Butterfield

Q2 2015

Financial Results for the Six Months Ended 30 June 2015

THE BANK OF N.T. BUTTERFIELD & SON LIMITED

The Bank of N.T. Butterfield & Son Limited
Unaudited Consolidated Balance Sheets

(In thousands of Bermuda dollars, except per share data)

	As at	
	30 June 2015	31 December 2014
Assets		
Cash and demand deposits with banks	**505,219**	482,286
Cash equivalents	**1,595,284**	1,581,025
Total cash and cash equivalents	**2,100,503**	2,063,311
Short-term investments	**380,210**	394,770
Debt and equity securities		
Trading	**7,196**	6,871
Available-for-sale	**2,860,414**	2,644,063
Held-to-maturity	**377,553**	338,177
Total investments in debt and equity securities	**3,245,163**	2,989,111
Loans, net of allowance for credit losses	**3,976,699**	4,019,128
Premises, equipment and computer software	**200,584**	215,123
Accrued interest	**17,870**	19,241
Goodwill	**25,055**	24,821
Intangible assets	**30,962**	33,041
Investments in affiliates	**12,427**	12,838
Other real estate owned	**15,885**	19,300
Other assets	**64,452**	67,756
Total assets	**10,069,810**	9,858,440
Liabilities		
Customer deposits		
Non-interest bearing	**1,797,744**	1,558,122
Interest bearing	**7,185,842**	7,073,549
Total customer deposits	**8,983,586**	8,631,671
Bank deposits	**17,345**	39,906
Total deposits	**9,000,931**	8,671,577
Employee future benefits	**118,609**	117,897
Accrued interest	**4,754**	4,754
Preference share dividends payable	**614**	655
Other liabilities	**88,881**	97,183
Total other liabilities	**212,858**	220,489
Subordinated capital	**117,000**	117,000
Total liabilities	**9,330,789**	9,009,066
Shareholders' equity		
Common share capital (BMD 0.01 par; authorised shares 26,000,000,000) issued and outstanding: 476,932,535 (2014: 550,023,138)	**4,769**	5,500
Preference share capital (USD 0.01 par; USD 1,000 liquidation preference) issued and outstanding: 182,863 (2014: 183,046)	**2**	2
Contingent value convertible preference share capital (USD 0.01 par) issued and outstanding: nil (2014: 6,909,397)	**-**	69
Additional paid-in capital	**1,224,816**	1,348,465
Accumulated deficit	**(376,320)**	(405,804)
Less: treasury common shares: 9,965,981 shares (2014: 12,770,604 shares)	**(17,648)**	(22,086)
Accumulated other comprehensive loss	**(96,598)**	(76,772)
Total shareholders' equity	**739,021**	849,374
Total liabilities and shareholders' equity	**10,069,810**	9,858,440

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

The Bank of N.T. Butterfield & Son Limited
Unaudited Consolidated Statements of Operations

(In thousands of Bermuda dollars, except per share data)

	For the three month period ended		For the six month period ended	
	30 June 2015	30 June 2014	**30 June 2015**	30 June 2014
Non-interest income				
Asset management	**4,632**	4,455	**8,941**	8,949
Banking	**8,243**	9,138	**16,558**	17,404
Foreign exchange revenue	**8,026**	7,202	**15,940**	14,813
Trust	**10,199**	10,352	**20,156**	18,029
Custody and other administration services	**2,488**	2,482	**4,910**	5,003
Other non-interest income	**960**	1,433	**2,178**	2,444
Total non-interest income	**34,548**	35,062	**68,683**	66,642
Interest income				
Loans	**46,570**	47,081	**92,575**	93,773
Investments	**17,454**	17,386	**34,922**	34,512
Deposits with banks	**1,527**	1,268	**3,220**	2,451
Total interest income	**65,551**	65,735	**130,717**	130,736
Interest expense				
Deposits	**4,881**	5,259	**9,884**	10,500
Subordinated capital	**1,387**	1,382	**2,771**	2,767
Securities sold under repurchase agreements	**8**	25	**8**	50
Total interest expense	**6,276**	6,666	**12,663**	13,317
Net interest income before provision for credit losses	**59,275**	59,069	**118,054**	117,419
Provision for credit losses	**(2,005)**	(3,142)	**(2,194)**	(6,616)
Net interest income after provision for credit losses	**57,270**	55,927	**115,860**	110,803
Net trading gains	**93**	333	**325**	527
Net realised gains (losses) on available-for-sale investments	**(3)**	8,744	**(269)**	8,744
Net realised / unrealised losses on other real estate owned	**(468)**	(181)	**(804)**	(191)
Gain on sale of premises and equipment	**-**	-	**189**	-
Net gain on sale of affiliates	**-**	254	**-**	254
Net other gains	**321**	54	**345**	1,109
Total other gains (losses)	**(57)**	9,204	**(214)**	10,443
Total net revenue	**91,761**	100,193	**184,329**	187,888
Non-interest expense				
Salaries and other employee benefits	**32,307**	33,425	**64,972**	64,199
Technology and communications	**13,876**	14,510	**27,741**	28,316
Property	**5,184**	6,091	**10,336**	12,059
Professional and outside services	**4,059**	8,647	**8,117**	13,000
Non-income taxes	**3,841**	3,953	**8,108**	8,031
Amortisation of intangible assets	**1,116**	1,148	**2,215**	2,023
Marketing	**1,073**	941	**1,958**	1,951
Other expenses	**3,668**	3,759	**7,211**	7,289
Total non-interest expense	**65,124**	72,474	**130,658**	136,868
Net income before income taxes	**26,637**	27,719	**53,671**	51,020
Income tax expense	**(211)**	(174)	**(417)**	(313)
Net income	**26,426**	27,545	**53,254**	50,707
Earnings per common share				
Basic earnings per share	**0.05**	0.04	**0.09**	0.08
Diluted earnings per share	**0.04**	0.04	**0.09**	0.08

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

The Bank of N.T. Butterfield & Son Limited
Unaudited Consolidated Statements of Comprehensive Income
(In thousands of Bermuda dollars)

	For the three month period ended		For the six month period ended	
	30 June 2015	30 June 2014	**30 June 2015**	30 June 2014
Net income	**26,426**	27,545	**53,254**	50,707
Other comprehensive income (loss), net of taxes				
Net change in unrealised gains (losses) on translation of net investment in foreign operations	**2,676**	1,017	**(335)**	1,177
Net change in unrealised gains (losses) on available-for-sale investments	**(32,878)**	18,155	**(18,306)**	35,782
Employee future benefits adjustments	**(1,121)**	(1,268)	**(1,185)**	(2,470)
Other comprehensive income (loss), net of taxes	**(31,323)**	17,904	**(19,826)**	34,489
Total comprehensive income (loss)	**(4,897)**	45,449	**33,428**	85,196

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

The Bank of N.T. Butterfield & Son Limited
Unaudited Consolidated Statements of Changes in Shareholders' Equity

	For the six month period ended			
	30 June 2015		30 June 2014	
	Number of shares	**In thousands of Bermuda dollars**	Number of shares	In thousands of Bermuda dollars
Common share capital issued and outstanding				
Balance at beginning of period	**550,023,138**	**5,500**	549,803,460	5,498
Conversion of contingent value preference shares	**6,909,397**	**69**	88,450	1
Retirement of shares	**(80,000,000)**	**(800)**	-	-
Balance at end of period	**476,932,535**	**4,769**	549,891,910	5,499
Preference shares				
Balance at beginning of period	**183,046**	**2**	183,606	2
Repurchase and cancellation of preference shares	**(183)**	**-**	(182)	-
Balance at end of period	**182,863**	**2**	183,424	2
Contingent value convertible preference shares				
Balance at beginning of period	**6,909,397**	**69**	7,129,075	71
Conversion to common shares	**(6,909,397)**	**(69)**	(88,450)	(1)
Balance at end of period	**-**	**-**	7,040,625	70
Additional paid-in capital				
Balance at beginning of period		**1,348,465**		1,344,755
Stock option plan expense		**3,752**		3,550
Share-based compensation settlements		**(7,990)**		(4,066)
Reduction of carrying value on repurchase of preference shares		**(183)**		(182)
Premium paid on repurchase of preference shares		**(28)**		(33)
Retirement of shares		**(119,200)**		-
Balance at end of period		**1,224,816**		1,344,024
Accumulated deficit				
Balance at beginning of period		**(405,804)**		(460,157)
Net income for period		**53,254**		50,707
Common share cash dividends declared and paid $0.03 per share (2014 $0.03 per share)		**(15,584)**		(16,521)
Cash dividends declared on preference shares		**(7,276)**		(7,343)
Preference shares guarantee fee		**(910)**		(913)
Balance at end of period		**(376,320)**		(434,227)
Treasury common shares				
Balance at beginning of period	**12,770,604**	**(22,086)**	8,310,421	(10,948)
Share-based settlement	**(110,586)**	**210**	-	-
Purchase of treasury shares	**2,042,125**	**(4,060)**	3,381,906	(6,673)
Share-based compensation settlements	**(4,736,162)**	**8,288**	(3,352,220)	4,504
Balance at end of period	**9,965,981**	**(17,648)**	8,340,107	(13,117)
Accumulated other comprehensive loss				
Balance at beginning of period		**(76,772)**		(76,660)
Other comprehensive income, net of taxes		**(19,826)**		34,489
Balance at end of period		**(96,598)**		(42,171)
Total shareholders' equity		**739,021**		860,080

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

The Bank of N.T. Butterfield & Son Limited
Unaudited Consolidated Statements of Cash Flows

(In thousands of Bermuda dollars)

	For the six month period ended	
	30 June 2015	30 June 2014
Cash flows from operating activities		
Net income	**53,254**	50,707
Adjustments to reconcile net income to operating cash flows		
Depreciation and amortisation	**26,455**	22,227
Decrease in carrying value of investments in affiliates	**(538)**	(153)
Share-based payments and settlements	**3,962**	3,550
Net realised losses (gains) on available-for-sale investments	**269**	(8,744)
Net realised / unrealised losses on other real estate owned	**804**	191
Gain on sale of premises and equipment	**(189)**	-
Net gain on sales of affiliates	**-**	(254)
Provision for credit losses	**2,194**	6,616
Changes in operating assets and liabilities		
Decrease in accrued interest receivable	**972**	1,397
Decrease (increase) in other assets	**7,192**	(4,733)
(Decrease) increase in accrued interest payable	**(53)**	872
(Decrease) increase in other liabilities and employee future benefits	**(9,750)**	6,406
	84,572	78,082
Net change in trading investments	**(356)**	39,190
Cash provided by operating activities from operations	**84,216**	117,272
Cash flows from investing activities		
Net decrease (increase) in short-term investments	**27,406**	(1,650)
Available-for-sale investments: proceeds from sale	**14,509**	-
Available-for-sale investments: proceeds from maturities and pay downs	**235,592**	328,837
Available-for-sale investments: purchases	**(504,914)**	(783,566)
Held-to-maturity investments: proceeds from maturities and pay downs	**10,346**	4,519
Held-to-maturity investments: purchases	**(50,283)**	-
Net decrease in loans	**49,264**	85,623
Net additions to premises, equipment and computer software	**(1,375)**	(3,729)
Proceeds from sale of other real estate owned	**3,246**	3,841
Net proceeds on sale of affiliate and dividends received	**949**	688
Purchase of subsidiary	**-**	(35,345)
Cash used in investing activities	**(215,260)**	(400,782)
Cash flows from financing activities		
Net increase in demand and term deposit liabilities	**322,362**	869,884
Net decrease in securities sold under agreement to repurchase	**-**	(35)
Repayment of subordinated capital	**-**	(90,000)
Common shares repurchased	**(124,060)**	(6,673)
Preference shares repurchased	**(211)**	(215)
Proceeds from stock option exercises	**299**	439
Cash dividends paid on common and contingent value convertible preference shares	**(15,584)**	(16,521)
Cash dividends paid on preference shares	**(7,317)**	(7,343)
Preference shares guarantee fee paid	**(910)**	(913)
Cash provided by financing activities	**174,579**	748,623
Net effect of exchange rates on cash and cash equivalents	**(6,343)**	4,235
Net increase in cash and cash equivalents	**37,192**	469,348
Cash and cash equivalents at beginning of period	**2,063,311**	1,730,472
Cash and cash equivalents at end of period	**2,100,503**	2,199,820
Non-cash item		
Transfer to other real estate owned	**634**	1,886

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

Note 1: Nature of business

The Bank of N.T. Butterfield & Son Limited ("Butterfield", "Bank" or the "Company") is incorporated under the laws of Bermuda and has a banking licence under the Bank and Deposit Companies Act, 1999 ("the Act"). Butterfield is regulated by the Bermuda Monetary Authority ("BMA"), which operates in accordance with Basel principles.

Butterfield is a full service community bank in Bermuda and Cayman and a provider of specialised wealth management services in all its jurisdictions. Services offered include retail, private and corporate banking, treasury, custody, asset management and personal and institutional trust services. The Bank provides such services from six jurisdictions: Bermuda, Cayman, Guernsey, Switzerland, The Bahamas and the United Kingdom. The Bank holds all applicable licences required in the jurisdictions in which it operates.

Note 2: Significant accounting policies

The accompanying unaudited interim consolidated financial statements of the Bank have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information and should be read in conjunction with the Bank's audited financial statements for the year ended 31 December 2014. To facilitate comparison of information across periods, certain reclassifications have been made to prior period amounts to conform to the current period's presentation.

In the opinion of Management, these unaudited interim consolidated financial statements reflect all adjustments (consisting principally of normal recurring accruals) considered necessary for a fair presentation of the Bank's financial position and results of operations as at the end of and for the periods presented. The Bank's results for interim periods are not necessarily indicative of results for the full year.

The preparation of financial statements in conformity with US GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While Management believes that the amounts included in the unaudited interim consolidated financial statements reflect its best estimates and assumptions, actual results could differ from those estimates. The Bank's principal estimates include:

- Allowance for credit losses
- Fair value and impairment of financial instruments
- Impairment of long-lived assets
- Impairment of goodwill
- Employee future benefits
- Share-based payments

The following accounting developments were issued during the six month period ended 30 June 2015:

In February 2015, the Financial Accounting Standards Board ("FASB") published Accounting Standards Update No. 2015-02 Consolidation (Topic 810) which provides amendments to the current consolidation analysis which affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to revaluation under the revised consolidation model. In specific, the amendments: modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; eliminate the presumption that a general partner should consolidate a limited partnership; affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and provide a scope exception for entities required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The update is effective for public business entities for annual periods, and interim periods within those fiscal years, beginning after 15 December 2015. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance is not expected to have an impact on the Bank's consolidated financial position or results of operations.

In April 2015, FASB published Accounting Standards Update No. 2015-03 Interest - Imputation of Interest (Subtopic 835-30) which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The update is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after 15 December 2015. Early adoption is permitted for financial statements that have not been previously issued. The adoption of this guidance is not expected to have an impact on the Bank's consolidated financial position.

In April 2015, FASB published Accounting Standards Update No. 2015-05 Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) to provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If not, the arrangement should be accounted for as a service contract. The update is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after 15 December 2015. Early adoption is permitted. The Bank is assessing the impact of the adoption of this guidance.

In April 2015, FASB published Accounting Standards Update No. 2015-07 Fair Value Measurement (Topic 820) which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Current US GAAP requires that investments for which fair value is measured at net asset value (or its equivalent) using the practical expedient in Topic 820 be categorized within the fair value hierarchy using criteria that differs from the criteria used to categorize other fair value measurements within the hierarchy. Under the amendments in this update, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy. The update is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after 15 December 2015 and should be applied retrospectively to all periods presented. Early application is permitted. The Bank is assessing the impact of the adoption of this guidance.

The Bank of N.T. Butterfield & Son Limited
Notes to the Unaudited Consolidated Financial Statements
(In thousands of Bermuda dollars, unless otherwise stated)

Note 3: Cash and cash equivalents

	30 June 2015			31 December 2014		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Non-interest earning						
Cash and demand deposits	26,155	73,889	100,044	23,609	116,056	139,665
Interest earning						
Demand deposits	174,330	230,845	405,175	203,572	139,049	342,621
Cash equivalents	715,473	879,811	1,595,284	469,388	1,111,637	1,581,025
Sub-total - Interest earning	889,803	1,110,656	2,000,459	672,960	1,250,686	1,923,646
Total cash and cash equivalents	915,958	1,184,545	2,100,503	696,569	1,366,742	2,063,311

Note 4: Short-term investments

	30 June 2015			31 December 2014		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted term deposits, certificate of deposits and treasury bills						
Maturing within three months	-	149,622	149,622	-	144,632	144,632
Maturing between three to six months	-	210,029	210,029	-	223,563	223,563
Maturing between six to twelve months	-	3,656	3,656	-	15,694	15,694
Total unrestricted short-term investments	-	363,307	363,307	-	383,889	383,889
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Interest earning demand deposits	15,485	1,418	16,903	9,141	1,740	10,881
Total short-term investments	15,485	364,725	380,210	9,141	385,629	394,770

Note 5: Investments

Amortised Cost, Carrying Amount and Fair Value

Trading and Available-for-sale investments are carried at fair value on the consolidated balance sheets. Held-to-maturity investments are carried at amortised cost on the consolidated balance sheets.

	30 June 2015				31 December 2014			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Fair value
Trading								
Mutual funds	6,778	1,140	(722)	7,196	6,778	1,037	(944)	6,871
Total trading	6,778	1,140	(722)	7,196	6,778	1,037	(944)	6,871
Available-for-sale								
Certificates of deposit	-	-	-	-	37,724	19	-	37,743
US government and federal agencies	2,208,170	14,615	(23,277)	2,199,508	1,881,728	17,140	(10,998)	1,887,870
Debt securities issued by non-US governments	37,528	390	-	37,918	38,254	196	(125)	38,325
Corporate debt securities	360,161	6,777	(1,288)	365,650	391,059	9,393	(1,163)	399,289
Asset-backed securities - Student loans	54,599	-	(1,252)	53,347	66,136	-	(1,313)	64,823
Commercial mortgage-backed securities	153,632	30	(3,419)	150,243	154,211	33	(3,075)	151,169
Residential mortgage-backed securities - Prime	54,845	-	(1,113)	53,732	65,167	264	(602)	64,829
Equity securities	16	-	-	16	15	-	-	15
Total available-for-sale	2,868,951	21,812	(30,349)	2,860,414	2,634,294	27,045	(17,276)	2,644,063
Held-to-maturity[1]								
US government and federal agencies	377,553	2,912	(2,536)	377,929	338,177	6,330	(518)	343,989
Total held-to-maturity	377,553	2,912	(2,536)	377,929	338,177	6,330	(518)	343,989

[1] For the periods ended 30 June 2015 and 31 December 2014, non-credit impairments recognised in accumulated other comprehensive loss ("AOCL") for held-to-maturity ("HTM") investments were $nil.

(In thousands of Bermuda dollars, unless otherwise stated)

Pledged Investments

The Bank pledges certain US government and federal agency investment securities as follows:

	30 June 2015		31 December 2014	
	Amortised cost	**Fair value**	Amortised cost	Fair value
Classified as available-for-sale and pledged against:				
Bank deposit products where the secured party does not have the right to sell or repledge the collateral	**548,153**	**543,144**	381,434	383,665
Classified as held-to-maturity and pledged against:				
Bank deposit products where the secured party does not have the right to sell or repledge the collateral	**106,945**	**107,103**	107,837	110,175

Unrealised Loss Positions

The following tables show the fair value and gross unrealised losses of the Bank's available-for-sale ("AFS") and HTM investments with unrealised losses that are not deemed to be other-than-temporary-impairment ("OTTI"), aggregated by investment category and length of time that individual securities have been in a continuous unrealised loss position. Debt securities are categorised as being in a continuous 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.

	Less than 12 months		12 months or more			
30 June 2015	**Fair value**	**Gross unrealised losses**	**Fair value**	**Gross unrealised losses**	**Total fair value**	**Total gross unrealised losses**
Available-for-sale						
US government and federal agencies	**517,337**	**(5,230)**	**564,512**	**(18,047)**	**1,081,849**	**(23,277)**
Corporate debt securities	**-**	**-**	**38,712**	**(1,288)**	**38,712**	**(1,288)**
Asset-backed securities - Student loans	**-**	**-**	**53,329**	**(1,252)**	**53,329**	**(1,252)**
Commercial mortgage-backed securities	**-**	**-**	**149,305**	**(3,419)**	**149,305**	**(3,419)**
Residential mortgage-backed securities - Prime	**33,258**	**(415)**	**20,474**	**(698)**	**53,732**	**(1,113)**
Total available-for-sale securities with unrealised losses	**550,595**	**(5,645)**	**826,332**	**(24,704)**	**1,376,927**	**(30,349)**
Held-to-maturity						
US government and federal agencies	**66,468**	**(659)**	**158,819**	**(1,877)**	**225,287**	**(2,536)**
Total held-to-maturity securities with unrealised losses	**66,468**	**(659)**	**158,819**	**(1,877)**	**225,287**	**(2,536)**

	Less than 12 months		12 months or more			
31 December 2014	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses	Total fair value	Total gross unrealised losses
Available-for-sale						
Certificates of deposit	5,454	-	-	-	5,454	-
US government and federal agencies	270,276	(1,942)	390,913	(9,056)	661,189	(10,998)
Debt securities issued by non-US governments	22,588	(125)	-	-	22,588	(125)
Corporate debt securities	8,090	(8)	38,845	(1,155)	46,935	(1,163)
Asset-backed securities - Student loans	-	-	64,847	(1,313)	64,847	(1,313)
Commercial mortgage-backed securities	-	-	150,216	(3,075)	150,216	(3,075)
Residential mortgage-backed securities - Prime	-	-	18,116	(602)	18,116	(602)
Total available-for-sale securities with unrealised losses	306,408	(2,075)	662,937	(15,201)	969,345	(17,276)
Held-to-maturity						
US government and federal agencies	-	-	60,556	(518)	60,556	(518)
Total held-to-maturity securities with unrealised losses	-	-	60,556	(518)	60,556	(518)

(In thousands of Bermuda dollars, unless otherwise stated)

The Bank does not believe that the investment securities that were in an unrealised loss position as of 30 June 2015, which were comprised of 97 securities representing 49% of the portfolio's fair value, represent an OTTI. Total gross unrealised losses were 2.1% of the fair value of affected securities and were attributable primarily to changes in market interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Bank does not intend to sell the investment securities that were in an unrealised loss position and it is not more likely than not that the Bank will be required to sell the investment securities before recovery of the amortised cost bases, which may be at maturity.

The following describes the process for identifying credit impairment in security types with the most significant unrealised losses as shown in the preceding table.

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.

The unrealised losses in **Corporate debt securities** relate primarily to one debt security issued by a US government-sponsored enterprise and is implicitly backed by the US federal government. Management believes that the value of this security will recover and the current unrealised loss position is a result of interest rate movements.

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 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.

Investments in **Commercial mortgage-backed securities** are predominantly rated “AAA” and possess significant subordination (a form of credit enhancement for the benefit of senior securities, expressed here as credit support which is the percentage of pool losses that can occur before a senior security will incur its first dollar of principal loss). No credit losses were recognised on these securities as there are no delinquencies over 60 days on the underlying mortgages and credit support and loan-to-value ratios ("LTV") range from 5% - 36% and 25% - 61%, respectively.

Investments in **Residential mortgage-backed securities - Prime** are predominantly rated “AAA” and possess significant subordination (a form of credit enhancement for the benefit of senior securities, expressed here as credit support which is the percentage of pool losses that can occur before a senior security will incur its first dollar of principal loss). No credit losses were recognised on these securities as there are no delinquencies over 30 days on the underlying mortgages and credit support and LTVs range from 7% - 13% and 61% - 67%, respectively.

Contractual Maturities

The following table presents the remaining contractual maturities of the Bank’s securities. For mortgage-backed securities (primarily US government agencies), management presents the maturity date as the mid-point between the reporting and expected contractual maturity date which is determined assuming no future prepayments. By using the aforementioned mid-point, this date represents management’s best estimate of the date by which the remaining principal balance will be repaid given future principal repayments of such securities. The actual maturities may differ due to the uncertainty of the timing when borrowers make prepayments on the underlying mortgages.

	Remaining term to average contractual maturity						
30 June 2015	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**5 to 10 years**	**Over 10 years**	**No specific maturity**	**Carrying amount**
Trading							
Mutual funds	-	-	-	-	-	7,196	7,196
Available-for-sale							
US government and federal agencies	-	25,029	74,571	309,539	1,790,369	-	2,199,508
Debt securities issued by non-US governments	-	8,960	6,142	22,816	-	-	37,918
Corporate debt securities	47,588	150,586	128,764	38,712	-	-	365,650
Asset-backed securities - Student loans	-	-	41,120	-	12,227	-	53,347
Commercial mortgage-backed securities	-	-	-	42,679	107,564	-	150,243
Residential mortgage-backed securities - Prime	-	-	-	-	53,732	-	53,732
Equity securities	-	-	-	-	-	16	16
Total available-for-sale	47,588	184,575	250,597	413,746	1,963,892	16	2,860,414
Held-to-maturity							
US government and federal agencies	-	-	-	47,292	330,261	-	377,553
Total investments	47,588	184,575	250,597	461,038	2,294,153	7,212	3,245,163
Total by currency							
US dollars	47,588	184,575	250,597	461,038	2,294,153	6,141	3,244,092
Other	-	-	-	-	-	1,071	1,071
Total investments	47,588	184,575	250,597	461,038	2,294,153	7,212	3,245,163

(In thousands of Bermuda dollars, unless otherwise stated)

	Remaining term to average contractual maturity						
31 December 2014	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	No specific maturity	Carrying amount
Trading							
Mutual funds	-	-	-	-	-	6,871	6,871
Available-for-sale							
Certificates of deposit	18,246	19,497	-	-	-	-	37,743
US government and federal agencies	-	-	100,305	335,769	1,451,796	-	1,887,870
Debt securities issued by non-US governments	-	1,360	14,376	22,589	-	-	38,325
Corporate debt securities	8,090	121,930	230,424	38,845	-	-	399,289
Asset-backed securities - Student loans	-	-	52,597	-	12,226	-	64,823
Commercial mortgage-backed securities	-	-	-	43,128	108,041	-	151,169
Residential mortgage-backed securities - Prime	-	-	-	6,448	58,381	-	64,829
Equity securities	-	-	-	-	-	15	15
Total available-for-sale	26,336	142,787	397,702	446,779	1,630,444	15	2,644,063
Held-to-maturity							
US government and federal agencies	-	-	-	48,820	289,357	-	338,177
Total investments	26,336	142,787	397,702	495,599	1,919,801	6,886	2,989,111
Total by currency							
US dollars	13,088	123,290	397,702	473,011	1,919,801	6,037	2,932,929
Other	13,248	19,497	-	22,588	-	849	56,182
Total investments	26,336	142,787	397,702	495,599	1,919,801	6,886	2,989,111

Sale Proceeds and Realised Gains and Losses of AFS Securities

	For the six month period ended			
	30 June 2015		30 June 2014	
	Sale proceeds	**Gross realised gains (losses)**	Sale proceeds	Gross realised gains (losses)
Residential mortgage-backed securities - Prime	**6,056**	**(270)**	-	-
Certificates of deposit	**8,453**	**1**	-	-
Pass-through note	**-**	**-**	34,434	8,744
Net realised gains (losses) recognised in net income	**14,509**	**(269)**	34,434	8,744

The Bank of N.T. Butterfield & Son Limited
Notes to the Unaudited Consolidated Financial Statements
(In thousands of Bermuda dollars, unless otherwise stated)

Note 6: Loans

The "Bermuda" and "Non-Bermuda" classifications purpose is to reflect management segment reporting as described in Note 11: Segmented Information.

	30 June 2015			31 December 2014		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Commercial loans						
Government	65,816	24,649	90,465	66,316	46,776	113,092
Commercial and industrial	105,768	236,959	342,727	137,445	251,392	388,837
Commercial overdrafts	43,071	5,072	48,143	48,107	11,194	59,301
Total commercial loans	214,655	266,680	481,335	251,868	309,362	561,230
Less specific allowance for credit losses on commercial loans	(520)	-	(520)	(352)	(65)	(417)
Total commercial loans after specific allowance for credit losses	214,135	266,680	480,815	251,516	309,297	560,813
Commercial real estate loans						
Commercial mortgage	431,225	272,856	704,081	415,315	281,663	696,978
Construction	2,792	7,805	10,597	-	20,617	20,617
Total commercial real estate loans	434,017	280,661	714,678	415,315	302,280	717,595
Less specific allowance for credit losses on commercial real estate loans	(1,045)	(2,218)	(3,263)	(770)	(1,052)	(1,822)
Total commercial real estate loans after specific allowance for credit losses	432,972	278,443	711,415	414,545	301,228	715,773
Consumer loans						
Automobile financing	12,281	7,802	20,083	12,639	7,716	20,355
Credit card	57,203	18,962	76,165	58,500	20,684	79,184
Overdrafts	14,922	7,862	22,784	12,935	8,208	21,143
Other consumer	35,009	117,775	152,784	43,679	113,941	157,620
Total consumer loans	119,415	152,401	271,816	127,753	150,549	278,302
Less specific allowance for credit losses on consumer loans	(399)	-	(399)	(355)	-	(355)
Total consumer loans after specific allowance for credit losses	119,016	152,401	271,417	127,398	150,549	277,947
Residential mortgage loans	1,252,270	1,304,716	2,556,986	1,270,867	1,238,616	2,509,483
Less specific allowance for credit losses on residential mortgage loans	(13,391)	(1,560)	(14,951)	(14,771)	(1,446)	(16,217)
Total residential mortgage loans after specific allowance for credit losses	1,238,879	1,303,156	2,542,035	1,256,096	1,237,170	2,493,266
Total gross loans	2,020,357	2,004,458	4,024,815	2,065,803	2,000,807	4,066,610
Less specific allowance for credit losses	(15,355)	(3,778)	(19,133)	(16,248)	(2,563)	(18,811)
Less general allowance for credit losses	(19,575)	(9,408)	(28,983)	(18,992)	(9,679)	(28,671)
Net loans	1,985,427	1,991,272	3,976,699	2,030,563	1,988,565	4,019,128

The principal means of securing residential mortgages, personal, credit card and business loans are charges over assets and guarantees. Mortgage loans are generally repayable over periods of up to thirty years and personal, credit card, business and government loans are generally repayable over terms not exceeding five years. The effective yield on total loans as at 30 June 2015 is 4.64% (31 December 2014: 4.71%).

(In thousands of Bermuda dollars, unless otherwise stated)

Age Analysis of Past Due Loans (Including Non-Accrual Loans)

The following tables summarise the past due status of the loans at 30 June 2015 and 31 December 2014. 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.

30 June 2015	30 - 59 days	60 - 89 days	90 days or more	Total past due loans	Total current[1]	Total loans
Commercial loans						
Government	-	-	-	-	90,465	90,465
Commercial and industrial	1,645	16	1,709	3,370	339,357	342,727
Commercial overdrafts	-	-	46	46	48,097	48,143
Total commercial loans	1,645	16	1,755	3,416	477,919	481,335
Commercial real estate loans						
Commercial mortgage	4,226	-	8,932	13,158	690,923	704,081
Construction	-	-	-	-	10,597	10,597
Total commercial real estate loans	4,226	-	8,932	13,158	701,520	714,678
Consumer loans						
Automobile financing	42	48	33	123	19,960	20,083
Credit card	477	93	240	810	75,355	76,165
Overdrafts	-	-	364	364	22,420	22,784
Other consumer	502	349	1,589	2,440	150,344	152,784
Total consumer loans	1,021	490	2,226	3,737	268,079	271,816
Residential mortgage loans	31,648	10,915	68,434	110,997	2,445,989	2,556,986
Total past due loans	38,540	11,421	81,347	131,308	3,893,507	4,024,815

[1] Loans less than 30 days past due are included in current loans.

31 December 2014	30 - 59 days	60 - 89 days	90 days or more	Total past due loans	Total current[1]	Total loans
Commercial loans						
Government	-	-	-	-	113,092	113,092
Commercial and industrial	357	29	1,776	2,162	386,675	388,837
Commercial overdrafts	-	-	61	61	59,240	59,301
Total commercial loans	357	29	1,837	2,223	559,007	561,230
Commercial real estate loans						
Commercial mortgage	909	1,001	9,054	10,964	686,014	696,978
Construction	-	-	-	-	20,617	20,617
Total commercial real estate loans	909	1,001	9,054	10,964	706,631	717,595
Consumer loans						
Automobile financing	165	19	152	336	20,019	20,355
Credit card	753	384	202	1,339	77,845	79,184
Overdrafts	-	-	10	10	21,133	21,143
Other consumer	856	270	1,653	2,779	154,841	157,620
Total consumer loans	1,774	673	2,017	4,464	273,838	278,302
Residential mortgage loans	29,577	15,889	80,812	126,278	2,383,205	2,509,483
Total past due loans	32,617	17,592	93,720	143,929	3,922,681	4,066,610

[1] Loans less than 30 days past due are included in current loans.

(In thousands of Bermuda dollars, unless otherwise stated)

Loans' Credit Quality

The four credit quality classifications set out in the following table 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 assigned.

30 June 2015	Pass	Special mention	Substandard	Non-accrual	Total gross recorded investments
Commercial loans					
Government	77,340	13,125	-	-	90,465
Commercial and industrial	336,942	3,474	590	1,721	342,727
Commercial overdrafts	44,586	3,387	144	26	48,143
Total commercial loans	458,868	19,986	734	1,747	481,335
Commercial real estate loans					
Commercial mortgage	559,018	93,547	38,607	12,909	704,081
Construction	10,597	-	-	-	10,597
Total commercial real estate loans	569,615	93,547	38,607	12,909	714,678
Consumer loans					
Automobile financing	19,542	442	-	99	20,083
Credit card	75,925	-	240	-	76,165
Overdrafts	20,549	53	2,170	12	22,784
Other consumer	149,330	1,690	459	1,305	152,784
Total consumer loans	265,346	2,185	2,869	1,416	271,816
Residential mortgage loans	2,400,856	44,191	57,708	54,231	2,556,986
Total gross recorded loans	3,694,685	159,909	99,918	70,303	4,024,815

31 December 2014	Pass	Special mention	Substandard	Non-accrual	Total gross recorded investments
Commercial loans					
Government	98,092	15,000	-	-	113,092
Commercial and industrial	381,952	4,254	1,898	733	388,837
Commercial overdrafts	55,439	3,452	304	106	59,301
Total commercial loans	535,483	22,706	2,202	839	561,230
Commercial real estate loans					
Commercial mortgage	544,832	91,500	48,373	12,273	696,978
Construction	20,617	-	-	-	20,617
Total commercial real estate loans	565,449	91,500	48,373	12,273	717,595
Consumer loans					
Automobile financing	19,615	564	-	176	20,355
Credit card	78,982	-	202	-	79,184
Overdrafts	20,933	167	-	43	21,143
Other consumer	153,226	1,917	714	1,763	157,620
Total consumer loans	272,756	2,648	916	1,982	278,302
Residential mortgage loans	2,344,836	49,819	58,124	56,704	2,509,483
Total gross recorded loans	3,718,524	166,673	109,615	71,798	4,066,610

Quality classification definitions

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. Loans in this category are currently protected and still performing (current with respect to interest and principal payments), 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.

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 and for residential mortgage loans which are not well secured and in the process of collection.

(In thousands of Bermuda dollars, unless otherwise stated)

Non-Performing Loans	30 June 2015			31 December 2014		
	Non-accrual loans[1]	Accruing loans past due 90 days	Total non-performing loans	Non-accrual loans	Accruing loans past due 90 days	Total non-performing loans
Commercial loans						
Commercial and industrial	1,721	-	1,721	733	1,057	1,790
Commercial overdrafts	26	19	45	106	4	110
Total commercial loans	1,747	19	1,766	839	1,061	1,900
Commercial real estate loans						
Commercial mortgage	12,909	787	13,696	12,273	779	13,052
Consumer loans						
Automobile financing	99	5	104	176	-	176
Credit card	-	240	240	-	202	202
Overdrafts	12	352	364	43	-	43
Other consumer	1,305	341	1,646	1,763	619	2,382
Total consumer loans	1,416	938	2,354	1,982	821	2,803
Residential mortgage loans	54,231	19,762	73,993	56,704	29,052	85,756
Total non-performing loans	70,303	21,506	91,809	71,798	31,713	103,511

[1] Excludes purchased credit-impaired loans.

Gross Loans Evaluated For Impairment	30 June 2015		31 December 2014	
	Individually evaluated	Collectively evaluated	Individually evaluated	Collectively evaluated
Commercial	1,747	479,588	839	560,391
Commercial real estate	33,707	680,971	33,898	683,697
Consumer	2,492	269,324	2,068	276,234
Residential mortgage	104,252	2,452,734	105,777	2,403,706
Total gross loans evaluated for impairment	142,198	3,882,617	142,582	3,924,028

Changes in General and Specific Allowances For Credit Losses	Six month period ended 30 June 2015					Year ended 31 December 2014
	Commercial	Commercial real estate	Consumer	Residential mortgage	Total	Total
Allowances at beginning of period	7,831	5,920	2,797	30,934	47,482	52,755
Provision taken (released)	(238)	1,899	(115)	648	2,194	8,048
Recoveries	742	-	660	82	1,484	2,324
Charge-offs	(131)	(282)	(988)	(1,706)	(3,107)	(15,467)
Other	4	43	8	8	63	(178)
Allowances at end of period	8,208	7,580	2,362	29,966	48,116	47,482
Allowances at end of period: individually evaluated for impairment	520	3,263	399	14,951	19,133	18,811
Allowances at end of period: collectively evaluated for impairment	7,688	4,317	1,963	15,015	28,983	28,671

(In thousands of Bermuda dollars, unless otherwise stated)

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-accrual loans and all loans modified in a troubled debt restructuring (''TDR'') even if full collectability is expected following the restructuring. For the six month period ended 30 June 2015, the amount of gross interest income that would have been recorded had impaired loans been current was $2.3 million (30 June 2014: $2.5 million). The tables below present information about the Bank's impaired loans:

	Impaired loans with an allowance			Gross recorded investment of impaired loans without an allowance	Total impaired loans[1]		
30 June 2015	**Gross recorded investment**	**Specific allowance**	**Net loans**		**Gross recorded investment**	**Specific allowance**	**Net loans**
Commercial loans							
Commercial and industrial	606	(520)	86	1,115	1,721	(520)	1,201
Commercial overdrafts	-	-	-	26	26	-	26
Total commercial loans	606	(520)	86	1,141	1,747	(520)	1,227
Commercial real estate loans							
Commercial mortgage	9,000	(3,263)	5,737	24,708	33,708	(3,263)	30,445
Consumer loans							
Automobile financing	-	-	-	99	99	-	99
Overdrafts	-	-	-	12	12	-	12
Other consumer	632	(399)	233	758	1,390	(399)	991
Total consumer loans	632	(399)	233	869	1,501	(399)	1,102
Residential mortgage loans	41,711	(14,951)	26,760	33,760	75,471	(14,951)	60,520
Total impaired loans	51,949	(19,133)	32,816	60,478	112,427	(19,133)	93,294

[1] Excludes purchased credit-impaired loans.

	Impaired loans with an allowance			Gross recorded investment of impaired loans without an allowance	Total impaired loans[1]		
31 December 2014	Gross recorded investment	Specific allowance	Net loans		Gross recorded investment	Specific allowance	Net loans
Commercial loans							
Commercial and industrial	575	(417)	158	158	733	(417)	316
Commercial overdrafts	-	-	-	106	106	-	106
Total commercial loans	575	(417)	158	264	839	(417)	422
Commercial real estate loans							
Commercial mortgage	5,854	(1,822)	4,032	28,044	33,898	(1,822)	32,076
Consumer loans							
Automobile financing	-	-	-	176	176	-	176
Overdrafts	-	-	-	43	43	-	43
Other consumer	515	(355)	160	1,344	1,859	(355)	1,504
Total consumer loans	515	(355)	160	1,563	2,078	(355)	1,723
Residential mortgage loans	45,673	(16,217)	29,456	29,764	75,437	(16,217)	59,220
Total impaired loans	52,617	(18,811)	33,806	59,635	112,252	(18,811)	93,441

[1] Excludes purchased credit-impaired loans.

(In thousands of Bermuda dollars, unless otherwise stated)

Average Impaired Loan Balances and Related Recognised Interest Income

	For the six month period ended 30 June 2015		30 June 2014	
	Average gross recorded investment	**Interest income recognised[1]**	Average gross recorded investment	Interest income recognised[1]
Commercial loans				
Commercial and industrial	**1,227**	**-**	1,470	-
Commercial overdrafts	**66**	**-**	390	-
Total commercial loans	**1,293**	**-**	1,860	-
Commercial real estate loans				
Commercial mortgage	**33,803**	**380**	55,960	402
Construction	**-**	**-**	597	-
Total commercial real estate loans	**33,803**	**380**	56,557	402
Consumer loans				
Automobile financing	**138**	**-**	419	-
Credit card	**-**	**-**	69	-
Overdrafts	**28**	**-**	363	-
Other consumer	**1,625**	**-**	1,516	-
Total consumer loans	**1,791**	**-**	2,367	-
Residential mortgage loans	**75,454**	**626**	67,316	269
Total impaired loans	**112,341**	**1,006**	128,100	671

[1]All interest income recognised on impaired loans relate to loans previously modified in a TDR.

Loans Modified in a TDR

TDRs entered into during the six month period ended 30 June 2015	**Number of contracts**	**Pre-modification outstanding recorded investment**	**Effect of modification on recorded investment: Changes in the amount of repayments**	**Effect of modification on recorded investment: Interest capitalisation**	**Post-modification outstanding recorded investment**	**Carrying amount as at balance sheet date: Accrual**	**Carrying amount as at balance sheet date: Non-accrual**
Commercial real estate loans	**-**	**-**	**-**	**-**	**-**	**20,799**	**4,039**
Consumer loans	**-**	**-**	**-**	**-**	**-**	**85**	**-**
Residential mortgage loans	**7**	**4,141**		**290**	**4,431**	**21,240**	**5,622**
Total loans modified in a TDR	**7**	**4,141**	**-**	**290**	**4,431**	**42,124**	**9,661**

TDRs entered into during the six month period ended 30 June 2014	Number of contracts	Pre-modification outstanding recorded investment	Effect of modification on recorded investment: Changes in the amount of repayments	Effect of modification on recorded investment: Interest capitalisation	Post-modification outstanding recorded investment	Carrying amount as at balance sheet date: Accrual	Carrying amount as at balance sheet date: Non-accrual
Commercial real estate loans	-	-	-	-	-	22,010	6,319
Consumer loans	-	-	-	-	-	112	-
Residential mortgage loans	4	3,872	-	-	3,872	10,450	4,284
Total loans modified in a TDR	4	3,872	-	-	3,872	32,572	10,603

As at 30 June 2015, the Bank has 3 loans that were modified in a TDR during the preceding 12 months that subsequently defaulted (i.e. 90 days or more past due following a modification) with a recorded investment amounting to $1.1 million.

Purchased Credit-Impaired Loans	**For the six month period ended 30 June 2015**			For the year ended 31 December 2014		
	Contractual principal outstanding	**Carrying amount**	**Accretable yield[1]**	Contractual principal outstanding	Carrying amount	Accretable yield[1]
Balance at beginning of period	**11,020**	**7,216**	**-**	-	-	-
Purchases	**-**	**-**	**-**	11,001	7,197	-
Advances	**-**	**-**	**-**	19	19	-
Reductions resulting from repayments, charge-offs and foreclosures	**(469)**	**(469)**	**-**	-	-	-
Increase in cash flows expected to be collected[2]	**-**	**56**	**56**	-	-	-
Accretion	**-**	**-**	**(56)**	-	-	-
Balance at end of period	**10,551**	**6,803**	**-**	11,020	7,216	-

[1] The accretable yield represents the excess of a loan's cash flows expected to be collected over the loan's initial carrying amount.

[2] Primarily relates to changes in expected credit performance.

(In thousands of Bermuda dollars, unless otherwise stated)

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 by geographic region of loan origination. In the consumer portfolio, concentrations are evaluated primarily by products. Credit exposures include loans, guarantees and acceptances, letters of credit and commitments for undrawn lines of credit. Unconditionally cancellable credit cards and overdraft lines of credit are excluded from the tables below.

The following table summarises the credit exposure of the Bank by business sector. The on-balance sheet exposure amounts disclosed are net of specific allowances and the off-balance sheet exposure amounts disclosed are gross of collateral held:

	30 June 2015			31 December 2014		
Business sector	**Loans**	**Off-balance sheet**	**Total credit exposure**	Loans	Off-balance sheet	Total credit exposure
Banks and financial services	**248,381**	**329,752**	**578,133**	307,835	299,934	607,769
Commercial and merchandising	**251,004**	**101,175**	**352,179**	252,945	113,432	366,377
Governments	**86,935**	**-**	**86,935**	109,051	-	109,051
Individuals	**2,556,288**	**149,825**	**2,706,113**	2,482,892	75,224	2,558,116
Primary industry and manufacturing	**32,754**	**570**	**33,324**	70,298	570	70,868
Real estate	**702,319**	**3,788**	**706,107**	710,905	5,703	716,608
Hospitality industry	**121,810**	**5,000**	**126,810**	107,538	275	107,813
Transport and communication	**6,191**	**-**	**6,191**	6,335	-	6,335
Sub-total	**4,005,682**	**590,110**	**4,595,792**	4,047,799	495,138	4,542,937
General allowance	**(28,983)**	**-**	**(28,983)**	(28,671)	-	(28,671)
Total	**3,976,699**	**590,110**	**4,566,809**	4,019,128	495,138	4,514,266

The following table summarises the credit exposure of the Bank by geographic region for cash and cash equivalents, short-term investments, loans receivable and off-balance sheet exposure. The credit exposure by currency for investments is disclosed in Note 5: Investments.

	30 June 2015				31 December 2014			
Geographic region	**Cash and cash equivalents and short-term investments**	**Loans**	**Off-balance sheet**	**Total credit exposure**	Cash and cash equivalents and short-term investments	Loans	Off-balance sheet	Total credit exposure
Australia	**14,557**	**-**	**-**	**14,557**	7,521	-	-	7,521
Belgium	**4,137**	**-**	**-**	**4,137**	-	-	-	-
Bermuda	**30,449**	**2,195,613**	**242,076**	**2,468,138**	18,486	2,269,748	263,407	2,551,641
Canada	**32,883**	**-**	**-**	**32,883**	16,648	-	-	16,648
Cayman	**193,535**	**746,891**	**211,394**	**1,151,820**	196,746	763,379	145,796	1,105,921
Guernsey	**1,420**	**524,361**	**56,290**	**582,071**	1,741	527,560	70,976	600,277
Hong Kong	**2,057**	**-**	**-**	**2,057**	131	-	-	131
Japan	**66,524**	**-**	**-**	**66,524**	32,464	-	-	32,464
New Zealand	**2,501**	**-**	**-**	**2,501**	3,384	-	-	3,384
Sweden	**3,090**	**-**	**-**	**3,090**	2,419	-	-	2,419
Switzerland	**3,703**	**-**	**-**	**3,703**	7,954	-	-	7,954
The Bahamas	**4,453**	**31,249**	**-**	**35,702**	4,423	31,809	-	36,232
United Kingdom	**1,189,793**	**501,256**	**80,350**	**1,771,399**	1,300,686	455,303	14,959	1,770,948
United States	**929,849**	**6,312**	**-**	**936,161**	864,361	-	-	864,361
Other	**1,762**	**-**	**-**	**1,762**	1,117	-	-	1,117
Sub-total	**2,480,713**	**4,005,682**	**590,110**	**7,076,505**	2,458,081	4,047,799	495,138	7,001,018
General allowance	**-**	**(28,983)**	**-**	**(28,983)**	-	(28,671)	-	(28,671)
Total	**2,480,713**	**3,976,699**	**590,110**	**7,047,522**	2,458,081	4,019,128	495,138	6,972,347

(In thousands of Bermuda dollars, unless otherwise stated)

Note 8: Customer deposits and deposits from banks

By Maturity	30 June 2015			31 December 2014		
	Customers	Banks	Total	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	1,797,744	327	1,798,071	1,558,122	408	1,558,530
Demand deposits - Interest bearing	5,378,392	5,370	5,383,762	5,179,522	26,512	5,206,034
Total demand deposits	7,176,136	5,697	7,181,833	6,737,644	26,920	6,764,564
Term deposits having a denomination of less than $100 thousand						
Term deposits maturing within six months	52,565	17	52,582	57,451	82	57,533
Term deposits maturing between six to twelve months	18,092	-	18,092	18,310	-	18,310
Term deposits maturing after twelve months	17,169	-	17,169	18,492	-	18,492
Total term deposits having a denomination of less than $100 thousand	87,826	17	87,843	94,253	82	94,335
Term deposits having a denomination of $100 thousand or more						
Term deposits maturing within six months	1,528,677	10,150	1,538,827	1,445,072	9,368	1,454,440
Term deposits maturing between six to twelve months	133,027	1,481	134,508	294,175	3,536	297,711
Term deposits maturing after twelve months	57,920	-	57,920	60,527	-	60,527
Total term deposits having a denomination of $100 thousand or more	1,719,624	11,631	1,731,255	1,799,774	12,904	1,812,678
Total term deposits	1,807,450	11,648	1,819,098	1,894,027	12,986	1,907,013
Total deposits	8,983,586	17,345	9,000,931	8,631,671	39,906	8,671,577

By Type and Segment	30 June 2015			31 December 2014		
	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	3,443,649	711,796	4,155,445	2,914,440	955,683	3,870,123
Banks	327	-	327	9,508	-	9,508
Cayman						
Customers	2,343,199	459,772	2,802,971	2,153,500	437,259	2,590,759
Banks	3,894	11,648	15,542	15,797	12,986	28,783
Guernsey						
Customers	1,052,851	295,246	1,348,097	1,350,377	145,132	1,495,509
Banks	1,386	-	1,386	1,307	-	1,307
The Bahamas						
Customers	43,420	6,378	49,798	53,317	7,514	60,831
United Kingdom						
Customers	293,017	334,258	627,275	266,010	348,439	614,449
Banks	90	-	90	308	-	308
Total Customers	7,176,136	1,807,450	8,983,586	6,737,644	1,894,027	8,631,671
Total Banks	5,697	11,648	17,345	26,920	12,986	39,906
Total deposits	7,181,833	1,819,098	9,000,931	6,764,564	1,907,013	8,671,577

(In thousands of Bermuda dollars, unless otherwise stated)

Note 9: Employee future benefits

The Bank maintains trusteed pension plans including non-contributory defined benefit plans and a number of defined contribution plans, and provides post-retirement medical benefits to its qualifying retirees. The defined benefit provisions under the pension plans are generally based upon years of service and average salary during the final years of employment. The defined benefit and post-retirement medical plans are not open to new participants and are non-contributory and the funding required is provided by the Bank, based upon the advice of an independent actuary.

The following table presents the expense constituents of the Bank's defined benefit pension plans and the Bank's post-retirement medical benefit plan, which are included in the consolidated statements of operations under Salaries and other employee benefits :

	For the three month period ended		For the six month period ended	
	30 June 2015	30 June 2014	**30 June 2015**	30 June 2014
Defined benefit pension expense (income)				
Service cost	**-**	443	**-**	831
Interest cost	**1,859**	1,279	**3,699**	3,110
Expected return on plan assets	**(2,365)**	(1,653)	**(4,706)**	(3,991)
Amortisation of net actuarial loss	**160**	274	**494**	549
Total defined benefit pension expense (income)	**(346)**	343	**(513)**	499
Post-retirement medical benefit expense (income)				
Service cost	**86**	207	**171**	413
Interest cost	**1,187**	1,126	**2,373**	2,252
Amortisation of net actuarial loss	**(1,586)**	(1,680)	**(3,172)**	(3,360)
Amortisation of prior service cost	**837**	230	**1,674**	461
Total post-retirement medical benefit expense (income)	**524**	(117)	**1,046**	(234)

Effective 30 September 2014, the defined benefit pension benefits of the Bank's Guernsey operations were amended to freeze credited service and final average earnings for remaining active members. The benefits amendment resulted in a further reduction in the Guernsey defined benefit pension liability of $4.59 million as at 30 September 2014.

Effective October 2014, all the participants of the Guernsey defined benefit pension plan are inactive and in accordance with US GAAP, the net actuarial loss of the Guernsey defined benefit pension plan will be amortised over the estimated average remaining life expectancy of the inactive participants of 39 years. Prior to all of the Guernsey participants being inactive, the net actuarial loss of the Guernsey defined benefit pension plan was amortised to net income over the estimated average remaining service period for active members of 15 years.

(In thousands of Bermuda dollars, unless otherwise stated)

Note 10: Credit related arrangements and commitments

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, whilst 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:

	30 June 2015			31 December 2014		
	Gross	**Collateral**	**Net**	Gross	Collateral	Net
Standby letters of credit	**239,854**	**239,859**	**(5)**	225,718	224,158	1,560
Letters of guarantee	**10,370**	**8,003**	**2,367**	10,227	7,594	2,633
Total	**250,224**	**247,862**	**2,362**	235,945	231,752	4,193

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

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:

	30 June 2015	31 December 2014
Commitments to extend credit	**337,939**	257,266
Documentary and commercial letters of credit	**1,947**	1,927
Total unfunded commitments to extend credit	**339,886**	259,193

The Bank has a facility by one of its custodians, whereby the Bank may offer up to US$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 30 June 2015, $140.0 million (31 December 2014: $91.8 million) of standby letters of credit were issued under this facility.

Legal Proceedings

There are 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 in the aggregate not be material to the consolidated financial position of the Bank.

(In thousands of Bermuda dollars, unless otherwise stated)

Note 11: Segmented information

As at 30 June 2015, for Management reporting purposes, the operations of the Bank are grouped into the following six business segments based upon the geographic location of the Bank's operations: Bermuda, Cayman, Guernsey, Switzerland, The Bahamas and the United Kingdom. Accounting policies of the reportable segments are the same as those described in Note 2 in Bank's audited financial statements for the year ended 31 December 2014.

Bermuda provides a full range of retail, commercial and private banking services. Retail services are offered to individuals and small to medium-sized businesses through five branch locations and through Internet banking, mobile banking, automated teller machines ("ATMs") and debit cards. Retail services include deposit services, consumer and mortgage lending, credit cards and personal insurance products. Commercial banking includes commercial lending and mortgages, cash management, payroll services, remote banking and letters of credit. Treasury services include money market and foreign exchange activities. Bermuda's wealth management offering consists of Butterfield Asset Management Limited, which provides investment management, advisory and brokerage services and Butterfield Trust (Bermuda) Limited, which provides trust, estate, company management and custody services.

The Cayman segment provides a comprehensive range of retail, commercial and private banking services. Retail services are offered to individuals and small to medium-sized businesses through three branch locations and through Internet banking, mobile banking, ATMs and debit cards. Retail services include deposit services, consumer and mortgage lending, credit cards and property/auto insurance. Commercial banking includes commercial lending and mortgages, cash management, payroll services, remote banking and letters of credit. Treasury services include money market and foreign exchange activities. Cayman's wealth management offering comprises investment management, advisory and brokerage services and Butterfield Trust (Cayman) Limited, which provides trust, estate and company management.

The Guernsey segment provides a broad range of services to private clients and financial institutions including private banking and treasury services, Internet banking, administered bank services, wealth management and fiduciary services.

The Switzerland segment provides fiduciary services.

The Bahamas segment provides fiduciary and ancillary services.

The United Kingdom segment provides a broad range of services including private banking and treasury services, Internet banking and wealth management and fiduciary services to high net worth individuals and privately owned businesses.

Total Assets by Segment	**30 June 2015**	31 December 2014
Bermuda	**5,011,577**	4,797,235
Cayman	**3,064,766**	2,863,624
Guernsey	**1,492,842**	1,639,334
Switzerland	**2,913**	2,002
The Bahamas	**59,974**	70,265
United Kingdom	**842,473**	832,707
Total assets before inter-segment eliminations	**10,474,545**	10,205,167
Less: inter-segment eliminations	**(404,735)**	(346,727)
Total	**10,069,810**	9,858,440

(In thousands of Bermuda dollars, unless otherwise stated)

For the three month period ended 30 June 2015	Net interest income: Customer	Net interest income: Inter- segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses	Gains and losses	Net income
Bermuda	34,963	629	(1,518)	14,451	48,525	35,001	13,524	(74)	13,450
Cayman	16,528	141	313	9,895	26,877	13,969	12,908	-	12,908
Guernsey	4,371	(65)	9	6,574	10,889	9,514	1,375	-	1,375
Switzerland	-	-	-	909	909	873	36	-	36
The Bahamas	(2)	30	-	1,418	1,446	1,252	194	-	194
United Kingdom	3,415	(735)	(809)	1,706	3,577	5,131	(1,554)	17	(1,537)
Total before eliminations	59,275	-	(2,005)	34,953	92,223	65,740	26,483	(57)	26,426
Inter-segment eliminations	-	-	-	(405)	(405)	(405)	-	-	-
Total	59,275	-	(2,005)	34,548	91,818	65,335	26,483	(57)	26,426

For the three month period ended 30 June 2014	Net interest income: Customer	Net interest income: Inter- segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses	Gains and losses	Net income
Bermuda	35,184	862	(2,287)	15,424	49,183	38,895	10,288	8,947	19,235
Cayman	14,219	282	(402)	8,322	22,421	15,325	7,096	257	7,353
Guernsey	4,953	(421)	(84)	7,416	11,864	11,110	754	-	754
Switzerland	-	-	-	713	713	734	(21)	-	(21)
The Bahamas	-	41	-	1,460	1,501	1,399	102	-	102
United Kingdom	4,713	(764)	(369)	2,207	5,787	5,665	122	-	122
Total before eliminations	59,069	-	(3,142)	35,542	91,469	73,128	18,341	9,204	27,545
Inter-segment eliminations	-	-	-	(480)	(480)	(480)	-	-	-
Total	59,069	-	(3,142)	35,062	90,989	72,648	18,341	9,204	27,545

For the six month period ended 30 June 2015	Net interest income: Customer	Net interest income: Inter-segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses	Gains and losses	Net income
Bermuda	69,779	1,375	(1,325)	29,311	99,140	70,722	28,418	(230)	28,188
Cayman	33,107	281	566	19,504	53,458	28,208	25,250	-	25,250
Guernsey	8,629	(269)	16	13,014	21,390	18,991	2,399	-	2,399
Switzerland	-	-	-	1,655	1,655	1,598	57	-	57
The Bahamas	(10)	60	-	2,610	2,660	2,559	101	-	101
United Kingdom	6,549	(1,447)	(1,451)	3,437	7,088	9,845	(2,757)	16	(2,741)
Total before eliminations	118,054	-	(2,194)	69,531	185,391	131,923	53,468	(214)	53,254
Inter-segment eliminations	-	-	-	(848)	(848)	(848)	-	-	-
Total	118,054	-	(2,194)	68,683	184,543	131,075	53,468	(214)	53,254

For the six month period ended 30 June 2014	Net interest income: Customer	Net interest income: Inter-segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses	Gains and losses	Net income
Bermuda	70,227	1,272	(5,995)	30,258	95,762	74,049	21,713	10,186	31,899
Cayman	28,006	561	(146)	16,584	45,005	28,869	16,136	257	16,393
Guernsey	9,942	(421)	(83)	12,501	21,939	20,172	1,767	-	1,767
Switzerland	-	-	-	1,221	1,221	1,416	(195)	-	(195)
The Bahamas	(12)	94	-	2,849	2,931	2,734	197	-	197
United Kingdom	9,256	(1,506)	(392)	4,183	11,541	10,895	646	-	646
Total before eliminations	117,419	-	(6,616)	67,596	178,399	138,135	40,264	10,443	50,707
Inter-segment eliminations	-	-	-	(954)	(954)	(954)	-	-	-
Total	117,419	-	(6,616)	66,642	177,445	137,181	40,264	10,443	50,707

Note 12: 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 sheet at fair value within other assets or other liabilities. These amounts include the effect of netting. 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 sheet 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 interest rates, exchange rates, equity or commodity prices or indices 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 enters into interest derivative contracts as part of its overall interest rate risk management strategy to minimise significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Bank's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain consolidated balance sheet assets and liabilities so that movements in interest rates do not adversely affect the net interest margin. Derivative instruments that are used as part of the Bank's risk management strategy include interest rate swap contracts that have indices related to the pricing of specific consolidated balance sheet assets and liabilities. Interest rate swaps generally involve the exchange of fixed and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date. 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 the following:

Fair value hedges

Derivatives are designated as fair value hedges to minimise the Bank's exposure to changes in the fair value of assets and liabilities due to movements in interest rates. The Bank enters into interest rate swaps to convert its fixed-rate long-term loans to floating-rate loans, and convert fixed-rate deposits to floating-rate deposits. Changes in fair value of these derivatives are recognised in income. For fair value hedges, the Bank applies the "shortcut" method of accounting, which assumes there is no ineffectiveness in a hedge. As a result, changes recorded in the fair value of the hedged item are equal to the offsetting gain or loss on the derivative and are reflected in the same line item. During the year ended 31 December 2011, the Bank cancelled its interest rate swaps designated as fair value hedges of loans receivable and therefore discontinued hedge accounting for these financial instruments. The fair value attributable to the hedged loans are accounted for prospectively and are being amortised to net income over the remaining life of each individual loan using the effective interest method.

Net investment hedges

Foreign currency swaps and qualifying non-derivative instruments designated as net investment hedges are used to minimise the Bank's exposure to variability in the foreign currency translation of net investments in foreign operations. The effective portion of changes in the fair value of the hedging instrument is recognised in AOCL consistent with the related translation gains and losses of the hedged net investment. For net investment hedges, all critical terms of the hedged item and the hedging instrument are matched at inception and on an ongoing basis to minimise the risk of hedge ineffectiveness.

For derivatives designated as net investment hedges, the Bank follows the forward-rate method in measuring the amount of ineffectiveness in a net investment hedge. According to that method, all changes in fair value, including changes related to the forward-rate component and the time value of currency swaps, are recorded in the foreign currency translation adjustment account within AOCL. To the extent all terms are not perfectly matched, any ineffectiveness is measured using the hypothetical derivative method. Ineffectiveness resulting from net investment hedges is recorded in foreign exchange income. Amounts recorded in AOCL are reclassified to earnings only upon the sale or liquidation of an investment in a foreign subsidiary.

For foreign-currency-denominated debt instruments that are designated as hedges of net investments in foreign operations, the translation gain or loss that is recorded in AOCL is based on the spot exchange rate between the reporting currency of the Bank and the functional currency of the respective subsidiary.

Derivatives not formally designated as hedges

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 Banks' 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 and interest rate caps 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 income.

The following table shows the aggregate notional amounts of derivative contracts outstanding listed by type and respective gross positive or negative fair values and classified by those used for risk management (sub-classified as hedging and those that do not qualify for hedge accounting), client services and credit derivatives. Fair value of derivatives is recorded in the consolidated balance sheet 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.

(In thousands of Bermuda dollars, unless otherwise stated)

The following table shows the notional amounts and related fair value measurements of derivative instruments as at the balance sheet date:

30 June 2015	Derivative instrument	Notional amounts	Gross positive fair value	Gross negative fair value	Net fair value
Risk management derivatives					
Net investment hedges	Currency swaps	131,286	704	(4,404)	(3,700)
Derivatives not formally designated as hedging instruments	Currency swaps	51,397	435	(468)	(33)
Subtotal risk management derivatives		182,683	1,139	(4,872)	(3,733)
Client services derivatives	Spot and forward foreign exchange	2,251,084	9,793	(10,317)	(524)
Total derivative instruments		2,433,767	10,932	(15,189)	(4,257)

31 December 2014	Derivative instrument	Notional amounts	Gross positive fair value	Gross negative fair value	Net fair value
Risk management derivatives					
Net investment hedges	Currency swaps	114,759	1,095	(3,559)	(2,464)
Derivatives not formally designated as hedging instruments	Currency swaps	113,982	284	(1,749)	(1,465)
Subtotal risk management derivatives		228,741	1,379	(5,308)	(3,929)
Client services derivatives	Spot and forward foreign exchange	2,529,159	21,205	(19,588)	1,617
Total derivative instruments		2,757,900	22,584	(24,896)	(2,312)

In addition to the above, as at 30 June 2015 foreign denominated deposits of $nil (31 December 2014: $15.7 million), were designated as a hedge of foreign exchange risk associated with the net investment in foreign operations.

The "Net amounts in consolidated balance sheet" column within the following table represents the aggregate of our net exposure to each counterparty after considering the effect of master netting agreements. We manage derivative exposure by monitoring the credit risk associated with each counterparty using counterparty specific credit risk limits, using master netting arrangements and obtaining collateral. There are no gross gains or gross losses with any counterparty which are not offset.

30 June 2015	Gross fair value recognised	Gross amounts offset in the consolidated balance sheet	Net amounts in consolidated balance sheets	Less: collateral pledged	Exposures net of collateral
Derivative assets					
Spot and forward foreign exchange and currency swaps	10,932	(4,785)	6,147	(1,001)	5,146
Derivative liabilities					
Spot and forward foreign exchange and currency swaps	15,189	(4,785)	10,404	(3,715)	6,689
Net negative fair value			(4,257)		

31 December 2014	Gross fair value recognised	Gross amounts offset in the consolidated balance sheet	Net amounts in consolidated balance sheets	Less: collateral pledged	Exposures net of collateral
Derivative assets					
Spot and forward foreign exchange and currency swaps	22,584	(5,654)	16,930	(1,950)	14,980
Derivative liabilities					
Spot and forward foreign exchange and currency swaps	24,896	(5,654)	19,242	(5,608)	13,634
Net negative fair value			(2,312)		

The following table shows the location and amount of gains (losses) recorded in the consolidated statements of operations on derivatives outstanding as at 30 June 2015 and 2014:

		For the three month period ended		For the six month period ended	
Derivative instrument	**Consolidated statements of operations line item**	30 June 2015	30 June 2014	30 June 2015	30 June 2014
Spot and forward foreign exchange	Foreign exchange revenue	(288)	(343)	(472)	(720)
Total net losses recognised in net income		(288)	(343)	(472)	(720)

(In thousands of Bermuda dollars, unless otherwise stated)

Note 13: 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 level of inputs used in their respective fair value determination, as described in Note 2 of the Bank's audited financial statements for the year ended 31 December 2014.

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 Group Asset and Liability Committee.

Financial instruments in Level 1 include actively traded redeemable mutual funds.

Financial instruments in Level 2 include equity securities not actively traded, certificates of deposit, corporate bonds, mortgage-backed securities and other asset-backed securities, interest rate swaps and caps and 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.

	30 June 2015 Fair value			Total carrying amount / fair value	31 December 2014 Fair value			Total carrying amount / fair value
	Level 1	**Level 2**	**Level 3**		Level 1	Level 2	Level 3	
Items that are recognised at fair value on a recurring basis:								
Financial assets								
Trading investments								
Mutual funds	6,141	1,055	-	7,196	6,038	833	-	6,871
Available-for-sale investments								
Certificates of deposit	-	-	-	-	-	37,743	-	37,743
US government and federal agencies	-	2,199,508	-	2,199,508	-	1,887,870	-	1,887,870
Debt securities issued by non-US governments	-	37,918	-	37,918	-	38,325	-	38,325
Corporate debt securities	-	365,650	-	365,650	-	399,289	-	399,289
Asset-backed securities - Student loans	-	41,120	12,227	53,347	-	52,596	12,227	64,823
Commercial mortgage-backed securities	-	150,243	-	150,243	-	151,169	-	151,169
Residential mortgage-backed securities - Prime	-	53,732	-	53,732	-	64,829	-	64,829
Equity securities	-	16	-	16	-	15	-	15
Total available-for-sale	-	2,848,187	12,227	2,860,414	-	2,631,836	12,227	2,644,063
Other assets - Derivatives	-	6,147	-	6,147	-	16,930	-	16,930
Financial liabilities								
Other liabilities - Derivatives	-	10,404	-	10,404	-	19,242	-	19,242

There were no transfers between Level 1 and Level 2 during the six month period ended 30 June 2015 and the year ended 31 December 2014.

The Asset-backed securities - Student loans is a federal family education loan programme guaranteed student loan security and is valued using a non-binding broker quote. The fair value provided by the broker is based on the last trading price of similar securities but as the market for the security is illiquid, a Level 2 classification is not supported.

Significant increases (decreases) in any of the above inputs in isolation could result in a significantly different fair value measurement. Generally a change in assumption used for the probability of defaults is accompanied by a directionally similar change in the assumption used for the loss severity.

Level 3 Reconciliation	**30 June 2015**	31 December 2014
Carrying amount at beginning of period	12,227	45,304
Proceeds from sales, paydowns and maturities	-	(36,438)
Accretion recognised in net income	-	915
Realised and unrealised gains (losses) recognised in other comprehensive income	-	(6,286)
Realised and unrealised gains recognised in net income	-	8,732
Carrying amount at end of period	12,227	12,227

(In thousands of Bermuda dollars, unless otherwise stated)

Items Other Than Those Recognised at Fair Value on a Recurring Basis:

		30 June 2015			31 December 2014		
	Level	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
Financial assets							
Cash and cash equivalents	Level 1	2,100,503	2,100,503	-	2,063,311	2,063,311	-
Short-term investments	Level 1	380,210	380,210	-	394,770	394,770	-
Investments held-to-maturity	Level 2	377,553	377,929	376	338,177	343,989	5,812
Loans, net of allowance for credit losses	Level 2	3,976,699	3,972,712	(3,987)	4,019,128	4,015,764	(3,364)
Other real estate owned[1]	Level 2	15,885	15,885	-	19,300	19,300	-
Financial liabilities							
Customer deposits							
Demand deposits	Level 2	7,176,136	7,176,136	-	6,737,644	6,737,644	-
Term deposits	Level 2	1,807,450	1,808,633	(1,183)	1,894,027	1,895,558	(1,531)
Deposits from banks	Level 2	17,345	17,345	-	39,906	39,906	-
Subordinated capital	Level 2	117,000	116,462	538	117,000	115,936	1,064

[1]The current carrying value of OREO will be adjusted to fair value only when there is devaluation below carrying value.

(In thousands of Bermuda dollars, unless otherwise stated)

Note 14: Interest rate risk

The following tables set out the assets, liabilities and shareholders' equity and off-balance sheet instruments on the date of the earlier of contractual maturity, expected maturity or repricing date. Use of these tables 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. 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.

30 June 2015	**Earlier of contractual maturity or repricing date**						
(in $ millions)	**Within 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**After 5 years**	**Non-interest bearing funds**	**Total**
Assets							
Cash and deposits with banks	**2,001**	**-**	**-**	**-**	**-**	**100**	**2,101**
Short-term investments	**167**	**209**	**4**	**-**	**-**	**-**	**380**
Investments	**678**	**52**	**152**	**329**	**2,027**	**7**	**3,245**
Loans	**3,511**	**234**	**55**	**90**	**45**	**42**	**3,977**
Other assets	**-**	**-**	**-**	**-**	**-**	**367**	**367**
Total assets	**6,357**	**495**	**211**	**419**	**2,072**	**516**	**10,070**
Liabilities and shareholders' equity							
Shareholders' equity	**-**	**-**	**-**	**-**	**-**	**739**	**739**
Demand deposits	**5,384**	**-**	**-**	**-**	**-**	**1,798**	**7,182**
Term deposits	**1,239**	**352**	**153**	**75**	**-**	**-**	**1,819**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**213**	**213**
Subordinated capital	**92**	**-**	**-**	**25**	**-**	**-**	**117**
Total liabilities and shareholders' equity	**6,715**	**352**	**153**	**100**	**-**	**2,750**	**10,070**
Interest rate sensitivity gap	**(358)**	**143**	**58**	**319**	**2,072**	**(2,234)**	**-**
Cumulative interest rate sensitivity gap	**(358)**	**(215)**	**(157)**	**162**	**2,234**	**-**	**-**

31 December 2014	Earlier of contractual maturity or repricing date						
(in $ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash and deposits with banks	1,923	-	-	-	-	140	2,063
Short-term investments	155	224	16	-	-	-	395
Investments	422	37	105	470	1,948	7	2,989
Loans	3,684	133	20	89	44	49	4,019
Other assets	-	-	-	-	-	392	392
Total assets	6,184	394	141	559	1,992	588	9,858
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	849	849
Demand deposits	5,142	64	-	-	-	1,559	6,765
Term deposits	1,168	344	316	79	-	-	1,907
Other liabilities	-	-	-	-	-	220	220
Subordinated capital	47	-	45	25	-	-	117
Total liabilities and shareholders' equity	6,357	408	361	104	-	2,628	9,858
Interest rate sensitivity gap	(173)	(14)	(220)	455	1,992	(2,040)	-
Cumulative interest rate sensitivity gap	(173)	(187)	(407)	48	2,040	-	-

Note 15: Earnings per share

Earnings per share have been calculated using the weighted average number of common shares outstanding during the year after deduction of the shares held as treasury stock. The dilutive effect of share-based compensation plans was calculated using the treasury stock method, whereby the proceeds received from the exercise of share-based awards are assumed to be used to repurchase outstanding shares, using the average market price of the Bank's shares for the year. Numbers of shares are expressed in thousands.

	For the three month period ended		For the six month period ended	
	30 June 2015	30 June 2014	**30 June 2015**	30 June 2014
Basic Earnings Per Share	**0.05**	0.04	**0.09**	0.08
Net income	**26,426**	27,545	**53,254**	50,707
Less: Preference dividends declared and guarantee fee	**(4,069)**	(4,125)	**(8,186)**	(8,256)
Less: Premium on preference share buyback	**-**	(32)	**(28)**	(33)
Net income attributable for common shareholders	**22,357**	23,388	**45,040**	42,418
Weighted average number of common shares issued	**496,933**	556,933	**522,647**	556,933
Weighted average number of common shares held as treasury stock	**(10,414)**	(7,758)	**(11,642)**	(7,625)
Adjusted weighted average number of common shares (in thousands)	**486,519**	549,175	**511,005**	549,308
Diluted Earnings Per Share	**0.04**	0.04	**0.09**	0.08
Net income attributable for common shareholders	**22,357**	23,388	**45,040**	42,418
Adjusted weighted average number of common shares issued	**486,519**	549,175	**511,005**	549,308
Net dilution impact related to options to purchase common shares	**5,039**	4,102	**5,099**	3,130
Net dilution impact related to awards of unvested common shares	**7,215**	4,021	**7,106**	4,281
Adjusted weighted average number of diluted common shares (in thousands)	**498,773**	557,298	**523,210**	556,719

Prior to their conversion into common shares on 31 March 2015, outstanding contingent value convertible preference ("CVCP") shares were classified as participating securities as they were entitled to dividends declared to common shareholders on a 1:1 basis and were therefore included in the basic earnings per share calculation.

During the six month period ended 30 June 2015, options to purchase an average of 29.7 million (30 June 2014: 31.4 million) shares of common stock (see Note 16), were outstanding. During the six month period ended 30 June 2015, the average number of outstanding awards of unvested common shares (see Note 16) was 9.7 million (30 June 2014: 9.4 million). Only awards for which the sum of 1) the expense that will be recognised in the future (i.e. the unrecognised expense) and 2) its exercise price, if any, was lower than the average market price of the Bank's common stock were considered dilutive and, therefore, included in the computation of diluted earnings per share. An award's unrecognised expense is also considered to be the proceeds the employees would need to pay to purchase accelerated vesting of the awards. For purposes of calculating dilution, such proceeds are assumed to be used by the Bank to buy back common shares at the average market price. The weighted-average number of outstanding awards, net of the assumed weighted-average number of common shares bought back, is included in the number of diluted participating shares.

Warrants issued to the Government of Bermuda in exchange for the Government's guarantee of the preference shares, with an exercise price of $3.47 (31 December 2014: $3.49) for 4.32 million shares of common stock (31 December 2014: 4.30 million) were not included in the computation of earnings per share as at 30 June 2015 and 2014 because the exercise price was greater than the average market price of the Bank's common stock.

(In thousands of Bermuda dollars, unless otherwise stated)

Note 16: Share-based payments

Stock Option Plans

1997 Stock Option Plan

Prior to the capital raise on 2 March 2010, the Bank granted stock options to employees and Directors of the Bank that entitle the holder to purchase one common share at a subscription price equal to the market price on the effective date of the grant. Generally, the options granted vest 25 percent at the end of each year for four years, however as a result of the 2010 capital raise, the options granted under the Bank's 1997 Stock Option Plan to employees became fully vested and options awarded to certain executives were surrendered.

2010 Stock Option Plan

In conjunction with the capital raise, the Board of Directors approved the 2010 Stock Option Plan. Under the Plan, five per cent of the Bank's fully diluted common shares, equal to approximately 29.5 million shares, are available for grant to certain officers. In May 2012, the Board of Directors approved an increase to the options allowed to be granted under the 2010 Stock Option Plan to 50 million shares.

Under the 2010 Stock Option Plan, options are awarded to Bank employees and executive management, based on predetermined vesting conditions that entitle the holder to purchase one common share at a subscription price usually equal to the last-traded common share price when granted and have a term of 10 years. The subscription price will be reduced for all special dividends declared by the Bank.

The 2010 Stock Option Plan will vest based on two specific types of vesting conditions i.e., time and performance conditions, as detailed below:

Time vesting condition

50% of each option award is granted in the form of time vested options and vests 25% on each of the second, third, fourth and fifth anniversaries of the effective grant date.

Performance vesting condition

50% of each option award is granted in the form of performance options and vests on a "valuation event" date (date any of the 2 March 2010 investors transfer at least 5% of total number of shares or the date that there is a change in control and any of the new investors achieve a multiple of invested capital ("MOIC") based on predetermined MOIC tiers). In the event of a valuation event and the MOIC reaching 200% of the original $1.21 per share invested capital, all performance options would vest. As at 30 June 2015 the grant date fair value not yet recognised in expenses of outstanding performance options is $8.8 million (30 June 2014: $9.5 million). If the probability of a valuation event becomes more likely than not, some or all of the unrecognised expense relating to the performance options will be recognised as an expense.

In addition to the time and performance vesting conditions noted above, the options will generally vest immediately:
• by reason of the employee's death or disability,
• upon termination, by the Bank, of the holder's employment, unless if in relation with the holder's misconduct, or
• in limited circumstances and specifically approved by the Board, as stipulated in the holder's employment contract.

In the event of the employee's resignation, any unvested portion of the awards shall generally be forfeited and any vested portion of the options shall generally remain exercisable during the 90-day period following the termination date or, if earlier, until the expiration date, and any vested portion of the options not exercised as of the expiration of such period shall be forfeited without any consideration therefore.

Changes in Outstanding Stock Options

	Number of shares transferable upon exercise (thousands)		
For the six month period ended 30 June 2015	**1997 Stock Option Plan**	**2010 Stock Option Plan**	**Total**
Outstanding at beginning of period	**3,525**	**26,780**	**30,305**
Exercised	**-**	**(258)**	**(258)**
Forfeitures and cancellations	**(892)**	**(21)**	**(913)**
Resignations, retirements, redundancies	**-**	**(7)**	**(7)**
Outstanding at end of period	**2,633**	**26,494**	**29,127**

	Number of shares transferable upon exercise (thousands)		
For the six month period ended 30 June 2014	1997 Stock Option Plan	2010 Stock Option Plan	Total
Outstanding at beginning of period	3,992	27,808	31,800
Exercised	-	(353)	(353)
Forfeitures and cancellations	(351)	(1)	(352)
Resignations, retirements, redundancies	-	(2)	(2)
Expiration at end of plan life	(31)	-	(31)
Outstanding at end of period	3,610	27,452	31,062

Share Based Plans

Recipients of unvested shares awards are entitled to the related common shares at no cost, at the time the award vests. Recipients of unvested shares may be entitled to receive additional unvested shares having a value equal to the cash dividends that would have been paid had the unvested shares been issued and vested. Such additional unvested shares granted as dividend equivalents are subject to the same vesting schedule and conditions as the underlying unvested shares.

Unvested shares subject only to time vesting condition generally vest upon retirement, death, disability or upon termination, by the Bank, of the holder's employment unless if in relation with the holder's misconduct. Unvested shares subject to both time vesting and performance vesting conditions remain outstanding and unvested upon retirement and will vest only if the performance conditions are met. Unvested shares can also vest in limited circumstances and if specifically approved by the Board, as stipulated in the holder's employment contract. In all other circumstances, unvested shares are generally forfeited when employment ends.

Employee Deferred Incentive Plan ("EDIP")

Under the Bank's EDIP Plan, shares were awarded to Bank employees and executive management based on time-vesting condition, which states that the shares will vest equally over a three-year period from the effective grant date. The table below presents the number of shares transferable upon vesting of the shares under the EDIP:

	For the six month period ended	
Number of shares transferable upon vesting of EDIP shares (in thousands of shares)	**30 June 2015**	30 June 2014
Outstanding at beginning of period	**2,660**	2,183
Granted	**1,335**	1,483
Vested	**(1,921)**	(999)
Resignations, retirements, redundancies	**(60)**	(4)
Outstanding at end of period	**2,014**	2,663

Executive Long-Term Incentive Share Plan ("ELTIP")

2012 and 2011 ELTIP

Under the Bank's 2012 and 2011 ELTIP, shares were awarded to Bank employees and executive management, based on predetermined vesting conditions. Two types of vesting conditions upon which the shares were awarded comprise the ELTIP: 1) 50% of each share award were granted in the form of time vested shares, generally vesting equally over a three-year period from the effective grant date; and 2) 50% of each share award were granted in the form of performance shares, generally vesting upon the achievement of certain performance targets in the three-year period from the effective grant date.

2015, 2014 and 2013 ELTIP

The 2015 ELTIP was approved on 11 February 2015. Under the Bank's 2015, 2014 and 2013 ELTIP, performance shares were awarded to executive management. These shares will generally vest upon the achievement of certain performance targets in the three-year period from the effective grant date.

	For the six month period ended	
Number of shares transferable upon vesting of the 2011 to 2015 ELTIP shares (in thousands of shares)	**30 June 2015**	30 June 2014
Outstanding at beginning of period	**7,062**	6,441
Granted	**2,340**	2,459
Vested	**(2,505)**	(1,824)
Resignations, retirements, redundancies	**-**	(27)
Outstanding at end of period	**6,897**	7,049

Share-based Compensation Cost Recognised in Net Income

	For the six month period ended					
	30 June 2015			30 June 2014		
	Stock option plan	**EDIP and ELTIP**	**Total**	Stock option plan	EDIP and ELTIP	Total
Share-based compensation plans						
Awards granted in year 2010 and after	**260**	**3,492**	**3,752**	650	2,900	3,550
Share-based settlement plans						
Directors shares and retainers settlement plan[1]			**210**			180
Total share-based payments			**3,962**			3,730

[1]The Bank's Non-Executive Directors received their annual retainer compensation in the form of cash or fully vested and unrestricted Bank shares.

Unrecognised Expense Attributable to Each Plan

	As at	
	30 June 2015	30 June 2014
2010 Stock Option Plan		
Time vesting options	**53**	1,177
Performance vesting options	**8,780**	9,483
EDIP	**2,656**	3,232
ELTIP		
Time vesting shares	**28**	384
Performance vesting shares	**2,665**	6,614
Total unrecognised expense	**14,182**	20,890

(In thousands of Bermuda dollars, unless otherwise stated)

Note 17: Share buy-back plans

The Bank initially introduced two share buy-back programmes on 1 May 2012 as a means to improve shareholder liquidity and facilitate growth in share value. Each programme was approved by the Board of Directors for a period of 12 months, in accordance with the regulations of the BSX. The BSX must be advised monthly of shares purchased pursuant to each programme.

Common Share Buy-Back Programme

Effective 1 April 2014, the Board approved the 2014 common share buy-back programme authorising the purchase for treasury of up to 15 million common shares.

On 26 February 2015, the Board approved, with effect from 1 April 2015, the 2015 common share buy-back programme, authorising the purchase for treasury of up to eight million common shares.

	For the six month period ended	For the years ended			
		31 December	31 December	31 December	
Common share buy-backs	**30 June 2015**	2014	2013	2012	Total
Acquired number of shares (to the nearest 1)	**2,042,125**	8,567,340	4,038,482	7,260,051	21,907,998
Average cost per common share	**1.99**	1.99	1.39	1.24	1.63
Total cost (in Bermuda dollars)	**4,059,700**	17,018,412	5,610,907	8,999,061	35,688,080

Preference Share Buy-Back Programme

On 28 April 2014, the Board approved the 2014 preference share buy-back programme, authorising the purchase and cancellation of up to 26,600 preference shares.

On 26 February 2015, the Board approved, with effect from 5 May 2015, the 2015 preference share buy-back programme, authorising the purchase for cancellation of up to 5,000 preference shares.

	For the six month period ended	For the years ended			
		31 December	31 December	31 December	
Preference share buy-backs	**30 June 2015**	2014	2013	2012	Total
Acquired number of shares (to the nearest 1)	**183**	560	11,972	4,422	17,137
Average cost per preference share	**1,151.55**	1,172.26	1,230.26	1,218.40	1,224.46
Total cost (in Bermuda dollars)	**210,734**	656,465	14,728,624	5,387,777	20,983,600

From time to time the Bank's associates, insiders and insiders' associates as defined by the BSX regulations may sell shares which may result in such shares being repurchased pursuant to each programme, provided no more than any such person's pro-rata share of the listed securities is repurchased. Pursuant to the BSX regulations, all repurchases made by any issuer pursuant to a securities repurchase programme must be made: (1) in the open market and not by private agreement; and (2) for a price not higher than the last independent trade for a round lot of the relevant class of securities.

(In thousands of Bermuda dollars, unless otherwise stated)

Note 18: Accumulated other comprehensive loss

The table below presents the changes in AOCL by component for the six month period ended:

30 June 2015	**Unrealised losses on translation of net investment in foreign operations**	**Unrealised gains (losses) on AFS investments**	**Employee future benefits: Pension**	**Employee future benefits: Post-retirement healthcare**	**Employee future benefits: Subtotal - employee future benefits**	**Total AOCL**
Balance at beginning of period	**(10,506)**	**9,769**	**(53,169)**	**(22,866)**	**(76,035)**	**(76,772)**
Other comprehensive income (loss), net of taxes	**(335)**	**(18,306)**	**313**	**(1,498)**	**(1,185)**	**(19,826)**
Balance at end of period	**(10,841)**	**(8,537)**	**(52,856)**	**(24,364)**	**(77,220)**	**(96,598)**

30 June 2014	Unrealised losses on translation of net investment in foreign operations	Unrealised gains (losses) on AFS investments	Employee future benefits: Pension	Employee future benefits: Post-retirement healthcare	Employee future benefits: Subtotal - employee future benefits	Total AOCL
Balance at beginning of period	(7,632)	(40,136)	(35,616)	6,724	(28,892)	(76,660)
Other comprehensive income (loss), net of taxes	1,177	35,782	429	(2,899)	(2,470)	34,489
Balance at end of period	(6,455)	(4,354)	(35,187)	3,825	(31,362)	(42,171)

Net Change of AOCL Components

	Line item in the consolidated statements of operations, if any	For the three month period ended **30 June 2015**	For the three month period ended 30 June 2014	For the six month period ended **30 June 2015**	For the six month period ended 30 June 2014
Net unrealised (losses) gains on translation of net investment in foreign operations adjustments					
Foreign currency translation adjustments		**10,148**	5,176	**1,037**	6,538
Net investment hedge gains (losses)	N/A	**(7,472)**	(4,159)	**(1,372)**	(5,361)
Net change		**2,676**	1,017	**(335)**	1,177
Available-for-sale investment adjustments					
Gross unrealised gains (losses) arising during the year		**(32,861)**	26,955	**(18,692)**	44,514
Reclassification of realised losses (gains) to net income	Net realised gains (losses) on available-for-sale investments	**3**	(8,744)	**269**	(8,744)
Foreign currency translation adjustments of related balances	N/A	**(20)**	(56)	**117**	12
Net change		**(32,878)**	18,155	**(18,306)**	35,782
Employee future benefits adjustments					
Defined benefit pension plan					
Amortisation of actuarial gains	Salaries and other employee benefits	**160**	274	**494**	549
Foreign currency translation adjustments of related balances	N/A	**(532)**	(92)	**(181)**	(120)
Net change		**(372)**	182	**313**	429
Post-retirement healthcare plan					
Amortisation of net actuarial loss	Salaries and other	**(1,586)**	(1,680)	**(3,172)**	(3,360)
Amortisation of prior service cost	employee benefits	**837**	230	**1,674**	461
Net change		**(749)**	(1,450)	**(1,498)**	(2,899)
Other comprehensive income (loss), net of taxes		**(31,323)**	17,904	**(19,826)**	34,489

(In thousands of Bermuda dollars, unless otherwise stated)

Note 19: Capital structure

Authorised Capital

The Bank's total authorised share capital as of 30 June 2015 and 2014 consisted of (i) 26 billion common shares of par value BD$0.01, (ii) 100,200,001 preference shares of par value US$0.01 and (iii) 50 million preference shares of par value £0.01.

On the 27th of April 2015, the Bank announced that it had reached an agreement with Canadian Imperial Bank of Commerce ("CIBC") to repurchase for cancellation the majority of CIBC's shareholding in Butterfield. CIBC owned 19% of Butterfield's issued and outstanding common equity comprising 103,434,232 million common shares. On 30 April 2015, Butterfield repurchased and cancelled 80,000,000 shares held by CIBC for $1.50 per share, for a total of $120 million. The remaining CIBC shareholding in Butterfield (representing 23,434,232 shares) was taken up by Carlyle Global Financial Services, L.P. at $1.50 per share and subsequently sold to other investors.

Dividend Declared

During the three month period ended 30 June 2015, the Bank declared cash dividends totalling $0.01 (30 June 2014: $0.01) for each common share and CVCP share on record (CVCP shares were all converted to common shares on 31 March 2015) as of the related record dates. During the three month period ended 30 June 2015 and 2014, the Bank declared the full 8.00% cash dividends on preference shares in each quarter.

Regulatory Capital

The Bank is subject to Basel II which is a risk-based capital adequacy framework developed by the Basel Committee on Banking Supervision (the "Basel Committee") and has been endorsed by the central bank governors and heads of bank supervision of the G10 countries. In December 2008, the BMA published final rules, effective 1 January 2009, with respect to the implementation of the Basel II framework. From this date the Bank has calculated its capital requirement on the Standardised approach under Basel II requirements.

Effective 1 January 2015, the BMA adopted capital and liquidity regulatory requirements consistent with Basel III, a framework released by the Basel Committee on Banking Supervision. The finalisation of the implementation is subject to ongoing consultation with the BMA regarding the implementation and interpretation of these new rules. The Bank is assessing the impact of the adoption of this guidance. The impact is not expected to be material.

The Bank is fully compliant with all regulatory capital requirements and maintains capital ratios in excess of regulatory minimums as at 30 June 2015 and 31 December 2014. The following table sets forth the Bank's capital adequacy in accordance with Basel II framework:

	30 June 2015	31 December 2014
Capital		
Tier 1 capital	**691,541**	781,743
Tier 2 capital	**126,399**	130,788
Total capital	**817,940**	912,531
Weighted Risk Assets	**4,429,124**	4,113,404
Capital Ratios (%)		
Tier 1 common	**11.5%**	14.6%
Tier 1 Total	**15.6%**	19.0%
Total Capital	**18.5%**	22.2%

(In thousands of Bermuda dollars, unless otherwise stated)

Note 20: Business combinations

Legis Acquisition

On 1 April 2014, the Bank via one of its subsidiaries, Butterfield Trust (Guernsey) Limited ("BTGL"), acquired all of the outstanding common shares of Legis T & C Holdings Limited ("Legis") for a maximum purchase price of up to $39.6 million. Legis is a Guernsey-based trust and corporate services business. The acquisition was undertaken to enhance the Bank's market presence and widen the Bank's range of corporate and institutional trust services for private clients and institutional and corporate clients.

The acquisition date fair value of the cash consideration transferred amounted to $34.8 million comprising cash settlement of $31.9 million paid on 1 April 2014 and a contingent consideration of $2.9 million. The contingent consideration is dependent on revenue performance and representation and warranties being met. The undiscounted contingent consideration ranges from $2.3 million to $5.4 million. The fair value is calculated as the discounted amount payable based on various case scenarios with equal probabilities assigned to the payouts being made under each scenario.

The final consideration payable may differ from the initial estimated liability with any changes in the liability recorded in other gains (losses) in the consolidated statement of operations until the liability is settled. Subsequent to the acquisition date, and primarily as a result of the change in payment probabilities as estimates were updated for actual results, the estimated fair value of the contingent consideration liability increased to $3.7 million as at 31 December 2014 and remained unchanged up to 31 March 2015. At 30 June 2015, the estimated fair value of the contingent consideration liability decreased to $2.5 million as a result of payment being made in accordance with the terms of the acquisition. The contingent consideration is included in other liabilities in the consolidated balance sheet.

The following selected unaudited pro forma financial information has been provided to present a summary of the combined results of the Bank and Legis, assuming the transaction had been effected on 1 January, 2013. The unaudited pro forma data is for informational purposes only and does not necessarily represent results that would have occurred if the transaction had taken place on the basis assumed above. No unaudited pro forma data is prepared for the three month period ended 30 June 2014 and the three and six month periods ended 30 June 2015 as the operating results of Legis were fully integrated throughout these periods.

For the six month period ended	**30 June 2014**
Total net revenue	190,305
Total non-interest operating expense (including income tax expense)	139,094
Pro format net income post business combination	51,211

HSBC Acquisition

On 7 November 2014, the Bank via one of its subsidiaries, Butterfield Bank (Cayman) Limited ("BNTB Cayman"), acquired substantially all the retail loans and deposits of HSBC Bank (Cayman) Limited (“HSBC Cayman”) for a cash purchase price of $5.3 million. The acquisition was undertaken to enhance the Bank's market presence and expand its community banking customer base in the Cayman Islands. The acquisition was accounted for as a business combination as the Bank acquired substantially all the loans and deposits of HSBC Cayman and deemed to obtain control over the business.

As the parts of the retail loans and deposits of HSBC Cayman were acquired after 30 June 2014, the date for which comparative information for the consolidated statements of operations is presented, no comparative information regarding this transaction is available. The information as presented in the consolidated balance sheets includes the effects of this transaction.

Note 21: Related party transactions

Financing Transactions

Certain Directors of the Bank, companies in which they are principal owners, and trusts in which they are involved, have loans with the Bank. These loans were made in the ordinary course of business at normal credit terms, including interest rate and collateral requirements. As at 30 June 2015, related party Director loan balances were $59.4 million (31 December 2014: $58.0 million).

On 27 June 2013, the Bank executed a $95 million loan agreement with an investment fund managed by a significant shareholder which provides for maturity on 30 June 2017. This loan was made in the ordinary course of business on normal commercial terms. At 30 June 2015, $15.0 million (31 December 2014: $65.7 million) was outstanding under this agreement. For the six month period ended 30 June 2015, $0.9 million (30 June 2014: $1.4 million) of interest income has been recognised in the consolidated statements of operations.

Capital Transaction

Funds associated with the Carlyle Group hold approximately 23% of the Bank's equity voting power along with the right to designate two persons for nomination for election by the shareholders as members of the Bank's Board of Directors. Prior to 30 April 2015, Canadian Imperial Bank of Commerce ("CIBC") held approximately 19% of the Bank's equity voting power. On 30 April 2015, the Bank completed the transaction with CIBC to repurchase for cancellation approximately 77% of CIBC's shares for $1.50 per share, or a total of $120 million, representing 80,000,000 common shares. The remaining 23% of CIBC's shareholding in Butterfield (representing 23.4 million shares) were taken up by Carlyle Global Financial Services, L.P. and subsequently sold to other investors.

Note 22: Comparative information

Certain prior-period figures have been reclassified to conform to current year presentation.

Note 23: Subsequent events

On 27 July 2015, the Board of Directors declared an interim dividend of $0.01 per common share to be paid on 28 August 2015 to shareholders of record on 14 August 2015.

The Bank has performed an evaluation of subsequent events through to 27 July 2015, the date the financial statements were issued.