

The Bank of N. T. Butterfield & Son Limited

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2013

Financial Results for the three months ended
31 March 2013



Butterfield

The Bank of N.T. Butterfield & Son Limited

Unaudited Consolidated Balance Sheet

(in thousands of Bermuda dollars)

	As at	
	31 March 2013	31 December 2012
Assets		
Cash and demand deposits with banks	462,107	476,071
Cash equivalents	1,351,063	1,175,476
Total cash and cash equivalents	1,813,170	1,651,547
Short-term investments	31,593	76,213
Debt and equity securities		
Trading	61,628	61,785
Available for sale	2,395,499	2,580,577
Held to maturity	299,147	239,342
Total investments in debt and equity securities	2,756,274	2,881,704
Loans, net of allowance for credit losses	3,930,418	3,955,960
Premises, equipment and computer software	240,792	243,321
Accrued interest	23,180	18,975
Goodwill and intangible assets	20,261	22,276
Investments in affiliates	18,604	18,637
Other real estate owned	33,459	34,360
Pending receivable for securities sold	36,952	-
Other assets	41,517	39,037
Total assets	8,946,220	8,942,030
Liabilities		
Customers deposits		
Non-interest bearing	1,001,137	918,814
Interest bearing	6,443,136	6,456,979
Total customer deposits	7,444,273	7,375,793
Bank deposits	47,861	126,466
Total deposits	7,492,134	7,502,259
Securities sold under agreement to repurchase	28,988	109,021
Employee future benefits	102,829	103,135
Accrued interest	5,671	2,795
Preference Share dividends payable	715	662
Pending payable for securities purchased	128,484	-
Other liabilities	91,673	106,984
Total other liabilities	358,360	322,597
Subordinated capital	260,000	260,000
Total liabilities	8,110,494	8,084,856
Shareholders' equity		
Common Share capital (BMD 0.01 par; authorised Shares 26,000,000,000)		
issued and outstanding: 549,710,702 (2012: 549,677,803)	5,497	5,496
Preference Share capital (USD 0.01 par; USD 1,000 liquidation Preference)		
issued and outstanding: 195,361 (2012: 195,578)	2	2
Contingent Value Convertible Preference Share capital (USD 0.01 par)		
issued and outstanding: 7,221,833 (2012: 7,254,732)	72	73
Additional paid-in capital	1,354,810	1,355,689
Accumulated deficit	(495,964)	(482,796)
Less: Treasury Common Shares: 6,269,719 Shares (2012: 7,066,586 Shares)	(7,837)	(8,767)
Accumulated other comprehensive loss	(20,854)	(12,523)
Total Shareholders' equity	835,726	857,174
Total liabilities and Shareholders' equity	8,946,220	8,942,030

The accompanying notes are an integral part of these Consolidated Financial Statements.

The Bank of N.T. Butterfield & Son Limited

Unaudited Consolidated Statements of Operations

(in thousands of Bermuda dollars, except per Share data)

	For the three month period ended	
	31 March 2013	31 March 2012
Non-interest income		
Asset management	4,494	6,157
Banking	7,213	7,767
Foreign exchange revenue	7,066	6,637
Trust	7,602	7,760
Custody and other administration services	2,464	2,803
Other non-interest income	1,026	1,413
Total non-interest income	29,865	32,537
Interest income		
Loans	45,013	48,799
Investments	13,939	12,029
Deposits with banks	1,237	1,285
Total interest income	60,189	62,113
Interest expense		
Deposits	4,885	5,707
Subordinated capital	3,089	3,225
Securities sold under repurchase agreement	42	-
Total interest expense	8,016	8,932
Net interest income before provision for credit losses	52,173	53,181
Provision for credit losses	(4,635)	(3,438)
Net interest income after provision for credit losses	47,538	49,743
Net realised / unrealised gains on trading investments	263	442
Net realised gains on available for sale investments	40	2,077
Net realised / unrealised losses on Other real estate owned	(108)	-
Net other gains	407	11
Total other gains	602	2,530
Total net revenue	78,005	84,810
Non-interest expense		
Salaries and other employee benefits	33,247	35,048
Technology and communications	13,309	14,270
Property	5,826	6,470
Professional and outside services	3,251	4,282
Non-income taxes	3,528	3,459
Amortisation of intangible assets	844	1,283
Marketing	875	1,226
Other expenses	3,682	3,598
Total non-interest expense	64,562	69,636
Net income before income taxes from continuing operations	13,443	15,174
Income tax expense	(157)	(612)
Net income from continuing operations	13,286	14,562
Discontinued operations		
Income from discontinued operations	-	225
Income tax expense	-	(106)
Net income from discontinued operations	-	119
Net income	13,286	14,681
Cash dividends declared on Preference Shares	(3,907)	(4,000)
Preference Shares guarantee fee	(489)	(500)
Net income attributable to Common Shareholders	8,890	10,181
Earnings per Common Share		
Basic Earnings per Share	0.02	0.02
Diluted Earnings per Share	0.02	0.02
Basic Earnings per Share from continuing operations	0.02	0.02
Diluted Earnings per Share from continuing operations	0.02	0.02

The accompanying notes are an integral part of these Consolidated Financial Statements.

The Bank of N.T. Butterfield & Son Limited
Unaudited Consolidated Statements of Comprehensive Income (Loss)

(in thousands of Bermuda dollars)

	For the three month period ended	
	31 March 2013	31 March 2012
Net income	13,286	14,681
Other comprehensive income (loss)		
Net unrealised (loss) gains on translation of net investment in foreign operations adjustments	(2,396)	107
Available for sale investment adjustments		
Gross unrealised (loss) gains arising during the period	(5,543)	19,385
Reclassification of realised gains to net income	(40)	(2,077)
Defined benefit plan adjustments	(352)	(870)
Other comprehensive (loss) income	(8,331)	16,545
Total comprehensive income	4,955	31,226

The accompanying notes are an integral part of these Consolidated Financial Statements.

The Bank of N.T. Butterfield & Son Limited

Unaudited Consolidated Statements of Changes in Shareholders' Equity

	31 March 2013		31 March 2012	
	Number of shares	In thousands of Bermuda dollars	Number of shares	In thousands of Bermuda dollars
Common Share capital issued and outstanding				
Balance at beginning of period	549,677,803	5,496	549,468,349	5,494
Conversion of Contingent Value Convertible Preference Shares	32,899	1	35,893	1
Balance at end of period	549,710,702	5,497	549,504,242	5,495
Preference Shares				
Balance at beginning of period	195,578	2	200,000	2
Repurchase and cancellation of Preference Shares	(217)	-	-	-
Balance at end of period	195,361	2	200,000	2
Contingent Value Convertible Preference Shares				
Balance at beginning of period	7,254,732	73	7,789,087	75
Conversion to Common Shares	(32,899)	(1)	(35,893)	(1)
Balance at end of period	7,221,833	72	7,753,194	74
Additional paid-in capital				
Balance at beginning of period		1,355,689		1,377,556
Stock option plan expense		1,501		1,279
Reduction of additional paid-in capital on transfer of Treasury Shares		(2,113)		(10,986)
Reduction of additional paid-in capital on repurchase and cancellation of Preference Shares		(267)		-
Balance at end of period		1,354,810		1,367,849
Accumulated deficit				
Balance at beginning of period		(482,796)		(490,377)
Net income for period		13,286		14,681
Common Share cash dividends declared and paid (\$0.04 per share)		(22,058)		-
Cash dividends declared on Preference Shares		(3,907)		(4,000)
Preference Shares guarantee fee		(489)		(500)
Balance at end of period		(495,964)		(480,196)
Treasury Common Shares				
Balance at beginning of period	7,066,586	(8,767)	2,163,958	(21,723)
Share-based compensation	-	-	-	85
Purchases of Treasury Shares	895,198	(1,183)	-	-
Net transfers of Treasury Shares	(1,692,065)	2,113	(1,094,027)	10,986
Balance at end of period	6,269,719	(7,837)	1,069,931	(10,652)
Accumulated other comprehensive loss				
Balance at beginning of period		(12,523)		(41,302)
Other comprehensive (loss) income		(8,331)		16,545
Balance at end of period		(20,854)		(24,757)
Total Shareholders' equity		835,726		857,815

The accompanying notes are an integral part of these Consolidated Financial Statements.

The Bank of N.T. Butterfield & Son Limited

Unaudited Consolidated Statements of Cash Flows

(in thousands of Bermuda dollars)

	For the three month period ended	
	31 March 2013	31 March 2012
Cash flows from operating activities		
Net income	13,286	14,681
Less: Net income from discontinued operations	-	(119)
Net income from continuing operations	13,286	14,562
Adjustments to reconcile net income to operating cash flows:		
Depreciation and amortisation	11,520	11,692
Decrease in carrying value of investments in affiliates	33	(290)
Share-based payments	1,501	1,365
Net realised gains of available for sale securities	(40)	(2,077)
Net realised / unrealised losses on other real estate owned	108	-
Provision for credit losses	4,635	3,438
Net change in net assets from discontinued operations	-	274
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(4,414)	(2,384)
(Increase) Decrease in other assets	(3,674)	7,357
Increase in accrued interest payable	2,937	464
Decrease in other liabilities and employee future benefits	(3,236)	(1,805)
	22,656	32,596
Net change in trading investments	(183)	182
Cash provided by operating activities from continuing operations	22,473	32,778
Cash flows from investing activities		
Net (decrease) increase in short-term investments	43,709	(2,335)
Additions to premises, equipment and computer software	(3,803)	(4,693)
Proceeds from Other real estate owned	692	-
Net increase in loans	(47,198)	(57,634)
Held to maturity investments: proceeds from pay downs	6,937	561
Held to maturity investments: purchases	(30,376)	(135,297)
Available for sale investments: proceeds from maturities and paydowns	366,737	183,607
Available for sale investments: proceeds from sale	239,585	191,375
Available for sale investments: purchases	(424,005)	(543,335)
Cash provided by (used in) investing activities from continuing operations	152,278	(367,751)
Cash flows from financing activities		
Net increase (decrease) in demand and term deposit liabilities	128,489	(70,293)
Net decrease in securities sold under agreement to repurchase	(80,033)	-
Repayment of subordinated capital	-	(7,946)
Preference Shares repurchased	(271)	-
Common Shares repurchased	(1,183)	-
Cash dividends paid on Common and Contingent Value Convertible Preference Shares	(22,058)	-
Cash dividends paid on Preference Shares	(3,849)	(4,000)
Preference Shares guarantee fee paid	(489)	(500)
Cash provided by (used in) financing activities from continuing operations	20,606	(82,739)
Net effect of exchange rates on cash and cash equivalents	(33,734)	17,104
Net increase (decrease) in cash and cash equivalents	161,623	(400,608)
Cash and cash equivalents at beginning of period	1,651,547	1,902,726
Cash and cash equivalents at end of period	1,813,170	1,502,118

The accompanying notes are an integral part of these Consolidated Financial Statements.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements

(in thousands of Bermuda dollars)

Note 1: Significant Accounting Policies

The accompanying unaudited interim consolidated financial statements of The Bank of N.T. Butterfield & Son Limited (the "Bank") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and should be read in conjunction with the Bank's audited financial statements for the year ending 31 December 2012. To facilitate comparison of information across periods, certain reclassifications have been made to prior period amounts to conform to the current period's presentation.

In the opinion of Management, these unaudited interim consolidated financial statements reflect all adjustments (consisting principally of normal recurring accruals) considered necessary for a fair presentation of the Bank's financial position and results of operations as at the end of and for the periods presented. The Bank's results for interim periods are not necessarily indicative of results for the full year.

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

- i. Allowance for credit losses
- ii. Fair value and impairment of financial instruments
- iii. Impairment of long-lived assets
- iv. Impairment of goodwill
- v. Income taxes
- vi. Employee future benefits
- vii. Share-based payments

The following accounting developments were issued during the three month period ended 31 March 2013:

During February 2013, the FASB issued an accounting standard update concerning the obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The objective of the amendment in the update is to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements. The guidance will require an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date. The guidance will also require an entity to disclose the nature and amount of the obligation as well as other information about the obligations. The amendments will be effective for periods beginning after 15 December 2013, and must be shown for all periods presented on the Balance Sheet (i.e., applied retrospectively). This new guidance is not expected to have a material impact on the Bank's consolidated financial condition or results of operations.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(in thousands of Bermuda dollars)

Note 2: Discontinued Operations

On 7 May 2012 the Bank announced its agreement to sell Butterfield Bank (Barbados) Limited, a wholly-owned subsidiary which is the entire Barbados segment, to First Citizens Bank Limited. The sale was completed on 27 August 2012 with gross proceeds, subject to normal adjustments, of \$45 million, resulting in a net gain of \$7.2 million included in net income from discontinued operations in the Consolidated Statements of Operations and Comprehensive Income.

The Bank has determined that the requirements have been met to report the results of the subsidiary sold as discontinued operations effective from the second quarter in 2012. Prior periods have been restated for the discontinued operation.

The following table summarises the results of the Barbados operating segment for the three months ended:

	31 March 2013	31 March 2012
Non-interest income	-	722
Net interest income	-	2,733
Provision for credit losses	-	(365)
Revenue before gains (losses)	-	3,090
Gains (losses)	-	-
Total net revenue	-	3,090
Non-interest expenses	-	(2,865)
Net income before income taxes	-	225
Gain on sale of discontinued operations	-	-
Income tax expense	-	(106)
Net income from discontinued operations	-	119

Note 3: Cash and Cash Equivalents

	31 March 2013			31 December 2012		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Non-interest earning						
Cash and demand deposits	161,644	70,718	232,362	172,179	44,425	216,604
Interest earning						
Demand deposits	29,111	200,634	229,745	109,164	150,303	259,467
Cash equivalents	327,872	1,023,191	1,351,063	334,835	840,641	1,175,476
Sub-total - Interest earning	356,983	1,223,825	1,580,808	443,999	990,944	1,434,943
Total cash and cash equivalents	518,627	1,294,543	1,813,170	616,178	1,035,369	1,651,547

Note 4: Short-term Investments

	31 March 2013			31 December 2012		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Interest earning						
Term deposits maturing within three months	-	22,776	22,776	-	56,727	56,727
Term deposits maturing between three to six months	-	2,759	2,759	-	7,672	7,672
Term deposits maturing between six to twelve months	-	2,005	2,005	-	4,761	4,761
Total unrestricted short-term investments	-	27,540	27,540	-	69,160	69,160
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Interest earning						
Demand deposits	3,946	107	4,053	6,942	111	7,053
Total restricted short-term investments	3,946	107	4,053	6,942	111	7,053
Total short-term investments	3,946	27,647	31,593	6,942	69,271	76,213

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

(in thousands of Bermuda dollars)

Note 5: Investments

Amortised cost, carrying amounts and estimated fair value

The amortised cost, carrying amounts and fair values, are as follows:

	31 March 2013				31 December 2012			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value
Trading								
Debt securities issued by non-US governments	4,006	843	-	4,849	4,301	930	-	5,231
Mutual funds	56,779	688	(688)	56,779	56,779	511	(736)	56,554
Total trading	60,785	1,531	(688)	61,628	61,080	1,441	(736)	61,785

Available for sale

Certificates of deposit	269,432	1,422	(46)	270,808	558,668	2,706	(14)	561,360
US government and federal agencies	1,329,539	20,348	(6,244)	1,343,643	1,156,307	23,613	(1,134)	1,178,786
Debt securities issued by non-US governments	84,338	423	(10)	84,751	89,609	438	(5)	90,042
Corporate debt securities guaranteed by non-US governments	-	-	-	-	32,021	5	-	32,026
Corporate debt securities	366,337	19,552	-	385,889	400,980	20,105	-	421,085
Asset-backed securities - Student loans	134,457	-	(2,941)	131,516	139,304	-	(3,203)	136,101
Mortgage backed securities - Commercial	145,540	25	(2,656)	142,909	130,526	231	(279)	130,478
Pass-through note	29,202	6,731	-	35,933	30,404	242	-	30,646
Equity securities	118	-	(68)	50	126	-	(73)	53
Total available for sale	2,358,963	48,501	(11,965)	2,395,499	2,537,945	47,340	(4,708)	2,580,577

	31 March 2013				31 December 2012			
	Amortised cost / Carrying amount	Gross unrealised gains	Gross unrealised losses	Fair value	Amortised cost / Carrying Amount	Gross unrealised gains	Gross unrealised losses	Fair value
Held to maturity ⁽¹⁾								
US government and federal agencies	299,147	4,931	(2,826)	301,252	239,342	6,691	(1,240)	244,793
Total held to maturity	299,147	4,931	(2,826)	301,252	239,342	6,691	(1,240)	244,793

⁽¹⁾ For the periods ended 31 March 2013 and 31 December 2012 non-credit impairments recognised in AOCI for held to maturity investments was \$nil.

Available for sale

As at 31 March 2013, US government and federal agency investment securities classified as Available for sale with an amortised cost of \$316.8 million (31 December 2012: \$255.7 million) and fair value of \$324.1 million (31 December 2012: \$262.7 million) were pledged to secure Bank deposit products where the secured party did not have the right to sell or repledge the collateral.

US government and federal agency investment securities with an amortised cost of \$30 million (31 December 2012: \$120.9 million) and fair market value of \$29.8 million (31 December 2012: \$122.4 million) were pledged to secure repurchase agreements at 31 March 2013.

Held to maturity

As at 31 March 2013, US government and federal agency investment securities with an amortised cost of \$57.1 million (31 December 2012: \$45.7 million) were pledged to secure Bank deposit products where the secured party did not have the right to sell or repledge the collateral.

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

(in thousands of Bermuda dollars)

Note 5: Investments (continued)

Unrealised loss positions

The following tables show the fair value and gross unrealised losses of the Bank's AFS and HTM investments with unrealised losses that are not deemed to be OTTI, aggregated by investment category and length of time that individual securities have been in a continuous unrealised loss position. Debt securities are categorised as being in a continuous loss position for "Less than 12 months" or "12 months or more" based on the point in time that the fair value declined below the cost basis.

31 March 2013	Less than 12 months		12 months or more			
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses	Total fair value	Total gross unrealised losses
Available for sale						
Certificates of deposit	101,108	(46)	-	-	101,108	(46)
US government and federal agencies	397,360	(5,843)	23,219	(401)	420,579	(6,244)
Debt securities issued by non-US governments	60,691	(10)	-	-	60,691	(10)
Asset-backed securities - Student loans	-	-	131,516	(2,941)	131,516	(2,941)
Mortgage-backed securities - Commercial	136,891	(2,656)	-	-	136,891	(2,656)
Equity securities	-	-	49	(68)	49	(68)
Total available-for-sale securities with unrealised losses	696,050	(8,555)	154,784	(3,410)	850,834	(11,965)
Held to maturity						
US government and federal agencies	43,331	(2,826)	-	-	43,331	(2,826)
Total held-to-maturity securities with unrealised losses	43,331	(2,826)	-	-	43,331	(2,826)

31 December 2012	Less than 12 months		12 months or more			
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses	Total fair value	Total gross unrealised losses
Available for sale						
Certificates of deposit	82,477	(14)	-	-	82,477	(14)
US government and federal agencies	191,492	(342)	65,792	(792)	257,284	(1,134)
Debt securities issued by non-US governments	56,797	(5)	-	-	56,797	(5)
Corporate debt securities guaranteed by non-US governments	-	-	-	-	-	-
Asset-backed securities - Student loans	-	-	136,101	(3,203)	136,101	(3,203)
Mortgage-backed securities - Commercial	92,306	(279)	-	-	92,306	(279)
Equity securities	-	-	53	(73)	53	(73)
Total available-for-sale securities with unrealised losses	423,072	(640)	201,946	(4,068)	625,018	(4,708)
Held to maturity						
US government and federal agencies	44,496	(1,240)	-	-	44,496	(1,240)
Total held-to-maturity securities with unrealised losses	44,496	(1,240)	-	-	44,496	(1,240)

The Bank does not believe that the investment securities that were in an unrealised loss position as of 31 March 2013, which was comprised of 59 securities, or 33.3% of the portfolio by market value, represent an other-than-temporary impairment. Total gross unrealised losses were only 1.7% of the market value of affected securities and were primarily attributable to changes in market interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Bank does not intend to sell the investment securities that were in an unrealised loss position and it is not more likely than not that the Bank will be required to sell the investment securities before recovery of the amortised cost bases, which may be at maturity.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(in thousands of Bermuda dollars)

Note 5: Investments (continued)

The following describes the process for identifying credit impairment in security types with the most significant unrealised losses as of 31 March 2013.

US government and federal agencies

As of 31 March 2013, gross unrealised losses on securities related to United States ("US") government and federal agencies were \$6.2 million (2012: \$1.1 million). Overall, Management believes that all the securities in this class do not have any credit losses, given the explicit and implicit guarantees provided by the US federal government.

Asset-backed securities – Student loans

As of 31 March 2013, gross unrealised losses on student loan asset-backed securities were \$2.9 million (2012: \$3.2 million). Asset-backed securities collateralised by student loans are primarily composed of securities collateralised by Federal Family Education Loan Program ("FFELP loans"). FFELP loans benefit from a federal government guarantee of at least 97% of defaulted principal and accrued interest, with additional credit support provided in the form of overcollateralisation, subordination and excess spread, which collectively total in excess of 100%. Accordingly, the vast majority of FFELP loan-backed securities are not exposed to traditional consumer credit risk.

Mortgage-backed securities - Commercial

As of 31 March 2013, gross unrealised losses on commercial mortgage backed securities were \$2.7 million (2012: \$0.3 million) all of which related to securities that were in an unrealised loss position for less than 12 months and were only 1.9% of the market value of the affected securities which is consistent with changes in market interest rates. The Bank's commercial mortgage-backed securities are predominantly rated "AAA" and possess significant subordination (a form of credit enhancement for the benefit of senior securities, expressed here as the percentage of pool losses that can occur before a senior asset-backed security will incur its first dollar of principal loss). No credit losses were recognised on these securities as Management does not believe these securities have any credit losses.

Contractual maturities

The following table presents the remaining contractual maturities of the Bank's securities. The remaining contractual principal maturities for the mortgage-backed securities (primarily US Government agencies) do not consider prepayments. Remaining expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations before the underlying mortgages mature.

31 March 2013	Remaining term to earlier of expected or contractual maturity						Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	No specific maturity	
Trading							
Debt securities issued by non-US governments	-	1,268	1,074	1,503	1,004	-	4,849
Mutual funds	-	-	-	-	-	56,779	56,779
Total trading	-	1,268	1,074	1,503	1,004	56,779	61,628
Available for sale							
Certificates of deposit	113,745	125,787	31,276	-	-	-	270,808
US government and federal agencies	29	-	101,137	413,345	829,132	-	1,343,643
Debt securities issued by non-US governments	46,247	31,033	5,600	1,871	-	-	84,751
Corporate debt securities guaranteed by non-US governments	-	-	-	-	-	-	-
Corporate debt securities	291	-	385,598	-	-	-	385,889
Asset-backed securities - Student loans	-	-	2,352	117,867	11,297	-	131,516
Mortgage-backed securities - Commercial	-	-	-	132,889	10,020	-	142,909
Pass-through note	-	-	-	35,933	-	-	35,933
Equity securities	-	-	-	-	-	50	50
Total available-for-sale securities	160,312	156,820	525,963	701,905	850,449	50	2,395,499
Held to maturity							
US government and federal agencies	-	-	-	19,061	280,086	-	299,147
Total held-to-maturity securities	-	-	-	19,061	280,086	-	299,147
Total investments	160,312	158,088	527,037	722,469	1,131,539	56,829	2,756,274
Total by currency							
US dollars	14,018	15,712	525,963	720,966	1,130,535	55,688	2,462,882
Other	146,294	142,376	1,074	1,503	1,004	1,141	293,392
Total investments	160,312	158,088	527,037	722,469	1,131,539	56,829	2,756,274

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

(in thousands of Bermuda dollars)

Note 5: Investments (continued)

31 December 2012	Remaining term to earlier of expected or contractual maturity						
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	No specific maturity	Carrying amount
Trading							
Debt securities issued by non-US governments	-	1,382	1,157	1,611	1,081	-	5,231
Mutual funds	-	-	-	-	-	56,554	56,554
Total trading	-	1,382	1,157	1,611	1,081	56,554	61,785
Available for sale							
Certificates of deposit	255,624	274,357	31,379	-	-	-	561,360
US government and federal agencies	-	-	162,545	361,476	654,765	-	1,178,786
Debt securities issued by non-US governments	32,473	50,081	5,600	1,888	-	-	90,042
Corporate debt securities guaranteed by non-US governments	32,026	-	-	-	-	-	32,026
Corporate debt securities	-	-	421,085	-	-	-	421,085
Asset-backed securities - Student loans	-	-	2,506	82,825	50,770	-	136,101
Mortgage-backed securities - Commercial	-	-	-	130,478	-	-	130,478
Pass-through note	-	-	-	30,646	-	-	30,646
Equity securities	-	-	-	-	-	53	53
Total available for sale	320,123	324,438	623,115	607,313	705,535	53	2,580,577
Held to maturity							
US government and federal agencies	-	-	-	11,003	228,339	-	239,342
Total held-to-maturity securities	-	-	-	11,003	228,339	-	239,342
Total investments	320,123	325,820	624,272	619,927	934,955	56,607	2,881,704
Total by currency							
US dollars	166,289	179,536	623,115	618,315	933,874	55,513	2,576,642
Other	153,834	146,284	1,157	1,612	1,081	1,094	305,062
Total investments	320,123	325,820	624,272	619,927	934,955	56,607	2,881,704

Sale proceeds and realised gains (losses)

During the three months ended 31 March 2013, the Bank disposed of:

- Certificates of deposit totalling \$160.1 million in sale proceeds, resulting in a gross realised gain of \$0.1 million
- US agency securities totalling \$50.3 million in sale proceeds, resulting in gross realised loss of \$0.5 million; ; and
- Corporate bonds totalling \$66.2 million in sale proceeds, resulting in gross realised gain of \$0.5 million.

During the three months ended 31 March 2012, the Bank disposed of:

- US agency securities totalling \$28.1 million in sale proceeds, resulting in gross realised gains of \$0.5 million;
- Corporate bonds totalling \$162.7 million in sale proceeds, resulting in gross realised gain of \$1.0 million; and
- Other securities totalling \$0.6 million in sale proceeds, resulting in a gross realised gain of \$0.6 million.

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

(in thousands of Bermuda dollars)

Note 6: Loans

The composition of the loan portfolio by collateral exposure at each of the indicated dates was as follows:

	31 March 2013			31 December 2012		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Commercial loans						
Government	102,269	4,005	106,274	64,534	4,050	68,584
Commercial and industrial	117,888	214,859	332,747	121,947	190,002	311,949
Commercial overdrafts	47,086	21,194	68,280	58,973	22,929	81,902
Total commercial loans	267,243	240,058	507,301	245,454	216,981	462,435
Less specific allowance for credit losses on commercial loans	(240)	(1,250)	(1,490)	(166)	(1,250)	(1,416)
Total commercial loans after specific allowance for credit losses	267,003	238,808	505,811	245,288	215,731	461,019
Commercial real estate loans						
Commercial mortgage	486,511	256,059	742,570	495,466	281,456	776,922
Construction	-	2,103	2,103	109	2,119	2,228
Total commercial real estate loans	486,511	258,162	744,673	495,575	283,575	779,150
Less specific allowance for credit losses on commercial real estate loans	(9,892)	(4,405)	(14,297)	(8,772)	(4,711)	(13,483)
Total commercial real estate loans after specific allowance for credit losses	476,619	253,757	730,376	486,803	278,864	765,667
Consumer loans						
Automobile financing	18,613	6,614	25,227	19,663	6,050	25,713
Credit card	54,802	14,192	68,994	58,500	15,446	73,946
Overdrafts	10,219	4,132	14,351	8,488	3,933	12,421
Other consumer	61,157	88,970	150,127	66,044	94,819	160,863
Total consumer loans	144,791	113,908	258,699	152,695	120,248	272,943
Less specific allowance for credit losses on consumer loans	(210)	-	(210)	(160)	-	(160)
Total consumer loans after specific allowance for credit losses	144,581	113,908	258,489	152,535	120,248	272,783
Residential mortgage loans	1,346,926	1,133,548	2,480,474	1,351,680	1,145,709	2,497,389
Less specific allowance for credit losses on residential mortgage loans	(10,279)	(3,956)	(14,235)	(7,743)	(3,930)	(11,673)
Total residential mortgage loans after specific allowance for credit losses	1,336,647	1,129,592	2,466,239	1,343,937	1,141,779	2,485,716
Total gross loans	2,245,471	1,745,676	3,991,147	2,245,404	1,766,513	4,011,917
Less specific allowance for credit losses	(20,621)	(9,611)	(30,232)	(16,841)	(9,891)	(26,732)
Less general allowance for credit losses	(21,932)	(8,565)	(30,497)	(20,817)	(8,408)	(29,225)
Net loans	2,202,918	1,727,500	3,930,418	2,207,746	1,748,214	3,955,960

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

(in thousands of Bermuda dollars)

Note 6: Loans (continued)

Age analysis of past due loans (including non accrual loans)

The following table summarises the past due status of the loans at 31 March 2013 and 31 December 2012. The aging of past due amounts are determined based on the contractual delinquency status of payments under the loan and this aging may be affected by the timing of the last business day at period end. An account is generally considered to be contractually delinquent when payments have not been made in accordance with the loan terms.

	31 March 2013				Total Current ⁽¹⁾	Total loans
	30 – 59 days	60 – 89 days	90 days or more	Total past due loans		
Commercial loans						
Government	-	-	-	-	106,274	106,274
Commercial and industrial	661	2,021	2,223	4,905	327,842	332,747
Commercial overdrafts	-	291	102	393	67,887	68,280
Total commercial loans	661	2,312	2,325	5,298	502,003	507,301
Commercial real estate loans						
Commercial mortgage	629	-	54,796	55,425	687,145	742,570
Construction	-	-	-	-	2,103	2,103
Total commercial real estate loans	629	-	54,796	55,425	689,248	744,673
Consumer loans						
Automobile financing	182	58	447	687	24,540	25,227
Credit card	742	254	546	1,542	67,452	68,994
Overdrafts	8	97	294	399	13,952	14,351
Other consumer	1,018	121	1,669	2,808	147,319	150,127
Total consumer loans	1,950	530	2,956	5,436	253,263	258,699
Residential mortgage loans	21,959	5,221	74,908	102,088	2,378,386	2,480,474
Total loans	25,199	8,063	134,985	168,247	3,822,900	3,991,147

⁽¹⁾ Loans less than 30 days past due are included in Current.

	31 December 2012				Total Current ⁽¹⁾	Total loans
	30 – 59 days	60 – 89 days	90 days or more	Total past due loans		
Commercial loans						
Government	-	-	-	-	68,584	68,584
Commercial and industrial	349	2,048	3,022	5,419	306,530	311,949
Commercial overdrafts	17	199	301	517	81,385	81,902
Total commercial loans	366	2,247	3,323	5,936	456,499	462,435
Commercial real estate loans						
Commercial mortgage	3,852	1,190	55,584	60,626	716,296	776,922
Construction	-	-	-	-	2,228	2,228
Total commercial real estate loans	3,852	1,190	55,584	60,626	718,524	779,150
Consumer loans						
Automobile financing	466	96	425	987	24,726	25,713
Credit card	623	445	601	1,669	72,277	73,946
Overdrafts	3	37	227	267	12,154	12,421
Other consumer	1,091	693	1,595	3,379	157,484	160,863
Total consumer loans	2,183	1,271	2,848	6,302	266,641	272,943
Residential mortgage loans	38,334	21,914	69,551	129,799	2,367,590	2,497,389
Total loans	44,735	26,622	131,306	202,663	3,809,254	4,011,917

⁽¹⁾ Loans less than 30 days past due are included in Current.

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

(in thousands of Bermuda dollars)

Note 6: Loans (continued)

Non-accrual loans and accruing loans 90 days or more past due are summarised in the following table:

	31 March 2013			31 December 2012		
	Non-accrual loans	Accruing loans past due 90 days	Total non-performing loans	Non-accrual loans	Accruing loans past due 90 days	Total non-performing loans
Commercial loans						
Commercial and industrial	2,227	6	2,233	3,606	-	3,606
Commercial overdrafts	245	5	250	292	9	301
Total commercial loans	2,472	11	2,483	3,898	9	3,907
Commercial real estate loans	54,796	-	54,796	55,167	417	55,584
Consumer loans						
Automobile financing	586	34	620	581	57	638
Credit cards	-	546	546	-	600	600
Overdrafts	207	77	284	217	10	227
Other consumer	1,998	9	2,007	1,984	76	2,060
Total consumer loans	2,791	666	3,457	2,782	743	3,525
Residential mortgage loans	57,888	30,080	87,968	51,506	27,229	78,735
Total loans	117,947	30,757	148,704	113,353	28,398	141,751

The table below presents information about the credit quality of the Bank's loan portfolio:

	31 March 2013	Pass	Special mention	Substandard	Non-accrual	Total gross recorded investments
Commercial loans						
Government		106,274	-	-	-	106,274
Commercial and industrial		323,856	5,879	785	2,227	332,747
Commercial overdrafts		68,031	4	-	245	68,280
Total commercial loans		498,161	5,883	785	2,472	507,301
Commercial real estate loans						
Commercial mortgage		534,398	113,975	39,401	54,796	742,570
Construction		503	-	1,600	-	2,103
Total commercial real estate loans		534,901	113,975	41,001	54,796	744,673
Consumer loans						
Automobile financing		23,274	1,351	16	586	25,227
Credit cards		68,452	-	542	-	68,994
Overdrafts		14,004	75	65	207	14,351
Other consumer		144,870	3,026	233	1,998	150,127
Total consumer loans		250,600	4,452	856	2,791	258,699
Residential mortgage loans		2,290,190	66,695	65,701	57,888	2,480,474
Total loans		3,573,852	191,005	108,343	117,947	3,991,147

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

(in thousands of Bermuda dollars)

Note 6: Loans (continued)

31 December 2012	Pass	Special mention	Substandard	Non-accrual	Total gross recorded investments
Commercial loans					
Government	68,584	-	-	-	68,584
Commercial and industrial	301,747	6,078	518	3,606	311,949
Commercial overdrafts	72,669	8,742	199	292	81,902
Total commercial loans	443,000	14,820	717	3,898	462,435
Commercial real estate loans					
Commercial mortgage	562,042	118,203	41,510	55,167	776,922
Construction	493	1,735	-	-	2,228
Total commercial real estate loans	562,535	119,938	41,510	55,167	779,150
Consumer loans					
Automobile financing	23,765	1,183	184	581	25,713
Credit cards	73,352	-	594	-	73,946
Overdrafts	11,945	186	73	217	12,421
Other consumer	154,966	3,218	695	1,984	160,863
Total consumer loans	264,028	4,587	1,546	2,782	272,943
Residential mortgage loans	2,309,945	68,531	67,407	51,506	2,497,389
Total loans	3,579,508	207,876	111,180	113,353	4,011,917

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

Quality classification definitions

Pass:

A pass loan shall mean a loan that is expected to be repaid as agreed. A loan is classified as pass where the Bank is not expected to face repayment difficulties because the present and projected cash flows are sufficient to repay the debt and the repayment schedule as established by the agreement is being followed.

Special mention:

A special mention loan shall mean a loan under close monitoring by the Bank's Management. Loans in this category are currently protected and still performing (current with respect to interest and principal payments), but are potentially weak and present an undue credit risk exposure, but not to the point of justifying a classification of Substandard.

Substandard:

A substandard loan shall mean a loan whose evident unreliability makes repayment doubtful and there is a threat of loss to the Bank unless the unreliability is averted.

Non-accrual:

Either where Management is of the opinion full payment of principal or interest is in doubt or when principal or interest is 90 days past due and for residential loans which are not well secured and in the process of collection.

The table below presents the impairment methodology applied to the Bank's loan portfolio:

	31 March 2013		31 December 2012	
	Individually evaluated	Collectively evaluated	Individually evaluated	Collectively evaluated
Total gross loans evaluated for impairment				
Commercial loans	507,301	-	462,435	-
Commercial real estate loans	744,673	-	779,150	-
Consumer loans	2,791	255,908	2,782	270,161
Residential mortgage loans	57,888	2,422,586	59,910	2,437,479
Total gross loans	1,312,653	2,678,494	1,304,277	2,707,640

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

(in thousands of Bermuda dollars)

Note 6: Loans (continued)

The table below presents the changes in the allowance for credit loan losses:

	31 March 2013					31 December 2012				
	Commercial	Commercial real estate	Consumer	Residential mortgage	Total	Commercial	Commercial real estate	Consumer	Residential mortgage	Total
Allowances at beginning of year	6,596	18,394	5,440	25,527	55,957	8,336	17,888	5,735	23,532	55,491
Provision taken during the year	375	1,651	(824)	3,433	4,635	(860)	7,541	1,327	6,182	14,190
Recoveries	181	-	1,114	-	1,295	490	-	2,953	303	3,746
Charge-offs	(22)	-	(635)	-	(657)	(1,490)	(6,630)	(4,678)	(4,972)	(17,770)
Other	(38)	(312)	(48)	(103)	(501)	120	(405)	103	482	300
Allowances at end of year	7,092	19,733	5,047	28,857	60,729	6,596	18,394	5,440	25,527	55,957
Ending balance: individually evaluated for impairment	1,490	14,297	210	14,235	30,232	1,416	13,483	160	11,673	26,732
Ending balance: collectively evaluated for impairment	5,602	5,436	4,837	14,622	30,497	5,180	4,911	5,280	13,854	29,225

A loan is considered to be impaired when, based on current information and events, the Bank determines that it will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Impaired loans include all non-accrual loans and all loans modified in a TDR even if full collectability is expected following the restructuring. For the period ended 31 March 2013, the amount of gross interest income would have been recorded had impaired loans been current was \$1.5 million (2012: \$7.7 million). The table below present information about the Bank's impaired loans:

31 March 2013	Impaired loans with an allowance			Impaired loans without an allowance	Total impaired loans		
	Gross recorded investments	Specific allowance	Net loans	Gross recorded investments	Gross recorded investments	Specific allowance	Net loans
Commercial loans							
Commercial and industrial	1,456	(1,390)	66	2,849	4,305	(1,390)	2,915
Commercial overdrafts	148	(100)	48	97	245	(100)	145
Total commercial loans	1,604	(1,490)	114	2,946	4,550	(1,490)	3,060
Commercial real estate loans	52,238	(14,297)	37,941	12,089	64,327	(14,297)	50,030
Consumer loans							
Automobile financing	223	(75)	148	363	586	(75)	511
Overdrafts	-	-	-	207	207	-	207
Other consumer	294	(135)	159	1,704	1,998	(135)	1,863
Total consumer loans	517	(210)	307	2,274	2,791	(210)	2,581
Residential mortgage loans	46,655	(14,235)	32,420	18,302	64,957	(14,235)	50,722
Total impaired loans	101,014	(30,232)	70,782	35,611	136,625	(30,232)	106,393

31 December 2012	Impaired loans with an allowance			Impaired loans without an allowance	Total impaired loans		
	Gross recorded investments	Specific allowance	Net loans	Gross recorded investments	Gross recorded investments	Specific allowance	Net loans
Commercial loans							
Commercial and industrial	1,471	(1,390)	81	3,846	5,317	(1,390)	3,927
Commercial overdrafts	26	(26)	-	266	292	(26)	266
Total commercial loans	1,497	(1,416)	81	4,112	5,609	(1,416)	4,193
Commercial real estate loans	52,607	(13,483)	39,124	12,132	64,739	(13,483)	51,256
Consumer loans							
Automobile financing	227	(75)	152	354	581	(75)	506
Overdrafts	-	-	-	217	217	-	217
Other consumer	128	(85)	43	1,856	1,984	(85)	1,899
Total consumer loans	355	(160)	195	2,427	2,782	(160)	2,622
Residential mortgage loans	36,064	(11,673)	24,391	23,846	59,910	(11,673)	48,237
Total impaired loans	90,523	(26,732)	63,791	42,517	133,040	(26,732)	106,308

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(in thousands of Bermuda dollars)

Note 6: Loans (continued)

The following table presents information about the Bank's average impaired loan balances and interest income recognised for the period ended 31 March 2013 on the impaired loans:

31 March 2013	Impaired loans	
	Average recorded investment	Interest income recognised
Commercial loans		
Commercial and industrial	4,811	29
Commercial overdrafts	269	-
Total commercial loans	5,080	29
Commercial real estate loans	64,533	129
Consumer loans		
Automobile financing	583	-
Credit cards	-	-
Overdrafts	212	-
Other consumer	1,991	-
Total consumer loans	2,786	-
Residential mortgage loans	62,434	121
Total impaired loans	134,833	279

The table presents information about the Bank's loans modified in a troubled debt restructuring:

31 March 2013					Effect of modification on recorded investment	
	Number of contracts	Recorded investment	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Changes in the timing of principal or interest payments	Interest capitalisation
Commercial loans						
Commercial and industrial	3	2,078	2,290	2,326	-	36
Total commercial loans	3	2,078	2,290	2,326	-	36
Commercial real estate loans	7	22,090	24,402	24,463	-	61
Residential mortgage loans	15	10,815	9,185	9,926	-	741
Total loans	25	34,983 ⁽¹⁾	35,877	36,715	-	838

⁽¹⁾ The amount is comprised of \$16.3 million of non-accrual loans and \$18.7 million of loans on accrual status.

31 December 2012						Effect of modification on recorded investment	
	Number of contracts	Recorded investment	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Changes in the timing of principal or interest payments	Interest capitalisation	
Commercial loans							
Commercial and industrial	3	2,083	2,290	2,326	-	36	
Total commercial loans	3	2,083	2,290	2,326	-	36	
Commercial real estate loans	7	22,854	24,402	24,463	-	61	
Residential mortgage loans	15	10,977	9,185	9,926	-	741	
Total loans	25	35,914 ⁽¹⁾	35,877	36,715	-	838	

⁽¹⁾ The amount is comprised of \$16.2 million of non-accrual loans and \$19.7 million of loans on accrual status.

The Bank had four loans modified in a TDR from 1 April 2012 to 31 March 2013 that subsequently defaulted (i.e., 90 days or more past due following a modification) with a recorded investment amounting to \$3.7 million.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(in thousands of Bermuda dollars)

Note 7: Credit Risk Concentrations

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

The following table summarises the credit exposure of the Bank by business sector. The on-Balance Sheet exposure amounts disclosed are net of specific allowances and the off-Balance Sheet exposure amounts disclosed is gross of collateral held.

	31 March 2013			31 December 2012		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Banks and financial services	261,841	368,631	630,472	277,273	394,858	672,131
Commercial and merchandising	258,336	113,061	371,397	263,723	88,551	352,274
Governments	96,725	24,066	120,791	58,811	28,153	86,964
Individuals	2,318,252	98,742	2,416,994	2,334,272	94,430	2,428,702
Primary industry and manufacturing	53,061	-	53,061	65,608	6,161	71,769
Real estate	877,555	29,499	907,054	887,178	36,523	923,701
Hospitality industry	87,735	-	87,735	90,978	-	90,978
Transport and communication	7,410	-	7,410	7,342	-	7,342
Sub-total	3,960,915	633,999	4,594,914	3,985,185	648,676	4,633,861
General allowance	(30,497)	-	(30,497)	(29,225)	-	(29,225)
Total	3,930,418	633,999	4,564,417	3,955,960	648,676	4,604,636

The following table summarises the credit exposure of the Bank by geographic region of loan origination:

	31 March 2013			31 December 2012		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Bermuda	2,323,287	323,433	2,646,720	2,300,661	335,184	2,635,845
Cayman	533,876	197,867	731,743	547,779	194,634	742,413
Guernsey	534,802	65,224	600,026	534,226	72,961	607,187
The Bahamas	46,385	360	46,745	47,883	180	48,063
United Kingdom	522,565	47,115	569,680	554,636	45,717	600,353
Sub-total	3,960,915	633,999	4,594,914	3,985,185	648,676	4,633,861
General allowance	(30,497)	-	(30,497)	(29,225)	-	(29,225)
Total	3,930,418	633,999	4,564,417	3,955,960	648,676	4,604,636

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

(in thousands of Bermuda dollars)

Note 8: Customer Deposits and Deposits from Banks

a) By Maturity

	31 March 2013			31 December 2012		
	Customers	Banks	Total	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	1,001,137	339	1,001,476	918,814	567	919,381
Demand deposits - Interest bearing	4,640,618	22,555	4,663,173	4,514,312	99,573	4,613,885
Sub-total - demand deposits	5,641,755	22,894	5,664,649	5,433,126	100,140	5,533,266
Term deposits						
Term deposits maturing within six months	1,610,029	20,650	1,630,679	1,763,515	15,965	1,779,480
Term deposits maturing between six to twelve months	110,041	4,196	114,237	98,051	10,240	108,291
Term deposits maturing after twelve months	82,448	121	82,569	81,101	121	81,222
Sub-total - term deposits	1,802,518	24,967	1,827,485	1,942,667	26,326	1,968,993
Total	7,444,273	47,861	7,492,134	7,375,793	126,466	7,502,259

b) By Type and Location

	31 March 2013			31 December 2012		
	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	2,442,524	810,448	3,252,972	2,473,454	890,886	3,364,340
Banks	8,256	853	9,109	88,169	249	88,418
Cayman						
Customers	1,516,244	429,239	1,945,483	1,468,025	394,159	1,862,184
Banks	9,036	24,114	33,150	10,643	26,077	36,720
Guernsey						
Customers	1,293,141	218,926	1,512,067	1,073,711	296,255	1,369,966
Banks	5,602	-	5,602	1,281	-	1,281
The Bahamas						
Customers	66,396	8,851	75,247	65,587	4,413	70,000
United Kingdom						
Customers	323,450	335,054	658,504	352,349	356,954	709,303
Banks	-	-	-	47	-	47
Total Customers	5,641,755	1,802,518	7,444,273	5,433,126	1,942,667	7,375,793
Total Banks	22,894	24,967	47,861	100,140	26,326	126,466
Total	5,664,649	1,827,485	7,492,134	5,533,266	1,968,993	7,502,259

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements *(continued)*

(in thousands of Bermuda dollars)

Note 9: Employee Future Benefits

The Bank maintains trustee pension plans including non-contributory defined benefit plans and a number of defined contribution plans, and provides post-retirement medical benefits to its qualifying retirees. The defined benefit provisions under the pension plans are generally based upon years of service and average salary during the final years of employment. The defined benefit and post-retirement medical plans are not open to new participants and are non-contributory and the funding required is provided by the Bank, based upon the advice of an independent actuary.

The following table presents the expense constituents of the Bank's defined benefit pension plans and the Bank's post-retirement medical benefit plan:

	For the three month period ended	
	31 March 2013	31 March 2012
Defined benefit pension expense		
Service cost	382	443
Interest cost	1,693	1,763
Expected return on plan assets	(2,272)	(2,054)
Amortisation of net actuarial loss	386	330
Total defined benefit pension expense	189	482
Post-retirement medical benefit expense		
Service cost	261	236
Interest cost	1,063	1,051
Amortisation of net actuarial loss	606	519
Amortisation of past service cost	(1,680)	(1,680)
Total post-retirement medical benefits expense	250	126

Effective January 2012, all the participants of the Bermuda Defined Benefit pension plan are inactive and in accordance with US GAAP, the net actuarial loss of the Bermuda Defined Benefit pension plan is amortised over the estimated average remaining life expectancy of the inactive participants of 22.8 years. Prior to all Bermuda participants being inactive, the net actuarial loss of the Bermuda Defined Benefit pension plan was amortised to net income over the estimated average remaining service period for active members of 4.5 years. The Plans are subject to an annual actuarial review as at 31 December each year with the latest valuation performed as at 31 December 2012.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 10: Credit-Related Arrangements and Commitments

The Bank considers the fees collected in connection with the issuance of standby letters of credit and letters of guarantee to be representative of the fair value of its obligation undertaken in issuing the guarantee. In accordance with applicable accounting standards related to guarantees, the Bank defers fees collected in connection with the issuance of standby letters of credit and letters of guarantee. The fees are then recognised in income proportionately over the life of the credit agreements.

The following table presents the outstanding financial guarantees with contractual amounts representing credit risk as follows:

	31 March 2013			31 December 2012		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	284,277	281,324	2,953	280,089	277,259	2,830
Letters of guarantee	10,577	8,534	2,043	11,207	8,694	2,513
Total	294,854	289,858	4,996	291,296	285,953	5,343

Collateral is shown at estimated market value less selling cost. Where cash is the collateral, this is shown gross including interest income.

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

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

	31 March 2013	31 December 2012
Commitments to extend credit	337,153	356,122
Documentary and commercial letters of credit	1,992	1,258
Total	339,145	357,380

The Bank has a facility by one of its custodians, whereby the Bank may offer up to US\$200 million of standby letters of credit to its customers on a fully secured basis. Under the standard terms of the facility, the custodian has the right to set-off against securities held of 110% of the utilised facility. At 31 March 2013, \$135.6 million (2012: \$137.0 million) of standby letters of credit were issued under this facility.

Legal Proceedings

There are a number of actions and legal proceedings pending against the Bank and its subsidiaries which arose in the normal course of its business. Management, after reviewing all actions and proceedings, pending against or involving the Bank and its subsidiaries, considers that the resolution of these matters would not be material to the consolidated financial position of the Bank.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 11: Segmented Information

At 31 March 2013, for Management reporting purposes, the operations of the Bank are grouped into the following six business segments based upon the geographic location of the Bank's operations: Bermuda, Cayman, Guernsey, Switzerland, The Bahamas and United Kingdom. Accounting policies of the reportable segments are the same as those described in Note 2 in Bank's audited financial statements for the year ending 31 December 2012.

Bermuda provides a full range of retail, commercial and private banking services. Retail services are offered to individuals and small to medium-sized businesses through five branch locations and through telephone banking. Internet banking, automated teller machines ("ATMs") and debit cards. Retail services include deposit services, consumer and mortgage lending, credit cards and personal insurance products. Commercial banking includes commercial lending and mortgages, cash management, payroll services, remote banking and letters of credit. Treasury services include money market and foreign exchange activities. Bermuda's wealth management offering consists of Butterfield Asset Management Limited, which provides investment management, advisory and brokerage services and Butterfield Trust (Bermuda) Limited, which provides trust, estate, company management and custody services.

The Cayman segment provides a comprehensive range of retail, commercial and private banking services. Retail services are offered to individuals and small to medium-sized businesses through three branch locations and through Internet banking, automated teller machines ("ATMs") and debit cards. Retail services include deposit services, consumer and mortgage lending, credit cards and property/auto insurance. Commercial banking includes commercial lending and mortgages, cash management, payroll services, remote banking and letters of credit. Treasury services include money market and foreign exchange activities. Cayman's wealth management offering comprise investment management, advisory and brokerage services and Butterfield Trust (Cayman) Limited, which provides trust, estate and company management.

The Guernsey segment provides a broad range of services to private clients and financial institutions including private banking and treasury services, Internet banking, administered bank services, wealth management and fiduciary services.

The Switzerland segment provides fiduciary services.

The Bahamas segment provides fiduciary and ancillary services.

The United Kingdom segment provides a broad range of services including private banking and treasury services, Internet banking and wealth management and fiduciary services to high net worth individuals and privately owned businesses.

The Barbados segment was sold on 27 August 2012 as disclosed in Note 2: Discontinued operations.

Total Assets by Segment

	31 March 2013	31 December 2012
Bermuda	4,527,463	4,733,057
Cayman	2,207,689	2,116,520
Guernsey	1,689,987	1,522,429
Switzerland	1,687	1,521
The Bahamas	88,916	82,712
United Kingdom	866,406	925,389
Total assets	9,382,148	9,381,628
Less: inter-segment eliminations	(435,928)	(439,598)
Total	8,946,220	8,942,030

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

(in thousands of Bermuda dollars)

Note 11: Segmented Information (continued)

For the three month period
ended 31 March 2013

	Net interest income								
	Customer	Inter-segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expense	Net income (loss) before gains and losses	Gains and losses	Net income (loss)
Bermuda	31,758	362	(4,344)	14,313	42,089	37,449	4,640	453	5,093
Cayman	11,711	294	(224)	7,833	19,614	14,411	5,203	(485)	4,718
Guernsey	4,920	1	(67)	4,833	9,687	7,532	2,155	-	2,155
Switzerland	-	-	-	388	388	591	(203)	-	(203)
The Bahamas	18	30	-	1,422	1,470	1,209	261	-	261
United Kingdom	3,766	(687)	-	1,611	4,690	4,062	628	149	777
Total before eliminations	52,173	-	(4,635)	30,400	77,938	65,254	12,684	117	12,801
Add / (Less): inter-segment eliminations / transactions	-	-	-	(535)	(535)	(535)	-	485	485
Total from continuing operations	52,173	-	(4,635)	29,865	77,403	64,719	12,684	602	13,286

For the three month period
ended 31 March 2012

	Net interest income								
	Customer	Inter-segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expense	Net income (loss) before gains and losses	Gains and losses	Net income (loss)
Bermuda	32,831	296	(3,270)	15,766	45,623	42,098	3,525	2,320	5,845
Cayman	10,417	310	(152)	8,528	19,103	13,469	5,634	239	5,873
Guernsey	5,710	2	(316)	5,168	10,564	8,106	2,458	-	2,458
Switzerland	-	-	-	293	293	560	(267)	-	(267)
The Bahamas	42	111	-	1,177	1,330	1,467	(137)	-	(137)
United Kingdom	4,181	(719)	300	2,387	6,149	5,330	819	(29)	790
Total before eliminations	53,181	-	(3,438)	33,319	83,062	71,030	12,032	2,530	14,562
Add / (Less): inter-segment eliminations / transactions	-	-	-	(782)	(782)	(782)	-	-	-
Total from continuing operations	53,181	-	(3,438)	32,537	82,280	70,248	12,032	2,530	14,562

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(in thousands of Bermuda dollars)

Note 12: Accounting for Derivative Instruments and Risk Management

The Bank uses derivatives in the asset and liability management ("ALM") of positions and to meet the needs of its customers with their risk management objectives. The Bank's derivative contracts principally involve over-the-counter transactions that are privately negotiated between the Bank and the counterparty to the contract and include interest rate contracts and foreign exchange contracts.

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

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

All derivative financial instruments, whether designated as hedges or not, are recorded on the Consolidated Balance Sheet at fair value within Other assets or Other liabilities. These amounts include the effect of netting. The accounting for changes in the fair value of a derivative in the Consolidated Statement of Operations depends on whether the contract has been designated as a hedge and qualifies for hedge accounting.

Notional amounts

The notional amounts are not recorded as assets or liabilities on the Consolidated Balance Sheet as they represent the face amount of the contract to which a rate or price is applied to determine the amount of cash flows to be exchanged. Notional amounts represent the volume of outstanding transactions and do not represent the potential gain or loss associated with market risk or credit risk of such instruments. Credit risk is limited to the positive fair value of the derivative instrument, which is significantly less than the notional amount.

Fair value

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

Risk management derivatives

The Bank primarily enters into derivative contracts as part of its overall interest rate risk management strategy to minimise significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Bank's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain Consolidated Balance Sheet assets and liabilities so that movements in interest rates do not adversely affect the net interest margin. Derivative instruments that are used as part of the Bank's interest rate risk management strategy include interest rate swap contracts that have indices related to the pricing of specific Consolidated Balance Sheet assets and liabilities. Interest rate swaps generally involve the exchange of fixed and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date.

The Bank uses derivative instruments to hedge its exposure to interest rate risk and foreign currency risk. Certain hedging relationships are formally designated and qualify for hedge accounting as fair value or cash flow hedges. Other derivatives that are entered into for risk management purposes as economic hedges are not formally designated as hedges and, therefore, are accounted for as if they were trading instruments. In order to qualify for hedge accounting, a formal assessment is performed on a calendar quarter basis to verify that derivatives used in designated hedging transactions continue to be highly effective as offsets to changes in fair value or cash flows of the hedged item. If a derivative ceases to be highly effective, or if the hedged item matures, is sold, or is terminated, hedge accounting is terminated and the derivative is treated as if it were a trading instrument.

Risk management derivatives comprise:

Fair value hedges

Derivatives are designated as fair value hedges to minimise the Bank's exposure to changes in the fair value of assets and liabilities due to movements in interest rates. The Bank enters into interest rate swaps to convert its fixed-rate long-term loans to floating-rate loans, and convert fixed-rate deposits to floating-rate deposits. Changes in fair value of these derivatives are recognised in income. For fair value hedges, the Bank applies the "shortcut" method of accounting, which assumes there is no ineffectiveness in a hedge. As a result, changes recorded in the fair value of the hedged item are equal to the offsetting gain or loss on the derivative and are reflected in the same line item. During the year ended 31 December 2011, the Bank cancelled its Interest Rate Swaps designated as fair value hedges of loans receivable and therefore discontinued hedge accounting for these financial instruments. The fair value attributable to the hedged loans are accounted for prospectively and are being amortised to net income over the remaining life of each individual loan using the effective interest method.

Derivatives not formally designated as hedges

Derivatives not formally designated as hedges are entered into to manage the interest rate risk of fixed rate deposits with banks and foreign exchange risk of the Bank's non-USD investments in subsidiaries. Changes in the fair value of derivative instruments not formally designated as hedges are recognised in income.

Client service derivatives

The Bank enters into foreign exchange contracts and interest rate caps primarily to meet the foreign exchange needs of its customers. Foreign exchange contracts are agreements to exchange specific amounts of currencies at a future date at a specified rate of exchange. Changes in the fair value of client services derivative instruments are recognised in income.

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

(in thousands of Bermuda dollars)

Note 12: Accounting for Derivative Instruments and Risk Management (continued)

The following table shows the aggregate notional amounts of derivative contracts outstanding listed by type and respective gross positive or negative fair values and divided by those used for risk management (sub-classified as hedging and those that do not qualify for hedge accounting), client services and credit derivatives. Fair value of derivatives is recorded in the Consolidated Balance Sheet in Other assets and Other liabilities. Gross positive fair values are recorded in Other assets and gross negative fair values are recorded in Other liabilities, subject to netting when master netting agreements are in place.

31 March 2013	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk management derivatives					
Fair-value hedges					
Fixed-rate loans	Interest rate swaps	7,595	-	(47)	(47)
Subtotal fair-value hedges		7,595	-	(47)	(47)
Derivatives not formally designated as hedging instruments					
	Currency swaps	289,576	257	(2,076)	(1,819)
Subtotal not designated as hedges		289,576	257	(2,076)	(1,819)
Subtotal risk management derivatives		297,171	257	(2,123)	(1,866)
Client services derivatives					
	Spot and forward foreign exchange	2,993,701	15,536	(15,143)	393
Subtotal client services derivatives		2,993,701	15,536	(15,143)	393
Total derivative instruments		3,290,872	15,793	(17,266)	(1,473)

31 December 2012	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk management derivatives					
Fair-value hedges					
Fixed-rate loans	Interest rate swaps	8,529	-	(89)	(89)
Subtotal fair-value hedges		8,529	-	(89)	(89)
Derivatives not formally designated as hedging instruments					
	Currency swaps	343,684	113	(10,895)	(10,782)
Subtotal not designated as hedges		343,684	113	(10,895)	(10,782)
Subtotal risk management derivatives		352,213	113	(10,984)	(10,871)
Client services derivatives					
	Spot and forward foreign exchange	2,444,357	14,312	(13,972)	340
Subtotal client services derivatives		2,444,357	14,312	(13,972)	340
Total derivative instruments		2,796,570	14,425	(24,956)	(10,531)

The following table shows the location and amount of gains (losses) recorded in the Consolidated Statement of Operations.

For the three month period ended

Derivative instrument	Consolidated Statement of Operations line item	31 March 2013	31 March 2012
Interest rate swaps	Net other gains (losses)	37	-
Forward foreign exchange	Foreign exchange revenue	496	1,259
Foreign currency options	Foreign exchange revenue	-	(591)
Total net gains recognised in net income		533	668

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(in thousands of Bermuda dollars)

Note 13: Fair Value of Financial Instruments

The following table presents the financial assets and liabilities that are measured at fair value on a recurring basis and classifies such fair value based on the type of input used in the related valuations.

Management reviews the price of each security monthly, comparing market values to expectations and to the prior month's price. Management's expectations are based upon knowledge of prevailing market conditions and developments relating to specific issuers and/or asset classes held in the investment portfolio. Where there are unusual or significant price movements, or where a certain asset class has performed out-of-line with expectations, the matter is reviewed by the Group Asset and Liability Committee.

Management classifies items that are recognised at fair value on a recurring basis based on the level of inputs used in their respective fair value determination.

Financial instruments in Level 1 include listed equity shares and actively traded redeemable mutual funds.

Financial instruments in Level 2 include equity securities not actively traded, certificates of deposit, corporate bonds, mortgage-backed securities and other asset-backed securities, interest rate swaps and caps and forward foreign exchange contracts, and mutual funds not actively traded.

Financial instruments in Level 3 include non-redeemable private equity shares, corporate bonds, mortgage-backed securities and other asset-backed securities for which the market is relatively illiquid and for which information about actual trading prices is not readily available.

Items that are recognised at fair value on a recurring basis

	31 March 2013 Fair value				31 December 2012 Fair value			
	Level 1	Level 2	Level 3	Total carrying amount / Fair value	Level 1	Level 2	Level 3	Total carrying amount / Fair value
Financial assets								
Trading								
Debt securities issued by non-US governments	-	4,849	-	4,849	-	5,231	-	5,231
Mutual funds	5,504	51,275	-	56,779	5,337	51,217	-	56,554
Total Trading	5,504	56,124	-	61,628	5,337	56,448	-	61,785
Available for sale								
Certificates of deposit	-	270,808	-	270,808	-	561,360	-	561,360
US government and federal agencies	-	1,343,643	-	1,343,643	-	1,178,786	-	1,178,786
Debt securities issued by non-US governments	-	84,751	-	84,751	-	90,042	-	90,042
Corporate debt securities guaranteed by non-US governments	-	-	-	-	-	32,026	-	32,026
Corporate debt securities	-	385,889	-	385,889	-	421,085	-	421,085
Asset-backed securities - Student loans	-	120,219	11,297	131,516	-	124,937	11,164	136,101
Mortgage-backed securities - Commercial	-	142,909	-	142,909	-	130,478	-	130,478
Pass-through note	-	-	35,933	35,933	-	-	30,646	30,646
Equity securities	-	50	-	50	-	53	-	53
Total Available for sale	-	2,348,269	47,230	2,395,499	-	2,538,767	41,810	2,580,577
Other assets - Derivatives	-	15,793	-	15,793	-	14,425	-	14,425
Other assets - Closed ended real estate fund	-	-	-	-	-	-	4,397	4,397
Financial liabilities								
Other liabilities - Derivatives	-	(17,266)	-	(17,266)	-	(24,956)	-	(24,956)

There were no transfers between Level 1 and Level 2 during 31 March 2013 and 31 December 2012.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(in thousands of Bermuda dollars)

Note 13: Fair Value of Financial Instruments (continued)

The following table presents quantitative information about recurring fair value measurements of assets classified with Level 3 of the fair value hierarchy as of 31 March 2013.

Financial Instrument Type	Valuation Technique	Fair Value
Asset-backed securities - Student loans	Unadjusted third party priced	11,297
Pass-through note	Unadjusted third party priced	35,933

The valuation techniques used for the Level 3 assets as presented in the above table, are described as follows:

Unadjusted third party priced

Prices obtained from third party pricing vendors or brokers that are used to record the fair value of the asset of which the related valuation technique and significant unobservable inputs are not provided.

- Asset-backed securities ("ABS") – The ABS is a Federal Family Education Loan Program guaranteed student loan security and is valued using a non-binding broker quote. The fair value provided by the broker is based on the last trading price of similar securities but as the security is trading illiquidly, a Level 2 classification is not supported.
- Pass-through note ("PTN") – The PTN consists of a pool of floating rate income securities (typically US sub prime collateralised mortgage obligations and mortgage-backed securities). The third-party investment manager of the PTN determines the fair value of each underlying security within the PTN. The investment manager uses a variety of valuation techniques consistent with those disclosed in Note 2 in Bank's audited financial statements for the year ending 31 December 2012. Despite relying on the fair values provided by the investment manager, Management is still responsible for the final fair valuation used.

Significant increases (decreases) in any of the above inputs in isolation could result in a significantly different fair value measurement. Generally a change in assumption used for the probability of defaults is accompanied by a directionally similar change in the assumption used for the loss severity.

Level 3 reconciliation

	For the three month period ended			
	31 March 2013		31 March 2012	
	Available-for-sale investments	Closed ended property fund	Available-for-sale investments	Closed ended property fund
Carrying amount at beginning of year	41,810	4,397	38,155	6,199
Purchases	-	-	-	-
Proceeds from sale / Capital distributions	(1,669)	(4,111)	(1,426)	-
Accretion recognised in net income	467	-	444	-
Realised and unrealised gains (losses) recognised in other comprehensive income	6,622	-	2,323	(41)
Transfers in and out of Level 3	-	-	-	-
Foreign exchange translation adjustment	-	(286)	-	194
Carrying amount at end of period	47,230	-	39,496	6,352

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

(in thousands of Bermuda dollars)

Note 13: Fair Value of Financial Instruments (continued)

Items that are recognised at fair value on a non-recurring basis	31 March 2013 Fair value			Total carrying amount / Fair value	31 December 2012 Fair value			Total carrying amount / Fair value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Other real estate owned	-	33,459	-	33,459	-	34,360	-	34,360

The current carrying value of other real estate owned will be adjusted to fair value only when there is devaluation below cost.

Items other than those recognised at fair value on a recurring basis

	31 March 2013			31 December 2012		
	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
Financial assets						
Cash and cash equivalents	1,813,170	1,813,170	-	1,651,547	1,651,547	-
Short-term investments	31,593	31,593	-	76,213	76,213	-
Investments held to maturity	299,147	301,252	2,105	239,342	244,793	5,451
Loans, net of allowance for credit losses	3,930,418	3,922,186	(8,232)	3,955,960	3,946,081	(9,879)
Financial liabilities						
Customer deposits						
Demand deposits	5,641,755	5,641,755	-	5,433,126	5,433,126	-
Term deposits	1,802,518	1,804,194	(1,676)	1,942,667	1,944,531	(1,864)
Deposits from banks	47,861	47,861	-	126,466	126,466	-
Subordinated capital	260,000	255,273	4,727	260,000	254,127	5,873

All of the Held to maturity securities held by the Bank as at 31 March 2013 and 31 December 2012 are classified as Level 2 of the fair value hierarchy.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(in thousands of Bermuda dollars)

Note 14: Interest Rate Risk

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

31 March 2013		Earlier of maturity or repricing date					Total
(in \$ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	
Assets							
Cash and cash equivalents	1,581	-	-	-	-	232	1,813
Short-term investments	27	3	2	-	-	-	32
Investments	160	157	9	519	1,854	57	2,756
Loans	3,493	182	5	104	69	77	3,930
Other assets	-	-	-	-	-	415	415
Total assets	5,261	342	16	623	1,923	781	8,946
Liabilities and Shareholders' equity							
Shareholders' equity	-	-	-	-	-	836	836
Demand deposits	4,664	-	-	-	-	1,001	5,665
Term deposits	1,315	315	114	83	-	-	1,827
Securities sold under agreement to repurchase	29	-	-	-	-	-	29
Other liabilities	-	-	-	-	-	329	329
Subordinated capital	190	-	-	45	25	-	260
Total liabilities and Shareholders' equity	6,198	315	114	128	25	2,166	8,946
Interest rate swaps	8	(8)	-	-	-	-	-
Interest rate sensitivity gap	(929)	19	(98)	495	1,898	(1,385)	-
Cumulative interest rate sensitivity gap	(929)	(910)	(1,008)	(513)	1,385	-	-

31 December 2012		Earlier of maturity or repricing date					Total
(in \$ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	
Assets							
Cash and cash equivalents	1,435	-	-	-	-	217	1,652
Short-term investments	64	8	4	-	-	-	76
Investments	673	314	43	559	1,236	57	2,882
Loans	3,490	180	41	100	94	51	3,956
Other assets	-	-	-	-	-	376	376
Total assets	5,662	502	88	659	1,330	701	8,942
Liabilities and Shareholders' equity							
Shareholders' equity	-	-	-	-	-	857	857
Demand deposits	4,614	-	-	-	-	919	5,533
Term deposits	1,576	204	108	81	-	-	1,969
Securities sold under agreement to repurchase	109	-	-	-	-	-	109
Other liabilities	-	-	-	-	-	214	214
Subordinated capital	90	100	-	45	25	-	260
Total liabilities and Shareholders' equity	6,389	304	108	126	25	1,990	8,942
Interest rate swaps	8	-	(8)	-	-	-	-
Interest rate sensitivity gap	(719)	198	(28)	533	1,305	(1,289)	-
Cumulative interest rate sensitivity gap	(719)	(521)	(549)	(16)	1,289	-	-

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(in thousands of Bermuda dollars)

Note 15: Earnings per Share

Earnings per Share have been calculated using the weighted average number of Common Shares outstanding during the year after deduction of the Shares held as Treasury stock. The dilutive effect of Share-based compensation plans was calculated using the Treasury stock method, whereby the proceeds received from the exercise of Share-based awards are assumed to be used to repurchase outstanding Shares, using the average market price of the Bank's Shares for the year. Diluted earnings per Common Share include the dilutive effect resulting from the conversion of Treasury stock. Numbers of Shares are expressed in thousands.

	For the three month period ended	
	31 March 2013	31 March 2012
Basic Earnings per Share ⁽¹⁾	0.02	0.02
Basic earnings per Share from continuing operations	0.02	0.02
Basic earnings per Share from discontinued operations	-	-
Net income for the year	13,286	14,562
Less: Preference dividends declared and guarantee fee	(4,396)	(4,500)
Net income from continuing operations attributable for Common Shareholders	8,890	10,062
Net income from discontinued	-	119
Net income attributable for Common Shareholders	8,890	10,181
Weighted average number of participating Shares	556,933	556,933
Weighted average number of Common Shares held as Treasury stock	(6,956)	(1,835)
Adjusted weighted average number of Common Shares	549,977	555,098
Diluted Earnings per Share ⁽¹⁾	0.02	0.02
Diluted earnings per Share from continuing operations	0.02	0.02
Diluted earnings per Share from discontinued operations	-	-
Net income from continuing operations attributable for Common Shareholders	8,890	10,062
Net income from discontinued	-	119
Net income attributable for Common Shareholders	8,890	10,181
Adjusted weighted average number of Common Shares	549,977	555,098
Weighted average number of dilutive Share-based awards	3,925	1,307
Adjusted weighted average number of diluted Common Shares	553,902	556,405

⁽¹⁾ Due to rounding, earnings per Share on continuing and discontinued operations may not sum to earnings per Share amount on net

The Contingent Value Convertible Preference Shares are classified as participating securities as they are entitled to dividends declared to Common Shareholders on a 1:1 basis and are therefore included in the basic earnings per Share calculation.

During the three months ended 31 March 2013, weighted-average options to purchase 32.9 million (2012: 33.3 million) Shares of Common stock (see Note 16), were outstanding. Only options where the option's expense that will be recognised in the future and its exercise price was lower than the average market price of the Bank's Common stock were considered dilutive and, therefore, included in the computation of diluted earnings per Share. The dilution effect of such options is a net increase of 1.4 million of the weighted-average number of Common Shares outstanding on a fully diluted basis. The awards' yet unrecognised expense is considered to be the proceeds the employees would need to pay to purchase accelerated vesting of the awards.

During the three months ended 31 March 2013 the weighted-average number of outstanding awards of unvested Common Shares (see Note 16) was 7.9 million (2012: 7.2 million). All unvested awards of Common Shares were considered dilutive because each award's unrecognised expense was lower than the average market price of the Bank's Common stock. The awards' unrecognised expense is considered to be the proceeds the employees would need to pay to purchase accelerated vesting of the awards. For purpose of calculating dilution, such proceeds are assumed to be used by the Bank to buy-back Shares at the average market price. The weighted-average number of outstanding awards net of the assumed weighted-average number of Shares bought-back is included in the number of diluted participating Shares.

Warrants issued to the Government of Bermuda in exchange for the Government's guarantee of the Preference Shares, with an exercise price of \$3.61 for 4.15 million Shares of Common stock were not included in the computation of earnings per Share as at 31 March 2013 and 2012 because the exercise price was greater than the average market price of the Bank's Common stock.

The Bank of N.T. Butterfield & Son Limited

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(in thousands of Bermuda dollars)

Note 16: Share-Based Payments

As at 31 March 2013, the Bank has three Share-based compensation plans, which are described below.

Stock Option Plans

1997 Stock Option Plan

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

2010 Stock Option Plan

In conjunction with the capital raise, the Board of Directors approved the 2010 Stock Option Plan. Under the Plan, five per cent of the Company's fully diluted Common Shares, equal to approximately 29.5 million Shares, are available for grant to certain Officers. During May 2012 the Board of Directors approved an increase to the options allowed to be granted under the 2010 Stock Option Plan to 50 million Shares.

Under the 2010 Stock Option Plan, options are awarded to Bank employees and Executive Management, based on predetermined vesting conditions that entitle the holder to purchase one Common Share at a subscription price usually equal to the last-traded Common Share price when granted and have a term of 10 years. Two types of vesting conditions upon which the options will be awarded comprise the Plan i.e.:

Time Vesting Condition

50% of each option award is granted in the form of Time Vested Options and vests 25% on each of the second, third, fourth and fifth anniversaries of the effective grant date, subject to the employee's continued employment; and

Performance Vesting Condition

50% of each option award is granted in the form of Performance Options and vests on a "Valuation Event" date (date any of the 2 March 2010 Investors transfers at least 5% of total number of Shares or the date that there is a change in control) and any of the New Investors achieve a Multiple of Invested Capital ("MOIC") based on predetermined MOIC tiers. In the event of a Valuation Event and the MOIC reaching 200% of the original \$1.21 per Share invested capital, all options would vest.

The Bank determined the performance stock options granted have an aggregate fair value of \$9.5 million. If the probability of a Valuation Event becomes more likely than not, some or all of the \$9.5 million unrecognised expense relating to the performance vesting options will be recognised as an expense.

The table below presents the number of Shares transferable upon exercise of the options outstanding:

Stock option plans

	For the three month period ended	
	31 March 2013	31 March 2012
	Number of shares transferable upon exercise (in thousands)	Number of shares transferable upon exercise (in thousands)
Outstanding at beginning of period	33,327	33,632
Granted	-	100
Exercised	-	-
Forfeited / cancelled	(2)	(375)
Resignations / Retirement / Redundancy	(198)	(254)
End of plan expiration	(212)	-
Outstanding at end of period	32,915	33,103

Employee Deferred Incentive Plan ("EDIP")

Under the Bank's EDIP Plan, Shares were awarded to Bank employees and Executive Management based on time-vesting condition, which states that the Shares will vest equally over a three-year period from the effective grant date, subject to the employee's continued employment. The table below presents the number of Shares transferable upon vesting of the shares:

EDIP

	For the three month period ended	
	31 March 2013	31 March 2012
	Number of shares transferable upon vesting (in thousands)	Number of shares transferable upon vesting (in thousands)
Outstanding at beginning of period	1,976	1,276
Granted	884	1,579
Vested	(757)	(412)
Resignations / Retirement / Redundancy	(140)	(33)
Forfeited / cancelled	1	-
Special dividend	59	-
Outstanding at end of period	2,023	2,410

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(in thousands of Bermuda dollars)

Note 16: Share-Based Payments (continued)

Executive Long-Term Incentive Share plan ("ELTIP")

Under the Bank's ELTIP, Shares were awarded to Bank employees and Executive Management, based on predetermined vesting conditions. Two types of vesting conditions upon which the Shares will be awarded comprise the ELTIP Plan i.e.:

Time Vesting Condition - 50% of each Share award is granted in the form of Time Vested Shares, vesting equally over a three-year period from the effective grant date, subject to the employee's continued employment; and

Performance Vesting Condition - 50% of each Share award is granted in the form of Performance Shares, vesting upon the achievement of certain performance targets in three-year period from the effective grant date

The table below presents the number of Shares transferable upon vesting of the shares:

ELTIP	For the three month period ended	
	31 March 2013	31 March 2012
	Number of shares transferable upon vesting (in thousands)	Number of shares transferable upon vesting (in thousands)
Outstanding at beginning of period	5,230	2,515
Granted	2,367	3,712
Vested	(905)	(809)
Resignations / Retirement / Redundancy	(140)	(64)
Forfeited / cancelled	(843)	-
Special dividend	171	-
Outstanding at end of period	5,880	5,354

The Board approved the 2013 Employee Deferred Incentive Plan and the 2013 Executive Long-Term Incentive Share Plan on the 26th of February 2013.

The following table presents the Share-based compensation cost that has been charged against net income and the value of Share-based settlements.

	For the three months ended			31 March 2012		
	31 March 2013			31 March 2012		
	Stock option plans	EDIP and ELTIP	Total	Stock option plans	EDIP and ELTIP	Total
Share-based compensation plans – continuing operations						
Awards granted	307	1,194	1,501	380	899	1,279
Share-based settlement plans						
Directors' Shares and retainers settlement plans			-			86
Total Share-based payments			1,501			1,365

The following table presents the unrecognised expense attributable each plan.

Unrecognised expense	For the three months ended	
	31 March 2013	31 March 2012
Stock Option Plan		
Time Vesting Options	3,076	5,253
Performance Vesting Options	9,516	9,070
EDIP	2,254	2,783
ELTIP		
Time Vesting Shares	1,573	3,129
Performance Vesting Shares	4,598	3,137
	21,017	23,372

Directors' Compensation

The Bank's Non-Executive Directors received their annual retainer compensation in the form of cash or fully vested and unrestricted Bank Shares.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(in thousands of Bermuda dollars)

Note 17: Share Buy-Back Plans

The Bank introduced two Share Buy-back Programmes on 1 May 2012 as a means to improve Shareholder liquidity and facilitate growth in Share value. Under these Programmes, up to six million Common Shares were authorised to be acquired and 2,000 Preference Shares were authorised to be purchased for cancellation. On 10 December 2012, the Board of the Bank approved increasing the number of Common Shares to be acquired up to 10 million and the number of Preference Shares to be purchased for cancellation up to 8,000.

During the period ended 31 March 2013 the Bank acquired 0.9 million Common Shares to be held as Treasury Shares at an average price of \$1.32 per Share (total cost of \$1.2 million), and purchased for cancellation 217 Preference Shares at a cost of \$0.3 million. The total shares acquired or purchased for cancellation from 1 May 2012 to 31 March 2013 amounted to 8.2 million Common Shares at an average price of \$1.25 per Share (total cost of \$10.2 million) and 4,639 Preference Shares at a cost of \$5.7 million.

The Board cancelled the existing Common Share Buy-back Programme effective 1 April 2013 and implemented a new programme for the purchase of up to 10 million Common Shares.

From time to time the Bank's associates, insiders and insiders' associates as defined by the BSX regulations may sell Shares which may result in such Shares being repurchased pursuant to the programme, but under BSX regulations such trades must not be pre-arranged and all repurchases must be made in the open market. Prices paid by the Bank must not, according to BSX regulations, be higher than the last independent trade for a "round lot", defined as 100 Shares or more.

The BSX must be advised monthly of Shares repurchased and cancelled by the Bank and Shares purchased by the Bank's Stock Option Trust.

Note 18: Accumulated other comprehensive income

The table below presents the changes in Accumulated Other Comprehensive Income by component for the period ended 31 March 2013:

	Unrealised losses on translation of net investment in foreign operations	Unrealised gains on available for sale investments	Employee future benefits liability	Total
Balance at beginning of period	(10,487)	44,781	(46,817)	(12,523)
Other comprehensive loss	(2,396)	(5,583)	(352)	(8,331)
Balance at end of period	(12,883)	39,198	(47,169)	(20,854)

The table below presents the reclassifications out of Accumulated Other Comprehensive Income by component for the period ended 31 March 2013:

	Amount Reclassified	Consolidated Statement of Operations line item
Unrealized gains and losses on available-for-sale securities	(40)	Net realised gains on available for sale investments
Amortization of defined benefit pension items	(352)	Salaries and other employee benefits
Total reclassifications for the period	(392)	

Note 19: Regulatory capital

The Bank is fully compliant with all regulatory capital requirements and maintains capital ratios well in excess of regulatory minimums as at 31 March 2013 and 31 December 2012.

The following table sets forth our capital adequacy in accordance with Basel II framework:

(in \$ millions)	31 March 2013	31 December 2012
Capital		
Tier 1 capital	778,928	792,266
Tier 2 capital	240,997	244,225
Deductions	(2,935)	(2,935)
Total capital	1,016,990	1,033,556
Weighted Risk Assets		
Total weighted risk assets	4,228,474	4,275,055
Capital Ratios (%)		
Tier 1 Common	13.8%	14.0%
Tier 1 Total	18.4%	18.5%
Total Capital	24.1%	24.2%

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements *(continued)*

(in thousands of Bermuda dollars)

Note 20: Variable Interest Entities

The Bank had no investments in variable interest entities for which it was deemed the primary beneficiary for the periods ended 31 March 2013 and 2012.

The Bank has equitable mortgages in two hospitality-related companies that have been placed under Receivership, and as the Bank is an equity holder at risk, the hospitality-related companies were considered to be variable interest entities. As the Bank did not have the legal power to direct the activities of the companies that most significantly impact the company's economic performance it was considered not to be the primary beneficiary.

Note 21: Related party transactions

Charitable Trust

The Bank historically has provided a loan facility to the Charitable Trust. During December 2012 the carrying value of the loan was repaid and subsequently the Charitable Trust was terminated.

Financing transactions

Capital transaction

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

Balance Sheet management advisory agreement

From 1 October 2010, the Bank had retained Carlyle Investment Management LLC, an affiliated company of the Carlyle Group, to provide Balance Sheet management advisory services, including advisory services on valuation assignments, for an annual fee of \$4 million for a three-year period. Effective 31 July 2012, the investment advisory business previously conducted by Carlyle Investment Management LLC was transferred to Alumina Investment Management LLC ("Alumina") and the Bank agreed to the transfer of its contract to Alumina. The Carlyle Group holds a 15% interest in Alumina and as Alumina is not considered affiliated with the Carlyle Group, the related-party transaction ceased on the effective date.

Note 22: Comparative Information

Certain prior-year figures have been reclassified to conform to current year presentation and restated for discontinued operations.

Note 23: Subsequent Events

The Bank has performed an evaluation of subsequent events through to 30 April 2013, the date the financial statements were issued.

During April 2013, the Bank was notified that a settlement has been reached in a case in which it was the plaintiff. The case involved a previously disposed investment. Details of the case cannot be disclosed but the settlement will result in a net gain estimated between \$8 million to \$12 million.

On 30 April 2013, the Board declared an interim dividend of \$0.01 per Common and Contingent Value Convertible Preference Share to be paid on 23 May 2013 to shareholders of record on 9 May 2013.

The Board approved the renewal of the Preference Share Buy-back Programme for the purchase and cancellation of up to 8,000 Preference Shares on 30 April 2013.