FINANCIAL REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2016 | THE BANK OF N.T. BUTTERFIELD & SON LIMITED

Q1 2016

The Bank of N.T. Butterfield & Son Limited
Unaudited Consolidated Financial Statements
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The Bank of N.T. Butterfield & Son Limited
Consolidated Balance Sheets (unaudited)
(In thousands of United States dollars, except share and per share data)

	As at	
	31 March 2016	31 December 2015
Assets		
Cash and demand deposits with banks	**461,132**	489,524
Cash equivalents	**1,312,911**	1,799,366
Cash due from banks	**1,774,043**	2,288,890
Short-term investments	**425,229**	409,482
Investment in securities		
Trading	**239,574**	321,299
Available-for-sale	**2,712,120**	2,201,349
Held-to-maturity	**727,712**	701,282
Total investment in securities	**3,679,406**	3,223,930
Loans, net of allowance for credit losses	**3,953,320**	4,000,155
Premises, equipment and computer software	**180,142**	183,378
Accrued interest	**22,360**	17,460
Goodwill	**22,893**	23,462
Intangible assets	**26,238**	27,669
Equity method investments	**13,120**	12,786
Other real estate owned	**8,538**	11,206
Other assets	**80,340**	77,145
Total assets	**10,185,629**	10,275,563
Liabilities		
Customer deposits		
Non-interest bearing	**1,923,459**	1,881,745
Interest bearing	**7,006,003**	7,285,923
Total customer deposits	**8,929,462**	9,167,668
Bank deposits	**9,102**	14,478
Total deposits	**8,938,564**	9,182,146
Securities sold under agreement to repurchase	**23,518**	-
Employee benefit plans	**122,029**	122,135
Accrued interest	**3,358**	2,744
Preference share dividends payable	**654**	654
Pending payable for investments purchased	**92,942**	-
Other liabilities	**100,706**	100,530
Total other liabilities	**343,207**	226,063
Long-term debt	**117,000**	117,000
Total liabilities	**9,398,771**	9,525,209
Shareholders' equity		
Common share capital (BMD 0.01 par; authorised shares 26,000,000,000) issued and outstanding: 472,932,535 (2015: 472,932,535)	**4,729**	4,729
Preference share capital (USD 0.01 par; USD 1,000 liquidation preference) issued and outstanding: 182,863 (2015: 182,863)	**2**	2
Additional paid-in capital	**1,216,094**	1,221,088
Accumulated deficit	**(350,650)**	(368,618)
Less: treasury common shares, at cost: 5,476,896 shares (2015: 9,240,317)	**(9,681)**	(16,350)
Accumulated other comprehensive loss	**(73,636)**	(90,497)
Total shareholders' equity	**786,858**	750,354
Total liabilities and shareholders' equity	**10,185,629**	10,275,563

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

The Bank of N.T. Butterfield & Son Limited
Consolidated Statements of Operations (unaudited)
(In thousands of United States dollars, except per share data)

	Three months ended	
	31 March 2016	31 March 2015
Non-interest income		
Asset management	**4,188**	4,309
Banking	**8,665**	8,315
Foreign exchange revenue	**8,324**	7,914
Trust	**10,145**	9,957
Custody and other administration services	**2,219**	2,422
Other non-interest income	**977**	1,218
Total non-interest income	**34,518**	34,135
Interest income		
Loans	**47,417**	46,005
Investments	**17,966**	17,468
Deposits with banks	**1,600**	1,693
Total interest income	**66,983**	65,166
Interest expense		
Deposits	**3,483**	5,003
Long-term debt	**1,094**	1,384
Securities sold under repurchase agreements	**69**	-
Total interest expense	**4,646**	6,387
Net interest income before provision for credit losses	**62,337**	58,779
Provision for credit losses (recovery)	**342**	(189)
Net interest income after provision for credit losses	**62,679**	58,590
Net trading gains	**1,033**	1,364
Net realised losses on available-for-sale investments	**(76)**	(266)
Net losses on other real estate owned	**(307)**	(336)
Net other gains (losses)	**(889)**	213
Total other gains (losses)	**(239)**	975
Total net revenue	**96,958**	93,700
Non-interest expense		
Salaries and other employee benefits	**31,238**	32,665
Technology and communications	**14,456**	13,865
Property	**5,019**	5,152
Professional and outside services	**4,063**	4,058
Indirect taxes	**4,618**	4,267
Amortisation of intangible assets	**1,052**	1,099
Marketing	**948**	885
Restructuring costs	**4,459**	-
Other expenses	**4,080**	3,543
Total non-interest expense	**69,933**	65,534
Net income before income taxes	**27,025**	28,166
Income tax expense	**(264)**	(206)
Net income	**26,761**	27,960
Earnings per common share		
Basic earnings per share	**0.05**	0.04
Diluted earnings per share	**0.05**	0.04

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

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

	Three months ended	
	31 March 2016	31 March 2015
Net income	**26,761**	27,960
Other comprehensive income (loss), net of taxes		
Net change in unrealised gains and losses on translation of net investment in foreign operations	**(1,587)**	(3,011)
Accretion of net unrealised losses on held-to-maturity investments transferred from available-for-sale investments	**(245)**	-
Net change in unrealised gains and losses on available-for-sale investments	**19,129**	13,440
Employee benefit plans adjustments	**(436)**	(64)
Other comprehensive income, net of taxes	**16,861**	10,365
Total comprehensive income	**43,622**	38,325

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

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

	Three months ended			
	31 March 2016		31 March 2015	
	Number of shares	In thousands of United States dollars	Number of shares	In thousands of United States dollars
Common share capital issued and outstanding				
Balance at beginning of period	472,932,535	4,729	550,023,138	5,500
Conversion of contingent value preference shares	-	-	6,909,397	69
Balance at end of period	472,932,535	4,729	556,932,535	5,569
Preference shares				
Balance at beginning of period	182,863	2	183,046	2
Repurchase and cancellation of preference shares	-	-	(183)	-
Balance at end of period	182,863	2	182,863	2
Contingent value convertible preference shares				
Balance at beginning of period	-	-	6,909,397	69
Conversion to common shares	-	-	(6,909,397)	(69)
Balance at end of period	-	-	-	-
Additional paid-in capital				
Balance at beginning of period		1,221,088		1,348,465
Share-based compensation		1,791		1,954
Share-based settlements		(6,785)		(4,557)
Reduction of carrying value on repurchase of preference shares		-		(183)
Premium paid on repurchase of preference shares		-		(28)
Balance at end of period		1,216,094		1,345,651
Accumulated deficit				
Balance at beginning of period		(368,618)		(405,056)
Net income for year		26,761		27,960
Common share cash dividends declared and paid, $0.01 per share (2015 $0.02 per share)		(4,674)		(10,916)
Cash dividends declared on preference shares, $20.00 per share (2015: $20.00 per share)		(3,657)		(3,660)
Preference shares guarantee fee		(462)		(457)
Balance at end of period		(350,650)		(392,129)
Treasury common shares				
Balance at beginning of period	9,240,317	(16,350)	12,770,604	(22,086)
Purchase of treasury common shares	165,417	(272)	1,600,550	(3,188)
Share-based settlements	(3,928,838)	6,941	(2,759,766)	4,822
Balance at end of period	5,476,896	(9,681)	11,611,388	(20,452)
Accumulated other comprehensive loss				
Balance at beginning of period		(90,497)		(77,520)
Other comprehensive income, net of taxes		16,861		10,365
Balance at end of period		(73,636)		(67,155)
Total shareholders' equity		786,858		871,486

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

The Bank of N.T. Butterfield & Son Limited
Consolidated Statements of Cash Flows (unaudited)
(In thousands of United States dollars)

	Three months ended 31 March 2016	Three months ended 31 March 2015
Cash flows from operating activities		
Net income	26,761	27,960
Adjustments to reconcile net income to operating cash flows		
Depreciation and amortisation	11,228	12,505
Provision for credit (recovery) losses	(342)	189
Share-based payments and settlements	1,791	1,954
Net realised losses on available-for-sale investments	76	266
Gain on sale of premises and equipment	(5)	(189)
Net losses on other real estate owned	307	336
Increase in carrying value of equity method investments	(364)	(289)
Fair value adjustments of a contingent payment	895	-
Changes in operating assets and liabilities		
Increase in accrued interest receivable	(4,928)	(193)
Increase in other assets	(3,861)	(11,790)
Increase in accrued interest payable	624	649
Increase (decrease) in employee benefit plans and other liabilities	2,326	(3,131)
Cash provided by operating activities from operations	34,508	28,267
Cash flows from investing activities		
Net (increase) decrease in short-term investments	(31,194)	48,261
Net change in trading investments	81,725	37,191
Available-for-sale investments: proceeds from sale	7,567	6,056
Available-for-sale investments: proceeds from maturities and pay downs	130,245	75,567
Available-for-sale investments: purchases	(540,674)	(212,642)
Held-to-maturity investments: proceeds from maturities and pay downs	9,597	4,870
Held-to-maturity investments: purchases	(36,346)	-
Net decrease in loans	29,568	55,342
Net additions to premises, equipment and computer software	(2,780)	(144)
Proceeds from sale of other real estate owned	2,361	1,460
Dividends received on equity method investments	30	409
Cash (used in) provided by investing activities	(349,901)	16,370
Cash flows from financing activities		
Net increase (decrease) in demand and term deposit liabilities	(200,855)	1,134
Net increase in securities sold under agreement to repurchase	23,518	-
Common shares repurchased	(272)	(3,188)
Preference shares repurchased	-	(211)
Proceeds from stock option exercises	156	265
Cash dividends paid on common and contingent value convertible preference shares	(4,674)	(10,915)
Cash dividends paid on preference shares	(3,657)	(3,660)
Preference shares guarantee fee paid	(462)	(457)
Cash used in financing activities	(186,246)	(17,032)
Net effect of exchange rates on cash due from banks	(13,208)	(31,147)
Net decrease in cash due from banks	(514,847)	(3,542)
Cash due from banks at beginning of period	2,288,890	2,063,311
Cash due from banks at end of period	1,774,043	2,059,769

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 licence under the Bank and Deposit Companies Act, 1999 (“the Act”). Butterfield is regulated by the Bermuda Monetary Authority (“BMA”), which operates in accordance with Basel principles.

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

Note 2: Significant accounting policies

The accompanying unaudited interim consolidated financial statements of the Bank have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) for interim financial information and should be read in conjunction with the Bank’s audited financial statements for the year ended 31 December 2015. 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 US 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:

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

On 1 January 2016, the Bank changed its financial statements' reporting currency from Bermuda dollars to United States ("US") dollars for all periods presented. Assets, liabilities, revenues and expenses denominated in Bermuda dollars are translated to US dollars at par and consequently, this change in reporting currency has not resulted in a change in comparative amounts presented in the financial statements.

The following accounting developments were issued during the three months ended 31 March 2016:

In January 2016, FASB published Accounting Standards Update No. 2016-01 Financial Instruments – Overall (Subtopic 825-10) which: 1) requires that equity securities be measured at fair value with changes in the fair value recognised through net income; 2) allow certain equity investments to be re-measured at fair value either upon the occurrence of an observable price change or upon identification of an impairment (qualitative assessment being allowed); 3) requires public business entities that are required to disclose fair value of financial instruments on the balance sheet to measure that fair value using the exit price notion consistent with Topic 820, Fair Value Measurement; 4) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option; and, 5) requires enhanced disclosures about certain financial assets and financial liabilities. This update is effective for public business entities for fiscal years, and interim periods with in those fiscal years, beginning after 15 December 2017. Except for the early application guidance in the update, early adoption of the amendments is not permitted. The Bank is assessing the impact of the adoption of this guidance.

In February 2016, FASB published Accounting Standards Update No. 2016-02 Leases (Topic 842) which requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. This update is effective for public business entities for fiscal years, and interim periods with in those fiscal years, beginning after 15 December 2018. Early application is permitted. The Bank is assessing the impact of the adoption of this guidance.

In March 2016, FASB published Accounting Standards Update No. 2016-08 Revenue from Contracts with Customers (Topic 606). The amendments in this update are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The amendments in this update affect the guidance in ASU 2014-09 which is not yet effective. The effective date for this update is the same as for ASU 2015-14 which defers the effective date of ASU 2014-09 by one year resulting in the effective date being fiscal years, and interim periods with in those fiscal years, beginning after 15 December 2017. Earlier application is permitted only as of annual reporting periods beginning after 15 December 2016, including interim reporting periods within that reporting period. The Bank is assessing the impact of the adoption of this guidance.

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (unaudited)
(In thousands of United States dollars, unless otherwise stated)

Note 3: Cash due from banks

	31 March 2016			31 December 2015		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Non-interest earning						
Cash and demand deposits with banks	23,191	77,323	100,514	31,199	79,696	110,895
Interest earning[1]						
Demand deposits with banks	135,522	225,096	360,618	130,589	248,040	378,629
Cash equivalents	400,417	912,494	1,312,911	691,439	1,107,927	1,799,366
Sub-total - Interest earning	535,939	1,137,590	1,673,529	822,028	1,355,967	2,177,995
Total cash due from banks	559,130	1,214,913	1,774,043	853,227	1,435,663	2,288,890

[1] Interest earning cash due from banks includes certain demand deposits with banks as at 31 March 2016 in the amount of $291.9 million (31 December 2015: $306.9 million) that are earning interest at a negligible rate.

Note 4: Short-term investments

	31 March 2016			31 December 2015		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted term deposits, certificate of deposits and treasury bills						
Maturing within three months	99,928	166,395	266,323	-	104,249	104,249
Maturing between three to six months	24,939	118,762	143,701	99,810	192,118	291,928
Maturing between six to twelve months	-	422	422	-	796	796
Total unrestricted short-term investments	124,867	285,579	410,446	99,810	297,163	396,973
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Interest earning demand deposits	14,783	-	14,783	12,509	-	12,509
Total short-term investments	139,650	285,579	425,229	112,319	297,163	409,482

Note 5: Investment in securities

Amortised Cost, Carrying Amount and Fair Value

On the consolidated balance sheets, Trading and Available-for-sale ("AFS") investments are carried at fair value and Held-to-maturity ("HTM") investments are carried at amortised cost.

	31 March 2016				31 December 2015			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Fair value
Trading								
US government and federal agencies	209,892	1,869	(542)	211,219	278,500	2,347	(1,504)	279,343
Non-US governments debt securities	-	-	-	-	7,483	6	-	7,489
Asset-backed securities - Student loans	22,626	9	(418)	22,217	28,845	-	(560)	28,285
Mutual funds	5,739	859	(460)	6,138	5,739	903	(460)	6,182
Total trading	238,257	2,737	(1,420)	239,574	320,567	3,256	(2,524)	321,299
Available-for-sale								
US government and federal agencies	1,738,544	15,619	(2,397)	1,751,766	1,399,456	8,812	(3,769)	1,404,499
Non-US governments debt securities	29,264	205	(1,052)	28,417	29,275	300	-	29,575
Corporate debt securities	533,026	5,631	(25)	538,632	505,139	3,779	(2,774)	506,144
Asset-backed securities - Student loans	13,291	-	(1,130)	12,161	13,291	-	(1,130)	12,161
Commercial mortgage-backed securities	152,751	1,090	(187)	153,654	153,046	9	(4,329)	148,726
Residential mortgage-backed securities	226,172	1,522	(204)	227,490	101,382	-	(1,138)	100,244
Total available-for-sale	2,693,048	24,067	(4,995)	2,712,120	2,201,589	12,900	(13,140)	2,201,349
Held-to-maturity[1]								
US government and federal agencies	727,712	14,767	-	742,479	701,282	5,365	(5,152)	701,495
Total held-to-maturity	727,712	14,767	-	742,479	701,282	5,365	(5,152)	701,495

[1] For the three months ended 31 March 2016 and the year ended 31 December 2015, non-credit impairments recognised in accumulated other comprehensive loss ("AOCL") for HTM investments were $nil.

(In thousands of United States dollars, unless otherwise stated)

Investments with Unrealised Loss Positions

The Bank does not believe that the AFS and HTM investment securities that were in an unrealised loss position as of 31 March 2016, which were comprised of 48 securities representing 17% of the AFS and HTM portfolios' fair value, represent an OTTI. Total gross unrealised losses were 0.8% of the fair value of affected securities and were attributable primarily to changes in market interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. Due to a strategic change in the investment portfolio composition during the year ended 31 December 2015, several AFS securities were sold while being in an unrealised loss position. The Bank considers this to be a one-time event, and has determined that it is more likely than not that the Bank will not be required to sell any of the remaining investment securities before recovery of the amortised cost basis.

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

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

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

Investments in **Asset-backed securities - Student loans** are composed primarily of securities collateralised by Federal Family Education Loan Program loans (“FFELP loans”). FFELP loans benefit from a US federal government guarantee of at least 97% of defaulted principal and accrued interest, with additional credit support provided in the form of over-collateralisation, subordination and excess spread, which collectively total in excess of 100%. Accordingly, the vast majority of FFELP loan-backed securities are not exposed to traditional consumer credit risk.

Investments in **Commercial mortgage-backed securities** are predominantly senior securities rated “AAA” and possess significant subordination, a form of credit enhancement expressed hereafter as the percentage of pool losses that can occur before the senior securities held by the Bank will incur its first dollar of principal loss. No credit losses were recognised on these securities as credit support and loan-to-value ratios ("LTV") range from 5% - 23% and 30% - 53%, respectively. Current credit support is significantly greater than any delinquencies experienced on the underlying mortgages.

Investments in **Residential mortgage-backed securities** are predominantly rated “AAA” and possess significant credit enhancement as described above. No credit losses were recognised on these securities as there a no delinquencies over 60 days on the underlying mortgages and the weighted average credit support and LTV ratios range from 8% - 15% and 60% - 69%, respectively.

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

	Less than 12 months		12 months or more			
31 March 2016	**Fair value**	**Gross unrealised losses**	**Fair value**	**Gross unrealised losses**	**Total fair value**	**Total gross unrealised losses**
Available-for-sale securities with unrealised losses						
US government and federal agencies	**291,526**	**(957)**	**144,951**	**(1,440)**	**436,477**	**(2,397)**
Non-US governments debt securities	**21,675**	**(1,052)**	**-**	**-**	**21,675**	**(1,052)**
Corporate debt securities	**45,598**	**(25)**	**-**	**-**	**45,598**	**(25)**
Asset-backed securities - Student loans	**-**	**-**	**12,160**	**(1,130)**	**12,160**	**(1,130)**
Commercial mortgage-backed securities	**733**	**(18)**	**38,633**	**(169)**	**39,366**	**(187)**
Residential mortgage-backed securities	**29,682**	**(61)**	**10,029**	**(143)**	**39,711**	**(204)**
Total available-for-sale securities with unrealised losses	**389,214**	**(2,113)**	**205,773**	**(2,882)**	**594,987**	**(4,995)**

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

(In thousands of United States dollars, unless otherwise stated)

Investments' Contractual Maturities

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

	Remaining term to average contractual maturity						
31 March 2016	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**5 to 10 years**	**Over 10 years**	**No specific maturity**	**Carrying amount**
Trading							
US government and federal agencies	24,978	-	19,749	8,907	157,585	-	211,219
Asset-backed securities - Student loans	-	-	22,217	-	-	-	22,217
Mutual funds	-	-	-	-	-	6,138	6,138
Total trading	24,978	-	41,966	8,907	157,585	6,138	239,574
Available-for-sale							
US government and federal agencies	-	-	118,785	197,609	1,435,372	-	1,751,766
Non-US governments debt securities	680	680	5,381	21,676	-	-	28,417
Corporate debt securities	37,231	40,630	420,761	40,010	-	-	538,632
Asset-backed securities - Student loans	-	-	-	-	12,161	-	12,161
Commercial mortgage-backed securities	-	-	-	44,043	109,611	-	153,654
Residential mortgage-backed securities	-	-	-	-	227,490	-	227,490
Total available-for-sale	37,911	41,310	544,927	303,338	1,784,634	-	2,712,120
Held-to-maturity							
US government and federal agencies	-	-	-	45,068	682,644	-	727,712
Total investments	62,889	41,310	586,893	357,313	2,624,863	6,138	3,679,406
Total by currency							
US dollars	62,889	41,310	586,893	357,313	2,624,863	5,860	3,679,128
Other	-	-	-	-	-	278	278
Total investments	62,889	41,310	586,893	357,313	2,624,863	6,138	3,679,406

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

(In thousands of United States dollars, unless otherwise stated)

Pledged Investments

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

	31 March 2016		31 December 2015	
Pledged Investments	**Amortised cost**	**Fair value**	Amortised cost	Fair value
Available-for-sale	**285,888**	**292,261**	304,493	307,513
Held-to-maturity	**313,077**	**319,306**	372,546	372,868

Sale Proceeds and Realised Gains and Losses of AFS Securities

	Three months ended 31 March 2016		Three months ended 31 March 2015	
AFS securities sold	**Sale proceeds**	**Realised gains (losses)**	Sale proceeds	Realised gains (losses)
US government and federal agencies	**7,567**	**(76)**	6,056	(266)

Note 6: Loans

The "Bermuda" and "Non-Bermuda" classifications purpose is to reflect management segment reporting as described in Note 12: Segmented information.

The principal means of securing residential mortgages, personal, credit card and business loans are charges over assets and guarantees. Mortgage loans are generally repayable over periods of up to thirty years and personal, business and government loans are generally repayable over terms not exceeding five years. Amounts owing on credit cards are revolving and typically a minimum amount is due within 30 days from billing. The effective yield on total loans as at 31 March 2016 is 4.61% (31 December 2015: 4.57%).

	31 March 2016			31 December 2015		
	Bermuda	**Non-Bermuda**	**Total**	Bermuda	Non-Bermuda	Total
Commercial loans						
Government	**238,793**	**22,402**	**261,195**	202,776	22,402	225,178
Commercial and industrial	**116,239**	**215,047**	**331,286**	121,466	221,243	342,709
Commercial overdrafts	**26,332**	**2,895**	**29,227**	34,997	5,736	40,733
Total gross commercial loans	**381,364**	**240,344**	**621,708**	359,239	249,381	608,620
Less specific allowance for credit losses	**(590)**	**-**	**(590)**	(590)	-	(590)
Net commercial loans	**380,774**	**240,344**	**621,118**	358,649	249,381	608,030
Commercial real estate loans						
Commercial mortgage	**391,504**	**246,107**	**637,611**	415,747	249,622	665,369
Construction	**11,513**	**9,523**	**21,036**	5,396	8,211	13,607
Total gross commercial real estate loans	**403,017**	**255,630**	**658,647**	421,143	257,833	678,976
Less specific allowance for credit losses	**(727)**	**(877)**	**(1,604)**	(727)	(2,224)	(2,951)
Net commercial real estate loans	**402,290**	**254,753**	**657,043**	420,416	255,609	676,025
Consumer loans						
Automobile financing	**12,217**	**7,426**	**19,643**	12,308	7,556	19,864
Credit card	**57,316**	**19,252**	**76,568**	59,119	19,839	78,958
Overdrafts	**10,623**	**6,700**	**17,323**	4,750	8,165	12,915
Other consumer	**30,832**	**81,021**	**111,853**	32,022	84,062	116,084
Total gross consumer loans	**110,988**	**114,399**	**225,387**	108,199	119,622	227,821
Less specific allowance for credit losses	**(274)**	**-**	**(274)**	(274)	-	(274)
Net consumer loans	**110,714**	**114,399**	**225,113**	107,925	119,622	227,547
Residential mortgage loans	**1,396,155**	**1,097,894**	**2,494,049**	1,243,221	1,290,819	2,534,040
Less specific allowance for credit losses	**(13,001)**	**(1,227)**	**(14,228)**	(13,411)	(1,879)	(15,290)
Net residential mortgage loans	**1,383,154**	**1,096,667**	**2,479,821**	1,229,810	1,288,940	2,518,750
Total gross loans	**2,291,524**	**1,708,267**	**3,999,791**	2,131,802	1,917,655	4,049,457
Less specific allowance for credit losses	**(14,592)**	**(2,104)**	**(16,696)**	(15,002)	(4,103)	(19,105)
Less general allowance for credit losses	**(20,291)**	**(9,484)**	**(29,775)**	(20,176)	(10,021)	(30,197)
Net loans	**2,256,641**	**1,696,679**	**3,953,320**	2,096,624	1,903,531	4,000,155

(In thousands of United States dollars, unless otherwise stated)

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

The following tables summarise the past due status of the loans as at 31 March 2016 and 31 December 2015. 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. Loans less than 30 days past due are included in current loans.

31 March 2016	30 - 59 days	60 - 89 days	More than 90 days	Total past due loans	Total current	Total loans
Commercial loans						
Government	-	-	-	-	261,195	261,195
Commercial and industrial	414	19	605	1,038	330,248	331,286
Commercial overdrafts	-	-	140	140	29,087	29,227
Total commercial loans	414	19	745	1,178	620,530	621,708
Commercial real estate loans						
Commercial mortgage	745	-	7,355	8,100	629,511	637,611
Construction	9,523	-	-	9,523	11,513	21,036
Total commercial real estate loans	10,268	-	7,355	17,623	641,024	658,647
Consumer loans						
Automobile financing	128	66	134	328	19,315	19,643
Credit card	633	156	195	984	75,584	76,568
Overdrafts	-	-	536	536	16,787	17,323
Other consumer	1,513	323	1,159	2,995	108,858	111,853
Total consumer loans	2,274	545	2,024	4,843	220,544	225,387
Residential mortgage loans	31,817	8,829	66,032	106,678	2,387,371	2,494,049
Total gross loans	44,773	9,393	76,156	130,322	3,869,469	3,999,791

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

(In thousands of United States dollars, unless otherwise stated)

Loans' Credit Quality

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

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

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

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

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

31 March 2016	Pass	Special mention	Substandard	Non-accrual	Total gross recorded investments
Commercial loans					
Government	249,945	11,250	-	-	261,195
Commercial and industrial	325,512	4,092	1,069	613	331,286
Commercial overdrafts	26,809	2,015	257	146	29,227
Total commercial loans	602,266	17,357	1,326	759	621,708
Commercial real estate loans					
Commercial mortgage	537,809	78,016	13,651	8,135	637,611
Construction	21,036	-	-	-	21,036
Total commercial real estate loans	558,845	78,016	13,651	8,135	658,647
Consumer loans					
Automobile financing	19,070	397	-	176	19,643
Credit card	76,373	-	195	-	76,568
Overdrafts	16,728	46	545	4	17,323
Other consumer	108,926	1,149	594	1,184	111,853
Total consumer loans	221,097	1,592	1,334	1,364	225,387
Residential mortgage loans	2,352,094	41,832	47,976	52,147	2,494,049
Total gross recorded loans	3,734,302	138,797	64,287	62,405	3,999,791

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

(In thousands of United States dollars, unless otherwise stated)

Evaluation of Loans For Impairment

	31 March 2016		31 December 2015	
	Individually evaluated	Collectively evaluated	Individually evaluated	Collectively evaluated
Commercial	13,677	608,031	13,607	595,013
Commercial real estate	35,658	622,989	38,019	640,957
Consumer	1,876	223,511	1,882	225,939
Residential mortgage	121,646	2,372,403	116,176	2,417,864
Total gross loans	172,857	3,826,934	169,684	3,879,773

Changes in General and Specific Allowances For Credit Losses

	Three months ended 31 March 2016				
	Commercial	Commercial real estate	Consumer	Residential mortgage	Total
Allowances at beginning of period	8,723	6,512	2,763	31,304	49,302
Provision taken (released)	256	(498)	(735)	635	(342)
Recoveries	22	3	389	-	414
Charge-offs	(15)	(988)	(354)	(1,417)	(2,774)
Other	(10)	(73)	(26)	(20)	(129)
Allowances at end of period	8,976	4,956	2,037	30,502	46,471
Allowances at end of period: individually evaluated for impairment	590	1,604	274	14,228	16,696
Allowances at end of period: collectively evaluated for impairment	8,386	3,352	1,763	16,274	29,775

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

Non-Performing Loans (excluding purchased credit-impaired loans)

	31 March 2016			31 December 2015		
	Non-accrual	Past due more than 90 days and accruing	Total non-performing loans	Non-accrual	Past due more than 90 days and accruing	Total non-performing loans
Commercial loans						
Commercial and industrial	613	-	613	617	-	617
Commercial overdrafts	146	14	160	26	10	36
Total commercial loans	759	14	773	643	10	653
Commercial real estate loans						
Commercial mortgage	8,135	719	8,854	10,260	737	10,997
Consumer loans						
Automobile financing	176	-	176	98	-	98
Credit card	-	195	195	-	132	132
Overdrafts	4	533	537	11	527	538
Other consumer	1,184	83	1,267	1,294	85	1,379
Total consumer loans	1,364	811	2,175	1,403	744	2,147
Residential mortgage loans	52,147	13,707	65,854	52,946	12,760	65,706
Total non-performing loans	62,405	15,251	77,656	65,252	14,251	79,503

(In thousands of United States dollars, unless otherwise stated)

Impaired Loans (excluding purchased credit-impaired loans)

A loan is considered to be impaired when, based on current information and events, the Bank determines that it will not be able to collect all amounts due according to the original loan contract, including scheduled interest payments. Impaired loans include all non-accrual loans and all loans modified in a troubled debt restructuring (''TDR'') even if full collectability is expected following the restructuring. During the three months ended 31 March 2016, the amount of gross interest income that would have been recorded had impaired loans been current was $0.6 million (31 March 2015: $1.5 million).

	Impaired loans with an allowance			Gross recorded investment of impaired loans without an allowance	Total impaired loans		
31 March 2016	**Gross recorded investment**	**Specific allowance**	**Net loans**		**Gross recorded investment**	**Specific allowance**	**Net loans**
Commercial loans							
Commercial and industrial	596	(590)	6	1,085	1,681	(590)	1,091
Commercial overdrafts	-	-	-	146	146	-	146
Total commercial loans	596	(590)	6	1,231	1,827	(590)	1,237
Commercial real estate loans							
Commercial mortgage	3,257	(1,604)	1,653	17,810	21,067	(1,604)	19,463
Consumer loans							
Automobile financing	-	-	-	176	176	-	176
Overdrafts	-	-	-	4	4	-	4
Other consumer	364	(274)	90	903	1,267	(274)	993
Total consumer loans	364	(274)	90	1,083	1,447	(274)	1,173
Residential mortgage loans	38,362	(14,228)	24,134	47,375	85,737	(14,228)	71,509
Total impaired loans	42,579	(16,696)	25,883	67,499	110,078	(16,696)	93,382

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

(In thousands of United States dollars, unless otherwise stated)

Average Impaired Loan Balances and Related Recognised Interest Income

	31 March 2016		31 December 2015	
	Average gross recorded investment	Interest income recognised[1]	Average gross recorded investment	Interest income recognised[1]
Commercial loans				
Commercial and industrial	1,688	20	1,214	-
Commercial overdrafts	86	-	66	-
Total commercial loans	1,774	20	1,280	-
Commercial real estate loans				
Commercial mortgage	22,196	91	28,612	311
Consumer loans				
Automobile financing	137	-	137	-
Overdrafts	8	-	27	-
Other consumer	1,321	1	1,617	2
Total consumer loans	1,466	1	1,781	2
Residential mortgage loans	83,583	526	78,433	1,442
Total impaired loans	109,019	638	110,106	1,755

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

Loans Modified in a TDR

As at 31 March 2016, the Bank has two loans (31 March 2015: five loans) that were modified in a TDR during the preceding 12 months that subsequently defaulted (i.e. 90 days or more past due following a modification) with a recorded investment of $1.1 million (31 March 2015: $2.0 million).

	Three months ended 31 March 2016				Three months ended 31 March 2015			
TDRs entered into during the period	Number of contracts	Pre-modification recorded investment	Modification: Interest capitalisation	Post-modification recorded investment	Number of contracts	Pre-modification recorded investment	Modification: Interest capitalisation	Post-modification recorded investment
Commercial loans	-	-	-	-	-	-	-	-
Commercial real estate loans	-	-	-	-	-	-	-	-
Consumer loans	-	-	-	-	-	-	-	-
Residential mortgage loans	7	4,843	-	4,843	-	-	-	-
Total loans modified in a TDR	7	4,843	-	4,843	-	-	-	-

	31 March 2016		31 December 2015	
TDRs outstanding	Accrual	Non-accrual	Accrual	Non-accrual
Commercial loans	1,068	-	1,078	-
Commercial real estate loans	12,932	1,584	13,065	1,608
Consumer loans	83	-	80	-
Residential mortgage loans	33,590	7,184	28,482	7,175
Total loans modified in a TDR	47,673	8,768	42,705	8,783

Purchased Credit-Impaired Loans

The Bank acquired certain credit-impaired loans as part of the 7 November 2014 acquisition of substantially all retail loans of HSBC Bank (Cayman) Limited. The accretable difference (or "accretable yield") represents the excess of a loan's cash flows expected to be collected over the loan's carrying amount.

	Three months ended 31 March 2016				Year ended 31 December 2015			
	Contractual principal	Non-accretable difference	Accretable difference	Carrying amount	Contractual principal	Non-accretable difference	Accretable difference	Carrying amount
Balance at beginning of period	8,709	(2,248)	(631)	5,830	11,020	(3,804)	-	7,216
Purchases	-	-	-	-	-	-	-	-
Advances and increases in cash flows expected to be collected	66	-	-	66	150	631	(631)	150
Reductions resulting from repayments	(46)	-	-	(46)	(1,554)	107	107	(1,447)
Reductions resulting from charge-offs	-	-	-	-	(907)	818	-	(89)
Accretion	-	-	-	-	-	-	(107)	-
Balance at end of period	8,729	(2,248)	(631)	5,850	8,709	(2,248)	(631)	5,830

(In thousands of United States dollars, unless otherwise stated)

Note 7: Credit risk concentrations

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

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

	31 March 2016			31 December 2015		
Business sector	**Loans**	**Off-balance sheet**	**Total credit exposure**	Loans	Off-balance sheet	Total credit exposure
Banks and financial services	256,460	307,943	564,403	243,776	320,934	564,710
Commercial and merchandising	224,107	94,892	318,999	230,376	107,545	337,921
Governments	261,680	66,801	328,481	223,699	102,782	326,481
Individuals	2,461,769	93,144	2,554,913	2,532,209	95,956	2,628,165
Primary industry and manufacturing	43,630	1,748	45,378	36,299	978	37,277
Real estate	595,787	6,805	602,592	632,548	15,891	648,439
Hospitality industry	133,807	8,559	142,366	125,471	14,854	140,325
Transport and communication	5,855	-	5,855	5,974	-	5,974
Sub-total	3,983,095	579,892	4,562,987	4,030,352	658,940	4,689,292
General allowance	(29,775)	-	(29,775)	(30,197)	-	(30,197)
Total	3,953,320	579,892	4,533,212	4,000,155	658,940	4,659,095

	31 March 2016				31 December 2015			
Geographic region	**Cash due from banks and short-term investments**	**Loans**	**Off-balance sheet**	**Total credit exposure**	Cash due from banks and short-term investments	Loans	Off-balance sheet	Total credit exposure
Australia	12,267	-	-	12,267	14,187	-	-	14,187
Barbados	-	11,250	-	11,250	-	11,250	-	11,250
Belgium	2,950	-	-	2,950	3,352	-	-	3,352
Bermuda	15,503	2,283,372	313,522	2,612,397	22,009	2,269,635	371,687	2,663,331
Canada	201,244	-	-	201,244	340,037	-	-	340,037
Cayman	26,073	715,606	197,767	939,446	19,086	713,468	207,139	939,693
Guernsey	1	415,101	45,521	460,623	1	434,531	53,750	488,282
Japan	11,923	-	-	11,923	23,424	-	-	23,424
New Zealand	867	-	-	867	999	-	-	999
Saint Lucia	-	65,523	-	65,523	-	65,285	-	65,285
Sweden	833	-	-	833	3,659	-	-	3,659
Switzerland	3,833	-	-	3,833	3,905	-	-	3,905
The Bahamas	3,306	27,280	-	30,586	3,196	28,736	-	31,932
United Kingdom	860,608	464,963	23,082	1,348,653	1,103,088	507,447	26,364	1,636,899
United States	1,059,214	-	-	1,059,214	1,161,106	-	-	1,161,106
Other	650	-	-	650	323	-	-	323
Sub-total	2,199,272	3,983,095	579,892	6,762,259	2,698,372	4,030,352	658,940	7,387,664
General allowance	-	(29,775)	-	(29,775)	-	(30,197)	-	(30,197)
Total	2,199,272	3,953,320	579,892	6,732,484	2,698,372	4,000,155	658,940	7,357,467

(In thousands of United States dollars, unless otherwise stated)

Note 8: Customer deposits and deposits from banks

By Maturity	31 March 2016			31 December 2015		
	Customers	Banks	Total	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	1,923,459	431	1,923,890	1,881,745	403	1,882,148
Demand deposits - Interest bearing[1]	5,692,625	5,551	5,698,176	5,772,898	10,176	5,783,074
Total demand deposits	7,616,084	5,982	7,622,066	7,654,643	10,579	7,665,222
Term deposits having a denomination of less than $100 thousand						
Term deposits maturing within six months	43,803	67	43,870	50,251	202	50,453
Term deposits maturing between six to twelve months	17,095	-	17,095	14,273	-	14,273
Term deposits maturing after twelve months	15,992	-	15,992	16,257	-	16,257
Total term deposits having a denomination of less than $100 thousand	76,890	67	76,957	80,781	202	80,983
Term deposits having a denomination of $100 thousand or more						
Term deposits maturing within six months	1,083,230	3,053	1,086,283	1,230,789	3,697	1,234,486
Term deposits maturing between six to twelve months	93,566	-	93,566	138,973	-	138,973
Term deposits maturing after twelve months	59,692	-	59,692	62,482	-	62,482
Total term deposits having a denomination of $100 thousand or more	1,236,488	3,053	1,239,541	1,432,244	3,697	1,435,941
Total term deposits	1,313,378	3,120	1,316,498	1,513,025	3,899	1,516,924
Total deposits	8,929,462	9,102	8,938,564	9,167,668	14,478	9,182,146

[1] As at 31 March 2016, $175 million (31 December 2015: $175 million) of the **Demand deposits - Interest bearing** bear a special negligible interest rate. The weighted-average interest rate on interest-bearing demand deposits as at 31 March 2016 is 0.08% (31 December 2015: 0.10%).

By Type and Segment	31 March 2016			31 December 2015		
	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	3,721,313	545,537	4,266,850	3,739,829	531,877	4,271,706
Banks	431	-	431	403	-	403
Cayman						
Customers	2,672,499	404,283	3,076,782	2,596,642	416,489	3,013,131
Banks	4,666	3,120	7,786	9,365	3,899	13,264
Guernsey						
Customers	967,937	240,352	1,208,289	996,343	248,866	1,245,209
Banks	742	-	742	669	-	669
The Bahamas						
Customers	30,698	4,240	34,938	36,078	3,602	39,680
United Kingdom						
Customers	223,637	118,966	342,603	285,751	312,191	597,942
Banks	143	-	143	142	-	142
Total Customers	7,616,084	1,313,378	8,929,462	7,654,643	1,513,025	9,167,668
Total Banks	5,982	3,120	9,102	10,579	3,899	14,478
Total deposits	7,622,066	1,316,498	8,938,564	7,665,222	1,516,924	9,182,146

(In thousands of United States dollars, unless otherwise stated)

Note 9: Employee benefit plans

The Bank maintains trusteed pension plans including non-contributory defined benefit plans and a number of defined contribution plans, and provides post-retirement medical benefits to its qualifying retirees. The expense related to these plans is included in the consolidated statements of operations under Salaries and other employee benefits. The defined benefit provisions under the pension plans are generally based upon years of service and average salary during the relevant years of employment. The defined benefit and post-retirement medical plans are not open to new participants and are non-contributory and the funding required is provided by the Bank, based upon the advice of independent actuaries.

	Three months ended	
	31 March 2016	31 March 2015
Defined benefit pension expense (income)		
Interest cost	**1,493**	1,840
Expected return on plan assets	**(2,302)**	(2,341)
Amortisation of net actuarial loss	**426**	334
Total defined benefit pension expense (income)	**(383)**	(167)
Post-retirement medical benefit expense (income)		
Service cost	**30**	85
Interest cost	**1,198**	1,186
Amortisation of net actuarial losses	**683**	837
Amortisation of prior service credit	**(1,586)**	(1,586)
Total post-retirement medical benefit expense (income)	**325**	522

Note 10: Credit related arrangements, repurchase agreements and commitments

Credit-Related Arrangements

Standby letters of credit and letters of guarantee are issued at the request of a Bank customer in order to secure the customer's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Bank to pay the third party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the customer. Generally, the term of the standby letters of credit does not exceed one year, 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. Collateral is shown at estimated market value less selling cost. Where the collateral is cash, it is shown gross including accrued income.

	31 March 2016			31 December 2015		
Outstanding financial guarantees	**Gross**	**Collateral**	**Net**	Gross	Collateral	Net
Standby letters of credit	**251,421**	**249,771**	**1,650**	258,851	257,200	1,651
Letters of guarantee	**3,379**	**2,675**	**704**	9,137	8,418	719
Total	**254,800**	**252,446**	**2,354**	267,988	265,618	2,370

Commitments

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

The Bank has a facility by one of its custodians, whereby the Bank may offer up to US$200 million of standby letters of credit to its customers on a fully secured basis. Under the standard terms of the facility, the custodian has the right to set-off against securities held of 110% of the utilised facility. At 31 March 2016, $117.7 million (31 December 2015: $123.7 million) of standby letters of credit were issued under this facility.

	31 March 2016	31 December 2015
Outstanding unfunded commitments to extend credit		
Commitments to extend credit	**324,124**	390,497
Documentary and commercial letters of credit	**968**	455
Total unfunded commitments to extend credit	**325,092**	390,952

(In thousands of United States dollars, unless otherwise stated)

Repurchase agreements

The Bank utilizes repurchase agreements to manage liquidity. The risks of these transactions include fair value declines in the securities posted as collateral and other credit related events. The Bank manages these risks by monitoring the value of the securities posted as collateral on a daily basis and ensure appropriate collateral has been posted for this transaction.

As at 31 March 2016, the Bank had one open position (31 December 2015: nil) in a repurchase agreement with a remaining maturity of less than 30 days involving one US federal agencies security having a value of $23.5 million.

Legal Proceedings

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

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

Management believes that as of 31 March 2016, a provision of $5.5 million (31 December 2015: $4.8 million), which has been recorded, is appropriate based on the methodology used in similar settlements for other financial institutions. As the investigation remains ongoing at this time, the timing and terms of the final resolution, including any fines or penalties, remain uncertain and the financial impact to the Bank could exceed the amount of the provision. In this regard, we note that the US authorities have not approved or commented on the adequacy or reasonableness of the estimate. The provision is included on the consolidated balance sheets under other liabilities and on the consolidated statements of operations under other expenses.

Pending business acquisition

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

Note 11: Exit cost obligations

During December 2015, the Bank agreed to commence an orderly wind down of the deposit taking and investment management businesses in the United Kingdom segment as reflected in management segment reporting described in Note 12: Segmented Information. In making this determination, the Bank considered the increasing regulatory pressure along with periods of negative profitability and made the determination that an orderly wind down of the deposit taking and investment management businesses in the United Kingdom was prudent for Butterfield as a group. The orderly wind down is expected to be completed over the next 9 months. The amounts expensed shown in the following table are all included in the consolidated statements of operations as "Restructuring costs" under non-interest expenses.

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

	Expense recognised by period				Amounts paid by period		Exit cost liability	
	Three months ended 31 March 2016	Year ended 31 December 2015	Costs to be recognised in the future	Total exit costs expected to be incurred	**Three months ended 31 March 2016**	Year ended 31 December 2015	**As at 31 March 2016**	As at 31 December 2015
Staff redundancy expenses	**2,867**	634	454	3,955	**-**	-	**3,501**	634
Professional services	**899**	1,549	1,677	4,125	**2,050**	-	**398**	1,549
Lease termination expenses	**-**	-	2,210	2,210	**-**	-	**-**	-
Other expenses	**693**	-	927	1,620	**339**	-	**354**	-
Total	**4,459**	2,183	5,268	11,910	**2,389**	-	**4,253**	2,183

(In thousands of United States dollars, unless otherwise stated)

Note 12: Segmented information

As at 31 March 2016, for Management reporting purposes, the operations of the Bank are grouped into the following six business segments based upon the geographic location of the Bank's operations: Bermuda, Cayman, Guernsey, Switzerland, The Bahamas and the United Kingdom. Accounting policies of the reportable segments are the same as those described in Note 2 of the Bank's audited financial statements for the year ended 31 December 2015.

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

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

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

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

The **United Kingdom** segment provides a broad range of services including private banking and treasury services, Internet banking and wealth management and fiduciary services to high net worth individuals and privately owned businesses. As described in Note 11, during December 2015, the Bank agreed to commence an orderly wind down of the deposit taking and investment management businesses in the United Kingdom segment.

Total Assets by Segment	31 March 2016	31 December 2015
Bermuda	5,185,256	5,113,718
Cayman	3,417,265	3,282,319
Guernsey	1,351,259	1,391,126
Switzerland	2,531	2,713
The Bahamas	45,984	49,434
United Kingdom	529,212	788,433
Total assets before inter-segment eliminations	10,531,507	10,627,743
Less: inter-segment eliminations	(345,878)	(352,180)
Total	10,185,629	10,275,563

Three months ended 31 March 2016	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	Gains and losses	Net income
Bermuda	38,416	389	(390)	14,226	52,641	35,568	17,073	(165)	16,908
Cayman	18,644	142	(199)	10,677	29,264	15,162	14,102	(815)	13,287
Guernsey	3,781	(67)	(26)	6,491	10,179	9,137	1,042	(490)	552
Switzerland	-	-	-	904	904	810	94	-	94
The Bahamas	10	10	-	1,274	1,294	1,381	(87)	-	(87)
United Kingdom	1,486	(474)	957	1,528	3,497	8,721	(5,224)	1,231	(3,993)
Total before eliminations	62,337	-	342	35,100	97,779	70,779	27,000	(239)	26,761
Inter-segment eliminations	-	-	-	(582)	(582)	(582)	-	-	-
Total	62,337	-	342	34,518	97,197	70,197	27,000	(239)	26,761

Three months ended 31 March 2015	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	Gains and losses	Net income
Bermuda	34,816	746	193	14,860	50,615	35,721	14,894	(156)	14,738
Cayman	16,579	140	253	9,609	26,581	14,239	12,342	-	12,342
Guernsey	4,258	(204)	7	6,440	10,501	9,477	1,024	254	1,278
Switzerland	-	-	-	746	746	725	21	-	21
The Bahamas	(8)	30	-	1,192	1,214	1,307	(93)	-	(93)
United Kingdom	3,134	(712)	(642)	1,731	3,511	4,714	(1,203)	877	(326)
Total before eliminations	58,779	-	(189)	34,578	93,168	66,183	26,985	975	27,960
Inter-segment eliminations	-	-	-	(443)	(443)	(443)	-	-	-
Total	58,779	-	(189)	34,135	92,725	65,740	26,985	975	27,960

Note 13: Derivative instruments and risk management

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

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

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

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

Notional Amounts

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

Fair Value

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

Risk Management Derivatives

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

Fair value hedges

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

Net investment hedges

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

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

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

(In thousands of United States dollars, unless otherwise stated)

Derivatives not formally designated as hedges

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

Client service derivatives

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

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

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

31 March 2016	**Derivative instrument**	**Notional amounts**	**Gross positive fair value**	**Gross negative fair value**	**Net fair value**
Risk management derivatives					
Net investment hedges	Currency swaps	**77,670**	**5,867**	**-**	**5,867**
Derivatives not formally designated as hedging instruments	Currency swaps	**305,645**	**991**	**(2,856)**	**(1,865)**
Subtotal risk management derivatives		**383,315**	**6,858**	**(2,856)**	**4,002**
Client services derivatives	Spot and forward foreign exchange	**2,410,515**	**15,912**	**(15,485)**	**427**
Total derivative instruments		**2,793,830**	**22,770**	**(18,341)**	**4,429**

31 December 2015	Derivative instrument	Notional amounts	Gross positive fair value	Gross negative fair value	Net fair value
Risk management derivatives					
Net investment hedges	Currency swaps	77,670	4,122	-	4,122
Derivatives not formally designated as hedging instruments	Currency swaps	77,881	273	(95)	178
Subtotal risk management derivatives		155,551	4,395	(95)	4,300
Client services derivatives	Spot and forward foreign exchange	2,572,525	16,426	(15,961)	465
Total derivative instruments		2,728,076	20,821	(16,056)	4,765

In addition to the above, as at 31 March 2016 foreign denominated deposits of $2.6 million (31 December 2015: $39.4 million), were designated as a hedge of foreign exchange risk associated with the net investment in foreign operations.

(In thousands of United States dollars, unless otherwise stated)

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

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

				Less: positions not offset in the consolidated balance sheets		
31 March 2016	**Gross fair value recognised**	**Less: offset applied under master netting agreements**	**Net fair value presented in the consolidated balance sheets**	**Gross fair value of derivatives**	**Cash collateral received / paid**	**Net exposures**
Derivative assets						
Spot and forward foreign exchange and currency swaps	**22,770**	**(7,350)**	**15,420**	**-**	**(560)**	**14,860**
Derivative liabilities						
Spot and forward foreign exchange and currency swaps	**18,341**	**(7,350)**	**10,991**	**-**	**138**	**11,129**
Net positive fair value			**4,429**			

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

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

		Three months ended	
		31 March	31 March
Derivative instrument	**Consolidated statements of operations line item**	**2016**	2015
Spot and forward foreign exchange	Foreign exchange revenue	**591**	(184)

(In thousands of United States dollars, unless otherwise stated)

Note 14: Fair value measurements

The following table presents the financial assets and liabilities that are measured at fair value on a recurring basis. Management classifies these items based on the type of inputs used in their respective fair value determination as described in Note 2 of the Bank's audited financial statements for the year ended 31 December 2015.

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

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

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

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

There were no transfers between Level 1 and Level 2 during the three months ended 31 March 2016 and the year ended 31 December 2015.

	31 March 2016 Fair value			Total carrying amount / fair value	31 December 2015 Fair value			Total carrying amount / fair value
	Level 1	**Level 2**	**Level 3**		Level 1	Level 2	Level 3	
Items that are recognised at fair value on a recurring basis:								
Financial assets								
Trading investments								
US government and federal agencies	-	211,219	-	211,219	-	279,343	-	279,343
Non-US governments debt securities	-	-	-	-	-	7,489	-	7,489
Asset-backed securities - Student loans	-	22,217	-	22,217	-	28,285	-	28,285
Mutual funds	5,859	279	-	6,138	5,903	279	-	6,182
Total trading	5,859	233,715	-	239,574	5,903	315,396	-	321,299
Available-for-sale investments								
US government and federal agencies	-	1,751,766	-	1,751,766	-	1,404,499	-	1,404,499
Non-US governments debt securities	-	28,417	-	28,417	-	29,575	-	29,575
Corporate debt securities	-	538,632	-	538,632	-	506,144	-	506,144
Asset-backed securities - Student loans	-	-	12,161	12,161	-	-	12,161	12,161
Commercial mortgage-backed securities	-	153,654	-	153,654	-	148,726	-	148,726
Residential mortgage-backed securities	-	227,490	-	227,490	-	100,244	-	100,244
Total available-for-sale	-	2,699,959	12,161	2,712,120	-	2,189,188	12,161	2,201,349
Other assets - Derivatives	-	15,420	-	15,420	-	13,694	-	13,694
Financial liabilities								
Other liabilities - Derivatives	-	10,991	-	10,991	-	8,929	-	8,929

(In thousands of United States dollars, unless otherwise stated)

Level 3 Reconciliation

The Level 3 Asset-backed securities - Student loans is a federal family education loan programme guaranteed student loan security and is valued using a non-binding broker quote. The fair value provided by the broker is based on the last trading price of similar securities but as the market for the security is illiquid, a Level 2 classification is not supported.

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

	31 March 2016	31 December 2015
Carrying amount at beginning of period	12,161	12,226
Realised and unrealised gains (losses) recognised in other comprehensive income	-	(65)
Carrying amount at end of period	**12,161**	**12,161**

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

		31 March 2016			31 December 2015		
	Level	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
Financial assets							
Cash due from banks	Level 1	1,774,043	1,774,043	-	2,288,890	2,288,890	-
Short-term investments	Level 1	425,229	425,229	-	409,482	409,482	-
Investments held-to-maturity	Level 2	727,712	742,479	14,767	701,282	701,495	213
Loans, net of allowance for credit losses	Level 2	3,953,320	3,951,967	(1,353)	4,000,155	3,996,443	(3,712)
Other real estate owned[1]	Level 2	8,538	8,538	-	11,206	11,206	-
Financial liabilities							
Customer deposits							
Demand deposits	Level 2	7,616,084	7,616,084	-	7,654,643	7,654,643	-
Term deposits	Level 2	1,313,378	1,314,481	(1,103)	1,513,025	1,514,126	(1,101)
Deposits from banks	Level 2	9,102	9,102	-	14,478	14,478	-
Securities sold under agreement to repurchase	Level 2	23,518	23,518	-	-	-	-
Long-term debt	Level 2	117,000	116,979	21	117,000	116,606	394

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

(In thousands of United States dollars, unless otherwise stated)

Note 15: Interest rate risk

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

31 March 2016	**Earlier of contractual maturity or repricing date**						
(in $ millions)	**Within 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**After 5 years**	**Non-interest bearing funds**	**Total**
Assets							
Cash due from banks	1,673	-	-	-	-	101	1,774
Short-term investments	281	144	-	-	-	-	425
Investments	1,055	18	23	701	1,876	6	3,679
Loans	3,617	192	10	68	52	14	3,953
Other assets	-	-	-	-	-	355	355
Total assets	6,626	354	33	769	1,928	476	10,186
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	787	787
Demand deposits	5,698	-	-	-	-	1,924	7,622
Term deposits	928	202	111	76	-	-	1,317
Securities sold under agreement to repurchase	24	-	-	-	-	-	24
Other liabilities	-	-	-	-	-	319	319
Long-term debt	92	-	-	25	-	-	117
Total liabilities and shareholders' equity	6,742	202	111	101	-	3,030	10,186
Interest rate sensitivity gap	(116)	152	(78)	668	1,928	(2,554)	-
Cumulative interest rate sensitivity gap	(116)	36	(42)	626	2,554	-	-

31 December 2015	Earlier of contractual maturity or repricing date						
(in $ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash due from banks	2,178	-	-	-	-	111	2,289
Short-term investments	117	291	1	-	-	-	409
Investments	871	79	19	620	1,629	6	3,224
Loans	3,735	84	53	67	47	14	4,000
Other assets	-	-	-	-	-	354	354
Total assets	6,901	454	73	687	1,676	485	10,276
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	750	750
Demand deposits	5,783	-	-	-	-	1,882	7,665
Term deposits	989	296	153	79	-	-	1,517
Other liabilities	-	-	-	-	-	227	227
Long-term debt	92	-	-	25	-	-	117
Total liabilities and shareholders' equity	6,864	296	153	104	-	2,859	10,276
Interest rate sensitivity gap	37	158	(80)	583	1,676	(2,374)	-
Cumulative interest rate sensitivity gap	37	195	115	698	2,374	-	-

Note 16: Earnings per share

Earnings per share have been calculated using the weighted average number of common shares outstanding during the period 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.

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

During the three months ended 31 March 2016, options to purchase an average of 28.0 million (31 March 2015: 30.0 million) shares of common stock, were outstanding. During the three months ended 31 March 2016, the average number of outstanding awards of unvested common shares was 8.0 million (31 March 2015: 10.2 million). Only awards for which the sum of 1) the expense that will be recognised in the future (i.e. the unrecognised expense) and 2) its exercise price, if any, was lower than the average market price of the Bank's common stock were considered dilutive and, therefore, included in the computation of diluted earnings per share. An award's unrecognised expense is also considered to be the proceeds the employees would need to pay to purchase accelerated vesting of the awards. For purposes of calculating dilution, such proceeds are assumed to be used by the Bank to buy back common shares at the average market price. The weighted-average number of outstanding awards, net of the assumed weighted-average number of common shares bought back, is included in the number of diluted participating shares.

Warrants issued to the Government of Bermuda in exchange for the Government's guarantee of the preference shares, with an exercise price of $3.47 (31 December 2015: $3.47) for 4.32 million shares of common stock (31 December 2015: 4.32 million) were not included in the computation of earnings per share for the three months ended 31 March 2016 and 2015 because the exercise price was greater than the average market price of the Bank's common stock.

	Three months ended	
	31 March 2016	31 March 2015
Basic Earnings Per Share	**0.05**	0.04
Net income	**26,761**	27,960
Less: Preference dividends declared and guarantee fee	**(4,119)**	(4,117)
Less: Premium on preference share buyback	**-**	(28)
Net income attributable for common shareholders	**22,642**	23,815
Weighted average number of common shares issued	**472,933**	556,933
Weighted average number of common shares held as treasury stock	**(8,285)**	(12,861)
Adjusted weighted average number of common shares (in thousands)	**464,648**	544,072
Diluted Earnings Per Share	**0.05**	0.04
Net income attributable for common shareholders	**22,642**	23,815
Adjusted weighted average number of common shares issued	**464,648**	544,072
Net dilution impact related to options to purchase common shares	**4,561**	5,205
Net dilution impact related to awards of unvested common shares	**4,810**	7,361
Adjusted weighted average number of diluted common shares (in thousands)	**474,019**	556,638

(In thousands of United States dollars, unless otherwise stated)

Note 17: Share-based payments

Stock Option Plans

1997 Stock Option Plan

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

2010 Stock Option Plan

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

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

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

Time vesting condition

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

Performance vesting condition

50% of each option award is granted in the form of performance options and vests (partially or fully) on a "valuation event" date (date any of the 2 March 2010 new investors transfers at least 5% of the total number of common shares or the date that there is a change in control and any of the new investors realises a predetermined multiple of invested capital ("MOIC")). In the event of a valuation event and the MOIC reaching 200% of the original $1.21 per share invested capital, all performance options would vest. As at 31 March 2016 the grant date fair value not yet recognised in expenses of outstanding performance options is $8.6 million (31 December 2015: $8.7 million). If the probability of a valuation event becomes more likely than not, some or all of the unrecognised expense relating to the performance options will be recognised as an expense.

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

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

Changes in Outstanding Stock Options

	Number of shares transferable upon exercise (thousands)			Weighted average exercise price ($)		Weighted average remaining life (years)		
Three months ended 31 March 2016	**1997 Stock Option Plan**	**2010 Stock Option Plan**	**Total**	**1997 Stock Option Plan**	**2010 Stock Option Plan**	**1997 Stock Option Plan**	**2010 Stock Option Plan**	**Aggregate intrinsic value ($ thousands)**
Outstanding at beginning of period	2,176	26,070	28,246	13.52	1.16			
Exercised	-	(136)	(136)	-	1.15			
Forfeitures and cancellations	(448)	-	(448)	15.09	-			
Resignations, retirements, redundancies	-	(128)	(128)	-	1.15			
Outstanding at end of period	1,728	25,806	27,534	13.11	1.16	1.94	4.42	13,674
Vested and exercisable at end of period	1,728	12,588	14,316	13.11	1.16	1.94	4.69	

	Number of shares transferable upon exercise (thousands)			Weighted average exercise price ($)		Weighted average remaining life (years)		
Three months ended 31 March 2015	1997 Stock Option Plan	2010 Stock Option Plan	Total	1997 Stock Option Plan	2010 Stock Option Plan	1997 Stock Option Plan	2010 Stock Option Plan	Aggregate intrinsic value ($ thousands)
Outstanding at beginning of period	3,525	26,780	30,305	13.07	1.17			
Exercised	-	(229)	(229)	-	1.15			
Forfeitures and cancellations	(523)	-	(523)	10.45	-			
Resignations, retirements, redundancies	-	(6)	(6)	-	1.15			
Outstanding at end of period	3,002	26,545	29,547	13.52	1.16	2.52	5.42	21,771
Vested and exercisable at end of period	3,002	8,465	11,467	13.52	1.16	2.52	5.42	

Share Based Plans

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

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

Employee Deferred Incentive Plan ("EDIP")

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

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

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

Executive Long-Term Incentive Share Plan ("ELTIP") - Years 2016, 2015, 2014 and 2013

The 2016 ELTIP was approved on 18 February 2016. Under the Bank's 2016, 2015, 2014 and 2013 ELTIP, performance shares were awarded to executive management. These shares will generally vest upon the achievement of certain performance targets in the three-year period from the effective grant date.

	Three months ended			
Changes in Outstanding ELTIP and EDIP awards (in thousands of shares transferable upon vesting)	**31 March 2016**		31 March 2015	
	EDIP	**ELTIP**	EDIP	ELTIP
Outstanding at beginning of period	**2,255**	**6,061**	2,660	7,062
Granted	**1,114**	**2,104**	1,335	2,285
Vested	**(1,087)**	**(2,671)**	(1,270)	(1,201)
Resignations, retirements, redundancies	**(19)**	**(83)**	-	-
Outstanding at end of period	**2,263**	**5,411**	2,725	8,146

Share-based Compensation Cost Recognised in Net Income

	Three months ended					
	31 March 2016			31 March 2015		
	Stock option plans	**EDIP and ELTIP**	**Total**	Stock option plans	EDIP and ELTIP	Total
Share-based compensation cost	**129**	**1,662**	**1,791**	130	1,824	1,954

Unrecognised Share-based Compensation Cost	**31 March 2016**	31 March 2015
2010 Stock Option Plan		
Time vesting options	**1**	150
Performance vesting options	**8,595**	8,799
EDIP	**3,255**	1,386
ELTIP		
Time vesting shares	**18**	32
Performance vesting shares	**6,136**	3,199
Total unrecognised expense	**18,005**	13,566

(In thousands of United States dollars, unless otherwise stated)

Note 18: Share buy-back plans

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

From time to time the Bank's associates, insiders and insiders' associates as defined by the BSX regulations may sell shares which may result in such shares being repurchased pursuant to each programme, provided no more than any such person's pro-rata share of the listed securities is repurchased. Pursuant to the BSX regulations, all repurchases made by any issuer pursuant to a securities repurchase programme must be made: (1) in the open market and not by private agreement; and (2) for a price not higher than the last independent trade for a round lot of the relevant class of securities. See Note 20, in which certain large one-time share buy-backs transactions are described.

Common Share Buy-Back Programme

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

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

	Three months ended	Year ended				
Common share buy-backs	**31 March 2016**	2015	2014	2013	2012	Total
Acquired number of shares (to the nearest 1)	**165,417**	2,503,707	8,567,340	4,038,482	7,260,051	22,534,997
Average cost per common share	**1.64**	1.94	1.99	1.39	1.24	1.63
Total cost (in US dollars)	**272,048**	4,862,248	17,018,412	5,610,907	8,999,061	36,762,676

Preference Share Buy-Back Programme

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

	Three months ended	Year ended				
Preference share buy-backs	**31 March 2016**	2015	2014	2013	2012	Total
Acquired number of shares (to the nearest 1)	**-**	183	560	11,972	4,422	17,137
Average cost per preference share	**-**	1,151.55	1,172.26	1,230.26	1,218.40	1,224.46
Total cost (in US dollars)	**-**	210,734	656,465	14,728,624	5,387,777	20,983,600

(In thousands of United States dollars, unless otherwise stated)

Note 19: Accumulated other comprehensive loss

31 March 2016	Unrealised (losses) on translation of net investment in foreign operations	HTM investments	Unrealised gains (losses) on AFS investments	Employee benefit plans: Pension	Employee benefit plans: Post-retirement healthcare	Employee benefit plans: Subtotal - employee benefits plans	Total AOCL
Balance at beginning of period	(13,645)	(2,350)	(57)	(46,331)	(28,114)	(74,445)	(90,497)
Other comprehensive income (loss), net of taxes	(1,587)	(245)	19,129	467	(903)	(436)	16,861
Balance at end of period	(15,232)	(2,595)	19,072	(45,864)	(29,017)	(74,881)	(73,636)

31 March 2015	Unrealised (losses) on translation of net investment in foreign operations	HTM investments	Unrealised gains (losses) on AFS investments	Employee benefit plans: Pension	Employee benefit plans: Post-retirement healthcare	Employee benefit plans: Subtotal - employee benefits plans	Total AOCL
Balance at beginning of period	(10,506)	-	9,021	(53,169)	(22,866)	(76,035)	(77,520)
Other comprehensive income (loss), net of taxes	(3,011)	-	13,440	685	(749)	(64)	10,365
Balance at end of period	(13,517)	-	22,461	(52,484)	(23,615)	(76,099)	(67,155)

Net Change of AOCL Components

	Line item in the consolidated statements of operations, if any	Three months ended 31 March 2016	Three months ended 31 March 2015
Net unrealised gains (losses) on translation of net investment in foreign operations adjustments			
Foreign currency translation adjustments	N/A	(4,399)	(9,111)
Gains on net investment hedge	N/A	2,812	6,100
Net change		(1,587)	(3,011)
Held-to-maturity investment adjustments			
Amortisation of net losses to net income	Interest income on investments	(245)	-
Net change		(245)	-
Available-for-sale investment adjustments			
Gross unrealised gains (losses)	N/A	19,053	13,174
Transfer of realised (gains) losses to net income	Net realised gains (losses) on AFS investments	76	266
Net change		19,129	13,440
Employee benefit plans adjustments			
Defined benefit pension plan			
Amortisation of actuarial losses	Salaries and other employee benefits	426	334
Foreign currency translation adjustments of related balances	N/A	41	351
Net change		467	685
Post-retirement healthcare plan			
Amortisation of net actuarial losses	Salaries and other employee benefits	683	837
Amortisation of prior service credit	Salaries and other employee benefits	(1,586)	(1,586)
Net change		(903)	(749)
Other comprehensive income, net of taxes		16,861	10,365

(In thousands of United States dollars, unless otherwise stated)

Note 20: Capital structure

Authorised Capital

The Bank's total authorised share capital as of 31 March 2016 and 31 December 2015 consisted of (i) 26 billion common shares of par value BD$0.01, (ii) 100,200,001 preference shares of par value US$0.01 and (iii) 50 million preference shares of par value £0.01.

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

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

Preference Shares

On 22 June 2009, the Bank issued 200,000 Government guaranteed, 8.00% non-cumulative perpetual limited voting preference shares (the "preference shares"). The issuance price was US$1,000 per share. The preference share buy-backs are disclosed in Note 18: Share Buy-Back Plans.

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

Holders of preference shares will be entitled to receive, on each preference share only when, as and if declared by the Board of Directors, non-cumulative cash dividends at a rate per annum equal to 8.00% on the liquidation preference of US $1,000 per preference share payable quarterly in arrears. In exchange for the Government's commitment, the Bank issued to the Government 4,279,601 warrants to purchase common shares of the Bank at an exercise price of $7.01. The warrants expire on 22 June 2019. During 2010, the warrants issued to the Government were adjusted in accordance with the terms of the guarantee and as a result the Government now holds 4,320,613 warrants with an exercise price of $3.47 as at 31 March 2016.

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

Dividends Declared

During the three months ended 31 March 2016, the Bank declared cash dividends of $0.01 (31 March 2015: $0.02) for each common share and CVCP share on record (CVCP shares were all converted to common shares on 31 March 2015) as of the related record dates. During the three months ended 31 March 2016 and 2015, the Bank declared the full 8.00% cash dividends on preference shares in each quarter.

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

Regulatory Capital

Effective 1 January 2016, the Bank's regulatory capital is determined in accordance with current Basel III guidelines as issued by the Bermuda Monetary Authority ("BMA"). Basel III adopts Common Equity Tier 1 ("CET1") as the predominant form of regulatory capital with the CET1 ratio as a new metric. Basel III also adopts the new Leverage Ratio regime, which is calculated by dividing Tier 1 capital by an exposure measure. The exposure measure consists of total assets (excluding items deducted from Tier 1 capital) and certain off-balance sheet items converted into credit exposure equivalents as well as adjustments for derivatives to reflect credit risk and other risks. Prior to 1 January 2016, the Bank's regulatory capital was determined in accordance with Basel II guidelines as issued by the BMA.

The Bank is fully compliant with all regulatory capital requirements and maintains capital ratios in excess of regulatory minimums as at 31 March 2016 and 31 December 2015. The following table sets forth the Bank's capital adequacy in accordance with Basel III framework as at 31 March 2016 and Basel II framework as at 31 December 2015:

	31 March 2016 (Basel III)		31 December 2015 (Basel II)	
	Actual	**Regulatory minimum**	Actual	Regulatory minimum
Capital				
Common Equity Tier 1	**526,039**	**N/A**	N/A	N/A
Tier 1 capital	**695,782**	**N/A**	699,278	N/A
Tier 2 capital	**99,975**	**N/A**	119,164	N/A
Total capital	**795,757**	**N/A**	818,442	N/A
Risk Weighted Assets	**4,252,058**	**N/A**	4,304,074	N/A
Capital Ratios (%)				
Common Equity Tier 1	**12.4%**	**8.1%**	N/A	N/A
Total Tier 1	**16.4%**	**9.6%**	16.2%	4.0%
Total Capital	**18.7%**	**15.1%**	19.0%	14.46%
Leverage ratio	**6.5%**	**5.0%**	N/A	N/A

Note 21: Related party transactions

Financing Transactions

Certain Directors of the Bank, companies in which they are principal owners, and trusts in which they are involved, have loans with the Bank. These loans were made in the ordinary course of business at normal credit terms, including interest rate and collateral requirements. As at 31 March 2016, related party Director loan balances were $63.3 million (31 December 2015: $61.1 million).

On 27 June 2013, the Bank executed a $95 million loan agreement with an investment fund managed by a significant shareholder which provides for maturity on 30 June 2017. This loan was made in the ordinary course of business on normal commercial terms. At 31 March 2016 and 31 December 2015, nil was outstanding under this agreement. For the three months ended 31 March 2016, nil (31 March 2015: $0.6 million) of interest income has been recognised in the consolidated statements of operations.

Capital Transaction

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

Financial Transactions With Related Parties

The Bank holds seed investments in several Butterfield mutual funds, which are managed by a wholly-owned subsidiary of the Bank. As at 31 March 2016, these investments have a fair value of $5.0 million with an unrealized gain of $0.9 million (31 December 2015: $5.0 million and $0.9 million respectively) and were included in trading investments at their fair value. During the three months ended 31 March 2016, the Bank earned $1.3 million (31 March 2015: $1.3 million) in asset management revenue from funds managed by a wholly-owned subsidiary of the Bank.

Note 22: Comparative information

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

During the last quarter of the year ended 31 December 2015, the Bank determined that certain investments classified as AFS for its operations in Guernsey and the United Kingdom should have been classified as trading securities since 2011. There is no impact to comprehensive income or total shareholders' equity in previous years as a result of this mis-classification. The Bank has revised the relevant 2015 amounts presented in the comparative period's results, and presented the accumulated effect of these revised classifications prior to 2015 as a decrease of $0.7 million to accumulated deficit and a corresponding increase to accumulated other comprehensive loss on 1 January 2015. Included in the $0.7 million are net changes in unrealised gains (loss) of $9.8 million, ($15.5) million, $0.9 million and $5.5 million relating to 2014, 2013, 2012 and 2011, respectively. Further, the revision of the 31 March 2015 results include an increase and corresponding decrease of $1.1 million to net income and other comprehensive loss respectively as well as the re-classification of $373.1 million of investments from AFS to trading.

Note 23: Subsequent events

On 25 April 2016, the Board of Directors declared an interim dividend of $0.01 per common share to be paid on 27 May 2016 to shareholders of record on 13 May 2016.

The Bank has performed an evaluation of subsequent events through to 25 April 2016, the date the consolidated financial statements were approved for issuance.