



**Butterfield Bank  
(Cayman) Limited**

Consolidated Financial Statements

For the years ended  
31 December 2023 and 2022

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## Report of independent auditors

### To the Board of Directors of Butterfield Bank (Cayman) Limited

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#### Opinion

We have audited the accompanying consolidated financial statements of Butterfield Bank (Cayman) Limited and its subsidiaries (together the "Company"), which comprise the consolidated balance sheets as of 31 December 2023 and 31 December 2022, and the related consolidated statements of operations, of comprehensive income, of changes in shareholder's equity, and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2023 and 31 December 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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#### Basis for opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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#### Responsibilities of management for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.



## Report of independent auditors (continued)

### To the Board of Directors of Butterfield Bank (Cayman) Limited

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#### Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*PricewaterhouseCoopers*

16 February 2024

## Butterfield Bank (Cayman) Limited Consolidated Balance Sheets

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

	2023	2022
<b>Assets</b>		
Cash and demand deposits with banks	94,699	102,284
Cash equivalents	621,373	500,867
<b>Total cash due from banks</b>	<b>716,072</b>	<b>603,151</b>
Short term investments	9,183	63,966
Debt securities		
Available for sale	673,196	776,642
Held to maturity	1,650,646	1,776,915
<b>Total investments in debt securities</b>	<b>2,323,842</b>	<b>2,553,557</b>
Loans and participations receivable, net of allowance for credit losses	1,207,108	1,269,800
Premises, equipment and computer software	44,538	39,446
Intangible assets	7,652	8,753
Accrued interest	11,648	9,643
Goodwill	551	551
Other assets	21,144	17,277
<b>Total assets</b>	<b>4,341,738</b>	<b>4,566,144</b>
<b>Liabilities</b>		
Deposits		
Non-interest bearing	1,022,425	1,198,022
Interest bearing	2,983,627	3,097,520
<b>Total deposits</b>	<b>4,006,052</b>	<b>4,295,542</b>
Accrued interest	10,146	1,797
Other liabilities	41,564	48,556
<b>Total other liabilities</b>	<b>51,710</b>	<b>50,353</b>
<b>Total liabilities</b>	<b>4,057,762</b>	<b>4,345,895</b>
<b>Shareholder's equity</b>		
Common share capital (\$1.00 par; authorised shares 16,450,000 (2022: \$1.00 par; authorised shares 16,450,000))	16,450	16,450
Retained earnings	379,183	343,060
Accumulated other comprehensive income (loss)	(111,657)	(139,261)
<b>Total shareholder's equity</b>	<b>283,976</b>	<b>220,249</b>
<b>Total liabilities and shareholder's equity</b>	<b>4,341,738</b>	<b>4,566,144</b>

Signed on behalf of the Board by:

**Michael A. McWatt**  
Managing Director

**Erwin Dikau**  
Chief Financial Officer

The accompanying notes are an integral part of these consolidated financial statements.

## Butterfield Bank (Cayman) Limited Consolidated Statements of Operations

For the year ended 31 December (In thousands of United States dollars)

	2023	2022
<b>Non-interest income</b>		
Asset management	4,434	4,264
Banking	29,505	27,292
Foreign exchange revenue	27,677	26,898
Trust	4,924	5,375
Other non-interest income	351	2,868
<b>Total non-interest income</b>	<b>66,891</b>	<b>66,697</b>
<b>Interest income</b>		
Interest and fees on loans	87,562	61,056
Investments	51,856	51,804
Deposits with banks	26,532	8,679
<b>Total interest income</b>	<b>165,950</b>	<b>121,539</b>
<b>Interest expense</b>		
Deposits	32,263	5,645
<b>Total interest expense</b>	<b>32,263</b>	<b>5,645</b>
<b>Net interest income before provision for credit losses</b>	<b>133,687</b>	<b>115,894</b>
Provision for credit recoveries (losses)	61	(573)
<b>Net interest income after provision for credit losses</b>	<b>133,748</b>	<b>115,321</b>
Net realised gains (losses) on available for sale investments	(14)	(19)
Net other gains (losses)	10	-
<b>Total other gains (losses)</b>	<b>(4)</b>	<b>(19)</b>
<b>Total net revenue</b>	<b>200,635</b>	<b>181,999</b>
<b>Non-interest expense</b>		
Salaries and other employee benefits	30,067	28,600
Technology and communications	14,652	12,636
Property	4,463	5,971
Professional and outside services	7,348	7,023
Non-income taxes	1,817	2,080
Amortisation of intangible assets	1,101	1,101
Marketing	1,036	772
Other expenses	4,028	3,937
<b>Total non-interest expense</b>	<b>64,512</b>	<b>62,120</b>
<b>Net income</b>	<b>136,123</b>	<b>119,879</b>

The accompanying notes are an integral part of these consolidated financial statements.

## Butterfield Bank (Cayman) Limited

### Consolidated Statements of Comprehensive Income

For the year ended 31 December (In thousands of United States dollars)

	Line item in the Consolidated Statement of operations, if any	2023	2022
<b>Comprehensive income</b>			
Net income		136,123	119,879
Unrealised net gains (losses) on available-for-sale investments transferred to held-to-maturity investments, net of amortisation		5,416	(55,133)
Unrealised net gains (losses) on available-for-sale investments		22,174	(72,767)
Transfer of realised (gains) losses to net income	Net realised (gains) losses on available for sale investments	14	19
<b>Total comprehensive income</b>		<b>163,727</b>	<b>(8,002)</b>

### Consolidated Statements of Changes in Shareholder's Equity

For the year ended 31 December (In thousands of United States dollars)

	2023	2022
<b>Common share capital issued and outstanding</b>		
Authorised, issued and fully paid (2023: 16,450,000 shares; 2022: 16,450,000 shares)	16,450	16,450
<b>Retained earnings</b>		
Balance at beginning of year	343,060	292,181
Net income for year	136,123	119,879
Cash dividends declared and paid	(100,000)	(69,000)
<b>Balance at end of year</b>	<b>379,183</b>	<b>343,060</b>
<b>Accumulated other comprehensive income (loss)</b>		
<b>Held to maturity investment adjustments</b>		
Balance at beginning of year	(54,916)	217
Net unamortised gains (losses) transferred from AFS	-	(59,908)
Amortisation of net (gains) losses to net income	5,416	4,775
Balance at end of year	(49,500)	(54,916)
<b>Available for sale investment adjustments</b>		
Balance at beginning of year	(84,345)	(11,597)
Gross unrealised gains (losses)	22,174	(72,767)
Transfer of realised (gains) losses to net income	14	19
Balance at end of year	(62,157)	(84,345)
<b>Total balance at end of year - Accumulated other comprehensive income (loss)</b>	<b>(111,657)</b>	<b>(139,261)</b>
<b>Total shareholder's equity</b>	<b>283,976</b>	<b>220,249</b>

The accompanying notes are an integral part of these consolidated financial statements.

## Butterfield Bank (Cayman) Limited Consolidated Statements of Cash Flows

For the year ended 31 December (In thousands of United States dollars)

	2023	2022
<b>Cash flows from operating activities</b>		
Net income	136,123	119,879
Adjustments to reconcile net income to operating cash flows:		
Depreciation and amortisation	9,175	12,057
Provision for credit (recoveries) losses	(61)	573
Net realised (gains) losses on available for sale investments	14	19
Net realised (gains) losses on short term investments	(4)	-
Net realised (gains) losses on sale of premises, equipment and computer software	(6)	-
<b>Changes in operating assets and liabilities:</b>		
(Increase) decrease in accrued interest receivable	(2,005)	(3,221)
(Increase) decrease in other assets	(3,867)	(6,710)
Increase (decrease) in accrued interest payable	8,349	1,250
Increase (decrease) in other liabilities	(6,992)	(8,227)
<b>Cash provided by (used in) operating activities</b>	<b>140,726</b>	<b>115,620</b>
<b>Cash flows from investing activities</b>		
Short term investments other than restricted cash: proceeds from maturities and sales	130,091	195,046
Short term investments other than restricted cash: purchases	(74,105)	(211,483)
Additions to premises, equipment and computer software	(8,763)	(2,300)
Net (increase) decrease in loans and participations receivable	62,753	(133,294)
Held to maturity investments: proceeds from maturities and pay downs	127,884	184,290
Held to maturity investments: purchases	-	(171,441)
Available for sale investments: proceeds from sales	5,586	7,631
Available for sale investments: proceeds from maturities and pay downs	149,871	100,945
Available for sale investments: purchases	(30,433)	(39,396)
<b>Cash provided by (used in) investing activities</b>	<b>362,884</b>	<b>(70,002)</b>
<b>Cash flows from financing activities</b>		
Net increase (decrease) in demand and term deposit liabilities	(289,490)	(323,279)
Cash dividends paid	(100,000)	(69,000)
<b>Cash provided by (used in) financing activities</b>	<b>(389,490)</b>	<b>(392,279)</b>
<b>Net increase (decrease) in cash, cash equivalents and restricted cash</b>	<b>114,120</b>	<b>(346,661)</b>
<b>Cash, cash equivalents and restricted cash at beginning of year</b>	<b>611,135</b>	<b>957,796</b>
<b>Cash, cash equivalents and restricted cash at end of year</b>	<b>725,255</b>	<b>611,135</b>
<b>Components of cash, cash equivalents and restricted cash at end of year</b>		
Cash due from banks	716,072	603,151
Restricted cash included in short-term investments on the consolidated balance sheets	9,183	7,984
<b>Total cash, cash equivalents and restricted cash at end of year</b>	<b>725,255</b>	<b>611,135</b>
<b>Supplemental disclosure of cash flow information</b>		
Cash interest paid	(23,914)	(4,395)
<b>Non-cash items</b>		
Transfer of available-for-sale investments to held-to-maturity investments	-	633,174

The accompanying notes are an integral part of these consolidated financial statements.



# Butterfield Bank (Cayman) Limited

## Notes to the Consolidated Financial Statements

(In thousands of United States dollars)

### Note 1: Nature of business

Butterfield Bank (Cayman) Limited (the "Bank") is a full service community bank and a provider of specialised wealth management services. Services offered include retail, private & corporate banking, treasury, asset management and personal & institutional trust services in the Cayman Islands.

The Bank was incorporated on 22 November 1967 under the acts of the Cayman Islands and is a wholly-owned subsidiary of The Bank of N.T. Butterfield & Son Limited ("Butterfield"), a company incorporated in Bermuda. Butterfield is a publicly traded corporation with shares listed on the New York Stock Exchange and the Bermuda Stock Exchange. The Butterfield Group is regulated by the Bermuda Monetary Authority (BMA), while the Bank is regulated by the Cayman Islands Monetary Authority (CIMA). Both regulators operate in accordance with Basel principles.

The Bank holds a category 'A' banking licence and a trust licence under the Banks and Trust Companies Act of the Cayman Islands. In addition, the Bank is licenced under the Securities and Investment Business Act.

The Bank owns directly and indirectly the following subsidiaries:

Field Directors (Cayman) Limited	Field Secretaries (Cayman) Limited	Field Nominees (Cayman) Limited
Butterfield Trust (Cayman) Limited	Butterfield Fiduciary Services (Cayman) Limited	

The Bank has structured its operations in order that it will not be deemed to be engaged in trade or business within the U.S. for purposes of U.S. federal tax acts, or subject to taxation in any jurisdiction.

### Note 2: Significant accounting policies

#### a. Basis of Presentation and Use of Estimates and Assumptions

The accounting and financial reporting policies of the Bank and its subsidiaries conform to generally accepted accounting principles in the United States of America ("GAAP"). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year, and actual results could differ from those estimates.

Critical accounting estimates are those that require management to make subjective or complex judgments about the effect of matters that are inherently uncertain and may change in subsequent periods. Changes that may be required in the underlying assumptions or estimates in these areas could have a material impact on the future financial condition and results of operations. Management believes that the most critical accounting policies upon which the Bank's financial condition depends, and which involve the most complex or subjective decisions or assessments, are as follows:

- Allowance for credit losses
- Fair value and impairment of financial instruments
- Impairment of long-lived assets
- Impairment of intangible assets
- Share-based payments

#### b. Basis of Consolidation

The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated.

The Bank consolidates entities where it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. Entities where the Bank holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence are accounted for under the equity method, and the pro rata share of their income (loss) is included in other non-interest income.

#### c. Foreign Currency Translation

Assets and liabilities arising from foreign currency transactions are translated into United States dollars at the rates of exchange prevailing at the balance sheet date while associated revenues and expenses are translated to United States dollars at the rates of exchange prevailing throughout the year. The resulting gains or losses are included in foreign exchange revenue in the consolidated statements of operations.

#### d. Assets Held in Trust or Custody

Securities and properties (other than cash and deposits held with the Bank) held in trust, custody, agency or fiduciary capacity for customers are not included in the consolidated balance sheets because the Bank is not the beneficiary of these assets.

#### e. Cash Due from Banks

Cash due from banks includes cash on hand, cash items in the process of collection, amounts due from correspondent banks and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in fair value. Such investments are those with a maturity of three months or less from the date of acquisition and include unrestricted term deposits, certificates of deposit and treasury bills.

# Butterfield Bank (Cayman) Limited

## Notes to the Consolidated Financial Statements (continued)

(In thousands of United States dollars)

### Note 2: Significant accounting policies (continued)

#### f. Short Term Investments

Short-term investments have maturities of less than one year from the date of acquisition, are only subject to an insignificant risk of change in fair value and comprise (1) restricted demand deposits, and (2) unrestricted term deposits and treasury bills with a maturity greater than three months from the date of acquisition.

#### g. Investments

Debt securities are classified as available for sale ("AFS") or held to maturity ("HTM").

Investments are classified primarily as AFS when used to manage the Bank's exposure to interest rate and liquidity movements, as well as to make strategic longer-term investments. AFS investments are carried at fair value in the consolidated balance sheets with unrealised gains and losses reported as net increase or decrease to accumulated other comprehensive income (loss) ("AOCIL"), net of allowance for credit losses.

Investments that the Bank has the positive intent and ability to hold to maturity are classified as HTM and are carried at amortised cost in the consolidated balance sheets, net of allowance for credit losses. Unrecognised gains and losses on HTM securities are disclosed in the notes to the consolidated financial statements.

The specific identification method is used to determine realised gains and losses on AFS investments, which are included in net realised gains (losses) on AFS investments in the consolidated statements of operations.

Interest income, including amortisation of premiums and discounts, on securities for which cash flows are not considered uncertain are included in interest income in the consolidated statements of operations.

#### Impairment and credit losses

For debt securities, where management does not expect to recover the entire amortised cost basis of the security and intends to sell such securities or it is more likely than not that the Bank will be required to sell the securities before recovering the amortised cost, it recognises an impairment loss equal to the full difference between the amortised cost basis and the fair value of those securities through the income statement. Following the recognition of impairment, the security's new amortised cost basis is the previous basis less impairment.

When management does not intend to sell or it is more likely than not that the Bank will hold such securities until recovering the amortised cost, management determines whether any credit losses exist. See Note 2.i : Allowance for Credit Losses.

#### h. Loans

Loans are reported at the principal amount outstanding, net of allowance for credit losses, unearned income and net deferred loan fees. Interest income is recognised over the term of the loan using the effective interest method, or on a basis approximating a level rate of return over the term of the loan, except for loans classified as non-accrual. Prepayments are treated as a reduction of principal outstanding which is recognised upon receipt of payment. Prepayment penalties, if applicable under the terms of the specific loan agreement, are recognised also upon receipt of payment.

#### Acquired loans

Acquired loans that, as of the date of acquisition, have experienced a more-than-insignificant deterioration in credit quality since origination, are accounted for as purchased credit-deteriorated ("PCD") loans. PCD loans are recorded at their purchase price plus an allowance for expected credit losses at the time of acquisition.

Changes in estimates of expected credit losses after acquisition are recognised as a movement in provision for credit recoveries (losses) in the consolidated statements of operations. Generally, acquired loans that meet the Bank's definition for non-accrual status are considered to be PCD loans.

The Bank's purchased credit-impaired ("PCI") loans outstanding as at 1 January 2020 are now classified as PCD loans and both the amortised cost and an allowance for expected credit losses are disclosed and included with other non-PCD loans' figures. The Bank will continue to recognise the amortisation of the noncredit discount, if any, as interest income based on the yield of such assets as at the date of purchase.

#### Participated or Assigned Loans

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

#### Impaired loans

A loan is considered to be impaired when, based on current information and events, the Bank determines that it will not be able to collect all amounts due according to the original loan contract, including scheduled interest payments. Impaired loans include all non-accruing loans and all loans modified in a troubled debt restructuring ("TDR") even if full collectability is expected following the restructuring.

If the Bank determines that the expected realisable value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortised premium or discount), impairment is recognised through an allowance estimate. If the Bank determines that part of the allowance is uncollectible that amount is charged off.

# Butterfield Bank (Cayman) Limited

## Notes to the Consolidated Financial Statements (continued)

(In thousands of United States dollars)

### Note 2: Significant accounting policies (continued)

#### h. Loans (continued)

##### Non-accrual

Commercial, commercial real estate and consumer loans (excluding credit card consumer loans) are placed on non-accrual status if:

- in the opinion of management, full payment of principal or interest is in doubt; or
- principal or interest is 90 days past due.

Residential mortgages are placed on non-accrual status immediately if:

- in the opinion of management, full payment of principal or interest is in doubt; or
- when principal or interest is 90 days past due, unless the loan is well secured and any ongoing collection efforts are reasonably expected to result in repayment of all amounts due under the contractual terms of the loan.

Interest income on non-accrual loans is recognised only to the extent it is received in cash. Cash received on non-accrual loans where there is no doubt regarding full repayment (no impairment recognised in the form of a specific allowance) is first applied as repayment of the past due principal amount of the loan and secondly to past due interest and fees.

Where there is doubt regarding the ultimate full repayment of the non-accrual loan (impairment recognised in the form of a specific allowance), all cash received is applied to reduce the principal amount of the loan. Interest income on these loans is recognised only after the entire balance receivable is recovered and interest is actually received.

Loans are returned to accrual status when:

- none of the principal or accrued interest is past due (with certain exceptions) and the Bank expects repayment of the remaining contractual obligation; or
- when the loan becomes well secured and in the process of collection.

##### Loans modified in a TDR (Prior to January 1, 2023)

A modification of a loan constitutes a TDR when a borrower is experiencing financial difficulty and the modification constitutes a concession from originally agreed terms. If a restructuring is considered a TDR, the Bank is required to make certain disclosures in the notes of the consolidated financial statements and evaluate the restructured loan for impairment. The Bank employs various types of concessions when modifying a loan which may include extension of repayment periods, interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimise economic loss and to avoid foreclosure or repossession of collateral.

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

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

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

When a loan undergoes a TDR, the determination of the loan's accrual versus nonaccrual status following the modification depends on several factors. As with the risk rating process, the accrual status decision for such a loan is a separate and distinct process from the loan's TDR analysis and determination. Management considers the following in determining the accrual status of restructured loans:

- If the loan was appropriately on accrual status prior to the restructuring, the borrower has demonstrated performance under the previous terms, and the Bank's credit evaluation shows the borrower's capacity to continue to perform under the restructured terms (both principal and interest payments), it is likely that the appropriate conclusion is for the loan to remain on accrual at the time of the restructuring. This evaluation must include consideration of the borrower's sustained historical repayment performance for a reasonable period prior to the date on which the loan was restructured. A sustained period of repayment performance generally would be a minimum of six months and would involve payments of cash or cash equivalents; or
- If the loan was on nonaccrual status before the restructuring, but the Bank's credit evaluation shows the borrower's capacity to meet the restructured terms, the loan would likely remain as non-accrual until the borrower has demonstrated a reasonable period of sustained repayment performance. As noted above, this period generally would be at least six months (thereby providing reasonable assurance as to the ultimate collection of principal and interest in full under the modified terms). Sustained performance before the restructuring may be taken into account.

Loans that have been modified in a TDR are restored to accrual status only when interest and principal payments are brought current for a continuous period of six months under the modified terms. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on non-accrual status.

A loan that is modified in a TDR prior to becoming impaired will be left on accrual status if full collectability in accordance with the restructured terms is expected. The Bank may enter into a TDR for loans that are in default, or at risk of defaulting, even if the loan is not impaired.

A loan that had previously been modified in a TDR and is subsequently refinanced under current underwriting standards at a market rate with no concessionary terms is accounted for as a new loan and is no longer reported as a TDR.

# Butterfield Bank (Cayman) Limited

## Notes to the Consolidated Financial Statements (*continued*)

(In thousands of United States dollars)

### Note 2: Significant accounting policies (*continued*)

#### h. Loans (*continued*)

##### Troubled Debt Restructurings and Vintage Disclosures (From January 1, 2023)

Beginning January 1, 2023, the Bank adopted Accounting Standards Update ("ASU") 2022-02, Financial Instruments - Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures. This ASU eliminates the accounting guidance for troubled debt restructurings ("TDRs") by creditors that have adopted the CECL model while enhancing disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, this ASU also requires disclosure of current period gross charge-offs by year of origination. The Bank has elected to adopt these amendments on a prospective basis.

Accordingly, from the date of adoption, the Bank will evaluate whether a modified loan represents a new loan or a continuation of an existing loan. If the effective yield on the restructured loan is at least equal to the effective yield for comparable loans with similar collection risks and the modifications to the original loan are more than minor, the Bank will derecognise the existing loan and recognise the restructured loan as a new loan. If a loan restructuring does not meet these conditions, the Bank will account for the modification as a continuation of the existing loan. See Note 6: Loans for the new required disclosures.

##### Delinquencies

The entire balance of an account is contractually delinquent if the minimum payment of principal or interest is not received by the specified due date. Delinquency is reported on loans that are 30 days or more past due.

##### Charge-offs

The Bank recognises charge-offs when it determines that loans are uncollectible, and this generally occurs when all commercially reasonable means of recovering the loan balance have been exhausted.

Commercial and consumer loans are either fully or partially charged-off down to the fair value of collateral securing the loans when:

- management judges the loan to be uncollectible;
- repayment is expected to be protracted beyond reasonable time frames;
- the asset has been classified as a loss by either the Bank's internal loan review process or third party appraisers; or
- the customer has filed bankruptcy and the loss becomes evident owing to a lack of assets or cash flow.

The outstanding balance of commercial and consumer real estate secured loans and residential mortgages that are in excess of the estimated property value, less cost to sell, is charged-off once there is reasonable assurance that such excess outstanding balance is not recoverable.

Credit card consumer loans that are contractually 180 days past due and other consumer loans with an outstanding balance under \$100,000 that are contractually 180 days past due are charged-off.

#### i. Allowance for Credit Losses

##### Accounting for Financial instruments - Credit losses

The Bank uses a current expected credit loss model ("CECL") which is based on expected losses. The CECL model is applied by the Bank to the measurement of credit losses on financial instruments at amortised cost, including loan receivables and HTM debt securities. The Bank also applies the CECL model to certain off-balance sheet credit exposures such as undrawn loan commitments, standby letters of credit, financial guarantees, and other similar instruments. Credit losses on AFS securities are presented as a valuation allowance rather than as a direct write-down. Changes in expected credit losses are recorded through the respective credit loss allowances on the consolidated balance sheets as well as in the provision for credit losses (recoveries) in the consolidated statements of operations.

The Bank's PCI loans outstanding were classified as PCD loans and both the amortised cost and an allowance for expected credit losses were disclosed and included with other non-PCD loans' figures. The Bank will continue to recognise the amortisation of the noncredit discount, if any, as interest income based on the yield of such assets.

Under the CECL model, the Bank collects and maintains attributes as they relate to its financial instruments that are within scope of CECL including fair value of collateral, expected performance over the lifetime of the instruments and reasonable and supportable assumptions about future economic conditions. The Bank's measurement of expected losses takes into account historical loss information and is primarily based on the product of: the respective instrument's probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). For AFS securities, any allowance for credit losses is based on an impairment assessment.

The Bank made the accounting policy election to write off accrued interest receivable on loans that are placed on non-accrual status by reversing the then accrued interest balance against interest income revenue.

The Bank maintains an allowance for credit losses, which in management's opinion is adequate to absorb all estimated credit-related losses that are incurred in its lending and off-balance sheet credit-related arrangements at the balance sheet date.

Management measures expected credit losses on HTM and AFS debt securities on a collective basis by major security type when similar risk characteristics exist, or failing that, on an individual basis.

# Butterfield Bank (Cayman) Limited

## Notes to the Consolidated Financial Statements (continued)

(In thousands of United States dollars)

### Note 2: Significant accounting policies (continued)

#### i. Allowance for Credit Losses (continued)

For AFS debt securities in an unrealised loss position, the Bank first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortised cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortised cost basis is written down to fair value through income. For AFS debt securities that do not meet the aforementioned criteria, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortised cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortised cost basis of the security. If the present value of cash flows expected to be collected is less than the amortised cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortised cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognised in other comprehensive income.

Losses are charged against the allowance when management believes the uncollectibility of an AFS security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

The allowance for credit losses on loans is a valuation account that is deducted from the loans' amortised cost basis to present the net amount expected to be collected on the loans. Loans are charged-off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries typically do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts as well as the Bank's internal risk rating framework. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in the current-loan specific risk characteristics such as differences in underwriting practices, vintage, portfolio mix, delinquency level, term as well as changes in environmental conditions, such as changes in macroeconomic factors and collateral values.

The allowance for credit losses is measured on a collective pool basis when similar risk characteristics exist. The Bank has identified the following portfolio segments: Residential mortgages, Consumer loans (including overdrafts), Commercial loans, Commercial overdrafts, Commercial real estate loans and Credit cards. For loans and overdrafts, management uses a PD and LGD model to estimate the allowance for credit losses. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. For Credit cards, management uses a loss rate to estimate expected credit losses.

Expected credit losses are estimated over the contractual term of the loans. The contractual term excludes potential extensions, renewals and modifications unless management has a reasonable expectation at the reporting date that the extension or renewal options included in the original contract will occur or that a troubled debt restructuring will be executed. Credit card receivables do not have stated maturities, therefore establishing a contractual term is performed by using an analytical approximation of behavior.

#### j. Business Combinations, Goodwill and Intangible Assets

All business combinations are accounted for using the acquisition method. Identifiable intangible assets (mostly customer relationships) are recognised separately from goodwill and are initially valued at fair value using discounted cash flow calculations and other recognised valuation techniques. Goodwill represents the excess of the fair value of the consideration paid for the acquisition of a business over the fair value of the net assets acquired.

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

#### k. Premises, Equipment and Computer Software

Land is carried at cost. Buildings, equipment and computer software, including leasehold improvements, are carried at cost less accumulated depreciation. The Bank generally computes depreciation using the straight-line method over the estimated useful life of an asset, which is 50 years for buildings, and 3 to 10 years for other equipment. For leasehold improvements the Bank uses the straight-line method over the lesser of the remaining term of the leased facility or the estimated economic life of the improvement. The Bank capitalises certain costs incurred during the development phase, associated with the acquisition or development of internal use software. Once the software is ready for its intended use, these costs are amortised on a straight-line basis over the software's expected useful life, which is between 5 and 10 years. The Bank capitalises certain implementation costs for cloud computing arrangements, which includes infrastructure as a service, and these costs are then amortised on a straight-line basis over the term of the arrangement.

Management reviews the recoverability of the carrying amount of premises, equipment and computer software when indicators of impairment exist and an impairment charge is recorded when the carrying amount of the reviewed asset is deemed not recoverable by future expected cash flows to be derived from the use and disposition of the asset. If there is a disposition out of premises, equipment and computer software, a gain is recorded if the difference of the proceeds on disposition is in excess of the asset's carrying value. Otherwise, a loss is recorded. If there is an abandonment out of premises, equipment and computer software, the full carrying value of the asset is recognised as a loss.

# Butterfield Bank (Cayman) Limited

## Notes to the Consolidated Financial Statements (continued)

(In thousands of United States dollars)

### Note 2: Significant accounting policies (continued)

#### l. Leases

In the normal course of operation, the Bank enters into leasing agreements either as the lessee or the lessor. The Bank recognises right-of-use assets and lease liabilities for operating leases and for finance leases. Lease liabilities are measured as the present value of future lease payments, including term renewals that are reasonably certain to occur, discounted using the Bank's incremental borrowing interest rate. Right-of-use assets are measured as the carrying amount of the related lease liabilities adjusted for: prepaid or accrued lease payments, unamortised lease incentive received, unamortised initial direct costs and any impairment of the right-of-use asset.

The Bank made accounting policy elections not to separate lease components from non-lease components for all classes of underlying assets; and not to recognise a right-of-use asset and a lease liability for leases with a term at inception of 12 months or less, including renewal options that are reasonably certain to be exercised (referred to as "short term leases").

#### m. Derivatives

All derivatives are recognised on the consolidated balance sheets at their fair value. On the date that the Bank enters into a derivative contract, it designates the derivative as either: a hedge of the fair value of a recognised asset or liability (a fair value hedge); a hedge of a forecasted transaction or the variability of cash flows that are to be received or paid in connection with a recognised asset or liability (a cash flow hedge); or an instrument that is held for trading or non-hedging purposes (a trading or non-hedging instrument).

All instruments utilised as a hedging instrument in a fair value hedge or cash flow hedge must have one or more underlying notional amounts, no or a minimal net initial investment and a provision for net settlement in the contract to meet the definition of a derivative instrument.

The changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk, are recorded in the consolidated statements of operations.

The changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income ("OCI") and the ineffective portion is recorded in the consolidated statements of operations. That is, ineffectiveness from a derivative that overcompensates for changes in the hedged cash flows is recorded in the consolidated statements of operations. However, the ineffectiveness from a derivative that under compensates is not recorded in the consolidated statements of operations.

The changes in the fair value of a derivative that is designated and qualifies as a foreign currency hedge is recorded in either current year earnings or OCI, depending on whether the hedging relationship satisfies the criteria for a fair value or cash flow hedge. Changes in the fair value of trading and non-hedging derivative instruments are reported in the consolidated statements of operations.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value, cash flow, or foreign currency hedges to specific assets and liabilities on the consolidated balance sheets or specific firm commitments or forecasted transactions. The Bank also formally assesses whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. For those hedge relationships that are terminated, hedge designations that are elected to be removed, forecasted transactions that are no longer expected to occur, or the hedge relationship ceases to be highly effective, the hedge accounting treatment described in the paragraphs above is no longer applied and the end-user derivative is terminated or transferred to the trading designation. For fair value hedges, any changes to the carrying value of the hedged item prior to the discontinuance remain as part of the basis of the asset or liability. When a cash flow hedge is discontinued, the net derivative gain (loss) remains in AOCIL unless it is probable that the forecasted transaction will not occur in the originally specified time period.

#### n. Collateral

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

#### o. Employee Benefit Plan

The Bank maintains a trustee defined contribution pension plan for substantially all employees. The Bank and participating employees provide an annual contribution based on each participating employee's pensionable earnings. Amounts paid are expensed in the period and are included in Salaries and other employee benefits in the consolidated statements of operations.

#### p. Share-Based Compensation

Butterfield engages in equity settled share-based payment transactions in respect of services received from eligible employees. The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in respect of the shares or share options granted is allocated to the Bank by Butterfield and recognised in Salaries and other employee benefits in the consolidated statements of operations over the shorter of the vesting or service period.

#### q. Revenue Recognition

Trust and corporate services fees include fees for private and institutional trust, executorships, corporate and managed bank accounts. Asset management fees include fees for investment management, investment advice and brokerage services. Fees are recognised as revenue over the period of the relationship or when the Bank has rendered all services to the clients and is entitled to collect the fee from the client, as long as there are no contingencies associated with the fees.

# Butterfield Bank (Cayman) Limited

## Notes to the Consolidated Financial Statements (continued)

(In thousands of United States dollars)

### Note 2: Significant accounting policies (continued)

#### q. Revenue Recognition (continued)

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

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

Loan interest income is accrued and recognised in revenues over time and includes the amortisation of deferred non-refundable loan origination and commitment fees. These fees are recognised as an adjustment of yield over the life of the related loan. Loan origination and commitment fees are offset by their related direct costs and only the net amounts are deferred and amortised into interest income.

Interest income, including amortisation of premiums and discounts, on debt securities for which cash flows are not considered uncertain are included in interest income in the consolidated statements of operations. Loans placed on non-accrual status are accounted for under the cost recovery method, whereby all principal and interest payments received are applied as a reduction of the amortised cost and carrying amount.

Interest income on deposits with banks is accrued and recognised in revenues over time and includes the amortisation of premiums and discounts on short term investments.

#### r. Fair Values

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Bank determines the fair values of assets and liabilities based on the fair value hierarchy which requires an entity to maximise the use of observable inputs and minimise the use of unobservable inputs when measuring fair value. The relevant accounting standard describes three levels of inputs that may be used to measure fair value. Investments classified as AFS, and derivative assets and liabilities are recognised in the consolidated balance sheets at fair value.

##### Level 1, 2 and 3 valuation inputs

Management classifies items that are recognised at fair value on a recurring basis based on the level of inputs used in their respective fair value determination as described below.

Fair value inputs are considered Level 1 when based on unadjusted quoted prices in active markets for identical assets.

Fair value inputs are considered Level 2 when based on inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Fair value inputs are considered Level 3 when based on internally developed models using significant unobservable assumptions involving management's estimations or non-binding bid quotes from brokers.

The following methods and assumptions were used in the determination of the fair value of financial instruments:

##### Cash due from banks

The carrying amount of cash and deposits with banks, being short term in nature, is deemed to approximate fair value.

Cash equivalents include unrestricted term deposits, certificates of deposits and treasury bills with a maturity of less than three months from the date of acquisition and the carrying value at cost is considered to approximate fair value because they are short-term in nature, bear interest rates that approximate market rates, and generally have negligible credit risk.

##### Short term investments

Short-term investments comprise restricted term and demand deposits and unrestricted term deposits and treasury bills with less than one year but greater than three months' maturity from the date of acquisition. The carrying value at cost is considered to approximate fair value because they are short-term in nature, bear interest rates that approximate market rates, and generally have negligible credit risk.

##### Investments

The fair values for AFS investments are generally sourced from third parties. The fair value of fixed income securities is based upon quoted market values where available, "evaluated bid" prices provided by third party pricing services ("pricing services") where quoted market values are not available, or by reference to broker or underwriter bid indications where pricing services do not provide coverage for a particular security. To the extent the Bank believes current trading conditions represent distressed transactions, the Bank may elect to utilise internally generated models. The pricing services typically use market approaches for valuations using primarily Level 2 inputs (in the vast majority of valuations), or some form of discounted cash flow analysis.



# Butterfield Bank (Cayman) Limited

## Notes to the Consolidated Financial Statements (continued)

(In thousands of United States dollars)

### Note 2: Significant accounting policies (continued)

#### r. Fair Values (continued)

Pricing services indicate that they will only produce an estimate of fair value if there is objectively verifiable information available to produce a valuation. Standard inputs to the valuations provided by the pricing services listed in approximate order of priority for use when available include: reported trades, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data. The pricing services may prioritise inputs differently on any given day for any security, and not all inputs listed are available for use in the evaluation process on any given day for each security evaluation. However, the pricing services also monitor market indicators and industry and economic events. When these inputs are not available, pricing services identify “buckets” of similar securities (allocated by asset class types, sectors, sub-sectors, contractual cash flows/structure, and credit rating characteristics) and apply some form of matrix or other modelled pricing to determine an appropriate security value which represents their best estimate as to what a buyer in the marketplace would pay for a security in a current sale.

It is common industry practice to utilise pricing services as a source for determining the fair values of investments where the pricing services are able to obtain sufficient market corroborating information to allow them to produce a valuation at a reporting date. In addition, in the majority of cases, although a value may be obtained from a particular pricing service for a security or class of similar securities, these values are corroborated against values provided by other pricing services. While the Bank receives values for the majority of the investment securities it holds from pricing services, it is ultimately management’s responsibility to determine whether the values received and recorded in the financial statements are representative of appropriate fair value measurements.

Broker/dealer quotations are used to value investments with fixed maturities where prices are unavailable from pricing services due to factors specific to the security such as limited liquidity, lack of current transactions, or trades only taking place in privately negotiated transactions. These are considered Level 3 valuations, as significant inputs utilised by brokers may be difficult to corroborate with observable market data, or sufficient information regarding the specific inputs utilised by the broker was not available to support a Level 2 classification.

For disclosure purposes, HTM investments are fair valued using the same methods described above.

#### Loans

Variable rate loans re-price in response to changes in market rates and hence management estimates that the fair value of variable rate loans is not significantly different than their carrying amount. For significant fixed-rate loan exposures, fair value is estimated by discounting the future cash flows, using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, of such loans. Management includes the effects of any credit losses recorded against individual loans, which factors in a loan’s credit quality, as well as accrued interest in determining the fair value of loans.

#### Accrued interest

The carrying amounts of accrued interest receivable and payable are assumed to approximate their fair values given their short-term nature.

#### Deposits

The fair value of fixed-rate deposits has been estimated by discounting the contractual cash flows, using market interest rates offered at the balance sheet date for deposits of similar terms. The carrying amount of deposits with no stated maturity date is deemed to equate to the fair value.

#### Derivatives

Derivative contracts can be exchange traded or over-the-counter (“OTC”) derivative contracts and may include forward, swap and option contracts relating to interest rates or foreign currencies. Exchange-traded derivatives typically fall within Level 1 of the fair value hierarchy depending on whether they are deemed to be actively traded or not. OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources where an understanding of the inputs utilised in arriving at the valuations is obtained.

Where models are used, the selection of a particular model to value an OTC derivative depends upon the contractual terms and specific risks inherent in the instrument as well as the availability of pricing information in the market. The Bank generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, interest rate swaps and options, model inputs can generally be verified and model selection does not involve significant management judgment.

#### Goodwill

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

#### s. Impairment or Disposal of Long-Lived Assets

Potential impairment losses are initially assessed by comparing the carrying amount of an asset group to the sum of the undiscounted cash flows expected from its use and disposal. The impairment recognised is measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets that are to be disposed of other than by sale are classified and accounted for as held for use until the date of disposal or abandonment. Assets that meet certain criteria are classified as held for sale and are measured at the lower of their carrying amounts or fair value, less estimated costs to sell.



## Butterfield Bank (Cayman) Limited

### Notes to the Consolidated Financial Statements *(continued)*

*(In thousands of United States dollars)*

#### Note 2: Significant accounting policies *(continued)*

##### t. Credit Related Arrangements

In the normal course of business, the Bank enters into various commitments to meet the credit requirements of its customers. Such commitments, which are not included in the consolidated balance sheets, include:

- Commitments to extend credit which represent undertakings to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions;
- Standby letters of credit, which represent irrevocable obligations to make payments to third parties in the event that the customer is unable to meet its financial obligations; and
- Documentary and commercial letters of credit, related primarily to the import of goods into the Cayman Islands by customers, which represent agreements to honour drafts presented by third parties upon completion of specific activities.

These credit arrangements are subject to the Bank's normal credit standards and collateral is obtained where appropriate. The contractual amounts for these commitments set out in the table in **Note 12: Credit related arrangements, purchase agreements and commitments** represent the maximum payments the Bank would have to make should the contracts be fully drawn, the counterparty default, and any collateral held prove to be of no value. As many of these arrangements will expire or terminate without being drawn upon or are fully collateralised, the contractual amounts do not necessarily represent future cash requirements. The Bank does not carry any liability for these obligations.

##### u. Consolidated Statements of Cash Flows

For the purposes of the consolidated statements of cash flows, cash due from banks include cash on hand, cash items in the process of collection, amounts due from correspondent banks and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in fair value, and restricted cash included in short-term investments on the consolidated balance sheets.

##### v. New Accounting Pronouncements

The following accounting developments were issued during the year ended December 31, 2023 or are accounting standards pending adoption:

In November 2023, the Financial Accounting Standards Board ("FASB") published ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which requires public entities to disclose information about their reportable segments' significant expenses on an interim and annual basis. The ASU is effective for public entities with fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Bank has determined that this ASU will not have an effect on certain disclosures from the date of adoption.

In December 2023, the Financial Accounting Standards Board ("FASB") published ASU 2023-09, Income Taxes (Topic 740) Improvements to Income Tax Disclosures which is to enhance the transparency and decision usefulness of income tax disclosures. The ASU is effective for public entities with fiscal years beginning after December 15, 2024. Early adoption is permitted. The Bank has determined that this ASU will not have an effect on certain disclosures from the date of adoption.

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

(In thousands of United States dollars)

**Note 3: Cash due from banks**

	31 December 2023	31 December 2022
<b>Unrestricted</b>		
<b>Non-interest bearing</b>		
Cash and demand deposits with banks	33,726	35,070
<b>Interest bearing<sup>1</sup></b>		
Demand deposits with banks	60,973	67,214
Cash equivalents	621,373	500,867
Sub-total - Interest bearing	682,346	568,081
<b>Total cash due from banks</b>	<b>716,072</b>	<b>603,151</b>

<sup>1</sup> Interest bearing cash due from banks includes certain demand deposits with banks as at 31 December 2023 in the amount of \$53.0 million (2022: \$56.0 million) that are earning interest at a negligible rate.

**Note 4: Short term investments**

	31 December 2023	31 December 2022
<b>Unrestricted</b>		
<b>Interest earning</b>		
Maturing within three months	-	36,633
Maturing between six to twelve months	-	19,349
<b>Total unrestricted short term investments</b>	<b>-</b>	<b>55,982</b>
<b>Affected by drawing restrictions related to minimum reserve and derivative margin requirements</b>		
Interest earning demand deposits	9,183	7,984
<b>Total restricted cash included in short term investments</b>	<b>9,183</b>	<b>7,984</b>
<b>Total short term investments</b>	<b>9,183</b>	<b>63,966</b>

**Note 5: Investments in debt securities**

**Amortised Cost, Carrying Amount and Fair Value**

On the consolidated balance sheets, AFS investments are carried at fair value and HTM investments are carried at amortised cost.

	31 December 2023				31 December 2022			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount/ Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount/ Fair value
<b>Available for sale</b>								
US government and federal agencies	731,323	597	(62,276)	669,644	851,010	14	(83,866)	767,158
Asset-backed securities - Student loans	40	-	-	40	5,640	-	(14)	5,626
Residential mortgage-backed securities	3,990	-	(478)	3,512	4,335	-	(477)	3,858
<b>Total available for sale</b>	<b>735,353</b>	<b>597</b>	<b>(62,754)</b>	<b>673,196</b>	<b>860,985</b>	<b>14</b>	<b>(84,357)</b>	<b>776,642</b>

	31 December 2023				31 December 2022			
	Amortised cost/Carrying amount	Gross unrealised gains	Gross unrealised losses	Fair value	Amortised cost/Carrying amount	Gross unrealised gains	Gross unrealised losses	Fair value
<b>Held to maturity<sup>(1)</sup></b>								
US government and federal agencies	1,650,646	-	(232,955)	1,417,691	1,776,915	-	(258,067)	1,518,848
<b>Total held to maturity</b>	<b>1,650,646</b>	<b>-</b>	<b>(232,955)</b>	<b>1,417,691</b>	<b>1,776,915</b>	<b>-</b>	<b>(258,067)</b>	<b>1,518,848</b>

<sup>(1)</sup> For the periods ended 31 December 2023 and 31 December 2022 non-credit impairments recognised in AOCIL for HTM investments were nil.

## Butterfield Bank (Cayman) Limited

### Notes to the Consolidated Financial Statements (continued)

(In thousands of United States dollars)

#### Note 5: Investments in debt securities (continued)

##### Investments with unrealised loss positions

In the following tables, debt securities with unrealised losses that are not deemed to be credit impaired and for which an allowance for credit losses has not been recorded are categorised as being in a loss position for "less than 12 months" or "12 months or more" based on the point in time that the fair value most recently declined below the amortised cost basis.

31 December 2023	Less than 12 months		12 months or more		Total fair value	Total gross unrealised losses
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses		
<b>Available for sale</b>						
US government and federal agencies	5,275	(69)	634,922	(62,207)	640,197	(62,276)
Asset-backed securities - Student loans	-	-	40	-	40	-
Residential mortgage-backed securities	-	-	3,512	(478)	3,512	(478)
<b>Total available for sale securities with unrealised losses</b>	<b>5,275</b>	<b>(69)</b>	<b>638,474</b>	<b>(62,685)</b>	<b>643,749</b>	<b>(62,754)</b>
<b>Held to maturity</b>						
US government and federal agencies	-	-	1,417,691	(232,955)	1,417,691	(232,955)
<b>Total held to maturity securities with unrealised losses</b>	<b>-</b>	<b>-</b>	<b>1,417,691</b>	<b>(232,955)</b>	<b>1,417,691</b>	<b>(232,955)</b>

31 December 2022	Less than 12 months		12 months or more		Total fair value	Total gross unrealised losses
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses		
<b>Available for sale</b>						
US government and federal agencies	331,088	(33,174)	431,909	(50,692)	762,997	(83,866)
Asset-backed securities - Student loans	-	-	5,626	(14)	5,626	(14)
Residential mortgage-backed securities	3,858	(477)	-	-	3,858	(477)
<b>Total available for sale securities with unrealised losses</b>	<b>334,946</b>	<b>(33,651)</b>	<b>437,535</b>	<b>(50,706)</b>	<b>772,481</b>	<b>(84,357)</b>
<b>Held to maturity</b>						
US government and federal agencies	614,966	(59,508)	903,882	(198,559)	1,518,848	(258,067)
<b>Total held to maturity securities with unrealised losses</b>	<b>614,966</b>	<b>(59,508)</b>	<b>903,882</b>	<b>(198,559)</b>	<b>1,518,848</b>	<b>(258,067)</b>

The Bank does not believe that the AFS debt securities that were in an unrealised loss position as of 31 December 2023 comprising 68 securities representing 95.63% of the AFS portfolio's carrying value (2022: 67 and 99.46%), represent credit losses. Total gross unrealised AFS losses were 9.75% of the fair value of the affected securities (2022: 10.92%).

The Bank's HTM debt securities are comprised of US government and federal agencies securities and have a zero credit loss assumption under the CECL model. There were 98 HTM debt securities in an unrealised loss position as of 31 December 2023 (2022: 99). These securities represent 100% of the HTM portfolio's carrying value as at 31 December 2023 (2022: 100%). Total gross unrealised HTM losses were 16.43% (2022: 16.99%) of the fair value of affected securities at 31 December 2023.

Management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery of the cost of these securities. Unrealised losses were attributable primarily to changes in market interest rates, relative to when the investment securities were purchased, and not due to a decrease in the credit quality of the investment securities. The issuers continue to make timely principal and interest payments on the securities. The following describes the processes for identifying credit impairment in security types with the most significant unrealised losses as shown in the preceding tables.

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

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

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

(In thousands of United States dollars)

**Note 5: Investments in debt securities (continued)**

**Investments with unrealised loss positions (continued)**

Investments in **Residential mortgage-backed securities** relate to 4 securities (2022: 4) which are rated AAA and possess similar significant credit enhancement as described above. No credit losses were recognised on these securities as the weighted average credit support and the weighted average loan-to-value ratios range from 19% to 49% and 46% to 54%, respectively. Current credit support is significantly greater than any delinquencies experienced on the underlying mortgages.

**Investment maturities**

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

31 December 2023	Remaining term to maturity						Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	No specific or single maturity	
<b>Available for sale</b>							
US government and federal agencies	4,963	116,923	183,990	-	-	363,768	669,644
Asset-backed securities - Student loans	-	-	-	-	-	40	40
Residential mortgage-backed securities	-	-	-	-	-	3,512	3,512
<b>Total available for sale</b>	<b>4,963</b>	<b>116,923</b>	<b>183,990</b>	<b>-</b>	<b>-</b>	<b>367,320</b>	<b>673,196</b>
<b>Held to maturity</b>							
US government and federal agencies	-	-	-	-	-	1,650,646	1,650,646
<b>Total held to maturity securities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,650,646</b>	<b>1,650,646</b>
<b>Total investments</b>	<b>4,963</b>	<b>116,923</b>	<b>183,990</b>	<b>-</b>	<b>-</b>	<b>2,017,966</b>	<b>2,323,842</b>
<b>Total by currency</b>							
US dollars	4,963	116,923	183,990	-	-	2,017,966	2,323,842
<b>Total investments</b>	<b>4,963</b>	<b>116,923</b>	<b>183,990</b>	<b>-</b>	<b>-</b>	<b>2,017,966</b>	<b>2,323,842</b>

31 December 2022	Remaining term to maturity						Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	No specific or single maturity	
<b>Available for sale</b>							
US government and federal agencies	-	96,980	295,902	-	-	374,276	767,158
Asset-backed securities - Student loans	-	-	-	-	-	5,626	5,626
Residential mortgage-backed securities	-	-	-	-	-	3,858	3,858
<b>Total available for sale</b>	<b>-</b>	<b>96,980</b>	<b>295,902</b>	<b>-</b>	<b>-</b>	<b>383,760</b>	<b>776,642</b>
<b>Held to maturity</b>							
US government and federal agencies	-	-	-	-	-	1,776,915	1,776,915
<b>Total held to maturity securities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,776,915</b>	<b>1,776,915</b>
<b>Total investments</b>	<b>-</b>	<b>96,980</b>	<b>295,902</b>	<b>-</b>	<b>-</b>	<b>2,160,675</b>	<b>2,553,557</b>
<b>Total by currency</b>							
US dollars	-	96,980	295,902	-	-	2,160,675	2,553,557
<b>Total investments</b>	<b>-</b>	<b>96,980</b>	<b>295,902</b>	<b>-</b>	<b>-</b>	<b>2,160,675</b>	<b>2,553,557</b>

## Butterfield Bank (Cayman) Limited

### Notes to the Consolidated Financial Statements (continued)

(In thousands of United States dollars)

#### Note 5: Investments in debt securities (continued)

##### Sale Proceeds and Realised Gains and Losses of AFS Securities

AFS securities sold	31 December 2023				31 December 2022			
	Sale proceeds	Gross realised gains	Gross realised (losses)	Transfers to HTM <sup>(1)</sup>	Sale proceeds	Gross realised gains	Gross realised (losses)	Transfers to HTM
US government and federal agencies	-	-	-	-	-	-	-	633,174
Non-US government debt securities	-	-	-	-	-	-	-	-
Asset-backed securities - Student loans	5,586	-	(14)	-	7,631	-	(19)	-
<b>Total</b>	<b>5,586</b>	<b>-</b>	<b>(14)</b>	<b>-</b>	<b>7,631</b>	<b>-</b>	<b>(19)</b>	<b>633,174</b>

<sup>(1)</sup> During the year ended 31 December 2022, certain investments were transferred out of the AFS categorisation and into HTM. The transfers were recorded at fair value of the securities on the date of transfer. The related unrealised loss of \$59.9M that was recorded in AOCIL will be accreted over the remaining life of the transferred investments using the effective interest rate method.

#### Note 6: Loans and participations receivable

The principal means of securing residential mortgages, personal, credit card and business loans are entitlements over assets and guarantees. Mortgage loans are generally repayable over periods of up to thirty five years and personal and business loans are generally repayable over terms not exceeding twenty years. Government loans are repayable over a variety of terms which are individually negotiated. Amounts owing on credit cards are revolving and typically a minimum amount is due within 30 days from billing. The effective yield on total loans as at 31 December 2023 is 6.98% (2022: 6.62%). The interest receivable on total loans as at 31 December 2023 is \$6.1 million (2022: \$3.8 million). The interest receivable is included in Accrued interest on the consolidated balance sheets and is excluded from all loan amounts disclosed in this note.

##### Loans' Credit Quality

The four credit quality classifications set out in the following tables are defined below and describe the credit quality of the Bank's lending portfolio. These classifications each encompass a range of more granular internal credit rating grades. Loans' internal credit ratings are assigned by the Bank's customer relationship managers as well as members of the Bank's jurisdictional and Group Credit Committees. The borrowers' financial condition is documented at loan origination and maintained periodically thereafter at a frequency which can be up to monthly for certain loans. The loans' performing status, as well as current economic trends, are continuously monitored. The Bank's jurisdictional and Group Credit Committees meet on a monthly basis. The Bank also has a Group Provisions and Impairments Committee which is responsible for approving significant provisions and other impairment charges.

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

A **special mention** loan shall mean a loan under close monitoring by the Bank's management on at least a quarterly basis. Loans in this category are currently protected and still performing, but are potentially weak and present an undue credit risk exposure, but not to the point of justifying a classification of substandard.

A **substandard** loan shall mean a loan whose evident unreliability makes repayment doubtful and there is a threat of loss to the Bank unless the unreliability is averted. Loans in this category are under close monitoring by the Bank's management on at least a quarterly basis.

A **non-accrual** loan shall mean either management is of the opinion full payment of principal or interest is in doubt or when principal or interest is 90 days past due unless it is a residential mortgage loan which is well secured and collection efforts are reasonably expected to result in amounts due. Loans in this category are under close monitoring by the Bank's management on at least a quarterly basis.

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

(In thousands of United States dollars)

**Note 6: Loans and participations receivable (continued)**

The amortised cost of loans by credit quality classifications and allowance for expected credit losses by class of loans is as follows:

31 December 2023	Pass	Special Mention	Substandard	Non- accrual	Total amortised cost	Allowance for expected credit losses	Total net loans
<b>Commercial loans</b>							
Banks	-	-	-	-	-	-	-
Governments	251,659	-	-	-	251,659	(697)	250,962
Commercial and industrial	53,297	-	758	-	54,055	(91)	53,964
Commercial overdrafts	8,514	-	-	-	8,514	(74)	8,440
<b>Total commercial loans</b>	<b>313,470</b>	<b>-</b>	<b>758</b>	<b>-</b>	<b>314,228</b>	<b>(862)</b>	<b>313,366</b>
<b>Commercial real estate loans</b>							
Commercial mortgage	77,171	-	249	-	77,420	(127)	77,293
Construction	10,981	-	-	-	10,981	-	10,981
<b>Total commercial real estate loans</b>	<b>88,152</b>	<b>-</b>	<b>249</b>	<b>-</b>	<b>88,401</b>	<b>(127)</b>	<b>88,274</b>
<b>Consumer loans</b>							
Automobile financing	7,398	-	-	-	7,398	(8)	7,390
Credit card	32,274	-	-	-	32,274	(578)	31,696
Overdrafts	15,601	-	-	-	15,601	(338)	15,263
Other consumer <sup>1</sup>	15,853	-	-	117	15,970	(51)	15,919
<b>Total consumer loans</b>	<b>71,126</b>	<b>-</b>	<b>-</b>	<b>117</b>	<b>71,243</b>	<b>(975)</b>	<b>70,268</b>
<b>Residential mortgage loans</b>	<b>729,784</b>	<b>-</b>	<b>4,186</b>	<b>1,423</b>	<b>735,393</b>	<b>(193)</b>	<b>735,200</b>
<b>Total gross recorded loans</b>	<b>1,202,532</b>	<b>-</b>	<b>5,193</b>	<b>1,540</b>	<b>1,209,265</b>	<b>(2,157)</b>	<b>1,207,108</b>

<sup>1</sup> Other consumer loans' amortised cost comprises \$0.7 million of cash-secured lending and \$14.2 million of lending secured by buildings in construction or other collateral.

31 December 2022	Pass	Special Mention	Substandard	Non- accrual	Total amortised cost	Allowance for expected credit losses	Total net loans
<b>Commercial loans</b>							
Banks	30,165	-	-	-	30,165	-	30,165
Governments	234,893	-	-	-	234,893	(1,088)	233,805
Commercial and industrial	35,291	-	796	-	36,087	(130)	35,957
Commercial overdrafts	4,723	-	-	-	4,723	(15)	4,708
<b>Total commercial loans</b>	<b>305,072</b>	<b>-</b>	<b>796</b>	<b>-</b>	<b>305,868</b>	<b>(1,233)</b>	<b>304,635</b>
<b>Commercial real estate loans</b>							
Commercial mortgage	79,307	-	292	-	79,599	(100)	79,499
Construction	7,474	-	-	-	7,474	-	7,474
<b>Total commercial real estate loans</b>	<b>86,781</b>	<b>-</b>	<b>292</b>	<b>-</b>	<b>87,073</b>	<b>(100)</b>	<b>86,973</b>
<b>Consumer loans</b>							
Automobile financing	7,959	-	-	-	7,959	(7)	7,952
Credit card	27,943	-	-	-	27,943	(401)	27,542
Overdrafts	9,415	-	-	-	9,415	(263)	9,152
Other consumer <sup>1</sup>	22,952	-	-	-	22,952	(52)	22,900
<b>Total consumer loans</b>	<b>68,269</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>68,269</b>	<b>(723)</b>	<b>67,546</b>
<b>Residential mortgage loans</b>	<b>805,193</b>	<b>142</b>	<b>4,663</b>	<b>924</b>	<b>810,922</b>	<b>(276)</b>	<b>810,646</b>
<b>Total gross recorded loans</b>	<b>1,265,315</b>	<b>142</b>	<b>5,751</b>	<b>924</b>	<b>1,272,132</b>	<b>(2,332)</b>	<b>1,269,800</b>

<sup>1</sup> Other consumer loans' amortised cost comprises \$0.9 million of cash-secured lending and \$20.1 million of lending secured by buildings in construction or other collateral.

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

(In thousands of United States dollars)

**Note 6: Loans and participations receivable (continued)**

Based on the most recent analysis performed, the amortised cost of loans by year of origination and credit quality indicator is as follows:

31 December 2023	Pass	Special Mention	Substandard	Non- accrual	Total amortised cost
<b>Loans by origination year</b>					
2023	153,567	-	-	-	153,567
2022	344,758	-	-	-	344,758
2021	183,839	-	-	-	183,839
2020	73,012	-	-	-	73,012
2019	198,990	-	272	-	199,262
Prior	191,977	-	4,921	1,540	198,438
<b>Overdrafts and credit cards</b>	<b>56,389</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>56,389</b>
<b>Total amortised cost</b>	<b>1,202,532</b>	<b>-</b>	<b>5,193</b>	<b>1,540</b>	<b>1,209,265</b>

31 December 2022	Pass	Special Mention	Substandard	Non- accrual	Total amortised cost
<b>Loans by origination year</b>					
2022	397,387	-	-	-	397,387
2021	244,915	-	-	-	244,915
2020	106,609	142	-	-	106,751
2019	221,745	-	277	-	222,022
2018	62,269	-	102	505	62,876
Prior	190,310	-	5,372	419	196,101
<b>Overdrafts and credit cards</b>	<b>42,080</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>42,080</b>
<b>Total amortised cost</b>	<b>1,265,315</b>	<b>142</b>	<b>5,751</b>	<b>924</b>	<b>1,272,132</b>

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

(In thousands of United States dollars)

**Note 6: Loans and participations receivable (continued)**

**Age analysis of past due loans (including non-accrual loans)**

The following table summarises the past due status of the loans. The aging of past due amounts are determined based on the contractual delinquency status of payments under the loan and this aging may be affected by the timing of the last business day at period end. Loans less than 30 days past due are included in Current.

31 December 2023	30 – 59 days	60 – 89 days	90 days or more	Total past due loans	Total Current	Total amortised cost
<b>Commercial loans</b>						
Banks	-	-	-	-	-	-
Governments	-	-	-	-	251,659	251,659
Commercial and industrial	-	-	-	-	54,055	54,055
Commercial overdrafts	-	-	-	-	8,514	8,514
<b>Total commercial loans</b>	-	-	-	-	314,228	314,228
<b>Commercial real estate loans</b>						
Commercial mortgage	-	354	-	354	77,066	77,420
Construction	-	-	-	-	10,981	10,981
<b>Total commercial real estate loans</b>	-	354	-	354	88,047	88,401
<b>Consumer loans</b>						
Automobile financing	58	-	-	58	7,340	7,398
Credit card	-	-	-	-	32,274	32,274
Overdrafts	-	-	-	-	15,601	15,601
Other consumer	-	2	-	2	15,968	15,970
<b>Total consumer loans</b>	58	2	-	60	71,183	71,243
<b>Residential mortgage loans</b>	1,494	1,888	903	4,285	731,108	735,393
<b>Total amortised cost</b>	1,552	2,244	903	4,699	1,204,566	1,209,265

31 December 2022	30 – 59 days	60 – 89 days	90 days or more	Total past due loans	Total Current	Total amortised cost
<b>Commercial loans</b>						
Banks	-	-	-	-	30,165	30,165
Governments	-	-	-	-	234,893	234,893
Commercial and industrial	-	-	-	-	36,087	36,087
Commercial overdrafts	-	-	-	-	4,723	4,723
<b>Total commercial loans</b>	-	-	-	-	305,868	305,868
<b>Commercial real estate loans</b>						
Commercial mortgage	363	-	-	363	79,236	79,599
Construction	-	-	-	-	7,474	7,474
<b>Total commercial real estate loans</b>	363	-	-	363	86,710	87,073
<b>Consumer loans</b>						
Automobile financing	29	5	-	34	7,925	7,959
Credit card	-	-	-	-	27,943	27,943
Overdrafts	-	-	-	-	9,415	9,415
Other consumer	167	16	-	183	22,769	22,952
<b>Total consumer loans</b>	196	21	-	217	68,052	68,269
<b>Residential mortgage loans</b>	2,661	654	712	4,027	806,895	810,922
<b>Total amortised cost</b>	3,220	675	712	4,607	1,267,525	1,272,132



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

(In thousands of United States dollars)

**Note 6: Loans and participations receivable (continued)**

**Changes in Allowances for Credit Losses**

The decrease in the provision for credit losses during the year ended 31 December 2023 was primarily attributable to net loan paydowns and changes in macroeconomic factors, such as GDP forecasts. As per the Bank's accounting policy, as disclosed in Note 2, the Bank continuously collects and maintains attributes related to financial instruments within the scope of CECL, including current conditions, and reasonable and supportable assumptions about future economic conditions.

Loan allowances	31 December 2023				Total
	Commercial	Commercial real estate	Consumer	Residential mortgage	
<b>Allowances at beginning of period</b>	1,233	100	723	276	2,332
Provision increase (decrease)	(365)	27	414	(139)	(63)
Recoveries of previous write-offs	3	-	120	56	179
Charge-offs, by origination year					
2023	-	-	(4)	-	(4)
2022	-	-	(13)	-	(13)
2021	-	-	(3)	-	(3)
2020	-	-	-	-	-
2019	-	-	-	-	-
Prior	-	-	-	-	-
Overdrafts and credit cards	(9)	-	(262)	-	(271)
Other	-	-	-	-	-
<b>Allowances for expected credit losses at end of year</b>	<b>862</b>	<b>127</b>	<b>975</b>	<b>193</b>	<b>2,157</b>

Loan allowances	31 December 2022				Total
	Commercial	Commercial real estate	Consumer	Residential mortgage	
Allowances at beginning of period	737	71	665	402	1,875
Provision increase (decrease)	513	29	548	(210)	880
Recoveries of previous write-offs	1	-	187	84	272
Charge-offs	(18)	-	(677)	-	(695)
Other	-	-	-	-	-
Allowances for expected credit losses at end of year	1,233	100	723	276	2,332

**Collateral-dependent loans**

Management identified that the repayment of certain commercial and consumer mortgage loans is expected to be provided substantially through the operation or the sale of the collateral pledged to the Bank ("collateral-dependent loans"). The Bank believes that for the vast majority of loans identified as collateral-dependent, the sale of the collateral will be sufficient to fully reimburse the loan's carrying amount.

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

(In thousands of United States dollars)

**Note 6: Loans and participations receivable (continued)**

**Non-Performing Loans**

During the year ended 31 December 2023, no interest was recognised on non-accrual loans. Non-performing loans at 31 December 2023 include PCD loans, which have all been on non-accrual status since their acquisition. No credit deteriorated loans were purchased during the year. All loans which are defined as past due 90 days and are well secured continue to accrue interest.

	31 December 2023				31 December 2022			
	Non-accrual loans with an allowance	Non-accrual loans without an allowance	Accruing loans past due 90 days	Total non-performing loans	Non-accrual loans with an allowance	Non-accrual loans without an allowance	Accruing loans past due 90 days	Total non-performing loans
<b>Commercial loans</b>								
Governments	-	-	-	-	-	-	-	-
Commercial and industrial	-	-	-	-	-	-	-	-
<b>Total commercial loans</b>	-	-	-	-	-	-	-	-
<b>Commercial real estate loans</b>	-	-	-	-	-	-	-	-
<b>Consumer loans</b>								
Automobile financing	-	-	-	-	-	-	-	-
Credit cards	-	-	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-	-	-
Other consumer	2	115	-	117	-	-	-	-
<b>Total consumer loans</b>	2	115	-	117	-	-	-	-
<b>Residential mortgage loans</b>	-	1,423	214	1,637	687	237	-	924
<b>Total non-performing loans</b>	2	1,538	214	1,754	687	237	-	924

**Loan Modifications Made to Borrowers Experiencing Financial Difficulty (from January 1, 2023)**

The following table summarises the amortised cost basis of loan modifications made to borrowers experiencing financial difficulty during the year ended December 31, 2023.

December 31, 2023	Amortised cost basis			Weighted average financial effects		
	Term extension and interest rate reduction	Term extension	Interest rate reduction	In % of the class of loans	Months of term extension	Interest rate reduction
<b>Residential mortgage loans</b>	-	-	424	0.1%	-	1.9%

**Age analysis of modified loans**

As at December 31, 2023 all loans to borrowers experiencing financial difficulty for which a concession was granted in the preceding year are current.

**Modified loans that subsequently defaulted**

As at 31 December 2023, no loans to borrowers experiencing financial difficulty for which a concession was granted in the preceding year had a payment default.

## Butterfield Bank (Cayman) Limited

### Notes to the Consolidated Financial Statements (continued)

(In thousands of United States dollars)

#### Note 6: Loans and participations receivable (continued)

##### Loans Modified in a TDR (prior to January 1, 2023)

As at 31 December 2022, the Bank has Nil loans that were modified in a TDR during the preceding 12 months that subsequently defaulted (2022: Nil).

TDRs entered into during the period (prior to January 1, 2023)	31 December 2022			
	Number of contracts	Pre-modification recorded loans	Modification: interest capitalisation	Post-modification recorded loans
Residential mortgage loans	-	-	-	-

TDRs outstanding (prior to January 1, 2023)	31 December 2022	
	Accrual	Non-accrual
Commercial loans	796	-
Commercial real estate loans	292	-
Residential mortgage loans	3,487	-
<b>Total loans modified in a TDR</b>	<b>4,575</b>	<b>-</b>

#### Note 7: Credit risk concentrations

Concentrations of credit risk in the lending and off-balance sheet credit related arrangements portfolios arise when a number of customers are engaged in similar business activities, are in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. The Bank regularly monitors various segments of its credit risk portfolio to assess potential concentrations of risks and to obtain collateral when deemed necessary. In the Bank's commercial portfolio, risk concentrations are evaluated primarily by industry and geographic region of loan origination. In the consumer portfolio, concentrations are primarily evaluated by products. Credit exposures include loans, guarantees and acceptances, letters of credit and commitments for undrawn lines of credit. Unconditionally cancellable credit cards and overdrafts lines of credit are excluded from the tables below.

The following table summarises the credit exposure of the Bank by geographic region. The exposure amounts disclosed below do not include accrued interest, long-term investments, other assets and other liabilities and are gross of allowances for credit losses and gross of collateral held. The credit risk concentration for investments is disclosed in Note 5: Investments.

Geographic region	31 December 2023				31 December 2022			
	Cash due from banks and short term investments	Loans	Off-balance sheet	Total credit exposure	Cash due from banks and short term investments	Loans	Off-balance sheet	Total credit exposure
Bermuda	129,199	32,427	2,500	164,126	121,970	35,668	2,442	160,080
Canada	360,753	-	-	360,753	295,110	-	-	295,110
Cayman Islands	46,870	1,171,213	197,333	1,415,416	36,609	1,198,126	233,599	1,468,334
Guernsey	-	-	-	-	-	30,165	-	30,165
Ireland	6,471	-	-	6,471	12,705	-	-	12,705
Jersey	-	-	-	-	-	663	29,450	30,113
New Zealand	-	-	-	-	1	-	-	1
The Bahamas	-	5,625	-	5,625	-	7,510	-	7,510
United Kingdom	17,776	-	-	17,776	16,998	-	-	16,998
United States	164,186	-	-	164,186	183,724	-	-	183,724
<b>Total gross exposure</b>	<b>725,255</b>	<b>1,209,265</b>	<b>199,833</b>	<b>2,134,353</b>	<b>667,117</b>	<b>1,272,132</b>	<b>265,491</b>	<b>2,204,740</b>

At 31 December 2023, 30.34% of total cash due from banks and short term investments were placed with a single Canadian Financial Institution with an S&P rating of A-1+. At 31 December 2022, 25.40% of total cash due from banks and short term investments were placed with a single Canadian Financial Institution with an S&P rating of A-1+. Additionally, at 31 December 2022, 23.60% of total cash due from banks and short term investments were placed with a single United States Financial Institution with an S&P rating of A-1. At 31 December 2023, 13.79% (2022: 2.90%) of the total cash due from banks and short term investments were held in US Treasury Bills.

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

(In thousands of United States dollars)

**Note 8: Premises, equipment and computer software**

Category	31 December 2023			31 December 2022		
	Cost	Accumulated depreciation	Net carrying amount	Cost	Accumulated depreciation	Net carrying amount
Land	3,053	-	3,053	3,053	-	3,053
Buildings	45,983	(15,389)	30,594	45,538	(14,302)	31,236
Equipment	6,852	(4,863)	1,989	6,194	(4,284)	1,910
Computer hardware and software in use	23,222	(14,320)	8,902	46,896	(43,649)	3,247
<b>Total</b>	<b>79,110</b>	<b>(34,572)</b>	<b>44,538</b>	<b>101,681</b>	<b>(62,235)</b>	<b>39,446</b>

Depreciation	31 December 2023	31 December 2022
Buildings (included in property expense)	1,087	1,085
Equipment (included in property expense)	494	428
Computer hardware and software (included in technology & communications expense)	2,096	1,956
<b>Total depreciation charged to non-interest expense</b>	<b>3,677</b>	<b>3,469</b>

**Note 9: Intangible assets**

Goodwill	31 December 2023	31 December 2022
Goodwill	551	551

Customer relationship intangible assets	31 December 2023				31 December 2022			
	Cost	Accumulated impairment	Accumulated amortisation	Net carrying amount	Cost	Accumulated impairment	Accumulated amortisation	Net carrying amount
Customer relationships	16,517	-	(8,865)	7,652	16,517	-	(7,764)	8,753

Customer relationships are initially valued based on the present value of net cash flows expected to be derived solely from the recurring customer base existing as at the date of acquisition. Customer relationship intangible assets may or may not arise from contracts. There were no intangible asset impairment losses recognised for the year ended 31 December 2023 (2022: Nil). There were no acquisitions of customer intangible assets during the year ended 31 December 2023 (2022: Nil). During 2023, the amortisation expense amounted to \$1.1 million (2022: \$1.1 million). The estimated aggregate amortisation expense in total for the next five years (until 31 December 2028) is \$5.5 million.

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

(In thousands of United States dollars)

**Note 10: Deposits**

	31 December 2023	31 December 2022
<b>Demand deposits</b>		
Demand deposits - Non-interest bearing	1,022,425	1,198,022
Demand deposits - Interest bearing	1,950,112	2,446,352
<b>Sub-total - demand deposits</b>	<b>2,972,537</b>	<b>3,644,374</b>
<b>Term deposits having a denomination of less than \$100 thousand</b>		
Term deposits maturing within six months	28,313	22,971
Term deposits maturing between six to twelve months	6,110	4,921
Term deposits maturing after twelve months	388	480
<b>Sub-total - term deposits having a denomination of less than \$100 thousand</b>	<b>34,811</b>	<b>28,372</b>
<b>Term deposits having a denomination of \$100 thousand or more</b>		
Term deposits maturing within six months	952,811	555,861
Term deposits maturing between six to twelve months	41,777	57,546
Term deposits maturing after twelve months	4,116	9,389
<b>Sub-total - term deposits having a denomination of \$100 thousand or more</b>	<b>998,704</b>	<b>622,796</b>
<b>Total - term deposits<sup>1</sup></b>	<b>1,033,515</b>	<b>651,168</b>
<b>Total</b>	<b>4,006,052</b>	<b>4,295,542</b>

<sup>1</sup> As at 31 December 2023, \$0.1 million (2022: \$0.1 million) of the term deposits bear an interest rate of 0%.

The effective yield on interest bearing deposits at 31 December 2023 was 1.50% (2022: 0.57%).

## Butterfield Bank (Cayman) Limited

### Notes to the Consolidated Financial Statements (continued)

(In thousands of United States dollars)

#### Note 11: Employee benefit plan

	31 December 2023	31 December 2022
<b>Annual benefit expense</b>		
Defined contribution expense	1,646	1,343
<b>Total</b>	<b>1,646</b>	<b>1,343</b>

#### Note 12: Credit related arrangements and commitments

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

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

	31 December 2023	31 December 2022
<b>Outstanding unfunded commitments to extend credit</b>		
Commitments to extend credit	70,540	111,974
Documentary and commercial letters of credit	7,668	30,604
<b>Total unfunded commitments to extend credit</b>	<b>78,208</b>	<b>142,578</b>
<b>Allowance for credit losses</b>	<b>(21)</b>	<b>(18)</b>

#### Credit Related Arrangements

Standby letters of credit and letters of guarantee are issued at the request of a Bank customer in order to secure the customer's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Bank to pay the third party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the customer. Generally, the term of the standby letters of credit does not exceed one year, while the term of the letters of guarantee does not exceed four years. The types and amounts of collateral security held by the Bank for these standby letters of credit and letters of guarantee is generally represented by deposits with the Bank or a charge over assets held in mutual funds.

The Bank considers the fees collected in connection with the issuance of standby letters of credit and letters of guarantee to be representative of the fair value of its obligation undertaken in issuing the guarantee. In accordance with applicable accounting standards related to guarantees, the Bank defers fees collected in connection with the issuance of standby letters of credit and letters of guarantee. The fees are then recognised in income proportionately over the life of the credit agreements.

The following table presents the outstanding financial guarantees with contractual amounts representing credit risk as follows:

Outstanding financial guarantees	31 December 2023			31 December 2022		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	119,987	119,987	-	121,275	121,275	-
Letters of guarantee	1,638	1,638	-	1,638	1,638	-
<b>Total</b>	<b>121,625</b>	<b>121,625</b>	<b>-</b>	<b>122,913</b>	<b>122,913</b>	<b>-</b>

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

A guarantee is a contract that contingently requires the guarantor to make payments to a third party based on (i) changes in an underlying interest rate, foreign exchange rate or other variable, including the occurrence or non-occurrence of an event, that is related to an asset, liability or equity security held by the guaranteed party, (ii) an indemnification provided to the third party with the characteristics listed above, (iii) another entity's failure to perform under an obligating agreement, or (iv) another entity's failure to perform related to its indebtedness. As at 31 December 2023 the guarantees that the Bank provided to its customers and other third parties were standby letters of credit and letters of guarantee with a maximum potential amount of future payments of \$84.5 million (2022: \$86.4 million). The carrying value of these amounts on the 31 December 2023 consolidated balance sheets were \$Nil (2022: \$Nil).

The Bank has a facility by one of its custodians, whereby the Bank may offer up to \$200 million of standby letters of credit to its customers on a fully secured basis. Under the standard terms of the facility, the custodian has the right to set-off against securities held of 110% of the utilised facility. At 31 December 2023, \$119.8 million (2022: \$121.0 million) of standby letters of credit were issued under this facility.

#### Legal Proceedings

There are a number of actions and legal proceedings pending against the Bank and its subsidiaries which arose in the normal course of its business. Management, after reviewing all actions and proceedings, pending against or involving the Bank and its subsidiaries, considers that the resolution of these matters would not be material to the consolidated financial position of the Bank.

## Butterfield Bank (Cayman) Limited

### Notes to the Consolidated Financial Statements (continued)

(In thousands of United States dollars)

#### Note 13: Leases

The Bank enters into operating lease agreements either as the lessee or the lessor, primarily for office and parking spaces. The terms of the existing leases, including renewal options that are reasonably certain to be exercised, extend up to the year 2030. Certain lease payments will be adjusted during the related leases' term based on movements in the relevant consumer price index.

	Year ended 31 December 2023	Year ended 31 December 2022
<b>Lease Costs</b>		
Operating lease costs	566	730
Short-term lease costs	90	354
<b>Total lease cost</b>	<b>656</b>	<b>1,084</b>
<b>Operating lease income</b>	<b>-</b>	<b>-</b>
<b>Other information for the period</b>		
Right-of-use-assets related to new operating lease liabilities	-	133
Operating cash flows from operating leases	561	719
<b>Other information at end of period</b>	<b>As at 31 December 2023</b>	<b>As at 31 December 2022</b>
Operating leases right-of-use assets (included in other assets on the balance sheets)	1,094	1,567
Operating leases liabilities (included in other liabilities on the balance sheets)	1,180	1,648
Weighted average remaining lease term for operating leases (in years)	5.67	5.57
Weighted average discount rate for operating leases	5.25%	5.25%

#### Commitments

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

Year ending 31 December 2023	Operating Leases
2024	281
2025	202
2026	208
2027	214
2028	221
2029 & thereafter	247
<b>Total commitments</b>	<b>1,373</b>
Less: effect of discounting cash flows to their present value	(193)
<b>Operating lease liabilities</b>	<b>1,180</b>

#### Note 14: Interest income

##### Loans

The following table presents the components of loan interest income:

	31 December 2023	31 December 2022
Contractual interest earned on mortgages	59,701	40,902
Contractual interest earned on other loans	27,047	19,251
<b>Subtotal contractual interest earned</b>	<b>86,748</b>	<b>60,153</b>
Amortisation of loan origination fees (net of amortised costs)	814	903
<b>Total loan interest income</b>	<b>87,562</b>	<b>61,056</b>
<b>Balance of unamortised loan fees included in loans as at year end</b>	<b>3,445</b>	<b>3,789</b>

# Butterfield Bank (Cayman) Limited

## Notes to the Consolidated Financial Statements (continued)

(In thousands of United States dollars)

### Note 15: Accounting for derivative instruments and risk management

The Bank uses derivatives for risk management purposes and to meet the needs of its customers. The Bank's derivative contracts principally involve over-the-counter ("OTC") transactions that are privately negotiated between the Bank and the counterparty to the contract and include interest rate contracts and foreign exchange contracts. The Bank may pursue opportunities to reduce its exposure to credit losses on derivatives by entering into International Swaps and Derivatives Association master agreements ("ISDAs"). Depending on the nature of the derivative transaction, bilateral collateral arrangements may be used as well. When the Bank is engaged in more than one outstanding derivative transaction with the same counterparty, and also has a legally enforceable master netting agreement with that counterparty, the net marked to market exposure represents the netting of the positive and negative exposures with that counterparty. When there is a net negative exposure, the Bank regards its credit exposure to the counterparty as being zero. The net marked to market position with a particular counterparty represents a reasonable measure of credit risk when there is a legally enforceable master netting agreement between the Bank and that counterparty.

Certain of these agreements contain credit risk-related contingent features in which the counterparty has the option to accelerate cash settlement of the Bank's net derivative liabilities with the counterparty in the event the Bank's credit rating falls below specified levels or the liabilities reach certain levels.

All derivative financial instruments, whether designated as hedges or not, are recorded on the consolidated balance sheets at fair value within other assets or other liabilities. The accounting for changes in the fair value of a derivative in the consolidated statements of operations depends on whether the contract has been designated as a hedge and qualifies for hedge accounting.

#### Notional amounts

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

#### Fair value

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

#### Risk management derivatives

The Bank uses foreign currency derivative instruments to hedge its exposure to foreign currency risk. Certain hedging relationships are formally designated and qualify for hedge accounting as fair value or net investment hedges. Risk management derivatives comprise derivatives not formally designated as hedges as described below.

Derivatives not formally designated as hedges are entered into to manage the interest rate risk of fixed rate deposits and foreign exchange risk of the Bank's exposure. Changes in the fair value of derivative instruments not formally designated as hedges are recognised in foreign exchange income.

#### Client service derivatives

The Bank enters into foreign exchange contracts primarily to meet the foreign exchange needs of its customers. Foreign exchange contracts are agreements to exchange specific amounts of currencies at a future date at a specified rate of exchange. Changes in the fair value of client services derivative instruments are recognised in foreign exchange income.

The following table shows the aggregate notional amounts of derivative contracts outstanding and respective gross positive or negative fair value. Fair value of derivatives is recorded in the consolidated balance sheets in other assets and other liabilities. Gross positive fair values are recorded in other assets and gross negative fair values are recorded in other liabilities, subject to netting when master netting agreements are in place.

31 December 2023	Derivative Instrument	Number of contracts	Notional amounts	Gross Positive fair value	Gross Negative fair value	Net fair value
<b>Risk management derivatives</b>						
Derivatives not formally designated as hedging instruments	Currency swaps	2	64,090	3	(409)	(406)
<b>Client services derivatives</b>	Spot and forward foreign exchange	3	469	-	-	-
<b>Total derivative instruments</b>		<b>5</b>	<b>64,559</b>	<b>3</b>	<b>(409)</b>	<b>(406)</b>
31 December 2022	Derivative Instrument	Number of contracts	Notional amounts	Gross Positive fair value	Gross Negative fair value	Net fair value
<b>Risk management derivatives</b>						
Derivatives not formally designated as hedging instruments	Currency swaps	3	100,309	48	(383)	(335)
Client services derivatives	Spot and forward foreign exchange	-	-	-	-	-
<b>Total derivative instruments</b>		<b>3</b>	<b>100,309</b>	<b>48</b>	<b>(383)</b>	<b>(335)</b>



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

(In thousands of United States dollars)

**Note 15: Accounting for derivative instruments and risk management (continued)**

We manage derivative exposure by monitoring the credit risk associated with each counterparty using counterparty specific credit risk limits, using master netting arrangements where appropriate and obtaining collateral. The Bank elected to offset in the consolidated balance sheets certain gross derivative assets and liabilities subject to netting agreements.

The Bank also elected not to offset certain derivative assets or liabilities and all collaterals received or paid that the Bank or the counterparties could legally offset in the event of default. In the tables below, these positions are deducted from the net fair value presented in the consolidated balance sheets in order to present the net exposures.

The collateral values presented in the following table are limited to the related net derivative asset or liability balance and, accordingly, do not include excess collateral received or paid.

	Gross fair value recognised	Less: Offset applied under master netting agreements	Net fair value presented in the consolidated balance sheets	Less: derivative assets / liabilities not offset	Less: cash collateral received / paid	Exposures net of collateral
<b>31 December 2023</b>						
<b>Derivative assets</b>						
Spot and forward foreign exchange and currency swaps	3	(3)	-	-	-	-
<b>Derivative liabilities</b>						
Spot and forward foreign exchange and currency swaps	(409)	3	(406)	-	406	-
Net negative fair value			(406)			

	Gross fair value recognised	Less: Offset applied under master netting agreements	Net fair value presented in the consolidated balance sheets	Less: derivative assets / liabilities not offset	Less: cash collateral received / paid	Exposures net of collateral
<b>31 December 2022</b>						
<b>Derivative assets</b>						
Spot and forward foreign exchange and currency swaps	48	(48)	-	-	-	-
<b>Derivative liabilities</b>						
Spot and forward foreign exchange and currency swaps	(383)	48	(335)	-	335	-
Net positive fair value			(335)			

The following table shows the location and amount of gains recorded in the consolidated statements of operations on derivative instruments outstanding.

Derivative Instrument	Consolidated Statement of Operations line item	31 December 2023	31 December 2022
Forward foreign exchange	Foreign exchange revenue	(406)	(335)
<b>Total net gains (losses) recognised in net income</b>		<b>(406)</b>	<b>(335)</b>

## Butterfield Bank (Cayman) Limited

### Notes to the Consolidated Financial Statements (continued)

(In thousands of United States dollars)

#### Note 16: Fair value of financial instruments

The following table presents the financial assets and liabilities that are measured at fair value on a recurring basis. Management classifies these items based on the type of inputs used in their respective fair value determination as described in Note 2: Significant Accounting Policies.

Management reviews the price of each security monthly, comparing market values to expectations and to the prior month's price. Management's expectations are based upon knowledge of prevailing market conditions and developments relating to specific issuers and/or asset classes held in the investment portfolio. Where there are unusual or significant price movements, or where a certain asset class has performed out-of-line with expectations, the matter is reviewed by the Bank's Asset and Liability Committee.

Financial instruments in Level 1 include listed actively traded redeemable mutual funds and US Government Treasury notes.

Financial instruments in Level 2 include debt securities, mortgage-backed securities and other asset-backed securities, forward foreign exchange contracts, and mutual funds not actively traded.

Financial instruments in Level 3 include asset-backed securities for which the market is relatively illiquid and for which information about actual trading prices is not readily available.

During the year ended 31 December 2023, there were no transfers between Level 1 and Level 2 or Level 2 and Level 3. During the year ended 31 December 2022, there were no transfers between Level 1 and Level 2 and there was one transfer out of Level 3 and into Level 2 due to increased price observability.

Items that are recognised at fair value on a recurring basis

	31 December 2023				31 December 2022			
	Fair value			Total carrying amount / Fair value	Fair value			Total carrying amount / Fair value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
<b>Financial assets</b>								
Debt securities								
Available for sale								
US government and federal agencies	305,876	363,768	-	669,644	392,882	374,276	-	767,158
Asset-backed securities - Student loans	-	40	-	40	-	5,626	-	5,626
Residential mortgage-backed securities	-	3,512	-	3,512	-	3,858	-	3,858
<b>Total Available for sale</b>	<b>305,876</b>	<b>367,320</b>	<b>-</b>	<b>673,196</b>	<b>392,882</b>	<b>383,760</b>	<b>-</b>	<b>776,642</b>
Other assets – Derivatives	-	-	-	-	-	-	-	-
<b>Financial liabilities</b>								
Other liabilities – Derivatives	-	406	-	406	-	335	-	335

#### Level 3 Reconciliation

The Asset backed securities – Student loans in the above table is Federal Family Education Loan Program (“FFELP loans”) guaranteed student loan security. During the year ended 31 December 2022, this instrument was transferred to Level 2 due to increased price observability.

The table below summarises realised and unrealised gains and losses for Level 3 assets still held at the reporting date.

	31 December 2023	31 December 2022
	Available for sale investments	Available for sale investments
Carrying amount at beginning of year	-	13,174
Proceeds from sales, paydowns and maturities	-	(7,631)
Change in unrealised gains (losses) recognised in other comprehensive income	-	102
Realised and unrealised gains recognised in net income	-	(19)
Transfers out of Level 3 into Level 2 - AFS	-	(5,626)
<b>Carrying amount at end of year</b>	<b>-</b>	<b>-</b>
<b>Cumulative gain (loss) recognised in other comprehensive income</b>	<b>-</b>	<b>-</b>

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

(In thousands of United States dollars)

**Note 16: Fair value of financial instruments (continued)**

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

	31 December 2023				31 December 2022		
	Fair value hierarchy	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
<b>Financial assets</b>							
Cash due from banks	Level 1	716,072	716,072	-	603,151	603,151	-
Short term investments	Level 1	9,183	9,183	-	63,966	63,966	-
Investments held to maturity	Level 2	1,650,646	1,417,691	(232,955)	1,776,915	1,518,848	(258,067)
Loans, net of allowance for credit losses	Level 2	1,207,108	1,175,604	(31,504)	1,269,800	1,228,131	(41,669)
<b>Financial liabilities</b>							
Customer deposits							
Demand deposits	Level 2	2,972,537	2,972,537	-	3,644,374	3,644,374	-
Term deposits	Level 2	1,033,515	1,036,171	(2,656)	651,168	651,393	(225)

**Note 17: Interest rate risk**

The following table sets out the assets, liabilities and shareholder's equity on the date of the earlier of contractual maturity, expected maturity or repricing date. Use of this table to derive information about the Bank's interest rate risk position is limited by the fact that customers may choose to terminate their financial instruments at a date earlier than the contractual maturity or repricing date. Examples of this include fixed-rate mortgages, which are shown at contractual maturity but which may pre-pay earlier, and certain term deposits, which are shown at contractual maturity but which may be withdrawn before their contractual maturity subject to prepayment penalties and notice periods. Investments are shown based on remaining contractual maturities. The remaining contractual principal maturities for mortgage-backed securities (primarily US government agencies) do not consider prepayments. Remaining expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations before the underlying mortgages mature.

(in \$ millions)	31 December 2023						Non-interest bearing funds	Total
	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Earlier of contractual maturity or repricing date		
<b>Assets</b>								
Cash due from banks	682	-	-	-	-	34	716	
Short term investments	9	-	-	-	-	-	9	
Investments	5	27	101	219	1,972	-	2,324	
Loans	574	28	125	231	251	(2)	1,207	
Other assets	-	-	-	-	-	86	86	
<b>Total assets</b>	<b>1,270</b>	<b>55</b>	<b>226</b>	<b>450</b>	<b>2,223</b>	<b>118</b>	<b>4,342</b>	
<b>Liabilities and shareholder's equity</b>								
Shareholder's equity	-	-	-	-	-	284	284	
Demand deposits	1,950	-	-	-	-	1,022	2,972	
Term deposits	840	141	48	5	-	-	1,034	
Other liabilities	-	-	-	-	-	52	52	
<b>Total liabilities and shareholder's equity</b>	<b>2,790</b>	<b>141</b>	<b>48</b>	<b>5</b>	<b>-</b>	<b>1,358</b>	<b>4,342</b>	
Interest rate sensitivity gap	(1,520)	(86)	178	445	2,223	(1,240)	-	
Cumulative interest rate sensitivity gap	(1,520)	(1,606)	(1,428)	(983)	1,240	-	-	

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

(In thousands of United States dollars)

**Note 17: Interest rate risk (continued)**

(in \$ millions)	Earlier of contractual maturity or repricing date						Non-interest bearing funds	Total
	31 December 2022	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years		
<b>Assets</b>								
Cash due from banks	568	-	-	-	-	-	35	603
Short term investments	45	-	19	-	-	-	-	64
Investments	6	7	104	335	2,102	-	-	2,554
Loans	810	-	3	226	234	-	(3)	1,270
Other assets	-	-	-	-	-	-	75	75
<b>Total assets</b>	<b>1,429</b>	<b>7</b>	<b>126</b>	<b>561</b>	<b>2,336</b>	<b>-</b>	<b>107</b>	<b>4,566</b>
<b>Liabilities and shareholder's equity</b>								
Shareholder's equity	-	-	-	-	-	-	220	220
Demand deposits	2,446	-	-	-	-	-	1,198	3,644
Term deposits	504	75	63	10	-	-	-	652
Other liabilities	-	-	-	-	-	-	50	50
<b>Total liabilities and shareholder's equity</b>	<b>2,950</b>	<b>75</b>	<b>63</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>1,468</b>	<b>4,566</b>
Interest rate sensitivity gap	(1,521)	(68)	63	551	2,336	-	(1,361)	-
Cumulative interest rate sensitivity gap	(1,521)	(1,589)	(1,526)	(975)	1,361	-	-	-

**Note 18: Regulatory capital**

The Bank is subject to capital requirements of the Basel II framework as defined by the Cayman Islands Monetary Authority ("CIMA"), which came into effect on 1 January 2011 in the Cayman Islands. The measure of capital strength established by CIMA for the Bank is the risk weighted total capital ratio with a minimum of 11%. At 31 December 2023 the risk weighted capital ratio was 28.92% (2022: 23.97%).

# Butterfield Bank (Cayman) Limited

## Notes to the Consolidated Financial Statements (continued)

(In thousands of United States dollars)

### Note 19: Related party transactions

	31 December 2023	31 December 2022
<b>Consolidated Balance Sheet</b>		
<b>Assets</b>		
Cash due from banks – parent and affiliates	129,199	121,970
Loans to staff	36,949	36,790
Loan to affiliated entity	-	30,165
Accrued interest	56	325
Other assets - affiliates	871	1,149
<b>Liabilities</b>		
Customer deposits – affiliates and other related parties	93,381	79,688
Other liabilities – parent and affiliates	3,786	3,271
<b>Consolidated Statement of Operations</b>		
<b>Non-Interest Income</b>		
Asset Management	845	670
Other non-interest income	185	206
<b>Net-Interest Income</b>		
Interest Income – Deposits with banks	4,884	1,546
Interest Income – Loans to affiliated entities and other related parties	2,024	1,095
Interest Expense – Deposits with banks	(1,049)	(48)
<b>Non-Interest Expense</b>		
Salaries and staff benefits	925	915
Professional and outside services <sup>1</sup>	5,533	5,314
Other expenses	724	901

<sup>1</sup>Included within professional and outside services are intra-group charges from shared service centres and affiliates that represent manpower costs and other attributable overheads for services received.

The Bank provides, as a benefit to employees, loan facilities at preferred lending rates and banking services at reduced charges.

The Bank established a programme to offer loans with preferential rates to eligible Bank employees, subject to certain conditions set by the Bank and provided that such employees meet certain credit criteria. Loan payments are serviced by automatically debiting the employee's chequing or savings account with the Bank. Applications for loans are handled according to the same policies as those for the Bank's regular retail banking clients. The Bank's ability to offer preferential rates on loans depends upon a number of factors, including market conditions, regulations and the Bank's overall profitability. The Bank has the right to change its employee loan policy at any time after notifying participants. The interest rate benefit to employees for the year ended 31 December 2023 was \$1.1 million (2022: \$0.6 million).

Significant balances due and from affiliated entities other than the Parent Bank are included in Loans and Bank deposits. During the year 2019 the Bank lent GBP 25 million to its Guernsey affiliate, repayable in full by 15 July 2029 at a variable interest rate based on the Bank of England prime rate plus 2.5%, subject to a floor of 3.00%. The subordinated debt is treated as a loan of a capital nature for regulatory purposes. In the ordinary course of business, the Bank receives from and provides to its affiliated and other related corporations, normal banking services on terms similar to those offered to non-related parties. The non-interest expenses are comprised of share based compensation allocations from the Parent Bank along with shared professional services allocations and loan and collateral administration fees to parent and subsidiary of parent. During the year ended 31 December 2023 the subordinated debt was repaid in full.

#### Classified in Loans and participation receivables is:

Loan participation receivables from the Bank's Parent at 31 December 2023 totalled \$19.0 million (2022: \$20.3 million).

During 2019, the Bank assigned \$47.7 million of a loan it originated to its Guernsey based affiliate. The outstanding balance on that assigned loan was nil (2022: \$38.1 million) as at 31 December 2023.

### Note 20: Comparative Information

The consolidated statement of cash flows for the 2022 year was revised in order to present purchases and proceeds from maturities and sales of short term investments consistent with the current year presentation.

### Note 21: Subsequent events

The financial statements were available to be issued and subsequent events have been evaluated up to 16 February 2024.