



A Foundation for *Growth*



Third Quarter 2012

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

The Bank of N.T. Butterfield & Son Limited

Unaudited Consolidated Balance Sheets

(in thousands of Bermuda dollars)

As at

	30 September 2012	31 December 2011
Assets		
Cash and demand deposits with banks	342,147	383,827
Cash equivalents	1,257,721	1,518,899
Total cash and cash equivalents	1,599,868	1,902,726
Short-term investments	35,664	20,280
Debt and equity securities		
Trading	61,826	62,591
Available for sale	2,375,240	1,934,259
Held to maturity	248,000	64,789
Total investments in debt and equity securities	2,685,066	2,061,639
Loans, net of allowance for credit losses	3,930,264	4,069,419
Premises, equipment and computer software	265,247	272,472
Accrued interest	24,984	24,094
Goodwill	16,511	15,937
Intangible assets	25,223	30,163
Investments in affiliates	18,571	32,582
Other real estate owned	25,231	27,354
Other assets	59,364	60,640
Assets of discontinued operations	-	307,044
Total assets	8,685,993	8,824,350
Liabilities		
Deposits		
Non-interest-bearing	914,280	904,873
Interest bearing		
Customers	6,257,537	6,226,122
Banks	132,943	125,566
Total deposits	7,304,760	7,256,561
Employee future benefits	104,107	104,913
Accrued interest	6,214	7,865
Preference Share dividends payable	715	715
Pending payable for investments purchased	10,218	-
Other liabilities	90,818	84,767
Liabilities of discontinued operations	-	272,049
Total other liabilities	212,072	470,309
Subordinated capital	260,000	267,755
Total liabilities	7,776,832	7,994,625
Shareholders' equity		
Common Share capital (BMD 0.01 par; authorised Shares 26,000,000,000)		
issued and outstanding: 549,557,394 (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: 7,375,141 (2011: 7,464,186)	74	75
Additional paid-in capital	1,366,540	1,377,556
Accumulated deficit	(454,114)	(490,377)
Less: Treasury Common Shares: 2,861,136 Shares (2011: 2,163,958 Shares)	(9,085)	(21,723)
Accumulated other comprehensive gain (loss)	249	(41,302)
Total Shareholders' equity	909,161	829,725
Total liabilities and Shareholders' equity	8,685,993	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 and Comprehensive Income

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

	For the three month period ended		For the nine month period ended	
	30 September 2012	30 September 2011	30 September 2012	30 September 2011
Non-interest income				
Asset management	5,122	5,399	17,400	16,921
Banking	9,706	7,469	25,537	23,831
Foreign exchange revenue	5,808	7,295	19,840	21,652
Trust	7,114	7,245	21,434	21,518
Custody and other administration services	2,598	3,184	7,971	9,365
Other non-interest income	1,824	1,846	4,980	4,062
Total non-interest income	32,172	32,438	97,162	97,349
Interest income				
Loans	46,665	48,037	144,425	139,102
Investments	12,169	11,408	36,468	33,230
Deposits with banks	1,250	2,241	3,974	8,208
Total interest income	60,084	61,686	184,867	180,540
Interest expense				
Deposits	4,960	6,910	16,233	22,419
Subordinated capital	3,124	2,721	9,473	7,595
Total interest expense	8,084	9,631	25,706	30,014
Net interest income before provision for credit losses	52,000	52,055	159,161	150,526
Provision for credit losses	(2,906)	(3,278)	(11,285)	(9,804)
Net interest income after provision for credit losses	49,094	48,777	147,876	140,722
Net realised / unrealised gains (losses) on trading investments	207	(908)	245	(910)
Net realised gains on available for sale investments	-	888	1,801	1,081
Net realised / unrealised losses on other real estate owned	(1,278)	-	(2,037)	-
Net gain on sale of affiliate	-	-	4,250	3,178
Net other gains	161	1,392	284	119
Total other (losses) gains	(910)	1,372	4,543	3,468
Total net revenue	80,356	82,587	249,581	241,539
Non-interest expense				
Salaries and other employee benefits	34,775	35,569	104,742	106,693
Technology and communications	14,491	13,025	43,485	38,975
Property	6,803	6,942	19,697	20,217
Professional and outside services	3,716	5,367	11,304	12,755
Non-income taxes	3,274	3,362	10,043	10,474
Amortisation of intangible assets	1,234	1,296	3,793	3,910
Marketing	730	1,141	3,022	3,380
Other expenses	3,857	4,136	10,816	13,780
Total non-interest expense	68,880	70,838	206,902	210,184
Net income before income taxes from continuing operations	11,476	11,749	42,679	31,355
Income tax benefit (expense)	64	(411)	(536)	(827)
Net income from continuing operations	11,540	11,338	42,143	30,528
Discontinued Operations				
Income from discontinued operations before income taxes	147	(21)	693	1,124
Gain on sale of discontinued operations	7,240	-	7,240	-
Income tax expense	(87)	(84)	(313)	(253)
Net income from discontinued operations	7,300	(105)	7,620	871
Net income	18,840	11,233	49,763	31,399
Cash dividends declared on Contingent Value Convertible Preferred Shares	-	33	-	(3,270)
Cash dividends declared on Preference Shares	(4,000)	(4,000)	(12,000)	(12,000)
Preference Shares guarantee fee	(500)	(500)	(1,500)	(1,500)
Net income attributable to Common Shareholders	14,340	6,766	36,263	14,629
Earnings per Common Share				
Basic Earnings per Share	0.03	0.01	0.07	0.03
Diluted Earnings per Share	0.03	0.01	0.07	0.03
Basic Earnings per Share from continuing operations	0.01	0.01	0.05	0.02
Diluted Earnings per Share from continuing operations	0.01	0.01	0.05	0.02

The accompanying notes are an integral part of these consolidated financial

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

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

	For the three month period ended		For the nine month period ended	
	30 September 2012	30 September 2011	30 September 2012	30 September 2011
Net income	18,840	11,233	49,763	31,399
Other comprehensive income				
Net change in unrealised gains (losses) on translation of net investment in foreign operations	1,543	(848)	1,237	(342)
Net change in unrealised gains on available for sale investments	23,289	2,740	42,923	24,972
Net change in employee future benefits liability	(869)	(300)	(2,609)	(901)
Other comprehensive income	23,963	1,592	41,551	23,729
Total comprehensive income	42,803	12,825	91,314	55,128

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

(in thousands of Bermuda dollars)

	For the nine month period ended	
	30 September 2012	30 September 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: 89,045 Shares; 2011: 188,566 Shares)	1	2
Balance at end of period (2012: 549,557,394 Shares; 2011: 549,332,014 Shares)	5,495	5,493
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: 89,045 Shares; 2011: 188,566 Shares)	(1)	(2)
Balance at end of period (2012: 7,375,141 Shares; 2011: 7,600,521 Shares)	74	76
Additional paid-in capital		
Balance at beginning of period	1,377,556	1,376,037
Stock option plan expense	4,065	2,619
Reduction of additional paid-in capital on transfer of Treasury Common Shares	(15,081)	(2,048)
Balance at end of period	1,366,540	1,376,608
Accumulated deficit		
Balance at beginning of period	(490,377)	(509,579)
Net income for period	49,763	31,399
Cash dividends declared on Contingent Value Convertible Preferred Shares	-	(3,270)
Cash dividends declared on Preference Shares	(12,000)	(12,000)
Preference Shares guarantee fee	(1,500)	(1,500)
Balance at end of period	(454,114)	(494,950)
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	293	270
Purchases of Treasury Common Shares	(2,736)	-
Net transfers of Treasury Common Shares	15,081	2,048
Balance at end of period (2012: 2,861,136 Shares; 2011: 2,168,446 Shares)	(9,085)	(21,809)
Accumulated other comprehensive income (loss)		
Balance at beginning of period	(41,302)	(38,614)
Other comprehensive income	41,551	23,729
Balance at end of period	249	(14,885)
Total Shareholders' equity	909,161	850,535

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 nine month period ended	
	30 September 2012	30 September 2011
Cash flows from operating activities		
Net income	49,763	31,399
Net income from discontinued operations	(7,620)	(871)
Net income from continuing operations	42,143	30,528
Adjustments to reconcile net income to operating cash flows:		
Depreciation and amortization	34,629	27,702
Net loss on sale of customer relationships intangible assets	515	-
(Increase) decrease in carrying value of investments in affiliates	(203)	1,171
Share-based payments	4,358	2,889
Net gain on sale of affiliate	(4,250)	(3,178)
Net gain on repayment of sub-debt	-	(1,125)
Net realised / unrealised losses on other real estate owned	2,037	-
Net realised gain on available for sale securities	(1,801)	(1,081)
Provision for credit losses	11,285	9,804
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(587)	(3,510)
Increase in other assets	2,233	7,643
Decrease in accrued interest payable	(1,711)	(1,016)
Decrease in other liabilities	(6,053)	(21,489)
	82,595	48,338
Net change in trading investments	1,178	(47,887)
Cash provided by operating activities from continuing operations	83,773	451
Cash flows from investing activities		
Net proceeds on sale of affiliate	18,464	3,178
Net increase in short-term investments	(15,025)	(12,298)
Net additions to premises, equipment and computer software	(11,613)	(24,205)
Net decrease (increase) in loans	163,828	(232,902)
Net proceeds on sale of subsidiary	41,862	-
Net proceeds on sale of customer relationships intangible assets	1,421	-
Proceeds on sale of other real estate owned	1,947	-
Held to maturity investments: proceeds from maturities	7,723	-
Held to maturity investments: purchases	(191,305)	-
Available for sale investments: proceeds from sale, maturities and pay downs	1,281,944	2,178,509
Available for sale investments: purchases	(1,648,961)	(1,711,127)
Cash used in investing activities from continuing operations	(349,715)	201,155
Cash flows from financing activities		
Net increase (decrease) in demand and term deposit liabilities	(32,917)	(353,258)
Repayment of subordinated capital	(7,946)	(13,875)
Common shares repurchased	(2,736)	-
Cash dividends paid on Preference Shares	-	(3,270)
Cash dividends paid on preferred shares	(12,000)	(12,000)
Preference Shares guarantee fee paid	(1,500)	(1,500)
Cash used in financing activities from continuing operations	(57,099)	(383,903)
Net effect of exchange rates on cash and cash equivalents	20,183	5,076
Net decrease in cash and cash equivalents from continuing operations	(302,858)	(177,221)
Cash and cash equivalents at beginning of period	1,902,726	2,384,449
Cash and cash equivalents at end of period	1,599,868	2,207,228
Supplemental disclosure of Non-cash investing activities		
Fair value of properties added to Other Real Estate Owned	1,861	-

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 nine month period ending 30 September 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). The impact of this additional accounting update is expected to be primarily on disclosures.

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. The sale was completed on the 27th August 2012 with gross proceeds, subject to normal adjustments, of \$45 million, resulting in a net gain of \$7.2 million included in net income from discontinued operations in the Consolidated Statements of Operations and Comprehensive Income.

The Bank has determined that the requirements have been met to report the results of the subsidiary sold as discontinued operations effective from the second quarter in 2012. The Assets and Liabilities have been presented as discontinued operations on the face of the Consolidated Balance Sheet for all periods presented.

The following summarizes the assets and liabilities of Barbados at 30 September 2012 and 31 December 2011 which are reported as Assets of discontinued operations and Liabilities of discontinued operations in our Consolidated Balance Sheet.

	30 September 2012	31 December 2011
Assets		
Cash and cash equivalents	-	76,935
Short-term investments	-	14,534
Investments in debt and equity securities	-	28,088
Loans, net of allowance for credit losses	-	177,841
Premises, equipment and computer software	-	3,643
Accrued interest	-	1,164
Intangible assets	-	3,084
Other assets	-	1,755
Total assets	-	307,044
Liabilities		
Deposits	-	269,083
Accrued interest	-	1,040
Other liabilities	-	1,926
Total liabilities	-	272,049

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

	For the 3 month period ended		For the 9 month period ended	
	30 September 2012	30 September 2011	30 September 2012	30 September 2011
Non-interest income	410	647	1,701	2,237
Net interest income	1,809	2,905	7,267	8,624
Provision for credit losses	(124)	(549)	(548)	(467)
Revenue before gains (losses)	2,095	3,003	8,420	10,394
Gains (losses)	240	8	249	20
Total net revenue	2,335	3,011	8,669	10,414
Non-interest expenses	(2,188)	(3,032)	(7,976)	(9,290)
Net income before income taxes	147	(21)	693	1,124
Gain on sale of discontinued operations	7,240	-	7,240	-
Income tax expense	(87)	(84)	(313)	(253)
Net income from discontinued operations	7,300	(105)	7,620	871

Note 3: Cash and Cash Equivalents

	30 September 2012			31 December 2011		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Non interest-earning						
Cash and demand deposits	166,540	40,587	207,127	176,091	17,823	193,914
Interest-earning						
Demand deposits	112	134,908	135,020	49	189,864	189,913
Cash equivalents	422,148	835,573	1,257,721	489,391	1,029,508	1,518,899
Sub-total - Interest-earning	422,260	970,481	1,392,741	489,440	1,219,372	1,708,812
Total cash and cash equivalents	588,800	1,011,068	1,599,868	665,531	1,237,195	1,902,726

Note 4: Short-term Investments

	30 September 2012			31 December 2011		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Interest-earning						
Term deposits maturing within three months	-	23,212	23,212	-	-	-
Term deposits maturing between three to six months	-	2,309	2,309	-	4,630	4,630
Term deposits maturing between six to twelve months	-	8,775	8,775	-	2,900	2,900
Total unrestricted short-term investments	-	34,296	34,296	-	7,530	7,530
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Interest-earning						
Demand deposits	1,260	108	1,368	12,641	109	12,750
Total restricted short-term investments	1,260	108	1,368	12,641	109	12,750
Total short-term investments	1,260	34,404	35,664	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 September 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	5,167	460	(332)	5,295	5,788	419	(236)	5,971
Mutual funds	56,779	460	(708)	56,531	56,964	224	(568)	56,620
Total trading	61,946	920	(1,040)	61,826	62,752	643	(804)	62,591
Available for sale								
Certificates of deposit	730,300	3,224	(5)	733,519	354,847	2,411	(765)	356,493
US government and federal agencies	839,853	25,064	(1,116)	863,801	778,387	14,419	(2,002)	790,804
Debt securities issued by non-US governments	105,891	2	(6)	105,887	87,549	1,158	(49)	88,658
Corporate debt securities guaranteed by non-US governments	92,039	57	(26)	92,070	122,987	38	(1,377)	121,648
Corporate debt securities	390,041	18,616	(56)	408,601	408,559	396	(3,706)	405,249
Asset-backed securities - Student loans	143,485	-	(3,643)	139,842	149,759	-	(5,413)	144,346
Pass-through Note	31,141	306	-	31,447	33,696	-	(6,705)	26,991
Equity securities	125	-	(52)	73	120	-	(50)	70
Total available for sale	2,332,875	47,269	(4,904)	2,375,240	1,935,904	18,422	(20,067)	1,934,259
Held to maturity ⁽¹⁾								
US government and federal agencies	248,000	8,024	(1,870)	254,154	64,789	228	(429)	64,588
Total held to maturity	248,000	8,024	(1,870)	254,154	64,789	228	(429)	64,588

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

As at 30 September 2012, investment securities with carrying amounts of \$333 million were pledged to secure Bank products and the Bank did not have any investment securities pledged where the secured party had the right to sell or repledge the collateral.

Sale proceeds and realised gains (losses)

During the nine months ended 30 September 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 \$261.4 million in sale proceeds, resulting in gross realised gains of \$1.0 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 September 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	16,445	(5)	-	-	16,445	(5)
US government and federal agencies	18,700	(385)	65,036	(731)	83,736	(1,116)
Debt securities issued by non-US governments	48,370	(6)	-	-	48,370	(6)
Corporate debt securities guaranteed by non-US governments	12,052	(26)	-	-	12,052	(26)
Corporate debt securities	15,588	(56)	-	-	15,588	(56)
Asset-backed securities - Student loans	-	-	139,843	(3,643)	139,843	(3,643)
Equity securities	-	-	73	(52)	73	(52)
Total available for sale securities with unrealised losses	111,155	(478)	204,952	(4,426)	316,107	(4,904)
Held to maturity						
US government and federal agencies	43,305	(1,870)	-	-	43,305	(1,870)

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 September 2012, which was comprised of 23 securities or 14% of the portfolio by market value, represent an other-than-temporary impairment. Total gross unrealized losses were only 1.9% 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 September 2012.

US government and federal agencies

As of 30 September 2012, gross unrealised losses on securities related to United States ("US") government and federal agencies were \$1.1 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 September 2012, gross unrealised losses on student loan asset-backed securities were \$3.6 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.

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

30 September 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	-	1,183	1,389	1,631	1,092	-	5,295
Mutual funds	-	-	-	-	-	56,531	56,531
Total trading	-	1,183	1,389	1,631	1,092	56,531	61,826
Available for sale							
Certificates of deposit	253,561	448,682	31,276	-	-	-	733,519
US government and federal agencies	1	-	96,303	307,271	460,226	-	863,801
Debt securities issued by non-US governments	65,199	32,899	5,333	2,456	-	-	105,887
Corporate debt securities guaranteed by non-US governments	47,953	32,065	12,052	-	-	-	92,070
Corporate debt securities	-	-	341,845	66,756	-	-	408,601
Asset-backed securities - Student loans	-	-	2,685	86,480	50,677	-	139,842
Pass-through Note	-	-	-	31,447	-	-	31,447
Equity securities	-	-	-	-	-	73	73
Total available for sale	366,714	513,646	489,494	494,410	510,903	73	2,375,240
Held to maturity							
US government and federal agencies	-	-	-	11,026	236,974	-	248,000
Total investments	366,714	514,829	490,883	507,067	748,969	56,604	2,685,066
Total by currency							
US dollars	193,698	297,973	489,494	505,436	747,877	55,462	2,289,940
Other	173,016	216,856	1,389	1,631	1,092	1,142	395,126
Total investments	366,714	514,829	490,883	507,067	748,969	56,604	2,685,066

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	174,301	76,874	-	-	-	356,493
US government and federal agencies	-	-	82,444	452,951	255,407	2	790,804
Debt securities issued by non-US governments	7,749	64,057	5,333	11,519	-	-	88,658
Corporate debt securities guaranteed by non-US governments	-	90,882	30,766	-	-	-	121,648
Corporate debt securities	27,514	106,639	257,990	13,106	-	-	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	435,879	511,590	579,566	266,571	72	1,934,259
Held to maturity							
US government and federal agencies	-	-	-	-	64,789	-	64,789
Total investments	140,581	436,690	513,616	581,672	332,388	56,692	2,061,639
Total by currency							
US dollars	-	181,875	448,777	579,566	331,360	55,407	1,596,985
Other	140,581	254,815	64,839	2,106	1,028	1,285	464,654
Total investments	140,581	436,690	513,616	581,672	332,388	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 September 2012			31 December 2011		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Commercial loans						
Government	37,432	4,095	41,527	256,442	4,230	260,672
Commercial and industrial	111,550	174,002	285,552	103,922	165,820	269,742
Commercial overdrafts	59,804	27,333	87,137	64,733	25,464	90,197
Total commercial loans	208,786	205,430	414,216	425,097	195,514	620,611
Less specific allowance for credit losses on commercial loans	(1,342)	(1,250)	(2,592)	(1,222)	(1,250)	(2,472)
Total commercial loans after specific allowance for credit losses	207,444	204,180	411,624	423,875	194,264	618,139
Commercial real estate loans						
Commercial mortgage	507,254	275,265	782,519	502,110	304,525	806,635
Construction	9,573	1,949	11,522	37,178	2,814	39,992
Total commercial real estate loans	516,827	277,214	794,041	539,288	307,339	846,627
Less specific allowance for credit losses on commercial real estate loans	(9,675)	(8,473)	(18,148)	(9,225)	(2,792)	(12,017)
Total commercial real estate loans after specific allowance for credit losses	507,152	268,741	775,893	530,063	304,547	834,610
Consumer loans						
Automobile financing	21,371	5,784	27,155	23,964	5,862	29,826
Credit card	56,600	13,982	70,582	59,469	13,800	73,269
Overdrafts	4,045	4,563	8,608	9,147	5,359	14,506
Other consumer	75,578	113,333	188,911	87,889	121,298	209,187
Total consumer loans	157,594	137,662	295,256	180,469	146,319	326,788
Less specific allowance for credit losses on consumer loans	(260)	-	(260)	(160)	-	(160)
Total consumer loans after specific allowance for credit losses	157,334	137,662	294,996	180,309	146,319	326,628
Residential mortgage loans	1,352,131	1,138,612	2,490,743	1,348,606	982,278	2,330,884
Less specific allowance for credit losses on residential mortgage loans	(6,349)	(5,624)	(11,973)	(3,184)	(5,637)	(8,821)
Total residential mortgage loans after specific allowance for credit losses	1,345,782	1,132,988	2,478,770	1,345,422	976,641	2,322,063
Total gross loans	2,235,338	1,758,918	3,994,256	2,493,460	1,631,450	4,124,910
Less specific allowance for credit losses	(17,626)	(15,347)	(32,973)	(13,791)	(9,679)	(23,470)
Less general allowance for credit losses	(22,635)	(8,384)	(31,019)	(23,474)	(8,547)	(32,021)
Net loans	2,195,077	1,735,187	3,930,264	2,456,195	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 September 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 September 2012				Total Current ⁽¹⁾	Total loans
	30 – 59 days	60 – 89 days	90 days or more	Total past due loans		
Commercial loans						
Government	-	-	-	-	41,527	41,527
Commercial and industrial	1,560	17	3,946	5,523	280,029	285,552
Commercial overdrafts	-	-	1,413	1,413	85,724	87,137
Total commercial loans	1,560	17	5,359	6,936	407,280	414,216
Commercial real estate loans						
Commercial mortgage	-	-	64,599	64,599	717,920	782,519
Construction	-	-	-	-	11,522	11,522
Total commercial real estate loans	-	-	64,599	64,599	729,442	794,041
Consumer loans						
Automobile financing	271	60	531	862	26,293	27,155
Credit card	741	297	793	1,831	68,751	70,582
Overdrafts	19	44	272	335	8,273	8,608
Other consumer	471	256	2,652	3,379	185,532	188,911
Total consumer loans	1,502	657	4,248	6,407	288,849	295,256
Residential mortgage loans	28,283	14,865	76,234	119,382	2,371,361	2,490,743
Total loans	31,345	15,539	150,440	197,324	3,796,932	3,994,256

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

	31 December 2011				Total Current ⁽¹⁾	Total loans
	30 – 59 days	60 – 89 days	90 days or more	Total past due 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 ⁽²⁾	1,719	449	843	3,011	70,258	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	4,215	1,305	3,324	8,844	317,944	326,788
Residential mortgage loans	63,805	34,350	47,144	145,299	2,185,585	2,330,884
Total loans	95,015	38,800	103,262	237,077	3,887,833	4,124,910

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

⁽²⁾ Delinquency for credit cards was previously driven by reporting cycles rather than actual days past payment due date. Commencing in the third quarter delinquency is now consistently measured from the date payment is due. The resultant effect of the clarification of cycle reporting resulted in a disclosure reclassification of \$3.9 million from past due credit cards to current credit cards. Prior periods have been adjusted to reflect the new measure of delinquency.

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 September 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	4,210	-	4,210	4,160	-	4,160
Commercial overdrafts	1,399	14	1,413	5,683	-	5,683
Total commercial loans	5,609	14	5,623	9,843	-	9,843
Commercial real estate loans	64,600	-	64,600	53,599	8	53,607
Consumer loans						
Automobile financing	630	105	735	983	-	983
Credit Cards	-	793	793	-	844	844
Overdrafts	217	55	272	65	11	76
Other consumer	2,269	851	3,120	1,789	173	1,962
Total consumer loans	3,116	1,804	4,920	2,837	1,028	3,866
Residential mortgage loans	51,774	33,164	84,938	43,828	17,372	61,200
Total loans	125,099	34,982	160,081	110,107	18,408	128,516

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

	30 September 2012					Total loans
	Pass	Special mention	Substandard	Non-accrual		
Commercial loans						
Government	41,527	-	-	-		41,527
Commercial and industrial	274,942	6,188	212	4,210		285,552
Commercial overdrafts	76,172	9,566	-	1,399		87,137
Total commercial loans	392,641	15,754	212	5,609		414,216
Commercial real estate loans						
Commercial mortgage	584,307	92,501	41,111	64,600		782,519
Construction	9,798	1,724	-	-		11,522
Total commercial real estate loans	594,105	94,225	41,111	64,600		794,041
Consumer loans						
Automobile financing	24,877	1,456	192	630		27,155
Credit card	69,733	-	849	-		70,582
Overdrafts	7,475	527	389	217		8,608
Other consumer	174,104	3,478	9,060	2,269		188,911
Total consumer loans	276,189	5,461	10,490	3,116		295,256
Residential mortgage loans	2,292,929	78,458	67,582	51,774		2,490,743
Total loans	3,555,864	193,898	119,395	125,099		3,994,256

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	72,314	-	955	-	73,269
Overdrafts	14,369	72	-	65	14,506
Other consumer	199,412	409	7,577	1,789	209,187
Total consumer loans	314,938	481	8,532	2,837	326,788
Residential mortgage loans	2,198,967	45,795	42,294	43,828	2,330,884
Total loans	3,756,324	163,470	95,009	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 September 2012		31 December 2011	
	Individually evaluated	Collectively evaluated	Individually evaluated	Collectively evaluated
Total gross loans evaluated for impairment				
Commercial loans	414,216	-	620,611	-
Commercial real estate loans	794,041	-	846,627	-
Consumer loans	3,116	292,140	2,838	323,950
Residential mortgage loans	58,054	2,432,689	51,210	2,279,674
Total gross loans	1,269,427	2,724,829	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 September 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	(1,108)	5,944	2,070	4,379	11,285	1,843	1,483	3,958	5,886	13,170
Recoveries	502	(6)	2,404	190	3,090	546	634	2,890	13	4,083
Charge-offs	(209)	-	(3,603)	(2,376)	(6,188)	(1,361)	(12,280)	(6,458)	(3,412)	(23,511)
Other	115	(363)	(850)	1,412	314	(3)	5	6	21	29
Allowances at end of period	7,636	23,463	5,756	27,137	63,992	8,336	17,888	5,735	23,532	55,491
Ending balance: individually evaluated for impairment	2,592	18,148	260	11,973	32,973	2,472	12,017	160	8,821	23,470
Ending balance: collectively evaluated for impairment	5,044	5,315	5,496	15,164	31,019	5,864	5,871	5,575	14,711	32,021

A loan is considered to be impaired when, based on current information and events, the Bank determines that it will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Impaired loans include all non-accruing loans and all loans modified in a troubled debt restructuring ("TDR") even if full collectability is expected following the restructuring. For the nine month period ended 30 September 2012, the amount of gross interest income would have been recorded had impaired loans been current was \$2.9 million (2011: \$5.8 million). The table below presents information about the Bank's impaired loans:

30 September 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	2,088	(1,982)	106	4,221	6,309	(1,982)	4,327
Commercial overdrafts	675	(610)	65	908	1,583	(610)	973
Total commercial loans	2,763	(2,592)	171	5,129	7,892	(2,592)	5,300
Commercial real estate loans	59,651	(18,148)	41,503	14,572	74,223	(18,148)	56,075
Consumer loans							
Automobile financing	231	(75)	156	399	630	(75)	555
Credit cards	-	-	-	-	-	-	-
Overdrafts	-	-	-	217	217	-	217
Other consumer	244	(185)	59	2,025	2,269	(185)	2,084
Total consumer loans	475	(260)	215	2,641	3,116	(260)	2,856
Residential mortgage loans	34,196	(11,973)	22,223	23,858	58,054	(11,973)	46,081
Total impaired loans	97,085	(32,973)	64,112	46,200	143,285	(32,973)	110,312

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

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(in thousands of Bermuda dollars)

Note 6: Loans (continued)

The following table presents information about the Bank's average impaired loan balances and interest income recognized for the nine month period ended 30 September 2012 on the impaired loans:

30 September 2012	Troubled debt restructured and non-accrual loans	
	Average recorded investment	Interest income recognised
Commercial loans		
Commercial and industrial	6,659	85
Commercial overdrafts	4,154	45
Total commercial loans	10,813	130
Commercial real estate loans	68,762	594
Consumer loans		
Automobile financing	806	-
Credit cards	-	-
Overdrafts	141	-
Other consumer	2,030	-
Total consumer loans	2,977	-
Residential mortgage loans	54,632	375
Total troubled debt restructured and non-accrual loans	137,184	1,099

The table presents information about the Bank's loans modified in a troubled debt restructuring as of 30 September 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	2,968	3,160	3,196		36
Commercial overdrafts	1	184	1,142	1,142		
Total commercial loans	5	3,152	4,302	4,338	-	36
Commercial real estate loans	5	21,622	23,121	23,183		61
Residential mortgage loans	14	8,173	9,395	10,068	6	667
Total loans	24	32,947	36,818	37,589	6	764

⁽¹⁾ The amount comprised \$18.2 million of non-accrual loans and \$14.8 million of loans on accrual status.

The Bank's has three loans modified in a troubled debt restructuring from 1 October 2011 to 30 September 2012 that subsequently defaulted (i.e., 90 days or more past due following a modification) with a recorded investment amounting to \$1.7 million.

Note 7: Credit Risk Concentrations

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

The 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.

	30 September 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	306,418	419,119	725,537	330,734	496,753	827,487
Commercial and merchandising	261,804	107,270	369,074	270,089	135,340	405,429
Governments	31,530	41,841	73,371	251,795	-	251,795
Individuals	2,353,289	72,216	2,425,505	2,270,737	93,620	2,364,357
Primary industry and manufacturing	61,124	9,540	70,664	199,979	2,692	202,671
Real estate	848,157	60,142	908,299	675,848	94,029	769,877
Hospitality industry	91,534	-	91,534	92,955	-	92,955
Transport and communication	7,427	-	7,427	9,303	-	9,303
Sub-total	3,961,283	710,128	4,671,411	4,101,440	822,434	4,923,874
General allowance	(31,019)	-	(31,019)	(32,021)	-	(32,021)
Total	3,930,264	710,128	4,640,392	4,069,419	822,434	4,891,853

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

	30 September 2012			31 December 2011		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Bermuda	2,291,446	404,868	2,696,314	2,571,607	411,594	2,983,201
Cayman	545,754	206,695	752,449	605,500	172,346	777,846
Guernsey	517,332	54,336	571,668	454,039	149,387	603,426
The Bahamas	52,371	90	52,461	8,972	90	9,062
United Kingdom	554,380	44,139	598,519	461,322	89,017	550,339
Sub-total	3,961,283	710,128	4,671,411	4,101,440	822,434	4,923,874
General allowance	(31,019)	-	(31,019)	(32,021)	-	(32,021)
Total	3,930,264	710,128	4,640,392	4,069,419	822,434	4,891,853

Note 8: Customer Deposits and Deposits from Banks

a) By Maturity

	30 September 2012			31 December 2011		
	Customers	Banks	Total	Customers	Banks	Total
Demand deposits						
Demand deposits - Non interest-bearing	914,280	142	914,422	904,873	-	904,873
Demand deposits - Interest-bearing	4,293,046	92,233	4,385,279	4,087,152	118,653	4,205,805
Sub-total - demand deposits	5,207,326	92,375	5,299,701	4,992,025	118,653	5,110,678
Term deposits						
Term deposits maturing within six months	1,787,924	34,191	1,822,115	1,924,973	6,410	1,931,383
Term deposits maturing between six to twelve months	96,057	6,256	102,313	119,110	382	119,492
Term deposits maturing after twelve months	80,510	121	80,631	94,887	121	95,008
Sub-total - term deposits	1,964,491	40,568	2,005,059	2,138,970	6,913	2,145,883
Total	7,171,817	132,943	7,304,760	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 September 2012			31 December 2011		
	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	2,431,217	885,119	3,316,336	2,237,849	1,021,747	3,259,596
Banks	61,726	21,074	82,800	110,127	-	110,127
Cayman						
Customers	1,351,495	447,683	1,799,178	1,319,357	423,436	1,742,793
Banks	18,879	19,494	38,373	5,692	6,074	11,766
Guernsey						
Customers	1,001,499	267,760	1,269,259	1,018,084	316,172	1,334,256
Banks	11,456	-	11,456	2,834	388	3,222
The Bahamas						
Customers	68,738	8,061	76,799	55,350	3,968	59,318
United Kingdom						
Customers	354,377	355,868	710,245	361,385	373,647	735,032
Banks	314	-	314	-	451	451
Total Customers	5,207,326	1,964,491	7,171,817	4,992,025	2,138,970	7,130,995
Total Banks	92,375	40,568	132,943	118,653	6,913	125,566
Total	5,299,701	2,005,059	7,304,760	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 nine month period ended	
	30 September 2012	30 September 2011	30 September 2012	30 September 2011
Defined benefit pension expense				
Service cost	437	758	1,308	2,104
Interest cost	1,752	1,996	5,250	5,661
Expected return on plan assets	(2,042)	(2,469)	(6,119)	(6,978)
Amortisation of net actuarial loss	329	1,005	987	3,017
Total defined benefit pension expense	476	1,290	1,426	3,804
Post-retirement medical benefit expense				
Service cost	236	185	708	555
Interest cost	1,051	1,107	3,154	3,321
Amortisation of net actuarial loss	519	233	1,556	701
Amortisation of past service cost	(1,679)	(1,539)	(5,039)	(4,618)
Total post-retirement medical benefits expense	127	(14)	379	(41)

Effective January 2012, all the participants of the Bermuda Defined Benefit pension plan are inactive and in accordance with US GAAP, the net actuarial loss of the Bermuda Defined Benefit pension plan is amortised over the estimated average remaining life expectancy of the inactive participants of 22.8 years. Prior to all Bermuda participants being inactive, the net actuarial loss of the Bermuda Defined Benefit pension plan was amortised to net income over the estimated average remaining service period for active members of 4.5 years. The Plans are subject to an annual actuarial review as at 31 December each year with the latest valuation performed as at 31 December 2011.

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 September 2012			31 December 2011		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	297,849	272,191	25,658	320,968	303,769	17,199
Letters of guarantee	14,138	11,893	2,245	13,147	9,876	3,271
Total	311,987	284,084	27,903	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 September 2012	31 December 2011
Commitments to extend credit	395,343	483,020
Commitments to extend credit with terms modified by troubled debt restructuring	-	779
Documentary and commercial letters of credit	2,798	4,520
Total	398,141	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 September 2012, \$136.5 million (2011: \$167.4 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 September 2012	31 December 2011
Bermuda	4,448,354	4,574,921
Cayman	2,071,212	1,974,338
Guernsey	1,446,100	1,479,901
Switzerland	1,661	1,118
The Bahamas	89,057	77,565
United Kingdom	948,086	976,451
Total assets from continuing operations	9,004,470	9,084,294
Total assets from discontinued operations	-	307,044
	9,004,470	9,391,338
Less: inter-segment eliminations	(318,477)	(566,988)
Total assets	8,685,993	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 September 2012**

	Net interest income								
	Customer	Inter-segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expense	Net income (loss) before gains and losses	Gains and losses	Net income (loss)
Bermuda	31,119	291	(1,624)	18,005	47,791	40,914	6,877	(921)	5,956
Cayman	11,003	318	167	6,910	18,398	13,908	4,490	7	4,497
Guernsey	5,302	-	(39)	4,798	10,061	7,737	2,324	-	2,324
Switzerland	-	-	-	412	412	657	(245)	-	(245)
The Bahamas	25	116	-	1,024	1,165	1,422	(257)	1	(256)
United Kingdom	4,551	(725)	(1,410)	1,550	3,966	4,705	(739)	3	(736)
Total before eliminations	52,000	-	(2,906)	32,699	81,793	69,343	12,450	(910)	11,540
Less: inter-segment eliminations / transactions	-	-	-	(527)	(527)	(527)	-	-	-
Total from continuing operations	52,000	-	(2,906)	32,172	81,266	68,816	12,450	(910)	11,540

**For the three month period ended 30
September 2011**

	Net interest income								
	Customer	Inter-segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expense	Net income (loss) before gains and losses	Gains and losses	Net income (loss)
Bermuda	33,482	196	(2,032)	15,904	47,550	42,271	5,279	2,346	7,625
Cayman	9,361	139	(1,236)	7,415	15,679	14,044	1,635	1,573	3,208
Guernsey	5,463	2	-	5,292	10,757	7,696	3,061	(31)	3,030
Switzerland	-	-	-	141	141	520	(379)	-	(379)
The Bahamas	37	114	-	1,289	1,440	1,323	117	1	118
United Kingdom	3,712	(451)	(10)	2,591	5,842	5,589	253	(42)	211
Total before eliminations	52,055	-	(3,278)	32,632	81,409	71,443	9,966	3,847	13,813
Less: inter-segment eliminations / transactions	-	-	-	(194)	(194)	(194)	-	(2,475)	(2,475)
Total from continuing operations	52,055	-	(3,278)	32,438	81,215	71,249	9,966	1,372	11,338

**For the nine month period ended 30
September 2012**

	Net interest income								
	Customer	Inter-segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expense	Net income (loss) before gains and losses	Gains and losses	Net income (loss)
Bermuda	97,161	938	(4,832)	50,114	143,381	123,960	19,421	(1,089)	18,332
Cayman	32,568	926	(1,174)	23,045	55,365	41,159	14,206	4,497	18,703
Guernsey	16,336	(34)	(390)	14,988	30,900	23,424	7,476	(31)	7,445
Switzerland	1	-	-	966	967	1,838	(871)	-	(871)
The Bahamas	119	326	-	3,359	3,804	4,178	(374)	1	(373)
United Kingdom	12,976	(2,156)	(4,889)	6,481	12,412	14,670	(2,258)	1,165	(1,093)
Total before eliminations	159,161	-	(11,285)	98,953	246,829	209,229	37,600	4,543	42,143
Less: inter-segment eliminations / transactions	-	-	-	(1,791)	(1,791)	(1,791)	-	-	-
Total from continuing operations	159,161	-	(11,285)	97,162	245,038	207,438	37,600	4,543	42,143

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 nine month period ended 30
September 2011

	Net interest income								
	Customer	Inter-segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expense	Net income (loss) before gains and losses	Gains and losses	Net income (loss)
Bermuda	99,201	556	(6,961)	48,345	141,141	127,863	13,278	4,414	17,692
Cayman	27,139	562	(2,456)	22,736	47,981	40,824	7,157	1,574	8,731
Guernsey	12,694	(19)	-	16,443	29,118	22,802	6,316	244	6,560
Switzerland	1	-	-	448	449	1,545	(1,096)	-	(1,096)
The Bahamas	998	160	(133)	3,883	4,908	3,984	924	3	927
United Kingdom	10,493	(1,259)	(254)	8,141	17,121	16,640	481	(17)	464
Total before eliminations	150,526	-	(9,804)	99,996	240,718	213,658	27,060	6,218	33,278
Less: inter-segment eliminations / transactions	-	-	-	(2,647)	(2,647)	(2,647)	-	(2,750)	(2,750)
Total from continuing operations	150,526	-	(9,804)	97,349	238,071	211,011	27,060	3,468	30,528

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 nine months ended 30 September 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 September 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 September 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	10,087	-	(132)	(132)
Not designated as hedging instruments					
	Currency swaps	328,648	899	(342)	557
	Foreign currency options	10,000	118	-	118
Sub-total not designated as hedges		338,648	1,017	(342)	675
Sub-total risk management derivatives		348,735	1,017	(474)	543
Client services derivatives					
	Spot and forward foreign exchange	5,327,035	19,734	(19,620)	114
Sub-total client services derivatives		5,327,035	19,734	(19,620)	114
Total derivative instruments		5,675,770	20,751	(20,094)	657
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 Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(in thousands of Bermuda dollars)

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

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

Derivative Instrument	Consolidated Statement of Operations line item	For the three month period ended		For the nine month period	
		30 September 2012	30 September 2011	30 September 2012	30 September 2011
Interest rate swaps	Net other gains (losses)	26	(12)	308	(444)
Forward foreign exchange	Foreign exchange revenue	(576)	596	(663)	1,604
Foreign currency options	Foreign exchange revenue	287	-	734	-
Total net losses recognised in net income		(263)	584	379	1,160

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. 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.

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 September 2012			Total carrying amount / Fair value	31 December 2011			Total carrying amount / Fair value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Financial assets								
Trading								
Debt securities issued by non-US governments	-	5,295	-	5,295	-	5,971	-	5,971
Mutual funds	5,288	51,243	-	56,531	5,368	51,252	-	56,620
Total Trading	5,288	56,538	-	61,826	5,368	57,223	-	62,591
Available for sale								
Certificates of deposit	-	733,517	-	733,517	-	356,493	-	356,493
US government and federal agencies	-	863,803	-	863,803	-	790,804	-	790,804
Debt securities issued by non-US governments	-	105,887	-	105,887	-	88,658	-	88,658
Corporate debt securities guaranteed by non-US governments	-	92,070	-	92,070	-	121,648	-	121,648
Corporate debt securities	-	408,601	-	408,601	-	405,249	-	405,249
Asset-backed securities - Student loans	-	128,678	11,164	139,842	-	133,182	11,164	144,346
Pass-through Note	-	-	31,447	31,447	-	-	26,991	26,991
Equity securities	-	73	-	73	-	70	-	70
Total Available for sale	-	2,332,629	42,611	2,375,240	-	1,896,104	38,155	1,934,259
Other assets - Derivatives	-	20,751	-	20,751	-	48,505	-	48,505
Other assets - Closed ended real estate fund	-	-	4,206	4,206	-	-	6,199	6,199
Financial liabilities								
Other liabilities - Derivatives	-	(20,094)	-	(20,094)	-	(44,828)	-	(44,828)

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)

Transfers of securities

	30 September 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 September 2012.

Financial Instrument Type	Valuation Technique	Fair Value
Asset-backed securities - Student loans	Vendor priced	11,164
Pass-through note	Vendor priced	31,447
Closed ended real estate fund	Net Asset value of fund	4,206

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.

Level 3 reconciliation

	For the nine month period ended			
	30 September 2012		30 September 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	1,185
Proceeds from sale / Capital distributions	(3,780)	(1,154)	(3,283)	(3,765)
Accretion recognised in net income	1,225	-	1,332	-
Realised and unrealised gains (losses) recognised in other comprehensive income	7,011	33	(1,919)	(1,036)
Foreign exchange translation adjustment	-	(872)	-	60
Carrying amount at end of period	42,611	4,206	40,903	5,488

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

	30 September 2012			31 December 2011		
	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
Financial assets						
Cash and cash equivalents	1,599,868	1,599,868	-	1,902,726	1,902,726	-
Short-term investments	35,664	35,664	-	20,280	20,280	-
Investments held to maturity	248,000	254,154	6,154	64,789	64,588	(201)
Loans, net of allowance for credit losses	3,930,264	3,925,164	(5,100)	4,069,419	4,060,193	(9,226)
Financial liabilities						
Customer deposits						
Demand deposits	5,207,326	5,207,326	-	4,992,025	4,992,025	-
Term deposits	1,964,491	1,966,670	(2,179)	2,138,970	2,142,748	(3,778)
Deposits from banks	132,943	132,943	-	125,666	125,666	-
Subordinated capital	260,000	247,871	12,129	267,755	225,019	42,736

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

(in thousands of Bermuda dollars)

Note 14: Interest Rate Risk

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

(in \$ millions)	30 September 2012						Total
	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non interest-bearing funds	
Assets							
Cash and cash equivalents	1,393	-	-	-	-	207	1,600
Short-term investments	25	2	9	-	-	-	36
Investments	665	494	21	488	960	57	2,685
Loans	3,419	197	56	106	97	55	3,930
Premises, equipment and computer software	-	-	-	-	-	265	265
Other assets	-	-	-	-	-	170	170
Total assets	5,502	693	86	594	1,057	754	8,686
Liabilities and Shareholders' equity							
Shareholders' equity	-	-	-	-	-	909	909
Demand deposits	4,208	-	-	-	-	914	5,122
Term deposits	1,623	377	102	81	-	-	2,183
Other liabilities	-	-	-	-	-	212	212
Subordinated capital	90	-	100	45	25	-	260
Total liabilities and Shareholders' equity	5,921	377	202	126	25	2,035	8,686
Interest rate swaps	8	-	(8)	-	-	-	-
Interest rate sensitivity gap	(411)	316	(124)	468	1,032	(1,281)	-
Cumulative interest rate sensitivity gap	(411)	(95)	(219)	249	1,281	-	-

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	451	207	123	440	784	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	5,680	329	162	750	835	1,068	8,824
Liabilities and Shareholders' equity							
Shareholders' equity	-	-	-	-	-	830	830
Demand deposits	4,205	-	-	-	-	905	5,110
Term deposits	1,667	265	119	95	-	-	2,146
Other liabilities	-	-	-	-	-	470	470
Subordinated capital	98	-	-	145	25	-	268
Total liabilities and Shareholders' equity	5,970	265	119	240	25	2,205	8,824
Interest rate swaps	2	8	(2)	(8)	-	-	-
Interest rate sensitivity gap	(288)	72	41	502	810	(1,137)	-
Cumulative interest rate sensitivity gap	(288)	(216)	(175)	327	1,137	-	-

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 nine month period ended	
	30 September 2012	30 September 2011	30 September 2012	30 September 2011
Basic Earnings per Share ⁽¹⁾	0.03	0.01	0.07	0.03
Basic earnings per Share from continuing operations	0.01	0.01	0.05	0.02
Basic earnings per Share from discontinued operations	0.01	-	0.01	-
Net income for the period	11,540	11,338	42,143	30,528
Less: Preference dividends declared and guarantee fee	(4,500)	(4,467)	(13,500)	(16,770)
Net income from continuing operations attributable for Common Shareholders	7,040	6,871	28,643	13,758
Net income from discontinued	7,300	(105)	7,620	871
Net income attributable for Common Shareholders	14,340	6,766	36,263	14,629
Weighted average number of participating Shares	556,933	556,933	556,933	556,933
Weighted average number of Common Shares held as Treasury stock	(1,827)	(2,168)	(1,654)	(2,323)
Adjusted weighted average number of Common Shares	555,106	554,765	555,279	554,610
Diluted Earnings per Share ⁽¹⁾	0.03	0.01	0.07	0.03
Diluted earnings per Share from continuing operations	0.01	0.01	0.05	0.02
Diluted earnings per Share from discontinued operations	0.01	-	0.01	-
Net income from continuing operations attributable for Common Shareholders	7,040	6,871	28,643	13,758
Net income from discontinued	7,300	(105)	7,620	871
Net income attributable for Common Shareholders	14,340	6,766	36,263	14,629
Adjusted weighted average number of Common Shares	555,106	554,765	555,279	554,610
Weighted average number of dilutive Share-based awards	3,834	-	2,726	-
Adjusted weighted average number of diluted Common Shares	558,940	554,765	558,005	554,610

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

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(in thousands of Bermuda dollars)

Note 15: Earnings per Share (continued)

During the nine month ended period ending 30 September 2012, the weighted-average number of outstanding options to purchase 33.5 million (2011: 34.2 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 nine month ended period ending 30 September 2012, the weighted-average number of outstanding awards of unvested Common Shares (see Note 16) was 2.7 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 nine month period ended					
	30 September 2012			30 September 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	1,091	2,911	4,002	1,250	1,330	2,580
Share-based compensation plans – discontinued operations						
Awards granted in years 2010, 2011 and 2012		63	63	-	39	39
Total Share-based compensation	1,091	2,974	4,065	1,250	1,369	2,619
Share-based settlement plans						
Directors Shares and retainers settlement plans			293			270
Total Share-based payments			4,358			2,889

	For the nine month period ended	
	30 September 2012	30 September 2011
Stock option plans Number of Shares transferable upon exercise (thousands)		
Outstanding at beginning of period	33,632	34,047
Granted	3,100	1,605
Forfeited / cancelled	(2,575)	(1,052)
Exercised	(5)	-
Resignation	(646)	(381)
Outstanding at the end of period	33,506	34,219
ELTIP and EDIP Number of Shares transferable upon vesting (thousands)		
Outstanding at beginning of period	3,791	-
Granted	5,610	3,921
Forfeited / cancelled	-	-
Exercised	(1,367)	(3)
Resignation	(776)	(90)
Outstanding unvested at end of period	7,258	3,828

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)

	For the nine months ended	
	30 September 2012	30 September 2011
Unrecognised expense		
2010 Stock Option Plan		
Time Vesting Options	4,120	6,281
Performance Vesting Options	9,608	8,060
2011/2012 EDIP	1,814	1,071
2011/2012 ELTIP		
Time Vesting Shares	2,218	1,099
Performance Vesting Shares	2,248	1,099

Note 17: Variable Interest Entities

The Bank had no investments in variable interest entities for which it was deemed the primary beneficiary for the periods ended 30 September 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 nine month ended 30 September 2012, 2,216,351 Common Shares were purchased to be held as treasury stock at a cost of \$2,735,700.

From time to time the Bank's associates, insiders and insiders' associates as defined by the BSX regulations may sell shares which may result in such shares being repurchased pursuant to the programme, but under BSX regulations such trades must not be pre-arranged and all repurchases must be made in the open market. Prices paid by the Bank must not, according to BSX regulations, be higher than the last independent trade for a 'round lot', defined as 100 shares or more. In addition to the BSX regulations, the Bank has internal policies on dealing windows which are more stringent than regulatory requirements.

Note 19: Capital Structure

Authorised capital

The Bank's total authorised share capital as of 30 September 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 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 September 2012 and 31 December 2011. As at 30 September 2012, the Bank's regulatory capital stood at \$1,073 million (2011: \$1,041 million) with risk weighted assets of \$4,501 million (\$2011: 4,426 million). Consolidated Tier 1 total and Total Capital ratios being 18.3% and 23.8%, 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

From 1 October 2010, the Bank had retained Carlyle Investment Management LLC, an affiliated company of the Carlyle Group, to provide Balance Sheet management advisory services, including advisory services on valuation assignments, for an annual fee of \$4 million for a three-year period. Effective 31 July 2012, the investment advisory business previously conducted by Carlyle Investment Management LLC was transferred to Alumina Investment Management LLC ("Alumina") and the Bank agreed to the transfer of its contract to Alumina. The Carlyle Group holds a 10% interest in Alumina and as Alumina is not considered affiliated with the Carlyle Group, the related party transaction ceased on the effective date.

Note 22: Comparative Information

Certain prior-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 30 October 2012.