Butterfield Bank (Cayman) Limited

Consolidated Financial Statements

For the years ended 31 December 2019 and 2018

Contents

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Report of Independent Auditors

To the 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 December 31, 2019 and December 31, 2018, 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.

Auditors' 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 December 31, 2019 and December 31, 2018, 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

February 20, 2020

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Butterfield Bank (Cayman) Limited
Consolidated Balance Sheets

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

	2019	2018
Assets		
Cash and demand deposits with banks	133,793	156,036
Cash equivalents	623,614	762,301
Total cash due from banks	757,407	918,337
Short term investments	-	24,878
Debt securities		
Available for sale	967,591	837,341
Held to maturity	924,423	817,565
Total investments in debt securities	1,892,014	1,654,906
Loans and participations receivable, net of allowance for credit losses	1,104,689	1,012,235
Premises, equipment and computer software	46,804	48,186
Intangible assets	12,056	13,157
Accrued interest	7,336	7,368
Goodwill	551	551
Assets held for sale	-	397
Other assets	18,217	25,453
Total assets	3,839,074	3,705,468
Liabilities		
Customer deposits		
Non-interest bearing	782,079	715,417
Interest bearing	2,693,087	2,652,140
Total customer deposits	3,475,166	3,367,557
Accrued interest	1,626	1,922
Other liabilities	60,167	63,649
Total other liabilities	61,793	65,571
Total liabilities	3,536,959	3,433,128
Shareholder's equity		
Common share capital ($1.00 par; authorised shares 16,450,000 (2018: $1.00 par; authorised shares 16,450,000))	16,450	16,450
Retained earnings	277,466	269,643
Accumulated other comprehensive income (loss)	8,199	(13,753)
Total shareholder's equity	302,115	272,340
Total liabilities and shareholder's equity	3,839,074	3,705,468

Signed on behalf of the Board by:

Michael A. McWatt
Managing Director

Erwin Dikau
Chief Financial Officer

The accompanying notes on pages 6 to 33 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)

	2019	2018
Non-interest income		
Asset management	3,524	3,476
Banking	22,309	20,457
Foreign exchange revenue	20,671	18,630
Trust	5,347	5,098
Other non-interest income	2	120
Total non-interest income	51,853	47,781
Interest income		
Interest and fees on loans	56,446	54,535
Investments	54,624	45,837
Deposits with banks	11,901	7,019
Total interest income	122,971	107,391
Interest expense		
Deposits	8,407	4,182
Total interest expense	8,407	4,182
Net interest income before provision for credit recoveries	114,564	103,209
Provision for credit recoveries	1,893	1,297
Net interest income after provision for credit recoveries	116,457	104,506
Net realised gain on available for sale investments	571	341
Net realised (loss) gain on sale of premises, equipment and computer software	(2)	6
Net realised gain on other real estate owned	-	2
Total other gains	569	349
Total net revenue	168,879	152,636
Non-interest expense		
Salaries and other employee benefits	29,787	29,055
Technology and communications	13,732	13,739
Property	4,300	5,242
Professional and outside services	4,334	4,213
Non-income taxes	2,109	1,850
Amortisation of intangible assets	1,101	1,014
Marketing	1,070	987
Other expenses	4,623	4,566
Total non-interest expense	61,056	60,666
Net income	107,823	91,970

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.	2019	2018
Comprehensive income			
Net income		107,823	91,970
Accretion of net unrealised gains on held to maturity investments transferred from available-for-sale investments		(56)	(73)
Net unrealised gains/(losses) arising during the period		22,579	(8,996)
Reclassification of realised gains to net income	Net realised (gains) losses on available for sale investments	(571)	(341)
Total comprehensive income		129,775	82,560

The accompanying notes on pages 6 to 33 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)

	2019	2018
Common share capital issued and outstanding		
Authorised, issued and fully paid (2019: 16,450,000 shares; 2018: 16,450,000 shares)	16,450	16,450
Retained earnings		
Balance at beginning of year	269,643	237,673
Net income for year	107,823	91,970
Cash dividends declared and paid	(100,000)	(60,000)
Balance at end of year	277,466	269,643
Accumulated other comprehensive (loss) income		
Balance at beginning of year	(13,753)	(4,343)
Held to maturity investment adjustments		
Amortisation of net gains to net income	(56)	(73)
Net change in unamortised gains on held to maturity investments	(56)	(73)
Available for sale investment adjustments		
Gross unrealised gains (losses)	22,579	(8,996)
Transfer of realised (gains) to net income	(571)	(341)
Net change in unrealised and realised gains (losses) on available for sale investments	22,008	(9,337)
Balance at end of year	8,199	(13,753)
Total shareholder's equity	302,115	272,340

The accompanying notes on pages 6 to 33 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)

	2019	2018
Cash flows from operating activities		
Net income	**107,823**	91,970
Adjustments to reconcile net income to operating cash flows:		
Depreciation and amortisation	**17,374**	17,493
Provision for credit recoveries	**(1,893)**	(1,297)
Net realised (gains) losses of available for sale investments	**(571)**	(341)
Changes in operating assets and liabilities:		
Decrease (increase) in accrued interest receivable	**33**	(824)
Decrease (increase) in other assets	**7,236**	(11,527)
Decrease (increase) in accrued interest payable	**(296)**	917
(Decrease) increase in other liabilities	**(3,484)**	17,129
Cash provided by operating activities	**126,222**	113,520
Cash flows from investing activities		
Net decrease in short term investments	**24,878**	24,943
Additions to premises, equipment and computer software	**(4,320)**	(3,113)
Net (increase) decrease in loans and participations receivable	**(93,908)**	(47,786)
Held to maturity investments: proceeds from maturities and pay downs	**109,999**	68,450
Held to maturity investments: purchases	**(220,144)**	(357,675)
Available for sale investments: proceeds from sales	**111,247**	219,332
Available for sale investments: proceeds from maturities and pay downs	**143,841**	141,834
Available for sale investments: purchases	**(366,355)**	(132,636)
Net cash disbursed for business acquisitions	**-**	(5,483)
Cash (used) provided by investing activities	**(294,762)**	(92,134)
Cash flows from financing activities		
Net increase (decrease) in demand and term deposit liabilities	**107,610**	419,047
Cash dividends paid	**(100,000)**	(60,000)
Cash provided by (used) financing activities	**7,610**	359,047
Net (decrease) increase in cash due from banks	**(160,930)**	380,433
Cash due from banks at beginning of year	**918,337**	537,904
Cash due from banks at end of year	**757,407**	918,337
Supplemental disclosure of cash flow information		
Cash interest paid	**8,703**	3,265
Supplemental disclosure of non-cash items		
Extinguishment of loan in exchange for available for sale investments	**3,347**	-

The accompanying notes on pages 6 to 33 are an integral part of these consolidated financial statements.

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 New York Stock Exchange and 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	Butterfield Fiduciary Services (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 intangible assets
- Share-based payments

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 Due from Banks

Cash due from banks 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 a maturity of three months or less 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/(Loss) ("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 Sheets. Unrecognised gains and losses on HTM securities are disclosed in the notes to the consolidated financial statements. The specific identification method is used to determine realised gains and losses on AFS investments, which are included in net realised gains on AFS investments 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 Statements of Operations. For securities with uncertain cash flows, the investments are accounted for under the cost recovery method, whereby all principal and coupon payments received are applied as a reduction of the amortised cost and carrying amount. Accrual of income is suspended in respect of debt securities that are in default, or from which it is unlikely that future interest payments will be received as scheduled.

Recognition of other-than-temporary impairments

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 more likely than not that the Bank will hold such securities until 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. 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.

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. Prepayment penalties, if applicable under the terms of the specific loan agreement, are recognised also upon receipt of payment.

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 recognised 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.

Participated or Assigned Loans

The Bank may act as lead lender on large loans from time to time and may, for strategic or commercial reasons, assign portions of such loans to other market participants. Such assignments are without right of recourse to the Bank as lead lender and participants/assignees accept all risks and obligations of the ultimate borrower associated with their proportional participation and assignment in such loans. The Bank records the unassigned portion of the principal outstanding in such loans on the balance sheet and records only its proportional share of interest income on the unassigned portion of the loan in the consolidated statement of operations.

Note 2: Significant Accounting Policies (continued)

h. Loans (continued)

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 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 expects 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 ("TDR")

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

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

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

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

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.

Note 2: Significant Accounting Policies (continued)

h. Loans (continued)

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 its 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.

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 third party appraisers; 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, geographic, industry, and other environmental factors. Management may also consider 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 that are more than 30 days past due), non-performing, and classified loans; trends in volumes and terms of loans; an evaluation of overall credit quality; the credit process, including lending policies and procedures; and economic, geographical, product, and other environmental factors.

j. Business Combinations, Goodwill and Intangible Assets

All business combinations are accounted for using the acquisition method. 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.

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

k. Premises, Equipment and Computer Software

Land is carried at cost. 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.

Note 2: Significant Accounting Policies (continued)

k. Premises, Equipment and Computer Software (continued)

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. If there is a disposition out of premises, equipment and computer software, a gain is recorded if the difference of the proceeds on disposition is in excess of the asset's carrying value. Otherwise, a loss is recorded. If there is an abandonment out of premises, equipment and computer software, the full carrying value of the asset is recognised as a loss.

l. Leases

In the normal course of operation, the Bank enters into leasing agreements either as the lessee or the lessor. Starting on 1 January 2019 (the adoption date of the new lease accounting guidance Accounting Standards Update ("ASU") 2016-02 Leases (Topic 842)), the Bank recognised (prospectively, with no adjustments to prior periods) right-of-use assets and lease liabilities for operating leases and for finance leases. Lease liabilities are measured as the present value of future lease payments, including term renewals that are reasonably certain to occur, discounted using the Bank's incremental borrowing interest rate. Right-of-use assets are measured as the carrying amount of the related lease liabilities adjusted for: prepaid or accrued lease payments, unamortised lease incentive received, unamortised initial direct costs and any impairment of the right-of-use asset.

On 1 January 2019 the Bank elected the practical expedient: (1) not to reassess whether any expired or existing contracts are or contain leases; (2) not to reassess the lease classification for any expired or existing leases and (3) not to reassess initial direct costs for any existing leases.

The Bank also elected the practical expedient not to separate lease components from non-lease components for all classes of underlying assets.

The Bank also elected the practical expedient not to recognise a right-of-use asset and a lease liability for leases with a term at inception of 12 months or less, including renewal options that are reasonably certain to be exercised (referred to as "short term leases").

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).

All instruments utilised as a hedging instrument in a fair value hedge or cash flow hedge must have one or more underlying notional amounts, no or a minimal net initial investment and a provision for net settlement in the contract to meet the definition of a derivative 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 OCI, depending on whether the hedging relationship satisfies the criteria for a fair value or cash flow hedge. 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. 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 AOCI unless it is probable that the forecasted transaction will not occur in the originally specified time period.

n. Collateral

The Bank pledges assets as collateral as required for various transactions involving deposit products and derivative financial instruments. Assets that have been pledged as collateral, including those that can be sold or repledged by the secured party, continue to be reported on the Bank's consolidated balance sheets under the same line items as non-pledged assets of the same type.

o. 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 Statements of Operations.

p. 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 Statements of Operations over the shorter of the vesting or service period.

q. Revenue Recognition

Trust and corporate services fees include fees for private and institutional trust, executorships, corporate and managed bank accounts. Asset management fees include fees for investment management, investment advice and brokerage services. 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.

Note 2: Significant Accounting Policies (continued)

q. Revenue Recognition (continued)

Banking services fees primarily include fees for letters of credit and other financial guarantees, compensating balances, overdraft facilities and other financial services-related products as well as credit card fees. Letters of credit and other financial guarantees fees are recognised as revenue over the period in which the related guarantee is outstanding. Credit card fees are comprised of merchant discounts, late fees and membership fees, net of interchange and rewards costs. Credit card fees are recognised in the period in which the service is provided. All other fees are recognised as revenue in the period in which the service is provided.

Foreign exchange revenue includes fees earned on currency exchange transactions which are recognised when such transactions occur, as well as gains and losses recognised when translating financial instruments held or due in currencies other than the local functional currency at the rates of exchange prevailing at the balance sheet date.

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 Statements of Operations. Loans placed on non-accrual status are accounted for under the cost recovery method, whereby all principal and interest payments received are applied as a reduction of the amortised cost and carrying amount.

r. 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 inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

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. 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.

Note 2: Significant Accounting Policies (continued)

r. Fair Values (continued)

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.

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.

Goodwill

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

s. 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 estimated costs to sell.

t. 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 Sheets, 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; and
- 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.

u. Consolidated Statements of Cash Flows

For the purposes of the Consolidated Statements of Cash Flows, cash due from banks 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.

v. New Accounting Pronouncements

The following accounting developments were issued during the year ended 31 December 2019 or are accounting standards pending adoption:

In June 2016, the FASB published Accounting Standards Update 2016-13 Financial Instruments – Credit Losses. The amendments in this update provide a new impairment model, known as the current expected credit loss model ("CECL") 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 GAAP definition of an SEC filer, the effective date for this update is for fiscal years beginning after 15 December 2019, including interim periods within those fiscal years. The CECL model is applicable to the measurement of credit losses on financial instruments at amortised cost, including loan receivables and held to maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in certain leases recognised by a lessor. In addition, the amendments to Topic 326 require credit losses on available-for-sale securities to be presented as a valuation allowance rather than as a direct write-down.

Note 2: Significant Accounting Policies (continued)

v. New Accounting Pronouncements (continued)

For debt securities, the guidance will be applied prospectively. Existing purchased credit-impaired ("PCI") assets will be grandfathered and classified as purchased credit deteriorated ("PCD") assets at the date of adoption. The assets will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognise the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance. For all other assets within the scope of CECL, which are primarily loans for the Bank, a cumulative-effect adjustment will be recognised in retained earnings (accumulated deficit) as of the date of application.

The Bank will apply the provisions of ASU 2016-13 with effect from 1 January 2020. The Bank does not intend to restate comparative information. In addition to the adjustment to opening accumulated deficit and the measurement of expected credit losses, the standard will also result in revisions to accounting policies and procedures, new and additional financial statement note disclosures, changes and amendments to internal control documents, the development of a new risk model and associated methodologies, as discussed above. The new loss model will also require the Bank to collect and maintain additional attributes as it relates to its financial instruments that are within scope of CECL including fair value of collateral, expected performance over the lifetime of the instrument and reasonable and supportable assumptions about future economic conditions. Changes in the required allowance for credit losses will be recorded in the consolidated statement of operations.

The Bank had previously established a working group with multiple members from applicable departments, including credit risk management and finance, to evaluate the requirements of this new standard, to develop a loss model consistent with lifetime expected loss estimates and to design and implement any changes required to current processes. The design and implementation of the new impairment process has been completed with the measurement of expected losses to be primarily based on the product of the respective instrument's probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD"), and historically incurred loss rates, respectively. For available-for-sale securities, any allowance for credit losses is based on an impairment assessment. However it is noted that the loss model will continue to be enhanced based on experience of the relevant portfolios.

Based on using data as of 31 December 2019, the total expected adjustment as a result of the adoption of this update on the opening balance of the Bank's net equity at 1 January 2020 is a decrease of $3.0 million. The estimated impact relates to increases in the allowance for credit losses under the new expected credit loss requirements. The Bank will continue to monitor and refine certain elements of its impairment process in advance of its Q1 2020 reporting.

In April 2019 and November 2019 respectively, the FASB published ASU 2019-04 and ASU 2019-11 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, affecting a variety of topics including Topic 815, Derivatives and Hedging, Topic 825, Financial Instruments and Sub-topic 805-20, Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest. The amendments clarify, correct and improve various aspects of the guidance in the following ASU's related to financial instruments: ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and ASU 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments relating to ASU 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, early adoption is permitted and it should be applied on a modified-retrospective transition basis. The amendments relating to ASU 2016-13 are effective as noted in ASU 2016-13. The amendments relating to ASU 2017-12 are effective as noted in ASU 2017-12. Other than the impact of ASU 2016-13 as disclosed above, ASU 2019-04 and ASU 2019-11 are not expected to have a material impact on the Bank's financial statements.

In May 2019, the FASB published Accounting Standards Update 2019-05 Financial Instruments - Credit Losses (Topic 326) - Targeted Transition Relief. The amendments in this update provide targeted transition relief that is an option for, and will be available to, all reporting entities within the scope of Topic 326. It provides entities with an option to irrevocably elect the fair value option in Subtopic 825-10, applied on an instrument-by-instrument basis for eligible instruments that are within the scope of Subtopic 326-20 upon adoption of Topic 326. The fair value option election does not apply to held to maturity debt securities. The effective date and transition methodology for the amendments in this update are the same as in ASU 2016-13. The Bank has elected not to adopt this elective guidance.

In March 2019, the FASB published Accounting Standards Update 2019-01 Leases (Topic 842) - Codification Improvements. The amendments in this update provide clarification on three issues relating to ASU 2016-02 Leases (Topic 842): (1) determining the fair value of the underlying asset by lessors that are not manufactures or dealers; (2) presentation on the statement of cash flows - sales-type and direct financing leases for all lessors that are depository and lending entities within the scope of Topic 942; and (3) transition disclosures related to Topic 250, Accounting Changes and Error Corrections. The transition and effective date provisions for this update apply to Issue 1 and Issue 2 and are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, for public business entities. Issue 3 amendments are to the original transition requirements in Topic 842 to clarify that the transition disclosures for Topic 250, paragraphs 250-10-50-1(b)(2) and paragraph 250-10-50-3 are excluded from interim disclosure requirements for Topic 842. The Bank does not anticipate this ASU to have an impact on the Bank.

(In thousands of United States dollars)

Note 3: Cash Due from Banks

	31 December 2019	31 December 2018
Unrestricted		
Non-interest bearing		
Cash and demand deposits with banks	24,453	16,723
Interest bearing		
Demand deposits with banks[1]	109,340	139,313
Cash equivalents	623,614	762,301
Sub-total - Interest bearing	732,954	901,614
Total cash due from banks	757,407	918,337

[1] Interest bearing cash due from banks includes certain demand deposits with banks as at 31 December 2019 in the amount of $20.1 million (2018: $25.8 million) that are earning interest at a negligible rate.

Note 4: Short Term Investments

	31 December 2019	31 December 2018
Unrestricted		
Interest earning		
US treasury bills maturing within three months	-	24,878
Total short term investments	-	24,878

Note 5: Investments in debt securities

Amortised Cost, Carrying Amount and Fair Value

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

	31 December 2019				31 December 2018			
	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	898,566	9,670	(1,613)	906,623	664,541	1,687	(11,771)	654,457
Non-US government debt securities	3,348	81	-	3,429	3,046	18	-	3,064
Corporate debt securities	-	-	-	-	55,508	-	(1,149)	54,359
Asset-backed securities - Student loans	13,290	-	(399)	12,891	13,290	-	(665)	12,625
Commercial mortgage-backed securities	-	-	-	-	55,504	6	(1,176)	54,334
Residential mortgage-backed securities	44,600	188	(140)	44,648	59,674	-	(1,172)	58,502
Total available for sale	959,804	9,939	(2,152)	967,591	851,563	1,711	(15,933)	837,341

	31 December 2019				31 December 2018			
	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	924,423	19,488	(277)	943,634	817,565	2,068	(14,694)	804,939
Total held to maturity	924,423	19,488	(277)	943,634	817,565	2,068	(14,694)	804,939

[1] For the periods ended 31 December 2019 and 31 December 2018 non-credit impairments recognised in AOCI/AOCL for held to maturity investments is equal to $Nil.

During the year ended 31 December 2019, there were Nil purchases of AFS securities from its Parent Bank. During the year ended 31 December 2018, the Bank purchased $46.8 million of AFS securities and $0.03 million of accrued interest from its Parent Bank at estimated fair value.

(In thousands of United States dollars)

Note 5: Investments in debt securities (continued)

Investments with 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 2019	**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	**85,107**	**(460)**	**125,749**	**(1,153)**	**210,856**	**(1,613)**
Non-US government debt securities	**202**	**-**	**-**	**-**	**202**	**-**
Asset-backed securities - Student loans	**-**	**-**	**12,891**	**(399)**	**12,891**	**(399)**
Residential mortgage-backed securities	**-**	**-**	**28,531**	**(140)**	**28,531**	**(140)**
Total available for sale securities with unrealised losses	**85,309**	**(460)**	**167,171**	**(1,692)**	**252,480**	**(2,152)**
Held to maturity						
US government and federal agencies	**-**	**-**	**46,411**	**(277)**	**46,111**	**(277)**
Total held to maturity securities with unrealised losses	**-**	**-**	**46,411**	**(277)**	**46,111**	**(277)**

31 December 2018	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	141,343	(522)	372,832	(11,249)	514,175	(11,771)
Corporate debt securities	14,914	(114)	39,445	(1,035)	54,359	(1,149)
Asset-backed securities - Student loans	-	-	12,625	(665)	12,625	(665)
Commercial mortgage-backed securities	-	-	49,317	(1,176)	49,317	(1,176)
Residential mortgage-backed securities	16,182	(352)	42,320	(820)	58,502	(1,172)
Total available for sale securities with unrealised losses	172,439	(988)	516,539	(14,945)	688,978	(15,933)
Held to maturity						
US government and federal agencies	332,551	(5,441)	285,162	(9,253)	617,713	(14,694)
Total held to maturity securities with unrealised losses	332,551	(5,441)	285,162	(9,253)	617,713	(14,694)

The Bank does not believe that the AFS and HTM investment securities that were in an unrealised loss position as of 31 December 2019 (and 31 December 2018), which were composed of twenty three securities representing 15.64% of the AFS and HTM portfolios' carrying value (2018: eighty four and 79.6%, respectively), represent an OTTI. Total gross unrealised losses were 0.81% of the fair value of affected securities (2018: 2.34%). Management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery. Unrealised losses were attributable primarily to changes in market interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The issuers continue to make timely principal and interest payments on the securities. The following describes the processes for identifying credit impairment in security types with the most significant unrealised losses as shown in the preceding tables.

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

Management believes that all the **Non-US government debt securities** do not have any credit losses, given the explicit guarantee provided by the issuing government.

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

Investments in **Residential mortgage-backed securities** relate to four securities which are rated AAA (three securities) and Aaa (one security) and possess similar significant credit enhancement as described above. No credit losses were recognised on these securities as the weighted average credit support and the weighted average LTV ratios range from 11% - 22% and 59% - 63%, respectively. Current credit support is significantly greater than any delinquencies experienced on the underlying mortgages.

(In thousands of United States dollars)

Note 5: Investments in debt securities (continued)

Investment maturities

The following table presents the remaining term to contractual maturity of the Bank's securities. The actual maturities may differ as certain securities offer prepayment options to the borrowers.

31 December 2019	**Remaining term to maturity**						
	Within 3 months	**3 to 12 months**	**1 to 5 years**	**5 to 10 years**	**Over 10 years**	**No specific or single maturity**	**Carrying amount**
Available for sale							
US government and federal agencies	-	-	-	-	-	906,623	906,623
Non-US government debt securities	-	-	202	3,227	-	-	3,429
Asset-backed securities - Student loans	-	-	-	-	-	12,891	12,891
Residential mortgage-backed securities	-	-	-	-	-	44,648	44,648
Total available for sale	-	-	202	3,227	-	964,162	967,591
Held to maturity							
US government and federal agencies	-	-	-	-	-	924,423	924,423
Total held to maturity securities	-	-	-	-	-	924,423	924,423
Total investments	-	-	202	3,227	-	1,888,585	1,892,014
Total by currency							
US dollars	-	-	202	3,227	-	1,888,585	1,892,014
Total investments	-	-	202	3,227	-	1,888,585	1,892,014

31 December 2018	Remaining term to maturity						
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	No specific or single maturity	Carrying amount
Available for sale							
US government and federal agencies	-	-	-	-	-	654,457	654,457
Non-US government debt securities	-	3,064	-	-	-	-	3,064
Corporate debt securities	-	-	54,359	-	-	-	54,359
Asset-backed securities - Student loans	-	-	-	-	-	12,625	12,625
Commercial mortgage-backed securities	-	-	-	-	-	54,334	54,334
Residential mortgage-backed securities	-	-	-	-	-	58,502	58,502
Total available for sale	-	3,064	54,359	-	-	779,918	837,341
Held to maturity							
US government and federal agencies	-	-	-	-	-	817,565	817,565
Total held to maturity securities	-	-	-	-	-	817,565	817,565
Total investments	-	3,064	54,359	-	-	1,597,483	1,654,906
Total by currency							
US dollars	-	3,064	54,359	-	-	1,597,483	1,654,906
Total investments	-	3,064	54,359	-	-	1,597,483	1,654,906

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 2019		31 December 2018	
Pledged Investments	**Amortised cost**	**Fair value**	Amortised cost	Fair value
Available for sale	2,960	3,002	2,751	2,707
Held to maturity	3,123	3,177	3,558	3,467

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

(In thousands of United States dollars)

Note 5: Investments in debt securities (continued)

Sale Proceeds and Realised Gains and Losses of AFS Securities

	31 December 2019			31 December 2018		
AFS securities sold	**Sale proceeds**	**Gross realised gains**	**Gross realised (losses)**	Sale proceeds	Gross realised gains	Gross realised (losses)
Corporate debt securities	**55,256**	**49**	**(129)**	24,975	-	(87)
Commercial mortgage-backed securities	**55,991**	**651**	**-**	-	-	-
Residential mortgage-backed securities	**-**	**-**	**-**	194,357	544	(116)
Net realised gains (losses) recognised in net income	**111,247**	**700**	**(129)**	219,332	544	(203)

Note 6: Loans and Participations Receivable

The following table summarises the composition of the loans and participations receivable portfolio:

	31 December 2019	31 December 2018
Commercial loans		
Banks	**33,101**	-
Governments	**127,509**	12,670
Commercial and industrial	**66,096**	147,691
Commercial overdrafts	**5,475**	10,156
Total gross commercial loans	**232,181**	170,517
Less specific allowance for credit losses on government loans	**-**	(1,688)
Net commercial loans	**232,181**	168,829
Commercial real estate loans		
Commercial mortgage	**179,304**	180,420
Construction	**57,509**	48,909
Total gross commercial real estate loans	**236,813**	229,329
Less specific allowance for credit losses on commercial real estate loans	**-**	-
Net commercial real estate loans	**236,813**	229,329
Consumer loans		
Automobile financing	**7,765**	6,975
Credit card	**26,253**	23,623
Overdrafts	**3,043**	2,242
Other consumer	**30,174**	27,751
Total gross consumer loans	**67,235**	60,591
Less specific allowance for credit losses on consumer loans	**-**	-
Net consumer loans	**67,235**	60,591
Residential mortgage loans	**569,550**	555,362
Less specific allowance for credit losses on residential mortgage loans	**(181)**	(203)
Net residential mortgage loans	**569,369**	555,159
Total gross loans	**1,105,779**	1,015,799
Less specific allowance for credit losses	**(181)**	(1,891)
Less general allowance for credit losses	**(909)**	(1,673)
Net loans	**1,104,689**	1,012,235

The principal means of securing residential mortgages, personal, credit card and commercial loans are charges over assets and guarantees. Residential and commercial mortgage loans are generally repayable over periods of up to thirty years and personal, commercial and government loans are generally repayable over terms not exceeding fifteen years. Amounts owing on credit cards are revolving and typically a minimum amount is due within 30 days from billing. The effective yield on total loans as at 31 December 2019 is 4.92% (2018: 5.71%).

(In thousands of United States dollars)

Note 6: Loans and Participations Receivable (continued)

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 2019					
	30 – 59 days	60 – 89 days	90 days or more	Total past due loans	Total Current [1]	Total loans
Commercial loans						
Banks	-	-	-	-	33,101	33,101
Governments	-	-	-	-	127,509	127,509
Commercial and industrial	-	-	-	-	66,096	66,096
Commercial overdrafts	-	-	-	-	5,475	5,475
Total commercial loans	-	-	-	-	232,181	232,181
Commercial real estate loans						
Commercial mortgage	445	-	-	445	178,859	179,304
Construction	-	-	-	-	57,509	57,509
Total commercial real estate loans	445	-	-	445	236,368	236,813
Consumer loans						
Automobile financing	-	-	-	-	7,765	7,765
Credit card	-	-	-	-	26,253	26,253
Overdrafts	-	-	-	-	3,043	3,043
Other consumer	-	16	-	16	30,158	30,174
Total consumer loans	-	16	-	16	67,219	67,235
Residential mortgage loans	2,646	1,466	2,146	6,258	563,292	569,550
Total gross loans	3,091	1,482	2,146	6,719	1,099,060	1,105,779

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

	31 December 2018					
	30 – 59 days	60 – 89 days	90 days or more	Total past due loans	Total Current [1]	Total loans
Commercial loans						
Governments	-	-	3,750	3,750	8,920	12,670
Commercial and industrial	231	-	-	231	147,460	147,691
Commercial overdrafts	-	-	-	-	10,156	10,156
Total commercial loans	231	-	3,750	3,981	166,536	170,517
Commercial real estate loans						
Commercial mortgage	837	-	-	837	179,583	180,420
Construction	-	-	-	-	48,909	48,909
Total commercial real estate loans	837	-	-	837	228,492	229,329
Consumer loans						
Automobile financing	9	5	-	14	6,961	6,975
Credit card	-	-	-	-	23,623	23,623
Overdrafts	-	-	-	-	2,242	2,242
Other consumer	114	4	-	118	27,633	27,751
Total consumer loans	123	9	-	132	60,459	60,591
Residential mortgage loans	3,861	1,069	3,319	8,249	547,113	555,362
Total gross loans	5,052	1,078	7,069	13,199	1,002,600	1,015,799

[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-Performing Loans (excluding Purchased Credit Impaired Loans)

	31 December 2019			31 December 2018		
	Non-accrual loans	Accruing loans past due 90 days	Total non-performing loans	Non-accrual loans	Accruing loans past due 90 days	Total non-performing loans
Commercial loans						
Governments	-	-	-	3,750	-	3,750
Commercial and industrial	31	-	31	-	-	-
Total commercial loans	31	-	31	3,750	-	3,750
Commercial real estate loans	-	-	-	-	-	-
Consumer loans						
Automobile financing	-	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
Other consumer	-	-	-	-	-	-
Total consumer loans	-	-	-	-	-	-
				-	-	-
Residential mortgage loans	1,632	568	2,200	1,683	194	1,877
Total non-performing loans	1,663	568	2,231	5,433	194	5,627

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

31 December 2019	Pass	Special Mention	Substandard	Non- accrual[1]	Total gross recorded loans
Commercial loans					
Banks	33,101	-	-	-	33,101
Governments	127,509	-	-	-	127,509
Commercial and industrial	64,665	462	938	31	66,096
Commercial overdrafts	5,475	-	-	-	5,475
Total commercial loans	230,750	462	938	31	232,181
Commercial real estate loans					
Commercial mortgage	158,922	19,957	425	-	179,304
Construction	57,509	-	-	-	57,509
Total commercial real estate loans	216,431	19,957	425	-	236,813
Consumer loans					
Automobile financing	7,765	-	-	-	7,765
Credit card	26,253	-	-	-	26,253
Overdrafts	3,043	-	-	-	3,043
Other consumer	30,172	2	-	-	30,174
Total consumer loans	67,233	2	-	-	67,235
Residential mortgage loans	561,911	-	6,007	1,632	569,550
Total gross recorded loans	1,076,325	20,421	7,370	1,663	1,105,779

(1) Excludes purchased credit-impaired loans.

(In thousands of United States dollars)

Note 6: Loans and Participations Receivable (continued)

31 December 2018	Pass	Special Mention	Substandard	Non- accrual[1]	Total gross recorded loans
Commercial loans					
Governments	8,920	-	-	3,750	12,670
Commercial and industrial	146,535	191	965	-	147,691
Commercial overdrafts	10,156	-	-	-	10,156
Total commercial loans	165,611	191	965	3,750	170,517
Commercial real estate loans					
Commercial mortgage	168,311	11,635	474	-	180,420
Construction	48,909	-	-	-	48,909
Total commercial real estate loans	217,220	11,635	474	-	229,329
Consumer loans					
Automobile financing	6,975	-	-	-	6,975
Credit card	23,623	-	-	-	23,623
Overdrafts	2,242	-	-	-	2,242
Other consumer	27,742	9	-	-	27,751
Total consumer loans	60,582	9	-	-	60,591
Residential mortgage loans	545,713	-	7,966	1,683	555,362
Total gross recorded loans	989,126	11,835	9,405	5,433	1,015,799

(1) Excludes purchased credit-impaired loans.

Loans' Credit Quality

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.

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

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

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

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

	31 December 2019		31 December 2018	
Total gross loans evaluated for impairment	**Individually evaluated**	**Collectively evaluated**	Individually evaluated	Collectively evaluated
Commercial loans	**969**	**231,212**	4,715	165,802
Commercial real estate loans	**425**	**236,388**	474	228,855
Consumer loans	**7**	**67,228**	11	60,580
Residential mortgage loans	**6,487**	**563,063**	7,991	547,371
Total gross recorded loans	**7,888**	**1,097,891**	13,191	1,002,608

Changes in General and Specific Allowances for Credit Losses

Loan allowances	**31 December 2019**					31 December 2018
	Commercial loans	**Commercial real estate loans**	**Consumer loans**	**Residential mortgage loans**	**Total loans**	Total loans
Allowances at beginning of period	**2,375**	**645**	**115**	**429**	**3,564**	5,545
Provision (released)/recorded during the period	**(1,715)**	**(385)**	**95**	**112**	**(1,893)**	(1,297)
Recoveries	**8**	**-**	**112**	**21**	**141**	409
Charge-offs	**(374)**	**-**	**(211)**	**(137)**	**(722)**	(1,093)
Allowances at end of period	**294**	**260**	**111**	**425**	**1,090**	3,564
Ending Balance: individually evaluated for impairment	**-**	**-**	**-**	**181**	**181**	1,891
Ending Balance: collectively evaluated for impairment	**294**	**260**	**111**	**244**	**909**	1,673

(In thousands of United States dollars)

Note 6: Loans and Participations Receivable (continued)

Impaired Loans (excluding purchased credit impaired loans)

A loan is considered to be impaired when, based on current information and events, the Bank determines that it will not be able to collect all amounts due according to the 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 2019, the amount of gross interest income that would have been recorded had impaired loans been current was $ 0.092 million (2018: $ 0.341 million). The table below presents information about the Bank's impaired loans:

31 December 2019	**Impaired loans with an allowance**			**Impaired loans without an allowance**	**Total impaired loans**		
	Gross recorded loans	**Specific allowance**	**Net loans**	**Gross recorded loans**	**Gross recorded loans**	**Specific allowance**	**Net loans**
Commercial loans							
Commercial and industrial	-	-	-	969	969	-	969
Governments	-	-	-	-	-	-	-
Total commercial loans	-	-	-	969	969	-	969
Commercial real estate loans							
Commercial mortgage	-	-	-	425	425	-	425
Total commercial real estate loans	-	-	-	425	425	-	425
Consumer loans							
Automobile financing	-	-	-	-	-	-	-
Credit cards	-	-	-	-	-	-	-
Other consumer	-	-	-	-	-	-	-
Total consumer loans	-	-	-	-	-	-	-
Residential mortgage loans	1,440	(181)	1,259	3,259	4,699	(181)	4,518
Total impaired loans	1,440	(181)	1,259	4,653	6,093	(181)	5,912

31 December 2018	Impaired loans with an allowance			Impaired loans without an allowance	Total impaired loans		
	Gross recorded loans	Specific allowance	Net loans	Gross recorded loans	Gross recorded loans	Specific allowance	Net loans
Commercial loans							
Commercial and industrial	-	-	-	965	965	-	965
Commercial overdrafts	3,750	(1,688)	2,062	-	3,750	(1,688)	2,062
Total commercial loans	3,750	(1,688)	2,062	965	4,715	(1,688)	3,027
Commercial real estate loans							
Commercial mortgage	-	-	-	474	474	-	474
Total commercial real estate loans	-	-	-	474	474	-	474
Consumer loans							
Automobile financing	-	-	-	-	-	-	-
Credit cards	-	-	-	-	-	-	-
Other consumer	-	-	-	-	-	-	-
Total consumer loans	-	-	-	-	-	-	-
Residential mortgage loans	1,015	(37)	978	3,852	4,867	(37)	4,830
Total impaired loans	4,765	(1,725)	3,040	5,291	10,056	(1,725)	8,331

(In thousands of United States dollars)

Note 6: Loans and Participations Receivable (continued)

Average Impaired Loan Balances and Related Recognised Interest Income

31 December 2019	Impaired loans		31 December 2018	Impaired loans
	Average gross recorded loans	**Interest income recognised[1]**	Average gross recorded loans	Interest income recognised[1]
Commercial loans				
Commercial and industrial	**967**	**69**	985	68
Governments	**1,875**	**-**	1,875	-
Total commercial loans	**2,842**	**69**	2,860	68
Commercial real estate loans				
Commercial mortgage	**450**	**31**	454	42
Total commercial real estate loans	**450**	**31**	454	42
Consumer loans				
Automobile financing	**-**	**-**	-	-
Other consumer	**-**	**-**	2	-
Total consumer loans	**-**	**-**	2	-
Residential mortgage loans	**4,879**	**189**	6,495	155
Total impaired loans	**8,171**	**289**	9,811	265

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

Loans Modified in a TDR

As at 31 December 2019, the Bank has Nil (2018: One) loans that were modified within the last 12 months and subsequently defaulted (i.e. 90 days or more past due following a modification).

	31 December 2019				31 December 2018			
TDRs entered into during the year	**Number of contracts**	**Pre-modification recorded loans**	**Modification: Interest capitalisation**	**Post-modification recorded loans**	Number of contracts	Pre-modification recorded loans	Modification: Interest capitalisation	Post-modification recorded loans
Residential mortgage loans	**-**	**-**	**-**	**-**	8	1,258	200	1,458
Total loans modified in a TDR	**-**	**-**	**-**	**-**	8	1,258	200	1,458

	31 December 2019		31 December 2018	
TDRs outstanding	**Accrual**	**Non-accrual**	Accrual	Non-accrual
Commercial loans	**938**	**-**	965	-
Commercial real estate loans	**425**	**-**	474	-
Residential mortgage loans	**3,067**	**192**	3,184	204
Total loans modified in a TDR	**4,430**	**192**	4,623	204

(In thousands of United States dollars)

Note 6: Loans and Participations Receivable (continued)

Purchased Credit Impaired Loans

	31 December 2019				31 December 2018			
	Contractual principal	Non-accretable difference	Accretable difference	Carrying amount	Contractual principal	Non-accretable difference	Accretable difference	Carrying amount
Balance at beginning of year	4,531	(901)	(661)	2,969	6,001	(1,239)	(711)	4,051
Advances and increases in the cash flows expected to be collected	45	28	(28)	45	25	42	(42)	25
Reductions resulting from repayments	(1,577)	247	177	(1,153)	(1,495)	191	92	(1,212)
Reductions resulting from changes in allowances for credit losses	-	166	-	166	-	105	-	105
Reductions resulting from charge-offs	(495)	262	-	(233)	-	-	-	-
Balance at end of year	2,504	(198)	(512)	1,794	4,531	(901)	(661)	2,969

The Bank acquired certain credit-impaired loans as part of the 7 November 2014 acquisition of substantially all retail loans of HSBC (Cayman) Limited. The accretable difference (or “accretable yield”) represents the excess of a loan's cash flows expected to be collected over the loan's 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 2019			31 December 2018		
	Loans	Off-balance sheet	Total credit exposure	Loans	Off-balance sheet	Total credit exposure
Banks and financial services	105,780	145,205	250,985	72,619	166,126	238,745
Commercial and merchandising	37,101	32,712	69,813	89,998	48,613	138,611
Governments	127,509	-	127,509	10,982	-	10,982
Individuals	607,292	32,556	639,848	593,688	19,018	612,706
Primary industry and manufacturing	59,055	18	59,073	53,346	18	53,364
Real estate	153,322	-	153,322	176,942	-	176,942
Hospitality industry	14,622	-	14,622	15,538	-	15,538
Transport and communication	917	-	917	795	-	795
Sub-total	1,105,598	210,491	1,316,089	1,013,908	233,775	1,247,683
General allowance	(909)	-	(909)	(1,673)	-	(1,673)
Total	1,104,689	210,491	1,315,180	1,012,235	233,775	1,246,010

(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 2019				31 December 2018			
	Cash and cash equivalents and short-term investments	Loans	Off-balance sheet	Total credit exposure	Cash and cash equivalents and short-term investments	Loans	Off-balance sheet	Total credit exposure
Australia	156,443	-	-	156,443	129,331	-	-	129,331
Barbados	-	-	-	-	-	2,063	-	2,063
Bermuda	2,225	175,806	2,087	180,118	1,908	202,060	11,586	215,554
Canada	382,999	-	-	382,999	524,110	-	-	524,110
Cayman Islands	27,318	883,832	208,404	1,119,554	18,138	730,418	222,189	970,745
Guernsey	-	33,101	-	33,101	82,974	-	-	82,974
Japan	11,848	-	-	11,848	10,099	-	-	10,099
New Zealand	5,732	-	-	5,732	623	-	-	623
St. Lucia	-	-	-	-	-	65,000	-	65,000
Switzerland	3,483	-	-	3,483	3,099	-	-	3,099
The Bahamas	-	12,859	-	12,859	-	14,367	-	14,367
United Kingdom	69,328	-	-	69,328	109,891	-	-	109,891
United States	98,031	-	-	98,031	63,043	-	-	63,043
Sub-total	757,407	1,105,598	210,491	2,073,496	943,216	1,013,908	233,775	2,190,899
General allowance	-	(909)	-	(909)	-	(1,673)	-	(1,673)
Total	757,407	1,104,689	210,491	2,072,587	943,216	1,012,235	233,775	2,189,226

At 31 December 2019, 33.01% (2018: 21.32%) of total cash and cash equivalents were placed with a single Canadian (2018: Canadian) Financial Institution with an S&P rating of A-1 (2018: AA-). At 31 December 2019, 0.00% (2018: 2.64%) of the total cash and cash equivalents and short-term investments were held in US Treasury Bills.

Note 8: Premises, Equipment and Computer Software

	31 December 2019			31 December 2018		
Category	Cost	Accumulated depreciation	Net carrying amount	Cost	Accumulated depreciation	Net carrying amount
Land	3,449	-	3,449	3,053	-	3,053
Buildings	46,295	(12,381)	33,914	44,746	(11,329)	33,417
Equipment	3,979	(3,287)	692	3,914	(3,125)	789
Computer hardware and software in use	44,533	(35,784)	8,749	42,123	(31,196)	10,927
Total	98,256	(51,452)	46,804	93,836	(45,650)	48,186

	31 December 2019	31 December 2018
Depreciation		
Buildings (included in property expense)	1,057	1,396
Equipment (included in property expense)	244	360
Computer hardware and software (included in technology & communications expense)	4,798	4,960
Total depreciation charged to non-interest expense	6,099	6,716

(In thousands of United States dollars)

Note 9: Intangible Assets

Goodwill	31 December 2019	31 December 2018
Goodwill[1]	551	551
Balance at end of year	**551**	551

[1]See note 20: Business Combinations

Customer relationship intangible assets	31 December 2019				31 December 2018			
	Cost	Accumulated impairment	Accumulated amortisation	Net carrying amount	Cost	Accumulated impairment	Accumulated amortisation	Net carrying amount
Customer relationships	**16,517**	**-**	**(4,461)**	**12,056**	16,517	-	(3,360)	13,157

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 2019 (2018: Nil). There were no acquisitions of customer intangible assets during the year ended 31 December 2019 (2018: $5.4 million, of which $5.0 million was acquired through a business acquisition). During 2019, the amortisation expense amounted to $1.1 million (2018: $1.0 million). The estimated aggregate amortisation expense in total for the next five years (until 31 December 2024) is $5.5 million.

Note 10: Customer Deposits

	31 December 2019	31 December 2018
Demand deposits		
Demand deposits - Non-interest bearing	782,079	715,417
Demand deposits - Interest bearing	2,213,240	2,172,941
Sub-total - demand deposits	**2,995,319**	2,888,358
Term deposits having a denomination of less than $100 thousand		
Term deposits maturing within six months	22,086	23,256
Term deposits maturing between six to twelve months	5,023	4,517
Term deposits maturing after twelve months	506	507
Sub-total - term deposits having a denomination of less than $100 thousand	**27,615**	28,280
Term deposits having a denomination of $100 thousand or more		
Term deposits maturing within six months	409,439	390,129
Term deposits maturing between six to twelve months	36,489	49,308
Term deposits maturing after twelve months	6,304	11,482
Sub-total - term deposits having a denomination of $100 thousand or more	**452,232**	450,919
Total - term deposits[1]	**479,847**	479,199
Total	**3,475,166**	3,367,557

[1] As at 31 December 2019, $0.2 million (2018: $0.5 million) of the term deposits bear an interest rate of 0%.

The effective yield on interest bearing deposits at 31 December 2019 was 0.25% (2018: 0.26%).

Note 11: Employee Future Benefits

	31 December 2019	31 December 2018
Annual benefit expense		
Defined contribution expense	1,593	1,541
Total	**1,593**	1,541

(In thousands of United States dollars)

Note 12: Credit Related Arrangements and Commitments

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

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

	31 December 2019	31 December 2018
Commitments to extend credit	**63,443**	64,711
Documentary and commercial letters of credit	**1,809**	30,002
Total	**65,252**	94,713

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 2019			31 December 2018		
	Gross	**Collateral**	**Net**	Gross	Collateral	Net
Standby letters of credit	**143,601**	**143,601**	**-**	137,424	136,544	880
Letters of guarantee	**1,638**	**1,638**	**-**	1,638	1,638	-
Total	**145,239**	**145,239**	**-**	139,062	138,182	880

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

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 2019 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 $89.7 million (2018: $109.8 million). The carrying value of these amounts on the 31 December 2019 Consolidated Balance Sheet were $Nil (2018: $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 2019, $143.4 million (2018: $136.0 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: Leases

The Bank enters into operating lease agreements either as the lessee or the lessor, primarily for office and parking spaces. The terms of the existing leases, including renewal options that are reasonably certain to be exercised, extend up to the year 2029. Certain lease payments will be adjusted during the related leases' term based on movements in the relevant consumer price index.

Lease Costs	Year ended 31 December 2019
Operating lease costs	934
Short-term lease costs	77
Total lease cost	1,011
Operating lease income	-
Other information for the period	
Right-of-use-assets related to new operating lease liabilities	2,346
Operating cash flows from operating leases	907

Other information at end of period	As at 31 December 2019
Operating leases right-of-use assets (included in other assets on the balance sheets)	3,419
Operating leases liabilities (included in other liabilities on the balance sheets)	3,446
Weighted average remaining lease term for operating leases (in years)	6.03
Weighted average discount rate for operating leases	5.25%

Commitments

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

Year ending 31 December 2019	Operating Leases
2020	1,048
2021	778
2022	566
2023	378
2024	242
2025 & thereafter	1,047
Total commitments	4,059
Less: effect of discounting cash flows to their present value	(613)
Operating lease liabilities	3,446

Rental expense for premises leased on a long-term basis for the year ended 31 December 2018 amounted to $1.347 million.

Note 14: Interest Income

Loans

The following table presents the components of loan interest income:

	31 December 2019	31 December 2018
Contractual interest earned on mortgages	**38,653**	35,968
Contractual interest earned on other loans	**16,684**	17,982
Subtotal contractual interest earned	**55,337**	53,950
Amortisation of loan origination fees (net of amortised costs)	**1,109**	585
Total loan interest income	**56,446**	54,535
Balance of unamortised loan fees included in loans as at year end	**2,794**	2,540

(In thousands of United States dollars)

Note 15: 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 2019 and 2018, 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 Statements of Operations depends on whether the contract has been designated as a hedge and qualifies for hedge accounting.

Notional amounts

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

Fair value

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

Risk management derivatives comprise of derivatives not formally designated as hedges. These are entered into to manage foreign exchange risk of the Bank's exposure. Changes in the fair value of derivative instruments not formally designated as hedges are recognised in foreign exchange revenue.

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 Sheets in Other assets and Other liabilities. Gross positive fair values are recorded in Other assets and gross negative fair values are recorded in Other liabilities, and the Bank has not netted any derivatives on the Consolidated Balance Sheets.

31 December 2019	**Derivative Instrument**	**Number of contracts**	**Notional amounts**	**Gross Positive fair value**	**Gross Negative fair value**	**Net fair value**
Client services derivatives						
	Spot and forward foreign exchange	**98**	**405,205**	**853**	**(701)**	**152**
Total derivative instruments		**98**	**405,205**	**853**	**(701)**	**152**

31 December 2018	Derivative Instrument	Number of Contracts	Notional amounts	Gross Positive fair value	Gross Negative fair value	Net fair value
Client services derivatives						
	Spot and forward foreign exchange	146	571,778	7,111	(6,907)	204
Total derivative instruments		146	571,778	7,111	(6,907)	204

The Bank has not provided or received any collateral with respect to the derivative contracts held with third party institutions as at 31 December 2019 and 2018.

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.

(In thousands of United States dollars)

Note 15: Accounting for Derivative Instruments and Risk Management (continued)

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 2019	**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	**853**	**-**	**853**	**-**	**-**	**853**
Derivative liabilities						
Spot and forward foreign exchange and currency swaps	**(701)**	**-**	**(701)**	**-**	**-**	**(701)**
Net positive fair value			**152**	**-**		

31 December 2018	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	7,111	-	7,111	-	-	7,111
Derivative liabilities						
Spot and forward foreign exchange and currency swaps	(6,907)	-	(6,907)	-	-	(6,907)
Net positive fair value			204	-		

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

		For the year ended	
Derivative Instrument	**Consolidated Statement of Operations line item**	**31 December 2019**	31 December 2018
Forward foreign exchange	Foreign exchange revenue	**152**	204
Total net gains recognised in net income		**152**	204

(In thousands of United States dollars)

Note 16: 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: Significant Accounting Policies.

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.

There were no transfers between Level 1 and Level 2 or Level 2 and Level 3 during the year ended 31 December 2019 and the year ended 31 December 2018.

Items that are recognised at fair value on a recurring basis	**31 December 2019**				31 December 2018			
	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	-	906,623	-	906.623	-	654,457	-	654,457
Non-US government debt securities	-	3,429	-	3,429	-	3,064	-	3,064
Corporate debt securities	-	-	-	-	-	54,359	-	54,359
Asset-backed securities - Student loans	-	-	12,891	12,891	-	-	12,625	12,625
Commercial mortgage-backed securities	-	-	-	-	-	54,334	-	54,334
Residential mortgage-backed securities	-	44,648	-	44,648	-	58,502	-	58,502
Total Available for sale	-	954,700	12,891	967,591	-	824,716	12,625	837,341
Other assets – Derivatives	-	853	-	853	-	7,111	-	7,111
Financial liabilities								
Other liabilities – Derivatives	-	701	-	701	-	6,907	-	6,907

The level 3 financial instruments shown as Asset backed securities – Student loans in the above table 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 market for the security is illiquid, a Level 2 classification is not supported.

Level 3 reconciliation	**31 December 2019**		31 December 2018	
	Available for sale investments	**Total**	Available for sale investments	Total
Carrying amount at beginning of year	12,625	12,625	12,493	12,493
Purchases	-	-	-	-
Proceeds from sale / Capital distributions	-	-	-	-
Realised and unrealised losses recognised in net income	-	-	-	-
Realised and unrealised gains recognised in other comprehensive income	266	266	132	132
Transfers in and out of Level 3	-	-	-	-
Carrying amount at end of year	12,891	12,891	12,625	12,625

(In thousands of United States dollars)

Note 16: Fair Value of Financial Instruments (continued)

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

		31 December 2019	31 December 2018
Financial Instrument Type	**Valuation Technique**	**Fair Value**	Fair Value
Asset-backed securities - Student loans	Unadjusted third party priced	**12,891**	12,625

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

		31 December 2019			31 December 2018		
	Fair value hierarchy	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
Financial assets							
Cash due from banks	Level 1	757,407	757,407	-	918,337	918,337	-
Short term investments	Level 1	-	-	-	24,878	24,878	-
Investments held to maturity	Level 2	924,423	943,634	19,211	817,565	804,939	(12,626)
Loans, net of allowance for credit losses	Level 2	1,104,689	1,106,674	1,985	1,012,235	1,012,206	(29)
Financial liabilities							
Customer deposits							
Demand deposits	Level 2	2,995,319	2,995,319	-	2,888,358	2,888,358	-
Term deposits	Level 2	479,847	480,148	(301)	479,199	479,453	(254)

Note 17: 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 subject to prepayment penalties and notice periods. Investments are shown based on remaining contractual maturities. The remaining contractual principal maturities for mortgage-backed securities (primarily US government agencies) do not consider prepayments. Remaining expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations before the underlying mortgages mature.

31 December 2019	Earlier of contractual maturity or repricing date						
(in $ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash due from banks	733	-	-	-	-	24	757
Short term investments	-	-	-	-	-	-	-
Investments	178	22	2	41	1,649	-	1,892
Loans	806	9	48	93	149	-	1,105
Other assets	-	-	-	-	-	85	85
Total assets	1,717	31	50	134	1,798	109	3,839
Liabilities and shareholder's equity							
Shareholder's equity	-	-	-	-	-	302	302
Demand deposits	2,213	-	-	-	-	782	2,995
Term deposits	356	75	42	7	-	-	480
Other liabilities	-	-	-	-	-	62	62
Total liabilities and shareholder's equity	2,569	75	42	7	-	1,146	3,839
Interest rate sensitivity gap	(852)	(44)	8	127	1,798	(1,037)	-
Cumulative interest rate sensitivity gap	(852)	(896)	(888)	(761)	1,037	-	-

(In thousands of United States dollars)

Note 17: Interest Rate Risk (continued)

31 December 2018	Earlier of contractual maturity or repricing date						
(in $ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash due from banks	902	-	-	-	-	16	918
Short term investments	25	-	-	-	-	-	25
Investments	209	17	3	122	1,304	-	1,655
Loans	708	143	-	127	32	2	1,012
Other assets	-	-	-	-	-	95	95
Total assets	1,844	160	3	249	1,336	113	3,705
Liabilities and shareholder's equity							
Shareholder's equity	-	-	-	-	-	272	272
Demand deposits	2,173	-	-	-	-	715	2,888
Term deposits	308	106	54	11	-	-	479
Other liabilities	-	-	-	-	-	66	66
Total liabilities and shareholder's equity	2,481	106	54	11	-	1,053	3,705
Interest rate sensitivity gap	(637)	54	(51)	238	1,336	(940)	-
Cumulative interest rate sensitivity gap	(637)	(583)	(634)	(396)	940	-	-

Note 18: 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 2019 the risk weighted capital ratio was 21.12% (2018: 20.68%).

Note 19: Related Party Transactions

	31 December 2019	31 December 2018
Consolidated Balance Sheet		
Assets		
Cash due from banks – parent and affiliates	**2,224**	84,882
Loans to staff	**35,697**	30,913
Loan to affiliated entity	**33,101**	-
Accrued interest	**227**	34
Other assets - affiliates	**7,256**	8,616
Liabilities		
Customer deposits – affiliates and other related parties	**6,907**	28,173
Other liabilities – parent and affiliates	**2,432**	3,035
Consolidated Statement of Operations		
Non-Interest Income		
Asset Management	**697**	681
Net-Interest Income		
Interest Income – Deposits with banks	**538**	416
Interest Income – Loans to affiliated entities and other related parties	**493**	-
Interest Expense – Deposits with banks	**40**	-
Non-Interest Expense		
Salaries and staff benefits	**1,056**	818
Professional and outside services	**2,415**	1,915
Other expenses	**1,416**	1,577

(In thousands of United States dollars)

Note 19: Related Party Transactions (continued)

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 2019 was $0.734 million (2018: $0.673 million).

Significant balances due and from affiliated entities other than the Parent Bank are included in Loans and Bank deposits. During the year the Bank lent GBP 25 million to its Guernsey affiliate, repayable in full by 15 July 2029 at a variable interest rate based on the Bank of England prime rate plus 2.5%, subject to a floor of 3.00%. The subordinated debt is treated as a loan of a capital nature for regulatory purposes. 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 2019 totalled $152.9 million (2018: $253.6 million).

The Bank assigned $47.7 million of a loan it originated to its Guernsey based affiliate. The outstanding balance on that assigned loan was $47.4 million as at 31 December 2019.

Note 20: Business combinations

On 29 March 2018, the Bank concluded the acquisition of 100% of the share capital of Deutsche Bank International Trust Co. (Cayman) Limited ("DBIT") as part of the Parent Bank's acquisition of Deutsche Bank's Global Trust Solution ("GTS") business, excluding its US operations. The acquisition was undertaken to enhance the Bank's market presence in the global trust service market. Subsequent to the acquisition, the name was changed from DBIT to Butterfield Fiduciary Services (Cayman) Limited.

The assets acquired consist mainly of cash, customer relationship intangibles and accounts receivable. The liabilities assumed consist mainly of deferred revenues and accounts payable.

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

	As at March 29, 2018
Total cash consideration transferred	7,239
Assets acquired	
Cash due from banks	2,202
Intangible assets (estimated useful life of 15 years)	4,958
Other assets[1]	788
Total assets acquired	7,948
Liabilities acquired (included in Other liabilities on the balance sheet)	1,260
Excess purchase price (Goodwill)	551

[1]Other assets consist of trade receivables with a fair value of $0.788 million. This includes gross receivables of $1.515 million and provision for bad debts of $0.727 million.

Asset acquisition

On 15 February 2018, the Bank had entered into a relationship transfer agreement with Deutsche Bank's banking and custody business in the Cayman Islands. During 2018, certain customer deposit, custody and letters of credit relationships were transferred to the Bank; all transfers were completed during the fourth quarter.

Note 21: Subsequent Events

The financial statements were available to be issued and subsequent events have been evaluated up to 20 February 2020.