

BUTTERFIELD MORTGAGES LIMITED

Annual Report and Financial Statements

31 December 2018

Company Registration No: 338594



BUTTERFIELD MORTGAGES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
31 December 2018

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BUTTERFIELD MORTGAGES LIMITED

REGULATED BY THE FINANCIAL CONDUCT AUTHORITY

31 December 2018

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

Registered Office

Sun Court
66-67 Cornhill
London
EC3V 3NB

Telephone: 02038716900

Independent Auditors

PricewaterhouseCoopers CI LLP
Chartered Accountants and Statutory Auditors
1 Glatigny Esplanade
St. Peter Port
Guernsey
GY1 4ND

BUTTERFIELD MORTGAGES LIMITED

For the year ended 31 December 2018

The Directors submit their Strategic Report, Directors' Report and the audited stand-alone Financial Statements for Butterfield Mortgages Limited ("BML" or the "Company") for the year ended 31 December 2018.

STRATEGIC REPORT

Review of the business

BML has operated as a niche mortgage provider, focusing primarily on High Net Worth ("HNW") and Ultra High Net Worth ("UHNW") clients 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 buy-to-let ("BTL") mortgages, non-regulated residential mortgages including some bridging finance facilities and development finance. All loans are sub-participated with Butterfield Bank (Guernsey) Limited ("BBGL") thereby transferring all the risks related to its residential loan book.

Performance of BML in 2018

In 2018, BML focussed on continuing the implementation of its strategy. BML achieved operating income of £5.4m in 2018 (2017: £3.4m) and had an operating profit before taxation of £0.2m (2017: £3.5m loss). The increase in operating income and operating profit was driven by the increase in sub-participation of the loan portfolio to entities sharing the same parent, The Bank of N.T. Butterfield & Son Limited (the "Group").

The relative size of BML's balance sheet has increased in the year. This is largely due to an increase in cash balances related to loan portfolio activity. Overall, BML's underlying loan portfolio has increased to £617m (2017: £417m).

Strategic Plan

The Group have confirmed their support for maintaining a residential mortgage business in the UK, a market in which BML has a proven track record. The 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 £600m gross at 31 December 2018 (2017: £417m gross), is fully sub-participated with BBGL. The risks and economic benefits of the sub-participated loans are with BBGL and, as such, are not recognised on BML's Balance Sheet. The portfolio is assessed as high quality, with low credit risk, in well collateralised market segments.

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 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 BML were appointed on 6th January 2017 (details on page 3) and are actively involved in the supervision and oversight of 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 a staff level of 44 employees (of which 3 are part-time).

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

The parent bank, BNTB, had a Basel III total capital ratio of 22.4% (2017: 19.9%) and a Tier 1 capital ratio of 19.6% (2017: 18.2%) at 31 December 2018. These ratios remain significantly above regulatory requirements. BNTB's tangible total equity ratio of 7.5% reflects the continued strength of their balance sheet.

BNTB's liquidity also remains strong, with 59.3% or \$6.4 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.

BUTTERFIELD MORTGAGES LIMITED

For the year ended 31 December 2018

STRATEGIC REPORT (continued)

Key performance indicators

BML'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. Key indicators used to manage the business include the following:

Non-interest income / Total revenue:	98.04%	(2017: 99.74%)
Cost / Income ratio:	95.42%	(2017: 203.42%)
Return on average shareholders' equity:	1.57%	(2017: (31.83) %)

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

Legacy Pension Scheme

BML operates a Legacy Pension Scheme (the "Scheme") which is closed to new members. Full details of the Scheme's valuation as at the end of 2018 are given in Note 10. BML and the Group have agreed with the Scheme Trustees to provide ongoing support to the Scheme going forward ensuring liabilities can be met when they fall due. UK T-Bills worth £5m held on BML Balance Sheet have been ring-fenced for the Scheme.

During 2018, there were two liability reduction exercises carried out – an Enhanced Transfer Value exercise ("ETV") and a buy-in. The ETV exercise involved buying out members from the Scheme. The buy-in involved an insurance policy with Aviva being purchased, in the name of the Scheme Trustees, to match the liabilities of those members who were in the defined benefit section of the Scheme. The result of these two liability reduction exercises means that the majority of the risks associated with the Scheme have been mitigated and it is expected that during 2019 the Scheme Trustees will remove the requirement for BML to hold the ring-fenced assets.

The Scheme's liabilities have been calculated by the actuaries by carrying out a full valuation of the members at 31 March 2016. The results have been updated by the actuaries to 31 December 2018.

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 BML 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 23.

BUTTERFIELD MORTGAGES LIMITED

For the year ended 31 December 2018

STRATEGIC REPORT (continued)

Capital and Liquidity

Capital – BML's capital requirement is determined by MIPRU 4.2.23 and BML is fully compliant. BML's balance sheet size is £51.7m with £15.8m as shareholder's equity (£5m ring-fenced for pension requirements, £5.3m ring-fenced for contingent liabilities (see note 21) and the 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 BBGL at the date of approving these financial statements).

Liquidity – BML has adequate liquid resources to meet its requirements for 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 2019 and beyond.

On behalf of the Board



Alpa Bhakta
Director

19 February 2019

BUTTERFIELD MORTGAGES LIMITED

For the year ended 31 December 2018

DIRECTORS' REPORT

The Directors present their report for the year ended 31 December 2018.

Directors of BML

The current Directors are shown on page 3.

Dividends

The Directors have recommended the payment of a dividend of £4m for the year (2017: £nil). This has been paid within the year.

Going concern

The Directors, having 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 23.

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 they ought to have taken as a Director to make themselves 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

19 February 2019

BUTTERFIELD MORTGAGES LIMITED

For the year ended 31 December 2018

Statement of Directors' Responsibilities

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

19 February 2019

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 2018 and of its profit 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 2018; 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 and Financial Statement 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 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

Independent auditors' report to the members of Butterfield Mortgages Limited (continued)

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.

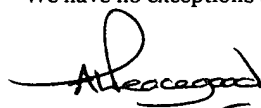
Other required reporting

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.



Adrian Peacegood (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers CI LLP
Chartered Accountants and Statutory Auditors
Guernsey

20 February 2019

BUTTERFIELD MORTGAGES LIMITED
INCOME STATEMENT
For the year ended 31 December 2018

	Notes	31-Dec-18 £000	31-Dec-17 £000
Net interest income	5	106	9
Fees and commissions receivable	6	5,313	3,365
Loss on sale of debt securities		(1)	(15)
Non-interest income		5,312	3,350
Total operating income		5,418	3,359
Administrative expenses	7	(5,670)	(4,845)
Operating costs		(5,670)	(4,845)
Restructuring costs	8	500	(1,988)
Profit/(loss) on ordinary activities before taxation		248	(3,474)
Tax (expense)/credit on profit/(loss) on ordinary activities	11	-	(2,262)
Profit/(loss) for the financial year		248	(5,736)

The notes on pages 15 to 31 form an integral part of these financial statements.

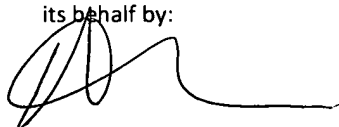
BUTTERFIELD MORTGAGES LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	31-Dec-18 £000	31-Dec-17 £000
Profit/(loss) for the financial year	248	(5,736)
Actuarial profit recognised in post-retirement benefit scheme	1,566	778
Total comprehensive profit/(loss) for the financial year	1,814	(4,958)

BUTTERFIELD MORTGAGES LIMITED
STATEMENT OF FINANCIAL POSITION
At 31 December 2018

	Notes	31-Dec-18 £000	31-Dec-17 £000
Assets			
Cash and cash equivalents	12	46,040	27,335
Debt securities	13	4,990	9,988
Intercompany assets		183	285
Tangible fixed assets	14	217	38
Intangible fixed assets	15	-	5
Other assets	16	175	120
Prepayments and accrued income		139	83
Total assets		51,744	37,854
Liabilities			
Other liabilities	17	30,619	17,387
Intercompany liabilities	18	4,754	1,060
Accruals and deferred income		542	1,389
		35,915	19,836
Equity			
Called up share capital	19	-	-
Distributable reserve		13,237	22,976
Other reserves		2,344	778
Profit and loss account		248	(5,736)
Equity shareholders' funds		15,829	18,018
Total liabilities and equity		51,744	37,854

The Financial Statements on pages 11 to 14 were approved by the Board of Directors on 12 February 2019, and signed on its behalf by:



Alpa Bhakta
Director

pk February 2019

The notes on pages 15 to 31 form an integral part of these financial statements.

BUTTERFIELD MORTGAGES LIMITED
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	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 2017	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 profit – retirement benefit scheme	-	-	-	-	-	-	778	778
At 31 December 2017	-	-	-	-	(5,736)	22,976	778	18,018
Profit for the financial year	-	-	-	-	248	-	-	248
Dividend payment to parent company	-	-	-	-	-	(4,003)	-	(4,003)
Transfer between profit and loss account and distributable reserves	-	-	-	-	5,736	(5,736)	-	-
Actuarial profit – retirement benefit scheme	-	-	-	-	-	-	1,566	1,566
At 31 December 2018	-	-	-	-	248	13,237	2,344	15,829

* 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 2018

1. General Information

Butterfield Mortgages Limited ("BML" or the "Company") 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 a wholly owned subsidiary of The Bank of N.T. Butterfield & Son Limited ("the parent bank"), based in 65 Front Street, Hamilton, HM12, Bermuda.

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

BML's forecasts and projections indicate that the Company is expected to be able to operate within the level of its 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 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.

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2018

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 in the Income Statement using the 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.

Amortisation fees from loan originations are recognised in the Income Statement over the life of the loan.

Other fees and fees from Group Companies are recognised in the Income Statement in the period to which they relate.

(f) Pension costs

BML operates a Group Personal Pension ("GPP"), comprising a Defined Contribution section, and a Legacy Pension Scheme (the "Scheme") comprising a Defined Benefit section and a Defined Contribution section. The Scheme was closed to new entrants in 2004 and to future accrual in 2012.

A full actuarial valuation of the Scheme Defined Benefit section 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, assets are included at market value and 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 GPP 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.

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2018

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 the 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'.

(i) 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.

(j) 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.

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2018

(k) 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.

(l) 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.

(m) 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.

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2018

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.

(n) Segmental reporting

There are no geographical segments beyond the United Kingdom. The Company's primary activity has been the provision of residential mortgages to customers in the UK and therefore there is 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 Legacy Pension Scheme (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 2018 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**

BML's forecasts and projections indicate that the Company is expected to be able to operate within the level of its 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 BML continues to adopt the going concern basis in preparing its Financial Statements; and

- **Derecognition of Loan Portfolio**

BML has transferred the risks and economic benefits associated with its loan portfolio to BBGL under the sub-participation arrangement and so the loan portfolio is not recognised in the Statement of Financial Position; and

- **Contingent Liability**

Management believes that the claim disclosed in Note 21 is largely speculative and it is impracticable to make an estimate of its financial effect or the possibility of any claim against BML at the date of signing the Financial Statements and so no provision has been made.

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2018

5. Net interest income

	31-Dec-18 £000	31-Dec-17 £000
Interest receivable:		
Interest income from debt securities	39	16
Other interest receivable and similar income	67	24
	106	40
Less:		
Other interest expense	-	(31)
	-	(31)
Total net interest income	106	9

6. Fees and commissions receivable

	31-Dec-18 £000	31-Dec-17 £000
Administration fee from group companies	3,033	2,066
Loan commitment fee	46	538
Amortisation fee	961	683
Other fee from group companies	1,047	-
Other fee	226	78
Total fees and commissions receivable	5,313	3,365

7. Administrative expenses

	31-Dec-18 £000	31-Dec-17 £000
Staff costs (including Directors):		
Wages and salaries	3,346	1,955
Social security costs	262	223
Other pension costs	2,513	1,146
	6,121	3,324
Auditors Remuneration:		
Audit of the financial statements	112	107
Services relating to taxation	10	24
	122	131
Depreciation	18	82
Other administrative expenses	(591)	1,308
Total administrative expenses	5,670	4,845

	31-Dec-18 Number	31-Dec-17 Number
Number of staff employed: 38 (2017: 27).		
Analysis by type:		
Management	10	10
Administration	29	17
	39	27

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2018

Director	2	2
Permanent employee	30	20
Temporary employee	7	5
	39	27

8. Restructuring Costs

	31-Dec-18	31-Dec-17
	£000	£000
Loan Novation from parent company ^a	-	997
Family Office custody fee write-off ^b	-	638
Orderly wind-down related losses	-	364
Staff costs	-	(11)
Client compensation ^c	(500)	-
Total restructuring costs	(500)	1,988

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;

c - At the time of the restructure in 2016 a provision was made against future claims by clients relating to the restructure. This has been written back as no claims have materialised as of the date of these Financial Statements.

9. Directors' emoluments

In accordance with the Companies Act 2006, Directors' emoluments below 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-18	31-Dec-17
	£000	£000
Emoluments of the Directors:		
Aggregate emoluments	367	317
Compensation for loss of office	-	-
Pension contributions	15	15
	382	332

Number of Directors participating in the Company's pension schemes

	31-Dec-18	31-Dec-17
	Number	Number
Group personal pension	1	1
Stakeholder pension plan	-	-

	31-Dec-18	31-Dec-17
	£000	£000
Details of the highest paid Director:		
Aggregate emoluments	237	181
Compensation for loss of office	-	-
Group personal pension	15	15
	252	196

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2018

10. Pension costs

Butterfield Mortgages Limited operates a legacy 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 2018, Company contributions of £947,000 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 2018 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	As at 31-Dec-18	As at 31-Dec-17
Discount rate	2.70%	2.40%
Inflation assumption (RPI)	3.50%	3.40%
Inflation assumption (CPI)	2.50%	2.40%
Rate of increases in salaries	2.50%	2.40%
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	2.50%	2.40%

	As at 31-Dec-18	As at 31-Dec-17
Assumed life expectancies on retirement at age 63 are:		
Retiring today - Males	25.2	25.3
Retiring today - Females	26.4	26.4
Retiring in 20 years' time - Males	26.7	26.8
Retiring in 20 years' time - Females	27.9	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-18 £000	31-Dec-17 £000
The assets in the Scheme were:		
Diversified Growth Fund	-	3,033
Equity, Property and Alternatives	-	-
Fixed Interest	-	4,335
Index-Linked Gilts	-	3,844
Cash and Other	290	3,958

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2018

Insured Annuity Policies	13,298	11,585
Defined Contribution Section assets	571	616
Fair value of Scheme assets	14,159	27,371
The actual return on assets over the period was:	(2,633)	(495)

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-18	31-Dec-17
	£000	£000
Present value of funded obligations	13,970	23,543
Fair value of Scheme assets	14,159	27,371
Surplus/(deficit) in funded scheme	189	3,828
Present value of unfunded obligations	-	-
Unrecognised past service cost	-	-
Surplus/deficit	189	3,828
(Irrecoverable surplus)	(189)	(3,828)
Net asset/(liability) in balance sheet	-	-

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

	31-Dec-18	31-Dec-17
	£000	£000
Benefit obligation at beginning of year	23,543	2,352
Current service cost	-	-
Interest cost	341	580
Contributions by Scheme participants	-	-
Actuarial (gains)/losses	(901)	683
Benefits paid	(591)	(1,558)
Past service cost	160	952
Settlements	(8,542)	(532)
Curtailments	-	-
Business combinations	-	-
Exchange rate	-	-
Increase in Defined Contribution liabilities	(40)	66
Benefit obligation at end of year	13,970	23,543

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2018

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

	31-Dec-18	31-Dec-17
	£000	£000
Fair value of Scheme assets at beginning of year	27,371	29,716
Interest income on Scheme assets	396	734
Return on assets, excluding interest income	(3,029)	(1,229)
Contributions by employers	947	368
Contributions by Scheme participants	-	-
Benefits paid	(591)	(1,558)
Scheme administrative cost	-	-
Business combinations	-	-
Settlements	(10,895)	(726)
Exchange rate	-	-
Increase in Defined Contribution liabilities	(40)	66
Fair value of Scheme assets at end of year	14,159	27,371

The amounts recognised in profit or loss:

	31-Dec-18	31-Dec-17
	£000	£000
Service cost - inc. current & past service costs, settlements	2,513	1,146
Service cost - administrative cost	-	-
Net interest on the net defined benefit liability	-	-
Total expense	2,513	1,146

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

	31-Dec-18	31-Dec-17
	£000	£000
Actuarial (gains)/losses on the liabilities	(901)	683
Return on assets, excluding interest income	3,029	1,229
Impact of surplus restrictions	(55)	(154)
Change in irrecoverable surplus	(3,639)	(2,536)
Total remeasurement of the net defined benefit liability (asset) to be shown in OCI	(1,566)	(778)

Sensitivity analysis

	Impact on Scheme liabilities	
	31-Dec-18	31-Dec-17
Discount rate - increase by 0.25%	Decrease by £0.5m	Decrease by £0.9m
Rate of inflation (RPI and CPI) - increase by 0.25%	Increase by £0.1m	Increase by £0.4m
Assumed life expectancy at age 63 - increase by 1 year	Increase by £0.7m	Increase by £0.9m

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2018

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 BML and the fourth trustee is a former non-executive Director of BML 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 profit/(loss)

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

	31-Dec-18 £000	31-Dec-17 £000
Current taxation	-	-
Deferred taxation	-	(2,262)
Tax on profit/(loss) on ordinary activities	-	(2,262)

	31-Dec-18 £000	31-Dec-17 £000
Profit/(loss) on ordinary activities before taxation	248	(3,474)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.25%)	(47)	669

Effects of:

Income and expenses not deductible for tax purposes	(21)	-
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)
Utilisation of tax losses brought forward	68	-
Prior year adjustment	-	-
Tax on profit/(loss) on ordinary activities	-	(2,262)

	31-Dec-18 £000	31-Dec-17 £000
Movement in deferred tax:		
Deferred tax asset at 1 January	-	2,262
Accelerated capital allowances	-	-
Deferred tax charge recognised	-	-
Charge against tax losses carried forward	-	-
Prior year adjustment	-	-
Impairment of carry-forward tax asset	-	(2,262)
Deferred tax asset at 31 December	-	-

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2018

Analysis of deferred tax asset:

Capital allowances	-	-
Tax losses carried forward	-	-
Deferred tax asset at 31 December	-	-

12. Cash and cash equivalents

	31-Dec-18	31-Dec-17
	£000	£000
Repayable on demand	9,877	3,494
Due from group undertakings	8,176	8,058
Restricted Cash ⁺ :		
Security Deposit Account Balances	27,987	15,783
Total	46,040	27,335

⁺ 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-18	31-Dec-17
	£000	£000
Issued by banks and building societies		
Other debt securities		
Government debt	4,990	9,988
	4,990	9,988
 Remaining maturity:		
Three months or less	-	-
One year or less but over three months	4,990	9,988
	4,990	9,988

Listing Analysis

	31-Dec-18	31-Dec-17
	£000	£000
Listed in the UK	4,990	9,988

	31-Dec-18	31-Dec-17
	£000	£000
Sterling denominated	4,990	9,988

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2018

14. Tangible fixed assets

	Leasehold improvements £000	Computer equipment £000	Furniture & other equipment £000	Total £000
<i>Cost</i>				
At 1 January 2018	22	34	9	65
Additions	170	22	-	192
Disposals/Write-offs	-	-	-	-
At 31 December 2018	192	56	9	257
<i>Accumulated Depreciation</i>				
At 1 January 2018	(4)	(20)	(3)	(27)
Charge for the year	(2)	(10)	(1)	(13)
Disposals/Write-offs	-	-	-	-
At 31 December 2018	(6)	(30)	(4)	(40)
Net book value at 31 December 2018	186	26	5	217
Net book value at 31 December 2017	18	14	6	38

15. Intangible fixed assets

	Computer software £000
<i>Cost</i>	
At 1 January 2018	42
Additions	-
Impairment	-
Disposals/Write-offs	-
At 31 December 2018	42
<i>Accumulated Amortisation</i>	
At 1 January 2018	(37)
Charge for the year	(5)
Disposals	-
At 31 December 2018	(42)
Net book value at 31 December 2018	-
Net book value at 31 December 2017	5

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2018

16. Other assets

	31-Dec-18 £000	31-Dec-17 £000
Trade debtors	175	120
	175	120

17. Other liabilities

	31-Dec-18 £000	31-Dec-17 £000
Trade and other creditors	2,551	1,534
Tax and social security	81	69
Security deposit related liabilities	27,987	15,784
	30,619	17,387

18. Intercompany Liabilities

	31-Dec-18 £000	31-Dec-17 £000
Intercompany deposits	-	-
Intercompany loan from BNTB to BBH (novated to BML)	-	997
Intercompany payable to BNTB	8	63
Intercompany payable to BBGL	4,746	-
	4,754	1,060

19. Called up share capital

Ordinary shares of £1 each

Allotted and fully paid	Number
At 1 January 2018	1
Movement	-
At 31 December 2018	1

20. Leasing commitments

At 31 December 2018 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	278	153
Later than one year and not later than five years	1,108	77
Later than five years	204	-

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

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2018

21. Contingent Liability

BML received a letter claiming £4.3m from one of its former clients in 2017 in relation to a lending facility. The claim has since been increased to £5.3m. 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 Financial Statements. 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.

22. 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 (2017: 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.

23. 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.

BML 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 BBGL 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 2018.

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.

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2018

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 the BML legacy pension related liabilities and with the intention of holding to maturity.

	Note	31-Dec-18 £000	31-Dec-17 £000
Financial assets measured at amortised cost			
Cash and cash equivalents	12	46,040	27,335
Debt securities	13	4,990	9,988
Intercompany assets		183	285
Other assets	16	175	120
		51,388	37,728
Financial liabilities measured at amortised cost			
Other liabilities	17	30,619	17,367
Intercompany liabilities	18	4,754	1,060
Accrued liabilities		542	1,389
		35,915	19,836

24. Ultimate parent and controlling party

As at 31 December 2018 BML's ultimate parent 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.

Until 20 August 2018, when the entire issued share capital was transferred to The Bank of N.T. Butterfield & Son Limited, BML was a wholly owned and immediate subsidiary of Leopold Joseph Holdings Limited which, in turn, was a wholly owned subsidiary of Butterfield Holdings Limited. Butterfield Holdings Limited was a wholly owned subsidiary of The Bank of N.T. Butterfield & Son Limited, the ultimate parent.

BUTTERFIELD MORTGAGES LIMITED
Notes to the Financial Statements for the year ended 31 December 2018

25. Subsequent Events

There are no subsequent events since the year end at the date of signing of the Financial Statements.