ABRIDGED ANNUAL REPORT 2018

Butterfield Bank (Guernsey) Limited

WHERE WE STAND

Butterfield

CONTENTS

DIRECTORS AND OFFICERS

DIRECTORS	Peter J Rose, *Chairman* Richard Saunders, *Managing Director* Andrew Henton Daniel Frumkin (Appointed 30 November 2018) Michael Collins (Resigned 30 November 2018)
SECRETARY	Robert J Yerby
INDEPENDENT AUDITOR	PricewaterhouseCoopers CI LLP Royal Bank Place PO Box 321 1 Glategny Esplanade St Peter Port Guernsey Channel Islands GY1 4ND
REGISTERED OFFICE	PO Box 25 Regency Court Glategny Esplanade St Peter Port Guernsey Channel Islands GY1 3AP

Butterfield Bank (Guernsey) Limited is a wholly owned subsidiary of The Bank of N.T. Butterfield & Son Limited. The Directors regard The Bank of N.T. Butterfield & Son Limited, which is incorporated in Bermuda, as the ultimate controlling party. The Group parent company is a publicly traded company in Bermuda on the Bermuda Stock Exchange and in the US on the New York Stock Exchange (BSX: NTB.BH; NYSE: NTB).

Copies of the financial statements of The Bank of N.T. Butterfield & Son Limited are available on request or visit www.butterfieldgroup.com

Butterfield Bank (Guernsey) Limited ("BBGL") is licensed and regulated by the Guernsey Financial Services Commission under The Banking Supervision (Bailiwick of Guernsey) Law, 1994 and The Protection of Investors (Bailiwick of Guernsey) Law, 1987, each as amended from time to time, under registration number 85. BBGL is a participant in the Guernsey Banking Deposit Compensation Scheme (the "Scheme") established by The Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008 (the "Ordinance"). The Scheme offers protection only in respect of 'qualifying deposits' (as that term is used in the Ordinance) of up to £50,000, subject to certain limitations as set out in the Ordinance. The maximum total amount of compensation is capped at £100,000,000 in any 5 year period. Full details are available on the Scheme's website www.dcs.gg or upon request. Deposits are not covered by the UK Financial Services Compensation Scheme under the Financial Services and Markets Act 2000, nor are deposits covered by any equivalent scheme outside of the Bailiwick of Guernsey. BBGL is registered under the Data Protection (Bailiwick of Guernsey) Law 2017, under registration number 11160 and with the Guernsey Registry under registration number 21061. BBGL's registered office address is PO Box 25, Regency Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 3AP. BBGL's products and services are available in Guernsey and only in those other jurisdictions where they may be legally offered or obtained.

MANAGING DIRECTOR'S REPORT

2018 saw further improvements in the profitability of Butterfield Bank (Guernsey) Limited ("the Bank") with net income before tax and gains and losses increasing £4.8m to £8.9m from £4.1m in 2017. These results reflect further growth in interest income from participations in loans originated by our sister company Butterfield Mortgages Limited, offsetting higher expenses driven by increased compliance and regulatory expenses and slightly weaker non-interest income.

The Bank's loan book increased by £211m to £844m. This increase was driven primarily from our continuing participation in commercial mortgages and residential mortgages originated by Butterfield Mortgages Limited, based in the UK. This partnership is generating significant additional revenues, enabling the Bank to utilise its stable and growing deposit book to fund UK mortgages. This lending is primarily to high net worth individuals secured on prime London residential properties or investments with conservative loan to value ratios. The Guernsey-originated loan book also increased slightly during the year.

Customer deposit levels increased during the year by £28m to £1,005m reflecting a growth in demand for term and notice accounts. Central bank interest rates in the UK and the US finally increased after a number of years of persistently low rates. This has allowed the Bank to increase interest earnings on interbank and sovereign investments. The reduction in non-interest income is primarily a result of weaker foreign exchange revenues.

Increased expenses arose from investment in technology, higher marketing costs as we look to build our brand and community awareness in 2018 and also higher loan administration fees paid to our sister company Butterfield Mortgages Limited.

The Bank remains strongly capitalised with total shareholder equity of £81.2m. This provides a solid platform and provides capacity for future growth.

The Butterfield Group is committed to supporting the local communities in which we operate, therefore, as part of our community awareness programme we supported a number of initiatives in 2018. These included the Guernsey Music Centre's Winter Concert, MUG Bermuda Shorts Week, Guernsey Press 'Pride of Guernsey' Awards, the Rotary Tree of Joy and the Accessible Christmas Lights event. We look forward to working with many of these partners into 2019.

On behalf of the Board of Directors, I would like to thank all our personnel for their continuing support, hard work and professionalism during the year.

Richard Saunders
Managing Director

14 February 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BUTTERFIELD BANK (GUERNSEY) LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

We have examined the abridged financial statements on pages 6 to 25 which comprise the consolidated statement of operations and comprehensive income, consolidated balance sheet and the related notes together with the audited consolidated financial statements of Butterfield Bank (Guernsey) Limited for the year ended 31 December 2018.

The scope of our work for the purpose of this report was limited to confirming whether the abridged financial statements have been properly prepared from the audited consolidated financial statements and have been drawn up in a manner authorised by the Guernsey Financial Services Commission. The scope of our work for the purpose of this report does not include examining or dealing with events after the date of our report in the full consolidated financial statements.

In our opinion the abridged financial statements have been extracted from the audited consolidated financial statements and have been drawn up in accordance with the provisions of The Banking Supervision (Bailiwick of Guernsey) Law, 1994 in a manner authorised by the Guernsey Financial Services Commission.

On 14 February 2019 we reported, as auditor of Butterfield Bank (Guernsey) Limited, to the Members on the audited consolidated financial statements as follows:

OUR OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Butterfield Bank (Guernsey) Limited (the "Company") and its subsidiaries (together the "Group") as at 31 December 2018, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America and have been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008, The Banking Supervision (Bailiwick of Guernsey) Law, 1994 and The Protection of Investors (Bailiwick of Guernsey) Law, 1987.

WHAT WE HAVE AUDITED

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of operations for the year then ended;
- the consolidated statement of changes in shareholders' equity and comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

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

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

INDEPENDENCE

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and with SEC Independence Rules. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

We have no exceptions to report arising from this responsibility.

Furthermore we have examined the Statement of Financial Resources set out on page 46. In our opinion the financial resources requirement specified in Rule 2.2.1 of The Licensees (Capital Adequacy) 2010 Rules has been satisfied.

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

PricewaterhouseCoopers CI LLP
Chartered Accountants
Guernsey, Channel Islands

14 February 2019

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

for the year ended 31 December 2018

	2018 £'000	2017 £'000
Net interest earned	**25,800**	18,583
Non-interest income	**6,874**	7,180
Other gains/(losses)	**6**	(50)
Total income	**32,680**	25,713
Non-interest expenses	**(23,799)**	(21,574)
Net income before income taxes	**8,881**	4,139
Income taxes	**(1,074)**	(643)
Net income for the year	**7,807**	3,496
Comprehensive income		
Net income	**7,807**	3,496
Other comprehensive income	**2,099**	3,979
Total comprehensive income	**9,906**	**7,475**

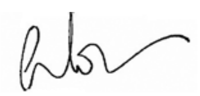
The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Assets			
Cash and deposits with banks	2	**467,826**	309,138
Investments	3,4	**129,268**	170,965
Loans net of allowances for credit losses		**844,194**	632,983
Premises, equipment and software		**8,101**	8,210
Others assets		**16,150**	13,348
Total assets		**1,465,539**	1,134,644
Liabilities			
Deposits by customers and banks	7	**1,367,046**	1,045,435
Other liabilities		**7,311**	7,933
		1,374,357	1,053,368
Subordinated debt	8	**10,000**	10,000
Total liabilities		**1,384,357**	1,063,368
Shareholders' equity			
Ordinary share capital	9	**55,000**	55,000
Retained earnings		**31,730**	23,923
Accumulated other comprehensive loss		**(5,548)**	(7,647)
Total shareholders' equity		**81,182**	71,276
Total liabilities and shareholders' equity		**1,465,539**	1,134,644

Independent Audit Report features on page 4. The abridged financial statements on pages 6 to 25 were approved by the Board of Directors on 14 February 2019 and were signed on its behalf by:



Peter J Rose
Chairman

Richard Saunders
Managing Director

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation and use of estimates and assumptions

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

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

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

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

(b) Basis of consolidation

The Consolidated Financial Statements include the accounts of the Company and its majority-owned subsidiaries (collectively "the Bank"). Intercompany accounts and transactions have been eliminated on consolidation. The Bank consolidates subsidiaries where it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control.

(c) Foreign currency translation

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

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

(d) Assets held in trust or custody

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

(e) Cash and cash equivalents

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

(f) Short term investments

Short term investments comprise restricted term and demand deposits and unrestricted term deposits, certificates of deposit and treasury bills with less than one year but greater than three months maturity from the date of acquisition.

(g) Investments

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

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

The specific identification method is used to determine realised gains and losses on AFS and HTM investments, which are included in investments gains (losses) in the Consolidated Statement of Operations.

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

Recognition of other-than-temporary impairments

The other-than-temporary impairment ("OTTI") model for debt securities requires that OTTI loss must be recognised in net income if it is more likely than not that the investor will sell the debt security before recovery of its amortised cost basis. However, even if an investor does not expect to sell a debt security, the investor must evaluate expected cash flows to be received and determine if recovery of the security's entire amortised cost basis (the recoverable value) is expected and whether a credit loss exists.

In situations where there is a credit loss, only the amount of impairment relating to credit losses on AFS and HTM investments is recognised in net income, with decreases in fair value relating to factors other than credit losses being recognised in Other Comprehensive Income/(Loss) ("OCI").

Investments in debt securities in unrealised loss positions are analysed as part of management's ongoing assessment of OTTI. When management intends to sell such securities or it is more likely that the Bank will be required to sell the securities before recovering the amortised cost, it recognises an impairment loss equal to the full difference between the amortised cost basis and the fair value of those securities. When management does not intend to sell or it is not more likely than not that the Bank will be required to sell such securities before recovering the amortised cost, management estimates cash flows over the remaining lives of the underlying securities to assess whether credit losses exist. In determining whether credit losses exist, management considers a variety of factors, including the length of time and extent to which the fair value has been less than cost; adverse conditions specifically related to the industry, geographic area or financial condition of the issuer or underlying collateral of a security; payment structure of the security; changes to the rating of the security by a rating agency; the volatility of the fair value changes; and changes in fair value of the security after the balance sheet date. The degree of judgment involved in determining the recoverable value of an investment security is dependent upon the availability of observable market prices or observable market parameters. When observable market prices and parameters do not exist, judgment is necessary to estimate recoverable value which gives rise to added uncertainty in the valuation process. The valuation process takes into consideration factors such as interest rate changes, movements in credit spreads, default rate assumptions, prepayment assumptions, type and quality of collateral, and market sentiment.

Cash flow estimates take into account expectations of relevant market and economic data as at the end of the reporting period – including, for example, underlying loan-level data, and structural features of securitisation, such as subordination, excess spread, over collateralisation or other forms of credit enhancement.

Losses projected for the underlying collateral ("pool losses") are compared against the level of credit enhancement in the securitisation structure to determine whether these features are sufficient to absorb the pool losses, or whether a credit loss on the debt security exists. For debt securities, management considers a decline in fair value to be other-than-temporary when it does not expect to recover the entire amortised cost basis of the security.

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

(h) Loans

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

Impaired loans

A loan is considered to be impaired when, based on current information and events, the Bank determines that it will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. The Bank accounts for and discloses non-accrual loans as impaired loans.

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

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

Non-accrual

Commercial, commercial real estate and consumer loans (excluding credit card consumer loans) are placed on non-accrual status immediately if:

- in the opinion of management, full payment of principal or interest is in doubt; or
- principal or interest is 90 days past due.

Residential mortgages are placed on non-accrual status immediately if:

- in the opinion of management, full payment of principal or interest is in doubt; or
- when principal or interest is 90 days past due, unless the loan is secured and any ongoing collection efforts are reasonably expected to result in repayment of all amounts due under the contractual terms of the loan.

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

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

Loans are restored to accrual status only when interest and principal payments are brought current and future payments are reasonably assured.

Loans modified in a Troubled Debt Restructuring ("TDR")

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

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

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

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

Loans modified in a TDR are typically already on non-accrual status and partial charge-offs have in some cases already been taken against the outstanding loan balance.

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

Delinquencies

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

Charge-offs

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

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

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

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

(i) Allowance for credit losses

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

Specific allowances

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

General allowance

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

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

(j) Business combinations, goodwill and intangible assets

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

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

(k) Premises, equipment and computer software

Land, building, equipment and computer software, including leasehold improvements, are carried at cost less accumulated depreciation. The Bank generally computes depreciation using the straight-line method over the estimated useful life of an asset, which is 50 years for buildings, and 3 to 10 years for other equipment. For leasehold improvements the Bank uses the straight-line method over the lesser of the remaining term of the leased facility or the estimated economic life of the improvement. The Bank capitalises certain costs, including interest cost incurred during the development phase, associated with the acquisition or development of internal use software. Once the software is ready for its intended use, these costs are amortised on a straight-line basis over the software's expected useful life, which is between 5 and 10 years.

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

(l) Derivatives

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

The changes in the fair value for a derivative that is designated and qualifies as a fair value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk, are recorded in current period earnings. When the hedge is highly effective, the changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction. Any hedge ineffectiveness is recorded in current period earnings.

The changes in the fair value of a derivative that is designated and qualifies as a foreign currency hedge is recorded in either current period earnings or other comprehensive income, depending on whether the hedging relationship satisfies the criteria for a fair value or cash flow hedge when the hedge is highly effective. If, however, a derivative is used as a hedge of a net investment in a foreign operation, the changes in the derivative's fair value, to the extent that the derivative is effective as a hedge, are recorded in the cumulative translation adjustment account within other comprehensive income. Changes in the fair value of derivative trading and non-hedging instruments are reported in current period earnings.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value, cash flow, or foreign currency hedges to specific assets and liabilities on the consolidated balance sheet or specific firm commitments or forecasted transactions. The Bank also formally assesses whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative has ceased to be highly effective as a hedge, the Bank discontinues hedge accounting prospectively. For those hedge relationships that are terminated, hedge designations that are removed, or forecasted transactions that are no longer expected to occur, the hedge accounting treatment described in the paragraphs above is no longer applied and the end-user derivative is terminated or transferred to the trading account. For fair value hedges, any changes to the hedged item remain as part of the basis of the asset or liability and are ultimately reflected as an element of the yield. For cash flow hedges, any changes in fair value of the end-user derivative remain in other comprehensive income and are included in retained earnings of future periods when earnings are also affected by the variability of the hedged cash flows. If the forecasted transaction is no longer likely to occur, any changes in fair value of the end-user derivatives are recognised in net income.

(m) Employee future benefits

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

Expense for the defined benefit pension plans is comprised of (a) the actuarially determined benefits for the current years' service, (b) imputed interest on the actuarially determined liability of the plan, (c) the expected investment return on the fair value of plan assets and (d) amortisation of certain items over the expected average remaining service life of employees. The items amortised are amounts arising as a result of experience gains and losses, changes in assumptions, plan amendments and the change in the net pension asset arising on adoption of revised accounting standards.

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

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

Effective 30 September 2014, the Defined Benefit pension benefits or the Bank's Guernsey operations were amended to freeze credited service and final average earnings for remaining active members. The benefits amendment resulted in a further reduction in the Guernsey Defined Benefit pension liability. Under the terms of the closure, defined benefit scheme members became eligible for membership of the defined contribution plan.

(n) Collateral

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

(o) Share based compensation

The Bank engages in equity settled share-based payment transactions in respect of services received from eligible employees. The fair value of the services received is measured by reference to the fair value of the shares or share options (in The Bank of N.T. Butterfield & Son Limited) granted on the date of the grant. The cost of the employee services received in respect of the shares or share options granted is recognised in the Consolidated Statement of Operations over the shorter of the vesting or service period.

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

(p) Revenue recognition

Custodian services fees include fees for private and institutional custody services. These fees are recognised as revenue when the Bank has rendered all services to the clients and is entitled to collect the fee from the client, as long as there are no other contingencies associated with the fee.

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

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

All other fees are recognised as revenue in the period in which the service is provided.

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

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

(q) Fair value of financial instruments

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

Level 1, 2 and 3 valuation inputs

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

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

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

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

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

Cash and cash equivalents

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

Cash equivalents include unrestricted term deposits, certificates of deposits and Treasury Bills with a maturity of less than 90 days from the date of acquisition and the carrying value at cost is considered to approximate fair value because they are short-term in nature, bear interest rates that approximate market rates, and generally have negligible credit risk.

Short term investments

Short term investments comprise restricted term and demand deposits, certificates of deposit and Treasury Bills and the carrying value at cost is considered to approximate fair value because they are short-term in nature, bear interest rates that approximate market rates, and generally have negligible credit risk.

Trading investments and defined benefit pension plan equity securities and mutual funds

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

AFS and HTM investments and defined benefit pension plan fixed income securities

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

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

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

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

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

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

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

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

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

Derivatives
Fair value of exchange traded derivatives is based on quoted market prices. Fair value of over the counter derivatives is calculated as the net present value of contractual cash flows using prevailing market rates.

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

(r) Credit related arrangements
In the normal course of business, the Bank enters into various commitments to meet the credit requirements of its customers. Such commitments, which are not included in the Consolidated Balance Sheet, include:

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

These credit arrangements are subject to the Bank's normal credit standards and collateral is obtained where appropriate. The contractual amounts for these commitments set out in the table in Note 8 represent the maximum payments the Bank would have to make should the contracts be fully drawn, the counterparty default, and any collateral held prove to be of no value. As many of these arrangements will expire or terminate without being drawn upon or are fully collateralised, the contractual amounts do not necessarily represent future cash requirements. The Bank does not carry any liability for these obligations.

(s) Income taxes

The Bank uses the asset and liability method whereby income taxes reflect the expected future tax consequences of temporary differences between the financial statements' carrying amounts of assets and liabilities and their respective tax bases. Accordingly, a deferred income tax asset or liability is determined for each temporary difference based on the enacted tax rates to be in effect on the expected reversal date of the temporary difference. Income taxes on the Consolidated Statement of Operations include the current and deferred portions of the income taxes. Income taxes applicable to items charged or credited directly to shareholders' equity are included in such items.

Net deferred income tax assets or liabilities accumulated as a result of temporary differences are included in other assets or other liabilities, respectively. A valuation allowance is established to reduce deferred income tax assets to the amount more likely than not to be realised.

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

(t) Consolidated statement of cash flows

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

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

NOTE 2: CASH AND CASH EQUIVALENTS

	2018 £'000	2017 £'000
Interest earning – Banks		
Cash and demand deposits with banks	**34,898**	31,365
Cash equivalents	**432,928**	277,773
	467,826	309,138

NOTE 3: SHORT TERM INVESTMENTS

	2018 £'000	2017 £'000
Unrestricted		
Interest earning		
Treasury bill maturing within three months	-	52,780
Term deposits maturing within three months	456	476
Term deposits maturing within three to six months	2,569	2,747
	3,025	56,003
Restricted		
Interest earning		
Call deposit	-	400
Term deposits maturity within three months	784	740
	784	1,140
Total short term investments	3,809	57,143

NOTE 4: INVESTMENTS

	2018 £'000	2017 £'000
Held-to-Maturity securities		
US Government and Federal Agencies	125,449	113,812
	125,449	113,812
Available for sale		
Equity securities	10	10
	10	10
Total investments	125,459	113,822

The amortised cost and estimated fair value are as follows:

	2018 Amortised cost £'000	2018 Fair value £'000	2017 Amortised cost £'000	2017 Fair value £'000
Held to Maturity securities				
US Government and Federal Agencies	125,449	121,766	113,812	113,173
	125,449	121,766	113,812	113,173
Available for sale				
Equity securities	10	10	10	10
	10	10	10	10
Total investments	125,459	121,776	113,822	113,183

for the year ended 31 December 2018

NOTE 5: LOANS

Non-performing loans are stated net of interest in suspense.

NOTE 6: INVESTMENT IN SUBSIDIARIES

	2018 £	2017 £
100% holding in the following companies		
Rose Nominees Limited	**100**	100
	100	100

NOTE 7: DEPOSITS

	2018 £'000	2017 £'000
Customer deposits maturing		
Within six months	**838,131**	922,069
Within six to twelve months	**166,765**	53,547
	1,004,896	975,616
Bank and Group deposits maturing		
Within six months	**362,150**	69,819
	362,150	69,819

NOTE 8: SUBORDINATED DEBT CAPITAL

The subordinated loan is due to The Bank of N.T. Butterfield and Son Limited, Hamilton, Bermuda. It is subordinate to all other liabilities of the Bank and bears interest at 4.5% above the Bank of England Base Rate, with a minimum rate of 5%. The loan is repayable in full by 23 February 2027.

NOTE 9: ORDINARY SHARE CAPITAL

	2018 £'000	2017 £'000
Authorised		
Unlimited Share Capital Ordinary Shares of £1 each	-	-
Issued		
55,000,000 Ordinary Shares of £1 each fully paid	**55,000**	55,000

NOTE 10: CHANGE IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	2018 £'000	2017 £'000
Ordinary share capital		
Issued and outstanding at beginning of year	55,000	45,000
Issued during the year	-	10,000
Issued and outstanding at end of year	55,000	55,000
Retained earnings		
Balance at beginning of year	23,923	20,427
Net income for the year	7,807	3,496
Balance at end of year	31,730	23,923
Accumulated other comprehensive loss		
Balance at beginning of year	(7,647)	(11,626)
Net change in accrued pension benefit cost during the year	2,099	3,979
Balance at end of year	(5,548)	(7,647)
Total shareholders' equity	81,182	71,276

NOTE 11: COMMITMENTS, CREDIT RELATED ARRANGEMENTS AND CONTINGENCIES

In the ordinary course of business there are various outstanding commitments and contingent liabilities that are reflected in the consolidated financial statements.

	2018 £'000	2017 £'000
Commitments to extend credit	107,476	108,770
Guarantees	50	105
	107,526	108,875

NOTE 12: RELATED PARTY TRANSACTIONS

	2018 £'000	2017 £'000
Cash and demand deposits parent	**593**	432
Cash and demand deposits fellow subsidiaries	**34**	128
Term deposits parent	**104,016**	-
Term deposits fellow subsidiaries	**17,934**	-
Staff loans & mortgages	**1,600**	75
Due from parent	-	66
Due from fellow subsidiaries	**5,922**	14
Demand deposits from fellow subsidiaries	**72,054**	18,265
Term deposit parent	-	43,550
Term deposit fellow subsidiaries	**288,997**	8,004
Accrued interest payable parent	**4**	7
Accrued interest payable fellow subsidiaries	**66**	-
Subordinated debt interest payable parent	**55**	52
Due to parent	**197**	36
Due to fellow subsidiaries	-	194
Subordinated debt capital parent	**10,000**	10,000
Interest income received from parent	**8**	581
Interest expense paid to parent	**(505)**	(172)
Interest expense paid to fellow subsidiaries	**(337)**	(4)
Interest expense subordinated debt paid to parent	**(509)**	(427)
Administration and guarantee fees paid to parent	**(651)**	-
Administration fee paid to fellow subsidiaries	**(3,033)**	(1,935)
Net Service charges paid to parent	**(214)**	(1,064)
Net Service charges received/(paid) to fellow subsidiaries	**425**	(171)
Other income received from Parent	**41**	43
Directors Fees	**(90)**	(90)

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

The subordinated loan is due to The Bank of N.T. Butterfield and Son Limited, Hamilton, Bermuda. It is subordinate to all other liabilities of the Bank and bears interest at 4.5% above the Bank of England Base Rate, with a minimum rate of 5%. The loan is repayable in full by 23 February 2027.

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

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

During 2018 the Bank paid £572,500 in relation to 2017 staff bonuses that related to employees of Butterfield Trust (Guernsey) Limited, (BTGL) (a fellow subsidiary of the parent). This amount has not been recharged. As at the year end the Bank has collectively provided for staff bonuses of the Bank and BTGL, the allocation between the two parties has not been determined and it is not the intention of the Bank to recharge BTGL for any such allocation.

NOTE 13: EMPLOYEE FUTURE BENEFITS

The Bank maintains trustee pension plans, including a defined benefit plan and a defined contribution plan. The defined benefit provisions under the pension plan are generally based upon years of service and average salary during the final years of employment.

The defined benefit plan is non-contributory and the funding required is provided by the Bank, based upon the advice of an independent actuary. There is provision for employees to voluntarily contribute in order to increase the years of service accrued.

The assets of all schemes are held separately from those of the Bank. The total pension cost during the year including contributions for the Guernsey group was £1,084,552 (2017: £1,235,114), of which £479,476 (2017: £795,794) related to the Bank, the remainder was paid by a fellow subsidiary.

NOTE 14: CURRENCY EXPOSURE

	Sterling £'000	%	US Dollars £'000	%	Other £'000	%
Assets	960,276	65	276,055	19	229,208	16
Off balance sheet assets						
Spot and forward contracts	86,719	48	85,361	48	6,950	4
	1,046,995		361,416		236,158	
Liabilities including shareholder's funds	991,606	68	252,947	17	220,986	15
Off balance sheet liabilities						
Spot and forward contracts	87,379	49	84,341	47	7,304	4
	1,078,985		337,288		228,290	
2018 net position	**(31,990)**		**24,128**		**7,868**	
2017 net position	(24,882)		18,269		6,627	

NOTE 15: RISK MANAGEMENT AND CONTROL

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

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

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

Credit risk

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

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

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

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

Market risk

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

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

Liquidity risk

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

Currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. All open currency positions are held within strict limits approved by the Board and the Parent Company and are reported daily to senior management in Guernsey and to the Parent Company's Treasury Risk Management function. Total positions are limited to a £200,000 overnight currency equivalent.

Derivatives

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

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

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

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

Interest rate risk

The following table sets out the assets, liabilities and off balance sheet instruments on the date of the earlier of contractual maturity or the re-pricing date. Use of this table to derive information about the Bank's interest rate risk position is limited by the fact that customers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing date. Examples of this include fixed rate mortgages, which are shown at contractual maturity but which may pre-pay earlier, and certain term deposits, which are shown at contractual maturity but which may be withdrawn before their contractual maturity and certain investments which have call or prepayment features.

2018	£'000 Within 3 months	£'000 3 months but within 6 months	£'000 6 months but within 1 year	£'000 1 year but within 5 years	£'000 After 5 years	£'000 Non interest bearing	£'000 Total
Assets							
Cash and deposits with banks	34,898	-	-	-	-	-	34,898
Cash equivalents	432,928	-	-	-	-	-	432,928
Short term investments	1,240	2,569	-	-	-	-	3,809
Investments	-	-	-	-	125,449	10	125,459
Loans	792,357	-	-	50,320	1,517	-	844,194
Premises, equipment and software	-	-	-	-	-	8,101	8,101
Other assets	-	-	-	-	-	16,150	16,150
Total assets	1,261,423	2,569	-	50,320	126,966	24,261	1,465,539
Liabilities							
Shareholders' equity	-	-	-	-	-	81,182	81,182
Deposits	1,177,675	7,644	167,973	-	-	13,754	1,367,046
Other liabilities	-	-	-	-	-	7,311	7,311
Subordinated debt capital	10,000	-	-	-	-	-	10,000
Total liabilities	1,187,675	7,644	167,973	-	-	102,247	1,465,539
Interest rate sensitivity gap	73,748	(5,075)	(167,973)	50,320	126,966	(77,986)	-
Cumulative interest rate sensitivity gap	73,748	68,673	(99,300)	(48,980)	77,986	-	-
2017 cumulative interest rate sensitivity gap	12,951	6,888	(46,659)	(46,659)	67,153	-	-

NOTE 16: ULTIMATE HOLDING COMPANY

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

NOTE 17: SUBSEQUENT EVENTS

There are no material subsequent events requiring disclosure.

PRINCIPAL OFFICES & SUBSIDIARIES

PRINCIPAL OFFICES & SUBSIDIARIES

This list does not include all companies in the Group.

The Bank of N.T. Butterfield & Son Limited
Group Parent Company, Community Banking,
Corporate Banking, Private Banking,
Credit and Treasury Services, Custody

Head Office
65 Front Street
Hamilton, HM 12
Bermuda
Tel: (441) 295 1111
Fax: (441) 292 4365
SWIFT: BNTB BM HM
Email: info@butterfieldgroup.com

Mailing Address
P.O. Box HM 195
Hamilton, HM AX
Bermuda

BERMUDA
Butterfield Asset Management Limited
Asset management

Head of Global Asset Management: Dwayne Outerbridge

65 Front Street
Hamilton, HM 12
Bermuda
Tel: (441) 299 3817
Fax: (441) 292 9947
Email: info@butterfieldgroup.com

Butterfield Securities (Bermuda) Limited
Brokerage Services
65 Front Street
Hamilton, HM 12
Bermuda
Tel: (441) 299 3972
Fax: (441) 292 9947
Email: info@butterfieldgroup.com

Butterfield Trust Company Limited
Butterfield Trust (Bermuda) Limited
Grosvenor Trust Company Limited
Trust and Fiduciary Services

Managing Director: John Richmond

Rosebank Centre
11 Bermudiana Road
Hamilton, HM 08
Bermuda
Tel: (441) 299 3980
Fax: (441) 292 1258
Email: info@butterfieldgroup.com

THE BAHAMAS
Butterfield Trust (Bahamas) Limited
Trust and Fiduciary Services

Managing Director: Craig Barley

Third Floor, Montague Sterling Centre
East Bay Street
P.O. Box N-3242
Nassau, N.P.
The Bahamas
Tel: (242) 393 8622
Fax: (242) 393 3772
Email: bahamas@butterfieldgroup.com

CAYMAN ISLANDS
Butterfield Bank (Cayman) Limited
Community Banking, Corporate Banking,
Private Banking, Asset Management,
Credit and Treasury Services, Custody

Managing Director: Michael McWatt

Butterfield Place
12 Albert Panton Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands
Tel: (345) 949 7055
Fax: (345) 949 7004
Email: cayman@butterfieldgroup.com

Butterfield Trust (Cayman) Limited
Trust and Fiduciary Services

Managing Director: Andrew Leggatt

68 Fort Street
P.O. Box 705
Grand Cayman KY1 – 1107
Cayman Islands
Tel: (345) 949 7055
Fax: (345) 949 7004
Email: trust.cayman@butterfieldgroup.com

GUERNSEY
Butterfield Bank (Guernsey) Limited
Private Client, Intermediary and Institutional Banking, Credit and Treasury Services, Asset Management, Custody

Managing Director: Richard Saunders

P.O. Box 25
Regency Court
Glategny Esplanade
St. Peter Port
Guernsey, GY1 3AP
Channel Islands
Tel: (44) 1481 711 521
Fax: (44) 1481 714 533
Email: guernsey@butterfieldgroup.com

Butterfield Trust (Guernsey) Limited
Trust and Fiduciary Services

Managing Director: Paul Hodgson

P.O. Box 25
Regency Court
Glategny Esplanade
St. Peter Port,
Guernsey, GY1 3AP
Channel Islands
Tel: (44) 1481 711 521
Fax: (44) 1481 728 665
Email: guernsey@butterfieldgroup.com

JERSEY
Butterfield Bank (Jersey) Limited
Corporate and Intermediary Banking, Custody

Managing Director: Noel McLaughlin
(Effective 5 March 2019)

P.O. Box 250
St. Paul's Gate
New Street
St. Helier
Jersey, JE4 5PU
Channel Islands
Tel: (44) 1534 843 333
Fax: (44) 1534 843 334
Email: jersey@butterfieldgroup.com

SINGAPORE
Butterfield (Singapore) Pte. Ltd
Trust and Fiduciary Services

Regional Head, Asia: Brian Balleine

#14 02-04
6 Battery Road
Singapore 049909
Tel: 65 6916 3636
Fax: 65 6916 3637
Email: singapore@butterfieldgroup.com

SWITZERLAND
Butterfield Trust (Switzerland) Limited
Trust and Fiduciary Services

Managing Director: Jim Parker

Boulevard des Tranchées 16
1206 Geneva
Switzerland
Tel: (41) 22 839 0000
Fax: (41) 22 839 0099
Email: switzerland@butterfieldgroup.com

UNITED KINGDOM
Butterfield Mortgages Limited
UK Residential Property Lending

Chief Executive Officer: Alpa Bhakta

Sun Court
66-67 Cornhill
London, EC3V 3NB
United Kingdom
Tel: (44) 20 3871 6900
Fax: (44) 20 3871 6901

Butterfield

Butterfield Bank (Guernsey) Limited
PO Box 25, Regency Court, Glategny Esplanade,
St Peter Port, Guernsey, GY1 3AP, Channel Islands
www.butterfieldgroup.com