BUTTERFIELD MORTGAGES LIMITED

Annual Report and Financial Statements

31 December 2017

Company Registration No: 338594

BUTTERFIELD MORTGAGES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 December 2017

Contents **Page**

BUTTERFIELD MORTGAGES LIMITED

REGULATED BY THE FINANCIAL CONDUCT AUTHORITY
31 December 2017

Directors and Auditors

Directors*	Jayne Almond	Non-Executive Director and Chairman of the Board
	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

Sun Court
66-67 Cornhill
London
EC3V 3NB

Telephone: 0203871 6900
Facsimile: 0203871 6901

Independent Auditors

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

BUTTERFIELD MORTGAGES LIMITED

For the year ended 31 December 2017

The Directors submit their Strategic Report, Directors' Report and the audited stand-alone Financial Statements for Butterfield Mortgages Limited ("BML") for the year ended 31 December 2017.

STRATEGIC REPORT

Review of the business

Following Variation of Permission "VoP" approval in December 2016, Companies House authorised BML's application for a change of name to Butterfield Mortgages Limited ("BML" or "the Company"). BML has operated as a niche mortgage provider, focusing primarily on HNW and UHNW customers seeking 5 year term, interest only mortgages within the prime residential market segment since January 2017. BML's product offering includes regulated residential and consumer BTL mortgages, non-regulated residential mortgages including some bridging finance facilities and development finance. All loans are sub-participated with Butterfield Bank Guernsey Limited thereby transferring all the risks related to its residential loan book.

Orderly wind down ("OWD")

On 21 December 2016, the Prudential Regulatory Authority approved the BBUK's (Butterfield Bank UK Limited) VoP application to surrender its license to offer Banking and Wealth Management Services. All related OWD activities specific to the exit of 99 Gresham Street and termination of legacy contracts were completed in 2017. Management deem the OWD process to be complete at the date of this report.

Performance of BML in 2017

In 2017, BML focussed on the implementation of its growth strategy and the closure of outstanding OWD activities. BML achieved operating income of £3.3m in 2017 (2016: £5.3m) and had an operating loss before taxation of £3.5m (2016: £11.3m 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. Operating losses in 2017 are mainly due to exit costs of the discontinued operations and other legacy commitments.

The relative size of the company's balance sheet has decreased significantly in the period. This is largely due to the repayment of its intercompany liabilities and repayment of excess capital back to the Group in the year. Overall, the Company's underlying loan portfolio has increased to £417m (2016: £291m).

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 (in excess of £400 m gross at 31 December 2017) is fully sub-participated with Butterfield Guernsey. Sub-participated loans net off against client loan amounts and hence derecognised from BML's Balance Sheet. The portfolio is assessed as high quality, with low credit risk in well collateralised market segments. BML intends to use this book as the foundation for the 'new' mortgage business and is forecast to selectively grow this book by at least £150m annually over the next 2 years.

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 on the funding of the book by sub-participation. BML is ultimately 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 the financial statements, BML operates at staff level of 23 employees (of which 2 are part-time).

STRATEGIC REPORT (continued)

The Bank of N.T. Butterfield & Son Limited ("BNTB")
The parent bank, BNTB, had a Basel III total capital ratio of 19.9% (2015: 17.6%) and a Tier 1 capital ratio of 18.2% (2016: 15.3%) at 31 December 2017. These ratios remain significantly above regulatory requirements. Its tangible total equity ratio of 7.1% reflects the continued strength of the balance sheet.

BNTB's liquidity also remains strong, with 61.9% or $6.7 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:	99.74%	(2016: 60.04%)
Cost / Income ratio:	203.42%	(2016: 312.68%)
Return on average shareholders' equity:	(31.83)%	(2016: (27.43) %)

Non-interest income as a proportion of total revenue is calculated as non-interest income divided by total revenue.

Cost: Income ratio is calculated as total costs before tax divided by total income.

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.

Legacy Pension Scheme
Full details of the defined benefit pension scheme valuation as at the end of 2017 are given in Note 10. BML and Butterfield 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. During 2017, there were 2 liability reduction exercises carried – buy in and enhanced transfer value exercise. Buy in – an insurance policy with Canada Life was purchased, in the name of the Trustees, to match the liabilities of those members who were pensioners as at 31 March 2016. Additionally, an ETV exercise is currently underway for the Scheme as at the date of this report.

The Scheme's liabilities have been calculated by the actuaries by carrying out a valuation of the insured members at 31 March 2016 and a valuation of the non-insured members as at 31 March 2017. The results have been updated to take account of benefit outgo, expected member movements.

Principal risks and uncertainties
The management of the business and the execution of BML's strategy are subject to a number of risks. BML 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. BML's Risk and Audit Committee receive regular reports from the Executive Committee, under the chairmanship of the CEO, and to which it delegates management of the risk function.

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

(1) Liquidity Risk – The risk that BML 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 BML's financial and operational risk management activities are set out in Note 24.

Capital and Liquidity

Capital - BML's capital requirement under MIPRU rules is approximately £1m and this is 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 £37.9m with £18.0m as shareholder's equity (£10m ring-fenced for pension requirements and remaining 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 2018 and beyond.

On behalf of the Board

Alpa Bhakta
Director
24 April 2018

BUTTERFIELD MORTGAGES LIMITED

For the year ended 31 December 2017

DIRECTORS' REPORT

The Directors present their report for the year ended 31 December 2017.

Directors of BML

The current directors are shown on page 3.

Dividends

The Directors are not recommending the payment of a dividend for the year (2016: £nil)

Going concern

Due to the scale and nature of the orderly wind down plan, the structure of BBUK underwent significant changes during 2016. As discussed in the Strategic Report on page 4, BBUK's 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 disclosed within the notes to the financial statements, item 3(b).

Financial risk management

An explanation of the manner in which BML manages risk is set out in the Strategic Report and in note 24.

Post balance sheet events

No significant events to report since the Balance Sheet date.

Company secretary

BML 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 BML'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 BML's auditors are aware of that information.

On behalf of the Board

Alpa Bhakta
Director
24 April 2018

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.

On behalf of the Board

Alpa Bhakta
Director
24 April 2018

Independent auditors' report to the members of Butterfield Mortgages Limited

Report on the audit of the financial statements

Opinion

In our opinion, Butterfield Mortgages Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared 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); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the income statement, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Ian Ross

Ian Ross (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 April 2018

BUTTERFIELD MORTGAGES LIMITED
INCOME STATEMENT
For the year ended 31 December 2017

	Notes	31-Dec-17 £000	31-Dec-16* £000
Net interest income	5	**9**	**2,125**
Fees and commissions receivable	6	3,365	3,198
Loss on sale of debt securities		(15)	(6)
Non-interest income		**3,350**	**3,193**
Total operating income		**3,359**	**5,317**
Administrative expenses	7	(4,845)	(9,834)
Operating costs		**(4,845)**	**(9,834)**
Restructuring Costs	8	(1,988)	(6,792)
Loss on ordinary activities before taxation		**(3,474)**	**(11,309)**
Tax (expense)/credit on loss on ordinary activities	11	(2,262)	2,262
Loss for the financial year		**(5,736)**	**(9,047)**

The notes on pages 15 to 32 form an integral part of these financial statements.

* *Prior Year restatement – refer to Note 26*

BUTTERFIELD MORTGAGES LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	31-Dec-17 £000	31-Dec-16* £000
Loss for the financial year	(5,736)	(9,047)
Actuarial loss recognised in post-retirement benefit scheme	778	(402)
Deferred tax written off on non-recognised pension asset	-	-
Total comprehensive loss for the financial year	**(4,958)**	**(9,449)**

* Prior Year restatement – refer to Note 26

BUTTERFIELD MORTGAGES LIMITED

STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	31-Dec-17 £000	31-Dec-16* £000
Assets			
Cash and cash equivalents	12	27,335	73,745
Debt securities	13	9,988	53,994
Intercompany Assets		285	220
Tangible fixed assets	14	38	68
Intangible fixed assets	15	5	55
Deferred Tax Asset	11	-	2,262
Other assets	16	120	5
Prepayments and accrued income		83	821
Total assets		**37,854**	**131,170**
Liabilities			
Other liabilities	17	17,387	12,290
Intercompany Liabilities	18	1,060	69,843
Accruals and deferred income		1,389	2,934
Subordinated liabilities	19	-	13,127
		19,836	**98,194**
Equity			
Called up share capital	20	-	29,000
Share premium account		-	660
Capital redemption reserve		-	200
Capital reserve		-	12,844
Distributable Reserve		22,976	-
Other Reserves		778	(402)
Profit and loss account		(5,736)	(9,326)
Equity shareholders' funds		**18,018**	**32,976**
Total liabilities and equity		**37,854**	**131,170**

* Prior Year restatement – refer to Note 26

Approved by the Board at its meeting on 01 March 2018, and signed on its behalf on 24 April 2018 by:

Alpa Bhakta
Director

The notes on pages 15 to 32 form an integral part of these financial statements.

BUTTERFIELD MORTGAGES LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Called-up share capital £000	Share premium account £000	Capital redemption reserve £000	Capital reserve £000	Profit and loss account £000	Distributable Reserves £000	Other Reserves £000	Total £000
At 1 January 2016	29,000	660	200	12,844	(280)	-	-	**42,424**
Loss for the financial year	-	-	-	-	(9,046)	-	-	**(9,046)**
Actuarial loss – retirement benefit scheme	-	-	-	-	-	-	(402)	**(402)**
At 31 December 2016	**29,000**	**660**	**200**	**12,844**	**(9,326)**	-	**(402)**	**32,976**
Loss for the financial year	-	-	-	-	(5,736)	-	-	**(5,736)**
Creation of distributable to enable capital reduction**	(29,000)	(660)	(200)	(12,844)	9,326	32,976	402	-
Repayment of capital to parent company**	-	-	-	-	-	(10,000)	-	**(10,000)**
Actuarial loss – retirement benefit scheme	-	-	-	-	-	-	778	**778**
At 31 December 2017	-	-	-	-	**(5,736)**	**22,976**	**778**	**18,018**

** Share capital was reduced from £29m to £1 by way of board resolution and notification to Companies House. As per Companies Act, a distributable reserve was created by amalgamating all the brought-forward reserves. This facilitated repayment of capital from BML to the ultimate parent company BNTB on 19th January 2017. This resulted in write-off of share- premium, capital redemption and capital reserve account balances.

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2017

1. General Information

Butterfield Mortgages Limited ("BML") is a mortgage company Limited by shares and is incorporated in England (Companies House registered number 338594). Its registered office and principal place of business is at Sun Court, 66-67, Cornhill, London EC3V 3NB. BML is regulated by the Financial Conduct Authority (FCA).

BML is indirectly a wholly owned subsidiary of The Bank of N.T. Butterfield & Son Limited, based in 65 Front Street, Hamilton, HM12, Bermuda, its ultimate parent Bank ("the parent bank"), which is incorporated in Bermuda. BML's immediate parent is Leopold Joseph Holdings Limited.

2. Statement of compliance

These financial statements have been prepared in compliance with 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
BML 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 BML from the requirement to prepare consolidated Financial Statements. BML's Financial Statements are included in the full consolidation prepared by the parent bank. BML continues to prepare these financial statements under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value, in preparing its financial statements. All intercompany balances are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

(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 BML 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 BML and the 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 and considering group support for the local entity, 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.

(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 BML's shareholders.
BML 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;

(ii) Of the provisions of Section 401 of the Companies Act 2006 and paragraph AG 6 of FRS 100 exempting BML from the requirement to prepare consolidated Financial Statements. BML's Financial Statements are included in the full consolidation prepared by the parent bank.

(iii) BML 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 BML's office at Sun Court, 66-67 Cornhill London, EC3V 3NB.

(d) Foreign currency
(i) Functional and presentation currency
The financial statements are presented in pound sterling (£) which is BML'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.

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.

(f) Pension costs
BML operates a Group Personal Pension. During 2012 the defined benefit scheme was closed to future entrants 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 BML. 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 BML'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 not recognised.

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

(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 BML 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 BML 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) Provisions and contingencies
(i) Provisions
Provisions are recognised when BML 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 BML 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.

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 BML'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.

(n) Financial instruments
BML 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 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
BML 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.

(iv) 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) Segmental reporting
There are no geographical segments beyond the United Kingdom and BBUK only operated one business class, namely Private Banking & Wealth Management prior to the implementation of the OWD plan. Following the creation of BML in early 2017, the Company's primary activity has been provision of residential mortgages to its customers in the UK and therefore only one segment.

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 estimates have been made include:

- **Pension Costs**
  BML 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 10 Pension Costs for further information).

The items in the financial statements where judgements have been applied are:

- **Going Concern**
  As a result of the approval of the implementation of the orderly wind down plan, the scale of the BBUK's future operations was 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; and
- **De-recognition of Mortgages Balances and Interest Income**
  Management judgement has been applied in derecognition of mortgage balances from the Statement of Financial Position and interest income relating to mortgages from Income Statement. All mortgages loans and related interest payments are covered under sub-participation agreement with Butterfield Guernsey have been derecognised.

5 Net interest income

	31-Dec-17	31-Dec-16
	£000	£000
Interest receivable:		
Interest income from loans and advances to customers	-	10,475
Interest income from debt securities	16	1,015
Other interest receivable and similar income	24	370
	40	**11,860**
Less:		
Interest expense from customer deposits	-	(1,414)
Other interest expense	(31)	(8,321)
	(31)	**(9,735)**
Net interest income	**9**	**2,125**

6 Fees and commissions receivable

	31-Dec-17	31-Dec-16
	£000	£000
Administration fee from group companies	**2,066**	970
Loan commitment fee	**538**	229
Amortisation fee	**683**	570
Other fee	**78**	1,429
Fees and commissions receivable	**3,365**	**3,198**

7 Administrative expenses

	31-Dec-17	31-Dec-16
	£000	£000
Staff costs (including directors):		
Wages and salaries	1,955	4,193
Social security costs	223	437
Other pension costs	1,146	235
Total staff costs	3,324	4,865
Auditors Remuneration		
Audit of the Bank's financial statements	107	158
Services relating to taxation	24	54
Services relating to restructuring	-	32
Total auditors remuneration	131	244
Depreciation	82	238
Other administrative expenses	1,308	4,487
Total administrative expenses	**4,845**	**9,834**

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2017

7 Administrative expenses (continued)

	31-Dec-17	31-Dec-16
	Number	Number
Number of staff employed 27 (2016: 28).		
Analysis by type:		
Management	10	6
Administration	17	22
	27	**28**
Director	2	4
Permanent Employee	20	19
Temporary Employee	5	5
	27	28

8 Restructuring Costs

	31-Dec-17	**31-Dec-16**
	£000	**£000**
Loan Novation from parent company [a]	(997)	-
Family Office custody fee write-off [b]	(638)	-
Orderly wind-down related losses	(364)	-
Professional Fees	-	(641)
BBUK Pension related costs	-	(152)
Premises	-	(1,255)
Staff costs	11	(3,486)
Client compensation	-	(1,258)
Total	**(1,988)**	**(6,792)**

a - Loan of £997k was novated from Butterfield Holdings Limited "BBH" to Butterfield Mortgages Limited in October 2017 as BBH is a dormant company;
b - Receivables relating to legacy business, Family Office, were written off in July 2017; and

9 Directors' emoluments

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.

	31-Dec-17	**31-Dec-16**
	£000	**£000**
Emoluments of Directors of the Bank:		
Aggregate emoluments	**317**	**557**
Compensation for loss of office	-	-
Bank pension contributions	15	-

Number of Directors participating in the Company's pension schemes	31-Dec-17 Number	31-Dec-16 Number
Group personal pension	1	-
Stakeholder pension plan	-	-

	31-Dec-17 £000	31-Dec-16 £000
Details of the highest paid Director:		
Aggregate emoluments	**181**	**370**
Compensation for loss of office	-	-
Group personal pension	15	-
	196	**370**

10 Pension costs

Butterfield Mortgages 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. In the year to 31 December 2017, Company contributions of £368,000 were payable to the Scheme. No further contributions are expected.

A full actuarial valuation of the scheme was carried out as at 31 March 2016 and has been updated to 31 December 2017 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	As at 31-Dec-17	As at 31-Dec-16
Discount rate	2.40%	2.60%
Inflation assumption (RPI)	3.40%	3.50%
Inflation assumption (CPI)	2.40%	2.50%
Rate of increases in salaries	2.40%	2.50%
Future rate of pension increases, subject to a minimum of 3% pa and a maximum of 5% pa	3.00%	3.00%
Revaluation in deferment	2.40%	2.50%

	As at 31-Dec-17	As at 31-Dec-16
Assumed life expectancies on retirement at age 63 are:		
Retiring today - Males	25.3	25.2
Retiring today - Females	26.4	26.4
Retiring in 20 years' time - Males	26.8	26.6
Retiring in 20 years' time - Females	28.0	28.0

The assumptions used by the actuary are best estimates chosen from a range of possible actuarial assumptions which, due to the timescales 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-17	31-Dec-16
	£000	£000
The assets in the Scheme were:		
Diversified Growth Fund	3,033	-
Equity, Property and Alternatives	-	11,095
Fixed Interest	4,335	5,063
Index-Linked Gilts	3,844	12,970
Cash and Other	3,958	46
Insured Annuity Policies	11,585	-
Defined Contribution Section assets	616	542
Fair value of Scheme assets	**27,371**	**29,716**
The actual return on assets over the period was:	**(495)**	**6,263**

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.

	31-Dec-17	31-Dec-16
	£000	£000
Present value of funded obligations	23,543	23,352
Fair value of Scheme assets	27,371	29,716
Surplus/(deficit) in funded scheme	**3,828**	**6,364**
Present value of unfunded obligations	-	-
Unrecognised past service cost	-	-
Surplus/deficit	3,828	6,364
(Irrecoverable surplus)	(3,828)	(6,364)
Net asset/(liability) in balance sheet	-	-

	31-Dec-17	31-Dec-16
	£000	£000
Benefit obligation at beginning of year	23,352	19,864
Current service cost	-	-
Interest cost	580	680
Contributions by Scheme participants	-	-
Actuarial (gains)/losses	683	4,922
Benefits paid	(1,558)	(2,207)

Past service cost	952	-
Settlements	(532)	-
Curtailments	-	-
Business combinations	-	-
Exchange rate	-	-
Increase in Defined Contribution liabilities	66	93
Benefit obligation at end of year	**23,543**	**23,352**

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

	31-Dec-17 £000	31-Dec-16 £000
Fair value of Scheme assets at beginning of year	29,716	25,165
Interest income on Scheme assets	734	881
Return on assets, excluding interest income	(1,229)	5,382
Contributions by employers	368	402
Contributions by Scheme participants	-	-
Benefits paid	(1,558)	(2,207)
Scheme administrative cost	-	-
Business combinations	-	-
Settlements	(726)	-
Exchange rate	-	-
Increase in Defined Contribution liabilities	66	93
Fair value of Scheme assets at end of year	**27,371**	**29,716**

The amounts recognised in profit or loss:

	31-Dec-17 £000	31-Dec-16 £000
Service cost - inc. current & past service costs, settlements	1,146	-
Service cost - administrative cost	-	-
Net interest on the net defined benefit liability	-	-
Total expense	**1,146**	-

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

	31-Dec-17	31-Dec-16
	£000	£000
Actuarial (gains)/losses on the liabilities	683	4,922
Return on assets, excluding interest income	1,229	(5,382)
Impact of surplus restrictions	(154)	(201)
Change in irrecoverable surplus	(2,536)	1,063
Total remeasurement of the net defined benefit liability (asset) to be shown in OCI	**(778)**	**402**

Sensitivity analysis	**Impact on Scheme liabilities**	
	31-Dec-17	**31-Dec-16**
Discount rate - increase by 0.25%	Decrease by £0.9m	Decrease by £1.1m
Rate of inflation (RPI and CPI) - increase by 0.25%	Increase by £0.4m	Increase by £0.5m
Assumed life expectancy at age 63 - increase by 1 year	Increase by £0.9m	Increase by £1.1m

The actuarial and administrative costs of the scheme are paid for by BML.
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 ex-employees of BBUK and the fourth trustee is a former non-executive Director of BBUK who acts as the chairman.
The closure of the defined benefit and defined contribution scheme led to BML setting up a new Group Personal Pension ("GPP") to ensure that appropriate pension arrangements remained in place, as well as meeting the requirement for BML 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.

Volatility of reporting under FRS 102
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.

11 Tax on (loss)/profit

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

	31-Dec-17 £000	31-Dec-16 £000
Current taxation	-	-
Deferred taxation	(2,262)	2,262
Tax on (loss)/profit on ordinary activities	**(2,262)**	2,262

	31-Dec-17 £000	31-Dec-16 £000
Current taxation	-	-
Deferred taxation	(2,262)	2,262
Tax on (loss)/profit on ordinary activities	**(2,262)**	2,262

Reconciliation to total tax charge	31-Dec-17 £000	31-Dec-16 £000
Loss on ordinary activities before taxation	(3,474)	(11,309)
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20%)	**669**	**2,262**
Effects of:		
Expenses not deductible for tax purposes	-	-
Impairment of intangible asset not deductible for tax purposes	-	-
Excess/(deficit) of capital allowances to depreciation	-	-
Impairment of carry-forward tax asset	(2,262)	-
Tax losses not recognised	(669)	-
Prior year adjustment	-	-
Tax on (loss)/profit on ordinary activities	**(2,262)**	**2,262**

	31-Dec-17 £000	31-Dec-16 £000
Movement in deferred tax:		
Deferred tax asset at 1 January	2,262	-
Accelerated capital allowances	-	-
Deferred tax charge recognised	-	2,262
Charge against tax losses carried forward	-	-
Prior year adjustment	-	-
Impairment of carry-forward tax asset	(2,262)	-
Deferred tax asset at 31 December	-	**2,262**
Analysis of deferred tax asset:		
Capital allowances	-	-
Tax losses carried forward	-	2,262
Deferred tax asset at 31 December	-	**2,262**

12 Cash and cash equivalents

	31-Dec-17 £000	31-Dec-16 £000
Repayable on demand	3,494	62,263
Due from group undertakings	8,058	-
Restricted Cash+:		
Security Deposit Account Balances	15,783	11,482
Total	**27,335**	**73,745**

+ Restricted Cash relates to cash collateral held on behalf of loan clients in BML bank accounts which is used to service periodic interest on loans and in cases of default.

13 Debt securities

	31-Dec-17 £000	31-Dec-16 £000
Issued by banks and building societies		
Other debt securities		
Government debt	9,988	53,994
	9,988	**53,994**
Remaining maturity:		
Three months or less	-	43,998
One year or less but over three months	9,988	9,996
	9,988	**53,994**

Listing Analysis	31-Dec-17 £000	31-Dec-16 £000
Listed in the UK	9,988	53,994

	31-Dec-17 £000	31-Dec-16 £000
Sterling denominated	9,988	53,994

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2017

14 Tangible fixed assets

	Leasehold improvements £000	Computer equipment £000	Furniture & other equipment £000	**Total** **£000**
Cost				
At 1 January 2017	980	491	341	1,811
Additions	-	-	2	2
Disposals/ W-off	(958)	(457)	(333)	(1,748)
At 31 December 2017	**22**	**34**	**9**	**65**
Accumulated Depreciation				
At 1 January 2016	(959)	(450)	(334)	(1,743)
Charge for the year	(3)	(27)	(2)	(32)
Disposals/ W-off	958	457	333	1,748
At 31 December 2017	**(4)**	**(20)**	**(3)**	**(27)**
Net book value at 31 December 2017	**18**	**14**	**6**	**38**
Net book value at 31 December 2016	**21**	**41**	**7**	**68**

15 Intangible fixed assets

	Computer software **£000**
Cost	
At 1 January 2017	2,271
Additions	-
Impairment	-
Disposals/ W-off	(2,229)
At 31 December 2017	**42**
Accumulated Amortisation	
At 1 January 2017	(2,216)
Charge for the year	(50)
Disposals	2,229
At 31 December 2017	**(37)**
Net book value at 31 December 2017	**5**
Net book value at 31 December 2016	**55**

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2017

16 Other assets

	31-Dec-17 £000	31-Dec-16 £000
Trade debtors	120	5
	120	**5**

17 Other liabilities

	31-Dec-17 £000	31-Dec-16 £000
Trade and other creditors	1,534	808
Tax and social security	69	-
Security deposit related liabilities	15,784	11,482
	17,387	**12,290**

18 Intercompany Liabilities

	31-Dec-17 £000	31-Dec-16 £000
Intercompany Deposits		69,722
Intercompany loan from BNTB to BBH (novated to BML)	997	-
Intercompany payable to BNTB	63	121
TOTAL	**1,060**	**69,843**

19 Subordinated liabilities

	31-Dec-17 £000	31-Dec-16 £000
Subordinated loan capital	-	**11,500**
Accrued interest	-	**1,428**
	-	**12,928**

2016 amounts comprised of:

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 Company. All loan capital amounts are subordinated to all other creditors of the Company and were repaid in January 2017.

20 Called up share capital

Ordinary shares of £1 each

Allotted and fully paid	**Number**
At 1 January 2017	29,000,000
Creation of distributable reserves	(28,999,999)
At 31 December 2017	**1**

21 Leasing commitments

At 31 December 2017 BML's future total minimum lease payments under non-cancellable operating leases were:

	31-Dec-17 **£000**	**31-Dec-16** **£000**
Not later than one year	153	511
Later than one year and not later than five years	**77**	

Lease payments recognised as an expense in the Income Statement are detailed in Note 7.

22 Contingent Liability

BML received a letter claiming £4.3m from one of its former clients in 2017 in relation to a lending facility. Management believes that the claim is largely speculative and it is impracticable to make any disclosure relating to this letter with regards to the nature of the contingent liability, an estimate of its financial effect, or the possibility of any claim against BML at the date of signing the financials. Disclosure of information required by the accounting rules may prejudice BML's position in this matter and as such, the company has decided to avail the limited disclosure exemptions granted by FRS102.

23 Related party disclosures

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 (2016: None).

As BML 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.

24 Financial risk management

General
The company'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, capital, market and liquidity risk in addition to legal & regulatory, anti-money laundering, governance, process & technology, people, country & political and reputational.

BML's risk management programme focuses on the optimisation of the control framework.

BML's risks are closely monitored and managed within the Butterfield Group's risk management programme, supporting risk management policies and BML'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 BML might suffer if counterparty defaults on its obligations. The risk arises from extending credit in the form of mortgage loans. All BML loans are covered under sub-participation agreement with Butterfield Bank Guernsey Limited and have no impact on BML should a counterparty default. There are no financial assets which are either past due or impaired as at 31 December 2017.

BML hold cash collateral on behalf of its clients in its bank account and this cash is used to service periodic interest on loans and in cases of default.

Liquidity Risk
Liquidity risk is the risk of BML not being able to meet its financial obligations as they fall due and applies to all areas of BML's activities. BML's prudent approach to liquidity risk management ensures that it maintains sufficient cash balances and marketable debt securities. Management believes there are no liquidity concerns considering the strength of the balance sheet and liquid resources available at its disposal.

Liquidity risk management entails mitigating the risk that BML 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 BML and it ensures BML keeps within the requirements set by the regulators, whilst also managing its affairs to maximise profitability and operate prudently.

Capital Risk
BML'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.

BML operates within the capital guidelines set by the regulator and, as a minimum, maintains Tier 1 (equity and reserves) to meet this obligation. BML'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).

Market Risk
Market risk is the risk of losses being incurred as a result of adverse movements in interest or foreign exchange rates or other market indices.

BML does not take proprietary positions in financial instruments for resale or with the intention of benefiting from actual or expected short term price or interest rate movements. Debt securities are held for the purpose of providing liquid assets to cover BBUK pension related liabilities and with the intention of holding to maturity.

24 Financial risk management (continued)

	Note	31-Dec-17 £000	31-Dec-16 £000
Financial asset that are measured at amortised cost			
Cash and cash equivalents	12	27,335	73,745
Debt securities	13	9,988	53,994
Intercompany Assets		285	220
Other assets	16	120	5
		37,728	**127,964**
Financial liabilities measured at amortised cost			
Other liabilities	17	17,387	12,290
Intercompany Liabilities	18	1,060	69,843
Accrued Liabilities		1,389	2,934
Subordinated liabilities	19	-	13,127
		19,836	**98,194**

25 Ultimate parent Bank and controlling party

As at 31 December 2017 BML'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 Mortgages Limited.

BML is a wholly owned and immediate subsidiary of Leopold Joseph Holdings Limited which, in turn, is a wholly owned subsidiary of Butterfield Holdings Limited. Butterfield Holdings Limited is a wholly owned subsidiary of The Bank of N.T. Butterfield & Son Limited, the ultimate parent bank.

26 Prior Year restatement

Due to the restructuring of business from Butterfield Bank UK Limited to Butterfield Mortgages Limited in early 2017, management has taken this opportunity to realign its financial statements in line with the go forward requirements. This has resulted in Prior Year restatement and has impacted the following items:

- Net interest income – shown as an aggregated item on the face of the Income Statement for FY 2017 due to materiality of amounts concerned. For periods prior to FY 2017, this section showed a detailed split of items making up 'Net interest income'. Disclosure note 5 now provides the same split;
- Non-interest income – Dealing profits and fees and commissions payable sections included in FY 2016 Income Statement have been excluded as these sections do not apply to BML. Fees and commissions receivable and other operating income have been aggregated and reported in FY 2017 under 'Fees and commissions receivable' as the nature of fees generated by BML closely aligns to this category and details have been provided in note 6; and
- Cash and cash equivalents – For the FY 2016, cash was reported under 'Loan and advances to banks'. For the purposes of FY 2017 financials, cash at bank and in hand includes restricted cash amounts relating to loan security deposits. The balance of £62.263m reported in 2016 has been restated to £73.745m as the difference relates to restricted cash balances held by BML in its bank account with RBS. Please refer to note 12 for details.