



Butterfield

Q1 2015

Financial Results for the Three Months Ended 31 March 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)

	31 March 2015	As at 31 December 2014
Assets		
Cash and demand deposits with banks	442,694	482,286
Cash equivalents	1,617,075	1,581,025
Total cash and cash equivalents	2,059,769	2,063,311
Short-term investments	341,771	394,770
Debt and equity securities		
Trading	7,102	6,871
Available-for-sale	2,745,828	2,644,063
Held-to-maturity	333,023	338,177
Total investments in debt and equity securities	3,085,953	2,989,111
Loans, net of allowance for credit losses	3,921,677	4,019,128
Premises, equipment and computer software	208,312	215,123
Accrued interest	19,234	19,241
Goodwill	23,647	24,821
Intangible assets	31,046	33,041
Investments in affiliates	12,718	12,838
Other real estate owned	17,504	19,300
Other assets	78,639	67,756
Total assets	9,800,270	9,858,440
Liabilities		
Customer deposits		
Non-interest bearing	1,508,221	1,558,122
Interest bearing	7,072,130	7,073,549
Total customer deposits	8,580,351	8,631,671
Bank deposits	19,827	39,906
Total deposits	8,600,178	8,671,577
Employee future benefits	118,171	117,897
Accrued interest	5,322	4,754
Preference share dividends payable	654	655
Other liabilities	87,459	97,183
Total other liabilities	211,606	220,489
Subordinated capital	117,000	117,000
Total liabilities	8,928,784	9,009,066
Shareholders' equity		
Common share capital (BMD 0.01 par; authorised shares 26,000,000,000)		
issued and outstanding: 556,932,535 (2014: 550,023,138)	5,569	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	1,345,651	1,348,465
Accumulated deficit	(394,009)	(405,804)
Less: treasury common shares: 11,611,388 shares (2014: 12,770,604 shares)	(20,452)	(22,086)
Accumulated other comprehensive loss	(65,275)	(76,772)
Total shareholders' equity	871,486	849,374
Total liabilities and shareholders' equity	9,800,270	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

31 March 2015 31 March 2014

Non-interest income		
Asset management	4,309	4,494
Banking	8,315	8,266
Foreign exchange revenue	7,914	7,611
Trust	9,957	7,677
Custody and other administration services	2,422	2,521
Other non-interest income	1,218	1,011
Total non-interest income	34,135	31,580
Interest income		
Loans	46,005	46,692
Investments	17,468	17,126
Deposits with banks	1,693	1,183
Total interest income	65,166	65,001
Interest expense		
Deposits	5,003	5,241
Subordinated capital	1,384	1,385
Securities sold under repurchase agreements	-	25
Total interest expense	6,387	6,651
Net interest income before provision for credit losses	58,779	58,350
Provision for credit losses	(189)	(3,474)
Net interest income after provision for credit losses	58,590	54,876
Net trading gains	232	194
Net realised losses on available-for-sale investments	(266)	-
Net realised / unrealised losses on other real estate owned	(336)	(10)
Gain on sale of premises and equipment	189	-
Net other gains	24	1,055
Total other (losses) gains	(157)	1,239
Total net revenue	92,568	87,695
Non-interest expense		
Salaries and other employee benefits	32,665	30,774
Technology and communications	13,865	13,806
Property	5,152	5,968
Professional and outside services	4,058	4,353
Non-income taxes	4,267	4,078
Amortisation of intangible assets	1,099	875
Marketing	885	1,010
Other expenses	3,543	3,530
Total non-interest expense	65,534	64,394
Net income before income taxes	27,034	23,301
Income tax expense	(206)	(139)
Net income	26,828	23,162
Earnings per common share		
Basic earnings per share	0.04	0.03
Diluted earnings per share	0.04	0.03

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

31 March 2015 31 March 2014

Net income	26,828	23,162
Other comprehensive income (loss), net of taxes		
Net change in unrealised gains (losses) on translation of net investment in foreign operations	(3,011)	160
Net change in unrealised gains on available-for-sale investments	14,572	17,627
Employee future benefits adjustments	(64)	(1,202)
Other comprehensive income	11,497	16,585
Total comprehensive income	38,325	39,747

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 three month period ended

	31 March 2015		31 March 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	49,885	1
Balance at end of period	556,932,535	5,569	549,853,345	5,499
Preference shares				
Balance at beginning of period	183,046	2	183,606	2
Repurchase and cancellation of preference shares	(183)	-	(7)	-
Balance at end of period	182,863	2	183,599	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)	(49,885)	(1)
Balance at end of period	-	-	7,079,190	70
Additional paid-in capital				
Balance at beginning of period		1,348,465		1,344,755
Stock option plan expense		1,954		1,775
Share-based compensation settlements		(4,557)		(3,843)
Reduction of carrying value on repurchase of preference shares		(183)		(7)
Premium paid on repurchase of preference shares		(28)		(1)
Balance at end of period		1,345,651		1,342,679
Accumulated deficit				
Balance at beginning of period		(405,804)		(460,157)
Net income for period		26,828		23,162
Common share cash dividends declared and paid \$0.02 per share (2014 \$0.02 per share)		(10,916)		(11,027)
Cash dividends declared on preference shares		(3,660)		(3,672)
Preference shares guarantee fee		(457)		(459)
Balance at end of period		(394,009)		(452,153)
Treasury common shares				
Balance at beginning of period	12,770,604	(22,086)	8,310,421	(10,948)
Purchase of treasury shares	1,600,550	(3,188)	1,767,672	(3,458)
Share-based compensation settlements	(2,759,766)	4,822	(3,045,884)	4,029
Balance at end of period	11,611,388	(20,452)	7,032,209	(10,377)
Accumulated other comprehensive loss				
Balance at beginning of period		(76,772)		(76,660)
Other comprehensive income, net of taxes		11,497		16,585
Balance at end of period		(65,275)		(60,075)
Total shareholders' equity		871,486		825,645

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 three month period ended	
	31 March 2015	31 March 2014
Cash flows from operating activities		
Net income	26,828	23,162
Adjustments to reconcile net income to operating cash flows		
Depreciation and amortisation	13,059	10,907
Increase in carrying value of investments in affiliates	(289)	-
Share-based payments and settlements	1,954	1,775
Gain on sale of premises and equipment	(189)	-
Net realised and unrealised loss on other real estate owned	336	10
Net realised loss on available-for-sale investments	266	-
Provision for credit losses	189	3,474
Changes in operating assets and liabilities		
Increase in accrued interest receivable	(193)	(458)
Increase in other assets	(11,790)	(2,174)
Increase in accrued interest payable	649	1,073
Decrease in other liabilities and employee future benefits	(3,131)	(1,130)
	27,689	36,639
Net change in trading investments	(265)	42,952
Cash provided by operating activities from operations	27,424	79,591
Cash flows from investing activities		
Net decrease in short-term investments	48,261	3,791
Dividends received from affiliates	409	-
Net additions to premises, equipment and computer software	(144)	(2,758)
Proceeds from sale of other real estate owned	1,460	2,698
Net decrease in loans	55,342	91,315
Held-to-maturity investments: proceeds from maturities and pay downs	4,870	1,724
Available-for-sale investments: proceeds from sale	10,576	-
Available-for-sale investments: proceeds from maturities and pay downs	75,091	159,446
Available-for-sale investments: purchases	(212,564)	(335,658)
Cash used in investing activities	(16,699)	(79,442)
Cash flows from financing activities		
Net increase in demand and term deposit liabilities	34,910	138,705
Net decrease in securities sold under agreement to repurchase	-	1,215
Repayment of subordinated capital	-	(90,000)
Common shares repurchased	(3,188)	(3,458)
Preference shares repurchased	(211)	(8)
Proceeds from stock option exercises	265	188
Cash dividends paid on preference shares	(3,660)	(3,672)
Cash dividends paid on common and contingent value convertible preference shares	(10,916)	(11,027)
Preference shares guarantee fee paid	(457)	(459)
Cash provided by financing activities	16,743	31,484
Net effect of exchange rates on cash and cash equivalents	(31,010)	2,820
Net (decrease) increase in cash and cash equivalents	(3,542)	34,453
Cash and cash equivalents at beginning of period	2,063,311	1,730,472
Cash and cash equivalents at end of period	2,059,769	1,764,925
Non-cash item		
Transfer to other real estate owned	-	1,674

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

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars, unless otherwise stated)

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 of N.T. Butterfield & Son Limited (the "Bank") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. 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 U.S. 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 three month period ended 31 March 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 Bank is assessing the impact of the adoption of this guidance.

Note 3: Cash and cash equivalents

	31 March 2015			31 December 2014		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Non-interest earning						
Cash and demand deposits	23,597	71,059	94,656	23,609	116,056	139,665
Interest earning						
Demand deposits	155,542	192,496	348,038	203,572	139,049	342,621
Cash equivalents	476,170	1,140,905	1,617,075	469,388	1,111,637	1,581,025
Sub-total - Interest earning	631,712	1,333,401	1,965,113	672,960	1,250,686	1,923,646
Total cash and cash equivalents	655,309	1,404,460	2,059,769	696,569	1,366,742	2,063,311

The Bank of N.T. Butterfield & Son Limited
Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars, unless otherwise stated)

Note 4: Short-term investments

	31 March 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	-	217,377	217,377	-	144,632	144,632
Maturing between three to six months	-	106,818	106,818	-	223,563	223,563
Maturing between six to twelve months	-	5,648	5,648	-	15,694	15,694
Total unrestricted short-term investments	-	329,843	329,843	-	383,889	383,889
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Interest earning demand deposits	10,543	1,385	11,928	9,141	1,740	10,881
Total short-term investments	10,543	331,228	341,771	9,141	385,629	394,770

Note 5: Investments

Amortised Cost, Carrying Amount and Fair Value

	31 March 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 (carried at fair value on the consolidated balance sheets)								
Mutual funds	6,778	1,102	(778)	7,102	6,778	1,037	(944)	6,871
Total trading	6,778	1,102	(778)	7,102	6,778	1,037	(944)	6,871
Available-for-sale (carried at fair value on the consolidated balance sheets)								
Certificates of deposit	18,558	7	-	18,565	37,724	19	-	37,743
US government and federal agencies	2,011,522	22,771	(6,595)	2,027,698	1,881,728	17,140	(10,998)	1,887,870
Debt securities issued by non-US governments	38,218	399	-	38,617	38,254	196	(125)	38,325
Corporate debt securities	381,982	8,706	(565)	390,123	391,059	9,393	(1,163)	399,289
Asset-backed securities - Student loans	59,998	-	(1,265)	58,733	66,136	-	(1,313)	64,823
Commercial mortgage-backed securities	153,923	752	(202)	154,473	154,211	33	(3,075)	151,169
Residential mortgage-backed securities - Prime	57,271	627	(294)	57,604	65,167	264	(602)	64,829
Equity securities	15	-	-	15	15	-	-	15
Total available-for-sale	2,721,487	33,262	(8,921)	2,745,828	2,634,294	27,045	(17,276)	2,644,063
Held-to-maturity ¹ (carried at amortised cost on the Consolidated Balance Sheets)								
US government and federal agencies	333,023	9,579	(22)	342,580	338,177	6,330	(518)	343,989
Total held-to-maturity	333,023	9,579	(22)	342,580	338,177	6,330	(518)	343,989

¹ For the periods ended 31 March 2015 and 31 December 2014, non-credit impairments recognised in AOCL for HTM investments were \$nil.

Pledged investments

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

	31 March 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	501,202	508,394	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	123,963	128,861	107,837	110,175

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars, unless otherwise stated)

Unrealised Loss Positions

The following tables show the fair value and gross unrealised losses of the Bank's AFS and HTM investments with unrealised losses that are not deemed to be 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.

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	<u>Total gross</u>
	<u>Fair</u>	<u>Gross</u>	<u>Fair</u>	<u>Gross</u>		
31 March 2015	<u>value</u>	<u>unrealised</u>	<u>value</u>	<u>losses</u>	<u>fair value</u>	<u>unrealised</u>
Available-for-sale						
US government and federal agencies	324,886	(608)	373,332	(5,987)	698,218	(6,595)
Corporate debt securities	-	-	39,435	(565)	39,435	(565)
Asset-backed securities - Student loans	-	-	58,770	(1,265)	58,770	(1,265)
Commercial mortgage-backed securities	-	-	39,404	(202)	39,404	(202)
Residential mortgage-backed securities - Prime	-	-	11,522	(294)	11,522	(294)
Total available-for-sale securities with unrealised losses	324,886	(608)	522,463	(8,313)	847,349	(8,921)
Held-to-maturity						
US government and federal agencies	-	-	32,131	(22)	32,131	(22)
Total held-to-maturity securities with unrealised losses	-	-	32,131	(22)	32,131	(22)

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	<u>Total gross</u>
	<u>Fair</u>	<u>Gross</u>	<u>Fair</u>	<u>Gross</u>		
31 December 2014	<u>value</u>	<u>unrealised</u>	<u>value</u>	<u>losses</u>	<u>fair value</u>	<u>unrealised</u>
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)

The Bank does not believe that the investment securities that were in an unrealised loss position as of 31 March 2015, which were comprised of 51 securities representing 28% of the portfolio's fair value, represent an other-than-temporary-impairment ("OTTI"). Total gross unrealised losses were 1.0% 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** relates 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 on the underlying mortgages and credit support and loan-to-value ratios ("LTV") range from 0% - 22% and 30% - 50%, 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 this security as it has credit support of 7% and an LTV ratio of 61%.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars, unless otherwise stated)

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					No specific maturity	Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years		
31 March 2015							
Trading							
Mutual funds	-	-	-	-	-	7,102	7,102
Available-for-sale							
Certificates of deposit	14,850	3,715	-	-	-	-	18,565
US government and federal agencies	-	-	95,107	324,676	1,607,915	-	2,027,698
Debt securities issued by non-US governments	680	8,304	6,817	22,816	-	-	38,617
Corporate debt securities	20,976	161,452	168,260	39,435	-	-	390,123
Asset-backed securities - Student loans	-	-	46,506	-	12,227	-	58,733
Commercial mortgage-backed securities	-	-	-	44,139	110,334	-	154,473
Residential mortgage-backed securities - Prime	-	-	-	-	57,604	-	57,604
Equity securities	-	-	-	-	-	15	15
Total available-for-sale	36,506	173,471	316,690	431,066	1,788,080	15	2,745,828
Held-to-maturity							
US government and federal agencies	-	-	-	48,040	284,983	-	333,023
Total investments	36,506	173,471	316,690	479,106	2,073,063	7,117	3,085,953
Total by currency							
US dollars	21,656	169,756	316,690	479,106	2,073,063	6,102	3,066,373
Other	14,850	3,715	-	-	-	1,015	19,580
Total investments	36,506	173,471	316,690	479,106	2,073,063	7,117	3,085,953

	Remaining term to average contractual maturity					No specific maturity	Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years		
31 December 2014							
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

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Sale Proceeds and Realised Gains and Losses of AFS Securities

	For the three month period ended			
	31 March 2015		31 March 2014	
	Sale proceeds	Gross realised gain (loss)	Sale proceeds	Gross realised gain (loss)
US government and federal agency	6,056	(267)	-	-
Certificates of deposit	4,520	1	-	-
Net realised gains (losses) recognised in net income	10,576	(266)	-	-

Note 6: Loans

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

	31 March 2015			31 December 2014		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Commercial loans						
Government	66,067	46,776	112,843	66,316	46,776	113,092
Commercial and industrial	118,549	243,628	362,177	137,445	251,392	388,837
Commercial overdrafts	39,280	7,900	47,180	48,107	11,194	59,301
Total commercial loans	223,896	298,304	522,200	251,868	309,362	561,230
Less specific allowance for credit losses on commercial loans	(420)	(65)	(485)	(352)	(65)	(417)
Total commercial loans after specific allowance for credit losses	223,476	298,239	521,715	251,516	309,297	560,813
Commercial real estate loans						
Commercial mortgage	419,584	276,207	695,791	415,315	281,663	696,978
Construction	-	19,485	19,485	-	20,617	20,617
Total commercial real estate loans	419,584	295,692	715,276	415,315	302,280	717,595
Less specific allowance for credit losses on commercial real estate loans	(820)	(1,336)	(2,156)	(770)	(1,052)	(1,822)
Total commercial real estate loans after specific allowance for credit losses	418,764	294,356	713,120	414,545	301,228	715,773
Consumer loans						
Automobile financing	12,645	7,518	20,163	12,639	7,716	20,355
Credit card	56,580	18,772	75,352	58,500	20,684	79,184
Overdrafts	10,076	5,533	15,609	12,935	8,208	21,143
Other consumer	40,506	107,916	148,422	43,679	113,941	157,620
Total consumer loans	119,807	139,739	259,546	127,753	150,549	278,302
Less specific allowance for credit losses on consumer loans	(355)	-	(355)	(355)	-	(355)
Total consumer loans after specific allowance for credit losses	119,452	139,739	259,191	127,398	150,549	277,947
Residential mortgage loans	1,273,847	1,197,622	2,471,469	1,270,867	1,238,616	2,509,483
Less specific allowance for credit losses on residential mortgage loans	(13,811)	(1,404)	(15,215)	(14,771)	(1,446)	(16,217)
Total residential mortgage loans after specific allowance for credit losses	1,260,036	1,196,218	2,456,254	1,256,096	1,237,170	2,493,266
Total gross loans	2,037,134	1,931,357	3,968,491	2,065,803	2,000,807	4,066,610
Less specific allowance for credit losses	(15,406)	(2,805)	(18,211)	(16,248)	(2,563)	(18,811)
Less general allowance for credit losses	(19,268)	(9,335)	(28,603)	(18,992)	(9,679)	(28,671)
Net loans	2,002,460	1,919,217	3,921,677	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 31 March 2015 is 4.63% (31 December 2014: 4.71%).

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

The following tables summarise the past due status of the loans at 31 March 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 - 59 days	60 - 89 days	90 days or more	Total past due loans	Total current ¹	Total loans
31 March 2015						
Commercial loans						
Government	-	-	-	-	112,843	112,843
Commercial and industrial	99	350	1,753	2,202	359,975	362,177
Commercial overdrafts	-	-	54	54	47,126	47,180
Total commercial loans	99	350	1,807	2,256	519,944	522,200
Commercial real estate loans						
Commercial mortgage	4,884	-	9,981	14,865	680,926	695,791
Construction	-	-	-	-	19,485	19,485
Total commercial real estate loans	4,884	-	9,981	14,865	700,411	715,276
Consumer loans						
Automobile financing	268	21	107	396	19,767	20,163
Credit card	585	217	328	1,130	74,222	75,352
Overdrafts	1	-	232	233	15,376	15,609
Other consumer	1,184	504	1,400	3,088	145,334	148,422
Total consumer loans	2,038	742	2,067	4,847	254,699	259,546
Residential mortgage loans	36,954	4,735	79,844	121,533	2,349,936	2,471,469
Total past due loans	43,975	5,827	93,699	143,501	3,824,990	3,968,491

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

	30 - 59 days	60 - 89 days	90 days or more	Total past due loans	Total current ¹	Total loans
31 December 2014						
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.

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Loans' Credit Quality

The four credit quality classifications set out in the following table are defined below and describe the credit quality of the Group's lending portfolio. These classifications each encompass a range of more granular, internal credit rating grades assigned.

	Pass	Special mention	Substandard	Non-accrual	Total gross recorded investments
31 March 2015					
Commercial loans					
Government	97,843	15,000	-	-	112,843
Commercial and industrial	355,774	3,834	803	1,766	362,177
Commercial overdrafts	43,040	3,932	149	59	47,180
Total commercial loans	496,657	22,766	952	1,825	522,200
Commercial real estate loans					
Commercial mortgage	550,177	95,197	38,291	12,126	695,791
Construction	19,485	-	-	-	19,485
Total commercial real estate loans	569,662	95,197	38,291	12,126	715,276
Consumer loans					
Automobile financing	19,477	492	-	194	20,163
Credit card	75,024	-	328	-	75,352
Overdrafts	15,319	58	227	5	15,609
Other consumer	144,866	1,696	471	1,389	148,422
Total consumer loans	254,686	2,246	1,026	1,588	259,546
Residential mortgage loans	2,301,166	48,426	65,137	56,740	2,471,469
Total gross recorded loans	3,622,171	168,635	105,406	72,279	3,968,491

	Pass	Special mention	Substandard	Non-accrual	Total gross recorded investments
31 December 2014					
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.

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Non-Performing Loans

	31 March 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	1,766	-	1,766	733	1,057	1,790
Commercial overdrafts	59	12	71	106	4	110
Total commercial loans	1,825	12	1,837	839	1,061	1,900
Commercial real estate loans						
Commercial mortgage	12,126	742	12,868	12,273	779	13,052
Consumer loans						
Automobile financing	194	-	194	176	-	176
Credit card	-	328	328	-	202	202
Overdrafts	5	227	232	43	-	43
Other consumer	1,389	351	1,740	1,763	619	2,382
Total consumer loans	1,588	906	2,494	1,982	821	2,803
Residential mortgage loans	56,740	27,497	84,237	56,704	29,052	85,756
Total non-performing loans	72,279	29,157	101,436	71,798	31,713	103,511

¹ Excludes purchased credit-impaired loans.

Gross Loans Evaluated For Impairment

	31 March 2015		31 December 2014	
	Individually evaluated	Collectively evaluated	Individually evaluated	Collectively evaluated
Commercial	1,825	520,375	839	560,391
Commercial real estate	33,611	681,665	33,898	683,697
Consumer	1,662	257,884	2,068	276,234
Residential mortgage	103,839	2,367,630	105,777	2,403,706
Total gross loans evaluated for impairment	140,937	3,827,554	142,582	3,924,028

Changes in General and Specific Allowances For Credit Losses

	Three month period ended 31 March 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)	(116)	763	(314)	(144)	189	8,048
Recoveries	88	-	380	82	550	2,324
Charge-offs	(66)	(311)	(422)	(467)	(1,266)	(15,467)
Other	(14)	(58)	(34)	(35)	(141)	(178)
Allowances at end of period	7,723	6,314	2,407	30,370	46,814	47,482
Allowances at end of period: individually evaluated for impairment	485	2,156	355	15,215	18,211	18,811
Allowances at end of period: collectively evaluated for impairment	7,238	4,158	2,052	15,155	28,603	28,671

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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 loan contract, including scheduled interest payments. Impaired loans include all non-accrual loans and all loans modified in a TDR even if full collectability is expected following the restructuring. For the three month period ended 31 March 2015, the amount of gross interest income that would have been recorded had impaired loans been current was \$1.5 million (31 March 2014: \$1.4 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		
	Gross recorded investment	Specific allowance	Net loans		Gross recorded investment	Specific allowance	Net loans
31 March 2015							
Commercial loans							
Commercial and industrial	577	(485)	92	1,189	1,766	(485)	1,281
Commercial overdrafts	-	-	-	59	59	-	59
Total commercial loans	577	(485)	92	1,248	1,825	(485)	1,340
Commercial real estate loans							
Commercial mortgage	4,714	(2,156)	2,558	28,897	33,611	(2,156)	31,455
Consumer loans							
Automobile financing	-	-	-	194	194	-	194
Overdrafts	-	-	-	5	5	-	5
Other consumer	508	(355)	153	965	1,473	(355)	1,118
Total consumer loans	508	(355)	153	1,164	1,672	(355)	1,317
Residential mortgage loans	42,989	(15,215)	27,774	31,250	74,239	(15,215)	59,024
Total impaired loans	48,788	(18,211)	30,577	62,559	111,347	(18,211)	93,136

¹ Excludes purchased credit-impaired loans.

	Impaired loans with an allowance			Gross recorded investment of impaired loans without an allowance	Total impaired loans ¹		
	Gross recorded investment	Specific allowance	Net loans		Gross recorded investment	Specific allowance	Net loans
31 December 2014							
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.

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Average Impaired Loan Balances and Related Recognised Interest Income

	31 March 2015		31 December 2014	
	Average gross recorded investment	Interest income recognised	Average gross recorded investment	Interest income recognised
Commercial loans				
Commercial and industrial	1,250	-	1,452	-
Commercial overdrafts	83	-	289	-
Total commercial loans	1,333	-	1,741	-
Commercial real estate loans				
Commercial mortgage	33,755	178	48,581	675
Consumer loans				
Automobile financing	185	-	307	-
Credit card	-	-	35	-
Overdrafts	24	-	132	-
Other consumer	1,666	1	1,963	5
Total consumer loans	1,875	1	2,437	5
Residential mortgage loans	74,838	424	70,923	1,021
Total impaired loans	111,801	603	123,682	1,701

Loans Modified in a TDR

	Number of contracts	Pre-modification outstanding recorded investment	Effect of modification on recorded investment		Post-modification outstanding recorded investment	Carrying amount as at balance sheet date	
			Changes in the amount of repayments	Interest capitalisation		Accrual	Non-accrual
31 March 2015							
Commercial real estate loans	8	35,235	-	149	35,384	21,485	4,281
Consumer loans	1	106	-	-	106	84	-
Residential mortgage loans	35	23,371	-	497	23,868	17,499	5,041
Total loans modified in a TDR	44	58,712	-	646	59,358	39,068	9,322

	Number of contracts	Pre-modification outstanding recorded investment	Effect of modification on recorded investment		Post-modification outstanding recorded investment	Carrying amount as at balance sheet date	
			Changes in the amount of repayments	Interest capitalisation		Accrual	Non-accrual
31 December 2014							
Commercial real estate loans	8	35,270	-	149	35,419	21,625	4,297
Consumer loans	1	111	-	-	111	96	-
Residential mortgage loans	36	23,706	-	497	24,203	18,733	4,613
Total loans modified in a TDR	45	59,087	-	646	59,733	40,454	8,910

As at 31 March 2015, the Bank has 5 loans modified in a TDR that subsequently defaulted (i.e. 90 days or more past due following a modification) with a recorded investment amounting to \$2.0 million.

Purchased Credit-Impaired Loans

	For the three month period ended 31 March 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	-
Increase in cash flows expected to be collected ²	-	59	59	-	-	-
Accretion	-	-	(59)	-	-	-
Balance at end of period	11,020	7,275	-	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.

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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:

Business sector	31 March 2015			31 December 2014		
	Loans	Off-balance sheet	Total credit exposure	Loans	Off-balance sheet	Total credit exposure
Banks and financial services	287,298	282,972	570,270	307,835	299,934	607,769
Commercial and merchandising	229,743	115,384	345,127	252,945	113,432	366,377
Governments	109,029	-	109,029	109,051	-	109,051
Individuals	2,488,515	115,393	2,603,908	2,482,892	75,224	2,558,116
Primary industry and manufacturing	40,442	570	41,012	70,298	570	70,868
Real estate	674,349	9,274	683,623	710,905	5,703	716,608
Hospitality industry	114,646	15,000	129,646	107,538	275	107,813
Transport and communication	6,258	-	6,258	6,335	-	6,335
Sub-total	3,950,280	538,593	4,488,873	4,047,799	495,138	4,542,937
General allowance	(28,603)	-	(28,603)	(28,671)	-	(28,671)
Total	3,921,677	538,593	4,460,270	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.

Geographic region	31 March 2015				31 December 2014			
	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	21,417	-	-	21,417	7,521	-	-	7,521
Bermuda	23,668	2,237,852	256,277	2,517,797	18,486	2,269,748	263,407	2,551,641
Canada	46,602	-	-	46,602	16,648	-	-	16,648
Cayman	194,224	750,533	159,970	1,104,727	196,746	763,379	145,796	1,105,921
Guernsey	1,386	499,303	66,436	567,125	1,741	527,560	70,976	600,277
Japan	50,096	-	-	50,096	32,464	-	-	32,464
New Zealand	1,177	-	-	1,177	3,384	-	-	3,384
Sweden	28,293	-	-	28,293	2,419	-	-	2,419
Switzerland	8,279	-	-	8,279	7,954	-	-	7,954
The Bahamas	4,832	30,723	-	35,555	4,423	31,809	-	36,232
United Kingdom	1,195,917	431,869	55,910	1,683,696	1,300,686	455,303	14,959	1,770,948
United States	824,052	-	-	824,052	864,361	-	-	864,361
Other	1,597	-	-	1,597	1,248	-	-	1,248
Sub-total	2,401,540	3,950,280	538,593	6,890,413	2,458,081	4,047,799	495,138	7,001,018
General allowance	-	(28,603)	-	(28,603)	-	(28,671)	-	(28,671)
Total	2,401,540	3,921,677	538,593	6,861,810	2,458,081	4,019,128	495,138	6,972,347

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Note 8: Customer deposits and deposits from banks

By Maturity

	31 March 2015			31 December 2014		
	Customers	Banks	Total	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	1,508,221	606	1,508,827	1,558,122	408	1,558,530
Demand deposits - Interest bearing	5,351,243	5,401	5,356,644	5,179,522	26,512	5,206,034
Total demand deposits	6,859,464	6,007	6,865,471	6,737,644	26,920	6,764,564
Term deposits having a denomination of less than \$100 thousand						
Term deposits maturing within six months	54,676	163	54,839	57,451	82	57,533
Term deposits maturing between six to twelve months	18,913	-	18,913	18,310	-	18,310
Term deposits maturing after twelve months	18,041	-	18,041	18,492	-	18,492
Total term deposits having a denomination of less than \$100 thousand	91,630	163	91,793	94,253	82	94,335
Term deposits having a denomination of \$100 thousand or more						
Term deposits maturing within six months	1,399,420	10,144	1,409,564	1,445,072	9,368	1,454,440
Term deposits maturing between six to twelve months	170,179	3,513	173,692	294,175	3,536	297,711
Term deposits maturing after twelve months	59,658	-	59,658	60,527	-	60,527
Total term deposits having a denomination of \$100 thousand or more	1,629,257	13,657	1,642,914	1,799,774	12,904	1,812,678
Total term deposits	1,720,887	13,820	1,734,707	1,894,027	12,986	1,907,013
Total deposits	8,580,351	19,827	8,600,178	8,631,671	39,906	8,671,577

By Type and Segment

	31 March 2015			31 December 2014		
	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	3,072,389	735,571	3,807,960	2,914,440	955,683	3,870,123
Banks	615	210	825	9,508	-	9,508
Cayman						
Customers	2,182,149	510,223	2,692,372	2,153,500	437,259	2,590,759
Banks	2,684	13,610	16,294	15,797	12,986	28,783
Guernsey						
Customers	1,267,735	150,850	1,418,585	1,350,377	145,132	1,495,509
Banks	1,520	-	1,520	1,307	-	1,307
The Bahamas						
Customers	46,241	7,244	53,485	53,317	7,514	60,831
United Kingdom						
Customers	290,950	316,999	607,949	266,010	348,439	614,449
Banks	1,188	-	1,188	308	-	308
Total Customers	6,859,464	1,720,887	8,580,351	6,737,644	1,894,027	8,631,671
Total Banks	6,007	13,820	19,827	26,920	12,986	39,906
Total deposits	6,865,471	1,734,707	8,600,178	6,764,564	1,907,013	8,671,577

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Note 9: Employee future benefits

The Bank maintains trustee 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	
	31 March 2015	31 March 2014
Defined benefit pension expense (income)		
Service cost	-	388
Interest cost	1,840	1,831
Expected return on plan assets	(2,341)	(2,338)
Amortisation of net actuarial loss	334	275
Total defined benefit pension expense (income)	(167)	156
Post-retirement medical benefit expense (income)		
Service cost	85	206
Interest cost	1,186	1,126
Amortisation of net actuarial loss	837	231
Amortisation of past service cost	(1,586)	(1,680)
Total post-retirement medical benefit expense (income)	522	(117)

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.

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:

	31 March 2015			31 December 2014		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	212,203	210,643	1,560	225,718	224,158	1,560
Letters of guarantee	10,065	7,434	2,631	10,227	7,594	2,633
Total	222,268	218,077	4,191	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.

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

	31 March 2015	31 December 2014
Commitments to extend credit	314,051	257,266
Documentary and commercial letters of credit	2,274	1,927
Total unfunded commitments to extend credit	316,325	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 31 March 2015, \$92.5 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.

Note 11: Segmented information

As at 31 March 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	31 March 2015	31 December 2014
Bermuda	4,794,553	4,797,235
Cayman	2,965,118	2,863,624
Guernsey	1,557,854	1,639,334
Switzerland	1,867	2,002
The Bahamas	64,043	70,265
United Kingdom	825,858	832,707
Total assets before inter-segment eliminations	10,209,293	10,205,167
Less: inter-segment eliminations	(409,023)	(346,727)
Total	9,800,270	9,858,440

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For the three month period ended	Net interest income		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
	Customer	Inter- segment							
31 March 2015									
Bermuda	34,816	746	193	14,860	50,615	35,721	14,894	(156)	14,738
Cayman	16,579	140	253	9,609	26,581	14,239	12,342	-	12,342
Guernsey	4,258	(204)	7	6,440	10,501	9,477	1,024	-	1,024
Switzerland	-	-	-	746	746	725	21	-	21
The Bahamas	(8)	30	-	1,192	1,214	1,307	(93)	-	(93)
United Kingdom	3,134	(712)	(642)	1,731	3,511	4,714	(1,203)	(1)	(1,204)
Total before eliminations	58,779	-	(189)	34,578	93,168	66,183	26,985	(157)	26,828
Inter-segment eliminations	-	-	-	(443)	(443)	(443)	-	-	-
Total	58,779	-	(189)	34,135	92,725	65,740	26,985	(157)	26,828

For the three month period ended 31 March 2014	Net interest income		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
	Customer	Inter- segment							
Bermuda	35,043	410	(3,708)	14,834	46,579	35,154	11,425	1,239	12,664
Cayman	13,787	279	256	8,262	22,584	13,544	9,040	-	9,040
Guernsey	4,989	-	1	5,085	10,075	9,062	1,013	-	1,013
Switzerland	-	-	-	508	508	682	(174)	-	(174)
The Bahamas	(12)	53	-	1,389	1,430	1,335	95	-	95
United Kingdom	4,543	(742)	(23)	1,976	5,754	5,230	524	-	524
Total before eliminations	58,350	-	(3,474)	32,054	86,930	65,007	21,923	1,239	23,162
Inter-segment eliminations	-	-	-	(474)	(474)	(474)	-	-	-
Total	58,350	-	(3,474)	31,580	86,456	64,533	21,923	1,239	23,162

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 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.

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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, the translation gain or loss that is recorded in the foreign currency translation adjustment account is based on the spot exchange rate between the functional currencies 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.

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

31 March 2015	Derivative instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk management derivatives					
Net investment hedges	Currency swaps	123,917	3,120	-	3,120
Derivatives not formally designated as hedging instruments	Currency swaps	140,149	843	(2,092)	(1,249)
Subtotal risk management derivatives		264,066	3,963	(2,092)	1,871
Client services derivatives					
	Spot and forward foreign exchange	2,212,360	9,567	(8,220)	1,347
Total derivative instruments		2,476,426	13,530	(10,312)	3,218

31 December 2014	Derivative instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk management derivatives					
Net investment hedges	Currency swaps	114,759	-	(2,463)	(2,463)
Derivatives not formally designated as hedging instruments	Currency swaps	113,982	282	(1,747)	(1,465)
Subtotal risk management derivatives		228,741	282	(4,210)	(3,928)
Client services derivatives					
	Spot and forward foreign exchange	2,529,159	16,648	(15,032)	1,616
Total derivative instruments		2,757,900	16,930	(19,242)	(2,312)

In addition to the above, as at 31 March 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 offset in consolidated balance sheet" column within the following table represents the aggregate of our net exposure to each counterparty after considering the balance sheet and disclosure-only netting adjustments. 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.

31 March 2015	Gross amounts recognised	Gross amounts offset in consolidated balance sheets	Net amounts offset in consolidated balance sheets	Gross amounts not offset in consolidated balance sheets	Net amounts in consolidated balance sheets	Collateral pledged	Amounts net of collateral in consolidated balance sheets
Derivative assets							
Spot and forward foreign exchange and currency swaps	14,940	(3,837)	11,103	2,427	13,530	13,758	27,288
Derivative liabilities							
Spot and forward foreign exchange and currency swaps	2,728	(11,016)	(8,288)	(2,024)	(10,312)	10,613	301
Total derivative instruments			2,815		3,218		27,589

31 December 2014	Gross amounts recognised	Gross amounts offset in consolidated balance sheets	Net amounts offset in consolidated balance sheets	Gross amounts not offset in consolidated balance sheets	Net amounts in consolidated balance sheets	Collateral pledged	Amounts net of collateral in consolidated balance sheets
Derivative assets							
Spot and forward foreign exchange and currency swaps	16,222	(2,585)	13,637	3,293	16,930	11,375	28,305
Derivative liabilities							
Spot and forward foreign exchange and currency swaps	2,839	(19,283)	(16,444)	(2,798)	(19,242)	9,041	(10,201)
Total derivative instruments			(2,807)		(2,312)		18,104

The following table shows the location and amount of gains (losses) recorded in the consolidated statements of operations on derivatives outstanding as at 31 March 2015 and 2014:

		For the three month period ended	
Derivative instrument	Consolidated statements of operations line item	31 March 2015	31 March 2014
Spot and forward foreign exchange	Foreign exchange revenue	(184)	(383)
Total net losses recognised in net income		(184)	(383)

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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.

	31 March 2015			Total carrying amount / fair value	31 December 2014			Total carrying amount / fair value
	Fair value				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	6,102	1,000	-	7,102	6,038	833	-	6,871
Available-for-sale investments								
Certificates of deposit	-	18,565	-	18,565	-	37,743	-	37,743
US government and federal agencies	-	2,027,698	-	2,027,698	-	1,887,870	-	1,887,870
Debt securities issued								
by non-US governments	-	38,617	-	38,617	-	38,325	-	38,325
Corporate debt securities	-	390,123	-	390,123	-	399,289	-	399,289
Asset-backed securities - Student loans	-	46,506	12,227	58,733	-	52,596	12,227	64,823
Commercial mortgage-backed securities	-	154,473	-	154,473	-	151,169	-	151,169
Residential mortgage-backed securities - Prime	-	57,604	-	57,604	-	64,829	-	64,829
Equity securities	-	15	-	15	-	15	-	15
Total available-for-sale	-	2,733,601	12,227	2,745,828	-	2,631,836	12,227	2,644,063
Other assets - Derivatives	-	13,530	-	13,530	-	16,930	-	16,930
Financial liabilities								
Other liabilities - Derivatives	-	(10,312)	-	(10,312)	-	(19,242)	-	(19,242)

There were no transfers between Level 1 and Level 2 during the three month period ended 31 March 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.

	31 March 2015	31 December 2014
Level 3 Reconciliation		
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

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

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

		31 March 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	2,059,769	2,059,769	-	2,063,311	2,063,311	-
Short-term investments	Level 1	341,771	341,771	-	394,770	394,770	-
Investments held-to-maturity	Level 2	333,023	342,580	9,557	338,177	343,989	5,812
Loans, net of allowance for credit losses	Level 2	3,921,677	3,918,304	(3,373)	4,019,128	4,015,764	(3,364)
Other real estate owned ¹	Level 2	17,504	17,504	-	19,300	19,300	-
Financial liabilities							
Customer deposits							
Demand deposits	Level 2	6,859,464	6,859,464	-	6,737,644	6,737,644	-
Term deposits	Level 2	1,720,887	1,722,188	(1,301)	1,894,027	1,895,558	(1,531)
Deposits from banks	Level 2	19,827	19,827	-	39,906	39,906	-
Securities sold under agreement to repurchase	Level 2	-	-	-	-	-	-
Subordinated capital	Level 2	117,000	118,268	(1,268)	117,000	115,936	1,064

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

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.

31 March 2015	Earlier of contractual maturity or repricing date						
	Within 3	3 to 6	6 to 12	1 to 5	After	Non-interest	
(in \$ millions)	months	months	months	years	5 years	bearing funds	Total
Assets							
Cash and deposits with banks	1,965	-	-	-	-	95	2,060
Short-term investments	229	107	6	-	-	-	342
Investments	445	52	122	384	2,076	7	3,086
Loans	3,562	123	44	98	45	50	3,922
Other assets	-	-	-	-	-	390	390
Total assets	6,201	282	172	482	2,121	542	9,800
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	871	871
Demand deposits	5,293	63	-	-	-	1,509	6,865
Term deposits	1,151	313	193	78	-	-	1,735
Other liabilities	-	-	-	-	-	212	212
Subordinated capital	47	45	-	25	-	-	117
Total liabilities and shareholders' equity	6,491	421	193	103	-	2,592	9,800
Interest rate sensitivity gap	(290)	(139)	(21)	379	2,121	(2,050)	-
Cumulative interest rate sensitivity gap	(290)	(429)	(450)	(71)	2,050	-	-

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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

	For the three month period ended	
	31 March 2015	31 March 2014
Basic Earnings Per Share	0.04	0.03
Net income	26,828	23,162
Less: Preference dividends declared and guarantee fee	(4,117)	(4,131)
Less: Premium on preference share buyback	(28)	(1)
Net income attributable for common shareholders	22,683	19,030
Weighted average number of common shares issued	556,933	556,933
Weighted average number of common shares held as treasury stock	(12,861)	(7,343)
Adjusted weighted average number of common shares (in thousands)	544,072	549,590
Diluted Earnings Per Share	0.04	0.03
Net income attributable for common shareholders	22,683	19,030
Adjusted weighted average number of common shares issued	544,072	549,590
Net dilution impact related to options to purchase common shares	5,205	2,212
Net dilution impact related to awards of unvested common shares	7,361	4,250
Adjusted weighted average number of diluted common shares (in thousands)	556,638	556,052

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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 three month period ended 31 March 2015, options to purchase an average of 30.0 million (31 March 2014: 31.3 million) shares of common stock (see Note 16), were outstanding. During the three month period ended 31 March 2015, the average number of outstanding awards of unvested common shares (see Note 16) was 10.3 million (31 March 2014: 9.7 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 31 March 2015 and 2014 because the exercise price was greater than the average market price of the Bank's common stock.

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 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 31 March 2015 the grant date fair value not yet recognised in expenses of outstanding performance options is \$8.8 million (31 March 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.

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Changes in Outstanding Stock Options

	Number of shares transferable upon exercise (thousands)		
	1997 Stock Option Plan	2010 Stock Option Plan	Total
For the three month period ended 31 March 2015			
Outstanding at beginning of period	3,525	26,780	30,305
Exercised	-	(229)	(229)
Forfeitures and cancellations	(523)	-	(523)
Resignations, retirements, redundancies	-	(6)	(6)
Outstanding at end of period	3,002	26,545	29,547

	Number of shares transferable upon exercise (thousands)		
	1997 Stock Option Plan	2010 Stock Option Plan	Total
For the three month period ended 31 March 2014			
Outstanding at beginning of period	3,992	27,808	31,800
Exercised	-	(160)	(160)
Forfeitures and cancellations	(339)	(1)	(340)
Resignations, retirements, redundancies	-	22	22
Expiration at end of plan life	(31)	-	(31)
Outstanding at end of period	3,622	27,669	31,291

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 condition 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:

Number of shares transferable upon vesting of EDIP shares (in thousands of shares)	For the three month period ended	
	31 March 2015	31 March 2014
Outstanding at beginning of period	2,660	2,183
Granted	1,335	1,469
Vested	(1,270)	(999)
Resignations, retirements, redundancies	-	(4)
Outstanding at end of period	2,725	2,649

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.

Number of shares transferable upon vesting of the 2011 to 2015 ELTIP shares (in thousands of shares)	For the three month period ended	
	31 March 2015	31 March 2014
Outstanding at beginning of period	7,062	6,441
Granted	2,285	2,423
Vested	(1,201)	(1,824)
Resignations, retirements, redundancies	-	(15)
Outstanding at end of period	8,146	7,025

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Share-based Compensation Cost Recognised in Net Income

	For the three month period ended			31 March 2014		
	31 March 2015			31 March 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	130	1,824	1,954	325	1,450	1,775

Unrecognised Expense Attributable to Each Plan

	As at	
	31 March 2015	31 March 2014
2010 Stock Option Plan		
Time vesting options	150	1,505
Performance vesting options	8,799	9,484
EDIP	1,386	3,663
ELTIP		
Time vesting shares	32	534
Performance vesting shares	3,199	7,453
Total unrecognised expense	13,566	22,639

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 8 million common shares.

	For the three month period ended	For the years ended			
	31 March 2015	31 December 2014	31 December 2013	31 December 2012	Total
Common share buy-backs					
Acquired number of shares (to the nearest 1)	1,600,550	8,567,340	4,038,482	7,260,051	21,466,423
Average cost per common share	1.99	1.99	1.39	1.24	1.62
Total cost (in Bermuda dollars)	3,187,861	17,018,412	5,610,907	8,999,061	34,816,241

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 three month period ended	For the years ended			
	31 March 2015	31 December 2014	31 December 2013	31 December 2012	Total
Preference share buy-backs					
Acquired number of shares (to the nearest 1)	183	560	11,972	4,422	17,137
Average cost per preference share	1,152	1,172	1,230	1,218	1,224
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.

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Note 18: Accumulated other comprehensive loss

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

	Unrealised losses on translation of net investment in foreign operations	Unrealised gains (losses) on AFS investments	Employee future benefits			Total AOCL
			Pension	Post-retirement healthcare	Subtotal - employee future benefits	
31 March 2015						
Balance at beginning of period	(10,506)	9,769	(53,169)	(22,866)	(76,035)	(76,772)
Other comprehensive income (loss), net of taxes	(3,011)	14,572	685	(749)	(64)	11,497
Balance at end of period	(13,517)	24,341	(52,484)	(23,615)	(76,099)	(65,275)

	Unrealised losses on translation of net investment in foreign operations	Unrealised gains (losses) on AFS investments	Employee future benefits			Total AOCL
			Pension	Post-retirement healthcare	Subtotal - employee future benefits	
31 March 2014						
Balance at beginning of period	(7,632)	(40,136)	(35,616)	6,724	(28,892)	(76,660)
Other comprehensive income (loss), net of taxes	160	17,627	247	(1,449)	(1,202)	16,585
Balance at end of period	(7,472)	(22,509)	(35,369)	5,275	(30,094)	(60,075)

Net Change of AOCL Components

	Line item in the consolidated statements of operations, if any	For the three month period ended	
		31 March 2015	31 March 2014
Net unrealised (loss) gains on translation of net investment in foreign operations adjustments			
Foreign currency translation adjustments		(9,111)	1,362
Net investment hedge gains (losses)	N/A	6,100	(1,202)
Net change		(3,011)	160
Available-for-sale investment adjustments			
Gross unrealised gains arising during the year		14,169	17,559
Reclassification of realised losses to net income	Net realised losses on available-for-sale investments	266	-
Foreign currency translation adjustments of related balances	N/A	137	68
Net change		14,572	17,627
Employee future benefits adjustments			
Defined benefit pension plan			
Amortisation of actuarial gains	Salaries and other employee benefits	334	275
Foreign currency translation adjustments of related balances	N/A	351	(28)
Net change		685	247
Post-retirement healthcare plan			
Amortisation of net actuarial loss	Salaries and other employee benefits	837	231
Amortisation of past service cost	Salaries and other employee benefits	(1,586)	(1,680)
Net change		(749)	(1,449)
Other comprehensive income		11,497	16,585

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Note 19: Capital structure

Authorised Capital

The Bank's total authorised share capital as of 31 March 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.

Preference Shares

On 22 June 2009, the Bank issued 200,000 Government guaranteed, 8.00% non-cumulative perpetual limited voting preference shares (the "preference shares"). The issuance price was US\$1,000 per share. The preference share buy-backs are disclosed in Note 21: Share Buy-Back Plans.

The preference share principal and dividend payments are guaranteed by the Government of Bermuda. At any time after the expiry of the guarantee offered by the Government of Bermuda, and subject to the approval of the BMA, the Bank may redeem, in whole or in part, any preference shares at the time issued and outstanding, at a redemption price equal to the liquidation preference plus any unpaid dividends at the time.

Holders of preference shares will be entitled to receive, on each preference share only when, as and if declared by the Board of Directors, non-cumulative cash dividends at a rate per annum equal to 8.00% on the liquidation preference of US \$1,000 per preference share payable quarterly in arrears. In exchange for the Government's commitment, the Bank issued to the Government 4,279,601 warrants to purchase common shares of the Bank at an exercise price of \$7.01. The warrants expire on 22 June 2019. During 2010, the warrants issued to the Government were adjusted in accordance with the terms of the guarantee and as a result the Government now holds 4,320,613 warrants with an exercise price of \$3.47 as at 31 March 2015.

On 11 May 2010, the Bank's Rights offering was over subscribed with the maximum allowable number of rights of 107,438,016 exercised and subsequently converted on the ratio of 0.07692 CVCP shares for each right unit exercised amounting to 8,264,157 CVCP shares issued. The CVCP shares have specific rights and conditions attached, which are explained in detail in the prospectus of the rights offering. On 31 March 2015, all remaining CVCP shares were converted to common shares at a ratio of 1:1.

Dividend Declared

During the three month period ended 31 March 2015, the Bank declared cash dividends totalling \$0.02 (31 March 2014: \$0.02) for each common share and CVCP share on record as of the related record dates. During the three month period ended 31 March 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 31 March 2015 and 31 December 2014. The following table sets forth the Bank's capital adequacy in accordance with Basel II framework:

	31 March 2015	31 December 2014
Capital		
Tier 1 capital	792,452	781,743
Tier 2 capital	128,370	130,788
Total capital	920,822	912,531
Weighted Risk Assets	4,416,983	4,113,404
Capital Ratios (%)		
Tier 1 common	13.8%	14.6%
Tier 1 Total	17.9%	19.0%
Total Capital	20.8%	22.2%

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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 \$3.9 million as at 31 December 2014 and remained unchanged during the three month period ended 31 March 2015. The contingent consideration is included in other liabilities in the consolidated balance sheet.

As Legis was acquired after 31 March 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.

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 31 March 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 31 March 2015, related party Director loan balances were \$58.8 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 31 March 2015, \$65.5 million (31 December 2014: \$65.7 million) was outstanding under this agreement. For the three month period ended 31 March 2015, \$0.6 million (31 March 2014: \$0.8 million) of interest income has been recognised in the consolidated statements of operations.

Capital Transaction

Canadian Imperial Bank of Commerce ("CIBC") and funds associated with the Carlyle Group each hold approximately 19%, of the Bank's equity voting power, along with the right to each designate two persons for nomination for election by the shareholders as members of the Bank's Board of Directors.

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Note 22: Comparative information

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

Note 23: Subsequent events

On 27 April 2015, the Board of Directors declared an interim dividend of \$0.01 per common share to be paid on 27 May 2015 to shareholders of record on 15 May 2015.

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 owns 19% of Butterfield's issued and outstanding common equity comprising 103,434,232 million common shares. On or prior to 30 April 2015, Butterfield will repurchase for cancellation 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) is to be taken up by Carlyle Global Financial Services, L.P. at \$1.50 per share.

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