

# Butterfield US\$ Bond Fund Limited

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FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2012

# Butterfield US\$ Bond Fund Limited

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## **To the Shareholders:**

We are pleased to present the Annual Report of the Fund for the twelve months ended June 30th 2012. The net asset value per share on the Class A shares, after dividends and fees, declined to \$10.399 over the past year, excluding dividends paid at a rate of 22.61 cents per share. The Class B shares declined from \$10.667 to \$10.641, excluding dividends of 24.01 cents per share. Over the year, the Fund launched a new, accumulating institutional share class for large investors. The NAV of Class C shares moved higher, from \$10.000 to \$10.135. The inception date for Class C was February 1, 2012.

On a total return basis after fees and including dividends, the Class A shares of the Fund delivered a return of 1.76% for the twelve months ended June 30th 2011. Owing to a lower management fee structure, the Class B shares of the fund delivered a return of 2.01% over the same period.

The net asset value of the Fund stood at \$91.40 million at June 30th 2012, an increase of \$36.01 million for the year. The Fund continues to benefit from a large and diversified shareholder base.

The Fund's disciplined and conservative investment style ensured that its AA-f bond fund credit rating and S2 bond fund volatility rating were assigned again by the officially recognized rating agency, Standard and Poor's.

## **Fund Review**

The financial year covered a period of slow and uneven US economic growth, continued disruption for the peripheral European countries and more robust, but slowing, growth in the emerging market economies. Credit market conditions have generally been quite firm across both corporate and securitized credit, but underperformed similar maturity US Treasuries. Using the 5 year Treasury note as a proxy for the Treasury markets' spectacular return, its yield fell substantially, from 1.76% at the end of last fiscal year, to 0.72% at the end of this year. The Federal Reserve has held short interest rates near zero to boost growth in the face of a weak US housing market, a consumer unwilling to spend and below-average job creation. The Fed also instituted a program of portfolio redistribution, dubbed "Operation Twist", whereby its short-term Treasury holdings are being replaced by 7-30 year Treasuries in order to keep interest rates low. Further, the Fed guided markets, through explicit communications and press conferences, to expect rates to remain exceptionally low through the middle of 2014, at the minimum. The European sovereign crisis, far from being resolved over the course of the year, continued to flare up periodically and has contributed to low Treasury yields in a continued global flight to quality. The solvency problems of the peripheral European countries remain with us for another year and despite various promises and new programs, we have seen little to encourage us that plans exist to allow them to re-establish an economic growth path which will not be overcome with a worsening debt burden.

We continue to maintain a conservative credit stance in the Fund with only a very small BBB-rated exposure. The Fund is positioned with greater than 82% of the portfolio rated AAA and AA with 17% of the portfolio being A rated. The Fund's strategy towards interest rate risk remains underweight duration at 90% of benchmark index. We believe that Treasury rates are being influenced to a great degree by political and monetary phenomena and this has caused a severe over-valuation in their value.

# Butterfield US\$ Bond Fund Limited

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## **Fund Outlook & Strategy**

Quantitative Easing 3 (QE3) remains a possibility, which has the ability both to keep Treasury rates low, as well as push investors toward riskier assets. At the end of last year, we said that more QE was only a possibility if deflationary risks emerged, but recent guidance from the Fed has pointed markets to believe that the bar for further purchases is lower than we anticipated. To the extent that further QE comes and investors continue to buy riskier assets, we would expect credit markets to benefit and therefore the Fund as well. The underlying fundamentals in the corporate credit markets have not changed and are supportive; balance sheets remain strong and cash-rich. The outlook for the economy remains weak as data continue to show a fragile recovery and a problematic long-term unemployment rate. Therefore, we expect the Fed to maintain a very accommodative monetary policy for the rest of calendar 2012 and into all of next year, with overnight rates ranging from 0% to 0.25%. Accommodative monetary policy will persist until the job market and credit conditions improve. When the economy eventually recovers, the Fed will need to have the fortitude to raise rates to contain future inflationary pressures.

Michael Neff  
President  
Butterfield US\$ Bond Fund Limited

October 30, 2012

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Directors of  
Butterfield US\$ Bond Fund Limited

We have audited the accompanying statement of net assets and statement of portfolio investments of Butterfield US\$ Bond Fund Limited (the "Fund") as at June 30, 2012, and the related statements of operations and changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian and Bermudian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian and Bermudian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

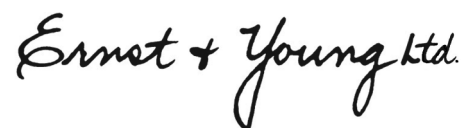
We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at June 30, 2012, and the results of its operations and the changes in its net assets for the year then ended in accordance with Canadian and Bermudian generally accepted accounting principles.

### Other Matters

The financial statements of the Fund as at and for the year ended June 30, 2011 were audited by another auditor who expressed an unmodified opinion on those financial statements on October 31, 2011.



October 30, 2012

# Butterfield US\$ Bond Fund Limited

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## **DIRECTORS**

Michael Neff (President) (Appointed June 15, 2011)  
Daniel Frumkin (Appointed June 30, 2011)  
Nigel Garrard

## **INVESTMENT ADVISER**

Butterfield Asset Management Limited  
P.O. Box HM 195  
Hamilton HM AX  
Bermuda

## **CUSTODIAN**

Butterfield Trust (Bermuda) Limited  
P.O. Box HM 195  
Hamilton HM AX  
Bermuda

## **REGISTRAR, TRANSFER AGENT AND ADMINISTRATOR**

Butterfield Fulcrum Group (Bermuda) Limited  
P.O. Box HM 195  
Hamilton HM AX  
Bermuda

## **AUDITORS**

Ernst & Young Ltd.  
P.O. Box HM 463  
Hamilton HM BX  
Bermuda

# Butterfield US\$ Bond Fund Limited

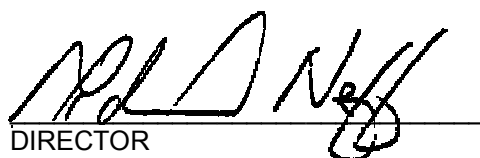
## STATEMENT OF NET ASSETS

As at June 30, 2012

(Expressed in US Dollars)

	Notes	2012	2011
<b>ASSETS</b>			
Investments, at fair value (Cost: 2012 - \$83,852,478; 2011 - \$50,829,114)	3, 4	\$ 85,215,401	\$ 52,225,958
Cash and cash equivalents	2	5,809,236	3,639,649
Interest receivable		744,220	400,499
Prepaid expenses		10,240	7,648
Subscriptions receivable		8,630	-
		<b>91,787,727</b>	<b>56,273,754</b>
<b>LIABILITIES</b>			
Dividends payable	6	252,354	423,222
Payable for unsettled trade		-	356,046
Accrued expenses	8	122,809	92,678
		<b>375,163</b>	<b>871,946</b>
		<b>91,412,564</b>	<b>55,401,808</b>
Organisational shares	5	12,000	12,000
<b>FUND NET ASSETS</b>		<b>\$ 91,400,564</b>	<b>\$ 55,389,808</b>
<b>NET ASSETS AVAILABLE TO SHAREHOLDERS - CLASS A</b>		<b>\$ 43,213,608</b>	<b>\$ 48,023,858</b>
Number of common shares in issue – Class A	5	4,155,391	4,599,706
<b>NET ASSET VALUE PER COMMON SHARE - CLASS A</b>		<b>\$ 10.399</b>	<b>\$ 10.411</b>
<b>NET ASSETS AVAILABLE TO SHAREHOLDERS - CLASS B</b>		<b>\$ 9,598,535</b>	<b>\$ 7,365,950</b>
Number of common shares in issue – Class B	5	902,035	690,562
<b>NET ASSET VALUE PER COMMON SHARE - CLASS B</b>		<b>\$ 10.641</b>	<b>\$ 10.667</b>
<b>NET ASSETS AVAILABLE TO SHAREHOLDERS - CLASS C</b>		<b>\$ 38,588,421</b>	<b>\$ -</b>
Number of common shares in issue - Class C	5	3,807,575	-
<b>NET ASSET VALUE PER COMMON SHARE - CLASS C</b>		<b>\$ 10.135</b>	<b>\$ -</b>

Signed on Behalf of the Board

  
DIRECTOR

  
DIRECTOR

The accompanying notes are an integral part of these financial statements

# Butterfield US\$ Bond Fund Limited

## STATEMENT OF PORTFOLIO INVESTMENTS As at June 30, 2012 (Expressed in US Dollars)

INVESTMENTS	Nominal	2012 Fair Value	% of Portfolio	Nominal	2011 Fair Value	% of Portfolio
<b>Corporate and Government Securities</b>						
3M Co. 4.375% 08/15/13	1,000,000	\$ 1,044,639	1.23%	-	\$ -	-
Asif Global Financng Xix 4.900% 01/17/13	1,700,000	1,715,565	2.01%	-	-	-
Australia & New Zealand Banking Group Limited 2.400% 11/23/16	2,000,000	2,047,822	2.40%	-	-	-
Bank of Nova Scotia 2.550% 01/12/17	1,650,000	1,714,340	2.01%	-	-	-
Bank of Nova Scotia 2.9% 29/3/16	-	-	0.00%	1,000,000	1,021,447	1.96%
Barclays Bank Plc 3.900% 04/07/15	1,435,000	1,486,423	1.74%	-	-	-
Barclays Bank Plc 5.000% 09/22/16	50,000	54,298	0.06%	-	-	-
Bear Stearns Co. 5.3% 30/10/2015	1,800,000	1,953,295	2.29%	-	-	-
Berkshire Hathaway Inc. 4.85% 15/1/15	1,000,000	1,100,244	1.29%	1,000,000	1,104,028	2.11%
BHP Billiton Fin Usa Ltd 1.875% 11/21/16	1,000,000	1,024,344	1.20%	-	-	-
BP Capital Markets Plc 5.250% 11/07/13	400,000	423,842	0.50%	-	-	-
Caisse D'Amort Dette Soc 2.125% 04/12/17	2,000,000	2,007,700	2.36%	-	-	-
Canadian Imperial Bank of Commerce 2.750% 01/27/16	1,685,000	1,788,338	2.10%	-	-	-
Canadian Imperial Bank of Commerce 2% 4/2/13	-	-	0.00%	1,000,000	1,018,772	1.95%
CDP Financial 3% 25/11/14	1,000,000	1,051,559	1.23%	1,000,000	1,040,241	1.99%
CIE Financement Foncier 1.625% 23/7/12	25,000	25,005	0.03%	1,025,000	1,033,225	1.98%
CIE Financement Foncier 2.5% 16/9/15	-	-	0.00%	1,000,000	993,300	1.90%
CIE Financement Foncier 5.625% 06/19/17	2,000,000	2,211,500	2.60%	-	-	-
Commonwealth Bank of Australia 3.750% 10/15/14	700,000	732,782	0.86%	-	-	-
Corp Andina De Fomento 5.750% 01/12/17	1,000,000	1,123,100	1.32%	-	-	-
Dexia Credit 2.75% 29/4/14	-	-	0.00%	2,125,000	2,153,900	4.12%
Dexia Credit Local 2.75% 29/04/2014	2,125,000	2,073,660	2.43%	-	-	-
Dexia Municipal Agency 5.250% 02/16/17	1,780,000	1,882,581	2.21%	-	-	-
Eksportfinans Asa 1.875% 2/4/13	-	-	0.00%	1,100,000	1,121,046	2.15%
Fannie Mae 1.52% 24/11/14	-	-	0.00%	1,500,000	1,503,054	2.88%
Fannie Mae 1.625% 10/26/15	1,500,000	1,553,717	1.82%	-	-	-
Fannie Mae 1.625% 26/10/15	-	-	0.00%	1,500,000	1,493,528	2.86%
Fannie Mae 2.375% 04/11/16	600,000	637,318	0.75%	-	-	-
Fannie Mae 4.625% 10/15/14	2,100,000	2,301,340	2.70%	-	-	-
Fannie Mae 5.125% 2/1/14	1,000,000	1,067,423	1.25%	1,000,000	1,097,399	2.10%
Freddie Mac 3.750% 03/27/19	2,000,000	2,310,062	2.71%	-	-	-
Freddie Mac 5.500% 08/23/17	3,000,000	3,675,072	4.31%	-	-	-
Freddie Mac 2.1% 26/1/15	-	-	0.00%	1,000,000	1,008,799	1.93%
General Electric Capital Corp Flt 03/20/14	1,800,000	1,783,746	2.09%	-	-	-
General Electric Capital Corp Flt 06/20/14	1,200,000	1,169,515	1.37%	-	-	-

# Butterfield US\$ Bond Fund Limited

## STATEMENT OF PORTFOLIO INVESTMENTS (CONTINUED) As at June 30, 2012 (Expressed in US Dollars)

INVESTMENTS (CONTINUED) Corporate and Government Securities (continued)	Nominal	2012 Fair Value	% of Portfolio	Nominal	2011 Fair Value	% of Portfolio
General Electric Capital Corp Flt 09/23/13	870,000	\$ 875,780	1.03%	-	\$ -	-
Genworth Life 5.875% 3/5/13	-	-	0.00%	1,835,000	1,936,476	3.71%
Genworth Life Inst Fund 5.875% 05/03/13	1,835,000	1,865,883	2.19%	-	-	-
Goldman Sachs 5.45% 1/11/12	-	-	0.00%	1,000,000	1,056,877	2.02%
Goldman Sachs Group Inc 3.625% 02/07/16	1,500,000	1,500,165	1.76%	-	-	-
HSBC Bank Plc 2% 19/1/14	1,650,000	1,666,376	1.96%	1,650,000	1,658,905	3.18%
HSBC Finance Corp 6.375% 11/27/12	750,000	765,870	0.90%	-	-	-
Hypo Pfandbrief Bank 5% 4/10/11	-	-	0.00%	2,025,000	2,039,499	3.91%
Intl Bk Recon & Develop 0.000% 02/15/16	1,660,000	1,594,550	1.87%	-	-	-
King County, Washington 2.851% 1/12/2015	-	-	0.00%	500,000	524,025	1.00%
Ladesbank Baden-Wurtemberg 2% 15/7/13	1,200,000	1,211,100	1.42%	1,200,000	1,216,490	2.33%
L-Bank Bw Foerderbank 2.000% 10/01/12	1,000,000	1,003,750	1.18%	-	-	-
Macquarie Bank Limited 4.1% 17/12/13	-	-	0.00%	1,000,000	1,075,609	2.06%
Massmutual Global Fundin 2.000% 04/05/17	1,380,000	1,388,039	1.63%	-	-	-
Met Life Global Funding I 3.125% 01/11/16	2,320,000	2,430,685	2.85%	-	-	-
Metropolitan Life 5.125% 10/6/14	-	-	0.00%	1,000,000	1,092,560	2.09%
Monumental Global Fundng 5.500% 04/22/13	1,500,000	1,552,682	1.82%	-	-	-
Morgan Stanley 5.750% 08/31/12	750,000	754,824	0.89%	-	-	-
Morgan Stanley Flt 05/14/13	1,000,000	998,631	1.17%	-	-	-
National Australia Bank 2.75% 28/9/15	3,000,000	3,054,111	3.58%	350,000	349,756	0.66%
National Australia Bank 3.75% 2/3/15	-	-	0.00%	650,000	675,498	1.30%
Network Rail Infrastructure 1.5% 13/1/14	1,900,000	1,927,645	2.26%	1,900,000	1,925,521	3.69%
Ontario (Province Of) 1.600% 09/21/16	1,000,000	1,018,019	1.19%	-	-	-
Ontario Province 4.1% 16/6/14	-	-	0.00%	1,000,000	1,083,119	2.07%
Pricoa Global Funding 5.4% 18/10/12	-	-	0.00%	1,000,000	1,051,475	2.01%
Rabobank Nederland 2.500% 12/12/13	1,900,000	1,933,440	2.27%	-	-	-
Rabobank Nederland 3.2% 11/3/15	1,600,000	1,647,179	1.93%	1,600,000	1,660,000	3.18%
Royal Bank Of Canada 3.125% 14/4/15	1,500,000	1,588,565	1.86%	1,500,000	1,566,735	3.00%
Seariver Maritime 0 01/09/2012	1,885,000	1,874,116	2.20%	-	-	-
Seariver Maritime Inc. 0% 1/9/12	-	-	0.00%	2,165,000	2,108,069	4.04%
Svenska Handelsbanken Ab 3.125% 07/12/16	1,000,000	1,033,404	1.21%	-	-	-
Swedish Export Credit 3.25% 16/9/14	2,000,000	2,099,865	2.46%	1,000,000	1,059,519	2.03%
Toyota Motor Credit Corp 2.800% 01/11/16	500,000	525,329	0.63%	-	-	-
Wal-Mart Stores Inc 3.200% 05/15/14	1,000,000	1,049,645	1.24%	-	-	-
Wells Fargo Company 3.625% 15/4/15	1,000,000	1,064,515	1.26%	1,000,000	1,045,400	2.00%
		\$ 76,383,398	89.63%		\$ 37,714,272	72.21%



# Butterfield US\$ Bond Fund Limited

## STATEMENT OF PORTFOLIO INVESTMENTS (CONTINUED) As at June 30, 2012 (Expressed in US Dollars)

INVESTMENTS (CONTINUED)	Nominal	2012 Fair Value	% of Portfolio	Nominal	2011 Fair Value	% of Portfolio
<b>Mortgage-backed Securities</b>						
Equity One Abs Inc 5.369% 25/10/34	276,647	\$ 262,214	0.31%	296,913	\$ 266,304	0.51%
Fannie Mae 3.5% 01/09/2025	1,257,108	1,329,690	1.56%	-	-	-
Fannie Mae 4% 25/10/19	1,288,916	69,279	0.08%	2,002,015	165,629	0.32%
Fannie Mae 4% 1/7/25	-	-	0.00%	855,863	893,356	1.71%
Fannie Mae 6% 25/6/31	37,133	4	0.00%	1,364,084	37,512	0.07%
Federal Home Loan Mortgage 3.5% 15/4/25	2,426,825	154,710	0.18%	3,228,571	439,200	0.84%
Freddie Mac 4% 1/10/25	-	-	0.00%	854,995	891,782	1.71%
GNMA 3.76% 16/9/28	80,826	82,348	0.10%	162,224	167,436	0.32%
GNMA 3.888% 16/7/26	-	-	0.00%	720,078	734,086	1.41%
GNMA 4.658% 16/12/30	167,964	174,755	0.21%	337,478	356,011	0.68%
GNMA 4.92% 16/5/34	1,117,219	1,172,500	1.38%	1,500,000	1,588,623	3.04%
GNMA 5.116% 16/1/28	-	-	0.00%	640,000	656,018	1.26%
JP Morgan Chase 12/1/43	2,135,000	2,168,801	2.55%	2,135,000	2,205,674	4.23%
Wachovia Bank 5.109% 15/12/35	2,500,000	2,543,455	2.98%	2,500,000	2,556,107	4.89%
Wachovia Bank 5.345% 15/1/41	750,000	776,618	0.91%	750,000	716,175	1.37%
Wells Fargo Home Equity Trust 4.89% 25/5/34	97,372	97,629	0.11%	787,822	794,565	1.52%
		\$ 8,832,003	10.37%		\$ 12,468,478	23.88%
<b>Floating Rate Notes</b>						
General Electric Capital Corp 23/09/2013	-	-	0.00%	870,000	871,827	1.67%
General Electric Capital Corp 20/06/2014	-	-	0.00%	1,200,000	1,171,381	2.24%
		\$ -	0.00%		\$ 2,043,208	3.91%
<b>TOTAL INVESTMENTS</b> (Cost 2012 - \$83,852,478; 2011 - \$50,829,114)		\$ 85,215,401	100.00%		\$ 52,225,958	100.00%

The accompanying notes are an integral part of these financial statements

# Butterfield US\$ Bond Fund Limited

## STATEMENT OF OPERATIONS For the year ended June 30, 2012 (Expressed in US Dollars)

	Notes	2012	2011
<b>INVESTMENT INCOME</b>			
Interest		\$ 2,445,761	\$ 1,815,600
<b>EXPENSES</b>			
Management fee	8 a)	239,108	221,109
Administration fee	8 c)	154,575	110,325
Custodian fee	8 b)	62,651	51,210
Audit fee		17,951	18,155
Corporate secretarial fee	8 d)	2,979	6,142
Government fee		11,355	8,359
Accounting fee*		15,480	-
Miscellaneous		23,737	15,673
		<b>527,836</b>	<b>430,973</b>
<b>NET INVESTMENT INCOME</b>		<b>1,917,925</b>	<b>1,384,627</b>
<b>NET REALISED AND CHANGE IN UNREALISED GAIN/(LOSS) ON INVESTMENTS</b>			
Net realised loss on investments	7	(331,483)	(21,379)
Net change in unrealised (loss)/gain on investments		(33,921)	493,347
<b>NET (LOSS)/GAIN ON INVESTMENTS</b>		<b>(365,404)</b>	<b>471,968</b>
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>		<b>\$ 1,552,521</b>	<b>\$ 1,856,595</b>

\*Accounting fee charged by the accounting staff at the Bank during the year after the Administrator was purchased by unrelated parties from the Bank (see note 8 c)).

The accompanying notes are an integral part of these financial statements

# Butterfield US\$ Bond Fund Limited

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## STATEMENT OF CHANGES IN NET ASSETS For the year ended June 30, 2012 (Expressed in US Dollars)

	Note	2012	2011
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>		<b>\$ 1,552,521</b>	<b>\$ 1,856,595</b>
<b>DISTRIBUTIONS TO INVESTORS</b>			
Dividends paid and payable	6	(1,213,504)	(1,881,614)
<b>CAPITAL STOCK TRANSACTIONS</b>			
Issue of shares		52,179,102	15,614,837
Redemption of shares		(16,507,363)	(7,106,707)
Net capital stock transactions		35,671,739	8,508,130
<b>NET INCREASE IN NET ASSETS FOR THE YEAR</b>		<b>36,010,756</b>	<b>8,483,111</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>		<b>55,389,808</b>	<b>46,906,697</b>
<b>NET ASSETS - END OF YEAR</b>		<b>\$ 91,400,564</b>	<b>\$ 55,389,808</b>

The accompanying notes are an integral part of these financial statements

# Butterfield US\$ Bond Fund Limited

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## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

(Expressed in US Dollars)

### 1. ABOUT THE FUND

Butterfield US\$ Bond Fund Limited (the "Fund") is an open-ended investment company which was incorporated under the laws of Bermuda on May 26, 1992.

The Fund commenced operations on July 1, 1992. Butterfield Trust (Bermuda) Limited acts as custodian (the "Custodian"). Butterfield Asset Management Limited acts as investment adviser (the "Investment Adviser"). Butterfield Fulcrum Group (Bermuda) Limited acts as registrar and transfer agent and as accountants/administrator (the "Registrar and Transfer Agent" or "Administrator") for the Fund. The Custodian and Investment Adviser are wholly owned subsidiaries of The Bank of N.T. Butterfield & Son Limited (the "Bank").

The Investment Adviser, Custodian, Bank and Administrator each maintains separate business units, roles and responsibilities to ensure segregation between different functions.

The investment objective of the Fund is to maximise total returns whether through income or capital gains by investing in investment grade US dollar denominated debt securities.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and Bermuda ("GAAP"). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates and the difference could be material. The following is a summary of significant accounting policies followed by the Fund:

#### a) Valuation of Investments

The fair values of investments traded in active markets are based on quoted market prices at the close of trading on the period end date. The quoted market price used for investments held by the Fund is the bid price reported by the principal securities exchange on which the issue is traded. An investment is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The net change during the year between these amounts and cost is shown as net change in unrealised gain/(loss) on investments in the statement of operations.

#### b) Investment Transactions and Income Recognition

Investment transactions are accounted for on the trade date. Gains or losses arising from the sale of investments are determined using the average cost basis. Income from investments is recorded on the accrual basis. Interest income is recorded using the effective interest method.

#### c) Cash and Cash Equivalents

Cash equivalents are comprised primarily of shares in the Butterfield Money Market Fund Limited, an affiliated money market fund, denominated in US\$ shares. Shares may be redeemed on a 24 hours' notice. The fair value of the Fund's holding in the money market fund at June 30, 2012 was \$5,834,288 (2011 - \$3,639,649).

#### d) Financial Assets and Liabilities

In addition to the estimated fair values of investments as disclosed in the statement of portfolio investments, the estimated fair values of the Fund's other financial instruments, including cash and cash equivalents, interest receivable, subscriptions receivable, dividends payable, payables for unsettled trades and accrued expenses approximate their carrying values.

# Butterfield US\$ Bond Fund Limited

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## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

(Expressed in US Dollars)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### e) Translation of Foreign Currencies

Assets and liabilities that are denominated in foreign currencies are translated into United States dollars at rates of exchange on the period end date. Transactions during the period are translated at the rate in effect at the date of the transaction. Foreign currency translation gains and losses are included in the statement of operations.

The Fund does not isolate that portion of gains and losses on investments which is due to changes in foreign exchange rates from that which is due to changes in market prices of the investments. Such fluctuations are included with the net realised and change in unrealised gains and losses from investments in the statement of operations.

#### f) Adoption of New Accounting Standards

International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which include investment funds and other reporting issuers. Under the general transition rules for publicly accountable enterprises, the Fund would adopt IFRS for its fiscal period beginning January 1, 2011. On December 12, 2011, the Canadian Accounting Standards Board amended the requirement to prepare financial statements in accordance with IFRS as issued by the International Accounting Standards Board, permitting investment companies, which include investment funds, to defer adoption of IFRS to fiscal years beginning on or after January 1, 2013.

The Fund has elected to defer the adoption of IFRS and is still assessing the impact IFRS will have on its financial statements.

### 3. FINANCIAL RISK MANAGEMENT

The Fund's overall risk management approach includes formal guidelines to govern the extent of exposure to various types of risk. The Investment Adviser also has various internal controls to oversee the Fund's investment activities, including monitoring compliance with the investment objective and strategies, internal guidelines and securities regulations.

#### Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The value of such securities on the statement of portfolio investments includes consideration of the creditworthiness of the issuer, and, accordingly represents the maximum credit risk exposure of the Fund.

Credit ratings below represent ratings of debt securities provided by Standard & Poor's and are subject to change, which could be material.

Debt Securities by Credit Rating	% of Portfolio	
	2012	2011
AAA	18.43	57.10
AA	57.11	36.50
A	18.54	7.30
Not Rated	5.92	-
	100.00	100.00

# Butterfield US\$ Bond Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

(Expressed in US Dollars)

### 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit ratings below represent ratings of debt securities provided by Moody's for the debt securities not rated by Standard & Poor's and are subject to change, which could be material.

<b>Debt Securities by Credit Rating</b>	<b>% of Portfolio</b>
	<b>2012</b>
AAA	<b>3.83</b>
A1	<b>2.09</b>
	<b>5.92</b>

#### Currency Risk

Currency risk is the risk that the value of an investment will fluctuate due to changes in foreign exchange rates. When the Fund enters into transactions which are denominated in currencies other than the Fund's reporting currency the Investment Adviser attempts to mitigate the associated currency risk which may include the use of forward currency contracts. The Fund's transactions in a currency different from the reporting currency are not significant; thus, any risks associated are likewise not significant to the Fund as a whole.

#### Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Prices of fixed income securities generally increase when interest rates decline, and decrease when interest rates rise. The Fund is exposed to these fluctuations through their holdings of fixed income securities.

As at June 30, 2012, had the interest rates increased or decreased by 25 basis points and assuming a parallel shift in the yield curve, net assets would have increased or decreased by approximately \$489,989 (2011 - \$290,800). This change is estimated using the weighted average duration of the fixed income portfolio. This analysis assumes that all other variables remained unchanged. In practice, actual results may differ from this analysis and the difference could be material.

#### Liquidity Risk

Liquidity risk is the risk that the entity will encounter difficulty in meeting obligations associated with financial liabilities. The Fund is exposed to liquidity risk by way of weekly cash redemptions of redeemable units. However, the Fund retains sufficient cash, cash equivalents and actively traded marketable securities to maintain adequate liquidity to address this risk. The Fund also has a credit facility in place to assist the Fund in meeting short term liquidity requirements.

The table below indicates the Fund's holdings in fixed income securities by remaining term to maturity:

<b>Debt Securities by Maturity</b>	<b>Fair Value</b>	
	<b>2012</b>	<b>2011</b>
Less than 1 year	\$ 8,682,210	\$ 3,096,376
1 - 3 years	29,299,284	30,170,979
3 - 5 years	28,948,105	4,382,056
Greater than 5 years	14,817,137	12,468,478
Non-interest bearing	3,468,665	2,108,069
	<b>\$ 85,215,401</b>	<b>\$ 52,225,958</b>

# Butterfield US\$ Bond Fund Limited

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## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

(Expressed in US Dollars)

### 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Price/Market Risk

Price/market risk is the risk that the value of investments will fluctuate as a result of market conditions. The Fund is exposed to price/market risk on its holdings of fixed income securities as discussed in the Interest Rate Risk section above. The Investment Adviser attempts to mitigate price/market risk by selecting appropriate portfolio investments based on the Fund's strategy.

### 4. FAIR VALUE OF FINANCIAL ASSETS

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are market observable for the asset or liability, either directly or indirectly; and,
- Level 3 - inputs for the asset or liability that are not based on observable market data, including the Fund's own assumptions in determining the fair value of investments.

All of the Fund's investments are classified within Level 2 of the fair value hierarchy as the value of these investments are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for the years ended June 30, 2012 and 2011.

#### Transfers of Assets between Level 1 and Level 2

Financial assets and liabilities transferred from Level 1 to Level 2 are the result of the securities no longer being traded in an active market. There were no transfers of financial assets and liabilities from Level 1 to Level 2 during the years ended June 30, 2012 and 2011. Financial assets and liabilities transferred from Level 2 to Level 1 are the result of the securities now being traded in an active market. There were no transfers of financial assets and liabilities from Level 2 to Level 1 during the years ended June 30, 2012 and 2011.

#### Reconciliation of Financial Asset and Liability Movement - Level 3

The Fund did not hold any Level 3 investments at the beginning, during, or at the end of the years ended June 30, 2012 and 2011.

# Butterfield US\$ Bond Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

(Expressed in US Dollars)

### 5. SHARES ISSUED AND OUTSTANDING

The authorised share capital of the Fund is \$2,512,000 (2011 - \$2,512,000) divided into:

- 8,300,000 (2011 - 12,500,000) Class A participating, non-voting common shares of a par value of \$0.10 each share,
- 8,300,000 (2011 - 12,500,000) Class B participating, non-voting common shares of a par value of \$0.10 each share,
- 8,400,000 (2011 - nil) Class C participating, non-voting common shares of a par value of \$0.10 each share, and
- 120,000 (2011 - 120,000) organisational non-participating, voting shares of a par value of \$0.10 each share.

The Class C shares were created in February 2012. The Class C shares represent a subscription in-kind during the year, whereby the Fund received from the investor securities having a fair value of \$38,075,754 as of the subscription date in exchange for the issuance to the investor of the Fund's Class C shares. Such subscription in-kind was approved by the Fund's board of directors.

The Class A, Class B and Class C shares have different minimums set for investors to subscribe to them, and there will be differences in the management fees payable to the Investment Adviser in respect of such shares (see note 8a).

The organisational shares are allocated to the Investment Adviser and its nominees. Under the Bye-Laws the organisational shares have only nominal rights if and so long as there are any other shares of the Fund in issue.

Details of number of shares issued and outstanding during the year are as follows:

Common Shares	2012			2011	
	Class A	Class B	Class C	Class A	Class B
Balance - beginning of year	4,599,706	690,562	-	3,774,392	704,875
Issue of common shares	593,036	754,043	3,807,575	1,360,190	123,768
Redemption of common shares	(1,037,351)	(542,570)	-	(534,876)	(138,081)
Balance - end of year	4,155,391	902,035	3,807,575	4,599,706	690,562
Organisational Shares	120,000	-	-	120,000	-

Common shares are allotted to subscribers at a value determined by reference to the weekly valuation of the net assets of the Fund. Common shares may be redeemed weekly for an amount equal to the net asset value per share as at the close of business on the Valuation Day, following receipt of the properly completed request for redemption, subject to the power of the directors to deduct therefrom an amount sufficient in their opinion to meet sale and fiscal charges incurred in realising assets to provide funds to meet the request.



# Butterfield US\$ Bond Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

(Expressed in US Dollars)

### 6. DIVIDENDS

Dividends declared by the Fund on Class A and B shares were as follows:

Dividend per Share Amounts							
2012		2011		Payment Date	2012	2011	
Class A	Class B	Class A	Class B				
\$0.08	\$0.08	\$0.10	\$0.10	October 12, 2011	\$ 425,399	\$ 469,381	
\$0.06	\$0.06	\$0.10	\$0.10	December 30, 2011	335,990	479,717	
\$0.04	\$0.04	\$0.10	\$0.10	March 30, 2012	199,761	509,295	
\$0.05	\$0.06	\$0.10	\$0.10	July 9, 2012	252,354	423,221	
					\$ 1,213,504	\$ 1,881,614	

### 7. NET REALISED LOSS ON INVESTMENTS

The net realised loss on sale of investments was as follows:

	2012	2011
Proceeds from sale of investments	\$ 46,416,244	\$ 22,205,568
Less cost of investments sold:		
Investments owned at beginning of year	50,829,114	43,409,764
Investments purchased during year	79,771,091	29,646,297
Investments owned at end of year	83,852,478	50,829,114
Investments sold during year	46,747,727	22,226,947
Net realised loss on investments	\$ (331,483)	\$ (21,379)

### 8. RELATED PARTY TRANSACTIONS

#### a) Management Fee

The Investment Adviser is related to the Fund through common directorship.

Under the terms of the Investment Advisory Agreement, the Investment Adviser is entitled to receive a monthly fee calculated at the rate of no more than 1% per annum of the average valuation of the net assets of the Fund carried out on the Valuation Days during each month. Presently, the monthly fee is calculated at the rate of 0.5% (2011 - 0.5%) per annum for the Class A shares and 0.25% (2011 - 0.25%) per annum for the Class B shares and 0.25% (2011 - nil%) maximum per annum for the Class C shares. The fee of the Investment Adviser is reduced to take account of the management fee already levied on assets held in shares of other funds managed by the Investment Adviser. Management fee for the year was \$239,108 (2011 - \$221,109) with \$19,275 (2011 - \$23,867) being payable and included in accrued expenses at year end.

# Butterfield US\$ Bond Fund Limited

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## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2012

(Expressed in US Dollars)

### 8. RELATED PARTY TRANSACTIONS (CONTINUED)

#### b) Custodian Fee

The Custodian is related to the Fund through common directorship.

In accordance with the custodian agreement, the Custodian receives a fee based upon the nature and extent of the services provided. Relevant out-of-pocket expenses may also be charged to the Fund by the Custodian. The custodian fee for the year was \$62,651 (2011 - \$51,210) with \$30,820 (2011 - \$12,506) being payable and included in accrued expenses at year end.

#### c) Administration Fee (including Accounting Fee and Registrar and Transfer Agent Fee)

The Administrator was previously related to the Fund by way of the Administrator being owned by the Bank. In May 2011, the Administrator was purchased by unrelated parties and full ownership and control of the Administrator were transferred to such unrelated parties.

In accordance with the administration agreement, the Administrator receives a fee based upon the nature and extent of the services provided. Administration fee for the year was \$154,575 (2011 - \$110,325) with \$36,830 (2011 - \$25,205) being payable and included in accrued expenses at year end.

#### d) Corporate Secretarial Fee

The Corporate Secretary is related to the Fund through common directorship.

Corporate secretarial fee is charged on a time spent basis at their normal rates. In accordance with the new administration agreement, effective January 2012, corporate secretarial fee was no longer charged at the Fund level. Corporate secretarial fee for the year ended June 30, 2012 was \$2,979 (2011 - \$6,142), with \$nil (2011 - \$800) being payable and included in accrued expenses at year end.

#### e) Credit Facility

In October 2010, the Fund entered into a credit facility agreement with the Bank for \$10 million, to a maximum of 10% of the Fund's net assets. In May 2012, the agreement was renewed and extended to May 31, 2013.

### 9. TAXATION

Under current Bermuda law, the Fund is not obligated to pay taxes in Bermuda on either income or capital gains. The Fund has received an undertaking from the Minister of Finance in Bermuda, pursuant to the provisions of the exempted undertaking Tax Protection Act, 1966 which exempts the Fund from any such Bermuda taxes until March 28, 2016.

In March 2011, the Bermuda Government enacted the Exempted Undertakings Tax Protection Amendment Act 2011 allowing the Minister of Finance to grant assurance up to March 31, 2035.

### 10. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year presentation.

# Butterfield US\$ Bond Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS For the year ended June 30, 2012 (Expressed in US Dollars)

### 11. FINANCIAL HIGHLIGHTS

Per Share Information	2012			2011	
	Class A	Class B	Class C <sup>1</sup>	Class A	Class B
<b>Net assets</b>					
- beginning of year or upon issuance	\$ 10.441	\$ 10.667	\$ 10.000	\$ 10.441	\$ 10.635
<b>Income from investment operations</b>					
Net investment income	0.265	0.295	0.127	0.273	0.305
Net realised and change in unrealised gain (loss) on investments	(0.081)	(0.081)	0.008	0.107	0.107
Total from investment operations	0.184	0.214	0.135	0.380	0.412
Distributions to investors	(0.226)	(0.240)	-	(0.380)	(0.380)
<b>Net assets - end of year</b>	<b>\$ 10.399</b>	<b>\$ 10.641</b>	<b>\$ 10.135</b>	\$ 10.441	\$ 10.667
<b>Ratios / Supplemental Data</b>					
Total net assets - end of year (\$thousands)	43,214	9,599	38,588	48,024	7,366
Weighted average net assets* (\$thousands)	45,175	10,020	38,382	44,153	7,347
Ratio of expenses to weighted average net assets	0.87%	0.64%	0.19%	0.82%	0.59%
Portfolio turnover rate**	33.48%	33.48%	33.48%	18.63%	18.63%
Annual rate of return***	1.76%	2.01%	1.35%	4.45%	4.67%

\* Weighted average net assets are calculated using net assets on the last valuation date of each month.

\*\* Portfolio turnover rate is calculated for the total of Class A, B and C using the lesser of purchases or sales of investments for the year divided by the weighted average value of investments, calculated using the last valuation date of each month.

\*\*\* Annual rate of return for shareholders who reinvested dividends is calculated by comparing the end of year net asset value per share plus any dividend per share amounts to the beginning of year net asset value per share.

<sup>1</sup> Issued on February 1, 2012. The ratios and rate of return for Class C shares have not been annualised.