



A Foundation for *Growth*



Butterfield

Second Quarter 2012

The Bank of N.T. Butterfield & Son Limited
Financial results for the six months ended 30 June 2012

The Bank of N.T. Butterfield & Son Limited

Unaudited Consolidated Balance Sheet

(in thousands of Bermuda dollars)

As at

	30 June 2012	31 December 2011
Assets		
Cash and demand deposits with banks	341,002	383,827
Cash equivalents	1,220,763	1,518,899
Total cash and cash equivalents	1,561,765	1,902,726
Short-term investments	34,096	20,280
Debt and equity securities		
Trading	62,309	62,591
Available for sale	2,161,277	1,934,259
Held to maturity	198,334	64,789
Total investments in debt and equity securities	2,421,920	2,061,639
Loans, net of allowance for credit losses	4,119,979	4,069,419
Premises, equipment and computer software	267,225	272,472
Accrued interest	24,803	24,094
Goodwill	16,118	15,937
Intangible assets	25,947	30,163
Investments in affiliates	19,008	32,582
Other real estate owned	26,805	27,354
Other assets	61,664	60,640
Assets of discontinued operations	298,107	307,044
Total assets	8,877,437	8,824,350
Liabilities		
Deposits		
Non-interest-bearing	1,029,809	904,873
Interest bearing		
Customers	6,141,208	6,226,122
Banks	116,658	125,566
Total deposits	7,287,675	7,256,561
Employee future benefits	104,369	104,913
Accrued interest	6,435	7,865
Preference Share dividends payable	715	715
Other liabilities	83,784	84,767
Liabilities of discontinued operations	263,268	272,049
Total other liabilities	458,571	470,309
Subordinated capital	260,000	267,755
Total liabilities	8,006,246	7,994,625
Shareholders' equity		
Common Share capital (BMD 0.01 par; authorised Shares 26,000,000,000 (2011: BMD 0.01 par; authorised Shares 26,000,000,000))		
issued and outstanding: 549,531,359 (2011: 549,468,349)	5,495	5,494
Preference Share capital (USD 0.01 par; USD 1,000 liquidation preference)		
issued and outstanding: 200,000 (2011: 200,000)	2	2
Contingent Value Convertible Preference Share capital (USD 0.01 par)		
issued and outstanding: 7,401,176 (2011: 7,464,186)	74	75
Additional paid-in capital	1,367,613	1,377,556
Accumulated deficit	(468,454)	(490,377)
Less: Treasury Common Shares: 1,457,807 Shares (2011: 2,163,958 Shares)	(9,825)	(21,723)
Accumulated other comprehensive loss	(23,714)	(41,302)
Total Shareholders' equity	871,191	829,725
Total liabilities and Shareholders' equity	8,877,437	8,824,350

The accompanying notes are an integral part of these unaudited 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		For the six month period ended	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Non-interest income				
Asset management	6,121	5,860	12,278	11,522
Banking	8,064	7,878	15,831	16,362
Foreign exchange revenue	7,395	7,257	14,032	14,357
Trust	6,560	7,321	14,320	14,548
Custody and other administration services	2,570	2,669	5,373	5,906
Other non-interest income	1,743	1,070	3,156	2,217
Total non-interest income	32,453	32,055	64,990	64,912
Interest income				
Loans	48,961	45,823	97,760	91,065
Investments	12,270	11,140	24,299	21,822
Deposits with banks	1,439	3,004	2,724	5,967
Total interest income	62,670	59,967	124,783	118,854
Interest expense				
Deposits	5,567	7,529	11,273	15,509
Subordinated capital	3,124	2,591	6,349	4,874
Total interest expense	8,691	10,120	17,622	20,383
Net interest income before provision for credit losses	53,979	49,847	107,161	98,471
Provision for credit losses	(4,941)	(2,579)	(8,379)	(6,525)
Net interest income after provision for credit losses	49,038	47,268	98,782	91,946
Net realised / unrealised (losses) gains on trading investments	(404)	(189)	38	(2)
Net realised (losses) gains on available for sale investments	(276)	-	1,801	193
Net realised / unrealised losses on other real estate owned	(759)	-	(759)	-
Net gain on sale of affiliate	4,250	3,178	4,250	3,178
Net other gains	113	(22)	123	(1,273)
Total other gains	2,924	2,967	5,453	2,096
Total net revenue	84,415	82,290	169,225	158,954
Non-interest expense				
Salaries and other employee benefits	34,920	36,439	69,967	71,124
Technology and communications	14,723	13,153	28,994	25,950
Property	6,424	6,665	12,894	13,275
Professional and outside services	3,306	3,645	7,588	7,388
Non-income taxes	3,310	3,327	6,769	7,112
Amortisation of intangible assets	1,276	1,317	2,559	2,614
Marketing	1,066	1,143	2,292	2,239
Other expenses	3,362	4,759	6,959	9,645
Total non-interest expense	68,387	70,448	138,022	139,347
Net income before income taxes from continuing operations	16,028	11,842	31,203	19,607
Income tax benefit (expense)	12	(345)	(600)	(416)
Net income from continuing operations	16,040	11,497	30,603	19,191
Discontinued Operations				
Income from discontinued operations before income taxes	322	385	546	1,144
Income tax expense	(120)	(84)	(226)	(169)
Net income from discontinued operations	202	301	320	975
Net income	16,242	11,798	30,923	20,166
Cash dividends declared on Contingent Value Convertible Preferred Shares	-	(3,303)	-	(3,303)
Cash dividends declared on Preference Shares	(4,000)	(4,000)	(8,000)	(8,000)
Preference Shares guarantee fee	(500)	(500)	(1,000)	(1,000)
Net income attributable to Common Shareholders	11,742	3,995	21,923	7,863
Earnings per Common Share				
Basic Earnings per Share from continuing operations	0.02	0.01	0.04	0.01
Diluted Earnings per Share from continuing operations	0.02	0.01	0.04	0.01

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

	For the three month period ended		For the six month period ended	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Net income	16,242	11,798	30,923	20,166
Other comprehensive income				
Net change in unrealised (losses) gains on translation of net investment in foreign operations	(413)	(964)	(306)	506
Net change in unrealised gains on available for sale investments	2,326	19,520	19,634	22,232
Net change in employee future benefits liability	(870)	(301)	(1,740)	(601)
Other comprehensive income	1,043	18,255	17,588	22,137
Total comprehensive income	17,285	30,053	48,511	42,303

The accompanying notes are an integral part of these unaudited consolidated financial

The Bank of N.T. Butterfield & Son Limited

Unaudited Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income

(in thousands of Bermuda dollars)

	For the six month period ended	
	30 June 2012	30 June 2011
Common Share capital issued and outstanding		
Balance at beginning of period (2012: 549,468,349 Shares; 2011: 549,143,448 Shares)	5,494	5,491
Conversion of Contingent Value Preference Shares (2012: 63,010 Shares; 2011: 2,900 Shares)	1	-
Balance at end of period (2012: 549,531,359 Shares; 2011: 549,146,348 Shares)	5,495	5,491
Preference Shares		
Balance at beginning and end of period (2012: 200,000 Shares; 2011: 200,000 Shares)	2	2
Contingent Value Convertible Preference Shares		
Balance at beginning of period (2012: 7,464,186 Shares; 2011: 7,789,087 Shares)	75	78
Conversion to Common Shares (2012: 63,010 Shares; 2011: 2,900 Shares)	(1)	-
Balance at end of period (2012: 7,401,176 Shares; 2011: 7,786,187 Shares)	74	78
Additional paid-in capital		
Balance at beginning of period	1,377,556	1,376,037
Stock option plan expense	2,503	1,669
Reduction of additional paid-in capital on transfer and sale of Treasury Common Shares	(12,446)	(2,001)
Balance at end of period	1,367,613	1,375,705
Accumulated deficit		
Balance at beginning of period	(490,377)	(509,579)
Net income for period	30,923	20,166
Cash dividends declared on Contingent Value Convertible Preferred Shares	-	(3,303)
Cash dividends declared on Preference Shares	(8,000)	(8,000)
Preference Shares guarantee fee	(1,000)	(1,000)
Balance at end of period	(468,454)	(501,716)
Treasury Common Shares		
Balance at beginning of period (2012: 2,163,958 Shares; 2011: 2,401,593 Shares)	(21,723)	(24,127)
Share-based compensation	114	225
Purchases of Treasury Common Shares	(662)	-
Net sales and transfers of Treasury Common Shares	12,446	2,001
Balance at end of period (2012: 1,457,807 Shares; 2011: 2,168,446 Shares)	(9,825)	(21,901)
Accumulated other comprehensive loss		
Balance at beginning of period	(41,302)	(38,614)
Other comprehensive income	17,588	22,137
Balance at end of period	(23,714)	(16,477)
Total Shareholders' equity	871,191	841,182

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

The Bank of N.T. Butterfield & Son Limited

Unaudited Consolidated Statements of Cash Flows

(in thousands of Bermuda dollars)

	For the six month period ended	
	30 June 2012	30 June 2011
Cash flows from operating activities		
Net income	30,923	20,166
Net income from discontinued operations	(320)	(975)
Net income from continuing operations	30,603	19,191
Adjustments to reconcile net income to operating cash flows:		
Depreciation and amortization	22,756	17,546
Net loss on sale of customer relationships intangible assets	515	-
(Increase) decrease in carrying value of investments in affiliates	(639)	1,888
Share-based payments	2,617	1,895
Gain (loss) on sale of premises and equipment	(300)	12
Net gain on sale of affiliate	(4,250)	(3,178)
Net realised / unrealised losses on other real estate owned	759	-
Net realised gain on available for sale securities	(1,801)	(193)
Provision for credit losses	8,379	6,525
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(586)	(3,491)
Increase in other assets	(674)	(8,545)
Decrease in accrued interest payable	(1,454)	(1,696)
Decrease in other liabilities	(6,635)	(7,505)
	49,290	22,449
Net change in trading investments	424	424
Cash provided by operating activities from continuing operations	49,714	22,873
Cash flows from investing activities		
Net proceeds on sale of affiliate	18,464	3,178
Net (increase) decrease in short-term investments	(13,774)	220
Net additions to premises, equipment and computer software	(7,174)	(12,441)
Net increase in loans	(49,623)	(49,112)
Net proceeds on sale of customer relationships intangible assets	1,428	-
Proceeds on sale of other real estate owned	1,133	-
Held to maturity investments: proceeds from pay downs	1,624	-
Held to maturity investments: purchases	(135,298)	-
Available for sale investments: proceeds from sale, maturities and pay downs	841,022	1,056,720
Available for sale investments: purchases	(1,043,612)	(1,091,281)
Cash used in investing activities from continuing operations	(385,810)	(92,716)
Cash flows from financing activities		
Net increase (decrease) in demand and term deposit liabilities	5,152	(79,929)
Repayment of subordinated capital	(7,946)	-
Common shares repurchased	(662)	-
Cash dividends paid on Preference Shares	(8,000)	(8,000)
Preference Shares guarantee fee paid	(1,000)	(1,000)
Cash used in financing activities from continuing operations	(12,456)	(88,929)
Net effect of exchange rates on cash and cash equivalents	7,591	27,504
Net decrease in cash and cash equivalents from continuing operations	(340,961)	(131,268)
Cash and cash equivalents at beginning of period	1,902,726	2,386,043
Cash and cash equivalents at end of period	1,561,765	2,254,775
Supplemental disclosure of Non-cash investing activities		
Fair value of properties added to Other Real Estate Owned	1,341	-

The accompanying notes are an integral part of these unaudited 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 2011. 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 of financial instruments
- iii. Impairment of long-lived assets
- iv. Impairment of goodwill
- v. Employee future benefits
- vi. Share-based payments
- vii. Concentrations of credit risk & customers
- viii. Commitments and contingencies

The following accounting developments were issued during the six month period ending 30 June 2012:

Offsetting Assets and Liabilities

During December 2011, the Financial Accounting Standards Board issued an accounting standard update, "Disclosures about Offsetting Assets and Liabilities". The amendments in this update require an entity to disclose information about offsetting and related arrangements to provide users of financial statements with information to understand the extent of offsetting in the statement of financial position. The amendment will allow companies to continue offsetting certain financial instruments on their Balance Sheets, including certain derivatives and repurchase agreements subject to a master netting arrangement. Additionally certain industry-specific offsetting guidance for broker-dealers, construction companies and depository and lending institutions remains unchanged. The disclosure requirements will be effective for periods beginning on or after 1 January 2013, and must be shown for all periods presented on the Balance Sheet (i.e., applied retrospectively).

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 part of the Barbados segment, to First Citizens Bank Limited. Subject to regulatory approval, the sale is expected to be completed during the third quarter of 2012 with gross proceeds, subject to normal adjustments, of \$45 million.

As the subsidiary pending sale is classified as held for sale prior to disposition and the operations and cash flows from the subsidiary will be eliminated from the Bank's ongoing operations post-disposition without any significant continuing involvement, the Bank has determined that the requirements have been met to report the results of subsidiary being sold as discontinued operations and have presented the Assets and Liabilities as discontinued operations on the face of the Consolidated Balance Sheet for all periods presented. The total gain (loss) on sale will be recognized upon closing.

The following table summarizes the operating results of Barbados operating segment for the periods presented:

	For the 3 month period ended		For the 6 months period ended	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Non-interest income	568	754	1,291	1,589
Net interest income	2,725	2,926	5,458	5,719
Provision for credit losses	(59)	(17)	(424)	82
Revenue before gains and losses	3,234	3,663	6,325	7,390
Gains and losses	9	-	9	12
Total net revenue	3,243	3,663	6,334	7,402
Non-interest expenses	(2,921)	(3,278)	(5,788)	(6,258)
Net income before income taxes	322	385	546	1,144
Income tax expense	(120)	(84)	(226)	(169)
Net income from discontinued operations	202	301	320	975

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 (continued)

The following is a summary of the assets and liabilities of discontinued operations held for sale on the Consolidated Balance Sheet for the operations related to Barbados:

	30 June 2012	31 December 2011
Assets		
Cash and cash equivalents	70,707	76,935
Short- term investments	12,548	14,534
Investments in debt and equity securities	26,876	28,088
Loans, net of allowance for credit losses	178,719	177,841
Premises, equipment and computer software	3,282	3,643
Accrued interest	1,437	1,164
Intangible assets	2,861	3,084
Other assets	1,677	1,755
Total assets	298,107	307,044
Liabilities		
Deposits	261,040	269,083
Accrued interest	922	1,040
Other liabilities	1,306	1,926
Total liabilities	263,268	272,049

Note 3: Cash and Cash Equivalents

	30 June 2012			31 December 2011		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Non interest-earning						
Cash and demand deposits	175,923	52,428	228,351	176,091	17,823	193,914
Interest-earning						
Demand deposits	95	112,556	112,651	49	189,864	189,913
Cash equivalents	146,068	1,074,695	1,220,763	489,391	1,029,508	1,518,899
Sub-total - Interest-earning	146,163	1,187,251	1,333,414	489,440	1,219,372	1,708,812
Total cash and cash equivalents	322,086	1,239,679	1,561,765	665,531	1,237,195	1,902,726

Note 4: Short-term Investments

	30 June 2012			31 December 2011		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Interest-earning						
Term deposits maturing between three to six months	-	1,897	1,897	-	4,630	4,630
Term deposits maturing between six to twelve months	-	5,864	5,864	-	2,900	2,900
Total unrestricted short-term investments	-	7,761	7,761	-	7,530	7,530
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Interest-earning						
Demand deposits	21,940	4,395	26,335	12,641	109	12,750
Total restricted short-term investments	21,940	4,395	26,335	12,641	109	12,750
Total short-term investments	21,940	12,156	34,096	12,641	7,639	20,280

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:

	30 June 2012				31 December 2011			
	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	5,861	458	(335)	5,984	5,788	419	(236)	5,971
Mutual funds	56,779	247	(701)	56,325	56,964	224	(568)	56,620
Total trading	62,640	705	(1,036)	62,309	62,752	643	(804)	62,591
Available for sale								
Certificates of deposit	615,701	1,992	(58)	617,635	354,847	2,411	(765)	356,493
US government and federal agencies	849,299	20,393	(1,581)	868,111	778,387	14,419	(2,002)	790,804
Debt securities issued by non-US governments	102,146	3	(13)	102,136	87,549	1,158	(49)	88,658
Corporate debt securities guaranteed by non-US governments	92,443	70	(221)	92,292	122,987	38	(1,377)	121,648
Corporate debt securities	305,101	5,848	(25)	310,924	408,559	396	(3,706)	405,249
Asset-backed securities - Student loans	145,985	-	(4,358)	141,627	149,759	-	(5,413)	144,346
Pass-through Note	31,941	-	(3,460)	28,481	33,696	-	(6,705)	26,991
Equity securities	122	-	(51)	71	120	-	(50)	70
Total available for sale	2,142,738	28,306	(9,767)	2,161,277	1,935,904	18,422	(20,067)	1,934,259
Held to maturity ⁽¹⁾								
US government and federal agencies	198,334	4,450	-	202,784	64,789	228	(429)	64,588
Total held to maturity	198,334	4,450	-	202,784	64,789	228	(429)	64,588

⁽¹⁾ For the periods ended 30 June 2012 and 31 December 2011 non-credit impairments recognized in AOCI for held to maturity investments of \$nil.

Sale proceeds and realised gains (losses)

During the six months ended 30 June 2012, the Bank disposed of:

- US agency securities totalling \$46.9 million in sale proceeds, resulting in gross realised gains of \$0.5 million.
- Corporate bonds totalling \$249.1 million in sale proceeds, resulting in gross realised gains of \$1 million and gross realised losses of \$0.2 million.
- Other securities totalling \$51.7 million in sale proceeds, resulting in a gross realised gain of \$0.5 million.

Unrealised loss positions

The following tables show the fair value and gross unrealised losses of the Bank's available for sale and held to maturity investments with unrealised losses that are not deemed to be other-than-temporarily impaired, 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.

30 June 2012	Less than 12 months		12 months or more		Total fair value	Total gross unrealised losses
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses		
Available for sale						
Certificates of deposit	47,068	(58)	-	-	47,068	(58)
US government and federal agencies	178,623	(1,559)	16,548	(22)	195,171	(1,581)
Debt securities issued by non-US governments	78,443	(13)	-	-	78,443	(13)
Corporate debt securities guaranteed by non-US governments	-	-	31,858	(221)	31,858	(221)
Corporate debt securities	8,680	(25)	-	-	8,680	(25)
Asset-backed securities - Student loans	-	-	141,627	(4,358)	141,627	(4,358)
Pass-through Note	-	-	28,481	(3,460)	28,481	(3,460)
Equity securities	71	(51)	-	-	71	(51)
Total available for sale securities with unrealised losses	312,885	(1,706)	218,514	(8,061)	531,399	(9,767)

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 2011	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	48,623	(765)	-	-	48,623	(765)
US government and federal agencies	144,364	(1,585)	72,600	(417)	216,964	(2,002)
Debt securities issued by non-US governments	7,749	(49)	-	-	7,749	(49)
Corporate debt securities guaranteed by non-US governments	30,179	(3)	47,267	(1,374)	77,446	(1,377)
Corporate debt securities	217,612	(2,859)	124,152	(847)	341,764	(3,706)
Asset-backed securities - Student loans	-	-	144,346	(5,413)	144,346	(5,413)
Pass-through Note	-	-	26,992	(6,705)	26,992	(6,705)
Equity securities	70	(50)	-	-	70	(50)
Total available for sale securities with unrealised losses	448,597	(5,311)	415,357	(14,756)	863,954	(20,067)
Held to maturity						
US government and federal agencies	30,034	(429)	-	-	30,034	(429)
Total held to maturity securities with unrealised losses	30,034	(429)	-	-	30,034	(429)

The Bank does not believe that the investment securities that were in an unrealized loss position as of 30 June 2012, which was comprised of 45 securities or 23% of the portfolio by market value, represent an other-than-temporary impairment. Total gross unrealized losses were only 1.8% of the market value of affected securities and were primarily attributable to changes in 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 unrealized loss position and it is not more likely than not that the Bank will be required to sell the investment securities before recovery of their amortized cost bases, which may be at maturity.

The following describes our process for identifying credit impairment in security types with the most significant unrealized losses as of 30 June 2012.

US government and federal agencies

As of 30 June 2012, gross unrealised losses on securities related to United States ("US") government and federal agencies were \$1.6 million (2011: \$2.0 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 30 June 2012, gross unrealised losses on student loan asset-backed securities were \$4.4 million (2011: \$5.4 million). Asset-backed securities collateralized by student loans are primarily composed of securities collateralized 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 overcollateralization, 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.

Pass-through Note ("PTN")

During 2010 the Bank's investment in its remaining structured investment vehicle ("SIV") was legally amended to a Pass-through Note structure whereby the Bank maintained the identical beneficial interest in the same underlying securities of the SIV.

As of 30 June 2012, the PTN was in an unrealised loss position amounting to \$3.5 million (2011: \$6.7 million). Unrealised losses have decreased since 31 December 2011 as a result of both cash flows received and the market applying a lower discount to remaining cash flows.

The net present value of expected cash flows, or the intrinsic value, to be generated from the underlying assets of the PTN, calculated on both a stressed and severely-stressed environment, is in excess of the amortised cost of the PTN and Management believes that these securities do not have any credit losses.

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 table presents securities by remaining term to earlier of expected or contractual maturity:

30 June 2012	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	788	-	1,990	2,142	1,064	-	5,984
Mutual funds	-	-	-	-	-	56,325	56,325
Total trading	788	-	1,990	2,142	1,064	56,325	62,309
Available for sale							
Certificates of deposit	297,824	289,019	30,792	-	-	-	617,635
US government and federal agencies	8,796	5,878	499,534	213,284	140,619	-	868,111
Debt securities issued by non-US governments	31,391	64,079	5,333	1,333	-	-	102,136
Corporate debt securities guaranteed by non-US governments	33,826	58,466	-	-	-	-	92,292
Corporate debt securities	719	-	310,205	-	-	-	310,924
Asset-backed securities - Student loans	-	268	2,053	88,269	51,037	-	141,627
Pass-through Note	-	-	-	-	28,481	-	28,481
Equity securities	-	-	-	-	-	71	71
Total available for sale	372,556	417,710	847,917	302,886	220,137	71	2,161,277
Held to maturity							
US government and federal agencies	-	-	25,890	156,328	16,116	-	198,334
Total held to maturity securities	-	-	25,890	156,328	16,116	-	198,334
Total investments	373,344	417,710	875,797	461,356	237,317	56,396	2,421,920
Total by currency							
US dollars	117,635	160,990	873,807	459,213	236,253	55,249	1,903,147
Other	255,709	256,720	1,990	2,143	1,064	1,147	518,773
Total investments	373,344	417,710	875,797	461,356	237,317	56,396	2,421,920

31 December 2011	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	-	811	2,026	2,106	1,028	-	5,971
Mutual funds	-	-	-	-	-	56,620	56,620
Total trading	-	811	2,026	2,106	1,028	56,620	62,591
Available for sale							
Certificates of deposit	105,318	174,302	76,873	-	-	-	356,493
US government and federal agencies	-	4,740	622,559	149,245	14,258	2	790,804
Debt securities issued by non-US governments	7,749	64,056	5,333	11,520	-	-	88,658
Corporate debt securities guaranteed by non-US governments	-	90,882	30,766	-	-	-	121,648
Corporate debt securities	27,514	106,639	257,991	13,105	-	-	405,249
Asset-backed securities - Student loans	-	-	58,183	74,999	11,164	-	144,346
Pass-through Note	-	-	-	26,991	-	-	26,991
Equity securities	-	-	-	-	-	70	70
Total available for sale	140,581	440,619	1,051,705	275,860	25,422	72	1,934,259
Held to maturity							
US government and federal agencies	-	-	-	24,854	39,935	-	64,789
Total held to maturity securities	-	-	-	24,854	39,935	-	64,789
Total investments	140,581	441,430	1,053,731	302,820	66,385	56,692	2,061,639
Total by currency							
US dollars	-	186,614	988,892	300,714	65,357	55,226	1,596,803
Other	140,581	254,816	64,839	2,106	1,028	1,466	464,836
Total investments	140,581	441,430	1,053,731	302,820	66,385	56,692	2,061,639

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:

	30 June 2012			31 December 2011		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Commercial loans						
Government	270,360	4,140	274,500	256,442	4,230	260,672
Commercial and industrial	93,525	177,034	270,559	103,922	165,820	269,742
Commercial overdrafts	62,346	22,032	84,378	64,733	25,464	90,197
Total commercial loans	426,231	203,206	629,437	425,097	195,514	620,611
Less specific allowance for credit losses on commercial loans	(1,183)	(1,250)	(2,433)	(1,222)	(1,250)	(2,472)
Total commercial loans after specific allowance for credit losses	425,048	201,956	627,004	423,875	194,264	618,139
Commercial real estate loans						
Commercial mortgage	503,619	301,013	804,632	502,110	304,525	806,635
Construction	41,129	1,649	42,778	37,178	2,814	39,992
Total commercial real estate loans	544,748	302,662	847,410	539,288	307,339	846,627
Less specific allowance for credit losses on commercial real estate loans	(9,670)	(6,912)	(16,582)	(9,225)	(2,792)	(12,017)
Total commercial real estate loans after specific allowance for credit losses	535,078	295,750	830,828	530,063	304,547	834,610
Consumer loans						
Automobile financing	22,355	5,790	28,145	23,964	5,862	29,826
Credit card	55,739	13,564	69,303	59,469	13,800	73,269
Overdrafts	9,726	4,032	13,758	9,147	5,359	14,506
Other consumer	81,285	112,082	193,367	87,889	121,298	209,187
Total consumer loans	169,105	135,468	304,573	180,469	146,319	326,788
Less specific allowance for credit losses on consumer loans	(160)	-	(160)	(160)	-	(160)
Total consumer loans after specific allowance for credit losses	168,945	135,468	304,413	180,309	146,319	326,628
Residential mortgage loans	1,344,330	1,056,500	2,400,830	1,348,606	982,278	2,330,884
Less specific allowance for credit losses on residential mortgage loans	(4,598)	(6,919)	(11,517)	(3,184)	(5,637)	(8,821)
Total residential mortgage loans after specific allowance for credit losses	1,339,732	1,049,581	2,389,313	1,345,422	976,641	2,322,063
Total gross loans	2,484,414	1,697,836	4,182,250	2,493,460	1,631,450	4,124,910
Less specific allowance for credit losses	(15,611)	(15,081)	(30,692)	(13,791)	(9,679)	(23,470)
Less general allowance for credit losses	(23,149)	(8,430)	(31,579)	(23,474)	(8,547)	(32,021)
Net loans	2,445,654	1,674,325	4,119,979	2,456,194	1,613,224	4,069,419

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 summarizes the past due status of our loans at 30 June 2012 and 31 December 2011. The aging of past due amounts are determined based on the contractual delinquency status of payments under the loan. An account is generally considered to be contractually delinquent when payments have not been made in accordance with the loan terms.

	30 June 2012					
	30 – 59 days	60 – 89 days	90 days or more	Total past due loans	Total Current ⁽¹⁾	Total loans
Commercial loans						
Government	-	-	-	-	274,500	274,500
Commercial and industrial	62	35	4,746	4,843	265,716	270,559
Commercial overdrafts	-	-	1,575	1,575	82,803	84,378
Total commercial loans	62	35	6,321	6,418	623,019	629,437
Commercial real estate loans						
Commercial mortgage	8	664	66,214	66,886	737,746	804,632
Construction	-	-	-	-	42,778	42,778
Total commercial real estate loans	8	664	66,214	66,886	780,524	847,410
Consumer loans						
Automobile financing	235	153	543	931	27,214	28,145
Credit card	2,927	970	1,163	5,060	64,243	69,303
Overdrafts	-	-	238	238	13,520	13,758
Other consumer	912	857	2,178	3,947	189,420	193,367
Total consumer loans	4,074	1,980	4,122	10,176	294,397	304,573
Residential mortgage loans	41,427	20,322	67,853	129,602	2,271,228	2,400,830
Total loans	45,571	23,001	144,510	213,082	3,969,168	4,182,250

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

	31 December 2011					
	30 – 59 days	60 – 89 days	90 days or more	Total past due loans	Total Current ⁽¹⁾	Total loans
Commercial loans						
Government	-	-	-	-	260,672	260,672
Commercial and industrial	449	210	2,525	3,184	266,558	269,742
Commercial overdrafts	-	26	4,810	4,836	85,361	90,197
Total commercial loans	449	236	7,335	8,020	612,591	620,611
Commercial real estate loans						
Commercial mortgage	9,866	1,280	45,459	56,605	750,030	806,635
Construction	16,680	1,629	-	18,309	21,683	39,992
Total commercial real estate loans	26,546	2,909	45,459	74,914	771,713	846,627
Consumer loans						
Automobile financing	611	299	633	1,543	28,283	29,826
Credit card	3,944	1,722	1,272	6,938	66,331	73,269
Overdrafts	6	9	75	90	14,416	14,506
Other consumer	1,879	548	1,773	4,200	204,987	209,187
Total consumer loans	6,440	2,578	3,753	12,771	314,017	326,788
Residential mortgage loans	63,805	34,350	47,144	145,299	2,185,585	2,330,884
Total loans	97,240	40,073	103,691	241,004	3,883,906	4,124,910

⁽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)

Nonaccrual loans and accruing loans 90 days or more past due are summarized in the following table:

	30 June 2012			31 December 2011		
	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	3,869	959	4,828	4,160	-	4,160
Commercial overdrafts	1,575	-	1,575	5,683	-	5,683
Total commercial loans	5,444	959	6,403	9,843	-	9,843
Commercial real estate loans	65,602	612	66,214	53,599	8	53,607
Consumer loans						
Automobile financing	565	85	650	983	-	983
Credit Cards	30	1,133	1,163	-	1,272	1,272
Overdrafts	238	-	238	65	11	76
Other consumer	1,773	707	2,480	1,789	173	1,962
Total consumer loans	2,606	1,925	4,531	2,837	1,456	4,293
Residential mortgage loans	50,452	23,720	74,172	43,828	17,372	61,200
Total loans	124,104	27,216	151,320	110,107	18,836	128,943

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

	30 June 2012	Pass	Special mention	Substandard	Non-accrual	Total loans
Commercial loans						
Government		274,500	-	-	-	274,500
Commercial and industrial		258,910	7,170	610	3,869	270,559
Commercial overdrafts		69,041	9,199	4,563	1,575	84,378
Total commercial loans		602,451	16,369	5,173	5,444	629,437
Commercial real estate loans						
Commercial mortgage		597,617	101,061	40,352	65,602	804,632
Construction		41,129	1,649	-	-	42,778
Total commercial real estate loans		638,746	102,710	40,352	65,602	847,410
Consumer loans						
Automobile financing		26,039	1,349	192	565	28,145
Credit card		68,076	-	1,197	30	69,303
Overdrafts		13,172	291	57	238	13,758
Other consumer		179,131	3,418	9,045	1,773	193,367
Total consumer loans		286,418	5,058	10,491	2,606	304,573
Residential mortgage loans		2,234,460	51,103	64,815	50,452	2,400,830
Total loans		3,762,075	175,240	120,831	124,104	4,182,250

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 2011	Pass	Special mention	Substandard	Non-accrual	Total loans
Commercial loans					
Government	260,672	-	-	-	260,672
Commercial and industrial	253,443	9,732	2,407	4,160	269,742
Commercial overdrafts	81,386	3,128	-	5,683	90,197
Total commercial loans	595,501	12,860	2,407	9,843	620,611
Commercial real estate loans					
Commercial mortgage	608,555	102,705	41,776	53,599	806,635
Construction	38,363	1,629	-	-	39,992
Total commercial real estate loans	646,918	104,334	41,776	53,599	846,627
Consumer loans					
Automobile financing	28,843	-	-	983	29,826
Credit card	71,886	-	1,383	-	73,269
Overdrafts	14,369	72	-	65	14,506
Other consumer	199,412	409	7,577	1,789	209,187
Total consumer loans	314,510	481	8,960	2,837	326,788
Residential mortgage loans	2,198,967	45,795	42,294	43,828	2,330,884
Total loans	3,755,896	163,470	95,437	110,107	4,124,910

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:

	30 June 2012		31 December 2011	
	Individually evaluated	Collectively evaluated	Individually evaluated	Collectively evaluated
Total gross loans evaluated for impairment				
Commercial loans	629,437	-	620,611	-
Commercial real estate loans	847,410	-	846,627	-
Consumer loans	2,606	301,967	2,838	323,950
Residential mortgage loans	56,893	2,343,937	51,210	2,279,674
Total gross loans	1,536,346	2,645,904	1,521,286	2,603,624

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:

	30 June 2012					31 December 2011				
	Commercial	Commercial real estate	Consumer	Residential mortgage	Total	Commercial	Commercial real estate	Consumer	Residential mortgage	Total
Allowances at beginning of period	8,336	17,888	5,735	23,532	55,491	7,311	28,046	5,339	21,024	61,720
Provision taken during the period	343	3,687	1,531	2,818	8,379	1,843	1,483	3,958	5,886	13,170
Recoveries	58	-	1,375	-	1,433	546	634	2,890	13	4,083
Charge-offs	(155)	-	(2,382)	(850)	(3,387)	(1,361)	(12,280)	(6,458)	(3,412)	(23,511)
Other	158	(245)	(803)	1,245	355	(3)	5	6	21	29
Allowances at end of period	8,740	21,330	5,456	26,745	62,271	8,336	17,888	5,735	23,532	55,491
Ending balance: individually evaluated for impairment	2,433	16,582	160	11,517	30,692	2,472	12,017	160	8,821	23,470
Ending balance: collectively evaluated for impairment	6,307	4,748	5,296	15,228	31,579	5,864	5,871	5,575	14,711	32,021

The table below presents information about the Bank's impaired loans:

30 June 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	1,929	(1,790)	139	4,980	6,909	(1,790)	5,119
Commercial overdrafts	677	(643)	34	1,985	2,662	(643)	2,019
Total commercial loans	2,606	(2,433)	173	6,965	9,571	(2,433)	7,138
Commercial real estate	59,045	(16,582)	42,463	16,213	75,258	(16,582)	58,676
Consumer loans							
Automobile financing	234	(75)	159	331	565	(75)	490
Credit cards	-	-	-	30	30	-	30
Overdrafts	-	-	-	238	238	-	238
Other consumer	128	(85)	43	1,645	1,773	(85)	1,688
Total consumer loans	362	(160)	202	2,244	2,606	(160)	2,446
Residential mortgage loans	30,877	(11,517)	19,360	26,016	56,893	(11,517)	45,376
Total impaired loans	92,890	(30,692)	62,198	51,438	144,328	(30,692)	113,636

31 December 2011	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	2,164	(1,803)	361	4,844	7,008	(1,803)	5,205
Commercial overdrafts	669	(669)	-	6,056	6,725	(669)	6,056
Total commercial loans	2,833	(2,472)	361	10,900	13,733	(2,472)	11,261
Commercial real estate loans	41,364	(12,017)	29,347	21,937	63,301	(12,017)	51,284
Consumer loans							
Automobile financing	240	(75)	165	743	983	(75)	908
Overdrafts	-	-	-	65	65	-	65
Other consumer	143	(85)	58	1,647	1,790	(85)	1,705
Total consumer loans	383	(160)	223	2,455	2,838	(160)	2,678
Residential mortgage loans	25,483	(8,821)	16,662	25,727	51,210	(8,821)	42,389
Total impaired loans	70,063	(23,470)	46,593	61,019	131,082	(23,470)	107,612

For the six month period ended 30 June 2012, the amount of gross interest income would have been recorded had impaired loans been current was \$3.3 million (2011: \$4.6 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 (continued)

30 June 2012	Troubled debt restructured and non-accrual loans	
	Average recorded investment	Interest income recognised
Commercial loans		
Commercial and industrial	6,959	96
Commercial overdrafts	4,694	32
Total commercial loans	11,653	128
Commercial real estate loans	69,280	600
Consumer loans		
Automobile financing	774	-
Credit cards	15	-
Overdrafts	152	-
Other consumer	1,782	-
Total consumer loans	2,723	-
Residential mortgage loans	54,052	228
Total troubled debt restructured and non-accrual loans	137,708	956

The table presents information about the Bank's loans modified in a troubled debt restructuring as of 30 June 2012:

	Number of contracts	Recorded investment ⁽¹⁾	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Effect of modification on recorded investment	
					Changes in the timing of principal or interest payments	Interest capitalisation
Commercial loans						
Commercial and industrial	4	3,040	3,160	3,196	-	36
Commercial overdrafts	1	1,087	1,142	1,142	-	-
Total commercial loans	5	4,127	4,302	4,338	-	36
Commercial real estate loans	5	21,928	23,121	23,183	-	61
Residential mortgage loans	11	7,124	7,632	8,248	6	611
Total loans	21	33,179	35,055	35,769	6	708

⁽¹⁾ The amount comprised \$13 million of non-accrual loans and \$20.2 million of loans on accrual status.

The table presents information about the Bank's loans modified in a troubled debt restructuring from 1 July 2011 to 30 June 2012 that subsequently defaulted (i.e., 90 days or more past due following a modification):

	Number of contracts	Recorded investment
Residential mortgage loans	2	974

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 also by geographic region. 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 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 (continued)

The following table summarises the credit exposure of the Bank by business sector. The On-Balance Sheet exposure amounts disclosed is net of specific allowances and the off-Balance Sheet exposure amounts disclosed is gross of collateral held as disclosed in Note 10: Credit Related Arrangements and Commitments.

	30 June 2012			31 December 2011		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Banks and financial services	301,783	463,603	765,386	330,734	496,753	827,487
Commercial and merchandising	257,983	116,177	374,160	270,089	135,340	405,429
Governments	264,222	11,250	275,472	251,795	-	251,795
Individuals	2,352,322	104,517	2,456,839	2,270,737	93,620	2,364,357
Primary industry and manufacturing	69,067	25,171	94,238	199,979	2,692	202,671
Real estate	804,029	69,996	874,025	675,848	94,029	769,877
Hospitality industry	94,807	-	94,807	92,955	-	92,955
Transport and communication	7,345	-	7,345	9,303	-	9,303
Sub-total	4,151,558	790,714	4,942,272	4,101,440	822,434	4,923,874
General allowance	(31,579)	-	(31,579)	(32,021)	-	(32,021)
Total	4,119,979	790,714	4,910,693	4,069,419	822,434	4,891,853

The following table summarises the credit exposure of the Bank by jurisdiction:

	30 June 2012			31 December 2011		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Bermuda	2,468,803	411,932	2,880,735	2,479,669	406,094	2,885,763
Cayman	709,345	231,282	940,627	728,572	177,846	906,418
Guernsey	484,485	75,988	560,473	454,039	149,387	603,426
The Bahamas	3,017	90	3,107	4,742	90	4,832
United Kingdom	485,908	71,422	557,330	434,418	89,017	523,435
Sub-total	4,151,558	790,714	4,942,272	4,101,440	822,434	4,923,874
General allowance	(31,579)	-	(31,579)	(32,021)	-	(32,021)
Total	4,119,979	790,714	4,910,693	4,069,419	822,434	4,891,853

Note 8: Customer Deposits and Deposits from Banks

a) **By Maturity**

	30 June 2012			31 December 2011		
	Customers	Banks	Total	Customers	Banks	Total
Demand deposits						
Demand deposits - Non interest-bearing	1,029,809	756	1,030,565	904,873	-	904,873
Demand deposits - Interest-bearing	4,266,691	110,569	4,377,260	4,087,152	118,653	4,205,805
Sub-total - demand deposits	5,296,500	111,325	5,407,825	4,992,025	118,653	5,110,678
Term deposits						
Term deposits maturing within six months	1,644,811	5,032	1,649,843	1,924,973	6,410	1,931,383
Term deposits maturing between six to twelve months	128,206	180	128,386	119,110	382	119,492
Term deposits maturing after twelve months	101,500	121	101,621	94,887	121	95,008
Sub-total - term deposits	1,874,517	5,333	1,879,850	2,138,970	6,913	2,145,883
Total	7,171,017	116,658	7,287,675	7,130,995	125,566	7,256,561

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 (continued)

b) By Type and Location

	30 June 2012			31 December 2011		
	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	2,273,070	865,381	3,138,451	2,237,849	1,021,747	3,259,596
Banks	96,944	-	96,944	110,127	-	110,127
Cayman						
Customers	1,441,319	382,440	1,823,759	1,319,357	423,436	1,742,793
Banks	9,828	5,318	15,146	5,692	6,074	11,766
Guernsey						
Customers	1,178,409	284,014	1,462,423	1,018,084	316,172	1,334,256
Banks	4,311	-	4,311	2,834	388	3,222
The Bahamas						
Customers	49,642	3,457	53,099	55,350	3,968	59,318
United Kingdom						
Customers	354,060	339,225	693,285	361,385	373,647	735,032
Banks	242	15	257	-	451	451
Total Customers	5,296,500	1,874,517	7,171,017	4,992,025	2,138,970	7,130,995
Total Banks	111,325	5,333	116,658	118,653	6,913	125,566
Total	5,407,825	1,879,850	7,287,675	5,110,678	2,145,883	7,256,561

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		For the six month period ended	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Defined benefit pension expense				
Service cost	428	649	871	1,346
Interest cost	1,735	1,786	3,498	3,665
Expected return on plan assets	(2,023)	(2,193)	(4,077)	(4,508)
Amortisation of net actuarial loss	328	1,006	658	2,011
Total defined benefit pension expense	468	1,248	950	2,514
Post-retirement medical benefit expense				
Service cost	236	185	472	370
Interest cost	1,052	1,107	2,103	2,214
Amortisation of net actuarial loss	518	234	1,037	468
Amortisation of past service cost	(1,680)	(1,539)	(3,360)	(3,079)
Total post-retirement medical benefits expense	126	(13)	252	(27)

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.

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 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 (continued)

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

	30 June 2012			31 December 2011		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	329,838	291,170	38,668	320,968	303,769	17,199
Letters of guarantee	14,021	11,807	2,214	13,147	9,876	3,271
Total	343,859	302,977	40,882	334,115	313,645	20,470

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:

	30 June 2012	31 December 2011
Commitments to extend credit	444,048	483,020
Commitments to extend credit with terms modified by troubled debt restructuring	224	779
Documentary and commercial letters of credit	2,583	4,520
Total	446,855	488,319

The Bank has a facility by one of its custodians, whereby the Bank may offer up to US\$200 million of standby letters of credit to its customers on a fully secured basis. Under the standard terms of the facility, the custodian has the right to set-off against securities held of 110% of the utilised facility. At 30 June 2012, \$137.3 million (2011: \$137.1 million) of standby letters of credit were issued under this facility.

On 31 December 2010 the Bank entered a credit line facility of up to \$150.0 million with the same custodian. The custodian had the right of set-off against the scaled market value of the Bank's investment portfolio. There were no draws on this facility during the year ended 31 December 2011. The facility expired on 31 December 2011.

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.

Note 11: Segmented Information

Total Assets by Segment

	30 June 2012	31 December 2011
Bermuda	4,450,299	4,574,921
Cayman	2,055,816	1,974,338
Guernsey	1,614,473	1,479,901
Switzerland	1,467	1,118
The Bahamas	65,746	77,565
United Kingdom	926,973	976,451
Total assets from continuing operations	9,114,774	9,084,294
Total assets from discontinued operations	298,107	307,044
	9,412,881	9,391,338
Less: inter-segment eliminations	(535,444)	(566,988)
Total assets	8,877,437	8,824,350

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 30 June 2012

	Net interest income						Net income (loss) before gains and losses	Gains and losses	Net income (loss)
	Customer	Inter- segment	Provision for credit losses	Non- interest income	Revenue before gains and losses	Total expense			
Bermuda	33,207	352	64	16,345	49,968	40,950	9,018	(529)	8,489
Cayman	11,149	298	(1,191)	7,604	17,860	13,782	4,078	4,251	8,329
Guernsey	5,326	(38)	(33)	5,021	10,276	7,580	2,696	(31)	2,665
Switzerland	-	-	-	263	263	620	(357)	-	(357)
The Bahamas	52	99	-	1,159	1,310	1,289	21	-	21
United Kingdom	4,245	(711)	(3,781)	2,543	2,296	4,636	(2,340)	(767)	(3,107)
Total before eliminations	53,979	-	(4,941)	32,935	81,973	68,857	13,116	2,924	16,040
Add / (Less): inter-segment eliminations / transactions	-	-	-	(482)	(482)	(482)	-	-	-
Total from continuing operations	53,979	-	(4,941)	32,453	81,491	68,375	13,116	2,924	16,040

For the three month period ended 30 June
2011

	Net interest income						Net income (loss) before gains and losses	Gains and losses	Net income (loss)
	Customer	Inter- segment	Provision for credit losses	Non- interest income	Revenue before gains and losses	Total expense			
Bermuda	32,655	180	(2,264)	15,769	46,340	42,309	4,031	2,941	6,972
Cayman	9,161	197	(343)	7,836	16,851	14,284	2,567	-	2,567
Guernsey	4,071	1	-	5,293	9,365	7,558	1,807	2	1,809
Switzerland	-	-	-	156	156	509	(353)	-	(353)
The Bahamas	385	44	30	1,257	1,716	1,491	225	2	227
United Kingdom	3,575	(422)	(2)	2,978	6,129	5,876	253	24	277
Total before eliminations	49,847	-	(2,579)	33,289	80,557	72,027	8,530	2,969	11,499
Add / (Less): inter-segment eliminations / transactions	-	-	-	(1,234)	(1,234)	(1,234)	-	(2)	(2)
Total from continuing operations	49,847	-	(2,579)	32,055	79,323	70,793	8,530	2,967	11,497

For the six month period ended 30
June 2012

	Net interest income						Net income (loss) before gains and losses	Gains and losses	Net income (loss)
	Customer	Inter- segment	Provision for credit losses	Non- interest income	Revenue before gains and losses	Total expense			
Bermuda	66,041	648	(3,207)	32,113	95,595	83,048	12,547	1,791	14,338
Cayman	21,565	608	(1,341)	16,133	36,965	27,251	9,714	4,489	14,203
Guernsey	11,035	(35)	(351)	10,189	20,838	15,686	5,152	(31)	5,121
Switzerland	-	-	-	554	554	1,180	(626)	-	(626)
The Bahamas	94	210	-	2,335	2,639	2,755	(116)	-	(116)
United Kingdom	8,426	(1,431)	(3,480)	4,930	8,445	9,966	(1,521)	(796)	(2,317)
Total before eliminations	107,161	-	(8,379)	66,254	165,036	139,886	25,150	5,453	30,603
Add / (Less): inter-segment eliminations / transactions	-	-	-	(1,264)	(1,264)	(1,264)	-	-	-
Total from continuing operations	107,161	-	(8,379)	64,990	163,772	138,622	25,150	5,453	30,603

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 six month period ended 30
June 2011

	Net interest income		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)
	Customer	Inter- segment							
Bermuda	65,720	360	(4,928)	32,443	93,595	85,592	8,003	2,069	10,072
Cayman	17,778	423	(1,220)	15,321	32,302	26,781	5,521	1	5,522
Guernsey	7,231	(21)	-	11,151	18,361	15,107	3,254	275	3,529
Switzerland	-	-	-	307	307	1,024	(717)	-	(717)
The Bahamas	961	46	(133)	2,593	3,467	2,661	806	2	808
United Kingdom	6,781	(808)	(244)	5,550	11,279	11,051	228	24	252
Total before eliminations	98,471	-	(6,525)	67,365	159,311	142,216	17,095	2,371	19,466
Add / (Less): inter-segment eliminations / transactions	-	-	-	(2,453)	(2,453)	(2,453)	-	(275)	(275)
Total from continuing operations	98,471	-	(6,525)	64,912	156,858	139,763	17,095	2,096	19,191

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 reaches 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, such that previously contracted derivative transactions have become more or less favourable than what can be negotiated under current market conditions for contracts with the same remaining period to maturity. 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.

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)

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 six months ended 30 June 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 will be amortised to net income over the remaining life of each individual loan using the effective interest method.

Cash flow hedges

Derivatives are designated as cash flow hedges in order to minimise the variability in cash flows of interest-earning assets caused by movements in interest rates. The effective portion of changes in the fair value of such derivatives is recognised in accumulated other comprehensive income, a component of Shareholders' equity. When the hedged item impacts earnings, balances in other comprehensive income are reclassified to the same income or expense classification as the hedged item. The Bank applies the "shortcut" method of accounting for cash flow hedges of held to maturity investments, in assessing whether these hedging relationships are highly effective at inception and on an ongoing basis. Any ineffectiveness in cash flow hedge is recognised in earnings.

As of 30 June 2012 and 2011 there were no cash flow hedges in place and there were no deferred net gains or losses on derivative instruments accumulated in other comprehensive income in relation with cash flow hedges.

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 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.

30 June 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	9,818	-	(154)	(154)
Investments	Interest rate swaps	-	-	-	-
Sub-total fair value hedges		9,818	-	(154)	(154)
Not designated as hedging instruments					
	Currency swaps	381,379	3,283	(3,934)	(651)
	Foreign currency options	10,000	405	-	405
Sub-total not designated as hedges		391,379	3,688	(3,934)	(246)
Sub-total risk management derivatives		401,197	3,688	(4,088)	(400)
Client services derivatives					
	Spot and forward foreign exchange	5,610,753	45,237	(44,725)	512
	Interest rate caps	-	-	-	-
Sub-total client services derivatives		5,610,753	45,237	(44,725)	512
Total derivative instruments		6,011,950	48,925	(48,813)	112

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)

31 December 2011	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	11,436	-	(227)	(227)
Investments	Interest rate swaps	18,613	18	-	18
Sub-total fair value hedges		30,049	18	(227)	(209)
Not designated as hedging instruments					
	Currency swaps	346,453	1,031	(105)	926
	Foreign currency options	65,335	3,160	(651)	2,509
Sub-total not designated as hedges		411,788	4,191	(756)	3,435
Sub-total risk management derivatives		441,837	4,209	(983)	3,226
Client services derivatives					
	Spot and forward foreign exchange	5,775,477	44,207	(43,756)	451
	Interest rate caps	37,225	89	(89)	-
Sub-total client services derivatives		5,812,702	44,296	(43,845)	451
Total derivative instruments		6,254,539	48,505	(44,828)	3,677

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

		For the three month period ended		For the six month period ended	
Derivative Instrument	Consolidated Statement of Operations line item	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Interest rate swaps	Net other gains (losses)	-	(254)	1	(432)
Forward foreign exchange	Foreign exchange revenue	(803)	(684)	71	1,008
Foreign currency options	Foreign exchange revenue	144	-	(447)	-
Total net losses recognised in net income		(659)	(938)	(375)	576

Note 13: Fair Value of Financial Instruments

Management classifies items that are recognised at fair value on a recurring basis based on the markets in which the assets are traded and the inputs of the assumptions used to determine fair value. These levels are:

Level 1 quoted market price

Fair value inputs are considered Level 1 when based on unadjusted quoted prices in active markets for identical assets. Financial instruments in Level 1 include listed equity Shares and actively traded redeemable mutual funds.

Level 2 valuation technique using observable inputs

Fair value inputs are considered Level 2 when based on internally developed models or based on prices published by independent pricing services using proprietary models. To qualify for Level 2, all significant inputs used in these models must be observable in the market place or can be corroborated by observable market data for substantially the full term of the instrument and includes, among others: interest yield curves, credit spreads, prices for similar assets and foreign exchange rates. Level 2 also includes financial instruments that are valued using quoted price for identical assets but for which the market is not considered active due to low trading volumes. Consistent with the significant accounting policy in as 2011 annual audited financial statements, the current carrying value of other real estate owned will be adjusted to fair value only when there is a devaluation below cost.

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.

Level 3 valuation technique with significant unobservable

Fair value inputs are considered Level 3 when based on internally developed models using significant unobservable assumptions involving management's estimations or non-binding bid quotes from brokers.

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.

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 recurring basis

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.

	30 June 2012 Fair value				31 December 2011 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	-	5,984	-	5,984	-	5,971	-	5,971
Mutual funds	5,118	51,207	-	56,325	5,368	51,252	-	56,620
Total Trading	5,118	57,191	-	62,309	5,368	57,223	-	62,591
Available for sale								
Certificates of deposit	-	617,635	-	617,635	-	356,493	-	356,493
US government and federal agencies	-	868,111	-	868,111	-	790,804	-	790,804
Debt securities issued by non-US governments	-	102,136	-	102,136	-	88,658	-	88,658
Corporate debt securities guaranteed by non-US governments	-	92,292	-	92,292	-	121,648	-	121,648
Corporate debt securities	-	310,924	-	310,924	-	405,249	-	405,249
Asset-backed securities - Student loans	-	130,729	10,898	141,627	-	133,182	11,164	144,346
Pass-through Note	-	-	28,481	28,481	-	-	26,991	26,991
Equity securities	-	71	-	71	-	70	-	70
Total Available for sale	-	2,121,898	39,379	2,161,277	-	1,896,104	38,155	1,934,25
Other assets - Derivatives	-	48,925	-	48,925	-	48,505	-	48,505
Other assets - Closed ended real estate fund	-	-	5,197	5,197	-	-	6,199	6,199
Financial liabilities								
Other liabilities - Derivatives	-	(48,813)	-	(48,813)	-	(44,828)	-	(44,828)

Consistent with the significant accounting policy in the 2011 annual audited financial statements, the current carrying value of other real estate owned will be adjusted to fair value only when there is devaluation below cost.

Transfers of securities

	30 June 2012		31 December 2011	
	Trading investments	Available for sale investments	Trading investments	Available for sale investments
Transfers in and (out) of Level 1	-	-	(50,035)	-
Transfers in and (out) of Level 2	-	-	50,035	-

The transfer out of Level 1 and into Level 2 represent transfers of mutual fund classified at measurement date based on the level of trading.

The following table presents quantitative information about recurring fair value measurements of assets classified with Level 3 of the fair value hierarchy as of 30 June 2012.

Financial Instrument Type	Valuation Technique	Fair Value
Asset-backed securities - Student loans	Vendor priced	10,898
Pass-through note	Vendor priced	28,481
Closed ended real estate fund	Net Asset value of fund	5,197

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

Vendor-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.

Net Asset value of fund

The per-share dollar amount of the fund is calculated by dividing the total value of all the assets in its portfolio, less any liabilities, by the number of fund shares outstanding.

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)

Level 3 reconciliation	For the six month period ended			
	30 June 2012		30 June 2011	
	Available for sale investments	Closed ended property fund	Available for sale investments	Closed ended property fund
Carrying amount at beginning of period	38,155	6,199	44,483	9,044
Purchases	-	-	290	-
Proceeds from sale / Capital distributions	(2,643)	(1,154)	(2,276)	-
Accretion recognised in net income	888	-	888	(103)
Realised and unrealised gains recognised in other comprehensive income	2,979	33	234	-
Foreign exchange translation adjustment	-	119	-	274
Carrying amount at end of period	39,379	5,197	43,619	9,215

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

	30 June 2012			31 December 2011		
	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
Financial assets						
Cash and cash equivalents	1,561,765	1,561,765	-	1,902,726	1,902,726	-
Short-term investments	34,096	34,096	-	20,280	20,280	-
Investments held to maturity	198,334	202,784	4,450	64,789	64,588	(201)
Loans, net of allowance for credit losses	4,119,979	4,114,129	(5,850)	4,069,419	4,060,193	(9,226)
Financial liabilities						
Customer deposits						
Demand deposits	5,296,500	5,296,500	-	4,992,025	4,992,025	-
Term deposits	1,874,517	1,877,173	(2,656)	2,138,970	2,142,748	(3,778)
Deposits from banks	116,658	116,658	-	125,666	125,666	-
Subordinated capital	260,000	237,109	22,891	267,755	225,019	42,736

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 expected duration which the Bank believes is more representative of maturity date than actual contractual maturity.

30 June 2012	Earlier of maturity or repricing date						
(in \$ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non interest-bearing funds	Total
Assets							
Cash and cash equivalents	1,334	-	-	-	-	228	1,562
Short-term investments	26	2	6	-	-	-	34
Investments	632	281	137	872	444	56	2,422
Loans	3,409	48	25	368	210	60	4,120
Premises, equipment and computer software	-	-	-	-	-	267	267
Other assets	-	-	-	-	-	472	472
Total assets	5,401	331	168	1,240	654	1,083	8,877
Liabilities and Shareholders' equity							
Shareholders' equity	-	-	-	-	-	871	871
Demand deposits	4,377	-	-	-	-	1,031	5,408
Term deposits	1,432	218	128	101	-	-	1,879
Other liabilities	-	-	-	-	-	459	459
Subordinated capital	90	-	-	145	25	-	260
Total liabilities and Shareholders' equity	5,899	218	128	246	25	2,361	8,877
Interest rate swaps	10	(2)	-	(8)	-	-	-
Interest rate sensitivity gap	(488)	111	40	986	629	(1,278)	-
Cumulative interest rate sensitivity gap	(488)	(377)	(337)	649	1,278	-	-

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 (continued)

31 December 2011	Earlier of maturity or repricing date						
(in \$ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non interest-bearing funds	Total
Assets							
Cash and cash equivalents	1,709	-	-	-	-	194	1,903
Short-term investments	12	5	3	-	-	-	20
Investments	450	207	128	978	242	57	2,062
Loans	3,508	117	36	310	51	47	4,069
Premises, equipment and computer software	-	-	-	-	-	272	272
Other assets	-	-	-	-	-	498	498
Total assets	5,679	329	167	1,288	293	1,068	8,824
Liabilities and Shareholders' equity							
Shareholders' equity	-	-	-	-	-	830	830
Demand deposits	4,206	-	-	-	-	905	5,111
Term deposits	1,667	265	119	95	-	-	2,146
Other liabilities	-	-	-	-	-	469	469
Subordinated capital	98	-	-	145	25	-	268
Total liabilities and Shareholders' equity	5,971	265	119	240	25	2,204	8,824
Interest rate swaps	2	8	(2)	(8)	-	-	-
Interest rate sensitivity gap	(290)	72	46	1,040	268	(1,136)	-
Cumulative interest rate sensitivity gap	(290)	(218)	(172)	868	1,136	-	-

Note 15: Earnings per Share

Earnings per Share ("EPS") have been calculated using the weighted average number of Common Shares outstanding during the period after deduction of the Shares held as Treasury Shares. The Contingent Value Convertible Preference Shares are classified as participating Shares 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.

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 period. Diluted earnings per Common Share include the dilutive effect resulting from the share based awards. Numbers of Shares are expressed in thousands.

	For the three month period ended		For the six month period ended	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Basic earnings per Share				
Net income for the period	16,040	11,497	30,603	19,191
Less: Preference dividends declared and guarantee fee	(4,500)	(7,803)	(9,000)	(12,303)
Net income from continuing operations attributable for Common Shareholders	11,540	3,694	21,603	6,888
Net income from discontinued	202	301	320	975
Net income attributable for Common Shareholders	11,742	3,995	21,923	7,863
Weighted average number of participating Shares	556,933	556,933	556,933	556,933
Weighted average number of Common Shares held as Treasury stock	(1,105)	(2,402)	(1,527)	(2,402)
Adjusted weighted average number of Common Shares	555,828	554,531	555,406	554,531
Basic earnings per Share from continuing operations	0.02	0.01	0.04	0.01
Basic earnings per Share from discontinued operations	-	-	-	-
Basic earnings per Share	0.02	0.01	0.04	0.01
Diluted earnings per Share				
Net income from continuing operations attributable for Common Shareholders	11,540	3,694	21,603	6,888
Net income from discontinued	202	301	320	975
Net income attributable for Common Shareholders	11,742	3,995	21,923	7,863
Adjusted weighted average number of Common Shares	555,828	554,531	555,406	554,531
Weighted average number of dilutive Share-based awards	2,665	-	2,182	-
Adjusted weighted average number of diluted Common Shares	558,493	554,531	557,588	554,531
Diluted earnings per Share from continuing operations	0.02	0.01	0.04	0.01
Diluted earnings per Share from discontinued operations	-	-	-	-
Diluted earnings per Share	0.02	0.01	0.04	0.01

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Notes to the Unaudited Consolidated Financial Statements (continued)

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During the six month ended period ending 30 June 2012, the weighted-average number of outstanding options to purchase 33.2 million (2011: 34.7 million) shares of Common Shares (see Note 16: Share-based payments), were outstanding but were anti-dilutive and, therefore, not included in the computation of diluted earnings per share. Each of the time vested options were considered anti-dilutive because the sum of the option's expense that will be recognised in the future and its exercise price was greater than the average market price of the Bank's Common Share.

During the six month ended period ending 30 June 2012, the weighted-average number of outstanding awards of unvested Common Shares (see Note 16) was 6.8 million (2011: 3.9 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 Share. The awards' yet 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 Shares were not included in the computation of earnings per share in 2011 and 2010 because the exercise price was greater than the average market price of the Bank's common stock.

Note 16: Share-Based Payments

Employee Deferred Incentive Plan ("EDIP")

Under the Bank's EDIP Plan, shares are 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.

Executive long-term incentive Share plan ("ELTIP")

Under the Bank's ELTIP Plan, Shares are awarded to Bank employees and Executive Management, based on predetermined vesting conditions. The ELTIP Plan comprises 2 types of vesting conditions upon which the Shares will be awarded i.e.

- Time Vesting Condition - 50% of each Share award is granted in the form of Time Vested Shares, vesting 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.

The Stock Option Plan is described in the 2011 annual financial statements.

On 29 February 2012 the Board approved the 2011 Employee deferred incentive plan and the 2012 Executive long term incentive share plan resulting in 1.6 million and 4.0 million shares being awarded to eligible employees.

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 six month period ended					
	30 June 2012			30 June 2011		
	Stock option plans	EDIP and ELTIP	Total	Stock option plans	EDIP and ELTIP	Total
Share-based compensation plans – continuing operations						
Awards granted in years 2010, 2011 and 2012	760	1,743	2,503	847	810	1,657
Share-based compensation plans – discontinued operations						
Awards granted in years 2010, 2011 and 2012	-	-	-	-	34	34
Total Share-based compensation	760	1,743	2,503	847	844	1,691
Share-based settlement plans						
Directors Shares and retainers settlement plans			114			172
Total Share-based payments			2,617			1,863

Number of Shares transferable upon exercise (thousands)

For the six month period ended 30 June 2012

Outstanding at beginning of period

Stock option plans

Granted	33,632
Forfeited / cancelled	100
Exercised	(448)
Resignation	(6)
	(303)

Outstanding at the end of period **32,975**

Number of Shares transferable upon vesting (thousands)

For the six month period ended 30 June 2012

ELTIP and DIP

Outstanding at beginning of period	3,791
Granted	5,559
Forfeited / cancelled	(89)
Vested	(1,222)
Outstanding unvested at end of period	8,039

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)

Unrecognised expense	For the six months ended 30 June 2012
2010 Stock Option Plan	
Time Vesting Options	4,817
Performance Vesting Options	9,045
2011/2012 EDIP	2,104
2011/2012 ELTIP	
Time Vesting Shares	2,564
Performance Vesting Shares	2,571
	21,101

Note 17: Variable Interest Entities

The Bank has no investments in variable interest entities for which it was deemed the primary beneficiary for the periods ended 30 June 2012 and 2011.

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

Note 18: Share Buy-Back Plans

The Bank introduced a Share Buyback Programme on 1 May 2012 as a means to improve Shareholder liquidity and facilitate growth in Share value. Under this Programme, up to six million Common Shares and 2,000 Preference Shares may be repurchased. During the six month ended 30 June 2012 533,414 Common Shares were purchased to be held as treasury stock at a cost of \$662,425.

Note 19: Capital Structure

Authorised capital

The Bank's total authorised share capital as of 30 June 2012 consisted of (i) 26 billion ordinary shares of par value BD\$0.01, (ii) 100,200,001 preference shares of par value US\$0.01 and (iii) 50 million preference shares of par value £0.01.

Preference shares

On 22 June 2009, the Bank issued 200,000 Government guaranteed, 8.00% Non-Cumulative Perpetual Limited Voting Preference Shares (the "Preference Shares"). The issuance price was US\$1,000 per share. The Preference Shares are fully and unconditionally guaranteed, with the full faith and credit of the Government of Bermuda, as to payment of dividends for up to ten years and as to payment of the liquidation preference on, or in certain circumstances prior to, the ten-year anniversary of the date of issuance.

At any time after the expiry of the guarantee offered by the Government of Bermuda, and subject to the approval of the Bermuda Monetary Authority, the Bank may redeem, in whole or in part, on the tenth day prior to the ten-year anniversary of the date of issuance (the "Bank Redemption Date"), at a redemption price equal to 100% of the liquidation preference thereof plus any unpaid dividends for the then-current dividend period to the Guarantee End Date, regardless of whether any dividends are actually declared for such dividend period. In addition, the Bank may redeem the Preference Shares prior to the Bank Redemption Date, at its option, subject to approval of the BMA, in whole or in part, at any time and from time to time, at a redemption price equal to the Make-Whole Redemption Price.

Holders of Preference Shares will be entitled to receive, on each Preference Share only when, as and if declared by our Board of Directors, non-cumulative cash dividends at a rate per annum equal to 8.00% on the liquidation preference of \$1,000 per Preference Share payable quarterly in arrears.

Regulatory capital

The Bank is subject to Basel II which is a risk-based capital adequacy framework developed by the Basel Committee on Banking Supervision (the "Basel Committee") and has been endorsed by the central bank governors and heads of bank supervision of the G10 countries. In December 2008, the Bermuda Monetary Authority published final rules, effective 1 January 2009, with respect to the implementation of the Basel II framework. From this date the Bank has calculated its capital requirement on the Standardised approach under Basel II requirements.

The Bank is fully compliant with all regulatory capital requirements and maintains capital ratios well in excess of regulatory minimums as at 30 June 2012 and 31 December 2011. As at 30 June 2012, the Bank's regulatory capital stood at \$1,064 million (2011: \$1,041 million) with the consolidated Tier 1 total and Total Capital ratios being 17.8% and 23.5%, respectively (2011: 17.7% and 23.5%, respectively).

Note 20: Disposal of affiliate

On 5 April 2012, the Bank sold its 27.76% interest in Island Heritage Holdings Ltd., a Cayman based insurance company, to BF&M Limited. The sale was completed in the second quarter of 2012 with gross proceeds on the sale of \$18.5 million, resulting in a gain of \$4.3 million.

The Bank of N.T. Butterfield & Son Limited

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

(in thousands of Bermuda dollars)

Note 21: Related party transactions

Interested director transactions

The Bank provides loans and other banking services to the Bank's directors, as well as their immediate family members and companies with which they are affiliated as described in Section 96 of the Companies Act 1981, in the ordinary course of business. The Bank provides these services on normal commercial terms in respect of interest rates, repayment terms and security.

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 2 persons for nomination for election by the Shareholders as members of the Bank's Board of Directors.

Balance Sheet Management Advisory Agreement

The Bank entered into a management advisory agreement with Carlyle Investment Management LLC, an affiliated company of the Carlyle Group with an effective date of 1 October 2010. Per the agreement the Carlyle Group has agreed to provide Balance Sheet management advisory services to the Bank, including advisory services on valuation assessments, for an annual fee of \$4 million for a three-year period.

Note 22: Comparative Information

Certain prior-period figures have been reclassified to conform to current period presentation.

Note 23: Subsequent Events

The financial statements were available to be issued and subsequent events have been evaluated up to 31 July 2012.