Butterfield Bank (Cayman) Limited

Consolidated Financial Statements

For the years ended 31 December 2016 and 2015

Contents

Independent Auditor's Report

To Board of Directors of Butterfield Bank (Cayman) Limited

We have audited the accompanying consolidated financial statements of Butterfield Bank (Cayman) Limited and its subsidiaries, which comprise the consolidated balance sheets as of 31 December 2016 and 31 December 2015, and the related consolidated statements of operations, comprehensive income, changes in shareholder's equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Butterfield Bank (Cayman) Limited and its subsidiaries as of 31 December 2016 and 31 December 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers

8 February 2017

Butterfield Bank (Cayman) Limited
Consolidated Balance Sheets

As at 31 December (In thousands of United States dollars)

	2016	2015
Assets		
Cash and demand deposits with banks	133,663	142,923
Cash equivalents	199,573	698,364
Total cash and cash equivalents	333,236	841,287
Short term investments	74,902	-
Debt securities		
Available for sale	1,162,582	973,396
Held to maturity	553,865	279,283
Total investments in debt securities	1,716,447	1,252,679
Loans and participations receivable, net of allowance for credit losses	1,211,625	1,135,036
Premises, equipment and computer software	53,825	57,940
Intangible assets	9,542	10,364
Accrued interest	7,690	5,237
Other real estate owned	310	453
Other assets	15,729	9,373
Total assets	3,423,306	3,312,369
Liabilities		
Customer deposits		
Non-interest bearing	622,371	516,020
Interest bearing	2,401,685	2,497,111
Total customer deposits	3,024,056	3,013,131
Bank deposits	100,134	26,684
Total deposits	3,124,190	3,039,815
Accrued interest	389	429
Other liabilities	75,376	65,364
Total other liabilities	75,765	65,793
Total liabilities	3,199,955	3,105,608
Shareholder's equity		
Common share capital ($1.00 par; authorised shares 16,450,000 (2015: $1.00 par; authorised shares 16,450,000)	16,450	16,450
Retained earnings	213,987	191,601
Accumulated other comprehensive loss	(7,086)	(1,290)
Total shareholder's equity	223,351	206,761
Total liabilities and shareholder's equity	3,423,306	3,312,369

Signed on behalf of the Board by:

Michael A. McWatt
Managing Director

James E. O'Neill
Director

The accompanying notes on pages 6 to 32 are an integral part of these consolidated financial statements.

Butterfield Bank (Cayman) Limited
Consolidated Statements of Operations

For the year ended 31 December (In thousands of United States dollars)

	2016	2015
Non-interest income		
Asset management	3,975	3,972
Banking	15,873	14,369
Foreign exchange revenue	16,316	15,995
Trust	5,085	5,013
Other non-interest income	114	162
Total non-interest income	41,363	39,511
Interest income		
Loans	50,350	44,617
Investments	30,700	23,698
Deposits with banks	948	726
Total interest income	81,998	69,041
Interest expense		
Deposits	1,966	2,116
Total interest expense	1,966	2,116
Net interest income before provision for credit losses	80,032	66,925
Provision for credit gains (losses)	2,135	(466)
Net interest income after provision for credit losses	82,167	66,459
Net trading losses	(742)	-
Net realised gains (losses) on available for sale investments	329	(1,328)
Net realised gain on sale of premises, equipment and computer software	25	532
Net realised / unrealised losses on other real estate owned	(143)	-
Total other losses	(531)	(796)
Total net revenue	122,999	105,174
Non-interest expense		
Salaries and other employee benefits	28,755	28,735
Technology and communications	14,902	13,848
Property	5,304	5,143
Professional and outside services	3,247	2,629
Non-income taxes	1,808	1,862
Amortisation and impairment of intangible assets	822	822
Marketing	947	818
Other expenses	4,828	4,258
Total non-interest expense	60,613	58,115
Net income	62,386	47,059

Consolidated Statements of Comprehensive Income

For the year ended 31 December (In thousands of United States dollars)

	Line item in the Consolidated Statement of operations, if any.	2016	2015
Comprehensive income			
Net income		62,386	47,059
Accretion of net unrealised gains on held-to-maturity investments transferred from available-for-sale investments		(64)	-
Net unrealised losses arising during the period		(5,403)	(4,990)
Reclassification of realised (gains) losses to net income	Net realised (gains) losses on available for sale investments	(329)	1,328
Total comprehensive income		56,590	43,397

The accompanying notes on pages 6 to 32 are an integral part of these consolidated financial statements

Butterfield Bank (Cayman) Limited
Consolidated Statements of Changes in Shareholder's Equity

For the year ended 31 December (In thousands of United States dollars)

	2016	2015
Common share capital issued and outstanding		
Authorised, issued and fully paid (2016: 16,450,000 shares; 2015: 16,450,000 shares)	**16,450**	16,450
Retained earnings		
Balance at beginning of year	**191,601**	174,542
Net income for year	**62,386**	47,059
Cash dividends declared	**(40,000)**	(30,000)
Balance at end of year	**213,987**	191,601
Accumulated other comprehensive (loss) income		
Balance at beginning of year	**(1,290)**	2,372
Held-to-maturity investment adjustments		
Net unamortised gains (losses) transferred from AFS	**1,442**	(752)
Amortisation of net gains to net income	**(64)**	-
Net change in unamortised gains (losses) on held-to-maturity investments	**1,378**	(752)
Available-for-sale investment adjustments		
Gross unrealised gains (losses)	**(5,403)**	(4,990)
Net unrealised (gains) losses transferred to HTM	**(1,442)**	752
Transfer of realised (gains) losses to net income	**(329)**	1,328
Net change in unrealised and realised losses on available for sale investments	**(7,174)**	(2,910)
Balance at end of year	**(7,086)**	(1,290)
Total shareholder's equity	**223,351**	206,761

The accompanying notes on pages 6 to 32 are an integral part of these consolidated financial statements.

Butterfield Bank (Cayman) Limited
Consolidated Statements of Cash Flows

For the year ended 31 December (In thousands of United States dollars)

	2016	2015
Cash flows from operating activities		
Net income	62,386	47,059
Adjustments to reconcile net income to operating cash flows:		
Depreciation and amortisation	19,638	18,997
Provision for credit losses	(2,135)	466
Net realised losses of trading investments	742	-
Net realised (gains) losses of available for sale investments	(329)	1,328
Net losses (gains) other real estate owned and fixed assets	143	(532)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(2,453)	1,968
Increase in other assets	(6,356)	(3,088)
Decrease in accrued interest payable	(40)	(25)
Increase in other liabilities	10,012	34,213
Cash provided by operating activities	81,608	100,386
Cash flows from investing activities		
Net (increase) decrease in short term investments	(74,902)	30,105
Net proceeds on sale of premises, equipment and computer software	-	4,138
Additions to premises, equipment and computer software	(2,220)	(2,162)
Net (increase) decrease in loans and participations receivable	(74,454)	8,633
Trading investments: proceeds from maturities and pay downs	798	-
Trading investments: proceeds from sales	101,494	-
Trading investments: purchases	(103,084)	-
Held to maturity investments: proceeds from maturities and pay downs	35,308	16,888
Held to maturity investments: purchases	(236,634)	(24,855)
Available for sale investments: proceeds from sales	35,059	85,180
Available for sale investments: proceeds from maturities and pay downs	235,058	179,261
Available for sale investments: purchases	(550,456)	(545,071)
Cash used in investing activities	(634,033)	(247,883)
Cash flows from financing activities		
Net increase in demand and term deposit liabilities	84,374	401,110
Cash dividends paid	(40,000)	(30,000)
Cash provided by financing activities	44,374	371,110
Net (decrease)/increase in cash and cash equivalents	(508,051)	223,613
Cash and cash equivalents at beginning of year	841,287	617,674
Cash and cash equivalents at end of year	333,236	841,287
Supplemental disclosure of cash flow information		
Cash interest paid	2,006	2,141
Non-cash items		
Transfer of available-for-sale investments to held-to-maturity investments	74,731	92,356

The accompanying notes on pages 6 to 32 are an integral part of these consolidated financial statements.

Butterfield Bank (Cayman) Limited
Notes to the Consolidated Financial Statements

(In thousands of United States dollars)

Note 1: Nature of business

Butterfield Bank (Cayman) Limited (the “Bank”) is a full service community bank and a provider of specialised wealth management services. Services offered include retail, private & corporate banking, treasury, asset management and personal & institutional trust services in the Cayman Islands.

The Bank was incorporated on 22 November 1967 under the laws of the Cayman Islands and is a wholly-owned subsidiary of The Bank of N.T. Butterfield & Son Limited ("Butterfield"), a company incorporated in Bermuda. Butterfield is a publicly traded corporation with shares listed on the Bermuda stock exchange. The Butterfield Group is regulated by the Bermuda Monetary Authority (BMA), while the Bank is regulated by the Cayman Islands Monetary Authority (CIMA). Both regulators operate in accordance with Basel principles.

The Bank holds a category 'A' banking licence and a trust licence under the Banks and Trust Companies Law of the Cayman Islands. In addition, the Bank is licenced under the Securities and Investment Business Law.

The Bank owns directly and indirectly the following subsidiaries:

Field Directors (Cayman) Limited

Field Secretaries (Cayman) Limited

Field Nominees (Cayman) Limited

Butterfield Trust (Cayman) Limited

The Bank has structured its operations in order that it will not be deemed to be engaged in trade or business within the U.S. for purposes of U.S. federal tax laws, or subject to taxation in any jurisdiction.

Note 2: Significant Accounting Policies

a. Basis of Presentation and Use of Estimates and Assumptions

The accounting and financial reporting policies of the Bank and its subsidiaries conform to generally accepted accounting principles in the United States of America (“GAAP”). The preparation of 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 year, and actual results could differ from those estimates.

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

- Allowance for credit losses
- Fair value and impairment of financial instruments
- Impairment of long-lived assets
- Impairment of intangible assets
- Share-based payments
- Fair value of assets and liabilities acquired in business combination

b. Basis of Consolidation

The Consolidated Financial Statements include the accounts of the Bank and its majority-owned subsidiaries, and those variable interest entities (“VIEs”) where the Company is the primary beneficiary. The Bank has no interest in any VIEs which are required to be consolidated. Intercompany accounts and transactions have been eliminated. The Bank consolidates subsidiaries where it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. Entities where the Bank holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence, are accounted for under the equity method, and the pro rata share of their income (loss) is included in other non-interest income.

c. Foreign Currency Translation

Assets and liabilities arising from foreign currency transactions are translated into United States dollars at the rates of exchange prevailing at the balance sheet date while associated revenues and expenses are translated to United States dollars at the rates of exchange prevailing throughout the year. The resulting gains or losses are included in foreign exchange revenue in the Consolidated Statement of Operations.

d. Assets Held in Trust or Custody

Securities and properties (other than cash and deposits held with the Bank) held in trust, custody, agency or fiduciary capacity for customers are not included in the Consolidated Balance Sheets 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 have maturities of less than one year from the date of acquisition, are only subject to an insignificant risk of change in fair value and comprise term deposits, certificate of deposits and treasury bills with a maturity greater than three months from the date of acquisition. Treasury bills are recorded at amortised cost.

Note 2: Significant Accounting Policies *(continued)*

g. Investments

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

Investments are classified primarily as AFS when used to manage the Bank's exposure to interest rate and liquidity movements, as well as to make strategic longer-term investments. AFS investments are carried at fair value in the Consolidated Balance Sheets with unrealised gains and losses reported as net increase or decrease to Accumulated Other Comprehensive Income ("AOCI").

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 financial statements. The specific identification method is used to determine realised gains and losses on AFS investments, which are included in net realised gains and losses on AFS investments respectively in the Consolidated Statement of Operations.

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. 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

For debt securities, management considers a decline in fair value to be other-than-temporary when it does not expect to recover the entire amortised cost basis of the security. Investments in debt securities in unrealised loss positions are analysed as part of management's ongoing assessment of other-than-temporary impairment ("OTTI"). When management intends to sell such securities or it is more likely than not that the Bank will be required to sell the securities before recovering the amortised cost, it recognises an impairment loss equal to the full difference between the amortised cost basis and the fair value of those securities. When management does not intend to sell or it is not more likely than not that the Bank will be required to sell such securities before recovering the amortised cost, management determines whether any credit losses exist to identify any OTTI. Under certain circumstances, management will perform a qualitative determination and 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. Alternatively, management estimates cash flows over the remaining lives of the underlying security to assess whether credit losses exist. In situations where there is a credit loss, only the amount of impairment relating to credit losses on AFS and HTM investments is recognised in net income and for AFS investments, the decrease in fair value relating to factors other than credit losses are recognised in AOCI. Cash flow estimates take into account expectations of relevant market and economic data as of the end of the reporting period – including, for example, underlying loan-level data, and structural features of securitisation, such as subordination, excess spread, over collateralisation or other forms of credit enhancement. The degree of judgment involved in determining the recoverable value of an investment security is dependent upon the availability of observable market prices or observable market parameters. When observable market prices and parameters do not exist, judgment is necessary to estimate recoverable value which gives rise to added uncertainty in the assessment. The assessment takes into consideration factors such as interest rate changes, movements in credit spreads, default rate assumptions, prepayment assumptions, type and quality of collateral, and market sentiment.

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

h. Loans

Loans are reported 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.

Acquired loans

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

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

The Bank evaluates at each balance sheet date the estimated cash flows and corresponding carrying value of purchased credit-impaired loans in the same manner as for the measurement of impaired loans, as is described below. The Bank evaluates at each balance sheet date whether the carrying value of its purchased credit-impaired loans has decreased and if so, recognises an allowance for credit losses in its Consolidated Statements of Operations. For any increases in cash flows expected to be collected, the Bank adjusts any prior recorded allowance for purchased credit-impaired loans first, and then the amount of accretable yield recognized on a prospective basis over the purchased credit-impaired loan's remaining life.

Purchased credit-impaired loans are not considered non-performing and continue to have an accretable yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected.

Impaired loans

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

When a loan is identified as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the

Note 2: Significant Accounting Policies *(continued)*

sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases the current fair value of the collateral, less selling costs is used instead of discounted cash flows.

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

Non-accrual

Commercial, Commercial real estate and Consumer loans (excluding credit card consumer loans) are placed on non-accrual status 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 well secured and any ongoing collection efforts are reasonably expected to result in repayment of all amounts due under the contractual terms of the loan.

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

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

Loans are returned to accrual status when:

- none of the principal or accrued interest is past due (with certain exceptions) and the Bank expect repayment of the remaining contractual obligation; or
- when the loan becomes well secured and in the process of collection.

Loans Modified in a Troubled Debt Restructuring

A modification of a loan constitutes a troubled debt restructuring (“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, change in interest rates, 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 temporary interest-only payments or 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.

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

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

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

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

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

A loan that had previously been modified in a TDR and is subsequently refinanced under current underwriting standards at a market rate with no concessionary terms is accounted for as a new loan and is no longer reported as a TDR.

Note 2: Significant Accounting Policies (continued)

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 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 charged-off.

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. Goodwill and Intangible Assets

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

Intangible assets with finite lives are amortised on a straight-line basis over their estimated useful lives, not exceeding 15 years. Intangible assets' estimated lives are re-evaluated annually and an impairment test is carried out if certain indicators of impairment exist.

k. Premises, Equipment and Computer Software

Land, buildings, equipment and computer software, including leasehold improvements, are carried at cost less accumulated depreciation. The Bank generally computes depreciation using the straight-line method over the estimated useful life of an asset, which is 50 years for buildings, and 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 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. Other Real Estate Owned ("OREO")

OREO comprise real estate property held for sale and commercial and residential real estate properties acquired in partial or total satisfaction of loans acquired through foreclosure proceedings, acceptance of a deed-in-lieu of foreclosure or by taking possession of assets that were used as loan collateral. These properties are recorded at fair value less estimated costs to sell the property. If the recorded investment in the loan exceeds the property's fair value at the time of acquisition, a charge-off is recorded against the specific allowance. If the carrying

Note 2: Significant Accounting Policies (continued)

value of the real estate exceeds the property's fair value at the time of reclassification, an impairment charge is recorded in the Consolidated Statements of Operations. Subsequent decreases in the property's fair value below the new cost basis are recorded through the use of a valuation allowance. Subsequent increases in the fair value of a property may be used to reduce the allowance but not below zero. Any operating expenses of the property are recognised through charges to non-interest expense.

m. Derivatives

All derivatives are recognised on the Consolidated Balance Sheets 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 year earnings. The changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income ("OCI") and the ineffective portion is recorded in current year earnings. That is, ineffectiveness from a derivative that overcompensates for changes in the hedged cash flows is recorded in earnings. However, the ineffectiveness from a derivative that under compensates is not recorded in earnings. The changes in the fair value of a derivative that is designated and qualifies as a foreign currency hedge is recorded in either current year earnings or 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. Changes in the fair value of derivative trading and non-hedging instruments are reported in current year earnings.

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

n. Employee Future Benefits

The Bank maintains a trusteed defined contribution plan for substantially all employees. The Bank and participating employees provide an annual contribution based on each participating employee's pensionable earnings. Amounts paid are expensed in the period and are included in Salaries and other employee benefits in the Consolidated Statement of Operations.

o. Share-Based Compensation

Butterfield engages in equity settled share-based payment transactions in respect of services received from eligible employees. The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in respect of the shares or share options granted is allocated to the Bank by Butterfield and recognised in Salaries and other employee benefits in the Consolidated Statement of Operations over the shorter of the vesting or service period.

p. Revenue Recognition

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

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

Loan interest income includes the amortisation of non-refundable loan origination and commitment fees. These fees are 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.

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

q. Fair Values

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

Note 2: Significant Accounting Policies (continued)

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 deposits with banks, being short term in nature, is deemed to equate to the fair value.

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

Short term investments

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

Investments

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. Information of this nature is a trigger to acquire further corroborating market data. When these inputs are not available, they 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 fixed maturities where prices are unavailable from pricing services due to factors specific to the security such as limited liquidity, lack of current transactions, or trades only taking place in privately negotiated transactions. These are considered Level 3 valuations, as significant inputs utilised by brokers may be difficult to corroborate with observable market data, or sufficient information regarding the specific inputs utilised by the broker was not available to support a Level 2 classification.

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

Loans

The majority of loans are variable rate and re-price in response to changes in market rates and hence management estimates that the fair value of loans is not significantly different than their carrying amount. For significant fixed-rate loan exposures, fair value is estimated by discounting the future cash flows, using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, of such loans. Management includes the effects of specific provisions raised against individual loans, which factors in a loan's credit quality, as well as accrued interest in determining the fair value of loans.

Accrued interest

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

Other real estate owned (“OREO”)

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

Deposits

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

Derivatives

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

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

Note 2: Significant Accounting Policies (continued)

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:

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

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

s. 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.

t. Impairment or Disposal of Long-Lived Assets

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

u. New Accounting Pronouncements

The following accounting developments were issued during the year ended 31 December 2016:

In January 2016, the 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 has determined that this standard will have an effect due to the recognition of lease assets and lease liabilities currently classified as operating leases, which will result in the recognition of assets and corresponding lease liabilities.

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 Accounting Standards Update No. 2014-09 Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09") which is not yet effective. The effective date for this update is the same as for Accounting Standards Update No. 2015-14 Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date ("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 has determined that this standard will affect non-interest income items that are fee generating but does not expect the impact to have a significant effect.

In April 2016, FASB published Accounting Standards Update No. 2016-10 Revenue from Contracts with Customers (Topic 606). The amendments in this update are intended to clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. 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.

In May 2016, FASB published Accounting Standards Update No. 2016-12 Narrow-Scope Improvements and Practical Expedients, which further amends the guidance in ASU 2014-09 which is not yet effective. The amendments address certain implementation issues identified by the FASB's transition resource group and clarify, rather than change, the new revenue standard's core revenue recognition principles. 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.

Note 2: Significant Accounting Policies (continued)

In June 2016, FASB published Accounting Standards Update No. 2016-13 Financial Instruments – Credit Losses. The amendments in this update provide a new impairment model, known as the current expected credit loss model that is based on expected losses rather than incurred losses. The amendments in this update are also intended to reduce the complexity and reduce the number of impairment models entities use to account for debt instruments. For public business entities that meet the U.S. GAAP definition of an SEC filer, the effective date for this update for fiscal years beginning after 15 December 2019, including interim periods within those fiscal years. The Bank is assessing the impact of the adoption of this guidance.

In August 2016, FASB published Accounting Standards Update No. 2016-15 Statement of Cash Flows (Topic 230). The amendments in this update provide guidance on eight specific cash flow issues regarding their presentation and classification on the Statement of Cash Flows. The eight specific areas are: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments of other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies), distributions received from equity method investees, beneficial interest in securitization transactions, and separately identifiable cash flows and application of the predominance principle. This update is effective for public business entities for fiscal years, and interim periods within those fiscal years, after 15 December 2017, and early adoption is permitted. The Bank is assessing the impact of the adoption of this guidance.

In October 2016, FASB published Accounting Standards Update No. 2016-17 Consolidation (Topic 810) ("ASU 2016-17"). This Update was issued to amend the consolidation guidance presented in Accounting Standards Update No. 2015-02 Consolidation (Topic 810) ("ASU 2015-02) on how a reporting entity that is the single decision maker of a VIE should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The amendments in this update do not change the characteristics of a primary beneficiary in GAAP, but under the amendments, a single decision maker is not required to consider indirect interests held through related parties that are under common control with the single decision maker to be the equivalent of direct interests in their entirety. Instead, a single decision maker is required to include those interests on a proportionate basis consistent with indirect interests held through other related parties. The Bank has early adopted ASU 2015-02 and has concluded that ASU 2016-17 does not have an impact on the Bank.

In November 2016, FASB published Accounting Standards Update No. 2016-18 Statement of Cash Flows (Topic 230). This Update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This update is effective for public business entities for fiscal years, and interim periods with in those fiscal years, beginning after 15 December 2017. Early adoption is permitted. The Bank has determined that this standard will have an effect on the presentation of the statements of cash flows.

(In thousands of United States dollars)

Note 3: Cash and Cash Equivalents

	31 December 2016	31 December 2015
Unrestricted		
Non-interest earning		
Cash and demand deposits	35,697	16,995
Interest earning		
Demand deposits[1]	97,966	125,929
Cash equivalents	199,573	698,363
Sub-total - Interest earning	297,539	824,292
Total cash and cash equivalents	333,236	841,287

[1] Interest earning cash due from banks includes certain demand deposits with banks as at 31 December 2016 and 2015 that are earning interest at a negligible rate.

Note 4: Short Term Investments

	31 December 2016	31 December 2015
Unrestricted		
Interest earning		
US treasury bills maturing within three months	49,962	-
US treasury bills maturing between three to six months	24,940	-
Total short term investments	74,902	-

Note 5: Investments

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

	31 December 2016				31 December 2015			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value
Available for sale								
US government and federal agencies	853,571	2,209	(7,946)	847,834	711,914	2,143	(1,118)	712,939
Debt securities issued by non-US governments	5,160	178	-	5,338	6,550	209	-	6,759
Corporate debt securities	154,540	908	(981)	154,467	144,907	1,704	(342)	146,269
Asset-backed securities - Student loans	13,290	-	(797)	12,493	13,290	-	(1,130)	12,160
Mortgage-backed securities - Commercial	63,654	11	(500)	63,165	63,796	-	(1,817)	61,979
Residential mortgage-backed securities - Prime	80,079	56	(850)	79,285	33,477	-	(187)	33,290
Total available for sale	1,170,294	3,362	(11,074)	1,162,582	973,934	4,056	(4,594)	973,396

	31 December 2016				31 December 2015			
	Amortised cost/Carrying value	Gross unrealised gains	Gross unrealised losses	Fair value	Amortised cost/Carrying amount	Gross unrealised gains	Gross unrealised losses	Fair value
Held to maturity (1)								
US government and federal agencies	553,865	1,357	(6,761)	548,461	279,283	1,916	(1,290)	279,909
Total held to maturity	553,865	1,357	(6,761)	548,461	279,283	1,916	(1,290)	279,909

(1) For the periods ended 31 December 2016 and 31 December 2015 non-credit impairments recognised in AOCI for held to maturity investments is equal to $nil.

During the year ended 31 December 2016, the Bank purchased securities from its London and Guernsey affiliates with a market value of $103.084 million in a trading portfolio. These securities were subsequently sold, resulting in a $0.742 million realised loss. No trading securities were held by the Bank at 31 December 2016.

(In thousands of United States dollars)

Note 5: Investments (continued)

Unrealised loss positions

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

31 December 2016	**Less than 12 months**		**12 months or more**			
	Fair value	**Gross unrealised losses**	**Fair value**	**Gross unrealised losses**	**Total fair value**	**Total gross unrealised losses**
Available for sale						
US government and federal agencies	**468,833**	**(6,285)**	**188,364**	**(1,661)**	**657,197**	**(7,946)**
Corporate debt securities	**55,034**	**(981)**	**-**	**-**	**55,034**	**(981)**
Asset-backed securities - Student loans	**-**	**-**	**12,493**	**(797)**	**12,493**	**(797)**
Mortgage-backed securities - Commercial	**58,136**	**(500)**	**-**	**-**	**58,136**	**(500)**
Residential mortgage-backed securities - Prime	**63,038**	**(850)**	**-**	**-**	**63,038**	**(850)**
Total available for sale securities with unrealised losses	**645,041**	**(8,616)**	**200,857**	**(2,458)**	**845,898**	**(11,074)**
Held to maturity						
US government and federal agencies	**473,957**	**(6,761)**	**-**	**-**	**473,957**	**(6,761)**
Total held to maturity securities with unrealised losses	**473,957**	**(6,761)**	**-**	**-**	**473,957**	**(6,761)**

31 December 2015	Less than 12 months		12 months or more			
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses	Total fair value	Total gross unrealised losses
Available for sale						
US government and federal agencies	336,136	(816)	27,165	(302)	363,301	(1,118)
Corporate debt securities	67,208	(342)	-	-	67,208	(342)
Asset-backed securities - Student loans	-	-	12,160	(1,130)	12,160	(1,130)
Mortgage-backed securities - Commercial	61,979	(1,816)	-	-	61,979	(1,816)
Residential mortgage-backed securities - Prime	33,290	(188)	-	-	33,290	(188)
Total available for sale securities with unrealised losses	498,613	(3,162)	39,325	(1,432)	537,938	(4,594)
Held to maturity						
US government and federal agencies	154,253	(1,290)	-	-	154,253	(1,290)
Total held to maturity securities with unrealised losses	154,253	(1,290)	-	-	154,253	(1,290)

As at December 31, 2016, management revised the methodology for considering the time period during which an investment has been in an unrealized loss by looking at monthly positions rather than annually. The 2015 comparatives have been revised accordingly.

The Bank does not believe that the investment securities that were in an unrealised loss position as of 31 December 2016, which was comprised of 70 securities or 77.1% (2015: 46 securities or 55.4%) of the portfolio by market value, represent an other-than-temporary impairment. Total gross unrealised losses were only 1.35% (2015: 0.85%) of the market value of affected securities and were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Bank does not intend to sell the investment securities that were in an unrealised loss position and it is not more likely than not that the Bank will be required to sell the investment securities before recovery of their amortised cost bases, which may be at maturity.

The following describes the process for identifying credit impairment in security types with the most significant unrealised losses as of 31 December 2016.

US government and federal agencies

As of 31 December 2016, gross unrealised losses on securities related to United States ("US") government and federal agencies were $14.707 million (2015: $2.408 million). Overall, management believes that all the securities in this class do not have any credit losses, given the explicit and implicit guarantees provided by the US federal government.

Corporate debt securities

As of 31 December 2016, gross unrealised losses on securities related to corporate securities were $0.981 million (2015: $0.342). Overall, management believes that all the securities in this class will recover in value and that the current unrealised loss position is a result of interest rate movements.

Asset-backed securities - Student loans

As of 31 December 2016, gross unrealised losses on student-loan asset backed securities were $0.797 million (2015: $1.130 million). Asset−backed securities collateralised by student loans are primarily composed of securities collateralised by Federal Family Education Loan Program ("FFELP loans"). FFELP loans benefit from a federal government guarantee of at least 97% of defaulted principal and accrued interest, with additional credit support provided in the form of overcollateralisation, 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.

(In thousands of United States dollars)

Note 5: Investments (continued)

Mortgage-backed securities - Commercial

As of 31 December 2016, gross unrealised losses on commercial mortgage backed securities were $0.500 million (2015: $1.817 million). Five of the six securities are "AAA" rated, the remaining security is "A" rated (2015: 6 "AAA" rated, 1 "A2" rated) and management believes the six securities do not have any credit losses.

Mortgage-backed securities - Prime

As of 31 December 2016, gross unrealised losses on prime mortgage backed securities were $0.850 million (2015: $0.187). All of the four securities are "AAA" rated (2015: two securities are "AAA" rated) and management believes the four securities do not have any credit losses.

Contractual maturities

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

31 December 2016	**Remaining average contractual maturity**					
	Within 3 months	**3 to 12 months**	**1 to 5 years**	**5 to 10 years**	**Over 10 years**	**Carrying amount**
Available for sale						
US government and federal agencies	-	2,551	19,132	108,818	717,333	847,834
Debt securities issued by non-US governments	-	1,371	3,967	-	-	5,338
Corporate debt securities	-	40,522	113,945	-	-	154,467
Asset-backed securities - Student loans	-	-	-	-	12,493	12,493
Mortgage-backed securities - Commercial	-	-	-	63,165	-	63,165
Residential mortgage-backed securities - Prime	-	-	-	-	79,285	79,285
Total available for sale	-	44,444	137,044	171,983	809,111	1,162,582
Held to maturity						
US government and federal agencies	-	-	-	7,966	545,899	553,865
Total held to maturity securities	-	-	-	7,966	545,899	553,865
Total investments	-	44,444	137,044	179,949	1,355,010	1,716,447
Total by currency						
US dollars	-	44,444	137,044	179,949	1,355,010	1,716,447
Other	-	-	-	-	-	-
Total investments	-	44,444	137,044	179,949	1,355,010	1,716,447

31 December 2015	Remaining average contractual maturity					
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Carrying amount
Available for sale						
US government and federal agencies	-	-	27,786	27,831	657,322	712,939
Debt securities issued by non-US governments	-	1,360	5,399	-	-	6,759
Corporate debt securities	-	42,486	103,783	-	-	146,269
Asset-backed securities - Student loans	-	-	-	-	12,160	12,160
Mortgage-backed securities - Commercial	-	-	-	26,381	35,598	61,979
Residential mortgage-backed securities - Prime	-	-	-	-	33,290	33,290
Total available for sale	-	43,846	136,968	54,212	738,370	973,396
Held to maturity						
US government and federal agencies	-	-	-	7,998	271,285	279,283
Total held to maturity securities	-	-	-	7,998	271,285	279,283
Total investments	-	43,846	136,968	62,210	1,009,655	1,252,679
Total by currency						
US dollars	-	43,846	136,968	62,210	1,009,655	1,252,679
Other	-	-	-	-	-	-
Total investments	-	43,846	136,968	62,210	1,009,655	1,252,679

(In thousands of United States dollars)

Note 5: Investments (continued)

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 December 2016		31 December 2015	
Pledged Investments	Amortised cost	Fair value	Amortised cost	Fair value
Available for sale	21,221	21,298	37,198	37,239
Held to maturity	22,515	22,149	28,310	27,951

Sale Proceeds and Realised Gains and Losses of AFS Securities

	31 December 2016				31 December 2015			
AFS securities sold	Sale proceeds	Gross realised gains	Gross realised (losses)	Transfers to HTM[1]	Sale proceeds	Gross realised gains	Gross realised (losses)	Transfers to HTM[1]
US government and federal agencies	35,059	405	(76)	74,731	85,180	-	(1,328)	92,356
Net realised gains (losses) recognised in net income	35,059	405	(76)	74,731	85,180	-	(1,328)	92,356

[1] During the years ended 31 December 2016 and 2015, certain investments were transferred out of the AFS categorization and into HTM. The transfers were recorded at fair value of the securities on the date of transfer. The related net unrealised gains of $1.4 million (2015: unrealised losses of $0.8 million) that was recorded in AOCI will be accreted over the remaining life of the transferred investments using the effective interest rate method.

Note 6: Loans and Participations Receivable

The composition of the loans and participations receivable portfolio was as follows:

	31 December 2016	31 December 2015
Commercial loans		
Banks	40,000	40,000
Governments	17,908	22,402
Commercial loans	175,781	179,858
Commercial overdrafts	2,463	3,257
Total commercial loans	236,152	245,517
Less specific allowance for credit losses on commercial loans	-	-
Total commercial loans after specific allowance for credit losses	236,152	245,517
Commercial real estate loans		
Commercial mortgage	199,854	217,467
Construction	4,385	8,211
Total commercial real estate loans	204,239	225,678
Less specific allowance for credit losses on commercial real estate loans	-	-
Total commercial real estate loans after specific allowance for credit losses	204,239	225,678
Consumer loans		
Automobile financing	6,905	7,556
Credit card	20,811	19,839
Overdrafts	2,682	4,493
Other consumer	34,636	33,943
Total consumer loans	65,034	65,831
Less specific allowance for credit losses on consumer loans	(3)	-
Total consumer loans after specific allowance for credit losses	65,031	65,831
Residential mortgage loans	713,056	607,923
Less specific allowance for credit losses on residential mortgage loans	(574)	(1,879)
Total residential mortgage loans after specific allowance for credit losses	712,482	606,044
Total gross loans	1,218,481	1,144,949
Less specific allowance for credit losses	(577)	(1,879)
Less general allowance for credit losses	(6,279)	(8,034)
Net loans	1,211,625	1,135,036

(In thousands of United States dollars)

Note 6: Loans and Participations Receivable (continued)

The principal means of securing residential mortgages, personal, credit card and business loans are charges over assets and guarantees. Mortgage loans are generally repayable over periods of up to thirty years and personal, credit card, business and government loans are generally repayable over terms not exceeding five years. The effective yield on total loans as at 31 December 2016 is 4.10% (2015: 4.29%).

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

The following table summarises the past due status of the loans. The aging of past due amounts are determined based on the contractual delinquency status of payments under the loan and this aging may be affected by the timing of the last business day at period end. An account is generally considered to be contractually delinquent when payments have not been made in accordance with the loan terms.

	31 December 2016					
	30 – 59 days	**60 – 89 days**	**90 days or more**	**Total past due loans**	**Total Current (1)**	**Total loans**
Commercial loans						
Banks	-	-	-	-	40,000	40,000
Government	-	-	-	-	17,908	17,908
Commercial and industrial	1,043	-	-	1,043	174,738	175,781
Commercial overdrafts	-	-	-	-	2,463	2,463
Total commercial loans	1,043	-	-	1,043	235,109	236,152
Commercial real estate loans						
Commercial mortgage	377	-	487	864	198,990	199,854
Construction	175	-	-	175	4,210	4,385
Total commercial real estate loans	552	-	487	1,039	203,200	204,239
Consumer loans						
Automobile financing	24	15	14	53	6,852	6,905
Credit card	-	-	-	-	20,811	20,811
Overdrafts	-	-	-	-	2,682	2,682
Other consumer	133	489	412	1,034	33,602	34,636
Total consumer loans	157	504	426	1,087	63,947	65,034
Residential mortgage loans	3,566	562	12,057	16,185	696,871	713,056
Total loans	5,318	1,066	12,970	19,354	1,199,127	1,218,481

(1) Loans less than 30 days past due are included in Current.

	31 December 2015					
	30 – 59 days	60 – 89 days	90 days or more	Total past due loans	Total Current (1)	Total loans
Commercial loans						
Banks	-	-	-	-	40,000	40,000
Government	-	-	-	-	22,402	22,402
Commercial and industrial	-	-	-	-	179,858	179,858
Commercial overdrafts	-	-	-	-	3,257	3,257
Total commercial loans	-	-	-	-	245,517	245,517
Commercial real estate loans						
Commercial mortgage	381	-	518	899	216,568	217,467
Construction	-	-	-	-	8,211	8,211
Total commercial real estate loans	381	-	518	899	224,779	225,678
Consumer loans						
Automobile financing	111	9	35	155	7,401	7,556
Credit card	31	20	-	51	19,788	19,839
Overdrafts	-	-	-	-	4,493	4,493
Other consumer	72	24	399	495	33,448	33,943
Total consumer loans	214	53	434	701	65,130	65,831
Residential mortgage loans	8,555	2,778	15,689	27,022	580,901	607,923
Total loans	9,150	2,831	16,641	28,622	1,116,327	1,144,949

(1) Loans less than 30 days past due are included in Current.

(In thousands of United States dollars)

Note 6: Loans and Participations Receivable (continued)

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

	31 December 2016			31 December 2015		
	Non-accrual loans[1]	Accruing loans past due 90 days	Total non-performing loans	Non-accrual loans	Accruing loans past due 90 days	Total non-performing loans
Commercial loans						
Commercial and industrial	-	-	-	9	-	9
Commercial overdrafts	-	-	-	-	-	-
Total commercial loans	-	-	-	9	-	9
Commercial real estate loans	487	-	487	518	-	518
Consumer loans						
Automobile financing	33	2	35	35	-	35
Credit cards	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
Other consumer	112	300	412	422	-	422
Total consumer loans	145	302	447	457	-	457
Residential mortgage loans	6,913	2,263	9,176	12,594	964	13,558
Total non-performing loans	7,545	2,565	10,110	13,578	964	14,542

(1) Excludes purchased credit-impaired loans.

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

31 December 2016	Pass	Special Mention	Substandard	Non- accrual[1]	Total gross recorded investments
Commercial loans					
Banks	40,000	-	-	-	40,000
Government	10,408	-	7,500	-	17,908
Commercial and industrial	174,180	464	1,137	-	175,781
Commercial overdrafts	2,463	-	-	-	2,463
Total commercial loans	227,051	464	8,637	-	236,152
Commercial real estate loans					
Commercial mortgage	185,141	14,226	-	487	199,854
Construction	4,385	-	-	-	4,385
Total commercial real estate loans	189,526	14,226	-	487	204,239
Consumer loans					
Automobile financing	6,870	-	2	33	6,905
Credit card	20,811	-	-	-	20,811
Overdrafts	2,682	-	-	-	2,682
Other consumer	34,218	6	300	112	34,636
Total consumer loans	64,581	6	302	145	65,034
Residential mortgage loans	694,499	226	11,418	6,913	713,056
Total loans	1,175,657	14,922	20,357	7,545	1,218,481

(1) Excludes purchased credit-impaired loans.

(In thousands of United States dollars)

Note 6: Loans and Participations Receivable (continued)

31 December 2015	Pass	Special Mention	Substandard	Non- accrual[1]	Total gross recorded investments
Commercial loans					
Banks	40,000	-	-	-	40,000
Government	11,152	11,250	-	-	22,402
Commercial and industrial	178,134	635	1,080	9	179,858
Commercial overdrafts	3,257	-	-	-	3,257
Total commercial loans	232,543	11,885	1,080	9	245,517
Commercial real estate loans					
Commercial mortgage	202,256	14,693	-	518	217,467
Construction	8,211	-	-	-	8,211
Total commercial real estate loans	210,467	14,693	-	518	225,678
Consumer loans					
Automobile financing	7,521	-	-	35	7,556
Credit card	19,839	-	-	-	19,839
Overdrafts	4,493	-	-	-	4,493
Other consumer	33,116	12	393	422	33,943
Total consumer loans	64,969	12	393	457	65,831
Residential mortgage loans	586,918	1,466	6,945	12,594	607,923
Total loans	1,094,897	28,056	8,418	13,578	1,144,949

(1) Excludes purchased credit-impaired loans.

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

Quality classification definitions

Pass:

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

Special Mention:

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

Substandard:

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

Non-Accrual:

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

	31 December 2016		31 December 2015	
Total gross loans evaluated for impairment	**Individually evaluated**	**Collectively evaluated**	Individually evaluated	Collectively evaluated
Commercial loans	**9,101**	**227,051**	12,974	232,543
Commercial real estate loans	**14,713**	**189,526**	15,211	210,467
Consumer loans	**885**	**64,149**	864	64,967
Residential mortgage loans	**39,172**	**673,884**	47,349	560,574
Total gross loans	**63,871**	**1,154,610**	76,398	1,068,551

(In thousands of United States dollars)

Note 6: Loans and Participations Receivable (continued)

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

Loan allowances	31 December 2016					31 December 2015
	Commercial loans	Commercial real estate loans	Consumer loans	Residential mortgage loans	Total loans	Total loans
Allowances at beginning of period	4,084	512	703	4,614	9,913	9,371
Provision (released)/taken during the period	(2,482)	2,033	(470)	(1,216)	(2,135)	466
Recoveries	-	-	210	70	280	1,040
Charge-offs	-	-	(218)	(984)	(1,202)	(964)
Allowances at end of period	1,602	2,545	225	2,484	6,856	9,913
Ending Balance: individually evaluated for impairment	-	-	-	577	577	1,879
Ending Balance: collectively evaluated for impairment	1,602	2,545	225	1,907	6,279	8,034

Impaired Loans

A loan is considered to be impaired when, based on current information and events, the Bank determines that it will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Impaired loans include all non-accrual loans and all loans modified in a TDR even if full collectability is expected following the restructuring. For the year ended 31 December 2016, the amount of gross interest income that would have been recorded had impaired loans been current was $ 0.384 million (2015: $ 1.105 million). The table below presents information about the Bank's impaired loans:

31 December 2016	Impaired loans with an allowance			Impaired loans without an allowance	Total impaired loans[1]		
	Gross recorded investments	Specific allowance	Net loans	Gross recorded investments	Gross recorded investments	Specific allowance	Net loans
Commercial loans							
Commercial and industrial	-	-	-	1,043	1,043	-	1,043
Commercial overdrafts	-	-	-	-	-	-	-
Total commercial loans	-	-	-	1,043	1,043	-	1,043
Commercial real estate loans							
Commercial mortgage	-	-	-	487	487	-	487
Total commercial real estate loans	-	-	-	487	487	-	487
Consumer loans							
Automobile financing	-	-	-	33	33	-	33
Credit cards	-	-	-	-	-	-	-
Other consumer	54	(3)	51	59	113	(3)	110
Total consumer loans	-	-	-	92	146	(3)	143
Residential mortgage loans	2,888	(402)	2,486	7,017	9,905	(402)	9,503
Total impaired loans	2,942	(405)	2,537	8,639	11,581	(405)	11,176

(1) Excludes purchased credit-impaired loans.

31 December 2015	Impaired loans with an allowance			Impaired loans without an allowance	Total impaired loans[1]		
	Gross recorded investments	Specific allowance	Net loans	Gross recorded investments	Gross recorded investments	Specific allowance	Net loans
Commercial loans							
Commercial and industrial	-	-	-	1,087	1,087	-	1,087
Commercial overdrafts	-	-	-	-	-	-	-
Total commercial loans	-	-	-	1,087	1,087	-	1,087
Commercial real estate loans							
Commercial mortgage	-	-	-	518	518	-	518
Consumer loans							
Automobile financing	-	-	-	35	35	-	35
Other consumer	-	-	-	422	422	-	422
Total consumer loans	-	-	-	457	457	-	457
Residential mortgage loans	5,967	(1,879)	4,088	8,058	14,025	(1,879)	12,146
Total impaired loans	5,967	(1,879)	4,088	10,120	16,087	(1,879)	14,208

(1) Excludes purchased credit-impaired loans.

(In thousands of United States dollars)

Note 6: Loans and Participations Receivable (continued)

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

31 December 2016	Impaired loans		31 December 2015	Impaired loans
	Average recorded investment	Interest income recognised	Average recorded investment	Interest income recognised
Commercial loans				
Commercial and industrial	1,065	64	599	-
Commercial overdrafts	-	-	-	-
Total commercial loans	1,065	64	599	-
Commercial real estate loans				
Commercial mortgage	502	-	4,266	2
Total commercial real estate loans	502	-	4,266	2
Consumer loans				
Automobile financing	34	-	29	-
Credit card	-	-	-	-
Other consumer	207	-	222	-
Total consumer loans	241	-	251	-
Residential mortgage loans	10,604	192	12,052	60
Total impaired loans	12,412	256	17,168	62

Loans Modified in a TDR

For the years ended 31 December 2016 and 2015 there were no TDRs modified within the last 12 months that subsequently became 90 days or more past due following a modification.

	31 December 2016				31 December 2015			
TDRs entered into during the year	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	-	-	-	-	1	1,000	87	1,087
Residential mortgage loans	3	776	81	857	1	489	18	507
Total loans modified in a TDR	3	776	81	857	2	1,489	105	1,594

	31 December 2016		31 December 2015	
TDRs outstanding	Accrual	Non-accrual	Accrual	Non-accrual
Commercial loans	1,043	-	1,078	-
Commercial real estate loans	-	487	-	518
Residential mortgage loans	2,993	-	1,432	222
Total loans modified in a TDR	4,036	487	2,510	740

(In thousands of United States dollars)

Note 6: Loans and Participations Receivable (continued)

Changes in the contractual principal outstanding for all purchased credit-impaired loans for the year ended 31 December were as follows:

	31 December 2016				31 December 2015			
	Contractual principal	Non-accretable difference	Accretable yield[1]	Carrying amount	Contractual principal	Non-accretable yield	Accretable yield[1]	Carrying amount
Balance at beginning of year	8,709	(2,248)	(631)	5,830	11,020	(3,804)	-	7,216
Purchases	-	-	-	-	-	-	-	-
Advances and increases in the cash flows expected to be collected	166	408	(396)	178	150	631	(631)	150
Reductions resulting from repayments	(464)	-	216	(248)	(1,554)	107	-	(1,447)
Reductions resulting from changes in allowances for credit losses	-	(172)	-	(172)	-	-	-	-
Reductions resulting from charge-offs	(395)	395	-	-	(907)	818	-	(89)
Accretion	-	-	-	-	-	-	-	-
Balance at end of year	8,016	(1,617)	(811)	5,588	8,709	(2,248)	(631)	5,830

[1] The accretable yield represents the excess of a loan's cash flows expected to be collected over the loan's initial carrying amount.

Note 7: Credit Risk Concentrations

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

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

	31 December 2016			31 December 2015		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Banks and financial services	90,796	188,717	279,513	53,179	169,513	222,692
Commercial and merchandising	127,053	8,493	135,546	131,640	12,264	143,904
Governments	17,908	-	17,908	22,402	-	22,402
Individuals	757,428	32,359	789,787	657,687	29,884	687,571
Primary industry and manufacturing	16,424	1,642	18,066	21,975	978	22,953
Real estate	207,082	-	207,082	254,593	-	254,593
Hospitality industry	1,020	-	1,020	1,304	-	1,304
Transport and communication	193	-	193	290	-	290
Sub-total	1,217,904	231,211	1,449,115	1,143,070	212,639	1,355,709
General allowance	(6,279)	-	(6,279)	(8,034)	-	(8,034)
Total	1,211,625	231,211	1,442,836	1,135,036	212,639	1,347,675

Butterfield Bank (Cayman) Limited
Notes to the Consolidated Financial Statements *(continued)*

(In thousands of United States dollars)

Note 7: Credit Risk Concentrations (continued)

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

	31 December 2016				31 December 2015			
	Cash and cash equivalents and short-term investments	On-balance sheet	Off-balance sheet	Total credit exposure	Cash and cash equivalents and short-term investments	On-balance sheet	Off-balance sheet	Total credit exposure
Australia	2,517	-	-	2,517	2,823	-	-	2,823
Barbados	-	7,500	-	7,500	-	11,250	-	11,250
Bermuda	3,271	201,151	-	204,422	2,868	198,170	5,500	206,538
Canada	181,854	-	-	181,854	358,292	-	-	358,292
Cayman Islands	40,125	676,994	231,211	948,330	19,018	683,468	207,139	909,625
Ireland	-	-	-	-	-	-	-	-
Japan	18,200	-	-	18,200	22,167	-	-	22,167
New Zealand	537	-	-	537	595	-	-	595
St. Lucia	-	95,117	-	95,117	-	95,285	-	95,285
Switzerland	4,036	-	-	4,036	2,194	-	-	2,194
The Bahamas	14	22,443	-	22,457	-	27,320	-	27,320
United Kingdom	60,592	214,699	-	275,291	81,942	127,577	-	209,519
United States	96,992	-	-	96,992	351,388	-	-	351,388
Sub-total	408,138	1,217,904	231,211	1,857,253	841,287	1,143,070	212,639	2,196,996
General allowance	-	(6,279)	-	(6,279)	-	(8,034)	-	(8,034)
Total	408,138	1,211,625	231,211	1,850,974	841,287	1,135,036	212,639	2,188,962

At 31 December 2016, 36.01% (2015: 16.64%) of total cash and cash equivalents were placed with a single Canadian (2015: US) Financial Institution with an S&P rating of AA (2015: A). At 31 December 2016, 18.35% (2015: 20.80%) of the total cash and cash equivalents and short-term investments were held in US Treasury Bills.

Note 8: Premises, Equipment and Computer Software

The following table summarises land, buildings, equipment and computer software:

	31 December 2016			31 December 2015		
	Cost	Accumulated depreciation	Net carrying amount	Cost	Accumulated depreciation	Net carrying amount
Land	3,449	-	3,449	3,449	-	3,449
Buildings	42,816	(9,382)	33,434	42,793	(8,061)	34,732
Equipment	4,774	(3,814)	960	5,210	(3,960)	1,250
Computer hardware and software in use	39,157	(23,175)	15,982	41,053	(22,544)	18,509
Total	90,196	(36,371)	53,825	92,505	(34,565)	57,940

	31 December 2016	31 December 2015
Depreciation		
Buildings (included in property expense)	1,321	1,276
Equipment (included in property expense)	496	473
Computer hardware and software (included in technology & communications expense)	4,517	4,135
Total depreciation charged to non-interest expense	6,334	5,884

(In thousands of United States dollars)

Note 9: Intangible Assets

The following table presents intangible assets:

Customer relationship intangible assets	31 December 2016				31 December 2015			
	Cost	Accumulated impairment	Accumulated amortisation	Net carrying amount	Cost	Accumulated impairment	Accumulated amortisation	Net carrying amount
Customer relationships	12,325	(181)	(2,602)	9,542	12,325	(181)	(1,780)	10,364

Customer relationships are initially valued based on the present value of net cash flows expected to be derived solely from the recurring customer base existing as at the date of acquisition. Customer relationship intangible assets may or may not arise from contracts. There were no intangible asset impairment losses recognised for the year ended 31 December 2016 (2015: $Nil million).

The Bank recorded no customer relationship intangible during the year. During 2016, the amortisation expense amounted to $0.8 million (2015: $0.8 million). The estimated aggregate amortisation expense in total for the next five years (until 31 December 2021) is $3.7 million.

Note 10: Customer Deposits and Deposits from Banks

	31 December 2016			31 December 2015		
	Customers	Banks	Total	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	622,371	-	622,371	516,020	-	516,020
Demand deposits - Interest bearing	1,983,935	34,836	2,018,771	2,080,622	22,785	2,103,407
Sub-total - demand deposits	2,606,306	34,836	2,641,142	2,596,642	22,785	2,619,427
Term deposits having a denomination of less than $100 thousand						
Term deposits maturing within six months	22,290	-	22,290	20,887	-	20,887
Term deposits maturing between six to twelve months	4,011	-	4,011	3,770	-	3,770
Term deposits maturing after twelve months	783	-	783	377	-	377
Sub-total - term deposits having a denomination of less than $100 thousand	27,084	-	27,084	25,034	-	25,034
Term deposits having a denomination of $100 thousand or more						
Term deposits maturing within six months	363,667	65,298	428,965	347,987	3,899	351,886
Term deposits maturing between six to twelve months	17,489	-	17,489	34,376	-	34,376
Term deposits maturing after twelve months	9,510	-	9,510	9,092	-	9,092
Sub-total - term deposits having a denomination of $100 thousand or more	390,666	65,298	455,964	391,455	3,899	395,354
Total - term deposits[1]	417,750	65,298	483,048	416,489	3,899	420,388
Total	3,024,056	100,134	3,124,190	3,013,131	26,684	3,039,815

[1] As at 31 December 2016, $0.4 million (2015: $10.2 million) of the term deposits bear an interest rate of 0%.

The effective yield on interest bearing deposits at 31 December 2016 was 0.07% (2015: 0.07%).

Note 11: Employee Future Benefits

	31 December 2016	31 December 2015
Annual benefit expense		
Defined contribution expense	1,373	1,451
Total	1,373	1,451

Note 12: Credit Related Arrangements and Commitments

Commitments

The Bank was committed to expenditures under contract for leases of $1.285 million for the year ended 31 December 2016 (2015: $0.830 million). Included in the table below are commitments to lease two floors for three years in a building sold during 2015.

(In thousands of United States dollars)

Note 12: Credit Related Arrangements and Commitments (continued)

The following table summarises the Bank's commitments for long-term leases:

Year ending 31 December 2016	Leases
2017	1,114
2018	935
2019	210
2020	210
2021 & thereafter	123
Total commitments	2,592

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, while the term of the letters of guarantee does not exceed four years. The types and amounts of collateral security held by the Bank for these standby letters of credit and letters of guarantee is generally represented by deposits with the Bank or a charge over assets held in mutual funds.

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

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

	31 December 2016			31 December 2015		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	110,327	110,327	-	124,009	124,009	-
Letters of guarantee	3,196	3,196	-	6,968	6,968	-
Total	113,523	113,523	-	130,977	130,977	-

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

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

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

	31 December 2016	31 December 2015
Commitments to extend credit	37,968	41,678
Documentary and commercial letters of credit	79,720	40,134
Total	117,688	81,812

A guarantee is a contract that contingently requires the guarantor to make payments to a third party based on (i) changes in an underlying interest rate, foreign exchange rate or other variable, including the occurrence or non-occurrence of an event, that is related to an asset, liability or equity security held by the guaranteed party, (ii) an indemnification provided to the third party with the characteristics listed above, (iii) another entity's failure to perform under an obligating agreement, or (iv) another entity's failure to perform related to its indebtedness. As at 31 December 2016 the guarantees that the Bank provided to its customers and other third parties were standby letters of credit and letters of guarantee with a maximum potential amount of future payments of $66.8 million (2015: $94.8 million). The carrying value of these amounts on the 31 December 2016 Consolidated Balance Sheet were $Nil (2015: $Nil).

The Bank has a facility by one of its custodians, whereby the Bank may offer up to $200 million of standby letters of credit to its customers on a fully secured basis. Under the standard terms of the facility, the custodian has the right to set-off against securities held of 110% of the utilised facility. At 31 December 2016, $108.8 million (2015: $124.0 million) of standby letters of credit were issued under this facility.

Legal Proceedings

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

(In thousands of United States dollars)

Note 13: Interest Income

Loans

The following table presents the components of loan interest income:

	31 December 2016	31 December 2015
Mortgages	29,324	26,142
Other loans	21,161	18,681
	50,485	44,823
Amortisation of loan origination fees (net of amortised costs)	(135)	(206)
Total loan interest income	50,350	44,617
Balance of unamortised loan fees as at 31 December	1,937	1,831

Note 14: Accounting for 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. For the years ended 2016 and 2015, the Bank elected not to net its derivative transactions.

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

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

Notional amounts

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

Fair value

Derivative instruments, in the absence of any compensating up-front cash payments, generally have no market value at inception. They obtain value, positive or negative, as relevant exchange rates change, such that previously contracted derivative transactions have become more or less favourable than what can be negotiated under current market conditions for contracts with the same remaining period to maturity. 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.

Client service derivatives

The Bank enters into foreign exchange contracts 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 and respective gross positive or negative fair value. Fair value of derivatives is recorded in the Consolidated Balance Sheet in Other assets and Other liabilities. Gross positive fair values are recorded in Other assets and gross negative fair values are recorded in Other liabilities, and the Bank has not netted any derivatives on the Consolidated Balance Sheet.

31 December 2016	Derivative Instrument	Notional amounts	Gross Positive fair value	Gross Negative fair value	Net fair value
Risk management derivatives					
Derivatives not formally designated as hedging instruments	Forward foreign exchange	-	-	-	-
Subtotal risk management derivatives		-	-	-	-
Client services derivatives					
	Spot and forward foreign exchange	509,010	6,983	(6,811)	172
Total derivative instruments		509,010	6,983	(6,811)	172

Butterfield Bank (Cayman) Limited
Notes to the Consolidated Financial Statements *(continued)*

(In thousands of United States dollars)

Note 14: Accounting for Derivative Instruments and Risk Management (continued)

31 December 2015	Derivative Instrument	Notional amounts	Gross Positive fair value	Gross Negative fair value	Net fair value
Risk management derivatives					
Derivatives not formally designated					
as hedging instruments	Forward foreign exchange	68,753	132	(78)	54
Subtotal risk management derivatives		68,753	132	(78)	54
Client services derivatives					
	Spot and forward foreign exchange	296,034	1,508	(1,448)	60
Total derivative instruments		364,787	1,640	(1,526)	114

The Bank has not provided or received any collateral with respect to the derivative contracts held with third party institutions as at December 31, 2016 and 2015.

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 not 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.

31 December 2016	**Gross fair value recognised**	**Less: Offset applied under master netting agreements**	**Net fair value presented in the consolidated balance sheets**	**Less: derivative assets / liabilities not offset**	**Less: cash collateral received / paid**	**Exposures net of collateral**
Derivative assets						
Spot and forward foreign exchange and currency swaps	**6,983**	**-**	**6,983**	**-**	**(6,981)**	**2**
Derivative liabilities						
Spot and forward foreign exchange and currency swaps	**(6,811)**	**-**	**(6,811)**	**-**	**-**	**(6,811)**
Net positive fair value			**172**	**-**		

31 December 2015	Gross fair value recognised	Less: Offset applied under master netting agreements	Net fair value presented in the consolidated balance sheets	Less: derivative assets / liabilities not offset	Less: cash collateral received / paid	Exposures net of collateral
Derivative assets						
Spot and forward foreign exchange and currency swaps	1,640	-	1,640	(78)	(178)	1,384
Derivative liabilities						
Spot and forward foreign exchange and currency swaps	(1,526)	-	(1,526)	78	-	(1,448)
Net positive fair value			114	-		

(In thousands of United States dollars)

Note 14: Accounting for Derivative Instruments and Risk Management (continued)

The following table shows the location and amount of gains (losses) recorded in the Consolidated Statement of Operations on derivative instruments outstanding.

Derivative Instrument	Consolidated Statement of Operations line item	For the year ended 31 December 2016	31 December 2015
Forward foreign exchange	Foreign exchange revenue	172	114
Total net gains/(losses) recognised in net income		**172**	**114**

Note 15: Fair Value of Financial Instruments

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

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

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

Financial instruments in Level 2 include equity securities not actively traded, certificate of deposits, corporate bonds, mortgage-backed securities and other asset-backed securities, interest rate swaps, caps and 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.

Items that are recognised at fair value on a recurring basis	**31 December 2016**				31 December 2015			
	Fair value				Fair value			
	Level 1	**Level 2**	**Level 3**	**Total carrying amount / Fair value**	Level 1	Level 2	Level 3	Total carrying amount / Fair value
Financial assets								
Debt securities								
Available for sale								
US government and federal agencies	-	847,834	-	847,834	-	712,939	-	712,939
Debt securities issued by non-US	-	5,338	-	5,338	-	6,759	-	6,759
Corporate debt securities	-	154,467	-	154,467	-	146,269	-	146,269
Asset-backed securities - Student loans	-	-	12,493	12,493	-	-	12,160	12,160
Mortgage-backed securities - Commercial	-	63,165	-	63,165	-	61,979	-	61,979
Residential mortgage-backed securities - Prime	-	79,285	-	79,285	-	33,290	-	33,290
Total Available for sale	-	1,150,089	12,493	1,162,582	-	961,236	12,160	973,396
Other assets – Derivatives	-	6,983	-	6,983	-	1,701	-	1,701
Financial liabilities								
Other liabilities – Derivatives	-	6,811	-	6,811	-	1,658	-	1,658

(In thousands of United States dollars)

Note 15: Fair Value of Financial Instruments (continued)

Level 3 reconciliation	31 December 2016			31 December 2015		
	Hold to maturity investments	Available for sale investments	Total	Hold to maturity investments	Available for sale investments	Total
Carrying amount at beginning of year	-	12,160	12,160	-	12,227	12,227
Purchases	-	-	-	-	-	-
Proceeds from sale / Capital distributions	-	-	-	-	-	-
Realised and unrealised losses recognised in net income	-	-	-	-	-	-
Realised and unrealised gains (losses) recognised in other comprehensive income	-	333	333	-	(67)	(67)
Transfers in and out of Level 3	-	-	-	-	-	-
Carrying amount at end of year	-	12,493	12,493	-	12,160	12,160

Items that are recognised at fair value on a non-recurring basis	31 December 2016				31 December 2015			
	Fair value				Fair value			
	Level 1	Level 2	Level 3	Total carrying amount / Fair value	Level 1	Level 2	Level 3	Total carrying amount / Fair value
Other real estate owned	-	310	-	310	-	453	-	453

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

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

Financial Instrument Type	Valuation Technique	31 December 2016 Fair Value	31 December 2015 Fair Value
Asset-backed securities - Student loans	Unadjusted third party priced	12,493	12,160

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

Unadjusted third party priced

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

- Asset backed securities ("ABS") – The ABS is Federal Family Education Loan Program ("FFELP loans") guaranteed student loan security and is valued using a non-binding broker quote. The fair value provided by the broker is the last trading price of similar securities but as the security is trading illiquidly, a Level 2 classification is not supported.

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

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

	31 December 2016				31 December 2015		
	Fair value hierarchy	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
Financial assets							
Cash and cash equivalents	Level 1	333,236	333,236	-	841,287	841,287	-
Short term investments	Level 1	74,902	74,902	-	-	-	-
Investments held to maturity	Level 2	553,865	548,461	(5,404)	279,283	279,909	626
Loans, net of allowance for credit losses	Level 2	1,211,625	1,211,671	46	1,135,036	1,135,036	-
Financial liabilities							
Customer deposits							
Demand deposits	Level 2	2,606,306	2,606,306	-	2,596,642	2,596,642	-
Term deposits	Level 2	417,750	417,959	209	416,489	416,489	-
Deposits from banks	Level 2	100,134	100,134	-	26,684	26,684	-

(In thousands of United States dollars)

Note 16: Interest Rate Risk

The following table sets out the assets, liabilities and shareholder's equity on the date of the earlier of contractual maturity, expected maturity or repricing date. Use of this table to derive information about the Bank's interest rate risk position is limited by the fact that customers may choose to terminate their financial instruments at a date earlier than the contractual maturity or repricing date. Examples of this include fixed-rate mortgages, which are shown at contractual maturity but which may pre-pay earlier, and certain term deposits, which are shown at contractual maturity but which may be withdrawn before their contractual maturity. Investments are shown based on expected duration which the Bank believes is more representative of maturity date than actual contractual maturity.

31 December 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 and cash equivalents	297	-	-	-	-	36	333
Short term investments	50	25	-	-	-	-	75
Investments	471	1	44	261	939	-	1,716
Loans	1,077	45	40	28	17	5	1,212
Other assets	-	-	-	-	-	87	87
Total assets	1,895	71	84	289	956	128	3,423
Liabilities and shareholder's equity							
Shareholder's equity	-	-	-	-	-	223	223
Demand deposits	2,019	-	-	-	-	622	2,641
Term deposits	381	71	21	10	-	-	483
Other liabilities	-	-	-	-	-	76	76
Total liabilities and shareholder's equity	2,400	71	21	10	-	921	3,423
Interest rate sensitivity gap	(505)	-	63	279	956	(793)	-
Cumulative interest rate sensitivity gap	(505)	(505)	(442)	(163)	793	-	-

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 and cash equivalents	824	-	-	-	-	17	841
Short term investments	-	-	-	-	-	-	-
Investments	451	25	19	209	549	-	1,253
Loans	950	71	69	18	19	8	1,135
Other assets	-	-	-	-	-	83	83
Total assets	2,225	96	88	227	568	108	3,312
Liabilities and shareholder's equity							
Shareholder's equity	-	-	-	-	-	207	207
Demand deposits	2,104	-	-	-	-	516	2,620
Term deposits	311	62	38	9	-	-	420
Other liabilities	-	-	-	-	-	65	65
Total liabilities and shareholder's equity	2,415	62	38	9	-	788	3,312
Interest rate sensitivity gap	(190)	34	50	218	568	(680)	-
Cumulative interest rate sensitivity gap	(190)	(156)	(106)	112	680	-	-

Note 17: Regulatory Capital

The Bank is subject to capital requirements of the Basel II framework as defined by the Cayman Islands Monetary Authority ("CIMA"), which came into effect on 1 January 2011 in the Cayman Islands. The measure of capital strength established by CIMA for the Bank is the risk weighted total capital ratio with a minimum of 11%. At 31 December 2016 the risk weighted capital ratio was 15.70% (2015: 15.50%).

(In thousands of United States dollars)

Note 18: Related Party Transactions

	31 December 2016	31 December 2015
Consolidated Balance Sheet		
Assets		
Cash and deposits with banks – parent and affiliates	3,284	2,868
Loans to affiliated entities	40,000	40,000
Loans to staff	29,461	35,168
Loans other related parties	1,903	13,687
Accrued interest	25	53
Other assets - affiliates	2,639	114
Liabilities		
Customer deposits – other related parties	12,400	12,905
Bank deposits – subsidiary of parent	76,818	13,420
Accrued interest	1	-
Other liabilities – parent and affiliates	31,321	31,366
Consolidated Statement of Operations		
Non-Interest Income		
Asset Management	56	59
Net-Interest Income		
Interest Income – Deposits with banks	1	-
Interest Income – Loans to affiliated entities and other related parties	621	1,859
Interest Expense – Deposits with banks	183	-
Non-Interest Expense		
Salaries and staff benefits	1,111	1,136
Professional and outside services	1,216	538
Other expenses	1,781	1,390

The Bank provides, as a benefit to employees, loan facilities at preferred lending rates and banking services at reduced charges.

The Bank established a programme to offer loans with preferential rates to eligible Bank employees, subject to certain conditions set by the Bank and provided that such employees meet certain credit criteria. Loan payments are serviced by automatically debiting the employee's chequing or savings account with the Bank. Applications for loans are handled according to the same policies as those for the Bank's regular retail banking clients. The Bank's ability to offer preferential rates on loans depends upon a number of factors, including market conditions, regulations and the Bank's overall profitability. The Bank has the right to change its employee loan policy at any time after notifying participants. The interest rate benefit to employees for the year ended 31 December 2016 was $0.410 million (2015: $0.439 million).

Significant balances due and from affiliated entities other than the Parent Bank are included in Loans and Bank deposits. Certain directors of the Bank and its parent are principal owners of companies that have loans with the Bank at terms similar to those offered to non-related parties. In the ordinary course of business, the Bank receives from and provides to its affiliated and other related corporations, normal banking services on terms similar to those offered to non-related parties. The non-interest expenses are comprised of share based compensation allocations from the Parent Bank along with shared professional services allocations and loan and collateral administration fees to parent and subsidiary of parent.

Classified in Loans and participation receivables is:
Loan participation receivables from the Bank's Parent at 31 December 2016 totalled $201.2 million (2015: $198.2 million).
Loan participation receivables from the Bank's London affiliate at 31 December 2016 totalled $174.7 million (2015: $87.6 million).

Note 19: Comparative Information

Certain prior period figures have been reclassified to conform to current period presentation. Below is the most significant presentation change.

		2015
As previously reported	Loans, net of allowance for credit losses	1,035,036
Adjustment	Loan participated to Parent - previously netted	30,000
As revised	Loans and participations receivable, net of allowance for credit	1,135,036
As previously recorded	Other payables	35,364
Adjustment	Due to Parent	30,000
As revised	Other liabilities	75,364

Note 20: Subsequent Events

The financial statements were available to be issued and subsequent events have been evaluated up to 8 February 2017.