

Allowance for loan losses:

An allowance set aside from income, which in management's opinion is adequate to absorb all credit-related losses from on and off-balance sheet items. It includes specific and general provisions. Allowance for credit losses is deducted from the related asset categories on the balance sheet.

Asset/liability management:

The management and control of the sensitivity of the Bank of Butterfield's income to changes in market rates.

Capital:

The Bank's regulatory capital consists of shareholders' equity, subordinated debt and general provisions. Capital supports asset growth, provides against loan losses and protects depositors.

Capital Ratios

Tier 1, Tier 2 :

These are ratios of capital to risk-adjusted assets, as stipulated by the Bermuda Monetary Authority, based on international guidelines. Tier 1 capital consists primarily of common shareholders' equity plus non-cumulative preferred shares, less any unamortised goodwill. Tier 2 consists of cumulative preferred shares, subordinated debt and general provisions.

Credit risk:

The possibility that a loss may occur should a borrower or counterparty fail to honour fully the terms of a contract.

Derivative and foreign exchange instruments:

Interest rate swaps, forward rate agreements, futures, forwards, options and other contracts used for asset and liability management or trading purposes. The instruments represent contracts with counterparties where payments are made to or from the counterparty based on specific interest rates, currency levels, other market rates, or on terms pre-determined by the contract.

Earnings (or net income) per share:

The net income of the company divided by the average of shares in issue, excluding shares owned by the Stock Option Trust in respect of the Stock Option Plan, shown both pre and post discontinued operations.

Efficiency ratio:

Efficiency ratio measures the efficiency with which the Group deploys operating expenses to generate operating revenue. It expresses non-interest expenses excluding corporation tax as a percentage of the sum of net interest income and other income excluding credit related provisions. A lower efficiency ratio indicates improved productivity.

Floating rate note (FRN):

A debt instrument with a variable interest rate, whereby interest adjustments are made periodically, often every three months, and tied to a money market index such as LIBOR (the London Inter-bank Offered Rate).

General provisions:

Provisions for doubtful credits are established against the loan portfolio in the Group's business lines, where a prudent assessment of adverse economic trends suggests that losses may occur, but where such losses cannot yet be determined on an item-by-item basis.

Goodwill:

Goodwill represents the unamortised cost of acquiring subsidiaries and other net assets in excess of the appraised value of such net assets at the date of acquisition.

Hedging:

Protecting against price, interest rate or foreign exchange exposures by taking positions that are expected to react to market conditions in an offsetting manner.

Interest rate futures:

Contractual obligations to buy or sell a financial instrument on a future date at a specified price established on an organised exchange; collateralised by cash or short-term government securities and subject to daily mark to market with differences settled daily with the exchange in cash.

Interest rate swaps:

Transactions in which two counterparties exchange interest payments based on a specified notional principal amount for a predetermined period, based on agreed-upon fixed and floating rates.

Market risk:

The risk of loss resulting from changes in the prices of financial instruments in the markets in which the Group participates, such as changes in the value of foreign exchange or fixed-income securities.

Net interest margin:

Net interest income, on a tax-equivalent basis, expressed as a percentage of average total assets.

Return on assets:

Net income as a percentage of average total assets.

Securities sold under agreements to repurchase:

The sale of a security with the commitment by the seller to repurchase the security at a specified price. The difference between the sale price and the agreed repurchase on a repurchase agreement is recorded as interest expense.

Structural interest rate risk:

Risk arising from the differing interest rate repricing characteristics of the Group's assets and liabilities. Group policy is to manage the sensitivity of net interest income to the impact of adverse interest rate movements.

Value at risk (VAR):

VAR is an estimate of the potential loss of value that could result from holding a position for a specified period of time, with a given level of statistical confidence.