Butterfield Bank (UK) Limited

"(Now trading as Butterfield Mortgages Limited)"

Annual Report and Financial Statements

31 December 2016

Bank No: 338594

Butterfield Bank (UK) Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 December 2016

Contents	**Page**

Butterfield Bank (UK) Limited

REGULATED BY THE FINANCIAL CONDUCT AUTHORITY
31 December 2016

Directors and Advisors

Directors*	Jayne Almond	Executive Chair
	Tim Brooke	Non-Executive Director and Chairman of Audit and Risk Committee
	Richard Saunders	Director
	Alpa Bhakta	Director

* Board of Directors appointed on 6th January 2017 – see also page 7

Registered Office

99 Gresham Street
London
EC2V 7NG

Telephone: 020 7776 6700
Facsimile: 020 7776 6701

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Butterfield Bank (UK) Limited

For the year ended 31 December 2016

The Directors submit their Strategic Report, Directors' Report and the audited stand-alone Financial Statements for Butterfield Bank (UK) Limited ("the Bank" or "BBUK") for the year ended 31 December 2016.

STRATEGIC REPORT

Context

Exit Strategy Decision
The Business review of 2016 performance and future strategy has been prepared in the context of the Bank of NT Butterfield & Son's ("Group") decision to exit from the UK onshore deposit taking business and related consumer services. Following the approval by the Board and regulator the wind down process began in early 2016. Prior to this decision, the Bank's core business model was focussed on the provision of Private Banking and Wealth Management Services to High Net Worth clients. Its key product offerings included deposits, lending and investment management products.

Orderly wind down ("OWD")
On 12 February 2016, the Board of Directors formally approved the OWD plan and sanctioned an orderly wind down of the deposit-taking and investment management parts of the UK business. As part of the OWD plan, a project team was created to coordinate and supervise all aspects of the Bank's restructuring and wind-down activities. Repayment of deposits and discontinuation of investment management activities continued until late September 2016 by which time all customer deposits were fully refunded. All related activities specific to the closure of deposit taking business were largely completed by the end of 2016. On 21 December 2016, the Prudential Regulatory Authority approved the Bank's VoP (Variation of Permission) application to surrender its license to offer Banking and Wealth Management Services.

Future outlook
Following VoP approval, BBUK is authorised to provide residential mortgages to customers. In early January 2017, Companies House authorised BBUK's application for change of name to Butterfield Mortgages Limited ("BML" or "the Company"). At the date of approving these financial statements, BML had settled all surplus intercompany positions within the BNTB Group and finalised its ongoing capital position. Management deem the OWD process almost complete at the date of this report.

Performance of the Bank in 2016
In 2016, the Bank focussed on the implementation of its OWD plan and the creation of Butterfield Mortgages Limited. This had a direct impact on the Bank's performance in 2016.

The Bank achieved operating income of £5.3m in 2016 (2015: £11m) and had an operating loss before taxation of £11.3m (2015: £7.3m loss). The reduction in operating income is driven by loss of income from the cessation of core banking activities in the year and the sub participation of the loan portfolio to other Group entities. Higher operating losses are largely due to restructuring costs of £6.8m in 2016.

The relative size of the company's balance sheet has decreased significantly in the period. This is largely due to the repayment of £411m deposits to customers in the year. Additionally, loans and advances to customers have been eliminated from the balance sheet in line with the Group's strategy to sub participate all BML loan instruments. Overall, the Company's underlying loan portfolio has increased to £291m (2015: £275m). Similarly, the discontinuation of the Bank's investment management activities resulted in the repayment of its entire custodian portfolio back to customers (Assets under Management value of £142m as at 31 December 2015). Overall, net assets of the company amounted to £30.7m at the end of the period (2015: £42.7m).

Strategic Plan
The Group have confirmed their support for maintaining a residential mortgage business in the UK, a market in which the company have a proven track record. The new business model for BML is founded on the assessment that there remains a significant demand for prime residential property loans in London.

The current loan portfolio (£ 291m gross at 31 December 2016) is fully sub-participated to other Butterfield jurisdictions, principally in Cayman and Guernsey. The portfolio is assessed as high quality, with low credit risk in well collateralised

STRATEGIC REPORT (continued)

market segments. The Bank intends to use this book as the foundation for the 'new' mortgage business and is forecast to selectively grow this book by approximately £100m annually over the next 2 years at a gross margin of at least 3% per annum. Forecast income for 2017 has been estimated at £2.7m generated from loan administration and amortisation fees.

Recent performance and financial projections provide evidence that the establishment of the new mortgage business is expected to generate efficient returns for the Group. The strategy of the continued operations is based on prudent credit risk management, with the key business model changes centring primarily around the funding of the book by sub-participation.

In addition to the mortgage origination business mentioned above, Butterfield will also continue to provide a Limited family office service to a number of specific core clients. The business model will change from one where Butterfield Group provides the products directly to the family office clients, to one where the family office acts as a coordination centre (a central point of reporting and coordination) for banking and investment management services provided by high quality third parties, harmonized through a single IT based reporting and execution platform.

The continuing business will remain a wholly owned subsidiary of The Bank of N. T. Butterfield & Son limited and will continue to receive the full financial and operational support of the wider Group.

Board of Directors for Butterfield Mortgages Limited were appointed on 6th January 2017 (details on page 3) and are actively involved in the supervision and oversight of the new created BML business to matters involving (but not limited to) strategy, risk appetite, financial performance and growth.

At the date of approval of BBUK financial statements, BML operates at staff level of 28 employees (19 Permanent of which 2 are part-time, 5 temporary and 4 directors).

The Bank of N.T. Butterfield & Son Limited ("BNTB")

The parent bank, BNTB, had a Basel III total capital ratio of 17.6% (2015: 19.0%) and a Tier 1 capital ratio of 15.3% (2015: 10.7%) at 31 December 2016. These ratios remain significantly above regulatory requirements. Its ratio of tangible common equity to tangible assets of 5.9% and tangible total equity ratio of 5.9% reflect the continued strength of the balance sheet.

BNTB's liquidity also remains strong, with 60.7% or $6.6 billion of total assets held in cash, cash equivalents, short-term and long-term investments. The Group business model does not rely on inter-bank borrowing or other wholesale borrowing to fund its balance sheet.

Key performance indicators

The company's management monitors the business using a range of financial data and operational review measures. Performance indicators are prepared and presented to senior management on a monthly basis and the key indicators used to manage the business include the following:

Non-interest income / Total revenue:	60.04%	(2015: 37.60%)
Cost / Income ratio:	312.68%	(2015: 129.18%)
Return on average shareholders' equity:	(27.43)%	(2015: (15.45) %)

Net interest margin is the annualised net interest income divided by the average interest earning assets for the year.
Return on average shareholders' equity is calculated as the profit for the financial year divided by the average equity shareholders' funds for the year.

Key indicators & performance measures will continue to be revised and updated in the context of the BML strategy & business model.

STRATEGIC REPORT (continued)

Pension fund

The most recent triennial valuation review of the defined benefit pension scheme, performed by the Bank's actuaries, was completed in June 2013. In February 2014 the Board approved a Recovery Plan which involves the Bank making monthly contributions of £33,500 to the Scheme for a five year period in order to eliminate the deficit. Payment of these contributions began in April 2014 and continued throughout 2015 and 2016. Full details of the defined benefit pension scheme valuation as at the end of 2016 are given in Note 9. The Bank and the Group have agreed with the Pension Fund trustees to provide ongoing support to the Pension Fund going forward ensuring liabilities can be met when they fall due. UK T-Bills worth £10m held on BML Balance Sheet has been ring-fenced for the legacy BBUK Pension Scheme.

Principal risks and uncertainties

The management of the business and the execution of the Bank's strategy are subject to a number of risks. The Bank has identified the key risks the business faces through its Risk Appetite Statement. The Statement is subject to a monthly review by Management and a quarterly review by the Board. The key business risks affecting the Company and the financial management techniques employed by Management are set out below.

Financial Risk Management

The management and oversight of risk is an integral function within BML, and is coordinated with the financial risk management activities of BNTB. The Bank's Risk and Audit Committee receive regular reports from the Executive Committee, under the chairmanship of the MD, and to which it delegates management of the risk function.

Through the Bank's Risk Appetite Statement, overall financial risk is coordinated into the following main areas of risk;

(1) Liquidity Risk – The risk that the Bank is unable to meet its liabilities as they fall due.
(2) Capital Risk – The risk that there is insufficient capital to maintain the business as a going concern.

Further details of the Bank's financial and operational risk management activities are set out in Note 17.

Capital and Liquidity

Capital - BML's capital requirement under MIPRU rules is approximately £1m and this based on a conservative estimate of risk weights and asset classes. Post repayment of Group liabilities and reduction of tier 1 surplus to requirements, BML's balance sheet size is expected to become £15m (£10m ring-fenced for pension requirements and £5m for BML's core operational requirements). Management is of the view that BML is well capitalised and is able to meet all its obligations for the foreseeable future especially considering credit risk for the loan book has been completely transferred to our jurisdictional partner in Guernsey (the entire loan book has been sub-participated to Butterfield Bank Guernsey Limited at the date of approving these financial statements).

Liquidity – BML has adequate liquid resources to meet its requirements in the foreseeable future. This position is further strengthened by Group's ongoing commitment to support the UK business and pension requirements. Available liquid resources are well in excess of budgeted cash requirements for 2017 and beyond.

DIRECTORS' REPORT

The Directors present their report for the year ended 31 December 2016.

Directors of the Bank

The current directors are shown on page 3.
Directors of the Bank who were in office during 2016 were:

Trevor Gander	Chairman & Non-Executive Director (appointed: 19 August 2014; resigned 18 January 2017)
Conor O'Dea	Non-Executive Director (appointed: 20 September 2011; resigned 18 January 2017)
Douglas Paterson	Non-Executive Director (appointed: 19 August 2014; resigned 18 January 2017)
Charles Gregory	Executive Director (appointed: 9 June 2015; resigned 15 January 2016)
Cameron Marr	Executive Director (appointed: 6 April 2016; resigned 30 November 2016)

The Bank maintained directors' and officers' liability insurance during the year and up to the date of signing the Financial Statements.

Dividends

The Directors are not recommending the payment of a dividend for the year (2015: £nil)

Going concern

Due to the scale and nature of the orderly wind down plan, the structure of the Bank underwent significant changes during 2016. As discussed in the Strategic Report on page 4, the Bank, activities were reduced in nature to surrender the deposit taking licence and become a mortgage provider.

The Directors, having considered the above and made due enquiries, continue to adopt the going concern basis in preparing the financial statements which assumes that the Company will continue in operation for the foreseeable future. The Financial Statements have, therefore, been prepared on a going concern basis, and this accounting policy has been duly disclosed within the notes to the financial statements, item 3(b).

Financial risk management

An explanation of the manner in which the Bank manages risk is set out in the Strategic Report and in note 30.

Company secretary

The Bank has decided to dispense with the need to appoint a Company Secretary as allowed by Section 270 of the Companies Act 2006.

Statement of disclosure of information to auditors'

In accordance with Section 418 of the Companies Act 2006, the Directors' Report shall include a statement, in the case of each Director in office at the date of the Directors' Report is approved that:

- so far as the Directors are aware, there is no relevant audit information of which the Bank's auditors are unaware; and
- each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

On behalf of the Board

Alpa Bhakta
Director
27 March 2017

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each director in office at the date the Directors' Report is approved:

- So far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board

Alpa Bhakta
Director
27 March 2017

Independent auditors' report to the members of Butterfield Bank (UK) Ltd

Report on the financial statements

Our opinion

In our opinion, Butterfield Bank (UK) Ltd.'s financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the statement of financial position as at 31 December 2016;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Strategic Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Strategic Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

* whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
* the reasonableness of significant accounting estimates made by the directors; and
* the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Strategic Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Jeremy Foster

Jeremy Foster (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 March 2017

BUTTERFIELD BANK (UK) LIMITED

INCOME STATEMENT

For the year ended 31 December 2016

	Notes	31-Dec-16	31-Dec-15
		£000	**£000**
Interest receivable:			
Interest income from loans and advances to customers		10,475	9,859
Interest income from debt securities		1,015	1,826
Other interest receivable and similar income		370	133
		11,859	**11,818**
Less:			
Interest expense from customer deposits		(1,414)	(3,011)
Other interest expense		(8,320)	(1,939)
		(9,735)	**(4,950)**
Net interest income		**2,125**	**6,868**
Fees and commissions receivable		1,919	3,019
Fees and commissions payable		-	(191)
Dealing profits		-	1,013
Profit on sale of debt securities		(5)	4
Other operating income	6	1,279	293
Non-interest income		**3,192**	**4,138**
Total operating income		**5,317**	**11,006**
Administrative expenses	7	(10,323)	(14,414)
Impairments	8	489	(4,154)
Operating costs		**(9,834)**	**(18,568)**
Restructuring Costs	9	(6,792)	-
(Loss) before taxation		(11,309)	(7,562)
Tax on (loss) for the year	12	2,262	(1,072)
(Loss) for the financial year		**(9,047)**	**(8,634)***

The notes on pages 15 to 39 form an integral part of these financial statements.

* Prior Year restatement – refer to Note 34

BUTTERFIELD BANK (UK) LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	31-Dec-16 £000	31-Dec-15 £000
(Loss) for the financial year	(9,047)	(8,634)*
Actuarial deficit recognised in post-retirement benefit scheme	(402)	(402)
Share based compensation	-	117
Share based compensation recharge from ultimate parent	-	(117)
Deferred tax written off on non-recognised pension asset	-	-
Total comprehensive loss for the financial year	**(9,449)**	**(9,036)**

* Prior Year restatement – refer to Note 34

BUTTERFIELD BANK (UK) LIMITED

STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	31-Dec-16 £000	31-Dec-15 £000
Assets			
Cash and balances at central banks		-	89
Loans and advances to banks	14	62,263	87,775
Loans and advances to customers	15	-	275,128
Debt securities	16	53,994	166,487
Intercompany Assets		220	-
Tangible fixed assets	18	68	103
Intangible fixed assets	19	55	469
Derivative financial assets		-	317
Deferred Tax Asset	12	2,262	-
Other assets	20	5	280
Prepayments and accrued income		821	1,165
Total assets		**119,687**	**531,813**
Liabilities			
Deposits by banks	21	-	60,327
Customer accounts	22	-	411,331
Intercompany Liabilities	22	69,843	-
Derivative financial liabilities		-	315
Other liabilities	23	807	1,068
Accruals and deferred income		2,934	3,420
Subordinated liabilities	24	13,127	12,928
		86,711	**489,389**
Equity			
Called up share capital	27	**29,000**	**29,000**
Share premium account	28	**660**	**660**
Capital redemption reserve	28	**200**	**200**
Capital reserve	28	**12,844**	**12,844**
Profit and loss account	28	**(9,728)**	**(280)***
Equity shareholders' funds		**32,976**	**42,424**
Total liabilities and equity		**119,687**	**531,813**

* Prior Year restatement – refer to Note 34

Approved by the Board at its meeting on 27 March 2017, and signed on its behalf on 27 March 2017 by:

Jayne Almond
Executive Chair

Alpha Bhakta
Director

The notes on pages 15 to 39 form an integral part of these financial statements.

BUTTERFIELD BANK (UK) LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Called-up share capital	Share premium account	Capital redemption reserve	Capital reserve	Profit and loss account	Total
	£000	£000	£000	£000	£000	£000
At 1 January 2015	29,000	660	200	12,844	8,756	**51,460**
Loss for the financial year	-	-	-	-	(8,634)*	**(8,634)**
Share based compensation	-	-	-	-	117	**117**
Share based compensation recharge from ultimate parent	-	-	-	-	(117)	**(117)**
Actuarial loss – retirement benefit scheme	-	-	-	-	(402)	**(402)**
At 31 December 2015	**29,000**	**660**	**200**	**12,844**	**(280)***	**42,424**
Loss for the financial year	-	-	-	-	(9,047)	**(9,047)**
Share based compensation	-	-	-	-	-	-
Other Comprehensive Income	-	-	-	-	-	-
Share based compensation recharge from ultimate parent	-	-	-	-	-	-
Actuarial loss – retirement benefit scheme	-	-	-	-	(402)	**(402)**
At 31 December 2016	**29,000**	**660**	**200**	**12,844**	**(9,728)**	**32,976**

* Prior Year restatement – refer to Note 34

BUTTERFIELD BANK (UK) LIMITED

Notes to the Financial Statements for the year ended 31 December 2016

1. General Information

Butterfield Bank (UK) Limited ('The Bank') is a private Bank Limited by shares and is incorporated in England (Companies House registered number 338594). Its registered office and principal place of business is at 99 Gresham Street, London EC2V 7NG. The Bank is an authorised institution under the Financial Services and Markets Act 2000.

The Bank is a wholly owned subsidiary of The Bank of N.T. Butterfield & Son Limited, its ultimate parent Bank ("the parent bank"), which is incorporated in Bermuda.

Following the Group decision to exit from the UK onshore deposit taking business and related consumer services in late 2015, an orderly wind down plan was created and the plan received regulatory approval in early 2016. Prior to this decision, the Bank's core business model was focussed on the provision of Private Banking and Wealth Management Services to High Net Worth clients. Its key product offerings included deposits, lending and investment management products.

2. Statement of compliance

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006.

3. Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation
The Bank being a wholly owned subsidiary undertaking of the parent bank has taken advantage of the provisions of Section 401 of the Companies Act 2006 and paragraph AG 6 of FRS 100 exempting the Bank from the requirement to prepare consolidated Financial Statements. The Bank's Financial Statements are included in the full consolidation prepared by the parent bank.

(b) Going concern
Following the decision of the Board on 12 February 2016 to discontinue the deposit-taking and investment management activities of the business, the structure of the Bank underwent a considerable transformation in the year ended 31 December 2016. This included the surrender of its UK deposit taking licence and the transition of the Bank into a non-bank financial institution ("NBFI") regulated by the FCA. The future plans for the new mortgage business model are discussed in more detail within the Strategic Report (from page 5). There is full support from the Board of both the Bank and parent Bank to support the mortgage business activities in the UK.

BML's forecasts and projections indicate that the Company is expected to be able to operate within the level of its restructured capital and liquidity, as agreed with and supported by the Group. After making enquiries, the directors have a reasonable expectation that the BML has adequate resources to continue in operational existence for the foreseeable future. Therefore the Company (BML) continues to adopt the going concern basis in preparing its financial statements.

(c) Exemptions for qualifying entities under FRS 102
FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions (which have been complied with), including notification of and no objection to, the use of the exemptions by the Bank's shareholders.
The Bank has taken advantage of the following exemptions:
(i) from preparing a statement of cash flows, on the basis that it is a qualifying entity and being a wholly owned subsidiary undertaking of the parent bank, has taken advantage of the provisions of Section 401 of the Companies Act 2006 and paragraph AG 6 of FRS 100 exempting the Bank from the requirement to prepare consolidated Financial Statements. The Bank's Financial Statements are included in the full consolidation prepared by the parent bank.
(ii) from disclosing the Bank key management personnel compensation, as required by FRS 102 paragraph 33.7.

3. Principal accounting policies (continued)

(d) Foreign currency

(i) Functional and presentation currency

The financial statements are presented in pound sterling (£) which is the Bank's functional and presentation currency, and rounded to the nearest £'000.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Forward foreign exchange contracts are valued at the appropriate forward rates.

Foreign exchange gains and losses arising on monetary assets and liabilities are recognised in the Income statement.

(e) Income recognition

Interest income and interest expense are recognised using an effective interest rate method.

Fee income and other direct costs relating to loan origination or commitments are recognised in the income statement using the effective interest rate method.

Investment management and performance fees are recognised on an accruals basis. Fees and commissions payable are recognised on an accruals basis and include charges for brokerage and custodian services.

(f) Pension costs

The Bank operates a Group Personal Pension. During 2012 the defined benefit scheme was closed to future accrual and the defined contribution scheme was closed.

A full actuarial valuation of the defined benefit scheme is undertaken every three years and updated to 31 December each year by a qualified actuary on behalf of the Bank. For the purposes of these annual updates, scheme assets are included at market value and scheme liabilities are measured on an actuarial basis using the projected unit method; these liabilities are discounted at the current rate of return on a Corporate AA Bond Index of equivalent term and currency of the related liabilities at the relevant date.

Any post-retirement benefit deficit is included in the Bank's statement of financial position, gross of the related amount of deferred tax.

The current service cost and any past service cost is included in the Income statement within operating expenses. The net interest element is calculated as the difference between interest income on plan assets and interest costs on the defined benefit obligation. The net interest is determined by multiplying the net defined benefit liability by the discount rate at the start of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in the Income statement as other finance revenue or cost, except where there is a defined benefit surplus that is not recoverable. Any movements in a non-recoverable net pension surplus are included within other comprehensive income.

Re-measurements, comprising actuarial gains and losses, and the return on the net defined benefit liability (excluding amounts included in net interest) are recognised immediately in other comprehensive income in the period in which they occur. Re-measurements are not reclassified in the Income statement in subsequent periods.

3. Principal accounting policies (continued)

Contributions to the Group Personal Pension are charged to the income statement in the period in which they fall due.

The Bank recognises pension surpluses to the extent that these surpluses can be realised in the form of future repayments or reductions in future contributions to the scheme.

(g) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is not a commitment to sell the asset.

(h) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, and costs directly attributable to bringing the asset to its working condition for its intended use.

(i) Depreciation and residual values

Depreciation is calculated, using the straight-line method, to allocate the cost to their residual values over their estimated useful lives, as follows:

- Short leasehold property – over the period of the lease
- Furniture and other equipment – 4 to 5 years
- Computer equipment – 3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

3. Principal accounting policies (continued)

(ii) Derecognition

Tangible fixed assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the Income statement and included in 'Other operating (losses)/gains'.

(j) Leased assets

At inception the Bank assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement. Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases. Leases that do not transfer all the risks and rewards of ownership are classified as operating leases.

(i) Operating leased assets

Rentals payable and receivable under operating leases are accounted for through the income statement in equal amounts over the lease term, unless the rental payments are structured to increase in line with expected general inflation, in which case the Bank recognises an annual rental expense equal to amounts owed to the lessor.

(ii) Lease incentives

The aggregate benefit of lease incentives received to enter into an operating lease is recognised as a reduction to the expense recognised over the lease term on a straight line basis.

(k) Onerous lease provisions

Onerous lease provisions are made for any contracts in which the unavoidable costs of meeting the obligations under it exceed the economic benefits expected to be received from the continued use of the underlying asset

(l) Impairment of non-financial assets

At each reporting date non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in the Income statement.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the Income statement.

(m) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less accumulated impairment losses.

(n) Provisions and contingencies

(i) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

In particular, restructuring provisions are recognised when the Bank has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected and therefore has a legal or constructive obligation to carry out the restructuring.

3. Principal accounting policies (continued)

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.
(ii) Contingencies
Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Bank's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

(o) Financial instruments
The Bank has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Basic financial assets
Basic financial assets, including cash and balances at central banks, loans and advances to banks and customers, and debt securities, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest rate (EIR) method.

(ii) Impairment of financial assets
The Bank regularly reviews all classes of financial assets to identify whether there are any indications of impairment.

Assets held at amortised cost are considered to be impaired where the recoverable amount of the asset i.e. the discounted expected future cash flows from the asset, using the original EIR, is less than the carrying value of the asset. Evidence of impairment includes non-payment of interest or other evidence that the borrower is experiencing financial difficulties.

All impairment losses are recognised in profit or loss. If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

(iii) Basic financial liabilities
Basic financial liabilities, including deposits by banks, customer accounts, and subordinated liabilities, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future payments discounted at a market rate of interest.

Such liabilities are subsequently carried at amortised cost using the effective interest rate method.

(v) Derecognition of financial assets
Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(p) Share based compensation
The parent bank operates an equity settled share option plan for all eligible employees of the Group. The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The fair value of options that are expected to vest are amortised over the vesting period of the options. To the extent that portions of these awards are recharged by the parent through management charges, any amounts so charged are deducted from shareholders' equity accordingly.

3. Principal accounting policies (continued)

(q) Related party transactions

The Bank is exempt under Section 33 'Related Party Disclosures' of FRS 102 from the disclosure of transactions with other Group entities or investees of the Group qualifying as related parties as all group entities are wholly owned. The consolidated financial statements of the parent bank are publicly available from the Bank's offices at 99 Gresham Street, London EC2V 7NG.

(r) Segmental reporting

There are no geographical segments beyond the United Kingdom and the Bank only operated one business class, namely Private Banking & Wealth Management prior to the implementation of the OWD plan. Following the creation of BML, the Company's primary activity will be provision of residential mortgages to its customers in the UK.

4. Critical accounting judgements and estimation uncertainty

Preparation of the financial statements requires management to make significant judgements and estimates that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the year. The items in the financial statements where these judgements and estimates have been made include:

- **Going Concern**
  As a result of the approval of the implementation of the orderly wind down plan, the scale of the Bank's future operations has been significantly reduced following the managed exit from the deposit taking and investment management businesses. BML's forecasts and projections indicate that the Company is expected to be able to operate within the level of its restructured capital and liquidity, as agreed with and supported by the Group. After making enquiries, the directors have a reasonable expectation that BML has adequate resources to continue in operational existence for the foreseeable future. Therefore the Company (BML) continues to adopt the going concern basis in preparing its financial statements.
- **Pension Costs**
  The Bank operates a funded pension scheme in the UK (the 'Scheme'). The Scheme has both Defined Benefit and Defined Contribution sections. Both sections have been closed to new entrants since 2004 and were closed to future accrual in 2012. A full actuarial valuation of the Defined Benefit Scheme was carried out at 31 March 2016 and updated to 31 December 2016 by a qualified independent actuary. The actuarial valuation involved the actuary employing a number of assumptions; these assumptions being the best estimates chosen from a range of possible actuarial assumptions (see Note 11 Pension Costs for further information).
- **Taxation**
  Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and the level of future taxable profits together with an assessment of the effect of future tax planning strategies (see Note 11 Tax on (loss)/profit on Ordinary Activities for further information).

5 Cash Flow Statement

The Bank as a wholly owned subsidiary undertaking is included in the consolidated Financial Statements of its parent bank. Consequently, the Bank has taken advantage of the exemption from preparing a cash flow statement under paragraph 1.12 of FRS 102.

6 Other operating income

	31-Dec-16	31-Dec-15
	£000	£000
Administration fee from group companies	1,279	293
Other operating income	**1,279**	**293**

7 Administrative expenses

	31-Dec-16 £000	31-Dec-15 £000
Staff costs (including directors):		
Wages and salaries	4,193	5,596
Share based compensation	-	117
Social security costs	437	606
Other pension costs	236	330
Total staff costs	4,865	6,649
Depreciation	238	853
Other administrative expenses	5,220	6,912
Total administrative expenses	**10,323**	**14,414**

Auditors Remuneration

	31-Dec-16 £000	31-Dec-15 £000
Auditors Remuneration		
Audit of the Bank's financial statements	158	178
Audit of other group companies	-	8
Services relating to taxation	54	8
Services relating to restructuring	33	333
All other services	25	27
Total	**269**	**554**

	31-Dec-16 Number	31-Dec-15 Number
Number of staff employed : 28		
Analysis by type:		
Management	6	11
Administration	22	68
	28	79

8 Impairments

	31-Dec-16 £000	31-Dec-15 £000
Impairment charge on loans and advances to customers	836	(1,014)
Impairment credit/(charge) on Investment in subsidiary undertakings	-	3
Impairment charge on computer software	(347)	(3,143)
Total	**489**	**(4,154)**

9 Restructuring Costs

	31-Dec-16	31-Dec-15
	£000	£000
Professional Fees	641	-
BBUK Pension related costs	152	-
Premises	1,254	-
Staff costs	3,486	-
Client compensation	1,258	-
Total	**6,792**	**-**

The Company recognised a provision of £2 million in respect to costs associated with restructuring the business. This provision was comprised principally of:

(i) £1.5 million to cover costs relating to the restructuring exercise expected to be incurred in 2017. These costs include staff redundancies, professional service fees, the continued leasing of former premises and other sunk costs involved in respect to wind down activities; and
(ii) Unclaimed customer capital gains tax liabilities of £0.5 million arising from the exit of deposit taking and investment business activities.

10 Directors' emoluments

	31-Dec-16	31-Dec-15
	£000	£000
Emoluments of Directors of the Bank:		
Aggregate emoluments	**557**	444
Compensation for loss of office	-	-
Bank pension contributions	-	-

Number of Directors participating in the Bank's pension schemes	31-Dec-16	31-Dec-15
	Number	Number
Group personal pension	-	-
Stakeholder pension plan	-	-

	31-Dec-16	31-Dec-15
	£000	£000
Details of the highest paid Director:		
Aggregate emoluments	**370**	**344**
Compensation for loss of office	-	-
Group personal pension	-	-
	370	**344**

In accordance with the Companies Act 2006, Directors' emoluments above represent the proportion of total emoluments paid or payable in respect of qualifying services only. Directors also receive emoluments for non-qualifying services which are not required to be disclosed.

No Directors (2015: none) exercised options from the Stock Option Plan during the year and no Directors (2015: none) were allocated options.

11 Pension costs

Butterfield Bank (UK) Limited operates a funded pension scheme in the UK (the 'Scheme'). The Scheme has both Defined Benefit ('DB') and Defined Contribution ('DC') sections, although the DC section is relatively small. The DB section provides both pensions in retirement and death benefits to members, with pension benefits related to each member's final salary at retirement and their length of service.

The DB section closed to new members with effect from 1 April 2002 and subsequently closed to further accrual of new benefits with effect from 1 October 2012. Contributions to the Scheme for the year ending 31 December 2017 are expected to be £268,000. Under the agreed Memorandum of Understanding dated 18 January 2017 no further contributions are anticipated to be payable from September 2017.

A full actuarial valuation of the scheme was carried out as at 31 March 2016 and has been updated to 31 December 2016 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	As at 31-Dec-16	As at 31-Dec-15
Discount rate	2.60%	3.70%
Inflation assumption (RPI)	3.50%	3.30%
Inflation assumption (CPI)	2.50%	2.30%
Rate of increase in salaries	2.50%	2.30%
Future rate of pension increases, subject to a minumum of 3% pa and a maximum of 5% pa	3.00%	3.00%
Revaluation in deferment	2.50%	2.30%

	As at	As at
Assumed life expectancies on retirement at age 63 are:	31-Dec-16	31-Dec-15
Retiring today - Males	25.2	24.9
Retiring today - Females	26.4	26.0
Retiring in 20 years' time - Males	26.6	26.1
Retiring in 20 years' time - Females	28.0	27.5

The assumptions used by the actuary are best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the Scheme's assets (which are not intended to be realised in the short term and may be subject to significant change before they are realised) and the present value of the Scheme's liabilities (which are derived from cash flow projections over long periods and thus inherently uncertain) were:

	31-Dec-16	**31-Dec-15**
	£000	**£000**
Equity, Property and Alternatives	11,095	8,055
Fixed Interest	5,063	5,050
Index-Linked Gilts	12,970	11,372
Cash and Other	46	239
Defined Contribution Section assets	542	449
Fair value of scheme assets	29,716	25,165
The actual return on assets over the period was:	6,263	671

11 Pension costs (continued)

The actuarial and administrative costs of the scheme are paid for by the Bank.

The trustees of the defined benefit scheme comprise four trustees, all of whom have been appointed in accordance with the Trust Deed. Three of the trustees are employees of the Bank and the fourth trustee is a former non-executive Director of the Bank who acts as the chairman.

The closure of the defined benefit and defined contribution scheme led to the Bank setting up a new Group Personal Pension ("GPP") to ensure that appropriate pension arrangements remained in place, as well as meeting the requirement for the Bank to be positioned for the introduction of pensions auto-enrolment. The GPP was introduced in 2012 and the contract is currently held with Legal and General.

None of the assets of the Scheme are invested in the Company's own financial instruments and none of the assets are properties or other assets used by the Company.

Present value of funded obligations	23,352	19,864
Fair value of scheme assets	29,716	25,165
Surplus/(deficit) in funded scheme	6,364	5,301
Present value of unfunded obligations	-	-
Unrecognised past service cost	-	-
Surplus/ (deficit)	6,364	5,301
(Irrecoverable surplus)	(6,364)	(5,301)
Net asset (liability) in balance sheet	-	-

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	31-Dec-16	31-Dec-15
	£000	£000
Benefit obligation at beginning of year	19,864	20,989
Current Service cost	-	-
Interest cost	680	687
Contributions by scheme participants	-	-
Actuarial (gain)/losses	4,922	(1,066)
Benefits paid	(2,207)	(756)
Past service cost	-	-
Settlements	-	-
Curtailments	-	-
Business combinations	-	-
Exchange rate	-	-
Increase in Defined Contribution liabilities	93	10
Benefit obligation at end of year	23,352	19,864

11 Pension costs (continued)

Reconciliation of opening and closing balances of the fair value of scheme assets

	31-Dec-16	31-Dec-15
	£000	£000
Fair value of scheme assets at beginning of year	25,165	24,838
Interest income on scheme assets	881	822
Return on assets, excluding interest income	5,382	(151)
Contributions by employers	402	402
Contributions by scheme participants	-	-
Benefits paid	(2,207)	(756)
Settlements	-	-
Exchange rate	-	-
Increase in Defined Contribution liabilities	93	10
Fair value of scheme assets at end of year	29,716	25,165

The amounts recognised in profit or loss:

	31-Dec-16	31-Dec-15
	£000	£000
Service cost - including current service costs, past service costs and settlements	-	-
Net interest on the net defined benefit liability	-	-
Distribution of Unrecognised Surplus	-	-
Refund of Surplus	-	-
Total expense	-	-

Remeasurements of the net defined benefit liability (asset) to be shown in OCI:

	31-Dec-16	31-Dec-15
	£000	£000
Actuarial (gains)/losses on the liabilities	4,922	(1,066)
Return on assets, excluding interest income	(5,382)	151
Impact of surplus restrictions	(201)	(135)
Change in irrecoverable surplus	1,063	1,452
Total remeasurement of the net defined benefit liability (asset) to be shown in OCI	402	402

Sensitivity analysis

A sensitivity analysis of the principal assumptions used to measure the scheme liabilities.	**Change in assumption**	**Impact on scheme liabilities** **31-Dec-16**	**Impact on scheme liabilities** 31-Dec-15
Discount rate	Increase by 0.25%	Decrease by £1.1 m	Decrease by £0.9 m
Rate of inflation (RPI and CPI)	Increase by 0.25%	Increase by £0.5 m	Increase by £0.4 m
Rate of Salary increase assumption	Increase by 1%	Increase by £0.0 m	Increase by £0.4 m
Assumed life expectancy at age 63	Increase by 1 year	Increase by £1.1 m	Increase by £0.8 m

Extrapolation of the sensitivity analysis beyond the ranges shown may not be appropriate.

Volatility of reporting under FRS 102

Notes to the Financial Statements for the year ended 31 December 2016

It should be noted that the methodology and assumptions prescribed for the purposes of FRS 102 mean that the disclosures will be inherently volatile, varying greatly according to investment market conditions at each accounting date.

12 Tax on (loss)/profit

The tax charge is based on the (loss)/profit for the year and is detailed below:

	31-Dec-16 £000	31-Dec-15 £000
Current taxation	-	-
Deferred taxation	2,262	(1,072)
Tax on (loss)/profit on ordinary activities	**2,262**	**(1,072)**

Reconciliation to total tax charge	31-Dec-16 £000	31-Dec-15 £000
(Loss)/profit before taxation	(11,308)	(7,287)
(Loss)/profit multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	(2,262)	1,476
Effects of:		
Expenses not deductible for tax purposes	-	(68)
Impairment of intangible asset not deductible for tax purposes	-	(620)
Excess of capital allowances to depreciation	-	611
Tax losses recognised in the period	2,262	-
Tax losses not recognised	-	(2,471)
Prior year adjustment	-	-
Tax gain in the period	**2,262**	**(1,072)**

	31-Dec-16 £000	31-Dec-15 £000
Movement in deferred tax:		
Deferred tax asset at 1 January	-	1,072
Accelerated capital allowances	-	783
Deferred tax charge recognised in the reserves	2,262	-
Charge against tax losses carried forward	-	-
Prior year adjustment	-	2
Impairment of carry-forward tax asset	2,262	(1,857)
Deferred tax asset at 31 December	-	-
Analysis of deferred tax asset:		
Capital allowances	-	-
Tax losses carried forward	2,262	-
Deferred tax asset at 31 December	2,262	-

13 Foreign currency assets and liabilities

	31-Dec-16 £000	31-Dec-15 £000
Assets:		
Sterling denominated	87,170	438,890
Foreign currency denominated	32,695	92,923
Total Assets	119,865	531,813
Liabilities and equity:		
Sterling denominated	87,105	443,805
Foreign currency denominated	32,760	88,008
Total Liabilities and equity	119,865	531,813

14 Loans and advances to banks

	31-Dec-16 £000	31-Dec-15 £000
Repayable on demand	**62,263**	**87,775**
Amounts include:		
Due from group undertakings	-	51

None of the above loans are past due, impaired or subordinated.

15 Loans and advances to customers

	31-Dec-16 £000	31-Dec-15 £000
Repayable on demand	-	19,824
Remaining maturity:		
- Three months or less	-	6,128
- One year or less but over three months	-	39,756
- Five years or less but over one year	-	208,932
- Over five years	-	2,601
	-	277,241
Impairment credit/(charge) on loans and advances (note 8)	**836**	**(2,113)**
	836	**275,128**
Amounts include:		
Due from group undertakings	-	-
Neither past due or impaired	-	268,476
Past due but not impaired	-	5,820
Impaired	-	2,945
	-	277,241
Less: specific and doubtful debt provisions	-	(2,113)
	-	275,128

Notes to the Financial Statements for the year ended 31 December 2016

The impaired loans are facilities that have interest 90 days past due or require a specific impairment provision based on the year-end appraisal of the facility and have been placed on non interest accrual status by the Bank's Credit Committee. The impaired balances do not apply to 2016 (2015: two customers). Specific provisions were held against these loan facilities at 31 December 2015. In the current period the company recognises no impairment provision relating to loans held. All impairment provisions held at 1 January 2016 have been written back.

All past due but not impaired or impaired loans have uncovered interest exceeding 30 days.

All loans which are neither past due nor impaired have an internal risk rating (Borrower Risk Rating) which meets the minimum acceptable internal risk rating profile.

16 Debt securities

	31-Dec-16 £000	31-Dec-15 £000
Issued by banks and building societies		
Certificates of deposit	-	-
Fixed rate bonds	-	5,113
Other debt securities		
Government debt	53,994	122,823
Fixed rate bonds	-	38,551
	53,994	166,487
Remaining maturity:		
Three months or less	43,998	70,058
One year or less but over three months	9,996	57,878
Five years or less but over one year	-	-
Over five years	-	38,551
	53,994	166,487

Listing Analysis	31-Dec-16 £000	31-Dec-15 £000
Listed in the UK	53,994	122,823
Listed in the USA, Canada, Australia	-	38,551
Listed in OECD	-	5,113
Unlisted	-	-
	53,994	166,487

Debt securities are denominated in the following currencies

	31-Dec-16 £000	31-Dec-15 £000
Sterling denominated	53,994	122,823
US Dollar denominated	-	43,664
	53,994	166,487

17 Shares in subsidiary undertakings

Incorporated in the UK, registered and operating in England and Wales	Percentage of ordinary shares and voting rights held by the Bank	
	31-Dec-16	31-Dec-15
Held by the Bank:	%	%
Butterfield Capital (Europe) Limited *	-	-
Butterfield (Europe) Limited *	-	-
Leopold Joseph Nominees Limited *(Corporate trustee and nominee)*	100	100

* During 2014 a decision was made to liquidate the two non-trading subsidiaries of the Bank, Butterfield Capital (Europe) Limited and Butterfield (Europe) Limited. Both companies were liquidated in 2015.

(i) Investment in subsidiary undertakings	**31-Dec-16**	**31-Dec-15**
	£000	**£000**
Net book value at 1 January	-	997
Impairment provision	-	(997)
Net book value at 31 December	-	-

(ii) Impairment credit/(charge) on investment in subsidiary undertakings	**31-Dec-16**	**31-Dec-15**
	£000	**£000**
Impairment provision	-	(997)
Liability due to liquidated subsidiaries waived and credited to profit	-	997
Write back of prior year impairment overprovision	-	3
Impairment credit/(charge)	-	3

In 2014, during the liquidation process referred to above, a valuation of the net assets of the two subsidiaries indicated that their value had been impaired. The Bank raised a provision of £206,000 in order to reflect a realistic valuation of the investment in the two subsidiaries. During 2015, both subsidiaries were liquidated and the value of the investment in the subsidiaries was written down to £Nil resulting in an impairment provision of £997,000. The Bank had a liability of £997,000 due to the liquidated subsidiaries, which was subsequently waived, resulting in a credit to profit of £997,000.

18 Tangible fixed assets

	Leasehold improvements	Computer equipment	Furniture & other equipment	**Total**
	£000	**£000**	**£000**	**£000**
Cost				
At 1 January 2016	958	469	333	1792
Additions	22	23	7	51
Disposals		-	-	0
At 31 December 2016	**980**	**491**	**341**	**1843**
Accumulated Depreciation				
At 1 January 2016	(958)	(402)	(297)	(1,657)
Charge for the year	(1)	(49)	(36)	(86)
Disposals		-	-	-
At 31 December 2016	**(959)**	**(450)**	**(334)**	**(1,743)**
Net book value at 31 December 2016	**21**	**41**	**7**	**68**
Net book value at 31 December 2015	**0**	**68**	**35**	**103**

19 Intangible fixed assets

	Computer software	**Total**
	£000	**£000**
Cost		
At 1 January 2016	2,612	**2,612**
Additions	6	**6**
Impairment	(347)	**(347)**
Disposals	-	-
At 31 December 2016	**2,271**	**2,271**
Accumulated Amortisation		
At 1 January 2016	(2,143)	**(2,143)**
Charge for the year	(73)	**(73)**
Disposals	-	-
At 31 December 2016	**(2,216)**	**(2,216)**
Net book value at 31 December 2016	**55**	**55**
Net book value at 31 December 2015	**469**	**469**

20 Other assets

	31-Dec-16 £000	31-Dec-15 £000
Trade debtors	**5**	**280**
	5	**280**

21 Deposits by banks

	31-Dec-16 £000	31-Dec-15 £000
With agreed maturity or notice period, by remaining maturity:		
Repayable on demand	-	660
Three months or less but not repayable on demand	-	7,501
One year or less but over three months	-	52,166
Five years or less but over one year	-	-
	-	60,327
Amounts include:		
Due to Group undertakings	-	60,230

The fair value of Deposits by Banks is the same value as the book value because the fair value of these instruments is not materially different from the book value.

22 Customer accounts

	31-Dec-16 £000	31-Dec-15 £000
With agreed maturity or notice period, by remaining maturity:		
Repayable on demand	-	193,986
Three months or less but not repayable on demand	-	114,665
One year or less but over three months	-	102,415
Five years or less but over one year	-	265
	-	411,331
Amounts include:		
Due to Group undertakings	**69,843**	**4,967**

Customer Accounts include wholesale money market deposits as well as client deposits. As at the end of 2016 wholesale deposits totalled £nil (2015: £nil).

23 Other liabilities

	31-Dec-16 £000	31-Dec-15 £000
Trade and other creditors	807	799
Tax and social security	-	244
FSCS levy	-	25
	807	**1068**

24 Subordinated liabilities

	31-Dec-16 £000	31-Dec-15 £000
Subordinated loan capital	11,500	11,500
Accrued interest	1,627	1,428
	13,127	12,928

Comprises:

Amount	Maturity Date	Repayable	Interest Rate	Interest Payable
£7,500,000	11/01/2021	2017 to 2021	3.5% above 3 month LIBOR	Quarterly on repricing
£2,000,000	06/01/2017	2012 to 2017	5.85% Fixed	Final maturity
£2,000,000	18/09/2019	2014 to 2019	2.0% above 3 month LIBOR	Quarterly on repricing

All loan capital is provided by the parent bank. Amounts repayable between the dates shown are at the option of the Bank. All loan capital amounts are subordinated to all other creditors of the Bank.

25 Share based compensation

The parent bank implemented a Stock Option Plan (the "Plan") for Directors and employees in October 1997. Under the Plan, options to purchase common shares of the parent bank may be granted to employees and directors of the Bank that entitle the holder to purchase one common share at a subscription price equal to the market price on the effective date of the grant. Subscription prices are stated and payable in Bermuda dollars for the options. The committee that administers the Plan has the discretion to vary the period during which the holder has the right to exercise options and, in certain circumstances, may accelerate the right of the holder to exercise options, but in no case shall the exercise period exceed ten years.

As a result of a capital transaction announced in March 2010, shares in the parent bank's Stock Option Plan became fully vested.

The Board of Directors of the parent bank approved the 2010 Stock Option Plan (the "2010 Plan") on 26 April 2010. Under the plan, five per cent of the parent bank's fully diluted common shares, equal to approximately 29.5 million shares, were available for grant to certain officers. Such options have either time or performance vesting metrics and also required surrender of all prior vested options by certain executives.

2010 Stock Option Plan

Under the 2010 Plan, options are awarded to employees and directors, based on predetermined vesting conditions that entitle the holder to purchase one common share at a subscription price usually equal to the last traded common share price and have a term of 10 years. The 2010 Plan comprises 2 types of vesting conditions upon which the options will be awarded:

- Time Vesting Condition – 50% of each option award is granted in the form of Time Vested Options and vests 25% on the 2nd, 3rd, 4th and 5th anniversary of the effective grant date subject to employee's continued employment ; and
- Performance Vesting Condition - 50% of each option award is granted in the form of Performance Options and vests on a "Valuation Event" date (date any of the New Investors transfers at least 5% of total number of shares or the date that there is a change in control) and any of the New Investors achieve a Multiple of Invested Capital ("MOIC") based on predetermined MOICs.

Employee Stock Option Plan	**31-Dec-16** Number of stock options	**31-Dec-16** Weighted average exercise price ($)	**31-Dec-15** Number of stock options	**31-Dec-15** Weighted average exercise price ($)
Outstanding at beginning of year			680,399	2.94
Granted	-	-	-	-
Exercised	-	-	(23,600)	1.15
Forfeited / cancelled	-	-	(14,467)	9.84
Outstanding at end of year	-	-	**642,332**	**2.84**
Vested and exercisable at end of year	-	-	**330,709**	**4.41**

Characteristics of Options Granted to Employees as at 31 December 2016

Exercise Price Range	Outstanding Number of shares	Outstanding Weighted average life remaining (years)	Outstanding Weighted average exercise price ($)	Exercisable Number of shares	Exercisable Weighted average exercise price ($)
$1.15 - $4.49	-	-	-	-	-
$4.50 - $7.78	-	-	-	-	-
$7.79 - $11.06	-	-	-	-	-
$11.07 - $14.35	-	-	-	-	-
$14.36 - $17.65	-	-	-	-	-
	-	-	-	-	-
Total	-	-	-	-	-

Characteristics of Options Granted to Employees as at 31 December 2015

Exercise Price Range	Outstanding Number of shares	Outstanding Weighted average life remaining (years)	Outstanding Weighted average exercise price ($)	Exercisable Number of shares	Exercisable Weighted average exercise price ($)
$1.21 - $4.49	559,650	4.50	1.17	248,027	1.18
$4.50 - $7.78	18,336	3.20	6.40	18,336	6.40
$7.79 - $11.06	-	-	-	-	-
$11.07 - $14.35	-	-	-	-	-
$14.36 - $17.65	64,346	1.09	16.28	64,346	16.28
Total	**642,332**	**4.12**	**2.84**	**330,709**	**4.41**

Deferred Incentive Settlement Plan

Under the Deferred Incentive Settlement Plan the Bank settles a portion of the annual bonus of selected members of Senior Management by granting restricted common shares. The shares awarded are parent bank Bermuda dollar common shares. The award of any long term incentives is discretionary and subject to Board approval before each award.

The Executive Long Term Incentive Plan ("ELTIP") involves the issue of restricted shares which have time and performance vested components. The time vested portion will vest over three years in equal instalments. The performance vested portion will notionally vest in equal instalments over three years with the number vesting being restricted by the Butterfield Group's net income compared to the planned net income in the previous year.

The Executive Deferred Incentive Plan ("EDIP") is a vehicle for the Group Board to decide if a proportion of the annual bonus will be allocated as restricted shares with the pay-out deferred over a suitable period. The shares will become unrestricted over a period of three years at a rate of 33% per year in arrears.

26 Remuneration and share based payments

Although the Bank has not established a separate Remuneration Committee due to its scale of operations, a robust structure exists for approving all remuneration decisions. This includes discussions and approval by UK executive management plus review and approval by the Board of the annual Remuneration Policy and Remuneration Disclosure Statement.

The key elements of the decision making process during 2015 and 2016 was as follows:

- At the start of the year the Bank's established performance appraisal scheme was used to allocate individual objectives to employees against whom their personal performance was rated and used in support of the remuneration review.
- Following completion of the annual appraisal review process, discussions took place between Heads of Departments and executive management, in the UK and the Butterfield Group, on the performance outcomes to include consideration of the employee's compliance and risk management profile. This led to specific proposals on remuneration awards for all employees concerned.
- The remuneration recommendations were implemented following approval by the Bank's executives.

Link between Pay and Performance

The bonus pool allocated to all subsidiary companies operating within the Butterfield Group was based on a combination of the overall assessment of the performance of the Group, the Bank and the individual. Employee performance was measured and rewarded based on achievement of individual objectives set at the start of the financial year. The Bank and Group performance were based on how both had performed, as measured by their achievement of objectives using a Balanced Scorecard methodology. Performance against risk and compliance related objectives formed a key element of the assessment process when considering how well the Bank and Group performed against their Scorecards. The overall level of the BBUK bonus pool was based on (1) a calculation derived from linkage between the respective grade of each qualifying employee and a nominated base bonus rate allocated to each grade plus (2) a scalar applied to the base bonus pool derived from the projected outcome of performance by the Group generally.

26 Remuneration and share based payments (continued)

Remuneration Breakdown of Business Areas
The aggregate remuneration, in relation to awards made in 2016 for the various business elements was as follows:

2016	**Fixed Remuneration**	**Variable Remuneration**	**Deferred Incentive Settlement Plan – Time Vested (see Note 25)**	**Deferred Incentive Settlement Plan – Performance Vested (see Note 25)**
	£000	**£000**	**No. of shares**	**No. of shares**
Executive	**303**	**-**	**650**	**3,190**
Asset Management	**565**	**-**	**-**	**-**
Private Banking	**2,432**	**-**	**-**	**-**
Treasury	**276**	**-**	**-**	**-**
Support Functions	**2,302**	**-**	**-**	**-**

2015	Fixed Remuneration	Variable Remuneration	Deferred Incentive Settlement Plan – Time Vested (see Note 25)	Deferred Incentive Settlement Plan – Performance Vested (see Note 25)
	£000	£000	No. of shares	No. of shares
Executive	365	1	650	3,190
Asset Management	519	78	-	-
Private Banking	1,682	55	-	-
Treasury	166	14	-	-
Support Functions	2,047	230	-	-

27 Called up share capital

	Authorised	Allotted, issued and fully paid
	£000	£000
Ordinary shares of £1 each:		
At 1 January 2016 and **at 31 December 2016**	35,000	29,000

28 Reserves

	Share premium account	Capital redemption reserve	Capital reserve	Profit and loss account	Total
	£000	£000	£000	£000	£000
At 1 January 2016	660	200	12,844	(280)	**13,424**
Loss for the financial year	-	-	-	(9,047)	**(9,047)**
Share based compensation	-	-	-	-	-
Share based compensation recharge from ultimate parent	-	-	-	-	-
Actuarial loss – retirement benefit scheme	-	-	-	(402)	**(402)**
At 31 December 2016	**660**	**200**	**12,844**	**(9,728)**	**3,976**

	Share premium account	Capital redemption reserve	Capital reserve	Profit and loss account	Total
	£000	£000	£000	£000	£000
At 1 January 2015	660	200	12,844	8,756	**22,460**
Loss for the financial year	-	-	-	(8,634)*	**(8,634)***
Share based compensation	-	-	-	117	**117**
Share based compensation recharge from ultimate parent	-	-	-	(117)	**(117)**
Actuarial loss – retirement benefit scheme	-	-	-	(402)	**(402)**
At 31 December 2015	**660**	**200**	**12,844**	**(280)**	**13,424**

Share premium account includes any premiums received on the issue of share capital. Any transaction costs associated with the issuing of shares are deducted from the share premium account.

Capital redemption reserve relates to Bank purchases and redemptions of its own shares.

Capital reserve relates to the rights issue that occurred between July and December 1987.

Profit and loss account includes all current and prior period retained profits and losses.

* Prior Year restatement – refer to Note 34

29 Financial risk management

General

The firm's business activities are subject to a number of financial and operational risks which are inherent in the industry. The risks have been identified through the firm's risk appetite statement and are credit, liquidity, legal & regulatory, anti-money laundering, governance, process & technology, people, country & political and reputational.

The Bank's overall policies and procedures, with regard to financial risk management, focus on the unpredictability of financial markets and seek to minimise potential adverse effects on its performance. The Bank's risk management programme focuses on the optimisation of the control framework.

The Bank's risks are closely monitored and managed within the Butterfield Group's risk management programme, supporting risk management policies and the Bank's Risk Appetite Framework.

The firm also monitors operational risk, comprising the risk of losses due to deficiencies and errors in processes and systems, errors made by employees or external events. In addition, reputational risk is monitored and managed in the firm's dealings with clients, as well as in relation to the status of the parent bank.

Credit Risk

Credit risk is the potential loss the Bank might suffer if counterparty defaults on its obligations. The risk arises from extending credit in all forms. The Bank's exposure arises from lending to customers. The Bank is also aware of the potential credit concentration risk arising through a lending strategy focused on the South East of England. Concentration risk is monitored and controlled through the Bank's Risk Appetite Framework process.

The Bank adopts the Group's Policies and Guidelines which set the criteria for well secured lending, which mainly concentrates on high net worth individuals and corporate clients secured on residential property located in Prime Central London.

All credit exposures are subject to a formal credit review process which comprises review in accordance with the procedures set out in the Groups' Credit Policies and Guidelines, by the Bank's European Credit Committee and the Group Credit Risk Management Department in Bermuda, depending on the amount of the exposure. A detailed credit risk report together with details of and the 20 largest non-bank credits are reviewed quarterly by the Board of the Bank. The Bank reviews all credit exposures annually and is subject to regular reporting requirements as set out in the Group's Credit Policies and Guidelines. Reports on exposures against Limits of all classes of credit are reviewed daily by senior management.

An analysis of credit risk by class of financial instrument is detailed below:

Year ended 31 December 2016

Class of Financial instrument	**Maximum exposure to credit risk £'000**	**Value of collateral held as security and of other credit enhancements £'000**	**Amount by which related credit derivatives mitigate maximum exposure to credit risk £'000**	**Credit quality of financial assets that are neither past due nor impaired [S&P rating]**
Loans and advances to banks	**62,263**	-	-	**A-3**
Loans and advances to customers		-	-	
Debt securities	**53,994**	-	-	
Derivative financial assets		-	-	**AAA to AA+**

Year ended 31 December 2015

Class of Financial instrument	Maximum exposure to credit risk £'000	Value of collateral held as security and of other credit enhancements £'000	Amount by which related credit derivatives mitigate maximum exposure to credit risk £'000	Credit quality of financial assets that are neither past due nor impaired [S&P rating]
Loans and advances to banks	87,775	-	-	99.85% of exposure values are rated A-1 to A-2
Loans and advances to	275,128	691,185	-	Unrated

customers				
Debt securities	166,487	16,687	-	AAA to AA+
Derivative financial assets	317	-	315	A-1+ to A-2

Liquidity Risk

Liquidity risk is the risk of the Bank not being able to meet its financial obligations as they fall due and applies to all areas of the Bank's activities. The Bank's prudent approach to liquidity risk management ensures that it maintains sufficient cash balances and marketable debt securities.

Liquidity risk management entails mitigating the risk that the Bank is not able to maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due. This risk process designed to continually re-assess liquidity risks and the amount of liquidity which offsets these risks on an ongoing basis.

The managing and monitoring of liquidity is a key control activity for the Bank and it ensures the Bank keeps within the requirements set by the regulators, whilst also managing its affairs to maximise profitability and operate prudently.

Capital Risk

The Bank's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal structure to reduce the cost of capital.

The Bank operates within the capital guidelines set by the regulator and, as a minimum, maintains Tier 1 (equity and reserves) and Tier 2 (subordinated loan capital) to meet this obligation. The Bank's capital position is monitored, controlled and reported to senior management on a regular basis to ensure compliance with the Board and regulatory requirements.

A detailed analysis of the Butterfield Group's capital management, "Capital and Risk Management Pillar 3 Disclosures" is available on the Investor Relations page of The Bank of N.T. Butterfield & Son Limited website (www.bm.butterfieldgroup.com).

30 Leasing commitments

As part of the OWD decision, the Bank has agreed with the landlord to vacate 99 Gresham Street with effect from 3rd September 2017. Until then, the Bank is bound by the terms of the existing contract.

At 31 December 2016 the Bank's future total minimum lease payments under non-cancellable operating leases were:

	31-Dec-16 £000	31-Dec-15 £000
Not later than one year	**511**	**720**
Later than one year and not later than five years		510

The Bank also entered into an authorised guarantee agreement to the lease with the tenants of 66-67 Sun Court property in May 2016. Under the terms of this agreement, the Bank has been assigned the lease to occupy the 4th floor office of the property which is the registered address for Butterfield Mortgages Limited.

	31-Dec-16 £000	31-Dec-15 £000
Not later than one year	**307**	-
Later than one year and not later than five years	**153**	-

Lease payments recognised as an expense in the Income Statement are detailed in Note 8.

31 Related party disclosures

The Bank is obliged under normal circumstances to maintain strict confidentiality in respect of the identity of its clients, contractual arrangements with clients and their personal transactions and therefore normal banking transactions with Directors and their families are not disclosed except where required by statute.

The Butterfield Bank (UK) Limited Pension Scheme is by definition a related party and transactions with the Scheme are disclosed in Note 10.

The Company has taken advantage of the exemption available, and not disclosed total key management compensation, as required by FRS 102 paragraph 33.7. Other than key management compensation, there are no transactions with key management personnel (2015: None).

As the Bank is a wholly owned subsidiary, it is exempt from disclosure of transactions with other wholly owned Group undertakings under paragraph 33.1A of FRS 102.

32 Country by country reporting

In accordance with Article 89 of the EU Capital Requirements Regulations, we set out below the required Country By Country Reporting (CBCR) information for the Bank for the year ended 31 December 2016.

We can confirm that the following information relates only to the United Kingdom, as the Bank operates solely within this jurisdiction:

1. The name of the institution is Butterfield Bank (UK) Limited, and the institution provided banking and wealth management services, primarily to high net worth individuals until 21 December 2016 prior to the approval of the Bank's VoP application;
2. Total operating income for the year-ending 31 December 2016 was £5.3m
3. The average number of employees, on a full-time equivalent basis, during the year was 28.0
4. Loss for the financial year was £9.03m
5. The amount of corporation tax paid for the year ended 31 December 2016 was £Nil. This is due to the taxable loss arising in the year.
6. We confirm that the Bank receives no subsidies from any third party

33 Ultimate parent Bank and controlling party

As at 31 December 2016 the Bank's ultimate parent Bank and controlling party was The Bank of N.T. Butterfield & Son Limited, a Bank incorporated in Bermuda.

The Bank of N.T. Butterfield & Son Limited is the only level of consolidation of the Financial Statements of Butterfield Bank (UK) Limited.

34 Prior Year restatement

Profit & Loss Account Reserves balance brought forward from 2015 has been restated from of £(5k) to £(280k). This adjustment relates to the impairment of computer software £78.7k and FRS 102 adjustment of £196k relating to items previously recorded as 'Available for Sale' items.