits	**5,313**	4,990	**15,813**	14,763
Subordinated capital	**1,386**	1,582	**4,153**	7,412
Securities sold under repurchase agreements	**21**	140	**71**	218
Total interest expense	**6,720**	6,712	**20,037**	22,393
Net interest income before provision for credit losses	**60,617**	58,646	**178,036**	165,891
Provision for credit losses	**(1,429)**	(3,654)	**(8,045)**	(11,487)
Net interest income after provision for credit losses	**59,188**	54,992	**169,991**	154,404
Net trading (losses) gains	**(255)**	263	**272**	228
Net realised (losses) gains on available for sale investments	**(47)**	4	**8,697**	60
Net realised / unrealised losses on other real estate owned	**(880)**	(251)	**(1,071)**	(723)
Impairment of fixed assets	**(722)**	-	**(722)**	-
Net gain on sales of affiliates	**3**	781	**257**	807
Net other gains	**205**	268	**1,314**	13,734
Total other (losses) gains	**(1,696)**	1,065	**8,747**	14,106
Total net revenue	**91,008**	87,103	**278,896**	260,732
Non-interest expense				
Salaries and other employee benefits	**32,391**	33,307	**96,590**	97,555
Technology and communications	**14,170**	13,393	**42,486**	39,904
Property	**6,493**	6,363	**18,552**	18,110
Professional and outside services	**5,427**	3,050	**18,427**	9,581
Non-income taxes	**4,025**	3,588	**12,056**	10,414
Amortisation of intangible assets	**1,129**	833	**3,152**	2,495
Marketing	**692**	777	**2,643**	2,717
Other expenses	**3,765**	4,032	**11,054**	11,535
Total non-interest expense	**68,092**	65,343	**204,960**	192,311
Net income before income taxes	**22,916**	21,760	**73,936**	68,421
Income tax expense	**(150)**	(201)	**(463)**	(652)
Net income	**22,766**	21,559	**73,473**	67,769
Earnings per common share				
Basic earnings per share	**0.03**	0.03	**0.11**	0.10
Diluted earnings per share	**0.03**	0.03	**0.11**	0.09

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 ended		For the nine month period ended	
	30 September 2014	30 September 2013	**30 September 2014**	30 September 2013
Net income	**22,766**	21,559	**73,473**	67,769
Other comprehensive income (loss), net of taxes				
Net change in unrealised gains (losses) on translation of net investment in foreign operations	**(2,416)**	1,790	**(1,239)**	(529)
Net change in unrealised gains (losses) on available for sale investments	**(7,012)**	7,459	**28,770**	(57,058)
Employee future benefits adjustments	**(2,775)**	(721)	**(5,245)**	(2,164)
Other comprehensive income (loss)	**(12,203)**	8,528	**22,286**	(59,751)
Total comprehensive income	**10,563**	30,087	**95,759**	8,018

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 nine month period ended			
	30 September 2014		30 September 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	106,546	1	105,851	2
Balance at end of period	549,910,006	5,499	549,783,654	5,498
Preference shares				
Balance at beginning of period	183,606	2	195,578	2
Repurchase and cancellation of preference shares	(493)	-	(11,531)	-
Balance at end of period	183,113	2	184,047	2
Contingent value convertible preference shares				
Balance at beginning of period	7,129,075	71	7,254,732	73
Conversion to common shares	(106,546)	(1)	(105,851)	(2)
Balance at end of period	7,022,529	70	7,148,881	71
Additional paid-in capital				
Balance at beginning of period		1,344,755		1,355,689
Stock option plan expense		5,324		4,988
Share based compensation settlements		(4,171)		(2,397)
Reduction of carrying value on repurchase of preference shares		(493)		(11,531)
Premium paid on repurchase of preference shares		(86)		(2,669)
Balance at end of period		1,345,329		1,344,080
Accumulated deficit				
Balance at beginning of period		(460,157)		(482,796)
Net income for period		73,473		67,769
Common share cash dividends declared and paid		(21,991)		(33,045)
Cash dividends declared on preference shares		(11,010)		(11,417)
Preference shares guarantee fee		(1,371)		(1,434)
Balance at end of period		(421,056)		(460,923)
Treasury common shares				
Balance at beginning of period	8,310,421	(10,948)	7,066,586	(8,767)
Share-based settlement	(90,000)	180	(103,450)	150
Purchase of treasury shares	6,555,547	(13,004)	3,223,295	(4,437)
Share based compensation settlements	(3,437,439)	4,699	(2,099,411)	2,513
Balance at end of period	11,338,529	(19,073)	8,087,020	(10,541)
Accumulated other comprehensive loss				
Balance at beginning of period		(76,660)		(12,523)
Other comprehensive income (loss), net of taxes		22,286		(59,751)
Balance at end of period		(54,374)		(72,274)
Total shareholders' equity		856,397		805,913

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 nine month period ended	
	30 September 2014	30 September 2013
Cash flows from operating activities		
Net income	**73,473**	67,769
Adjustments to reconcile net income to operating cash flows		
Depreciation and amortisation	**34,493**	34,100
(Decrease) increase in carrying value of investments in affiliates	**(571)**	(282)
Share-based payments and settlements	**5,504**	5,138
Realised gains on legal settlement	**-**	(13,108)
Net gain on sales of affiliates	**(257)**	(807)
Net realised / unrealised losses on other real estate owned	**1,071**	723
Net realised gains on available for sale investments	**(8,697)**	(60)
Provision for credit losses	**8,045**	11,487
Changes in operating assets and liabilities		
Decrease in accrued interest receivable	**376**	2,503
(Increase) decrease in other assets	**(32,689)**	2,768
Increase in accrued interest payable	**1,223**	401
Increase (decrease) in other liabilities and employee future benefits	**20,216**	(40,921)
	102,187	69,711
Net change in trading investments	**46,571**	8,240
Cash provided by operating activities from operations	**148,758**	77,951
Cash flows from investing activities		
Net increase in short-term investments	**(134,007)**	(19,091)
Net proceeds on sale of affiliate	**691**	428
Purchase of subsidiary	**(35,345)**	-
Net proceeds on sale of subsidiary	**-**	379
Proceeds from legal settlement	**-**	13,108
Net additions to premises, equipment and computer software	**(4,239)**	(13,571)
Proceeds from other real estate owned	**11,146**	5,413
Net decrease (increase) in loans	**61,366**	(144,068)
Held to maturity investments: proceeds from pay downs	**8,740**	16,178
Held to maturity investments: purchases	**-**	(114,630)
Available for sale investments: proceeds from sale	**80,578**	479,621
Available for sale investments: proceeds from maturities and pay downs	**544,169**	865,967
Available for sale investments: purchases	**(1,000,636)**	(1,020,673)
Cash (used in) provided by investing activities	**(467,537)**	69,061
Cash flows from financing activities		
Net increase in demand and term deposit liabilities	**202,780**	607,533
Net decrease in securities sold under agreement to repurchase	**(1,756)**	(47,938)
Repayment of subordinated capital	**(90,000)**	(53,000)
Common shares repurchased	**(13,004)**	(4,437)
Preference shares repurchased	**(579)**	(14,201)
Proceeds from stock option exercise	**528**	117
Cash dividends paid on preference shares	**(11,011)**	(11,462)
Cash dividends paid on common and contingent value convertible preference shares	**(21,991)**	(33,046)
Preference shares guarantee fee paid	**(1,371)**	(1,434)
Cash provided by financing activities	**63,596**	442,132
Net effect of exchange rates on cash and cash equivalents	**(12,248)**	(5,168)
Net (decrease) increase in cash and cash equivalents	**(267,431)**	583,976
Cash and cash equivalents at beginning of the period	**1,730,472**	1,542,526
Cash and cash equivalents at end of the period	**1,463,041**	2,126,502
Non-cash item		
Transfer to other real estate owned	**1,970**	4,051

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

Note 1: Nature of Business

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

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

Note 2: Significant Accounting Policies

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 nine month period ended 30 September 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.

• Revenue recognition

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

(In thousands of Bermuda dollars, except otherwise stated)

Note 3: Cash and Cash Equivalents

	30 September 2014			31 December 2013		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Non-interest earning						
Cash and demand deposits	43,389	101,190	144,579	69,948	90,767	160,715
Interest earning						
Demand deposits	228,176	123,383	351,559	86,429	163,980	250,409
Cash equivalents	380,177	586,726	966,903	407,052	912,296	1,319,348
Sub-total - Interest earning	608,353	710,109	1,318,462	493,481	1,076,276	1,569,757
Total cash and cash equivalents	651,742	811,299	1,463,041	563,429	1,167,043	1,730,472

Note 4: Short-Term Investments

	30 September 2014			31 December 2013		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Term deposits maturing within three months	-	30,924	30,924	-	35,420	35,420
Term deposits and Treasury Bills maturing between three to six months	-	123,624	123,624	-	6,884	6,884
Term deposits maturing between six to twelve months	-	15,273	15,273	-	3,721	3,721
Total unrestricted short-term investments	-	169,821	169,821	-	46,025	46,025
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Interest earning demand deposits	14,774	1,721	16,495	8,842	114	8,956
Total short-term investments	14,774	171,542	186,316	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:

	30 September 2014				31 December 2013			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value
Trading								
Debt securities issued by non-US governments	-	-	-	-	3,000	546	-	3,546
Mutual funds	6,778	1,018	(903)	6,893	49,799	990	(1,007)	49,782
Total Trading	6,778	1,018	(903)	6,893	52,799	1,536	(1,007)	53,328

	30 September 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	145,916	93	-	146,009	83,789	794	(12)	84,571
US government and federal agencies	1,736,834	12,657	(25,883)	1,723,608	1,390,987	9,382	(52,789)	1,347,580
Debt securities issued by non-US governments	94,026	466	(7)	94,485	88,298	184	(28)	88,454
Corporate debt securities	392,112	11,674	(1,876)	401,910	402,921	15,888	(3,405)	415,404
Asset-backed securities - Student loans	71,672	-	(1,926)	69,746	85,980	-	(2,801)	83,179
Commercial mortgage backed securities	154,498	31	(5,933)	148,596	155,374	-	(12,485)	142,889
Residential mortgage backed securities - Prime	30,091	7	(669)	29,429	32,917	-	(2,080)	30,837
Pass-through note	-	-	-	-	26,791	7,216	-	34,007
Total available for sale	2,625,149	24,928	(36,294)	2,613,783	2,267,057	33,464	(73,600)	2,226,921

(In thousands of Bermuda dollars, except otherwise stated)

	30 September 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	324,032	2,155	(4,229)	321,958	333,394	91	(17,951)	315,534
Total held to maturity	324,032	2,155	(4,229)	321,958	333,394	91	(17,951)	315,534

[1] For the periods ended 30 September 2014 and 31 December 2013 non-credit impairments recognised in AOCL for held to maturity investments were $nil.

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 30 September 2014, US government and federal agency investment securities with an amortised cost of $474.6 million (31 December 2013: $363.8 million) and fair value of $469.2 million (31 December 2013: $350.7 million) were pledged.

As at 30 September 2014, US government and federal agency investment securities with an amortised cost of $23.9 million (31 December 2013: $25.2 million) and fair market value of $25.2 million (31 December 2013: $25.8 million) were pledged to collateralise repurchase agreements maturing within 90 days.

Pledged HTM investments

As at 30 September 2014, US government and federal agency investment securities with an amortised cost of $125.6 million (31 December 2013: $83.0 million) and fair market value of $125.1 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.

30 September 2014	Less than 12 months		12 months or more			
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses	Total fair value	Total gross unrealised losses
Available for sale						
Certificates of deposit	4,052	-	-	-	4,052	-
US government and federal agencies	367,874	(981)	638,349	(24,902)	1,006,223	(25,883)
Debt securities issued by non-US governments	55,070	(7)	-	-	55,070	(7)
Corporate debt securities	-	-	38,124	(1,876)	38,124	(1,876)
Asset-backed securities - Student loans	-	-	69,746	(1,926)	69,746	(1,926)
Commercial mortgage backed securities	-	-	147,639	(5,933)	147,639	(5,933)
Residential mortgage backed securities - Prime	-	-	22,423	(669)	22,423	(669)
Total available for sale securities with unrealised losses	426,996	(988)	916,281	(35,306)	1,343,277	(36,294)
Held to maturity						
US government and federal agencies	-	-	227,127	(4,229)	227,127	(4,229)
Total held to maturity securities with unrealised losses	-	-	227,127	(4,229)	227,127	(4,229)

31 December 2013	Less than 12 months		12 months or more			
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses	Total fair value	Total gross unrealised losses
Available for sale						
Certificates of deposit	50,464	(12)	-	-	50,464	(12)
US government and federal agencies	831,493	(45,956)	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 30 September 2014, which was comprised of 94 securities, or, 54% of the portfolio by market value, represent an other-than-temporary impairment. Total gross unrealised losses were 2.6% 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 30 September 2014, gross unrealised losses on securities related to United States ("US") government and federal agencies were $30.1 million (31 December 2013: $70.7 million) of which $1.0 million has been in an unrealised loss position for less than 12 months and $29.1 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 30 September 2014, gross unrealised losses on corporate debt securities were $1.9 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 unrealised loss position is a result of interest rate movements.

• Asset-backed securities − Student loans

As at 30 September 2014, gross unrealised losses on student loan asset-backed securities were $1.9 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 30 September 2014, gross unrealised losses on commercial mortgage backed securities were $5.9 million (31 December 2013: $12.5 million) all of which 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 30 September 2014, gross unrealised losses on prime residential mortgage backed securities were $0.7 million respectively (31 December 2013: $2.1 million) all of which has been in an unrealised loss position for greater 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.

30 September 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							
Mutual funds	-	-	-	-	-	6,893	6,893
Total trading	-	-	-	-	-	6,893	6,893
Available for sale							
Certificates of deposit	106,932	39,077	-	-	-	-	146,009
US government and federal agencies	-	24,951	131,059	341,660	1,225,938	-	1,723,608
Debt securities issued by non-US governments	42,807	13,630	11,785	26,263	-	-	94,485
Corporate debt securities	-	78,479	285,291	38,124	-	16	401,910
Asset-backed securities - Student loans	-	-	58,151	-	11,595	-	69,746
Commercial mortgage backed securities	-	-	-	34,843	113,753	-	148,596
Residential mortgage backed securities - Prime	-	-	-	7,006	22,423	-	29,429
Total available for sale	149,739	156,137	486,286	447,896	1,373,709	16	2,613,783
Held to maturity							
US government and federal agencies	-	-	-	49,534	274,498	-	324,032
Total held to maturity	-	-	-	49,534	274,498	-	324,032
Total investments	149,739	156,137	486,286	497,430	1,648,207	6,909	2,944,708
Total by currency							
US dollars	683	109,111	486,286	474,613	1,648,207	6,018	2,724,918
Other	149,056	47,026	-	22,817	-	891	219,790
Total investments	149,739	156,137	486,286	497,430	1,648,207	6,909	2,944,708

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

(In thousands of Bermuda dollars, except otherwise stated)

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

During the nine months ended 30 September 2014, the Bank disposed of:

- Pass-through note totalling $34.4 million in sale proceeds, resulting in a gross realised gain of $8.7 million.
- US agency securities totalling $46.2 million in sale proceeds, resulting in a gross realised loss of $nil.

During the nine months ended 30 September 2013, the Bank disposed of:

- US agency securities totalling $128.7 million in sale proceeds, resulting in gross realised gains of $0.3 million and gross realized losses of $0.6 million;
- Certificates of deposit totalling $241.1 million in sale proceeds, resulting in gross realised gains of $0.1 million;
- Corporate bonds totalling $66.2 million in sale proceeds, resulting in gross realised gains of $0.5 million; and
- Asset-backed securities totalling $43.6 million is sale proceeds, resulting in gross realized losses of $0.2 million.

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:

	30 September 2014			31 December 2013		
	Bermuda	**Non-Bermuda**	**Total**	Bermuda	Non-Bermuda	Total
Commercial loans						
Government	**66,562**	**15,000**	**81,562**	65,725	15,000	80,725
Commercial and industrial	**137,073**	**265,982**	**403,055**	129,865	270,808	400,673
Commercial overdrafts	**57,025**	**10,832**	**67,857**	57,851	8,083	65,934
Total commercial loans	**260,660**	**291,814**	**552,474**	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	**260,408**	**291,581**	**551,989**	253,201	293,658	546,859
Commercial real estate loans						
Commercial mortgage	**425,993**	**313,170**	**739,163**	417,112	343,958	761,070
Construction	**-**	**9,245**	**9,245**	-	2,040	2,040
Total commercial real estate loans	**425,993**	**322,415**	**748,408**	417,112	345,998	763,110
Less specific allowance for credit losses on commercial real estate loans	**(610)**	**(1,143)**	**(1,753)**	(5,123)	-	(5,123)
Total commercial real estate loans after specific allowance for credit losses	**425,383**	**321,272**	**746,655**	411,989	345,998	757,987
Consumer loans						
Automobile financing	**13,570**	**7,143**	**20,713**	15,618	6,654	22,272
Credit card	**59,766**	**17,354**	**77,120**	60,846	16,149	76,995
Overdrafts	**10,173**	**11,148**	**21,321**	10,079	6,311	16,390
Other consumer	**49,379**	**108,051**	**157,430**	47,396	117,960	165,356
Total consumer loans	**132,888**	**143,696**	**276,584**	133,939	147,074	281,013
Less specific allowance for credit losses on consumer loans	**(355)**	**-**	**(355)**	(160)	-	(160)
Total consumer loans after specific allowance for credit losses	**132,533**	**143,696**	**276,229**	133,779	147,074	280,853
Residential mortgage loans	**1,282,381**	**1,186,027**	**2,468,408**	1,309,605	1,239,920	2,549,525
Less specific allowance for credit losses on residential mortgage loans	**(14,721)**	**(1,448)**	**(16,169)**	(13,225)	(3,070)	(16,295)
Total residential mortgage loans after specific allowance for credit losses	**1,267,660**	**1,184,579**	**2,452,239**	1,296,380	1,236,850	2,533,230
Total gross loans	**2,101,922**	**1,943,952**	**4,045,874**	2,114,097	2,026,883	4,140,980
Less specific allowance for credit losses	**(15,938)**	**(2,824)**	**(18,762)**	(18,748)	(3,303)	(22,051)
Less general allowance for credit losses	**(20,291)**	**(10,003)**	**(30,294)**	(20,440)	(10,264)	(30,704)
Net loans	**2,065,693**	**1,931,125**	**3,996,818**	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 30 September 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.

30 September 2014	30 - 59 days	60 - 89 days	90 days or more	Total past due loans	Total current[1]	Total loans
Commercial loans						
Government	-	-	-	-	81,562	81,562
Commercial and industrial	91	60	872	1,023	402,032	403,055
Commercial overdrafts	2	-	121	123	67,734	67,857
Total commercial loans	93	60	993	1,146	551,328	552,474
Commercial real estate loans						
Commercial mortgage	-	-	9,080	9,080	730,083	739,163
Construction	-	-	-	-	9,245	9,245
Total commercial real estate loans	-	-	9,080	9,080	739,328	748,408
Consumer loans						
Automobile financing	93	110	308	511	20,202	20,713
Credit card	817	240	251	1,308	75,812	77,120
Overdrafts	41	-	96	137	21,184	21,321
Other consumer	661	333	1,266	2,260	155,170	157,430
Total consumer loans	1,612	683	1,921	4,216	272,368	276,584
Residential mortgage loans	28,815	11,126	72,733	112,674	2,355,734	2,468,408
Total loans	30,520	11,869	84,727	127,116	3,918,758	4,045,874

[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:

	30 September 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	872	-	872	520	9	529
Commercial overdrafts	158	2	160	472	132	604
Total commercial loans	1,030	2	1,032	992	141	1,133
Commercial real estate loans						
Commercial mortgage	13,469	-	13,469	41,236	1,722	42,958
Construction	1,131	-	1,131	-	-	-
Total commercial real estate loans	14,600	-	14,600	41,236	1,722	42,958
Consumer loans						
Automobile financing	342	-	342	437	8	445
Credit card	71	180	251	69	432	501
Overdrafts	119	1	120	221	37	258
Other consumer	1,443	23	1,466	1,951	283	2,234
Total consumer loans	1,975	204	2,179	2,678	760	3,438
Residential mortgage loans	52,532	23,177	75,709	59,166	9,938	69,104
Total non-performing loans	70,137	23,383	93,520	104,072	12,561	116,633

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

30 September 2014	Pass	Special Mention	Substandard	Non-Accrual	Total gross recorded investments
Commercial loans					
Government	66,562	15,000	-	-	81,562
Commercial and industrial	398,039	2,333	1,811	872	403,055
Commercial overdrafts	56,954	10,340	405	158	67,857
Total commercial loans	521,555	27,673	2,216	1,030	552,474
Commercial real estate loans					
Commercial mortgage	562,634	98,644	64,416	13,469	739,163
Construction	8,114	-	-	1,131	9,245
Total commercial real estate loans	570,748	98,644	64,416	14,600	748,408
Consumer loans					
Automobile financing	19,738	633	-	342	20,713
Credit card	76,869	-	180	71	77,120
Overdrafts	17,355	3,756	91	119	21,321
Other consumer	153,769	2,076	142	1,443	157,430
Total consumer loans	267,731	6,465	413	1,975	276,584
Residential mortgage loans	2,295,763	59,056	61,057	52,532	2,468,408
Total gross recorded loans	3,655,797	191,838	128,102	70,137	4,045,874

(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:

	30 September 2014		31 December 2013	
	Individually evaluated	**Collectively evaluated**	Individually evaluated	Collectively evaluated
Commercial	**1,030**	**551,444**	2,642	544,690
Commercial real estate	**36,358**	**712,050**	63,264	699,846
Consumer	**2,076**	**274,508**	2,793	278,220
Residential mortgage	**69,973**	**2,398,435**	66,408	2,483,117
Total gross loans evaluated for impairment	**109,437**	**3,936,437**	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:

	30 September 2014					31 December 2013
	Commercial	Commercial Real Estate	Consumer	Residential Mortgage	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	478	2,946	(611)	5,232	8,045	14,825
Recoveries	84	-	1,649	90	1,823	5,826
Charge-offs	(606)	(6,585)	(1,505)	(4,796)	(13,492)	(23,706)
Other	(8)	(36)	(16)	(15)	(75)	(147)
Allowances at end of period	8,288	6,141	2,959	31,668	49,056	52,755
Ending Balance: individually evaluated for impairment	485	1,753	355	16,169	18,762	22,051
Ending Balance: collectively evaluated for impairment	7,803	4,388	2,604	15,499	30,294	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 nine month period ending 30 September 2014, the amount of gross interest income would have been recorded had impaired loans been current was $3.5 million (30 September 2013: $5.0 million). The table below present information about the Bank's impaired loans:

30 September 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	717	(485)	232	155	872	(485)	387
Commercial overdrafts	-	-	-	158	158	-	158
Total commercial loans	717	(485)	232	313	1,030	(485)	545
Commercial real estate loans							
Commercial mortgage	6,011	(1,558)	4,453	29,216	35,227	(1,558)	33,669
Construction	1,131	(195)	936	-	1,131	(195)	936
Total commercial real estate loans	7,142	(1,753)	5,389	29,216	36,358	(1,753)	34,605
Consumer loans							
Automobile financing	192	(75)	117	150	342	(75)	267
Credit card	-	-	-	71	71	-	71
Overdrafts	-	-	-	119	119	-	119
Other consumer	327	(280)	47	1,217	1,544	(280)	1,264
Total consumer loans	519	(355)	164	1,557	2,076	(355)	1,721
Residential mortgage loans	43,524	(16,169)	27,355	26,449	69,973	(16,169)	53,804
Total impaired loans	51,902	(18,762)	33,140	57,535	109,437	(18,762)	90,675

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:

	30 September 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	**1,521**	**-**	3,744	97
Commercial overdrafts	**315**	**-**	382	-
Total commercial loans	**1,836**	**-**	4,126	97
Commercial real estate loans				
Commercial mortgage	**49,246**	**596**	64,002	256
Construction	**566**	**-**	-	-
Total commercial real estate loans	**49,812**	**596**	64,002	256
Consumer loans				
Automobile financing	**390**	**-**	509	-
Credit card	**70**	**-**	35	-
Overdrafts	**170**	**-**	219	-
Other consumer	**1,805**	**-**	2,025	4
Total consumer loans	**2,435**	**-**	2,788	4
Residential mortgage loans	**68,191**	**599**	63,159	386
Total impaired loans	**122,274**	**1,195**	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	
30 September 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 real estate loans	**8**	**27,687**	**35,270**	**35,419**	**-**	**149**
Consumer loans	**1**	**101**	**115**	**115**	**-**	**-**
Residential mortgage loans	**34**	**23,561**	**23,318**	**23,815**	**-**	**497**
Total loans modified in a TDR	**43**	**51,349**	**58,703**	**59,349**	**-**	**646**

[1]The total recorded investment is comprised of $12.0 million of non-accrual loans and $39.3 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

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

For the period ended 30 September 2014, the Bank has no loans modified in a TDR that subsequently defaulted (i.e. 90 days or more past due following a modification).

(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.

	30 September 2014			31 December 2013		
	Loans	**Off-balance sheet**	**Total credit exposure**	Loans	Off-balance sheet	Total credit exposure
Banks and financial services	**304,315**	**358,919**	**663,234**	358,079	367,162	725,241
Commercial and merchandising	**275,794**	**105,100**	**380,894**	258,693	129,698	388,391
Governments	**77,301**	**273**	**77,574**	75,780	4,767	80,547
Individuals	**2,433,149**	**76,615**	**2,509,764**	2,473,662	97,184	2,570,846
Primary industry and manufacturing	**72,432**	**-**	**72,432**	57,001	-	57,001
Real estate	**757,130**	**24,105**	**781,235**	789,259	9,849	799,108
Hospitality industry	**100,664**	**-**	**100,664**	100,019	-	100,019
Transport and communication	**6,327**	**-**	**6,327**	6,436	-	6,436
Sub-total	**4,027,112**	**565,012**	**4,592,124**	4,118,929	608,660	4,727,589
General allowance	**(30,294)**	**-**	**(30,294)**	(30,704)	-	(30,704)
Total	**3,996,818**	**565,012**	**4,561,830**	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.

	30 September 2014				31 December 2013			
	Cash and cash equivalents and short-term investments	**Loans**	**Off-balance sheet**	**Total credit exposure**	Cash and cash equivalents and short-term investments	Loans	Off-balance sheet	Total credit exposure
Australia	**116,345**	**-**	**-**	**116,345**	9,936	-	-	9,936
Bermuda	**266,875**	**2,299,561**	**254,319**	**2,820,755**	162,371	2,331,616	301,603	2,795,590
Canada	**36,815**	**-**	**-**	**36,815**	47,111	-	-	47,111
Cayman	**24,622**	**621,303**	**184,014**	**829,939**	85,959	589,807	179,367	855,133
Germany	**16,209**	**-**	**-**	**16,209**	2,617	-	-	2,617
Guernsey	**1,722**	**540,795**	**101,531**	**644,048**	1	563,669	84,493	648,163
Japan	**22,228**	**-**	**-**	**22,228**	4,142	-	-	4,142
The Bahamas	**4,113**	**31,972**	**-**	**36,085**	4,932	39,990	-	44,922
United Kingdom	**620,010**	**533,481**	**25,148**	**1,178,639**	983,609	593,847	43,197	1,620,653
United States	**533,021**	**-**	**-**	**533,021**	474,943	-	-	474,943
Other	**7,397**	**-**	**-**	**7,397**	9,832	-	-	9,832
Sub-total	**1,649,357**	**4,027,112**	**565,012**	**6,241,481**	1,785,453	4,118,929	608,660	6,513,042
General allowance	**-**	**(30,294)**	**-**	**(30,294)**	-	(30,704)	-	(30,704)
Total	**1,649,357**	**3,996,818**	**565,012**	**6,211,187**	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	30 September 2014			31 December 2013		
	Customers	Banks	Total	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	1,334,502	688	1,335,190	1,012,973	385	1,013,358
Demand deposits - Interest bearing	4,480,291	16,203	4,496,494	4,631,149	11,701	4,642,850
Sub-total - demand deposits	5,814,793	16,891	5,831,684	5,644,122	12,086	5,656,208
Term deposits having a denomination of less than $100,000						
Term deposits maturing within six months	61,391	-	61,391	51,118	-	51,118
Term deposits maturing between six to twelve months	15,464	-	15,464	16,392	-	16,392
Term deposits maturing after twelve months	18,026	-	18,026	18,205	-	18,205
Sub-total - term deposits having a denomination of less than $100,000	94,881	-	94,881	85,715	-	85,715
Term deposits having a denomination of $100,000 or more						
Term deposits maturing within six months	1,524,894	18,619	1,543,513	1,576,273	16,150	1,592,423
Term deposits maturing between six to twelve months	225,538	3,617	229,155	94,802	11,986	106,788
Term deposits maturing after twelve months	102,888	2,098	104,986	196,817	-	196,817
Sub-total - term deposits having a denomination of $100,000 or more	1,853,320	24,334	1,877,654	1,867,892	28,136	1,896,028
Sub-total - term deposits	1,948,201	24,334	1,972,535	1,953,607	28,136	1,981,743
Total	7,762,994	41,225	7,804,219	7,597,729	40,222	7,637,951

By Type and Segment	30 September 2014			31 December 2013		
	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	2,866,008	986,210	3,852,218	2,532,572	1,018,417	3,550,989
Banks	688	-	688	494	1,036	1,530
Cayman						
Customers	1,514,573	413,249	1,927,822	1,677,092	394,338	2,071,430
Banks	14,897	24,334	39,231	10,627	27,100	37,727
Guernsey						
Customers	1,109,351	166,287	1,275,638	1,085,862	204,646	1,290,508
Banks	1,299	-	1,299	965	-	965
The Bahamas						
Customers	62,107	8,995	71,102	68,257	9,980	78,237
United Kingdom						
Customers	262,754	373,460	636,214	280,339	326,226	606,565
Banks	7	-	7	-	-	-
Total Customers	5,814,793	1,948,201	7,762,994	5,644,122	1,953,607	7,597,729
Total Banks	16,891	24,334	41,225	12,086	28,136	40,222
Total	5,831,684	1,972,535	7,804,219	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 ended		For the nine month period ended	
	30 September 2014	30 September 2013	**30 September 2014**	30 September 2013
Defined benefit pension expense				
Service cost	**390**	388	**1,221**	1,149
Interest cost	**2,363**	1,705	**5,473**	5,187
Expected return on plan assets	**(3,762)**	(2,286)	**(7,753)**	(6,824)
Amortisation of net actuarial loss (gain)	**271**	352	**820**	1,056
Total defined benefit pension (income) expense	**(738)**	159	**(239)**	568
Post-retirement medical benefit expense				
Service cost	**206**	261	**619**	782
Interest cost	**1,125**	1,063	**3,377**	3,190
Amortisation of net actuarial loss	**231**	606	**692**	1,819
Amortisation of past service cost	**(1,680)**	(1,679)	**(5,040)**	(5,039)
Total post-retirement medical benefit (income) expense	**(118)**	251	**(352)**	752

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

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

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:

	30 September 2014			31 December 2013		
	Gross	**Collateral**	**Net**	Gross	Collateral	Net
Standby letters of credit	**271,875**	**270,185**	**1,690**	294,572	292,204	2,368
Letters of guarantee	**11,119**	**8,891**	**2,228**	12,391	9,088	3,303
Total	**282,994**	**279,076**	**3,918**	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.

(In thousands of Bermuda dollars, except otherwise stated)

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

	30 September 2014	31 December 2013
Commitments to extend credit	**279,799**	299,062
Documentary and commercial letters of credit	**2,219**	2,635
Total unfunded commitments to extend credit	**282,018**	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 30 September 2014, $144.4 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 in the aggregate not be material to the consolidated financial position of the Bank.

Note 11: Segmented Information

As at 30 September 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.

	30 September 2014	31 December 2013
Total Assets by Segment		
Bermuda	**4,809,235**	4,624,281
Cayman	**2,205,622**	2,309,380
Guernsey	**1,424,317**	1,437,873
Switzerland	**2,454**	2,206
The Bahamas	**81,160**	91,758
United Kingdom	**858,987**	828,295
Total assets before inter-segment eliminations	**9,381,775**	9,293,793
Less: inter-segment eliminations	**(370,206)**	(422,978)
Total	**9,011,569**	8,870,815

(In thousands of Bermuda dollars, except otherwise stated)

For the three month period ending 30 September 2014	Net interest income: Customer	Net interest income: Inter- segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses and central allocations	Gains and losses	Net income
Bermuda	35,022	916	(361)	15,242	50,819	36,280	14,539	(1,655)	12,884
Cayman	14,828	223	(469)	7,987	22,569	14,462	8,107	(33)	8,074
Guernsey	4,692	(418)	(3)	6,976	11,247	10,005	1,242	(8)	1,234
Switzerland	-	-	-	640	640	737	(97)	-	(97)
The Bahamas	(4)	43	-	1,319	1,358	1,341	17	-	17
United Kingdom	6,079	(764)	(596)	1,820	6,539	5,885	654	-	654
Total before eliminations	60,617	-	(1,429)	33,984	93,172	68,710	24,462	(1,696)	22,766
Add / (deduct): inter-segment eliminations	-	-	-	(468)	(468)	(468)	-	-	-
Total	60,617	-	(1,429)	33,516	92,704	68,242	24,462	(1,696)	22,766

For the three month period ending 30 September 2013	Net interest income: Customer	Net interest income: Inter-segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses and central allocations	Gains and losses	Net income
Bermuda	34,987	361	(2,224)	15,456	48,580	38,455	10,125	897	11,022
Cayman	13,683	315	(1,266)	7,934	20,666	13,334	7,332	404	7,736
Guernsey	4,969	1	(117)	4,658	9,511	7,736	1,775	(253)	1,522
Switzerland	-	-	-	394	394	592	(198)	-	(198)
The Bahamas	1	43	-	1,320	1,364	1,017	347	-	347
United Kingdom	5,006	(720)	(47)	1,686	5,925	4,812	1,113	17	1,130
Total before eliminations	58,646	-	(3,654)	31,448	86,440	65,946	20,494	1,065	21,559
Add / (deduct): inter-segment eliminations	-	-	-	(402)	(402)	(402)	-	-	-
Total	58,646	-	(3,654)	31,046	86,038	65,544	20,494	1,065	21,559

For the nine month period ended 30 September 2014	Net interest income: Customer	Net interest income: Inter-segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses and central allocations	Gains and losses	Net income
Bermuda	105,248	2,188	(6,356)	45,500	146,580	110,327	36,253	8,530	44,783
Cayman	42,834	785	(615)	24,572	67,576	43,334	24,242	225	24,467
Guernsey	14,635	(839)	(86)	19,477	33,187	30,177	3,010	(8)	3,002
Switzerland	-	-	-	1,860	1,860	2,153	(293)	-	(293)
The Bahamas	(16)	137	-	4,169	4,290	4,076	214	-	214
United Kingdom	15,335	(2,271)	(988)	6,003	18,079	16,779	1,300	-	1,300
Total before eliminations	178,036	-	(8,045)	101,581	271,572	206,846	64,726	8,747	73,473
Add / (deduct): inter-segment eliminations	-	-	-	(1,423)	(1,423)	(1,423)	-	-	-
Total	178,036	-	(8,045)	100,158	270,149	205,423	64,726	8,747	73,473

(In thousands of Bermuda dollars, except otherwise stated)

For the nine month period ended 30 September 2013	Net interest income: Customer	Net interest income: Inter-segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses and central allocations	Gains and losses	Net income
Bermuda	100,760	1,114	(8,867)	44,270	137,277	111,387	25,890	14,188	40,078
Cayman	37,429	887	(2,117)	24,119	60,318	40,877	19,441	(492)	18,949
Guernsey	14,709	3	(146)	14,269	28,835	22,950	5,885	(253)	5,632
Switzerland	-	-	-	1,182	1,182	1,767	(585)	-	(585)
The Bahamas	36	97	58	4,237	4,428	3,579	849	-	849
United Kingdom	12,957	(2,101)	(415)	5,030	15,471	13,288	2,183	178	2,361
Total before eliminations	165,891	-	(11,487)	93,107	247,511	193,848	53,663	13,621	67,284
Add / (deduct): inter-segment eliminations	-	-	-	(885)	(885)	(885)	-	485	485
Total	165,891	-	(11,487)	92,222	246,626	192,963	53,663	14,106	67,769

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.

(In thousands of Bermuda dollars, except otherwise stated)

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.

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

30 September 2014	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk Management Derivatives					
Net investment hedges	Currency swaps	114,759	-	(6,906)	(6,906)
Derivatives not formally designated as hedging instruments	Currency swaps	31,407	-	(276)	(276)
Subtotal risk management derivatives		146,166	-	(7,182)	(7,182)
Client Services Derivatives	Spot and forward foreign exchange	3,002,774	26,317	(25,426)	891
Total derivative instruments		3,148,940	26,317	(32,608)	(6,291)

(In thousands of Bermuda dollars, except otherwise stated)

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

In addition to the above, foreign denominated deposits, totaling $16.3 million at 30 September 2014 (31 December 2013: $nil), were designated as a hedge of foreign exchange risk associated with the net investment in foreign operations.

The "Net amounts offset in consolidated balance sheet" column within the following table represents the aggregate of our net exposure to each counterparty after considering the balance sheet 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.

30 September 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	**25,031**	**(2,473)**	**22,558**	**3,594**	**26,152**	**-**	**26,152**
Derivative liabilities							
Spot and forward foreign exchange and Currency swaps	**3,591**	**(32,913)**	**(29,322)**	**(3,121)**	**(32,443)**	**14,220**	**(18,223)**
Total derivative instruments			**(6,764)**		**(6,291)**		**7,929**

31 December 2013	Gross amounts recognised	Gross amounts offset in consolidated balance sheet	Net amounts offset in consolidated balance sheet	Gross amounts not offset in consolidated balance sheet	Net amounts in consolidated balance sheet	Collateral pledged	Amounts net of collateral in consolidated balance sheet
Derivative assets							
Spot and forward foreign exchange and Currency swaps	11,075	(3,362)	7,713	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 30 September 2014 and 2013.

		For the three month period ending		For the nine month period ending	
Derivative Instrument	**Consolidated Statement of Operations line item**	**30 September 2014**	30 September 2013	**30 September 2014**	30 September 2013
Interest rate swaps	Net other gains	**-**	12	**-**	85
Spot and forward foreign exchange	Foreign exchange revenue	**514**	924	**(205)**	1,395
Total net gains recognised in net income		**514**	936	**(205)**	1,480

(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

	30 September 2014 Fair value				31 December 2013 Fair value			
	Level 1	Level 2	Level 3	Total carrying amount / Fair value	Level 1	Level 2	Level 3	Total carrying amount / Fair value
Financial assets								
Trading investments								
Debt securities issued by non-US governments	-	-	-	-	-	3,546	-	3,546
Mutual funds	-	6,893	-	6,893	5,842	43,940	-	49,782
Total trading	-	6,893	-	6,893	5,842	47,486	-	53,328
Available for sale investments								
Certificates of deposit	-	146,009	-	146,009	-	84,571	-	84,571
US government and federal agencies	-	1,723,608	-	1,723,608	-	1,347,580	-	1,347,580
Debt securities issued by non-US governments	-	94,485	-	94,485	-	88,454	-	88,454
Corporate debt securities	-	401,910	-	401,910	-	415,404	-	415,404
Asset-backed securities - Student loans	-	58,150	11,596	69,746	-	71,882	11,297	83,179
Commercial mortgage backed securities	-	148,596	-	148,596	-	142,889	-	142,889
Residential mortgage backed securities - Prime	-	29,429	-	29,429	-	30,837	-	30,837
Pass-through note	-	-	-	-	-	-	34,007	34,007
Total available for sale	-	2,602,187	11,596	2,613,783	-	2,181,617	45,304	2,226,921
Other assets - Derivatives	-	26,317	-	26,317	-	11,246	-	11,246
Financial liabilities								
Other liabilities - Derivatives	-	(32,608)	-	(32,608)	-	(29,552)	-	(29,552)

There were no transfers between Level 1 and Level 2 during the years ended 30 September 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	30 September 2014
Asset-backed securities - Student loans	Unadjusted third party priced	11,596

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.

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	30 September 2014		30 September 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	(36,439)	-	(4,442)	(4,111)
Accretion recognised in net income	915	-	-	-
Realised and unrealised gains (losses) recognised in other comprehensive income	(6,917)	-	7,711	-
Realised and unrealised gains (losses) recognised in net income	8,733	-	1,456	-
Foreign exchange translation adjustment	-	-	-	(286)
Carrying amount at end of period	11,596	-	46,535	-

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

	30 September 2014 Fair value				31 December 2013 Fair value			
	Level 1	Level 2	Level 3	Total carrying amount / Fair value	Level 1	Level 2	Level 3	Total carrying amount / Fair value
Other real estate owned	-	17,161	-	17,161	-	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

		30 September 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	1,463,041	1,463,041	-	1,730,472	1,730,472	-
Short-term investments	Level 1	186,316	186,316	-	54,981	54,981	-
Investments held to maturity	Level 2	324,032	321,958	(2,074)	333,394	315,534	(17,860)
Loans, net of allowance for credit losses	Level 2	3,996,818	3,990,976	(5,842)	4,088,225	4,082,741	(5,484)
Financial liabilities							
Customer deposits							
Demand deposits	Level 2	5,814,793	5,814,793	-	5,644,122	5,644,122	-
Term deposits	Level 2	1,948,201	1,949,667	(1,466)	1,953,607	1,955,096	(1,489)
Deposits from banks	Level 2	41,225	41,225	-	40,222	40,222	-
Securities sold under agreement to repurchase	Level 2	23,779	23,779	-	25,535	25,543	(8)
Subordinated capital	Level 2	117,000	117,223	(223)	207,000	203,521	3,479

All of the held-to-maturity securities held by the Bank as at 30 September 2014 and 31 December 2013 are classified as Level 2 of the fair value hierarchy.

(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.

30 September 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	1,318	-	-	-	-	145	1,463
Short-term investments	47	124	15	-	-	-	186
Investments	507	40	116	558	1,717	7	2,945
Loans	3,428	323	65	98	44	39	3,997
Other assets	-	-	-	-	-	421	421
Total assets	5,300	487	196	656	1,761	612	9,012
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	856	856
Demand deposits	4,422	75	-	-	-	1,334	5,831
Term deposits	1,230	375	245	123	-	-	1,973
Securities sold under agreement to repurchase	24	-	-	-	-	-	24
Other liabilities	-	-	-	-	-	211	211
Subordinated capital	47	-	45	25	-	-	117
Total liabilities and shareholders' equity	5,723	450	290	148	-	2,401	9,012
Interest rate sensitivity gap	(423)	37	(94)	508	1,761	(1,789)	-
Cumulative interest rate sensitivity gap	(423)	(386)	(480)	28	1,789	-	-

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	1,569	-	-	-	-	161	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	5,541	315	55	634	1,661	665	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	(641)	46	(68)	349	1,661	(1,347)	-
Cumulative interest rate sensitivity gap	(641)	(595)	(663)	(314)	1,347	-	-

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 the three month period ended		For the nine month period ended	
	30 September 2014	30 September 2013	**30 September 2014**	30 September 2013
Basic earnings per share	**0.03**	0.03	**0.11**	0.10
Net income	**22,766**	21,559	**73,473**	67,769
Less: Preference dividends declared and guarantee fee	**(4,125)**	(4,163)	**(12,381)**	(12,851)
Less: Premium on preference share buyback	**(53)**	(102)	**(86)**	(2,669)
Net income attributable for common shareholders	**18,588**	17,294	**61,006**	52,249
Weighted average number of common shares issued	**556,933**	556,933	**556,933**	556,933
Weighted average number of common shares held as treasury stock	**(9,859)**	(7,744)	**(8,447)**	(7,350)
Adjusted weighted average number of common shares	**547,074**	549,189	**548,486**	549,583
Diluted earnings per share	**0.03**	0.03	**0.11**	0.09
Net income attributable for common shareholders	**18,588**	17,294	**61,006**	52,249
Adjusted weighted average number of common shares issued	**547,074**	549,189	**548,486**	549,583
Weighted average number of dilutive share-based awards	**9,434**	4,230	**8,066**	3,947
Adjusted weighted average number of diluted common shares	**556,508**	553,419	**556,552**	553,530

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 nine months ended 30 September 2014, weighted-average options to purchase 31.0 million (30 September 2013: 32.5 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 4.5 million (30 September 2013: 1.1 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 nine months ended 30 September 2014 the weighted-average number of outstanding awards of unvested common shares (see Note 16) was 9.8 million (30 September 2013: 8.5 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 as at 30 September 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 30 September 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 30 September 2014 the Performance Options granted have an aggregate fair value of $9.5 million (30 September 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 nine month period ended 30 September 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	**-**	**(438)**	**(438)**
Forfeited / cancelled	**(371)**	**(1)**	**(372)**
Resignation / Retirement / Redundancy	**-**	**(2)**	**(2)**
Expiration at end of plan life	**(31)**	**-**	**(31)**
Outstanding at the end of the period	**3,590**	**27,367**	**30,957**

For the nine month period ended 30 September 2013

	Number of shares transferable upon exercise (thousands)		
	1997 Stock Option Plan	2010 Stock Option Plan	Total
Outstanding at beginning of period	4,577	28,750	33,327
Exercised	-	(95)	(95)
Forfeited / cancelled	(1)	(229)	(230)
Resignation / Retirement / Redundancy	-	(43)	(43)
Expiration at end of plan life	(436)	-	(436)
Outstanding at the end of the period	4,140	28,383	32,523

(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 nine month period ended	
	30 September 2014	30 September 2013
	Number of shares transferable upon vesting (thousands)	Number of shares transferable upon vesting (thousands)
Outstanding at beginning of period	2,183	1,976
Granted	1,496	1,352
Vested	(999)	(755)
Forfeited / cancelled	-	(8)
Resignation / Retirement / Redundancy	(4)	(395)
Outstanding at the end of the period	2,676	2,170

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 under the Executive Long-Term Incentive Share plans :

	For the nine month period ended	
	30 September 2014	30 September 2013
	Number of shares transferable upon vesting (thousands)	Number of shares transferable upon vesting (thousands)
Outstanding at beginning of period	6,441	5,231
Granted	2,514	3,476
Vested	(1,824)	(900)
Forfeited / cancelled	-	(1,110)
Resignation / Retirement / Redundancy	(23)	(326)
Outstanding at the end of the period	7,108	6,371

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 nine month period ended					
	30 September 2014			30 September 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	974	4,350	5,324	1,267	3,721	4,988
Total share-based compensation	974	4,350	5,324	1,267	3,721	4,988
Share-based settlement plans						
Directors shares and retainers settlement plan			180			150
Total share-based payments			5,504			5,138

(In thousands of Bermuda dollars, except otherwise stated)

The following table presents the unrecognised expense attributable each plan.

	As at	
Unrecognised expense	**30 September 2014**	30 September 2013
2010 Stock Option Plan		
Time Vesting Options	**855**	2,179
Performance Vesting Options	**9,483**	9,480
EDIP	**2,794**	1,912
2011, 2012, 2013 ELTIP		
Time Vesting shares	**238**	960
Performance Vesting shares	**5,798**	4,536
Total unrecognised expense	**19,168**	19,067

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 purchased pursuant to each programme.

Common Share Buy-back Programme

The board of directors approved the 2012 common share buy-back programme on 1 May 2012 with up to six million common shares authorised to be acquired for treasury. On 10 December 2012, the board 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 of 2014, the Board approved, with effect from 1 April 2014, the 2014 common share buy-back programme authorising the purchase of up to 15 million common shares.

Cumulative common share buy-backs as at 30 September is as follows:	For the nine months ended	For the year ended		
	30 September 2014	31 December 2013	31 December 2012	Total
Acquired number of shares (to the nearest 1)	**6,555,547**	4,038,482	7,260,051	17,854,080
Average cost per common share	**1.98**	1.39	1.24	1.55
Total cost (in Bermuda dollars)	**13,004,068**	5,610,907	8,999,061	27,614,036

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.

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

Cumulative preference share buy-backs as at 30 September is as follows:	For the nine months ended	For the year ended		
	30 September 2014	31 December 2013	31 December 2012	Total
Acquired number of shares (to the nearest 1)	**493**	11,972	4,422	16,887
Average cost per preference share	**1,175.07**	1,230.26	1,218.40	1,225.54
Total cost (in Bermuda dollars)	**579,309**	14,728,624	5,387,777	20,695,710

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

(In thousands of Bermuda dollars, 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 nine month period ended:

30 September 2014	**Unrealised losses on translation of net investment in foreign operations**	**Unrealised gains (losses) on available for sale investments**	**Employee future benefits: Pension**	**Employee future benefits: Post-retirement healthcare**	**Employee future benefits: Subtotal - Employee future benefits**	**Total AOCL**
Balance at beginning of period	**(7,632)**	**(40,136)**	**(35,616)**	**6,724**	**(28,892)**	**(76,660)**
Other comprehensive income (loss), net of taxes	**(1,239)**	**28,770**	**(897)**	**(4,348)**	**(5,245)**	**22,286**
Balance at end of period	**(8,871)**	**(11,366)**	**(36,513)**	**2,376**	**(34,137)**	**(54,374)**

30 September 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	(529)	(57,058)	1,056	(3,220)	(2,164)	(59,751)
Balance at end of period	(11,016)	(12,277)	(46,939)	(2,042)	(48,981)	(72,274)

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 ended **30 September 2014**	For the three month period ended 30 September 2013	For the nine month period ended **30 September 2014**	For the nine month period ended 30 September 2013
Net unrealised (loss) gains on translation of net investment in foreign operations adjustments					
Foreign currency translation adjustments		**(9,852)**	11,952	**(3,314)**	(1,484)
Net investment hedge gains (losses)	N/A	**7,436**	(10,162)	**2,075**	955
Net change		**(2,416)**	1,790	**(1,239)**	(529)
Available for sale investment adjustments					
Gross unrealised gains (losses) arising during the period		**(7,174)**	7,463	**37,340**	(56,998)
Reclassification of realised (gains) losses to net income	Net realised gains on available for sale investments	**47**	(4)	**(8,697)**	(60)
Foreign currency translation adjustments of related balances	N/A	**115**	-	**127**	-
Net change		**(7,012)**	7,459	**28,770**	(57,058)
Employee future benefits adjustments					
Net actuarial gain (loss) arising during the year on defined benefit pension	N/A	**(6,633)**	-	**(6,633)**	-
Net actuarial gain arising during the year in relation with the curtailment of a defined benefit pension plan	N/A	**4,592**	-	**4,592**	-
Amortisation of actuarial gains (losses) on defined benefit pension	Salaries and other employee benefits	**271**	352	**820**	1,056
Amortisation of actuarial gains (losses) on post-retirement medical benefit	Salaries and other employee benefits	**231**	606	**692**	1,819
Amortisation of prior period service credit on post-retirement medical benefit	Salaries and other employee benefits	**(1,680)**	(1,679)	**(5,040)**	(5,039)
Change in deferred taxes	N/A	**400**	-	**400**	-
Foreign currency translation adjustments of related balances	N/A	**44**	-	**(76)**	-
Net change		**(2,775)**	(721)	**(5,245)**	(2,164)
Other comprehensive income (loss)		**(12,203)**	8,528	**22,286**	(59,751)

(In thousands of Bermuda dollars, except otherwise stated)

Note 19: Capital Structure

Dividend declared

During the three months ending 30 September 2014, the Bank declared and paid cash dividends totaling $0.01 (2013: $0.01) for each common share and contingent value convertible preference shares on record as of the related record dates. During the three months ending 30 September 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 30 September 2014 and 31 December 2013. The following table sets forth the Bank's capital adequacy in accordance with Basel II framework:

	30 September 2014	31 December 2013
Capital		
Tier 1 capital	**818,085**	823,577
Tier 2 capital	**134,761**	169,221
Total capital	**952,846**	992,798
Weighted Risk Assets		
Total weighted risk assets	**4,115,424**	4,197,744
Capital Ratios (%)		
Tier 1 common	**15.4%**	15.2%
Tier 1 Total	**19.9%**	19.6%
Total Capital	**23.2%**	23.7%

Note 20: Business Combinations

Legis Acquisition

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

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

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

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

(In thousands of Bermuda dollars, except otherwise stated)

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

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

Effective 1 April 2014 the operating results of Legis are included in the consolidated financial statements. For the three and nine month period ended 30 September 2014 net revenue of $2.1 million and $4.3 million, and operating expenses of $1.7 million and $3.2 million from the Legis business are included in the consolidated financial statements.

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

	Post business combination	
For the three month period ended	**30 September 2014**	30 September 2013
Total net revenue	**91,008**	89,188
Total non-interest operating expense (including income tax expense)	**68,242**	67,269
Net income	**22,766**	21,919
For the nine month period ended		
Total net revenue	**281,313**	267,476
Total non-interest operating expense (including income tax expense)	**206,895**	199,525
Net income	**74,418**	67,951

HSBC Acquisition

In July 2014, the Bank announced that it had reached an agreement to acquire parts of HSBC's retail and corporate banking business in the Cayman Islands. The transaction is anticipated to be completed in Q4 2014 at which time total consideration will be determined and management will finalise the detailed purchase price allocation.

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 30 September 2014, related party director loan balances were $59.1 million (30 September 2013: $52.2 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 30 September 2014, $65.5 million was outstanding under this agreement. For the nine month period ending 30 September 2014, $2.1 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 October 2014, the board of directors declared an interim dividend of $0.01 per common and contingent value convertible preference share to be paid on 28 November 2014 to shareholders of record on 14 November 2014.

The Bank has performed an evaluation of subsequent events through to 27 October 2014, the date the financial statements were issued.