Butterfield

The Bank of N.T. Butterfield & Son Limited | 65 Front Street, Hamilton, HM 12, Bermuda
P.O. Box HM 195 | Hamilton HM AX, Bermuda | Tel: (441) 295 1111 Fax: (441) 295 3878
www.butterfieldgroup.com

NEWS RELEASE

***** For Immediate Release *****

Butterfield Reports Second Quarter Profit

Hamilton, Bermuda— 31 July 2012: The Bank of N.T. Butterfield & Son Limited ("Butterfield" or the "Bank") today reported second quarter net income of $16.2 million ($0.02 per Share on a fully diluted basis), up 37.7% compared to $11.8 million in the second quarter of 2011 and up $1.5 million over the $14.7 million recorded in the first quarter of 2012. Cash earnings (before amortisation of intangibles) for the period totalled $17.6 million compared to $16.1 million in the prior quarter and $13.2 million for the same quarter of the prior year.

Year-to-date net income for the six months ended 30 June 2012 was $30.9 million compared to a year-to-date net income of $20.2 million for the six-month period ended 30 June 2011. Cash earnings (before amortisation of intangibles) for the period totalled $33.7 million, an increase of $10.7 million over the $23.0 million for the prior year. Year-to-date earnings per Share totalled $0.04 on a fully diluted basis, versus a $0.01 year-to-date earnings per Share for the quarter ended 30 June 2011.

During the quarter, Butterfield announced that it had reached an agreement to sell its wholly-owned Barbados subsidiary, Butterfield Bank (Barbados) Limited to Trinidad and Tobago-based First Citizens Bank Limited ("First Citizens"). The sale is expected to be completed during the third quarter of 2012, pending regulatory approval. As a result, the Barbados segment has been reported in discontinued operations. (*See Note (1) at the end of this New Release for details*) The results from this business were immaterial on a per Share basis.

Financial highlights of second quarter results (with comparisons to second quarter 2011):

- **Net income** at $16.2 million, up 37.7%
- **Net interest income before credit losses** at $54.0 million, up 8.3%
- **Net interest margin** at 2.67%, up from 2.34%
- **Tangible common equity ratio** of 7.4%, up from 6.9%
- **Return on assets** at 0.74%, up from 0.42%
- **Return on equity** of 7.1%, up from 2.5%
- **Efficiency ratio improved** to 77.7% from 84.4%

Bradford Kopp, Butterfield's President & Chief Executive Officer, said, "Our second quarter results represent our sixth consecutive quarter of profit, and are improved year-on-year; the increase owed mainly to improvements in net interest income. Amidst ongoing economic weakness in our major markets and continued low interest rates, the results reflect the quality of our credit portfolios and the resiliency of our revenue model, with a good balance of interest and non-interest earnings."

Mr. Kopp continued, "I stated last quarter that improving Shareholder value would be a major driver of our business strategy, and consistent with that objective, the Bank made important changes during the quarter to rationalise our business and focus capital in core markets and competencies where we see greater potential. In this regard, Butterfield finalised an agreement to sell the Bank's wholly owned Barbados subsidiary to Trinidad-based First Citizens Group for gross proceeds of $45 million (with the transaction expected to close in the third quarter), terminated our relationship with Bentley Reid at a net loss of $0.5 million, and sold our interests in Cayman-based insurer, Island Heritage for a net gain of $4.3 million. As a result of these changes, we continued to improve the quality of our balance sheet and capital strength, ending the quarter with a very strong tangible common equity ratio of 7.4%, up 94 basis points from the prior year before restatement for discontinued operations."

Bradley Rowse, Executive Vice President and Chief Financial Officer said, "Although our various business lines generally performed well during the second quarter, our earnings growth was driven primarily by the performance of our loan and investment portfolios. Net interest income was up over 8% versus the same quarter last year. The Bank's loan portfolio increased by more than $200 million over the year, with our loan to deposit ratio rising to 57.5%. Loan loss provisions increased to $4.9 million during the quarter. The majority of the credit provision in the quarter related to a legacy commercial loan facility in our United Kingdom operation. This level of provisioning, relative to our $4.1 billion loan book, reflects the good quality of our credit portfolio. On the investment side, we continued with our strategy of investing in longer duration securities to match the profile of our customer liabilities, which contributed to further improvements in our net interest margin of 33 basis points."

Mr. Rowse continued, "Non-interest income was essentially flat year on year. We did see encouraging revenue growth in management fees associated with the Butterfield Money Market Fund, reflecting changes in market rates. Our continued focus on cost control resulted in a 2.9% reduction in expenses, which, when combined with the revenue improvements above, saw the efficiency ratio improve to 77.7%."

The Bank introduced a Share Buyback Programme on 1 May 2012 as a means to improve Shareholder liquidity and facilitate growth in Share value. Under this Programme, up to six million Common Shares and 2,000 Preference Shares may be repurchased. In the second quarter of 2012, over 530,000 Shares were purchased by the Bank at an average price of $ 1.24 per Share.

The Board declared $4.0 million of dividends on the Bank's 8% Non-Cumulative Perpetual Voting Preference Shares to be paid on 15 September 2012 to Preference Shareholders of record on 1 September 2012. No Common dividend was declared.

ANALYSIS AND DISCUSSION OF QUARTERLY RESULTS Second Quarter 2012

Balance Sheet (in $ millions)	As at 30 June 2012	 31 December 2011
Cash and cash equivalents	1,561.8	1,902.7
Investments	2,421.9	2,061.6
Loans, net of allowance for credit losses	4,120.0	4,069.4
Premises, equipment and computer software	267.2	272.5
Total assets of continuing operations	8,579.3	8,517.4
Assets of discontinued operations	298.1	307.0
Total assets	8,877.4	8,824.4
Total deposits	7,287.7	7,256.6
Subordinated capital	260.0	267.8
Shareholders' equity	871.2	829.7
Liquidation preference of Preference Shares	200.0	200.0

Common equity	671.2	629.7
Key Balance Sheet Ratios:		
Book value per Share	$1.21	$1.14
Tangible book value per Share	$1.13	$1.05
Tier 1 capital ratio	17.8%	17.7%
Total capital ratio	23.5%	23.5%
Tangible common equity ratio	7.37%	6.89%
Tangible total equity ratio	9.71%	9.25%
Non-accrual loans/gross loans	2.97%	2.67%
Non-performing assets/total assets	1.76%	1.61%

Income Statement	Three months ended 30 June		Six months ended 30 June	
(in $ millions)	2012	2011	2012	2011
Non-interest income	32.4	32.1	65.0	64.9
Net interest income before provision for credit losses	54.0	49.8	107.2	98.5
Total net revenue before other gains (losses) and provision for credit losses	86.4	81.9	172.2	163.4
Other gains (losses)	2.9	3.0	5.5	2.1
Provision for credit losses	(4.9)	(2.6)	(8.4)	(6.5)
Total net revenue	84.4	82.3	169.3	159.0
Total expenses	68.4	70.5	138.1	139.4
Total net income before taxes	16.0	11.8	31.2	19.6
Income tax	0	(0.3)	(0.6)	(0.4)
Net income from continuing operations	16.0	11.5	30.6	19.2
Net income from discontinued operations	0.2	0.3	0.3	1.0
Net income	16.2	11.8	30.9	20.2
Dividends and guarantee fee of Preference Shares	(4.5)	(7.8)	(9.0)	(12.3)
Net earnings attributable to Common Shareholders	11.7	4.0	21.9	7.9
Cash earnings (before amortisation of intangibles)	17.3	13.2	33.7	23.0
Net earnings per Share				
- Basic	0.02	0.01	0.04	0.01
- Diluted	0.02	0.01	0.04	0.01
Adjusted weighted average number of Common Shares (thousands)	555,828	554,531	555,406	554,531
Key Financial Ratios				
Return on assets	0.74%	0.42%	0.71%	0.39%
Return on Common Shareholders' equity	7.07%	2.53%	6.70%	2.54%
Net interest margin	2.67%	2.34%	2.65%	2.32%
Efficiency ratio	77.65%	84.41%	78.69%	83.69%

COMMENTARY ON STATEMENT OF OPERATIONS FOR THE QUARTER ENDED 30 JUNE 2012 COMPARED WITH THE QUARTER ENDED 30 JUNE 2011

Net Income

The Bank recorded net income of $16.2 million for the three months ended 30 June 2012 compared to net income of $11.8 million in the prior year, a 37.7% increase. Total revenue before gains and credit provisions was $86.4 million in the second quarter of 2012, up $4.5 million or 5.5% from $81.9 million in the second quarter 2011. The increase reflects improved net interest income, up $4.2 million, and a $0.3 million increase in non-interest income.

Provisions for credit losses were $4.9 million in the second quarter of 2012, an increase of $2.3 million from $2.6 million in the same quarter a year ago largely reflecting a legacy commercial loan facility in our United Kingdom operations.

Net gains of $2.9 million in the second quarter include the sale of our minority interest in a Cayman-based insurer, Island Heritage, for a net gain of $4.3 million offset by $0.7 million of realised and unrealised losses on the investment portfolio and a $0.7 million impairment loss on foreclosed properties held for sale. Included in net other gain of $0.1 million is a net loss of $0.5 million from termination of an asset management agreement with a third party, offset by $0.6 million of other one-off gains. Prior year gains of $3.0 million includes the $3.2 million gain on sale of our minority interest in the Butterfield Fulcrum Group.

Operating expenses decreased by $2.1 million from $70.5 million in the second quarter of 2011 to $68.4 million in the second quarter of 2012. Head count reductions of 107 staff drove a $1.5 million reduction in salaries and benefit costs. Other expense reductions include a $1.4 million decrease in total other expenses, a $0.3 million reduction in professional and outside services and a $0.2 million reduction in property costs which were mainly driven by expense saving initiatives. These savings were offset by a $1.6 million increase in technology and communications costs driven by depreciation expense on previously capitalised system implementation costs.

Net Interest Income

Net interest income before provision for credit losses increased in the second quarter of 2012 by 8.3% to $54.0 million from $49.8 million in the second quarter of 2011. The net interest margin improved by 33 basis points from 2.34% in the second quarter of 2011 to 2.67% in the second quarter of 2012 on higher levels of lending, continued investments in longer duration securities to match expected maturities on liabilities and disciplined deposit pricing.

Non-Interest Income

Non-interest income was up $0.3 million at $32.4 million in the second quarter of 2012 compared to $32.1 million in the second quarter of 2011; the increase is attributed to:

- An increase in asset management fees of 4.4% to $6.1 million primarily attributable to higher management fees from the Bank's Money Market Fund on higher Libor rates;

- Banking services revenue of $8.1 million was up $0.2 million from $7.9 million a year ago, primarily as a result of an increase in certain banking fees and higher loan prepayment penalties in the United Kingdom;

- Foreign exchange revenue of $7.4 million for the quarter was up $0.1 million compared to the second quarter of 2011;

- Trust revenues of $6.6 million were down year on year primarily due to timing of income recognition;

- Custody and other administrative services revenues of $2.5 million were consistent with the second quarter of 2011;

- Other non-interest income was $1.7 million, which primarily includes rental income and the return on our investment in affiliates, was up $0.6 million principally due to a net loss in affiliates of $0.3 million booked in the prior year, compared to a gain of $0.3 million in the second quarter of 2012.

Non-Interest Expense

Non-interest expenses have decreased by $2.1 million, or 2.9%, from $70.5 million in the second quarter of 2011 to $68.4 million in the second quarter of 2012 as a result of the following:

- Salaries and employee benefits decreased by $1.5 million year on year reflecting reduced head count, down 107 to 1,210 globally from 1,317 a year ago on a full-time equivalency basis;

- Technology and communications expenses have increased by $1.5 million as a result of increased depreciation costs related to systems implementation projects that went live in Bermuda and Cayman during 2011;

- Property costs were $6.4 million, down $0.3 million from cost savings initiatives;

- Professional and outside services expenses decreased by $0.3 million from the reduction in the use of consultants and other expense management initiatives;

- Other expenses decreased by $1.5 million in part due to lower transaction processing fees due to lower volumes and fewer operational losses compared to the prior year;

COMMENTARY ON BALANCE SHEET AT 30 JUNE 2012 COMPARED WITH 31 DECEMBER 2011

Total Assets

Total assets of the Bank were $8.9 billion at 30 June 2012, representing a $53 million increase over year-end. The Bank maintained a highly liquid position at 30 June 2012 with cash and cash equivalents, short and long-term investments representing 46.8% of total assets, or $4.0 billion, which is in line with year-end 2011.

Loans Receivable

The loan portfolio increased by $51 million to $4.1 billion at 30 June 2012. Allowance for credit losses at the end of the second quarter of 2012 totalled $62.3 million, an increase of $6.8 million from year-end 2011. The movement in the allowance is mainly the result of additional provisions of $8.9 million taken during the six months ending 30 June 2012 net of $1.9 million in charge-offs.

The loan portfolio represented 48.0% of total assets at the end of the second quarter of 2012, compared to 48.4% at year-end 2011, whilst loans as a percentage of customer deposits increased from approximately 57.1% at year-end 2011 to 57.5% at the end of the second quarter of 2012.

As at 30 June 2012, the Bank had gross non-accrual loans of $124.1 million representing 3.0% of total loans compared to $110.1 million or 2.7% of total loans at year-end 2011; the increase is due to continuing economic conditions in the countries in which we operate. Net non-accrual loans were $93.4 million, equivalent to 2.27% of total loans, after specific provisions for such loans of $30.7 million. Certain segments of the loan portfolio require close monitoring given the current economic conditions in our largest jurisdictions.

Investments

The investment portfolio increased by $0.4 billion to $2.4 billion as at 30 June 2012 due primarily to additional purchases of US Government Agency securities and certificates of deposits. The Bank held approximately $0.5 billion in US Treasury securities over year-end 2011 as a conservative response to the heightened uncertainty in Europe; these funds have been re-deployed during 2012 in accordance with our prudent investment strategy.

REVIEW OF RESULTS OF OPERATIONS

Bermuda

Net income of $8.5 million in the second quarter of 2012 was up $1.5 million compared to $7.0 million recorded in the prior year.

Revenue before gains and losses and credit provisions increased, year on year, by $1.3 million to $49.9 million in the second quarter of 2012 from $48.6 million in the second quarter of 2011; the increase was driven by an increase of $0.5 million in non-interest income and a $0.7 million improvement in net interest income before credit losses.

Non-interest income of $16.3 million in the second quarter of 2012 was up 3.7% versus the second quarter of 2011, primarily due to higher asset management fee revenue and increases in our equity pick-up earnings in affiliates.

Net interest income before loan loss provisions increased by $0.7 million year on year, on rising net interest margins, up 22 basis points to 3.38%. Average loan balances increased $128 million year on year which helped drive the improvement in the margin combined with lower funding costs.

No net credit provisions were recorded in Bermuda in the second quarter of 2012 compared to $2.3 million in the second quarter of 2011 as specific reserves were offset by a release in the general provision.

Non-interest expenses improved by $1.4 million (3.2%) to $41.0 million primarily driven by lower salary and employee benefits costs and other expense reductions totaling $2.4 million offset by $1.1 million of increase technology costs due to depreciation of newly implemented systems.

Total assets as at 30 June 2012 were $4.5 billion, down $0.1 billion compared with year-end. Customer deposits ended the quarter at $3.1 billion, down $0.1 billion from year end, whilst loan balances held steady at $2.5 billion.

Client assets under administration ended the quarter at $56.7 billion, whilst assets under management declined by $0.1 million to $3.3 billion.

Cayman Islands

Net income increased by $5.8 million to $8.3 million compared to $2.6 million the same quarter a year ago, reflecting the $4.3 million gain in the quarter on the sale of the Bank's minority interest in Island Heritage Holdings Ltd., a Cayman-based insurance company. The Bank continues to act as an agent for Island Heritage property and auto insurance.

Non-interest income of $7.6 million in the second quarter of 2012 was down $0.2 million compared to the prior year, reflecting declines in trust and asset management fees partially offset by improved banking fees and foreign exchange commissions.

Net interest income before loan loss provisions was $11.4 million in the quarter, $2.1 million ahead of the prior-year, driven primarily from the investments in US Government Agency Securities and investments in medium-term US corporate bank debt in the second half of 2011, contributing to improved net interest margin of 2.50%, up from 2.06% in the same quarter a year ago. Loan loss provisions of $1.2 million were $0.8 million higher than prior-year levels following specific provisioning on the Bahamian residential mortgage book.

Non-interest expenses of $13.8 million were $0.5 million below prior-year levels. The decrease in second quarter 2012 expenditures over the prior year was primarily related to a significant reduction in over-time and employment services costs incurred following the IT systems and new banking software conversion in the second quarter of 2011.

Total assets at 30 June 2012 were $2.1 billion, up $81 million from year-end 2011, reflecting higher corporate client deposit levels. Loans decreased by $19 million from year-end, reflecting significant principal repayments in a low interest rate environment along with a seasonal reduction in corporate overdrafts.

Client assets under administration ended the quarter at $3.6 billion, representing an increase of $0.2 billion from year-end 2011, whilst assets under management declined by $0.1 million to $0.9 billion.

Guernsey

Guernsey businesses posted second quarter 2012 net income of $2.7 million, compared to net income of $1.8 million in the second quarter of 2011, an improvement of $0.9 million or 47.3%.

Non-interest income decreased $0.3 million year on year, due to lower foreign exchange income and lower administered banking income.

Net interest income increased $1.2 million to $5.3 million in the second quarter of 2012, compared to $4.1 million in the second quarter of 2011, from strong loan growth and the purchase of higher-yielding assets.

Total assets at 30 June 2012 of $1.6 billion were $135 million higher than year-end 2011, driven by an increase in deposit balances.

Client assets under administration ended the quarter at $18.3 billion, up from $16.7 billion at year-end 2011, reflecting growth in trust assets under administration and custody net asset values.

United Kingdom

The United Kingdom recorded a net loss of $3.1 million in the second quarter of 2012, compared to a profit of $0.3 million in the second quarter of 2011.

Total revenue before gains and losses and credit provisions was $6.1 million, consistent when compared with the second quarter of 2011. Non-interest income was $2.5 million, down $0.4 million, but was offset by stronger net interest income before credit provisions of $3.5 million, up $0.4 million from the prior year, primarily as a result of loan growth.

Provisions for credit losses of $3.8 million were required in the second quarter of 2012 due to a legacy commercial loan facility compared to no credit losses last year.

Other losses of $0.8 million include a net loss of $0.5 million as a result of the termination of an asset management contract.

Total non-interest expenses, at $4.6 million, were $1.2 million lower compared to the second quarter of 2011, due in part to cost management initiatives and certain exceptional costs incurred in the second quarter of 2011.

Total assets stood at $0.9 billion at the end of the second quarter of 2012, down from $1.0 billion at 31 December 2011. Loan balances increased $51 million, offset by a reduction in investment and cash balances. Customer deposit balances declined by $43 million to end the quarter at $0.7 billion.

Assets under management totalling $0.3 billion decreased from $0.6 billion at year-end 2011. Client assets under administration at the end of the second quarter of 2012 amounted to $1.3 billion which is line with year-end 2011.

Shareholders are invited to hear Brad Rowse, Butterfield's Executive Vice President & Chief Financial Officer, provide a detailed review of the Bank's quarterly results via a recorded webcast available from 1 August 2012. Please visit the Investor Relations section of the Bank's website, www.butterfieldgroup.com, for details.

Notes:

(1) The results of Butterfield Bank (Barbados) are presented as discontinued operations, and prior period amounts have been adjusted accordingly. Revenues, non-interest expenses, income taxes, earnings before income taxes, net interest margin, tangible common equity, tangible equity and head count throughout this news release are from continuing operations (i.e., before discontinued operations), unless otherwise stated. Net income, earnings per share, return on equity, and return on assets, throughout this news release are after discontinued operations unless otherwise stated.

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 is neither an offer to sell nor a solicitation of an offer to buy any securities and shall not constitute an offer, solicitation or sale in any jurisdiction in which such offer, solicitation or sale is unlawful. Securities may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act and applicable state laws.

The Bank of N.T. Butterfield & Son Limited ("Butterfield") is Bermuda's first and largest independent bank, and a specialist provider of international financial services. The Butterfield Group offers a full range of community banking services in Bermuda, Barbados and the Cayman Islands, encompassing retail and corporate banking and treasury activities. In the wealth management area, the Group provides private banking, asset management, investment advisory 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 corporate trust services.

Butterfield is a publicly traded corporation with shares listed on the Bermuda and Cayman Islands stock exchanges. 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.

Investor Relations Contact:

Bradley Rowse
Executive Vice President & Chief Financial Officer
The Bank of N.T. Butterfield & Son Limited
Phone: (441) 299 3829
Fax: (441) 295 2899
E-mail: bradley.rowse@butterfieldgroup.com

Media Relations Contact:

Mark Johnson
Vice President, Communications, Brand & Public Affairs
The Bank of N.T. Butterfield & Son Limited
Phone: (441) 299 1624
Fax: (441) 295 3878
E-mail: mark.johnson@butterfieldgroup.com