Butterfield

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NEWS RELEASE

FOR IMMEDIATE RELEASE

Butterfield Reports Second Quarter Profit

- **Q2 2016 core earnings[1] of $32.1 million, up $4.3 million (15.2%) over Q2 2015**
- **Q2 2016 net income of $29.8 million, up $6.5 million (27.7%) over Q2 2015[3]**
- **Core earnings per share of $0.06, up $0.01 from $0.05 in Q2 2015[2]**
- **Diluted earnings per share of $0.05, up $0.01 from $0.04 in Q2 2015[2][3]**
- **Asset quality strong, with non-accrual loans at 1.7% of total gross loans (flat from year-end 2015)**
- **Strong capital position with Common Equity Tier 1 Capital Ratio at 12.3% and Total Capital Ratio at 18.9%**
- **Board declares interim dividend of $0.01 per common share**

Hamilton, Bermuda–25 July 2016: The Bank of N.T. Butterfield & Son Limited ("Butterfield" or the "Bank") today announced core earnings for the second quarter ended 30 June 2016 of $32.1 million, an improvement of $4.3 million compared to $27.8 million earned in the same quarter a year ago. The core earnings per share increased $0.01 to $0.06 per share. The core return on average tangible common equity improved to 20.1% in the second quarter of 2016, compared to 17.6% in the second quarter of 2015. [2] Return on assets at 1.1% was up 0.1% from Q2 2015. Reported net income for the second quarter was $29.8 million ($0.05 per share on a fully diluted basis) compared to $23.3 million ($0.04 per share on a fully diluted basis) in the same quarter a year ago, up $6.5 million.

Michael Collins, Butterfield's Chief Executive Officer, said, "Complementing organic growth in our key businesses, we continue to see the positive financial impact of acquisitions that have expanded our trust and wealth management platform in our core markets of Bermuda, Cayman and Guernsey, where we understand the environment and can build economies of scale.

"As we focus on jurisdictions in which we have significant market share, Butterfield also accelerated the wind down of our London-based private bank, which is now nearing completion. The Bank will maintain a residential property lending business in the UK, but our deposit taking and investment management businesses will be discontinued in line with previously communicated plans.

[1] See page 5 for reconciliation of US GAAP results to core earnings.
[2] Significantly augmented by the CIBC share repurchase in April of 2015. Please see the press release for the year-ended 31 December 2015 for further details.
[3] Comparative information revised as a result of a re-classification of certain investments in prior periods.

"We continue to deploy capital to directly benefit shareholders through share buy-backs and dividend payments. During the quarter, we repurchased $1.2 million worth of common shares, and the Board declared common dividends of $0.01 per share from second quarter earnings.

"It is pleasing to see that industry analysts and peers have taken note of our progress in recent weeks. Citing the wind down of our London private bank, the recent acquisitions, and improvements in non-performing loans, Standard & Poor's affirmed our credit ratings while upgrading its outlook for the Bank from stable to positive earlier this month. Industry publication *eprivateclient* named Butterfield to its Top 25 trust companies listing earlier this summer, and *Citywealth* has shortlisted Butterfield for nomination as Trust Company of the Year in Guernsey, Switzerland and the Caribbean, and as Private Bank of the Year in the Channel Islands.

"During the quarter the Bank welcomed James Burr as a returning, Non-Executive Director and a representative for The Carlyle Group, our largest shareholder. Jim was closely involved in Butterfield's recapitalisation in 2010 and has a deep understanding of the Bank's businesses and markets. Olivier Sarkozy, who served as a Non-Executive Director and a Carlyle representative on the Board since 2012, has stepped down. On behalf of the Board, I would like to thank Olivier for his many contributions to Butterfield. We wish him the very best in the future."

Michael Schrum, Butterfield's Chief Financial Officer, said, "Butterfield had strong and improved performance for the second quarter of 2016. Against a backdrop of limited economic expansion in our core markets and low interest rates, the Bank generated year-on-year core earnings growth, inclusive of earnings from acquired businesses, of over 15%. Recent acquisitions have improved our capacity to generate non-interest income, as improved margins drove improvements in net interest income, and we continue to exercise careful management of operating costs.

"We completed the acquisition of the private banking trust and investment management business of HSBC Bermuda in April, which contributed to a $1.6 billion increase in Bermuda deposits and which generated additional fee and commission-based revenue. Adjustments and improved alignment of our fees to various banking services also contributed to growth in non-interest income during the quarter. Across the Group, non-interest income for the quarter improved by $3.4 million year over year.

"Year-over-year increases in net interest income before provision for credit losses of over $5 million were largely the result of previous rate adjustments on the corporate loan portfolio that were implemented commensurately with the US Federal Reserve benchmark rate increase in December 2015, as well as increases in lending volumes in that portfolio during the quarter, complemented by lower deposit costs.

"The impact of improved margins on loans was offset by declines in loan balances of about $100 million from year end. That decline stemmed from continued weak consumer credit demand in key markets, and currency-conversion of our Pound-denominated loans following the UK's June 23rd Brexit vote that precipitated a significant decline in the value of the Pound.

"The quality of our loan book remains strong, though provisions for credit losses were increased, year-on-year, to $3.4 million from $1.9 million due to a specific provision established for a loan on a single Bermuda commercial property, as well as adjustments to our general provisions. The latter resulted from changes to sovereign credit ratings in the UK and Bermuda, which impacted our provisioning formulae.

"Quarterly core operating expenses increased by $0.7 million over the same quarter last year largely as a result of increase compliance-related costs, but expenses as a percentage of core revenues decreased. The core efficiency ratio improved from 66.7% in Q2 2015 to 61.8% in Q2 2016."

Capital Management

Consistent with global banking industry reform, Bermuda banks began the implementation of the Basel III framework during 2016, which is improving the Bank's loss absorption capabilities and introducing new regulatory liquidity rules.

As the Bank has exceptional organic capital generation and very high quality capital, the Bank is in a robust position and can continue to serve customers with new loans, deposit products and general banking services, as well as meet emerging regulatory capital requirements.

The current total capital ratio as at 30 June 2016 was 18.9% as calculated under Basel III, which is effective for reporting purposes starting 1 January 2016. As of 31 December 2015, we reported our total capital ratio under Basel II at 19.0%. Both of these are significantly above regulatory requirements.

The Board remains committed to a balanced capital return policy and declared quarterly dividends of $20 per share on the Bank's 8% non-cumulative perpetual voting preference shares, to be paid on 15 September 2016 to preference shareholders of record on 1 September 2016.The Board also 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.

Share Repurchase Activity

Under the Bank's share buy-back programmes, the total shares acquired or purchased for cancellation during the quarter ended 30 June 2016 amounted to 0.7 million common shares to be held as treasury shares at an average cost of $1.63 per share (total cost of $1.2 million). There were no preference shares repurchased during the quarter ended 30 June 2016.

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.

ANALYSIS AND DISCUSSION OF SECOND QUARTER RESULTS

Income statement	**Three months ended 30 June**		**Six months ended 30 June**	
(in $ millions)	**2016**	**2015**	**2016**	**2015**
Non-interest income	37.9	34.5	72.4	68.7
Net interest income before provision for credit losses	64.3	59.3	126.7	118.1
Total net revenue before provision for credit losses and other gains (losses)	102.2	93.8	199.1	186.8
Provision for credit losses	(5.3)	(2.0)	(5.0)	(2.2)
Total other gains (losses)	(0.2)	(3.2)	(0.4)	(2.2)
Total net revenue	96.7	88.6	193.7	182.4
Non-interest expenses	(66.7)	(65.1)	(136.7)	(130.7)
Total net income before taxes	30.0	23.5	57.0	51.7
Income tax (expense) benefit	(0.2)	(0.2)	(0.5)	(0.4)
Net income	29.8	23.3	56.5	51.3
Dividends and guarantee fee of preference shares	(4.1)	(4.1)	(8.2)	(8.2)
Premium paid on preference shares bought back	-	-	-	-
Net earnings attributable to common shareholders	25.7	19.2	48.3	43.1
Net earnings per share				
- Basic	$0.06	$0.04	$0.10	$0.08
- Diluted [1]	$0.05	$0.04	$0.10	$0.08
Adjusted weighted average number of participating shares on a fully diluted basis [2] (in thousands of shares)	473,495	498,773	473,691	523,210
Key financial ratios				
Core return on average tangible assets	1.2%	1.1%	1.3%	1.2%
Core return on average tangible common equity	20.1%	17.6%	21.9%	17.0%
Net interest margin	2.44%	2.52%	2.48%	2.50%
Core efficiency ratio	61.8%	66.7%	62.1%	66.8%

[1] Includes both common and, for the three-month period ended 31 March 2015, contingent value convertible preferred equity. The contingent value convertible preferred equity was converted to common equity as of 31 March 2015.

[2] Comparative information revised as a result of a re-classification of certain investments in prior periods.

Balance Sheet	As at	
(in $ millions)	**30 June 2016**	**31 December 2015**
Cash due from banks	**2,655**	2,289
Short-term investments	**436**	409
Investments in securities	**3,870**	3,224
Loans, net of allowance for credit losses	**3,904**	4,000
Premises, equipment and computer software	**176**	183
Goodwill and intangibles	**66**	51
Other assets	**180**	120
Total assets	**11,287**	10,276
Total deposits	**10,091**	9,182
Other liabilities	**263**	227
Long-term debt	**117**	117
Total liabilities	**10,471**	9,526
Preference shareholders' equity	**183**	183
Common and preference shareholders' equity	**633**	567
Total shareholders' equity	**816**	750
Total liabilities and shareholders' equity	**11,287**	10,276

Key Balance Sheet Ratios:	**30 June 2016**	**31 December 2015**
Tangible common equity per share	**1.21**	1.11
Net book value per share	**1.35**	1.22
Common Equity Tier 1 Capital ratio	**12.3%**[1]	N/A[2]
Tier 1 Capital ratio	**16.5%**[1]	16.2%[2]
Total Capital ratio	**18.9%**[1]	19.0%[2]
Leverage ratio	**6.1%**[1]	N/A[2]
Tangible common equity ratio	**5.1%**	5.1%
Tangible total equity ratio	**6.7%**	6.8%
Non-accrual loans/gross loans	**1.7%**	1.6%
Non-performing assets/total assets	**0.7%**	0.7%
Total coverage ratio	**73.3%**	68.4%
Specific coverage ratio	**24.8%**	27.2%

[1] Effective 1 January 2016, the Bank's regulatory capital is determined in accordance with current Basel III guidelines 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 and other risks.

[2] Prior to 1 January 2016, the Bank's regulatory capital was determined in accordance with Basel II guidelines issued by the BMA.

Reconciliation of US GAAP Results to Core Earnings

Transactions viewed by management to be outside the normal course of business and unusual in nature are excluded from core earnings as they obscure financial analysis. The table below shows the reconciliation of net income in accordance with US GAAP to core earnings.

Core Cash Earnings	**Three months ended 30 June**		**Six months ended 30 June**	
(in $ millions)	**2016**	**2015**	**2016**	**2015**
Net income	29.8	23.3	56.5	51.3
Non-core items:				
Gain on sale of fixed assets	-	-	-	(0.2)
Adjustment to holdback payable for a previous business acquisition	-	-	0.9	-
Early retirement programme, redundancies and other one-off compensation costs	0.1	-	1.4	0.8
Tax compliance review costs	0.5	0.9	1.2	2.5
Provision in connection with ongoing tax compliance review	-	-	0.7	-
Business acquisition costs	1.0	0.6	2.2	0.6
Restructuring charges and related professional service fees	0.7	-	5.2	-
Realised and unrealised (gains) losses on certain investments	-	3.0	-	1.9
Total non-core items	2.3	4.5	11.6	5.6
Core earnings	32.1	27.8	68.1	56.9
Dividends and guarantee fee of preference shares	(4.1)	(4.1)	(8.2)	(8.2)
Core earnings to common shareholders[1]	28.0	23.7	59.9	48.7
Core earnings per share fully diluted	$0.06	$0.05	$0.13	$0.09

(1) Premium paid on preference share buy-back was not adjusted as management views the transaction as non-core.

(2) Comparative information revised as a result of a re-classification of certain investments in prior periods.

COMMENTARY ON STATEMENT OF OPERATIONS FOR THE QUARTER ENDED 30 JUNE 2016 COMPARED WITH THE QUARTER ENDED 30 JUNE 2015

Net Income

Core earnings for the quarter ended 30 June 2016 were $32.1 million, up $4.3 million from $27.8 million in 2015, an improvement of 15.2%. After including non-core losses outside the course of normal business of $2.3 million in the second quarter of 2016 and $4.5 million in 2015, total net income for the second quarter of 2016 was $29.8 million, an increase of $6.5 million compared to second quarter 2015 net income of $23.3 million.

The $4.3 million core earnings increase is comprised of mainly of the following:

- A $5.0 million increase in net interest income, principally from higher interest earned on loans due to volume and rate increases in the Bermuda commercial loan portfolio, as well as a decrease in interest expense on deposits due to decreased rates across several jurisdictions;
- A $3.4 million increase in non-interest income, principally as a result of the recent acquisition of HSBC Bank Bermuda's Private Banking Trust and Investment Management businesses; and
- A $3.3 million increase in provision for credit losses as a result of specific provisions placed for a commercial mortgage in Bermuda and revised general provisioning rates.

The net interest margin for the quarter decreased by 0.10% to 2.44% in the second quarter of 2016 due primarily to lower yields on investments due to lower long-term treasury rates, which was partially offset by higher yields on loans as well as lower cost of deposits due to lower rates.

Net Interest Income before Provision for Credit Losses

Net interest income increased by $5.0 million to $64.3 million in the second quarter of 2016, compared to $59.3 million for the second quarter of 2015, due primarily to the following:

- Interest income increased by $3.0 million due to $1.8 million in investment interest income caused by an increase in average volume of investments held, along with a smaller increase of $0.7 million in loan interest income on higher rates across several jurisdictions and volumes in the Bermuda commercial loan portfolio, and an increase of $0.5 million on interest earned on deposits placed due to higher volumes held;
- Interest expense decreased by $2.1 million resulting from a $1.8 million decrease in interest expense on deposits, and lower volumes of interest-earning term deposits, as well as a $0.3 million decrease in interest paid on long-term debt due to a rate reset on one tranche of long-term debt during the third quarter of 2015.

Non-Interest Income

Total non-interest income improved from $34.5 million in the second quarter of 2015 to $37.9 million. The increase is attributed to:

- Banking services fees increased $1.8 million due to a revised fee schedule in Bermuda;
- Foreign exchange revenue increased $0.4 million due to an increase in the volume of transactions and gains on foreign exchange positions;
- Trust services revenue increased $0.6 million due principally from increased activity as a result of the recent acquisition;
- Custody and other administrative fee revenue decreased $0.2 million due to volume decreases;
- Asset management fees increased $0.7 million principally from increased AUM as a result of the recent acquisition; and
- Other non-interest income increased $0.1 million due primarily to increases in sundry income.

Provision for Credit Losses

The Bank's net provision for credit losses in the second quarter of 2016 was an expense of $5.3 million compared to $2.0 million in 2015. During the second quarter of 2016, we realised an expense due to a specific provision raised on a Bermuda commercial mortgage and revised general provision rates across

several jurisdictions. This compares to the second quarter of 2015 when the Bank required incremental provisions relating to specific reserves of $2.9 million that were partially offset by recoveries of $0.9 million.

Other Gains (Losses)

Core losses of $0.2 million in the second quarter of 2016 were up $0.1 million from $0.1 million of losses in the second quarter of 2015 due primarily to unfavourable movements of $0.4 million on the valuation of the held-for-trading portfolio in Guernsey and $0.2 million of lower earnings from equity method investments in Bermuda offset by $0.5 million lower losses from sales of other real estate owned than in the second quarter of 2015.

Operating Expenses

Core non-interest operating expenses increased by $0.7 million from $63.7 million in the second quarter of 2015 to $64.4 million in 2016, which exclude non-core non-interest expenses of $1.5 million and $2.3 million, respectively, resulting in total non-interest expenses of $65.1 million and $66.7 million, respectively.

Core salaries and benefits costs were $31.5 million in second quarter of 2016, down $0.6 million from a decrease in post-retirement medical expenses and defined benefit pension plans resulting from discount rate revisions, as well as a decrease in overall salaries due to a decrease in headcount in Bermuda and Cayman. Included in salaries and benefits costs are non-core expenses of $0.7 million in the second quarter of 2016 and $0.2 million in the second quarter of 2015, both a result of temporary staff working on the acquisition and integration of HSBC Bermuda's Private Banking Trust and Investment Management businesses and the tax compliance review. Headcount on a full-time equivalency basis at quarter-end was 1,152, up 24 compared to 1,128 a year ago principally driven by new roles resulting from the recent acquisition.

Other notable core operating expense variances include:

- Technology and communications costs increased by $0.2 million due to increased sourcing costs offset by decreased depreciation expenses;
- Property expenses decreased by $0.2 million due to lower electricity costs and lower property maintenance costs;
- Professional and outside services costs increased by $1.8 million due to increased legal and advisory services fees; and
- Indirect taxes decreased by $1.0 million due to a reversal for certain accrued expenses.

Non-core expenses increased by $0.9 million in the second quarter of 2016 from $1.4 million to $2.3 million due to:

- Restructuring charges relating to the orderly wind down of the deposit taking and investment management businesses of Butterfield Bank (UK) Limited, and related professional services fees of $0.7 million;
- Expenses associated with an internal review and account remediation programme of US person account holders for potential violations of US laws regarding non-compliance with US tax law obligations amounting to $0.5 million; and,
- Business acquisition expenses of $1.0 million related to the acquisition in Bermuda of HSBC's Trust and Investment Management business.

BALANCE SHEET COMMENTARY AT 30 JUNE 2016 COMPARED WITH 31 DECEMBER 2015

Total Assets

Total assets of the Bank were $11.3 billion at 30 June 2016, up $1.0 billion from 31 December 2015. The Bank maintained a highly liquid position at 30 June 2016 with $6.2 billion of cash and demand deposits with banks plus short and long-term investments, excluding held-to-maturity investments, representing 54.5% of total assets, compared with 50.8% at 31 December 2015.

Loans Receivable

The loan portfolio totalled $3.9 billion at 30 June 2016, down $0.1 billion from year-end 2015. The movement, due primarily to growth in the consumer non-mortgage lending in Bermuda and Cayman, growth in sovereign and public sector lending in the Bermuda portfolio offset by paydowns in commercial lending and lower new residential mortgages loans written.

Allowance for credit losses at 30 June 2016 totalled $50.2 million, an increase of $0.9 million from year-end 2015. The movement was due mainly to a specific provision raised on a commercial mortgage, and higher general provisioning rates in several jurisdictions due to decreased sovereign credit ratings on countries where those jurisdictions had loan exposure.

The loan portfolio represented 34.6% of total assets at 30 June 2016 (31 December 2015: 38.9%), whilst loans as a percentage of customer deposits decreased from 43.6% at year-end 2015 to 38.7% at 30 June 2016, both of which are due to increased deposits relative to the loan portfolio.

As at 30 June 2016, the Bank had gross non-accrual loans of $68.5 million, representing 1.7% of total gross loans, a slight increase from the $65.3 million, or 1.6%, of total loans at year-end 2015. The increase reflects one commercial mortgage which moved to non-accrual during the quarter, offset by the Bank's maintenance and steady reduction in the level of non-accrual loans at year-end whilst working closely with clients prior to having difficulty servicing their debts. Net non-accrual loans were $51.5 million, equivalent to 1.3% of net loans, after specific provisions of $17.0 million, resulting in a specific provision coverage ratio of 24.8 % compared to 29.3% at 31 December 2015.

Non-performing loans, which include gross non-accrual loans and accruing loans past due by 90 days or more, totalled $82.6 million as at 30 June 2016, up slightly from $79.5 million at year-end 2015. We continue to proactively engage with our clients who experience financial difficulty.

Investment in Securities

The investment portfolio was $3.9 billion at 30 June 2016, compared to $3.2 billion at 31 December 2015. The increased portfolio size was funded through the use of cash due from banks, which were used to purchase liquid US government and federal agency securities, as well as highly rated corporate fixed income securities and prime rated mortgage-backed securities. Additionally, approximately $315 million of trading securities were sold during the first half of the year, with the proceeds used to acquire US government and federal agency fixed income securities and mortgage-backed securities within the available-for-sale portfolio.

This resulted in the fair value of US government and federal agency securities held for trading decreasing by $279.3 million, and the US government and federal agency securities available-for-sale increasing by $738.3 million.

The investment portfolio was made up of high quality assets with 92.7% invested in A-or-better-rated securities. The investment yield decreased year over year by 28 basis points to 1.96% at 30 June 2016 as a result of weakening long-term treasury rates, which particularly impact our floating rate investment portfolio. Total net unrealised gains were $55.8 million, compared to an unrealised gain of $0.7 million at year-end 2015. The significant increase in unrealised gains is largely attributable to a continued decrease in long-term treasury rates in the first six months of 2016. The benchmark US 10-year treasury rate fell to its 52-week low by 30 June 2016.

Deposits

Average customer deposits increased by $0.9 billion to $9.9 billion in the second quarter of 2016 from $9.0 billion during the fourth quarter of 2015. On a period-end basis, customer deposits increased $0.9 billion to $10.1 billion from $9.2 billion at year-end 2015.

REVIEW OF RESULTS OF MAJOR OPERATIONS

Bermuda (Including Group Head Office)

Net income before gains and losses was $18.1 million for the three months ended 30 June 2016, up $4.6 million from $13.5 million in the second quarter of 2015, due to increased loan interest income, asset management revenue and banking income, partially offset by higher provisions for credit losses and higher non-interest expenses. Net other gains of $0.3 million during the second quarter of 2016 were largely in line with losses of $0.1 million during the second quarter of 2015. Net income after gains and losses was $18.4 million, an increase of $4.9 million from $13.5 million in the second quarter of 2015.

Net interest income before provision for credit losses increased by $4.8 million to $40.4 million in the second quarter of 2016, due to higher loan interest from a combination of rate and volume increases, in addition to higher investment interest income, higher interest earned on deposits placed with other financial institutions, lower interest expense paid on customer deposits and lower interest expense on long-term debt. These increases were all primarily volume-driven with the exception of long-term debt, which was as a result of a move from fixed rate to a lower floating rate in the third quarter of 2015.

Provision for credit losses was $3.4 million in the second quarter of 2016, up $1.9 million from the second quarter of 2015 when provision for credit losses was $1.5 million. This increase is due to a specific provision raised on a commercial mortgage and increased general provisioning rates due to a change in sovereign credit ratings in several jurisdictions where Bermuda had exposure.

Non-interest income increased $3.7 million to $18.2 million for the second quarter of 2016 due to higher asset management fees, due to income earned from new clients resulting from the recent acquisition of the investment management business of HSBC Bermuda. Banking income also increased, resulting from a one-time banking fee, higher fee income on credit cards from a combination of rate and volume increases and the introduction of new service fee charges in the first quarter of 2016. In addition the acquisition of HSBC's Trust business, which closed during the second quarter of 2016, primarily drove an increase in trust revenue.

Operating expenses increased by $2.1 million to $37.1 million in the second quarter of 2016, primarily due to project-related professional service costs and increased staff salaries and other employee benefits costs which were driven by increased headcount from the onboarding of staff from the acquisition of HSBC's Private Banking, Trust and Investment Management businesses, offset by lower indirect taxes.

Total assets as at 30 June 2016 were $6.8 billion, up $1.6 billion from year-end 2015, as a result of the acquisition of HSBC's Private Banking, Trust and Investment Management business. Customer deposits ended the period at $5.8 billion, up $1.6 billion from year-end 2015, also driven by the recent acquisition. Customer loan balances ended the period at $2.4 billion, up $0.2 billion from year-end 2015, primarily due to increased volumes resulting from new participation in UK based residential mortgages and increases in the corporate and government loan portfolio.

Client assets under administration for the trust and custody businesses were $51.5 billion and $33.1 billion, respectively, whilst assets under management were $3.5 billion. This compares with $32.1 billion, $29.4 billion and $2.1 billion, respectively, at 31 December 2015. The $19.4 billion increase in assets under administration and the $1.4 billion increase in assets under management were principally as a result of the recent acquisition.

Cayman Islands

Quarterly net income before gains and losses was $14.2 million for the three months ended 30 June 2016, up $1.3 million from $12.9 million in the prior year. Net income growth was due primarily to increases in interest income on investments and loans and non-interest income led by foreign exchange income and banking, partially offset by increased loan loss provisions, increased salary and other employee benefits and technology sourcing costs.

Net interest income before provision for credit losses was $19.8 million in the second quarter of 2016, an improvement of $3.1 million compared to the second quarter of 2015. The increase was driven primarily by an improvement in investment interest income which was up $1.9 million resulting from an average increase of $332.4 million in available-for-sale securities, primarily within US government and federal agency securities. Loan income was up $1.1 million as average loan balances increased by $135.0 million from 2015, attributable largely to new participation in UK based residential mortgages, sourced from our UK jurisdiction, and the increase in Cayman's base lending rate in December of 2015. Average customer deposits increased by $326.5 million over the second quarter of 2015 while deposit liability

costs declined marginally resulting from lower term deposits balances.

Provision for credit losses of $1.2 million was up $1.5 million from the second quarter of 2015 when provision for credit losses was a recovery of $0.3 million. The increase was principally due to an increase in general provisioning rates in certain jurisdictions as a result of revised sovereign credit ratings.

Non-interest income was $10.6 million, up $0.7 million from the second quarter of 2015. The increase was due primarily to banking fees driven by account transaction, wire transfer and card services fees along with higher foreign exchange income.

Operating expenses increased $1.0 million to $15.0 million in the second quarter of 2016, driven primarily by an increase in salary and staff benefits costs which was driven by increased staff incentives, increased other non-interest expenses principally driven by administration fees paid to our UK jurisdiction for newly participated loans and increased technology costs from IT sourcing and depreciation on completed infrastructure projects, partially offset by lower leased-line costs.

Total assets at 30 June 2016 were $3.3 billion unchanged from year-end 2015. Net loans of $1.2 billion were up $0.1 billion from year-end 2015 levels following the aforementioned participation in additional UK based residential mortgages. The available-for-sale investments of $1.2 billion were up $0.2 billion from year-end 2015 resulting from a greater allocation to interest earning assets.

Client assets under administration for the trust and custody businesses were $3.9 billion and $2.4 billion, respectively, whilst assets under management were $0.9 billion at 30 June 2016. This compares with $3.5 billion, $2.0 billion and $0.9 billion, respectively at 31 December 2015. While assets under administration for custody remained flat from year-end, assets under administration for the trust business increased principally because the Bank became trustee of a significant unit trust structure during the current quarter.

Guernsey

Guernsey posted net income before gains and losses of $0.5 million in the second quarter of 2016, compared to $1.4 million in second quarter of 2015. The reduction year on year, is due to principally to adverse exchange rate movements and increased general provisioning rates applied on UK property exposures.

Net interest income before provisions for credit losses decreased by $0.8 million to $3.5 million in the second quarter of 2016, compared to $4.3 million last year, attributable to lower investment interest income principally driven by weakening investment yields and lower investment volumes and lower loan interest. This decrease was slightly offset by lower interest expense from a reduction in customer interest rates in line with market rates together with adverse exchange rate movements.

Provision for credit losses were $0.5 million, higher than nil recorded the second quarter of 2015 due to increased general loan loss provisioning rates applied on UK property exposures.

Non-interest income decreased $0.2 million to $6.4 million attributable to adverse exchange rate movements which more than offset increases in banking revenue from tariff increases and trust revenues from higher time spent.

Operating expenses at $8.8 million were $0.7 million lower than 2015 due primarily to favourable exchange rate movements as lower staff expenses resulting from a slightly lower headcount were offset by higher technology from increased infrastructure investment and professional fees from costs associated with regulatory compliance.

Total assets of $1.3 billion as at 30 June 2016 were down slightly from $1.4 billion at year-end 2015, principally driven by adverse exchange rates. Customer deposits ended the period at $1.2 billion, flat from year-end 2015. Customer loan balances ended the period at $0.4 billion, flat from year-end 2015.

Client assets under administration for the trust and custody business were $30.0 billion and $5.9 billion, respectively, whilst assets under management were $0.4 billion at 30 June 2016. This compares with $31.3 billion, $6.3 billion and $0.4 billion, respectively, at 31 December 2015. The respective decreases were each adversely affected by exchange rates.

United Kingdom

The UK recorded a net loss before gains and losses of $3.0 million in the second quarter of 2016, a decrease of $1.4 million from a net loss before gains and losses of $1.6 million in the second quarter of

2015. The majority of the decrease is due to costs associated with the orderly wind down of the deposit taking and asset management businesses, which totalled $0.7 million during the second quarter of 2016, as well as lower net interest income due to lower loan and investment balances.

Net other gains of nil during the second quarter of 2016 were favourable by $1.4 million, compared to $1.4 million of losses in the second quarter of 2015, due primarily to losses on trading investments in the second quarter of 2015. Net loss after gains and losses was $3.0 million, which is flat from the second quarter of 2015.

Net interest income before provision for credit losses of $0.6 million was down $2.1 million from $2.7 million in the second quarter of 2015. The decrease was due primarily to reduced loan interest income, which resulted from the Cayman and Bermuda jurisdictions' sub-participation in $339 million of the UK's net loans. The purpose of the sub-participation was to provide funding for the repayment of depositors.

Provision for credit losses was an expense of $0.2 million in the second quarter of 2016 compared to $0.8 million loss in the second quarter of 2015. The general loan allowance increased in the second quarter of 2016, as a result of the recent sovereign credit rating downgrades for the UK.

Operating expenses at $4.7 million in the second quarter of 2016 were $0.4 million lower than in the second quarter of 2015 due primarily to lower salaries resulting from the continued reduction in headcount as part of the orderly wind down process. This amount includes $0.7 million of restructuring costs.

During the second quarter of 2016, the UK repaid $265 million of deposits to customers, with the remaining $78 million of deposits anticipated to be repaid before the end of the third quarter of 2016.

Custody client assets under administration at the end of the second quarter of 2016 amounted to $1.3 billion, down from $1.6 billion at 31 December 2015. Assets under management were $36.8 million at 30 June 2016, down from $208.6 million at 31 December 2015. Both of these decreases were also as a result of the orderly wind down process.

Notes:

Certain statements in this Release may be deemed to include "forward-looking statements" and are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from those included in these statements due to a variety of factors including worldwide economic conditions, success in business retention and obtaining new business and other factors.

This Release does not constitute an offer to sell securities, or a solicitation of an offer to buy securities, in any jurisdiction, including without limitation the United States of America. Securities may not be offered or sold in the United States of America absent registration or an exemption from registration under the U.S. Securities Act of 1933, as amended. A public offering of securities in the United States, if any such offering is made, will be made by means of a prospectus that may be obtained from The Bank of N.T. Butterfield & Son Limited ("Butterfield") containing detailed information about Butterfield and management, as well as financial statements.

Butterfield is specialist provider of international financial services. The Butterfield Group offers a full range of community banking services in Bermuda, and the Cayman Islands, encompassing retail and corporate banking and treasury activities. The Group variously provides private banking, asset management, investment advisory, residential property lending and personal trust services from its headquarters in Bermuda and subsidiary offices in The Bahamas, the Cayman Islands, Guernsey, Switzerland and the United Kingdom. Butterfield also provides services to corporate and institutional clients from offices in Bermuda, The Bahamas, the Cayman Islands and Guernsey, which include asset management and trust services.

Butterfield is publicly traded in Bermuda, and its shares are listed on the Bermuda Stock Exchange. Butterfield's share price is published daily in *The Royal Gazette* (www.theroyalgazette.com) and is also available on *Bloomberg Financial Markets* (symbol: NTB BH) and the Bermuda Stock Exchange website (www.bsx.com). Further details on the Butterfield Group can be obtained from our website at: www.butterfieldgroup.com.

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