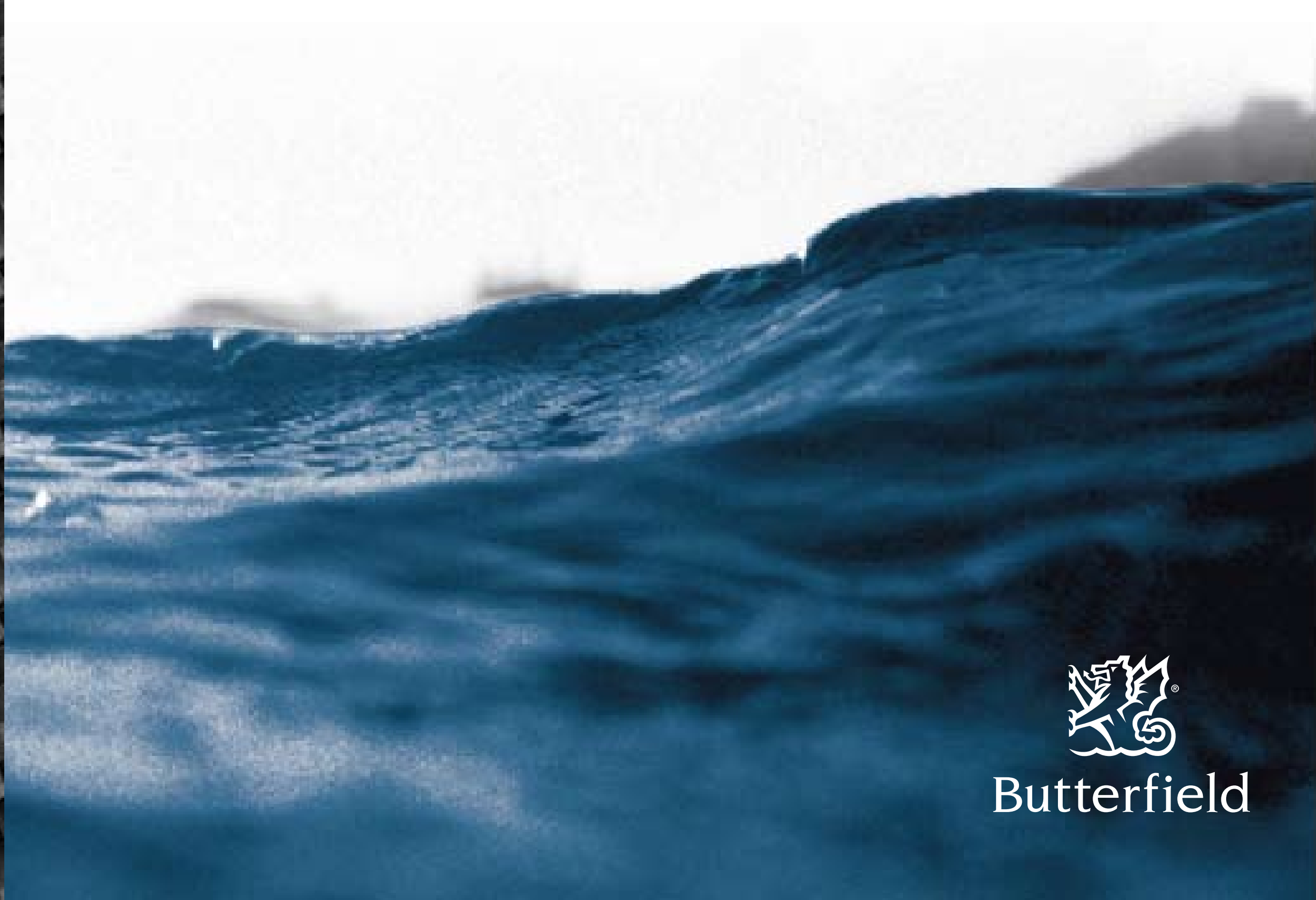
FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2016 | THE BANK OF N.T. BUTTERFIELD & SON LIMITED

Q2 2016



The Bank of N.T. Butterfield & Son Limited
Unaudited Consolidated Financial Statements
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The Bank of N.T. Butterfield & Son Limited
Consolidated Balance Sheets (unaudited)
(In thousands of US dollars, except share and per share data)

	As at	
	30 June 2016	31 December 2015
Assets		
Cash and demand deposits with banks - Non-interest bearing	**94,289**	110,895
Demand deposits with banks - Interest bearing	**431,036**	378,629
Cash equivalents - Interest bearing	**2,129,869**	1,799,366
Cash due from banks	**2,655,194**	2,288,890
Short-term investments	**435,725**	409,482
Investment in securities		
Trading	**6,299**	321,299
Available-for-sale	**3,054,691**	2,201,349
Held-to-maturity (fair value: $836,294 (2015: $701,495))	**809,477**	701,282
Total investment in securities	**3,870,467**	3,223,930
Loans		
Loans	**3,954,487**	4,049,457
Allowance for credit losses	**(50,161)**	(49,302)
Loans, net of allowance for credit losses	**3,904,326**	4,000,155
Premises, equipment and computer software	**175,521**	183,378
Accrued interest	**17,994**	17,460
Goodwill	**21,100**	23,462
Intangible assets	**45,334**	27,669
Equity method investments	**12,988**	12,786
Other real estate owned	**7,902**	11,206
Other assets	**140,636**	77,145
Total assets	**11,287,187**	10,275,563
Liabilities		
Customer deposits		
Bermuda		
Non-interest bearing	**1,455,113**	1,348,878
Interest bearing	**4,380,655**	2,922,830
Non-Bermuda		
Non-interest bearing	**517,726**	532,867
Interest bearing	**3,728,116**	4,363,093
Total customer deposits	**10,081,610**	9,167,668
Bank deposits		
Bermuda	**15**	403
Non-Bermuda	**9,467**	14,075
Total deposits	**10,091,092**	9,182,146
Securities sold under agreement to repurchase	**21,975**	-
Employee benefit plans	**122,008**	122,135
Accrued interest	**2,144**	2,744
Preference share dividends payable	**610**	654
Other liabilities	**116,443**	100,530
Total other liabilities	**263,180**	226,063
Long-term debt	**117,000**	117,000
Total liabilities	**10,471,272**	9,525,209
Commitments, contingencies and guarantees (Note 10)		
Shareholders' equity		
Preference share capital (USD 0.01 par; USD 1,000 liquidation preference) issued and outstanding: 182,863 (2015: 182,863)	**2**	2
Common share capital (BMD 0.01 par; authorised shares 26,000,000,000) issued and outstanding: 472,932,535 (2015: 472,932,535)	**4,729**	4,729
Additional paid-in capital	**1,217,007**	1,221,088
Accumulated deficit	**(329,617)**	(368,618)
Less: treasury common shares, at cost: 5,387,492 shares (2015: 9,240,317)	**(9,432)**	(16,350)
Accumulated other comprehensive loss	**(66,774)**	(90,497)
Total shareholders' equity	**815,915**	750,354
Total liabilities and shareholders' equity	**11,287,187**	10,275,563

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

The Bank of N.T. Butterfield & Son Limited
Consolidated Statements of Operations (unaudited)
(In thousands of US dollars, except per share data)

	Three months ended		Six months ended	
	30 June 2016	30 June 2015	**30 June 2016**	30 June 2015
Non-interest income				
Asset management	**5,291**	4,632	**9,479**	8,941
Banking	**10,022**	8,243	**18,687**	16,558
Foreign exchange revenue	**8,424**	8,026	**16,748**	15,940
Trust	**10,803**	10,199	**20,948**	20,156
Custody and other administration services	**2,331**	2,488	**4,550**	4,910
Other non-interest income	**1,029**	960	**2,006**	2,178
Total non-interest income	**37,900**	34,548	**72,418**	68,683
Interest income				
Interest and fees on loans	**47,318**	46,570	**94,735**	92,575
Investments *(none of the investment securities are intrinsically tax-exempt)*				
Trading	**595**	1,478	**1,558**	3,192
Available-for-sale	**13,463**	13,302	**25,177**	26,429
Held-to-maturity	**5,166**	2,674	**10,455**	5,301
Deposits with banks	**1,989**	1,527	**3,589**	3,220
Total interest income	**68,531**	65,551	**135,514**	130,717
Interest expense				
Deposits	**3,042**	4,881	**6,525**	9,884
Long-term debt	**1,111**	1,387	**2,205**	2,771
Securities sold under repurchase agreements	**43**	8	**112**	8
Total interest expense	**4,196**	6,276	**8,842**	12,663
Net interest income before provision for credit recovery (losses)	**64,335**	59,275	**126,672**	118,054
Provision for credit recovery (losses)	**(5,306)**	(2,005)	**(4,964)**	(2,194)
Net interest income after provision for credit recovery (losses)	**59,029**	57,270	**121,708**	115,860
Net trading gains	**(264)**	(3,027)	**769**	(1,663)
Net realised losses on available-for-sale investments	**(2)**	(3)	**(78)**	(269)
Net losses on other real estate owned	**(2)**	(468)	**(309)**	(804)
Net other gains (losses)	**99**	321	**(790)**	534
Total other gains (losses)	**(169)**	(3,177)	**(408)**	(2,202)
Total net revenue	**96,760**	88,641	**193,718**	182,341
Non-interest expense				
Salaries and other employee benefits	**32,187**	32,307	**63,425**	64,972
Technology and communications	**14,129**	13,876	**28,585**	27,741
Property	**5,123**	5,184	**10,142**	10,336
Professional and outside services	**5,365**	4,059	**9,428**	8,117
Indirect taxes	**2,777**	3,841	**7,395**	8,108
Amortisation of intangible assets	**1,283**	1,116	**2,335**	2,215
Marketing	**976**	1,073	**1,924**	1,958
Restructuring costs	**700**	-	**5,159**	-
Other expenses	**4,207**	3,668	**8,287**	7,211
Total non-interest expense	**66,747**	65,124	**136,680**	130,658
Net income before income taxes	**30,013**	23,517	**57,038**	51,683
Income tax expense	**(240)**	(211)	**(504)**	(417)
Net income	**29,773**	23,306	**56,534**	51,266
Cash dividends declared on preference shares	**(3,617)**	(3,616)	**(7,274)**	(7,276)
Preference shares guarantee fee	**(447)**	(453)	**(909)**	(910)
Premium paid on repurchase of preference shares	**-**	-	**-**	(28)
Net income attributable to common shareholders	**25,709**	19,237	**48,351**	43,052
Earnings per common share				
Basic earnings per share	**0.06**	0.04	**0.10**	0.08
Diluted earnings per share	**0.05**	0.04	**0.10**	0.08

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

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

	Three months ended		Six months ended	
	30 June 2016	30 June 2015	**30 June 2016**	30 June 2015
Net income	**29,773**	23,306	**56,534**	51,266
Other comprehensive income (loss), net of taxes				
Net change in unrealised gains and losses on translation of net investment in foreign operations	**(2,850)**	2,676	**(4,437)**	(335)
Accretion of net unrealised losses on held-to-maturity investments transferred from available-for-sale investments	**100**	-	**(145)**	-
Net change in unrealised gains and losses on available-for-sale investments	**10,193**	(29,758)	**29,322**	(16,318)
Employee benefit plans adjustments	**(581)**	(1,121)	**(1,017)**	(1,185)
Other comprehensive income, net of taxes	**6,862**	(28,203)	**23,723**	(17,838)
Total comprehensive income	**36,635**	(4,897)	**80,257**	33,428

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

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

	Six months ended			
	30 June 2016		30 June 2015	
	Number of shares	In thousands of US dollars	Number of shares	In thousands of US dollars
Common share capital issued and outstanding				
Balance at beginning of period	472,932,535	4,729	550,023,138	5,500
Conversion of contingent value preference shares	-	-	6,909,397	69
Retirement of shares	-	-	(80,000,000)	(800)
Balance at end of period	472,932,535	4,729	476,932,535	4,769
Preference shares				
Balance at beginning of period	182,863	2	183,046	2
Repurchase and cancellation of preference shares	-	-	(183)	-
Balance at end of period	182,863	2	182,863	2
Contingent value convertible preference shares				
Balance at beginning of period	-	-	6,909,397	69
Conversion to common shares	-	-	(6,909,397)	(69)
Balance at end of period	-	-	-	-
Additional paid-in capital				
Balance at beginning of period		1,221,088		1,348,465
Share-based compensation		3,581		3,752
Share-based settlements		(7,662)		(7,990)
Reduction of carrying value on repurchase of preference shares		-		(183)
Premium paid on repurchase of preference shares		-		(28)
Retirement of shares		-		(119,200)
Balance at end of period		1,217,007		1,224,816
Accumulated deficit				
Balance at beginning of period		(368,618)		(405,056)
Net income for period		56,534		51,266
Common share cash dividends declared and paid, $0.02 per share (2015 $0.03 per share)		(9,350)		(15,584)
Cash dividends declared on preference shares, $40.00 per share (2015: $40.00 per share)		(7,274)		(7,276)
Preference shares guarantee fee		(909)		(910)
Balance at end of period		(329,617)		(377,560)
Treasury common shares				
Balance at beginning of period	9,240,317	(16,350)	12,770,604	(22,086)
Purchase of treasury common shares	888,214	(1,452)	2,042,125	(4,060)
Share-based settlements	(4,741,039)	8,370	(4,846,748)	8,498
Balance at end of period	5,387,492	(9,432)	9,965,981	(17,648)
Accumulated other comprehensive loss				
Balance at beginning of period		(90,497)		(77,520)
Other comprehensive income, net of taxes		23,723		(17,838)
Balance at end of period		(66,774)		(95,358)
Total shareholders' equity		815,915		739,021

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

The Bank of N.T. Butterfield & Son Limited
Consolidated Statements of Cash Flows (unaudited)
(In thousands of US dollars)

	Six months ended	
	30 June 2016	30 June 2015
Cash flows from operating activities		
Net income	**56,534**	51,266
Adjustments to reconcile net income to operating cash flows		
Depreciation and amortisation	**25,635**	25,277
Provision for credit losses	**4,964**	2,194
Share-based payments and settlements	**3,882**	3,962
Net realised losses on available-for-sale investments	**78**	269
Equity pick up on private equity partnership investment	**(65)**	-
(Gain) on sale of premises and equipment	**(8)**	(189)
Net losses on other real estate owned	**309**	804
Increase in carrying value of equity method investments	**(605)**	(538)
Fair value adjustments of a contingent payment	**895**	-
Changes in operating assets and liabilities		
(Increase) decrease in accrued interest receivable	**(1,055)**	972
(Increase) decrease in other assets	**(66,208)**	7,192
Decrease in accrued interest payable	**(323)**	(53)
Increase (decrease) in employee benefit plans and other liabilities	**15,466**	(9,750)
Cash provided by operating activities	**39,499**	81,406
Cash flows from investing activities		
Net increase in short-term investments	**(40,824)**	(42,595)
Net change in trading investments	**315,000**	85,307
Available-for-sale investments: proceeds from sale	**32,256**	6,056
Available-for-sale investments: proceeds from maturities and pay downs	**317,025**	175,011
Available-for-sale investments: purchases	**(1,257,409)**	(509,845)
Held-to-maturity investments: proceeds from maturities and pay downs	**24,895**	10,346
Held-to-maturity investments: purchases	**(60,484)**	(50,283)
Net decrease in loans	**35,201**	49,264
Additions to premises, equipment and computer software	**(4,668)**	(1,375)
Proceeds from sale of other real estate owned	**2,995**	3,246
Dividends received on equity method investments	**404**	949
Cash disbursed for business acquisition	**(9,075)**	-
Cash used in investing activities	**(644,684)**	(273,919)
Cash flows from financing activities		
Net increase decrease in demand and term deposit liabilities	**1,036,619**	313,949
Increase in securities sold under agreement to repurchase	**21,975**	-
Common shares repurchased	**(1,452)**	(124,060)
Preference shares repurchased	**-**	(211)
Proceeds from stock option exercises	**407**	299
Cash dividends paid on common and contingent value convertible preference shares	**(9,350)**	(15,584)
Cash dividends paid on preference shares	**(7,319)**	(7,317)
Preference shares guarantee fee paid	**(909)**	(910)
Cash used in financing activities	**1,039,971**	166,166
Net effect of exchange rates on cash due from banks	**(68,482)**	63,539
Net increase in cash due from banks	**366,304**	37,192
Cash due from banks at beginning of period	**2,288,890**	2,063,311
Cash due from banks at end of period	**2,655,194**	2,100,503

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

Note 1: Nature of business

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

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

Note 2: Significant accounting policies

The accompanying unaudited interim consolidated financial statements of the Bank have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information and should be read in conjunction with the Bank's audited financial statements for the year ended 31 December 2015.

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 statement of the Bank's financial position and results of operations as at the end of and for the periods presented. The Bank's results for interim periods are not necessarily indicative of results for the full year.

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

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

On 1 January 2016, the Bank changed its financial statements' reporting currency from Bermuda dollars to United States ("US") dollars for all periods presented. Assets, liabilities, revenues and expenses denominated in Bermuda dollars are translated to US dollars at par and consequently, this change in reporting currency has not resulted in a change in comparative amounts presented in the financial statements.

The following accounting developments were issued during the six months ended 30 June 2016:

In January 2016, FASB published Accounting Standards Update No. 2016-01 Financial Instruments – Overall (Subtopic 825-10) which: 1) requires that equity securities be measured at fair value with changes in the fair value recognised through net income; 2) allow certain equity investments to be re-measured at fair value either upon the occurrence of an observable price change or upon identification of an impairment (qualitative assessment being allowed); 3) requires public business entities that are required to disclose fair value of financial instruments on the balance sheet to measure that fair value using the exit price notion consistent with Topic 820, Fair Value Measurement; 4) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option; and, 5) requires enhanced disclosures about certain financial assets and financial liabilities. This update is effective for public business entities for fiscal years, and interim periods with in those fiscal years, beginning after 15 December 2017. Except for the early application guidance in the update, early adoption of the amendments is not permitted. The Bank is assessing the impact of the adoption of this guidance.

In February 2016, FASB published Accounting Standards Update No. 2016-02 Leases (Topic 842) which requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. This update is effective for public business entities for fiscal years, and interim periods with in those fiscal years, beginning after 15 December 2018. Early application is permitted. The Bank is assessing the impact of the adoption of this guidance.

In March 2016, FASB published Accounting Standards Update No. 2016-08 Revenue from Contracts with Customers (Topic 606). The amendments in this update are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The amendments in this update affect the guidance in ASU 2014-09 which is not yet effective. The effective date for this update is the same as for ASU 2015-14 which defers the effective date of ASU 2014-09 by one year resulting in the effective date being fiscal years, and interim periods with in those fiscal years, beginning after 15 December 2017. Earlier application is permitted only as of annual reporting periods beginning after 15 December 2016, including interim reporting periods within that reporting period. The Bank is assessing the impact of the adoption of this guidance.

In March 2016, FASB published Accounting Standards Update No. 2016-09 Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this update are intended to simplify various aspects of the accounting for share-based payments including accounting for the income tax effects of share-based payments, minimum statutory tax withholding requirements and forfeitures. This update is effective for public business entities for fiscal years, and interim periods with in those fiscal years after 15 December 2016, and early adoption is permitted. The Bank is assessing the impact of the adoption of this guidance.

In April 2016, FASB published Accounting Standards Update No. 2016-10 Revenue from Contracts with Customers (Topic 606). The amendments in this update are intended to clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The amendments in this update affect the guidance in ASU 2014-09 which is not yet effective. The effective date for this update is the same as for ASU 2015-14 which defers the effective date of ASU 2014-09 by one year resulting in the effective date being fiscal years, and interim periods with in those fiscal years, beginning after 15 December 2017. Earlier application is permitted only as of annual reporting periods beginning after 15 December 2016, including interim reporting periods within that reporting period. The Bank is assessing the impact of the adoption of this guidance.

In May 2016, FASB published Accounting Standards Update No. 2016-12 Narrow-Scope Improvements and Practical Expedients, which further amends the guidance in ASU 2014-09 which is not yet effective. The amendments address certain implementation issues identified by the FASB's transition resource group and clarify, rather than change, the new revenue standard's core revenue recognition principles. The effective date for this update is the same as for ASU 2015-14 which defers the effective date of ASU 2014-09 by one year resulting in the effective date being fiscal years, and interim periods with in those fiscal years, beginning after 15 December 2017. Earlier application is permitted only as of annual reporting periods beginning after 15 December 2016, including interim reporting periods within that reporting period. The Bank is assessing the impact of the adoption of this guidance.

In June 2016, FASB published Accounting Standards Update No. 2016-13 Financial Instruments – Credit Losses. The amendments in this update provide a new impairment model, known as the current expected credit loss model that is based on expected losses rather than incurred losses. The amendments in this update are also intended to reduce the complexity and reduce the number of impairment models entities use to account for debt instruments. For public business entities that meet the U.S. GAAP definition of an SEC filer, the effective date for this update for fiscal years beginning after 15 December 2019, including interim periods within those fiscal years. For public business entities that do not meet the U.S. GAAP definition of an SEC filer, the ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Bank is assessing the impact of the adoption of this guidance.

(In thousands of US dollars, unless otherwise stated)

Note 3: Cash due from banks

	30 June 2016			31 December 2015		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Non-interest bearing						
Cash and demand deposits with banks	26,621	67,668	94,289	31,199	79,696	110,895
Interest bearing[1]						
Demand deposits with banks	238,402	192,634	431,036	130,589	248,040	378,629
Cash equivalents	1,153,710	976,158	2,129,869	691,439	1,107,927	1,799,366
Sub-total - Interest bearing	1,392,112	1,168,792	2,560,905	822,028	1,355,967	2,177,995
Total cash due from banks	1,418,733	1,236,460	2,655,194	853,227	1,435,663	2,288,890

[1] Interest bearing cash due from banks includes certain demand deposits with banks as at 30 June 2016 in the amount of $377.9 million (31 December 2015: $306.9 million) that are earning interest at a negligible rate.

Note 4: Short-term investments

	30 June 2016			31 December 2015		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted term deposits, certificate of deposits and treasury bills						
Maturing within three months	24,965	118,679	143,644	-	104,249	104,249
Maturing between three to six months	249,619	25,169	274,788	99,810	192,118	291,928
Maturing between six to twelve months	-	3,813	3,813	-	796	796
Total unrestricted short-term investments	274,584	147,661	422,245	99,810	297,163	396,973
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Interest earning demand deposits	13,480	-	13,480	12,509	-	12,509
Total short-term investments	288,064	147,661	435,725	112,319	297,163	409,482

Note 5: Investment in securities

Amortised Cost, Carrying Amount and Fair Value

On the consolidated balance sheets, trading and available-for-sale ("AFS") investments are carried at fair value and held-to-maturity ("HTM") investments are carried at amortised cost.

	30 June 2016				31 December 2015			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Fair value
Trading								
US government and federal agencies	-	-	-	-	278,500	2,347	(1,504)	279,343
Non-US governments debt securities	-	-	-	-	7,483	6	-	7,489
Asset-backed securities - Student loans	-	-	-	-	28,845	-	(560)	28,285
Mutual funds	5,188	1,111	-	6,299	5,739	903	(460)	6,182
Total trading	5,188	1,111	-	6,299	320,567	3,256	(2,524)	321,299
Available-for-sale								
US government and federal agencies	2,126,194	20,502	(3,937)	2,142,759	1,399,456	8,812	(3,769)	1,404,499
Non-US governments debt securities	28,584	248	(1,052)	27,780	29,275	300	-	29,575
Corporate debt securities	469,818	7,241	(5)	477,054	505,139	3,779	(2,774)	506,144
Asset-backed securities - Student loans	13,291	-	(1,130)	12,161	13,291	-	(1,130)	12,161
Commercial mortgage-backed securities	152,454	3,835	(3)	156,286	153,046	9	(4,329)	148,726
Residential mortgage-backed securities	236,527	2,216	(92)	238,651	101,382	-	(1,138)	100,244
Total available-for-sale	3,026,868	34,042	(6,219)	3,054,691	2,201,589	12,900	(13,140)	2,201,349
Held-to-maturity[1]								
US government and federal agencies	809,477	26,817	-	836,294	701,282	5,365	(5,152)	701,495
Total held-to-maturity	809,477	26,817	-	836,294	701,282	5,365	(5,152)	701,495

[1] For the six months ended 30 June 2016 and the year ended 31 December 2015, non-credit impairments recognised in accumulated other comprehensive loss ("AOCL") for HTM investments were $nil.

(In thousands of US dollars, unless otherwise stated)

Investments with Unrealised Loss Positions

The Bank does not believe that the AFS and HTM investment securities that were in an unrealised loss position as of 30 June 2016, which were comprised of 49 securities representing 27% of the AFS and HTM portfolios' fair value, represent an OTTI. Total gross unrealised losses were 0.3% 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. Due to a strategic change in the investment portfolio composition during the year ended 31 December 2015, several AFS securities were sold while being in an unrealised loss position. The Bank considers this to be a one-time event, and has determined that it is more likely than not that the Bank will not be required to sell, nor does the Bank have the intent to sell any of the remaining investment securities before recovery of the amortised cost basis.

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

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

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

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

Investments in **Commercial mortgage-backed securities** relate to one senior security rated "A2" and possess significant subordination, a form of credit enhancement expressed hereafter as the percentage of pool losses that can occur before the senior security held by the Bank will incur its first dollar of principal loss. No credit losses were recognised on this security as credit support and loan-to-value ratios ("LTV") were 5% and 53%, respectively. Current credit support is significantly greater than any delinquencies experienced on the underlying mortgages.

Investments in **Residential mortgage-backed securities** relate to one security which is rated "AAA" and possess significant credit enhancement as described above. No credit losses were recognised on this security as there are no delinquencies over 60 days on the underlying mortgages and the weighted average credit support and LTV ratios are 10% and 65%, respectively.

In the following tables, debt securities with unrealised losses that are not deemed to be other-than-temporary-impairment ("OTTI") are categorised as being in a loss position for "less than 12 months" or "12 months or more" based on the point in time that the fair value most recently declined below the amortised cost basis.

	Less than 12 months		12 months or more			
30 June 2016	**Fair value**	**Gross unrealised losses**	**Fair value**	**Gross unrealised losses**	**Total fair value**	**Total gross unrealised losses**
Available-for-sale securities with unrealised losses						
US government and federal agencies	584,041	(2,274)	267,278	(1,663)	851,319	(3,937)
Non-US governments debt securities	21,677	(1,052)	-	-	21,677	(1,052)
Corporate debt securities	18,000	(5)	-	-	18,000	(5)
Asset-backed securities - Student loans	-	-	12,160	(1,130)	12,160	(1,130)
Commercial mortgage-backed securities	-	-	748	(3)	748	(3)
Residential mortgage-backed securities	27,811	(92)	-	-	27,811	(92)
Total available-for-sale securities with unrealised losses	651,529	(3,423)	280,186	(2,796)	931,715	(6,219)

	Less than 12 months		12 months or more			
31 December 2015	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses	Total fair value	Total gross unrealised losses
Available-for-sale securities with unrealised losses						
US government and federal agencies	364,939	(865)	177,224	(2,904)	542,163	(3,769)
Corporate debt securities	253,991	(1,480)	38,706	(1,294)	292,697	(2,774)
Asset-backed securities - Student loans	-	-	12,160	(1,130)	12,160	(1,130)
Commercial mortgage-backed securities	-	-	147,822	(4,329)	147,822	(4,329)
Residential mortgage-backed securities	90,220	(660)	10,024	(478)	100,244	(1,138)
Total available-for-sale securities with unrealised losses	709,150	(3,005)	385,936	(10,135)	1,095,086	(13,140)
Held-to-maturity securities with unrealised losses						
US government and federal agencies	217,768	(2,138)	241,855	(3,014)	459,623	(5,152)

(In thousands of US dollars, unless otherwise stated)

Investment Maturities

The following table presents the remaining 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 maturity						
30 June 2016	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**5 to 10 years**	**Over 10 years**	**No specific maturity**	**Carrying amount**
Trading							
Mutual funds	-	-	-	-	-	6,299	6,299
Total trading	-	-	-	-	-	6,299	6,299
Available-for-sale							
US government and federal agencies	-	-	38,442	127,922	1,976,395	-	2,142,759
Non-US governments debt securities	-	1,360	4,743	21,677	-	-	27,780
Corporate debt securities	18,000	36,940	422,114	-	-	-	477,054
Asset-backed securities - Student loans	-	-	-	-	12,161	-	12,161
Commercial mortgage-backed securities	-	-	39,843	109,131	7,312	-	156,286
Residential mortgage-backed securities	-	-	73,442	-	165,209	-	238,651
Total available-for-sale	18,000	38,300	578,584	258,730	2,161,077	-	3,054,691
Held-to-maturity							
US government and federal agencies	-	-	-	35,421	774,056	-	809,477
Total investments	18,000	38,300	578,584	294,151	2,935,133	6,299	3,870,467
Total by currency							
US dollars	18,000	38,300	578,584	294,151	2,935,133	6,035	3,870,203
Other	-	-	-	-	-	264	264
Total investments	18,000	38,300	578,584	294,151	2,935,133	6,299	3,870,467

	Remaining term to maturity						
31 December 2015	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	No specific maturity	Carrying amount
Trading							
US government and federal agencies	-	24,874	8,497	53,248	192,724	-	279,343
Non-US governments debt securities	7,489	-	-	-	-	-	7,489
Asset-backed securities - Student loans	-	-	28,285	-	-	-	28,285
Mutual funds	-	-	-	-	-	6,182	6,182
Total trading	7,489	24,874	36,782	53,248	192,724	6,182	321,299
Available-for-sale							
US government and federal agencies	-	-	126,163	202,385	1,075,951	-	1,404,499
Non-US governments debt securities	-	1,360	5,399	22,816	-	-	29,575
Corporate debt securities	60,493	55,649	351,296	38,706	-	-	506,144
Asset-backed securities - Student loans	-	-	-	-	12,161	-	12,161
Commercial mortgage-backed securities	-	-	-	42,532	106,194	-	148,726
Residential mortgage-backed securities	-	-	-	-	100,244	-	100,244
Total available-for-sale	60,493	57,009	482,858	306,439	1,294,550	-	2,201,349
Held-to-maturity							
US government and federal agencies	-	-	-	45,664	655,618	-	701,282
Total investments	67,982	81,883	519,640	405,351	2,142,892	6,182	3,223,930
Total by currency							
US dollars	67,982	81,883	519,640	405,351	2,142,892	5,903	3,223,651
Other	-	-	-	-	-	279	279
Total investments	67,982	81,883	519,640	405,351	2,142,892	6,182	3,223,930

(In thousands of US dollars, unless otherwise stated)

Pledged Investments

The Bank pledges certain US government and federal agencies investment securities to further secure the Bank's issued customer deposit products. The secured party does not have the right to sell or repledge the collateral.

	30 June 2016		31 December 2015	
Pledged Investments	**Amortised cost**	**Fair value**	Amortised cost	Fair value
Available-for-sale	**255,925**	**258,278**	304,493	307,513
Held-to-maturity	**294,096**	**303,839**	372,546	372,868

Sale Proceeds and Realised Gains and Losses of AFS Securities	**Six months ended 30 June 2016**			Six months ended 30 June 2015		
AFS securities sold	**Sale proceeds**	**Realised gains**	**Realised losses**	Sale proceeds	Realised gains	Realised losses
US government and federal agencies	**32,256**	**-**	**(78)**	6,056	-	(269)

Taxability of Interest Income

None of the investments' interest income have received a specific preferential income tax treatment in any of the jurisdiction in which a Bank's subsidiary owns investments.

Note 6: Loans

The "Bermuda" and "Non-Bermuda" classifications purpose is to reflect management segment reporting as described in Note 12: Segmented information.

The principal means of securing residential mortgages, personal, credit card and business loans are entitlements over assets and guarantees. Mortgage loans are generally repayable over periods of up to thirty years and personal, business and government loans are generally repayable over terms not exceeding five years. Amounts owing on credit cards are revolving and typically a minimum amount is due within 30 days from billing. The effective yield on total loans as at 30 June 2016 is 4.67% (31 December 2015: 4.57%).

	30 June 2016			31 December 2015		
	Bermuda	**Non-Bermuda**	**Total**	Bermuda	Non-Bermuda	Total
Commercial loans						
Government	**277,090**	**20,155**	**297,245**	202,776	22,402	225,178
Commercial and industrial	**130,591**	**202,866**	**333,457**	121,466	221,243	342,709
Commercial overdrafts	**26,091**	**4,994**	**31,085**	34,997	5,736	40,733
Total gross commercial loans	**433,772**	**228,015**	**661,787**	359,239	249,381	608,620
Less specific allowance for credit losses	**(590)**	**-**	**(590)**	(590)	-	(590)
Net commercial loans	**433,182**	**228,015**	**661,197**	358,649	249,381	608,030
Commercial real estate loans						
Commercial mortgage	**387,134**	**240,019**	**627,153**	415,747	249,622	665,369
Construction	**14,389**	**9,976**	**24,365**	5,396	8,211	13,607
Total gross commercial real estate loans	**401,523**	**249,995**	**651,518**	421,143	257,833	678,976
Less specific allowance for credit losses	**(3,227)**	**-**	**(3,227)**	(727)	(2,224)	(2,951)
Net commercial real estate loans	**398,296**	**249,995**	**648,291**	420,416	255,609	676,025
Consumer loans						
Automobile financing	**12,542**	**7,194**	**19,736**	12,308	7,556	19,864
Credit card	**56,810**	**19,538**	**76,348**	59,119	19,839	78,958
Overdrafts	**5,977**	**3,758**	**9,735**	4,750	8,165	12,915
Other consumer	**31,088**	**77,447**	**108,535**	32,022	84,062	116,084
Total gross consumer loans	**106,417**	**107,937**	**214,354**	108,199	119,622	227,821
Less specific allowance for credit losses	**(274)**	**-**	**(274)**	(274)	-	(274)
Net consumer loans	**106,143**	**107,937**	**214,080**	107,925	119,622	227,547
Residential mortgage loans	**1,369,090**	**1,057,738**	**2,426,828**	1,243,221	1,290,819	2,534,040
Less specific allowance for credit losses	**(11,924)**	**(977)**	**(12,901)**	(13,411)	(1,879)	(15,290)
Net residential mortgage loans	**1,357,166**	**1,056,761**	**2,413,927**	1,229,810	1,288,940	2,518,750
Total gross loans	**2,310,802**	**1,643,685**	**3,954,487**	2,131,802	1,917,655	4,049,457
Less specific allowance for credit losses	**(16,015)**	**(977)**	**(16,992)**	(15,002)	(4,103)	(19,105)
Less general allowance for credit losses	**(21,741)**	**(11,428)**	**(33,169)**	(20,176)	(10,021)	(30,197)
Net loans	**2,273,046**	**1,631,280**	**3,904,326**	2,096,624	1,903,531	4,000,155

(In thousands of US dollars, unless otherwise stated)

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

The following tables summarise the past due status of the loans as at 30 June 2016 and 31 December 2015. The aging of past due amounts are determined based on the contractual delinquency status of payments under the loan and this aging may be affected by the timing of the last business day at period end. Loans less than 30 days past due are included in current loans.

30 June 2016	30 - 59 days	60 - 89 days	More than 90 days	Total past due loans	Total current	Total loans
Commercial loans						
Government	-	-	-	-	297,245	297,245
Commercial and industrial	420	10	604	1,034	332,423	333,457
Commercial overdrafts	-	-	369	369	30,716	31,085
Total commercial loans	420	10	973	1,403	660,384	661,787
Commercial real estate loans						
Commercial mortgage	4,249	-	6,821	11,070	616,083	627,153
Construction	-	-	-	-	24,365	24,365
Total commercial real estate loans	4,249	-	6,821	11,070	640,448	651,518
Consumer loans						
Automobile financing	174	74	81	329	19,407	19,736
Credit card	452	122	117	691	75,657	76,348
Overdrafts	-	-	524	524	9,211	9,735
Other consumer	1,453	504	1,180	3,137	105,398	108,535
Total consumer loans	2,079	700	1,902	4,681	209,673	214,354
Residential mortgage loans	27,305	8,511	60,796	96,612	2,330,216	2,426,828
Total gross loans	34,053	9,221	70,492	113,766	3,840,721	3,954,487

31 December 2015	30 - 59 days	60 - 89 days	More than 90 days	Total past due loans	Total current	Total loans
Commercial loans						
Government	-	-	-	-	225,178	225,178
Commercial and industrial	11	14	608	633	342,076	342,709
Commercial overdrafts	-	-	25	25	40,708	40,733
Total commercial loans	11	14	633	658	607,962	608,620
Commercial real estate loans						
Commercial mortgage	1,133	-	6,658	7,791	657,578	665,369
Construction	-	-	-	-	13,607	13,607
Total commercial real estate loans	1,133	-	6,658	7,791	671,185	678,976
Consumer loans						
Automobile financing	194	81	78	353	19,511	19,864
Credit card	1,459	337	132	1,928	77,030	78,958
Overdrafts	-	-	538	538	12,377	12,915
Other consumer	832	979	1,231	3,042	113,042	116,084
Total consumer loans	2,485	1,397	1,979	5,861	221,960	227,821
Residential mortgage loans	40,793	8,911	65,343	115,047	2,418,993	2,534,040
Total gross loans	44,422	10,322	74,613	129,357	3,920,100	4,049,457

(In thousands of US dollars, unless otherwise stated)

Loans' Credit Quality

The four credit quality classifications set out in the following tables (which excludes purchased credit-impaired loans) are defined below and describe the credit quality of the Bank's lending portfolio. These classifications each encompass a range of more granular, internal credit rating grades assigned.

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.

30 June 2016	Pass	Special mention	Substandard	Non-accrual	Total gross recorded investments
Commercial loans					
Government	287,870	-	9,375	-	297,245
Commercial and industrial	327,228	4,445	1,171	613	333,457
Commercial overdrafts	28,606	1,852	274	353	31,085
Total commercial loans	643,704	6,297	10,820	966	661,787
Commercial real estate loans					
Commercial mortgage	530,754	76,761	2,382	17,256	627,153
Construction	24,365	-	-	-	24,365
Total commercial real estate loans	555,119	76,761	2,382	17,256	651,518
Consumer loans					
Automobile financing	19,268	353	-	115	19,736
Credit card	76,231	-	117	-	76,348
Overdrafts	9,153	45	519	18	9,735
Other consumer	105,409	1,294	651	1,181	108,535
Total consumer loans	210,061	1,692	1,287	1,314	214,354
Residential mortgage loans	2,283,168	40,653	54,092	48,915	2,426,828
Total gross recorded loans	3,692,052	125,403	68,581	68,451	3,954,487

31 December 2015	Pass	Special mention	Substandard	Non-accrual	Total gross recorded investments
Commercial loans					
Government	213,928	11,250	-	-	225,178
Commercial and industrial	333,853	4,133	4,106	617	342,709
Commercial overdrafts	36,017	4,493	197	26	40,733
Total commercial loans	583,798	19,876	4,303	643	608,620
Commercial real estate loans					
Commercial mortgage	542,195	86,285	26,629	10,260	665,369
Construction	13,607	-	-	-	13,607
Total commercial real estate loans	555,802	86,285	26,629	10,260	678,976
Consumer loans					
Automobile financing	19,378	388	-	98	19,864
Credit card	78,826	-	132	-	78,958
Overdrafts	11,618	54	1,232	11	12,915
Other consumer	112,426	1,308	1,056	1,294	116,084
Total consumer loans	222,248	1,750	2,420	1,403	227,821
Residential mortgage loans	2,391,723	42,578	46,793	52,946	2,534,040
Total gross recorded loans	3,753,571	150,489	80,145	65,252	4,049,457

(In thousands of US dollars, unless otherwise stated)

Evaluation of Loans For Impairment

	30 June 2016		31 December 2015	
	Individually evaluated	Collectively evaluated	Individually evaluated	Collectively evaluated
Commercial	11,953	649,834	13,607	595,013
Commercial real estate	33,440	618,078	38,019	640,957
Consumer	1,830	212,524	1,882	225,939
Residential mortgage	117,536	2,309,292	116,176	2,417,864
Total gross loans	164,759	3,789,728	169,684	3,879,773

Changes in General and Specific Allowances For Credit Losses

	Six months ended 30 June 2016				
	Commercial	Commercial real estate	Consumer	Residential mortgage	Total
Allowances at beginning of period	8,723	6,512	2,763	31,304	49,302
Provision taken (released)	2,034	2,074	(403)	1,259	4,964
Recoveries	51	13	739	66	869
Charge-offs	(131)	(1,818)	(789)	(1,937)	(4,675)
Other	(16)	(96)	(58)	(129)	(299)
Allowances at end of period	10,661	6,685	2,252	30,563	50,161
Allowances at end of period: individually evaluated for impairment	590	3,227	274	12,901	16,992
Allowances at end of period: collectively evaluated for impairment	10,071	3,458	1,978	17,662	33,169

	Six months ended 30 June 2015				
	Commercial	Commercial real estate	Consumer	Residential mortgage	Total
Allowances at beginning of period	7,831	5,920	2,797	30,934	47,482
Provision taken	(238)	1,899	(115)	648	2,194
Recoveries	742	-	660	82	1,484
Charge-offs	(131)	(282)	(988)	(1,706)	(3,107)
Other	4	43	8	8	63
Allowances at end of period	8,208	7,580	2,362	29,966	48,116
Allowances at end of period: individually evaluated for impairment	520	3,263	399	14,951	19,133
Allowances at end of period: collectively evaluated for impairment	7,688	4,317	1,963	15,015	28,983

Non-Performing Loans (excluding purchased credit-impaired loans)

	30 June 2016			31 December 2015		
	Non-accrual	Past due more than 90 days and accruing	Total non-performing loans	Non-accrual	Past due more than 90 days and accruing	Total non-performing loans
Commercial loans						
Commercial and industrial	613	-	613	617	-	617
Commercial overdrafts	353	16	369	26	10	36
Total commercial loans	966	16	982	643	10	653
Commercial real estate loans						
Commercial mortgage	17,256	662	17,918	10,260	737	10,997
Consumer loans						
Automobile financing	115	-	115	98	-	98
Credit card	-	117	117	-	132	132
Overdrafts	18	507	525	11	527	538
Other consumer	1,181	82	1,263	1,294	85	1,379
Total consumer loans	1,314	706	2,020	1,403	744	2,147
Residential mortgage loans	48,915	12,733	61,648	52,946	12,760	65,706
Total non-performing loans	68,451	14,117	82,568	65,252	14,251	79,503

(In thousands of US dollars, unless otherwise stated)

Impaired Loans (excluding purchased credit-impaired loans)

A loan is considered to be impaired when, based on current information and events, the Bank determines that it will not be able to collect all amounts due according to the original loan contract, including scheduled interest payments. Impaired loans include all non-accrual loans and all loans modified in a troubled debt restructuring (''TDR'') even if full collectability is expected following the restructuring. During the six months ended 30 June 2016, the amount of gross interest income that would have been recorded had impaired loans been current was $1.0 million (30 June 2015: $2.3 million).

	Impaired loans with an allowance			Gross recorded investment of impaired loans without an allowance	Total impaired loans		
30 June 2016	**Gross recorded investment**	**Specific allowance**	**Net loans**		**Gross recorded investment**	**Specific allowance**	**Net loans**
Commercial loans							
Commercial and industrial	590	(590)	-	1,082	1,672	(590)	1,082
Commercial overdrafts	-	-	-	353	353	-	353
Total commercial loans	590	(590)	-	1,435	2,025	(590)	1,435
Commercial real estate loans							
Commercial mortgage	12,845	(3,227)	9,618	6,132	18,977	(3,227)	15,750
Consumer loans							
Automobile financing	-	-	-	115	115	-	115
Overdrafts	-	-	-	18	18	-	18
Other consumer	359	(274)	85	900	1,259	(274)	985
Total consumer loans	359	(274)	85	1,033	1,392	(274)	1,118
Residential mortgage loans	35,786	(12,767)	23,019	49,469	85,255	(12,767)	72,488
Total impaired loans	49,580	(16,858)	32,722	58,069	107,649	(16,858)	90,791

Specific allowance excludes $0.1 million recognized relating to purchased credit-impaired loans.

	Impaired loans with an allowance			Gross recorded investment of impaired loans without an allowance	Total impaired loans		
31 December 2015	Gross recorded investment	Specific allowance	Net loans		Gross recorded investment	Specific allowance	Net loans
Commercial loans							
Commercial and industrial	599	(590)	9	1,096	1,695	(590)	1,105
Commercial overdrafts	-	-	-	26	26	-	26
Total commercial loans	599	(590)	9	1,122	1,721	(590)	1,131
Commercial real estate loans							
Commercial mortgage	6,127	(2,951)	3,176	17,198	23,325	(2,951)	20,374
Consumer loans							
Automobile financing	-	-	-	98	98	-	98
Overdrafts	-	-	-	11	11	-	11
Other consumer	366	(274)	92	1,008	1,374	(274)	1,100
Total consumer loans	366	(274)	92	1,117	1,483	(274)	1,209
Residential mortgage loans	42,145	(15,290)	26,855	39,283	81,428	(15,290)	66,138
Total impaired loans	49,237	(19,105)	30,132	58,720	107,957	(19,105)	88,852

(In thousands of US dollars, unless otherwise stated)

Average Impaired Loan Balances and Related Recognised Interest Income

	30 June 2016		31 December 2015	
	Average gross recorded investment	Interest income recognised[1]	Average gross recorded investment	Interest income recognised[1]
Commercial loans				
Commercial and industrial	1,684	34	1,214	-
Commercial overdrafts	190	-	66	-
Total commercial loans	1,874	34	1,280	-
Commercial real estate loans				
Commercial mortgage	21,151	177	28,612	311
Consumer loans				
Automobile financing	107	-	137	-
Overdrafts	15	-	27	-
Other consumer	1,317	1	1,617	2
Total consumer loans	1,439	1	1,781	2
Residential mortgage loans	83,342	1,163	78,433	1,442
Total impaired loans	107,806	1,375	110,106	1,755

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

Loans Modified in a TDR

As at 30 June 2016, the Bank had no loans that were modified in a TDR during the preceding 12 months that subsequently defaulted (i.e. 90 days or more past due following a modification). As at 30 June 2015, three loans which were all formerly residential mortgages were modified in a TDR during the preceding 12 months that subsequently defaulted with a recorded investment of $1.1 million.

	Six months ended 30 June 2016				Six months ended 30 June 2015			
TDRs entered into during the period	Number of contracts	Pre-modification recorded investment	Modification: Interest capitalisation	Post-modification recorded investment	Number of contracts	Pre-modification recorded investment	Modification: Interest capitalisation	Post-modification recorded investment
Residential mortgage loans	10	6,883	-	6,883	7	4,141	290	4,431
Total loans modified in a TDR	10	6,883	-	6,883	7	4,141	290	4,431

	30 June 2016		31 December 2015	
TDRs outstanding	Accrual	Non-accrual	Accrual	Non-accrual
Commercial loans	1,059	-	1,078	-
Commercial real estate loans	1,721	12,670	13,065	1,608
Consumer loans	78	-	80	-
Residential mortgage loans	36,340	6,451	28,482	7,175
Total loans modified in a TDR	39,198	19,121	42,705	8,783

Purchased Credit-Impaired Loans

The Bank acquired certain credit-impaired loans as part of the 7 November 2014 acquisition of substantially all retail loans of HSBC Bank (Cayman) Limited. The accretable difference (or "accretable yield") represents the excess of a loan's cash flows expected to be collected over the loan's carrying amount.

	Six months ended 30 June 2016				Year ended 31 December 2015			
	Contractual principal	Non-accretable difference	Accretable difference	Carrying amount	Contractual principal	Non-accretable difference	Accretable difference	Carrying amount
Balance at beginning of period	8,709	(2,248)	(631)	5,830	11,020	(3,804)	-	7,216
Purchases	-	-	-	-	-	-	-	-
Advances and increases in cash flows expected to be collected	66	2	7	75	150	631	(631)	150
Reductions resulting from repayments	(115)	(2)	2	(115)	(1,554)	-	107	(1,447)
Reductions resulting from changes in allowances for credit losses	-	(134)	-	(134)	-	-	-	-
Reductions resulting from charge-offs	-	-	-	-	(907)	818	-	(89)
Accretion	-	8	(8)	-	-	107	(107)	-
Balance at end of period	8,660	(2,374)	(630)	5,656	8,709	(2,248)	(631)	5,830

(In thousands of US dollars, unless otherwise stated)

Note 7: Credit risk concentrations

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

The following tables summarise the credit exposure of the Bank by business sector and by geographic region. The on-balance sheet exposure amounts disclosed are net of specific allowances and the off-balance sheet exposure amounts disclosed are gross of collateral held.

	30 June 2016			31 December 2015		
Business sector	**Loans**	**Off-balance sheet**	**Total credit exposure**	Loans	Off-balance sheet	Total credit exposure
Banks and financial services	244,217	387,885	632,102	243,776	320,934	564,710
Commercial and merchandising	228,848	93,961	322,809	230,376	107,545	337,921
Governments	297,705	195,584	493,289	223,699	102,782	326,481
Individuals	2,422,495	73,744	2,496,239	2,532,209	95,956	2,628,165
Primary industry and manufacturing	36,990	1,268	38,258	36,299	978	37,277
Real estate	567,865	1,503	569,368	632,548	15,891	648,439
Hospitality industry	133,483	6,956	140,439	125,471	14,854	140,325
Transport and communication	5,892	-	5,892	5,974	-	5,974
Sub-total	3,937,495	760,901	4,698,396	4,030,352	658,940	4,689,292
General allowance	(33,169)	-	(33,169)	(30,197)	-	(30,197)
Total	3,904,326	760,901	4,665,227	4,000,155	658,940	4,659,095

	30 June 2016				31 December 2015			
Geographic region	**Cash due from banks and short-term investments**	**Loans**	**Off-balance sheet**	**Total credit exposure**	Cash due from banks and short-term investments	Loans	Off-balance sheet	Total credit exposure
Australia	24,415	-	-	24,415	14,187	-	-	14,187
Barbados	-	9,375	-	9,375	-	11,250	-	11,250
Belgium	3,122	-	-	3,122	3,352	-	-	3,352
Bermuda	44,590	2,320,845	485,256	2,850,691	22,009	2,269,635	371,687	2,663,331
Canada	392,896	-	-	392,896	145,037	-	-	145,037
Cayman	22,263	717,958	229,691	969,912	119,086	713,468	207,139	1,039,693
Guernsey	1	380,837	35,678	416,516	1	434,531	53,750	488,282
Japan	15,999	-	-	15,999	23,424	-	-	23,424
New Zealand	1,446	-	-	1,446	999	-	-	999
Saint Lucia	-	65,383	-	65,383	-	65,285	-	65,285
Sweden	553	-	-	553	3,659	-	-	3,659
Switzerland	3,647	-	-	3,647	3,905	-	-	3,905
The Bahamas	3,664	25,950	-	29,614	3,196	28,736	-	31,932
United Kingdom	971,728	417,147	10,276	1,399,151	1,198,088	507,447	26,364	1,731,899
United States	1,605,808	-	-	1,605,808	1,161,106	-	-	1,161,106
Other	787	-	-	787	323	-	-	323
Sub-total	3,090,919	3,937,495	760,901	7,789,315	2,698,372	4,030,352	658,940	7,387,664
General allowance	-	(33,169)	-	(33,169)	-	(30,197)	-	(30,197)
Total	3,090,919	3,904,326	760,901	7,756,146	2,698,372	4,000,155	658,940	7,357,467

(In thousands of US dollars, unless otherwise stated)

Note 8: Customer deposits and deposits from banks

By Maturity

	Demand			Term					
30 June 2016	Non-interest bearing	Interest bearing	Total demand deposits	Within 3 months	3 to 6 months	6 to 12 months	After 12 months	Total term deposits	Total deposits
Customers									
Bermuda									
Demand or less than $100k[1]	1,455,113	3,261,070	4,716,183	11,901	6,445	11,148	15,644	45,138	4,761,321
Term - $100k or more	N/A	N/A	-	916,900	52,288	54,568	50,691	1,074,447	1,074,447
Total Bermuda	1,455,113	3,261,070	4,716,183	928,801	58,733	65,716	66,335	1,119,585	5,835,768
Non-Bermuda									
Demand or less than $100k	517,726	3,084,575	3,602,301	20,571	4,203	3,661	562	28,997	3,631,298
Term and $100k or more	N/A	N/A	-	442,501	135,003	27,386	9,654	614,544	614,544
Total non-Bermuda	517,726	3,084,575	3,602,301	463,072	139,206	31,047	10,216	643,541	4,245,842
Total customer deposits	1,972,839	6,345,645	8,318,484	1,391,873	197,939	96,763	76,551	1,763,126	10,081,610
Banks									
Bermuda									
Demand or less than $100k	15	-	15	-	-	-	-	-	15
Non-Bermuda									
Demand or less than $100k	-	6,453	6,453	113	-	-	-	113	6,566
Term and $100k or more	N/A	N/A	-	2,801	-	100	-	2,901	2,901
Total non-Bermuda	-	6,453	6,453	2,914	-	100	-	3,014	9,467
Total bank deposits	15	6,453	6,468	2,914	-	100	-	3,014	9,482
Total deposits	1,972,854	6,352,098	8,324,952	1,394,787	197,939	96,863	76,551	1,766,140	10,091,092

(In thousands of US dollars, unless otherwise stated)

31 December 2015	Demand: Non-interest bearing	Demand: Interest bearing	Demand: Total demand deposits	Term: Within 3 months	Term: 3 to 6 months	Term: 6 to 12 months	Term: After 12 months	Total term deposits	Total deposits
Customers									
Bermuda									
Demand or less than $100k[1]	1,348,878	2,390,952	3,739,830	15,902	4,757	10,035	15,881	46,575	3,786,405
Term - $100k or more	N/A	N/A	-	329,433	37,925	64,943	53,002	485,303	485,303
Total Bermuda	1,348,878	2,390,952	3,739,830	345,335	42,682	74,978	68,883	531,878	4,271,708
Non-Bermuda									
Demand or less than $100k	532,867	3,381,946	3,914,813	22,878	6,714	4,238	376	34,206	3,949,019
Term and $100k or more	N/A	N/A	-	616,442	246,989	74,030	9,480	946,941	946,941
Total non-Bermuda	532,867	3,381,946	3,914,813	639,320	253,703	78,268	9,856	981,147	4,895,960
Total customer deposits	1,881,745	5,772,898	7,654,643	984,655	296,385	153,246	78,739	1,513,025	9,167,668
Banks									
Bermuda									
Demand or less than $100k	403	-	403	-	-	-	-	-	403
Non-Bermuda									
Demand or less than $100k	-	10,176	10,176	-	-	-	-	-	10,176
Term and $100k or more	N/A	N/A	-	3,899	-	-	-	3,899	3,899
Total non-Bermuda	-	10,176	10,176	3,899	-	-	-	3,899	14,075
Total bank deposits	403	10,176	10,579	3,899	-	-	-	3,899	14,478
Total deposits	1,882,148	5,783,074	7,665,222	988,554	296,385	153,246	78,739	1,516,924	9,182,146

[1] As at 30 June 2016, $150 million (31 December 2015: $175 million) of the Demand deposits - Interest bearing bear a special negligible interest rate. The weighted-average interest rate on interest-bearing demand deposits as at 30 June 2016 is 0.06% (31 December 2015: 0.10%).

By Type and Segment

	30 June 2016: Payable on demand	30 June 2016: Payable on a fixed date	30 June 2016: Total	31 December 2015: Payable on demand	31 December 2015: Payable on a fixed date	31 December 2015: Total
Bermuda						
Customers	4,716,184	1,119,585	5,835,769	3,739,829	531,877	4,271,706
Banks	16	-	16	403	-	403
Cayman						
Customers	2,552,229	404,797	2,957,026	2,596,642	416,489	3,013,131
Banks	6,067	3,014	9,081	9,365	3,899	13,264
Guernsey						
Customers	955,884	215,611	1,171,495	996,343	248,866	1,245,209
Banks	242	-	242	669	-	669
The Bahamas						
Customers	32,962	6,451	39,413	36,078	3,602	39,680
United Kingdom						
Customers	61,225	16,682	77,907	285,751	312,191	597,942
Banks	143	-	143	142	-	142
Total Customers	8,318,484	1,763,126	10,081,610	7,654,643	1,513,025	9,167,668
Total Banks	6,468	3,014	9,482	10,579	3,899	14,478
Total deposits	8,324,952	1,766,140	10,091,092	7,665,222	1,516,924	9,182,146

(In thousands of US dollars, unless otherwise stated)

Note 9: Employee benefit plans

The Bank maintains trusteed pension plans including non-contributory defined benefit plans and a number of defined contribution plans, and provides post-retirement medical benefits to its qualifying retirees. The expense related to these plans is included in the consolidated statements of operations under Salaries and other employee benefits. The defined benefit provisions under the pension plans are generally based upon years of service and average salary during the relevant 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 independent actuaries.

The Bank includes an estimate of the 2016 Bank contribution and estimated benefit payments for the next ten years under the pension and post-retirement plans in its financial statements for the year-ended 31 December 2015. During the six months ended 30 June 2016, there have been no material revisions to these estimates.

	Three months ended		Six months ended	
	30 June 2016	30 June 2015	**30 June 2016**	30 June 2015
Defined benefit pension expense (income)				
Interest cost	**1,489**	1,859	**2,982**	3,699
Expected return on plan assets	**(2,296)**	(2,365)	**(4,598)**	(4,706)
Amortisation of net actuarial loss	**425**	160	**851**	494
Total defined benefit pension expense (income)	**(382)**	(346)	**(765)**	(513)
Post-retirement medical benefit expense (income)				
Service cost	**29**	86	**59**	171
Interest cost	**1,198**	1,187	**2,396**	2,373
Amortisation of net actuarial losses	**683**	837	**1,366**	1,674
Amortisation of prior service credit	**(1,586)**	(1,586)	**(3,172)**	(3,172)
Total post-retirement medical benefit expense (income)	**324**	524	**649**	1,046

Note 10: Credit related arrangements, repurchase agreements 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. Collateral is shown at estimated market value less selling cost. Where the collateral is cash, it is shown gross including accrued income.

	30 June 2016			31 December 2015		
Outstanding financial guarantees	**Gross**	**Collateral**	**Net**	Gross	Collateral	Net
Standby letters of credit	**274,625**	**271,816**	**2,809**	258,851	257,200	1,651
Letters of guarantee	**4,008**	**3,783**	**225**	9,137	8,418	719
Total	**278,633**	**275,599**	**3,034**	267,988	265,618	2,370

Commitments

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

The Bank has a facility by one of its custodians, whereby the Bank may offer up to US$200 million of standby letters of credit to its customers on a fully secured basis. Under the standard terms of the facility, the custodian has the right to set-off against securities held of 110% of the utilised facility. At 30 June 2016, $139.0 million (31 December 2015: $123.7 million) of standby letters of credit were issued under this facility.

Outstanding unfunded commitments to extend credit	**30 June 2016**	31 December 2015
Commitments to extend credit	**480,665**	390,497
Documentary and commercial letters of credit	**1,603**	455
Total unfunded commitments to extend credit	**482,268**	390,952

(In thousands of US dollars, unless otherwise stated)

Repurchase agreements

The Bank utilizes repurchase agreements to manage liquidity. The risks of these transactions include fair value declines in the securities posted as collateral and other credit related events. The Bank manages these risks by monitoring the value of the securities posted as collateral on a daily basis and ensure appropriate collateral has been posted for this transaction.

As at 30 June 2016, the Bank had one open position (31 December 2015: nil) in a repurchase agreement with a remaining maturity of less than 30 days involving one US federal agencies security, with the value of the repurchase agreement being $22.0 million.

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, except as noted in the following paragraphs.

As publicly announced, in November 2013, the US Attorney's Office for the Southern District of New York applied for and secured the issuance of so-called John Doe Summonses to six US financial institutions with which the Bank had correspondent bank relationships. The Bank has been fully cooperating with the US authorities in their ongoing investigation. Specifically, the Bank has conducted an extensive review and account remediation exercise to determine the US tax compliance status of US person account holders. The review process and results have been shared with the US authorities.

Management believes that as of 30 June 2016, a provision of $5.5 million (31 December 2015: $4.8 million), which has been recorded, is appropriate based on the methodology used in similar settlements for other financial institutions. As the investigation remains ongoing at this time, the timing and terms of the final resolution, including any fines or penalties, remain uncertain and the financial impact to the Bank could exceed the amount of the provision. In this regard, we note that the US authorities have not approved or commented on the adequacy or reasonableness of the estimate. The provision is included on the consolidated balance sheets under other liabilities and on the consolidated statements of operations under other expenses.

Note 11: Exit cost obligations

During December 2015, the Bank agreed to commence an orderly wind down of the deposit taking and investment management businesses in the United Kingdom segment as reflected in management segment reporting described in Note 12: Segmented Information. In making this determination, the Bank considered the increasing regulatory pressure along with periods of negative profitability and made the determination that an orderly wind down of the deposit taking and investment management businesses in the United Kingdom was prudent for Butterfield as a group. The orderly wind down is expected to be completed over the next six months. The amounts expensed shown in the following table are all included in the consolidated statements of operations as "Restructuring costs" under non-interest expenses.

Related to this orderly wind down, it was determined that the core banking system utilized in the operations of the United Kingdom segment was impaired (included in "Premises, equipment and computer software" on the consolidated balance sheets). This determination was based upon the realisable value of this software upon completion of the orderly wind-down. A total of $5.1 million was expensed in the fourth quarter of the year ended 31 December 2015 and was included in "Impairment of fixed assets" on the consolidated statements of operations of the relevant period.

	Expense recognised by period					Amounts paid by period		Exit cost liability	
	Three months ended 30 June 2016	**Six months ended 30 June 2016**	Year ended 31 December 2015	Costs to be recognised in the future	Total exit costs expected to be incurred	**Six months ended 30 June 2016**	Year ended 31 December 2015	**As at 30 June 2016**	As at 31 December 2015
Staff redundancy expenses	**238**	**2,562**	634	759	3,955	**978**	-	**2,218**	634
Professional services	**196**	**1,527**	1,549	1,049	4,125	**1,628**	-	**1,448**	1,549
Lease termination expenses	**-**	**-**	-	2,210	2,210	**-**	-	**-**	-
Other expenses	**265**	**963**	-	657	1,620	**1,472**	-	**(509)**	-
Total	**699**	**5,052**	2,183	4,675	11,910	**4,078**	-	**3,157**	2,183

(In thousands of US dollars, unless otherwise stated)

Note 12: Segmented information

The Bank is managed by its CEO on a geographic basis. The Bank's six geographic segments are Bermuda, Cayman, Guernsey, Switzerland, The Bahamas and the United Kingdom. The geographic segments are determined based on the country's balance sheet size and by regulatory reporting requirements in respective jurisdiction. Each region has a managing director who reports directly to the CEO. The CEO has final authority over resource allocation decisions and performance assessment.

The geographic segments reflect this management structure and the manner in which financial information is currently evaluated by the CEO. Segment results are determined based upon the Bank's management reporting system, which assigns balance sheet and income statement items to each of the geographic segments. The process is designed around the Bank's organizational and management structure and, accordingly, the results derived are not necessarily comparable with similar information published by other financial institutions. A description of each reportable segment and table of financial results is presented below.

Accounting policies of the reportable segments are the same as those described in Note 2 of the Bank’s audited financial statements for the year ended 31 December 2015. Transactions between segments are accounted for on an accrual basis and are all eliminated upon consolidation. The Bank generally does not allocate assets, revenues and expenses among its business segments, with the exception of certain corporate overhead expenses and loan participation revenue and expense. Loan participation revenue and expenses are allocated pro-rata based upon the percentage of the total loan funded by each jurisdiction participating in the loan.

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. As described in Note 11, during the year-ended December 2015, the Bank agreed to commence an orderly wind down of the deposit taking and investment management businesses in the United Kingdom segment.

Total Assets by Segment	**30 June 2016**	31 December 2015
Bermuda	**6,751,397**	5,113,718
Cayman	**3,347,758**	3,282,319
Guernsey	**1,302,685**	1,391,126
Switzerland	**3,699**	2,713
The Bahamas	**49,863**	49,434
United Kingdom	**246,267**	788,433
Total assets before inter-segment eliminations	**11,701,669**	10,627,743
Less: inter-segment eliminations	**(414,482)**	(352,180)
Total	**11,287,187**	10,275,563

(In thousands of US dollars, unless otherwise stated)

Three months ended 30 June 2016	Net interest income: Customer	Net interest income: Inter- segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Gains and losses	Total net revenue	Total expenses	Net income
Bermuda	39,975	452	(3,377)	18,198	55,248	271	55,519	37,120	18,399
Cayman	19,704	80	(1,204)	10,583	29,163	1	29,164	14,983	14,181
Guernsey	3,540	(67)	(543)	6,403	9,333	(434)	8,899	8,809	90
Switzerland	-	-	-	1,035	1,035	-	1,035	901	134
The Bahamas	10	6	-	1,145	1,161	-	1,161	1,207	(46)
United Kingdom	1,106	(471)	(182)	1,242	1,695	(7)	1,688	4,673	(2,985)
Total before eliminations	64,335	-	(5,306)	38,606	97,635	(169)	97,466	67,693	29,773
Inter-segment eliminations	-	-	-	(706)	(706)		(706)	(706)	-
Total	64,335	-	(5,306)	37,900	96,929	(169)	96,760	66,987	29,773

Three months ended 30 June 2015	Net interest income: Customer	Net interest income: Inter- segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Gains and losses	Total net revenue	Total expenses	Net income
Bermuda	34,963	629	(1,518)	14,451	48,525	(74)	48,451	35,001	13,450
Cayman	16,528	141	313	9,895	26,877	-	26,877	13,969	12,908
Guernsey	4,371	(65)	9	6,574	10,889	(1,677)	9,212	9,514	(302)
Switzerland	-	-	-	909	909	-	909	873	36
The Bahamas	(2)	30	-	1,418	1,446	-	1,446	1,252	194
United Kingdom	3,415	(735)	(809)	1,706	3,577	(1,426)	2,151	5,131	(2,980)
Total before eliminations	59,275	-	(2,005)	34,953	92,223	(3,177)	89,046	65,740	23,306
Inter-segment eliminations	-	-	-	(405)	(405)	-	(405)	(405)	-
Total	59,275	-	(2,005)	34,548	91,818	(3,177)	88,641	65,335	23,306

Six months ended 30 June 2016	Net interest income: Customer	Net interest income: Inter- segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Gains and losses	Total net revenue	Total expenses	Net income
Bermuda	78,391	841	(3,767)	32,424	107,889	106	107,995	72,688	35,307
Cayman	38,348	222	(1,403)	21,260	58,427	(814)	57,613	30,145	27,468
Guernsey	7,321	(134)	(569)	12,894	19,512	(924)	18,588	17,946	642
Switzerland	-	-	-	1,939	1,939	-	1,939	1,711	228
The Bahamas	20	16	-	2,419	2,455	-	2,455	2,588	(133)
United Kingdom	2,592	(945)	775	2,770	5,192	1,224	6,416	13,394	(6,978)
Total before eliminations	126,672	-	(4,964)	73,706	195,414	(408)	195,006	138,472	56,534
Inter-segment eliminations	-	-	-	(1,288)	(1,288)	-	(1,288)	(1,288)	-
Total	126,672	-	(4,964)	72,418	194,126	(408)	193,718	137,184	56,534

Six months ended 30 June 2015	Net interest income: Customer	Net interest income: Inter- segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Gains and losses	Total net revenue	Total expenses	Net income
Bermuda	69,779	1,375	(1,325)	29,311	99,140	(230)	98,910	70,722	28,188
Cayman	33,107	281	566	19,504	53,458	-	53,458	28,208	25,250
Guernsey	8,629	(269)	16	13,014	21,390	(1,423)	19,967	18,991	976
Switzerland	-	-	-	1,655	1,655	-	1,655	1,598	57
The Bahamas	(10)	60	-	2,610	2,660	-	2,660	2,559	101
United Kingdom	6,549	(1,447)	(1,451)	3,437	7,088	(549)	6,539	9,845	(3,306)
Total before eliminations	118,054	-	(2,194)	69,531	185,391	(2,202)	183,189	131,923	51,266
Inter-segment eliminations	-	-	-	(848)	(848)	-	(848)	(848)	-
Total	118,054	-	(2,194)	68,683	184,543	(2,202)	182,341	131,075	51,266

Note 13: Derivative instruments and risk management

The Bank uses derivatives for risk management purposes and to meet the needs of its customers. The Bank's derivative contracts principally involve over-the-counter ("OTC") transactions that are privately negotiated between the Bank and the counterparty to the contract and include interest rate contracts and foreign exchange contracts.

The Bank may pursue opportunities to reduce its exposure to credit losses on derivatives by entering into International Swaps and Derivatives Association master agreements ("ISDAs"). Depending on the nature of the derivative transaction, bilateral collateral arrangements may be used as well. When the Bank is engaged in more than one outstanding derivative transaction with the same counterparty, and also has a legally enforceable master netting agreement with that counterparty, the net marked to market exposure represents the netting of the positive and negative exposures with that counterparty. When there is a net negative exposure, the Bank regards its credit exposure to the counterparty as being zero. The net marked to market position with a particular counterparty represents a reasonable measure of credit risk when there is a legally enforceable master netting agreement between the Bank and that counterparty.

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

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

Fair Value

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

Risk Management Derivatives

The Bank enters into interest derivative contracts as part of its overall interest rate risk management strategy to minimise significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Bank's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain consolidated balance sheet assets and liabilities so that movements in interest rates do not adversely affect the net interest margin. Derivative instruments that are used as part of the Bank's risk management strategy include interest rate swap contracts that have indices related to the pricing of specific consolidated balance sheet assets and liabilities. Interest rate swaps generally involve the exchange of fixed and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date. The Bank uses foreign currency derivative instruments to hedge its exposure to foreign currency risk. Certain hedging relationships are formally designated and qualify for hedge accounting as fair value or net investment hedges. Risk management derivatives comprise the following:

Fair value hedges

Derivatives are designated as fair value hedges to minimise the Bank's exposure to changes in the fair value of assets and liabilities due to movements in interest rates. The Bank previously entered 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. 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 substantial liquidation of an investment in a foreign subsidiary.

For foreign-currency-denominated debt instruments that are designated as hedges of net investments in foreign operations, the translation gain or loss that is recorded in AOCL is based on the spot exchange rate between the reporting currency of the Bank and the functional currency of the respective subsidiary. See Note 19 for details on the amount recognised into AOCL during the current period from translation gain or loss.

(In thousands of US dollars, unless otherwise stated)

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 foreign exchange 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 sheets in other assets and other liabilities. Gross positive fair values are recorded in other assets and gross negative fair values are recorded in other liabilities, subject to netting when master netting agreements are in place.

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

30 June 2016	**Derivative instrument**	**Number of contracts**	**Notional amounts**	**Gross positive fair value**	**Gross negative fair value**	**Net fair value**
Risk management derivatives						
Net investment hedges	Currency swaps	**1**	**77,670**	**11,093**	**-**	**11,093**
Derivatives not formally designated as hedging instruments	Currency swaps	**6**	**243,876**	**9,433**	**(147)**	**9,286**
Subtotal risk management derivatives			**321,546**	**20,526**	**(147)**	**20,379**
Client services derivatives	Spot and forward foreign exchange	**219**	**2,403,357**	**19,566**	**(19,050)**	**516**
Total derivative instruments			**2,724,903**	**40,092**	**(19,197)**	**20,895**

31 December 2015	Derivative instrument	Number of contracts	Notional amounts	Gross positive fair value	Gross negative fair value	Net fair value
Risk management derivatives						
Net investment hedges	Currency swaps	1	77,670	4,122	-	4,122
Derivatives not formally designated as hedging instruments	Currency swaps	4	77,881	273	(95)	178
Subtotal risk management derivatives			155,551	4,395	(95)	4,300
Client services derivatives	Spot and forward foreign exchange	128	2,572,525	16,426	(15,961)	465
Total derivative instruments			2,728,076	20,821	(16,056)	4,765

In addition to the above, as at 30 June 2016 foreign denominated deposits of $39.0 million (31 December 2015: $39.4 million), were designated as a hedge of foreign exchange risk associated with the net investment in foreign operations.

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

The Bank also elected not to offset certain derivative assets or liabilities and all collaterals received or paid that the Bank or the counterparties could legally offset in the event of default. In the tables below, these positions are deducted from the net fair value presented in the consolidated balance sheets in order to present the net exposures. The collateral values presented in the following table are limited to the related net derivative asset or liability balance and, accordingly, do not include excess collateral received or paid.

				Less: positions not offset in the consolidated balance sheets		
30 June 2016	**Gross fair value recognised**	**Less: offset applied under master netting agreements**	**Net fair value presented in the consolidated balance sheets**	**Gross fair value of derivatives**	**Cash collateral received / paid**	**Net exposures**
Derivative assets						
Spot and forward foreign exchange and currency swaps	**40,092**	**(2,092)**	**38,000**	**-**	**(289)**	**37,711**
Derivative liabilities						
Spot and forward foreign exchange and currency swaps	**19,197**	**(2,092)**	**17,105**	**-**	**(455)**	**16,650**
Net positive fair value			**20,895**			

(In thousands of US dollars, unless otherwise stated)

31 December 2015	Gross fair value recognised	Less: offset applied under master netting agreements	Net fair value presented in the consolidated balance sheets	Less: positions not offset in the consolidated balance sheets: Gross fair value of derivatives	Less: positions not offset in the consolidated balance sheets: Cash collateral received / paid	Net exposures
Derivative assets						
Spot and forward foreign exchange and currency swaps	20,821	(7,127)	13,694	(78)	(232)	13,384
Derivative liabilities						
Spot and forward foreign exchange and currency swaps	16,056	(7,127)	8,929	(78)	(148)	8,703
Net positive fair value			4,765			

The following tables shows the location and amount of gains (losses) recorded in either the consolidated statements of operations or consolidated statements of comprehensive income on derivative instruments outstanding:

		Three months ended		Six months ended	
Derivative instrument	**Consolidated statements of operations line item**	**30 June 2016**	30 June 2015	**30 June 2016**	30 June 2015
Spot and forward foreign exchange	Foreign exchange revenue	**778**	(288)	**1,370**	(472)
Currency swaps	Foreign exchange revenue	**10,430**	688	**8,776**	796
Total net gains (losses) recognised in net income		**11,208**	400	**10,146**	324

Derivative instrument	**Consolidated statements of comprehensive income line item**	**30 June 2016**	30 June 2015	**30 June 2016**	30 June 2015
Currency swaps	Net change in unrealised gains and losses on translation of net investment in foreign operations	**5,275**	(6,992)	**7,019**	(1,367)
Total net gains (losses) recognised in comprehensive income		**5,275**	(6,992)	**7,019**	(1,367)

Note 14: Fair value measurements

The following table presents the financial assets and liabilities that are measured at fair value on a recurring basis. Management classifies these items based on the type of inputs used in their respective fair value determination as described in Note 2 of the Bank's audited financial statements for the year ended 31 December 2015.

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, 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.

There were no transfers between Level 1 and Level 2 during the six months ended 30 June 2016 and the year ended 31 December 2015.

(In thousands of US dollars, unless otherwise stated)

	30 June 2016 Fair value			Total carrying amount / fair value	31 December 2015 Fair value			Total carrying amount / fair value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Items that are recognised at fair value on a recurring basis:								
Financial assets								
Trading investments								
US government and federal agencies	-	-	-	-	-	279,343	-	279,343
Non-US governments debt securities	-	-	-	-	-	7,489	-	7,489
Asset-backed securities - Student loans	-	-	-	-	-	28,285	-	28,285
Mutual funds	6,035	264	-	6,299	5,903	279	-	6,182
Total trading	6,035	264	-	6,299	5,903	315,396	-	321,299
Available-for-sale investments								
US government and federal agencies	-	2,142,759	-	2,142,759	-	1,404,499	-	1,404,499
Non-US governments debt securities	-	27,780	-	27,780	-	29,575	-	29,575
Corporate debt securities	-	477,054	-	477,054	-	506,144	-	506,144
Asset-backed securities - Student loans	-	-	12,161	12,161	-	-	12,161	12,161
Commercial mortgage-backed securities	-	156,286	-	156,286	-	148,726	-	148,726
Residential mortgage-backed securities	-	238,651	-	238,651	-	100,244	-	100,244
Total available-for-sale	-	3,042,530	12,161	3,054,691	-	2,189,188	12,161	2,201,349
Other assets - Derivatives	-	38,000	-	38,000	-	13,694	-	13,694
Financial liabilities								
Other liabilities - Derivatives	-	17,105	-	17,105	-	8,929	-	8,929

Level 3 Reconciliation

The Level 3 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 preceding 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.

	30 June 2016 Available-for-sale investments	31 December 2015 Available-for-sale investments
Carrying amount at beginning of period	12,161	12,226
Realised and unrealised gains (losses) recognised in other comprehensive income	-	(65)
Carrying amount at end of period	12,161	12,161

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

		30 June 2016			31 December 2015		
	Level	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
Financial assets							
Cash due from banks	Level 1	2,655,194	2,655,194	-	2,288,890	2,288,890	-
Short-term investments	Level 1	435,725	435,725	-	409,482	409,482	-
Investments held-to-maturity	Level 2	809,477	836,294	26,817	701,282	701,495	213
Loans, net of allowance for credit losses	Level 2	3,904,326	3,900,411	(3,915)	4,000,155	3,996,443	(3,712)
Other real estate owned[1]	Level 2	7,902	7,902	-	11,206	11,206	-
Financial liabilities							
Customer deposits							
Demand deposits	Level 2	8,318,484	8,318,484	-	7,654,643	7,654,643	-
Term deposits	Level 2	1,763,126	1,764,269	(1,143)	1,513,025	1,514,126	(1,101)
Deposits from banks	Level 2	9,482	9,482	-	14,478	14,478	-
Securities sold under agreement to repurchase	Level 2	21,975	21,975	-	-	-	-
Contingent payments for business acquisitions	Level 2	14,275	14,275	-	-	-	-
Long-term debt	Level 2	117,000	117,801	(801)	117,000	116,606	394

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

(In thousands of US dollars, unless otherwise stated)

Note 15: Interest rate risk

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

30 June 2016	**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 due from banks	2,561	-	-	-	-	94	2,655
Short-term investments	157	275	4	-	-	-	436
Investments	1,366	1	38	661	1,798	6	3,870
Loans	3,618	127	23	65	54	17	3,904
Other assets	-	-	-	-	-	422	422
Total assets	7,702	403	65	726	1,852	539	11,287
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	816	816
Demand deposits	6,352	-	-	-	-	1,973	8,325
Term deposits	1,394	198	97	77	-	-	1,766
Securities sold under agreement to repurchase	22	-	-	-	-	-	22
Other liabilities	-	-	-	-	-	241	241
Long-term debt	92	-	-	25	-	-	117
Total liabilities and shareholders' equity	7,860	198	97	102	-	3,030	11,287
Interest rate sensitivity gap	(158)	205	(32)	624	1,852	(2,491)	-
Cumulative interest rate sensitivity gap	(158)	47	15	639	2,491	-	-

31 December 2015	Earlier of contractual maturity or repricing date						
(in $ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash due from banks	2,178	-	-	-	-	111	2,289
Short-term investments	117	291	1	-	-	-	409
Investments	871	79	19	620	1,629	6	3,224
Loans	3,735	84	53	67	47	14	4,000
Other assets	-	-	-	-	-	354	354
Total assets	6,901	454	73	687	1,676	485	10,276
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	750	750
Demand deposits	5,783	-	-	-	-	1,882	7,665
Term deposits	989	296	153	79	-	-	1,517
Other liabilities	-	-	-	-	-	227	227
Long-term debt	92	-	-	25	-	-	117
Total liabilities and shareholders' equity	6,864	296	153	104	-	2,859	10,276
Interest rate sensitivity gap	37	158	(80)	583	1,676	(2,374)	-
Cumulative interest rate sensitivity gap	37	195	115	698	2,374	-	-

Note 16: Earnings per share

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

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

During the six months ended 30 June 2016, options to purchase an average of 27.6 million (30 June 2015: 29.7 million) shares of common stock, were outstanding. During the six months ended 30 June 2016, the average number of outstanding awards of unvested common shares was 7.7 million (30 June 2015: 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 2015: $3.47) for 4.32 million shares of common stock (31 December 2015: 4.32 million) were not included in the computation of earnings per share for the six months ended 30 June 2016 and 2015 because the exercise price was greater than the average market price of the Bank's common stock.

	Three months ended			Six months ended		
	30 June 2016	30 June 2015		**30 June 2016**	30 June 2015	
Net income	**29,773**	23,306		**56,534**	51,266	
Less: Preference dividends declared and guarantee fee	**(4,064)**	(4,069)		**(8,183)**	(8,186)	
Less: Premium on preference share buyback	**-**	-		**-**	(28)	
Net income attributable to participating shares	**25,709**	19,237		**48,351**	43,052	
Less: Dividend paid on common shares	**(4,677)**	(4,669)		**(9,350)**	(15,446)	
Less: Dividend paid on contingent value convertible preference shares	**-**	-		**-**	(138)	
Undistributed earnings attributable for participating shares	**21,032**	14,568		**39,001**	27,468	
Basic Earnings Per Share	**Common stock**	Common stock	CVCP	**Common stock**	Common stock	CVCP
Weighted average number of shares issued	**472,933**	496,933	-	**472,933**	519,687	2,960
Weighted average number of common shares held as treasury stock	**(5,431)**	(10,414)	-	**(7,055)**	(11,642)	-
Weighted average number of participating shares (in thousands)	**467,502**	486,519	-	**465,878**	508,045	2,960
Allocation of undistributed earnings - Basic	**21,032**	14,568	-	**39,001**	27,309	159
Distributed earnings per share	**0.01**	0.01	-	**0.02**	0.03	0.02
Undistributed earnings per share	**0.05**	0.03	-	**0.08**	0.05	0.05
Basic Earnings Per Share	**0.06**	0.04	-	**0.10**	0.08	0.07
Diluted Earnings Per Share	**Common stock**	Common stock	CVCP	**Common stock**	Common stock	CVCP
Adjusted weighted average number of participating shares outstanding	**467,502**	486,519	-	**465,878**	508,045	2,960
Net dilution impact related to options to purchase common shares	**3,747**	5,039	N/A	**4,131**	5,099	N/A
Net dilution impact related to awards of unvested common shares	**2,246**	7,215	N/A	**3,682**	7,106	N/A
Weighted average number of diluted participating shares (in thousands)	**473,495**	498,773	-	**473,691**	520,250	2,960
Allocation of undistributed earnings - Diluted	**21,032**	14,568	-	**39,001**	27,313	155
Distributed earnings per share	**0.01**	0.01	-	**0.02**	0.03	0.02
Undistributed earnings per share	**0.04**	0.03	-	**0.08**	0.05	0.05
Diluted Earnings Per Share	**0.05**	0.04	-	**0.10**	0.08	0.07

(In thousands of US dollars, unless otherwise stated)

Note 17: Share-based payments

The common shares transferred to employees under all share-based payments are taken from the Bank's common treasury shares. As all share-based payments are settled by the ultimate parent company, which pursuant to Bermuda law is not taxed on income, they are not income tax benefits in relation to the issue of such shares as a form of compensation.

Stock Option Plans

1997 Stock Option Plan

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

2010 Stock Option Plan

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

Under the 2010 Stock Option Plan, options are awarded to Bank employees and executive management, based on predetermined vesting conditions that entitle the holder to purchase one common share at a subscription price usually equal to the price of the most recently traded common share 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 (partially or fully) on a “valuation event” date (date any of the 2 March 2010 new investors transfers at least 5% of the total number of common shares or the date that there is a change in control and any of the new investors realises a predetermined multiple of invested capital (“MOIC”)). In the event of a valuation event and the MOIC reaching 200% of the original $1.21 per share invested capital, all performance options would vest. As at 30 June 2016 the grant date fair value not yet recognised in expenses of outstanding performance options is $8.5 million (31 December 2015: $8.7 million). If the probability of a valuation event becomes more likely than not, some or all of the unrecognised expense relating to the performance options will be recognised as an expense.

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

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

Changes in Outstanding Stock Options

	Number of shares transferable upon exercise (thousands)			Weighted average exercise price ($)		Weighted average remaining life (years)		
Six months ended 30 June 2016	**1997 Stock Option Plan**	**2010 Stock Option Plan**	**Total**	**1997 Stock Option Plan**	**2010 Stock Option Plan**	**1997 Stock Option Plan**	**2010 Stock Option Plan**	**Aggregate intrinsic value ($ thousands)**
Outstanding at beginning of period	2,176	26,070	28,246	13.52	1.16			
Exercised	-	(348)	(348)	-	1.17			167
Forfeitures and cancellations	(570)	(35)	(605)	14.36	1.15			
Resignations, retirements, redundancies	-	(278)	(278)	-	1.15			
Outstanding at end of period	1,606	25,409	27,015	13.22	1.16	1.68	4.18	11,687
Vested and exercisable at end of period	1,606	12,354	13,960	13.22	1.16	1.68	4.45	

	Number of shares transferable upon exercise (thousands)			Weighted average exercise price ($)		Weighted average remaining life (years)		
Six months ended 30 June 2015	1997 Stock Option Plan	2010 Stock Option Plan	Total	1997 Stock Option Plan	2010 Stock Option Plan	1997 Stock Option Plan	2010 Stock Option Plan	Aggregate intrinsic value ($ thousands)
Outstanding at beginning of period	3,525	26,780	30,305	13.07	1.17			
Exercised	-	(258)	(258)	-	1.15			212
Forfeitures and cancellations	(892)	(21)	(913)	10.45	-			
Resignations, retirements, redundancies	-	(7)	(7)	-	1.15			
Outstanding at end of period	2,633	26,494	29,127	13.52	1.16	2.27	5.17	12,985
Vested and exercisable at end of period	2,633	12,589	15,222	13.52	1.16	2.27	5.43	

Share Based Plans

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

Employee Deferred Incentive Plan ("EDIP")

Under the Bank's EDIP Plan, shares were awarded to Bank employees and executive management based on the time vesting condition, which states that the shares will vest equally over a three-year period from the effective grant date.

Executive Long-Term Incentive Share Plan ("ELTIP") - Years 2012 and 2011

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 was 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 was 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.

Executive Long-Term Incentive Share Plan ("ELTIP") - Years 2016, 2015, 2014 and 2013

The 2016 ELTIP was approved on 18 February 2016. Under the Bank's 2016, 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.

	Six months ended			
Changes in Outstanding ELTIP and EDIP awards (in thousands of shares transferable upon vesting)	**30 June 2016**		30 June 2015	
	EDIP	**ELTIP**	EDIP	ELTIP
Outstanding at beginning of period	**2,255**	**6,061**	2,660	7,062
Granted	**1,127**	**2,135**	1,335	2,340
Vested (fair value in 2016: $6.9 million, 2015: $9.5 million)	**(1,183)**	**(3,016)**	(1,921)	(2,505)
Resignations, retirements, redundancies	**(18)**	**(81)**	(60)	-
Outstanding at end of period	**2,181**	**5,098**	2,014	6,897

Share-based Compensation Cost Recognised in Net Income

	Six months ended					
	30 June 2016			30 June 2015		
	Stock option plans	**EDIP and ELTIP**	**Total**	Stock option plans	EDIP and ELTIP	Total
Share-based compensation cost	**258**	**3,323**	**3,581**	260	3,492	3,752

Unrecognised Share-based Compensation Cost	**30 June 2016**	30 June 2015
2010 Stock Option Plan		
Time vesting options	**-**	53
Performance vesting options	**8,485**	8,780
EDIP	**2,919**	2,656
ELTIP		
Time vesting shares	**-**	28
Performance vesting shares	**5,412**	2,665
Total unrecognised expense	**16,816**	14,182

(In thousands of US dollars, unless otherwise stated)

Note 18: 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.

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. See Note 20, in which certain large one-time share buy-backs transactions are described.

Common Share Buy-Back Programme

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

On 19 February 2016, the Board approved, with effect from 1 April 2016, the 2016 common share buy-back programme, authorising the purchase for treasury of up to eight million common shares.

	Six months ended	Year ended				
Common share buy-backs	**30 June 2016**	2015	2014	2013	2012	Total
Acquired number of shares (to the nearest 1)	**888,214**	2,503,707	8,567,340	4,038,482	7,260,051	23,257,794
Average cost per common share	**1.63**	1.94	1.99	1.39	1.24	1.63
Total cost (in US dollars)	**1,452,056**	4,862,248	17,018,412	5,610,907	8,999,061	37,942,684

Preference Share Buy-Back Programme

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.

	Six months ended	Year ended				
Preference share buy-backs	**30 June 2016**	2015	2014	2013	2012	Total
Acquired number of shares (to the nearest 1)	**-**	183	560	11,972	4,422	17,137
Average cost per preference share	**-**	1,151.55	1,172.26	1,230.26	1,218.40	1,224.46
Total cost (in US dollars)	**-**	210,734	656,465	14,728,624	5,387,777	20,983,600

(In thousands of US dollars, unless otherwise stated)

Note 19: Accumulated other comprehensive loss

30 June 2016	Unrealised (losses) on translation of net investment in foreign operations	HTM investments	Unrealised gains (losses) on AFS investments	Employee benefit plans: Pension	Employee benefit plans: Post-retirement healthcare	Employee benefit plans: Subtotal - employee benefits plans	Total AOCL
Balance at beginning of period	(13,645)	(2,350)	(57)	(46,331)	(28,114)	(74,445)	(90,497)
Transfer of AFS investments to HTM investments	-	1,442	(1,442)	-	-	-	-
Other comprehensive income (loss), net of taxes	(4,437)	(145)	29,322	789	(1,806)	(1,017)	23,723
Balance at end of period	(18,082)	(1,053)	27,823	(45,542)	(29,920)	(75,462)	(66,774)

30 June 2015	Unrealised (losses) on translation of net investment in foreign operations	HTM investments	Unrealised gains (losses) on AFS investments	Employee benefit plans: Pension	Employee benefit plans: Post-retirement healthcare	Employee benefit plans: Subtotal - employee benefits plans	Total AOCL
Balance at beginning of period	(10,506)	-	9,021	(53,169)	(22,866)	(76,035)	(77,520)
Other comprehensive income (loss), net of taxes	(335)	-	(16,318)	313	(1,498)	(1,185)	(17,838)
Balance at end of period	(10,841)	-	(7,297)	(52,856)	(24,364)	(77,220)	(95,358)

Net Change of AOCL Components

	Line item in the consolidated statements of operations, if any	Three months ended 30 June 2016	Three months ended 30 June 2015	Six months ended 30 June 2016	Six months ended 30 June 2015
Net unrealised gains (losses) on translation of net investment in foreign operations adjustments					
Foreign currency translation adjustments	N/A	(11,796)	10,148	(16,195)	1,037
Gains on net investment hedge	N/A	8,946	(7,472)	11,758	(1,372)
Net change		(2,850)	2,676	(4,437)	(335)
Held-to-maturity investment adjustments					
Net unamortised gains transferred from AFS	N/A	1,442	-	1,442	-
Amortisation of net losses to net income	Interest income on investments	100	-	(145)	-
Net change		1,542	-	1,297	-
Available-for-sale investment adjustments					
Gross unrealised gains (losses)	N/A	10,191	(29,761)	29,244	(16,587)
Net unrealised losses transferred to HTM	N/A	(1,442)	-	(1,442)	-
Transfer of realised (gains) losses to net income	Net realised gains (losses) on AFS investments	2	3	78	269
Net change		8,751	(29,758)	27,880	(16,318)
Employee benefit plans adjustments					
Defined benefit pension plan					
Amortisation of actuarial losses	Salaries and other employee benefits	425	160	851	494
Change in deferred taxes	N/A	(140)	-	(140)	-
Foreign currency translation adjustments of related balances	N/A	37	(532)	78	(181)
Net change		322	(372)	789	313
Post-retirement healthcare plan					
Amortisation of net actuarial losses	Salaries and other employee benefits	683	837	1,366	1,674
Amortisation of prior service credit	Salaries and other employee benefits	(1,586)	(1,586)	(3,172)	(3,172)
Net change		(903)	(749)	(1,806)	(1,498)
Other comprehensive income, net of taxes		6,862	(28,203)	23,723	(17,838)

(In thousands of US dollars, unless otherwise stated)

Note 20: Capital structure

Authorised Capital

The Bank's total authorised share capital as of 30 June 2016 and 31 December 2015 consisted of (i) 26 billion common shares of par value BD$0.01, (ii) 100,200,001 preference shares of par value US$0.01 and (iii) 50 million preference shares of par value £0.01.

On 30 April 2015, Butterfield repurchased and cancelled 80,000,000 shares held by CIBC for $1.50 per share, for a total of $120 million. The remaining CIBC shareholding in Butterfield (representing 23,434,232 shares) was taken up by Carlyle Global Financial Services, L.P. at $1.50 per share and subsequently sold to other investors.

On 13 August 2015, Butterfield repurchased and cancelled 4,000,000 shares held by two shareholders for $1.49 per share, for a total of $5.96 million.

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 18: 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 30 June 2016.

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.

Dividends Declared

During the six months ended 30 June 2016, the Bank declared cash dividends of $0.02 (30 June 2015: $0.03) for each common share and CVCP share on record (CVCP shares were all converted to common shares on 31 March 2015) as of the related record dates. During the six months ended 30 June 2016 and 2015, the Bank declared the full 8.00% cash dividends on preference shares in each quarter.

The Bank is required to comply with Section 54 of the Companies Act 1981 issued by the Government of Bermuda (the "Companies Act") each time a dividend is declared or paid by the Bank and also obtain prior written approval from the BMA pursuant to the Banks and Deposit Companies Act 1999 for any dividends declared. The Bank has complied with Section 54 and has obtained BMA approval for all dividends declared during the periods under review.

Regulatory Capital

Effective 1 January 2016, the Bank's regulatory capital is determined in accordance with current Basel III guidelines as issued by the Bermuda Monetary Authority ("BMA"). Basel III adopts Common Equity Tier 1 ("CET1") as the predominant form of regulatory capital with the CET1 ratio as a new metric. Basel III also adopts the new Leverage Ratio regime, which is calculated by dividing Tier 1 capital by an exposure measure. The exposure measure consists of total assets (excluding items deducted from Tier 1 capital) and certain off-balance sheet items converted into credit exposure equivalents as well as adjustments for derivatives to reflect credit risk and other risks. Prior to 1 January 2016, the Bank's regulatory capital was determined in accordance with Basel II guidelines as issued by the BMA.

The Bank is fully compliant with all regulatory capital requirements and maintains capital ratios in excess of regulatory minimums as at 30 June 2016 and 31 December 2015. The following table sets forth the Bank's capital adequacy in accordance with Basel III framework as at 30 June 2016 and Basel II framework as at 31 December 2015:

	30 June 2016 (Basel III)		31 December 2015 (Basel II)	
	Actual	Regulatory minimum	Actual	Regulatory minimum
Capital				
Common Equity Tier 1	529,527	N/A	N/A	N/A
Tier 1 capital	712,390	N/A	699,278	N/A
Tier 2 capital	103,369	N/A	119,164	N/A
Total capital	815,759	N/A	818,442	N/A
Risk Weighted Assets	4,305,878	N/A	4,304,074	N/A
Capital Ratios (%)				
Common Equity Tier 1	12.3%	8.1%	N/A	N/A
Total Tier 1	16.5%	9.6%	16.2%	4.0%
Total Capital	18.9%	15.1%	19.0%	14.46%
Leverage ratio	6.1%	5.0%	N/A	N/A

(In thousands of US dollars, unless otherwise stated)

Note 21: Business combinations

Bermuda Trust Company Ltd and the Private Banking Investment Management of Operations of HSBC Bank Bermuda Limited Acquisition

On 29 April 2016, the Bank and two of its subsidiaries, Butterfield Trust (Bermuda) Limited ("BTBL") and Butterfield Asset Management Limited ("BAM"), acquired for a total purchase price of $22.0 million: 1) all outstanding shares of Bermuda Trust Company Limited ("BTCL", a wholly–owned subsidiary of HSBC Bank Bermuda Limited ("HSBCBB")), 2) certain assets of the asset management services operations of HSBCBB and 3) certain assets of the private banking services operations of HSBCBB. The acquisition is in line with the Bank's growth strategy of developing core businesses in existing markets and was undertaken to add scale to the Bank capacity in these market segments where the Bank had already a significant presence and a long history.

The acquisition date fair value of consideration transferred amounted to $22.0 million comprising cash settlement of $7.0 million paid on 29 April 2016, a second payment of $2.1 million made on 6 May 2016, and contingent considerations payable in the second half of the year and evaluated at $12.9 million. The contingent considerations are dependent on the trust and asset management clients retention by BNTB as well as HSBCBB's private banking clients transferring to BNTB after the post-closing date but before the end of the contingency period. The fair value of the contingent considerations is calculated as the present value of the amounts payable based on the assumptions that 1) BNTB will retain all Trust and Asset management customers until the end of the related contingency period and 2) no additional HSBCBB's private banking clients will transfer to BNTB until the end of the relevant contingency period. The final considerations payable may differ from the initial estimated liabilities with any changes in the liabilities recorded in other gains (losses) in the consolidated statements of operations until the liabilities are settled. The contingent considerations are included in other liabilities in the consolidated balance sheets.

The fair value of the net assets acquired and allocation of purchase is summarised as follows:

	As at 29 April 2016
Total consideration transferred	**21,951**
Assets acquired	
Cash due from banks	2,366
Intangible assets	21,438
Other assets	906
Total assets acquired	**24,710**
Liabilities acquired	**2,759**
Excess purchase price (Goodwill)	**-**

The purchase price paid by the Bank was for BTCL's net tangible value as well as intangible assets of $21.4 million in the form of customer relationships in all three segments with an estimated finite useful life of 15 years.

The Bank incurred transaction expenses related to this acquisition in the amount of $3.2 million, of which $2.2 million were expensed during the six months ended 30 June 2016 (including $0.6 million of legal and professional fees) and $1.0 million were expensed during the year ended 31 December 2015 (including $1.0 million of legal and professional fees).

For the 3 month period ended 30 June 2016, the amount of revenues and earnings relating to the acquired HSBC Bermuda operations that are not inextricably merged into the Bank's operations are $2.3 million and $1.1 million respectively.

The following selected unaudited pro forma financial information has been provided to present a summary of the combined results of the Bank and the acquired operations from HSBC Bermuda, assuming the transaction had been effected on 1 January 2015. The unaudited pro forma data is for informational purposes only and does not necessarily represent results that would have occurred if the transaction had taken place on the basis assumed above. The pro forma have been prepared based on the actual results realised by the Bank from operating the acquired activities, when such activities where not yet inextricably merged into the Bank's operations.

	Three months ended		Six months ended	
For the three month period ended	**30 June 2016**	30 June 2015	**30 June 2016**	30 June 2015
Total net revenue	97,922	92,127	198,366	189,313
Total non-interest operating expense	67,589	67,140	139,590	134,684
Pro forma net income post business combination	30,333	24,987	58,776	54,629

Note 22: Related party transactions

Financing Transactions

As of 17 May 2005, the Bank established a programme to offer loans with preferential rates to eligible Bank employees, subject to certain conditions set by the Bank and provided that such employees meet certain credit criteria. Loan payments are serviced by automatically debiting the employee's chequing or savings account with the Bank. Applications for loans are handled according to the same policies as those for the Bank's regular retail banking clients. The Bank's ability to offer preferential rates on loans depends upon a number of factors, including market conditions, regulations and the Bank's overall profitability. The Bank has the right to change its employee loan policy at any time after notifying participants.

Certain Directors and Executives of the Bank, companies in which they are principal owners, and trusts in which they are involved, have loans with the Bank. Loans to Directors were made in the ordinary course of business at normal credit terms, including interest rate and collateral requirements. Loans to Executives may be eligible to preferential rates as described in the preceding paragraph. As at 30 June 2016, related party Director and Executive loan balances were $71.9 million (31 December 2015: $63.9 million). During the six months ended 30 June 2016, new issuance of loans to Directors and Executives were $24.4 million and repayments were $18.3 million (year ended 31 December 2015: $18.4 and $25.2 million respectively). All of these loans were considered performing loans at as 30 June 2016 and 31 December 2015.

On 27 June 2013, the Bank executed a $95 million loan agreement with an investment fund managed by a significant shareholder which provides for maturity on 30 June 2017. This loan was made in the ordinary course of business on normal commercial terms. At 30 June 2016 and 31 December 2015, nil was outstanding under this agreement. For the six months ended 30 June 2016, nil (30 June 2015: $0.9 million) of interest income has been recognised in the consolidated statements of operations.

Capital Transaction

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

Financial Transactions With Related Parties

The Bank holds seed investments in several Butterfield mutual funds, which are managed by a wholly-owned subsidiary of the Bank. As at 30 June 2016, these investments have a fair value of $5.0 million with an unrealized gain of $1.0 million (31 December 2015: $5.0 million and $0.9 million respectively) and were included in trading investments at their fair value. During the six months ended 30 June 2016, the Bank earned $2.8 million (30 June 2015: $2.4 million) in asset management revenue from funds managed by a wholly-owned subsidiary

Note 23: Subsequent events

On 25 July 2016, the Board of Directors declared an interim dividend of $0.01 per common share to be paid on 29 August 2016 to shareholders of record on 15 August 2016.

The Bank has performed an evaluation of subsequent events through to 25 July 2016, the date the consolidated financial statements were approved for issuance.