

The Bank of N. T. Butterfield & Son Limited

# Interim

## Q3 2013

Financial Results for the nine months ended  
30 September 2013



Butterfield

# The Bank of N.T. Butterfield & Son Limited

## Unaudited Consolidated Balance Sheet

(In thousands of Bermuda dollars)

	30 September 2013	As at 31 December 2012
<b>Assets</b>		
Cash and demand deposits with banks	376,758	367,050
Cash equivalents	1,749,744	1,175,476
Total cash and cash equivalents	2,126,502	1,542,526
Short-term investments	95,206	76,213
Debt and equity securities		
Trading	53,460	61,785
Available for sale	2,173,976	2,580,577
Held to maturity	336,962	239,342
Total investments in debt and equity securities	2,564,398	2,881,704
Loans, net of allowance for credit losses	4,083,624	3,955,960
Premises, equipment and computer software	240,331	243,321
Accrued interest	16,401	18,975
Goodwill	6,922	6,949
Intangible assets	12,694	15,327
Investments in affiliates	18,919	18,637
Other real estate owned	32,201	34,360
Other assets	36,049	39,037
<b>Total assets</b>	<b>9,233,247</b>	<b>8,833,009</b>
<b>Liabilities</b>		
Customers deposits		
Non-interest bearing	1,030,400	918,814
Interest bearing	6,840,346	6,347,958
Total customer deposits	7,870,746	7,266,772
Bank deposits	114,434	126,466
Total deposits	7,985,180	7,393,238
Securities sold under agreement to repurchase	61,083	109,021
Employee future benefits	98,985	103,135
Accrued interest	3,213	2,795
Preference Share dividends payable	618	662
Other liabilities	71,255	106,984
Total other liabilities	235,154	322,597
Subordinated capital	207,000	260,000
<b>Total liabilities</b>	<b>8,427,334</b>	<b>7,975,835</b>
<b>Shareholders' equity</b>		
Common Share capital (BMD 0.01 par; authorised Shares 26,000,000,000)		
issued and outstanding: 549,783,654 (2012: 549,677,803)	5,498	5,496
Preference Share capital (USD 0.01 par; USD 1,000 liquidation Preference)		
issued and outstanding: 184,047 (2012: 195,578)	2	2
Contingent Value Convertible Preference Share capital (USD 0.01 par)		
issued and outstanding: 7,148,881 (2012: 7,254,732)	71	73
Additional paid-in capital	1,344,080	1,355,689
Accumulated deficit	(460,923)	(482,796)
Less: Treasury Common Shares: 8,087,020 Shares (2012: 7,066,586 Shares)	(10,541)	(8,767)
Accumulated other comprehensive loss	(72,274)	(12,523)
<b>Total Shareholders' equity</b>	<b>805,913</b>	<b>857,174</b>
<b>Total liabilities and Shareholders' equity</b>	<b>9,233,247</b>	<b>8,833,009</b>

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

# The Bank of N.T. Butterfield & Son Limited

## Unaudited Consolidated Statements of Operations

(In thousands of Bermuda dollars, except per share data)

	For the three month period ending		For the nine month period ending	
	30 September 2013	30 September 2012	30 September 2013	30 September 2012
<b>Non-interest income</b>				
Asset management	4,188	5,122	13,364	17,400
Banking	7,841	9,706	22,687	25,537
Foreign exchange revenue	7,288	5,808	21,818	19,840
Trust	7,479	7,114	22,351	21,434
Custody and other administration services	2,421	2,598	7,548	7,971
Other non-interest income	1,772	1,824	4,101	4,980
<b>Total non-interest income</b>	<b>30,989</b>	<b>32,172</b>	<b>91,869</b>	<b>97,162</b>
<b>Interest income</b>				
Loans	48,187	46,665	139,858	144,425
Investments	15,787	12,169	44,635	36,468
Deposits with banks	1,384	1,250	3,791	3,974
<b>Total interest income</b>	<b>65,358</b>	<b>60,084</b>	<b>188,284</b>	<b>184,867</b>
<b>Interest expense</b>				
Deposits	4,990	4,960	14,763	16,233
Subordinated capital	1,582	3,124	7,412	9,473
Securities sold under repurchase agreements	140	-	218	-
<b>Total interest expense</b>	<b>6,712</b>	<b>8,084</b>	<b>22,393</b>	<b>25,706</b>
<b>Net interest income before provision for credit losses</b>	<b>58,646</b>	<b>52,000</b>	<b>165,891</b>	<b>159,161</b>
Provision for credit losses	(3,654)	(2,906)	(11,487)	(11,285)
<b>Net interest income after provision for credit losses</b>	<b>54,992</b>	<b>49,094</b>	<b>154,404</b>	<b>147,876</b>
Net trading gains	263	207	228	245
Net realised gains on available for sale investments	4	-	60	1,801
Net realised / unrealised losses on other real estate owned	(251)	(1,278)	(723)	(2,037)
Gain on sale of subsidiaries & affiliates	781	-	807	4,250
Net other gains	268	161	13,734	284
<b>Total other gains (losses)</b>	<b>1,065</b>	<b>(910)</b>	<b>14,106</b>	<b>4,543</b>
<b>Total net revenue</b>	<b>87,046</b>	<b>80,356</b>	<b>260,379</b>	<b>249,581</b>
<b>Non-interest expense</b>				
Salaries and other employee benefits	33,307	34,775	97,555	104,742
Technology and communications	13,393	14,491	39,904	43,485
Property	6,363	6,803	18,110	19,697
Professional and outside services	3,050	3,716	9,581	11,304
Non-income taxes	3,588	3,274	10,414	10,043
Amortisation of intangible assets	833	1,234	2,495	3,793
Marketing	777	730	2,717	3,022
Other expenses	3,975	3,857	11,182	10,816
<b>Total non-interest expense</b>	<b>65,286</b>	<b>68,880</b>	<b>191,958</b>	<b>206,902</b>
<b>Net income before income taxes from continuing operations</b>	<b>21,760</b>	<b>11,476</b>	<b>68,421</b>	<b>42,679</b>
Income tax (expense) benefit	(201)	64	(652)	(536)
<b>Net income from continuing operations</b>	<b>21,559</b>	<b>11,540</b>	<b>67,769</b>	<b>42,143</b>
<b>Discontinued operations</b>				
Income from discontinued operations before income tax expense	-	147	-	693
Gain on sale of discontinued operations	-	7,240	-	7,240
Income tax expense	-	(87)	-	(313)
<b>Net income from discontinued operations</b>	<b>-</b>	<b>7,300</b>	<b>-</b>	<b>7,620</b>
<b>Net income</b>	<b>21,559</b>	<b>18,840</b>	<b>67,769</b>	<b>49,763</b>
<b>Earnings per Common Share</b>				
Basic Earnings per Share	0.03	0.03	0.10	0.07
Diluted Earnings per Share	0.03	0.03	0.09	0.07
Basic Earnings per Share from continuing operation	0.03	0.01	0.10	0.05
Diluted Earnings per Share from continuing operations	0.03	0.01	0.09	0.05

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

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

*(In thousands of Bermuda dollars, except per share data)*

	For the three month period ended		For the nine months ended	
	<b>30 September 2013</b>	30 September 2012	<b>30 September 2013</b>	30 September 2012
<b>Net income</b>	<b>21,559</b>	18,840	<b>67,769</b>	49,763
<b>Other comprehensive income (loss)</b>				
Net change in unrealised gains (losses) on translation of net investment in foreign operations	<b>1,790</b>	1,543	<b>(529)</b>	1,237
Net change in unrealised gains (losses) on available for sale investments	<b>7,459</b>	23,289	<b>(57,058)</b>	42,923
Employee future benefits adjustments	<b>(721)</b>	(869)	<b>(2,164)</b>	(2,609)
Other comprehensive income (loss)	<b>8,528</b>	23,963	<b>(59,751)</b>	41,551
<b>Total comprehensive income</b>	<b>30,087</b>	42,803	<b>8,018</b>	91,314

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

**The Bank of N.T. Butterfield & Son Limited**  
**Unaudited Consolidated Statement of Changes in Shareholders' Equity**

For the nine months ended

	30 September 2013		30 September 2012	
	Number of shares	In thousands of Bermuda dollars	Number of shares	In thousands of Bermuda dollars
<b>Common Share capital issued and outstanding</b>				
Balance at beginning of period	549,677,803	5,496	549,468,349	5,494
Conversion of Contingent Value Preference Shares	105,851	2	89,045	1
<b>Balance at end of period</b>	<b>549,783,654</b>	<b>5,498</b>	<b>549,557,394</b>	<b>5,495</b>
<b>Preference shares</b>				
Balance at beginning of period	195,578	2	200,000	2
Repurchase and cancellation of Preference Shares	(11,531)	-	-	-
<b>Balance at end of period</b>	<b>184,047</b>	<b>2</b>	<b>200,000</b>	<b>2</b>
<b>Contingent Value Convertible Preference shares</b>				
Balance at beginning of period	7,254,732	73	7,464,186	75
Conversion to common shares	(105,851)	(2)	(89,045)	(1)
<b>Balance at end of period</b>	<b>7,148,881</b>	<b>71</b>	<b>7,375,141</b>	<b>74</b>
<b>Additional paid-in capital</b>				
Balance at beginning of period		1,355,689		1,377,556
Stock option plan expense		4,988		4,065
Share based compensation settlements		(2,397)		(15,081)
Reduction of carrying value on repurchase of Preference Shares		(11,531)		-
Premium paid on repurchase of Preference Shares		(2,669)		-
<b>Balance at end of period</b>		<b>1,344,080</b>		<b>1,366,540</b>
<b>Accumulated deficit</b>				
Balance at beginning of period		(482,796)		(490,377)
Net income for period		67,769		49,763
Common Share cash dividends declared and paid (\$0.06 per share)		(33,045)		-
Cash dividends declared on Preference Shares		(11,417)		(12,000)
Preference Shares guarantee fee		(1,434)		(1,500)
<b>Balance at end of period</b>		<b>(460,923)</b>		<b>(454,114)</b>
<b>Treasury common shares</b>				
Balance at beginning of period	7,066,586	(8,767)	2,163,958	(21,723)
Share-based settlement	(103,450)	150	(150,000)	293
Purchase of Treasury Shares	3,223,295	(4,437)	2,216,229	(2,736)
Share based compensation settlements	(2,099,411)	2,513	(1,369,051)	15,081
<b>Balance at end of period</b>	<b>8,087,020</b>	<b>(10,541)</b>	<b>2,861,136</b>	<b>(9,085)</b>
<b>Accumulated other comprehensive loss</b>				
Balance at beginning of period		(12,523)		(41,302)
Other comprehensive (loss) income		(59,751)		41,551
<b>Balance at end of period</b>		<b>(72,274)</b>		<b>249</b>
<b>Total Shareholders' equity</b>		<b>805,913</b>		<b>909,161</b>

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

# The Bank of N.T. Butterfield & Son Limited

## Unaudited Consolidated Statements of Cash Flows

(In thousands of Bermuda dollars)

	For the nine month period ended	
	30 September 2013	30 September 2012
<b>Cash flows from operating activities</b>		
Net income	67,769	49,763
Less: Net income from discontinued operations	-	(7,620)
<b>Net income from continuing operations</b>	<b>67,769</b>	<b>42,143</b>
Adjustments to reconcile net income from continuing operations to operating cash flows		
Depreciation and amortisation	34,100	34,629
Net loss on sale of customer relationships intangible assets	-	515
Increase in carrying value of investments in affiliates	(282)	(203)
Share-based payments and settlements	5,138	4,358
Realised gains on legal settlement	(13,108)	-
Net gain on sale of affiliate & subsidiary	(807)	(4,250)
Net realised / unrealised losses on other real estate owned	723	2,037
Net realised gains on available for sale securities	(60)	(1,801)
Provision for credit losses	11,487	11,285
<b>Changes in operating assets and liabilities</b>		
Decrease (increase) in accrued interest receivable	2,503	(587)
Decrease in other assets	2,768	2,233
Increase (decrease) in accrued interest payable	401	(1,711)
Decrease in other liabilities	(40,921)	(6,053)
	<b>69,711</b>	<b>82,595</b>
Net change in trading investments	8,240	1,178
<b>Cash provided by operating activities from continuing operations</b>	<b>77,951</b>	<b>83,773</b>
<b>Cash flows from investing activities</b>		
Net proceeds on sale of affiliate	428	18,464
Proceeds from legal settlement	13,108	-
Net increase in short-term investments	(19,091)	(15,025)
Net additions to premises, equipment and computer software	(13,571)	(11,613)
Net (increase) decrease in loans	(144,068)	163,828
Net proceeds on sale of subsidiary	379	41,862
Net proceeds on sale of customer relationships intangible assets	-	1,421
Proceeds from other real estate owned	5,413	1,947
Held to maturity investments: proceeds from pay downs	16,178	7,723
Held to maturity investments: purchases	(114,630)	(191,305)
Available for sale investments: proceeds from maturities and pay downs	865,967	921,979
Available for sale investments: proceeds from sale	479,621	359,965
Available for sale investments: purchases	(1,020,673)	(1,648,961)
<b>Cash provided by (used in) investing activities</b>	<b>69,061</b>	<b>(349,715)</b>
<b>Cash flows from financing activities</b>		
Net increase (decrease) in demand and term deposit liabilities	607,533	(32,917)
Net decrease in securities sold under agreement to repurchase	(47,938)	-
Repayment of subordinated capital	(53,000)	(7,946)
Common Shares repurchased	(4,437)	(2,736)
Preference Shares repurchased	(14,201)	-
Proceeds from stock option exercise	117	-
Cash dividends paid on Preference Shares	(11,462)	(12,000)
Cash dividends paid on Common and Contingent Value Convertible Preference Shares	(33,046)	-
Preference Shares guarantee fee paid	(1,434)	(1,500)
<b>Cash provided by (used in) financing activities</b>	<b>442,132</b>	<b>(57,099)</b>
Net effect of exchange rates on cash and cash equivalents	(5,168)	20,183
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>583,976</b>	<b>(302,858)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,542,526</b>	<b>1,902,726</b>
<b>Cash and cash equivalents at end of period</b>	<b>2,126,502</b>	<b>1,599,868</b>
<b>Supplemental disclosure of non-cash investing activities</b>		
Fair value of properties added to Other Real Estate Owned	4,051	1,861

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

# **The Bank of N.T. Butterfield & Son Limited**

## **Notes to the Unaudited Consolidated Financial Statements**

### **Note 1: Significant Accounting Policies**

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

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

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

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

The following accounting developments were issued during the nine month period ended 30 September 2013:

#### **Disclosures About Offsetting Asset and Liabilities**

In December 2011, the FASB issued an Accounting Standards Update that required entities to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Entities are required to disclose both gross information and net information about Instruments and transactions eligible for offset in the statement of financial position and those which are subject to an agreement similar to a master netting arrangement. The new guidance became effective for all annual and interim periods beginning 1 January 2013. Additionally, entities are required to provide the disclosures for all comparative periods. In January 2013, the FASB issued another Accounting Standards Update to clarify the instruments and transactions to which the guidance in the previously issued Accounting Standards Update would apply. The adoption of the guidance in these Accounting Standards Updates did not have an impact on the Bank's consolidated financial condition or results of operations.

#### **Reclassification out of Accumulated Other Comprehensive Income**

In February 2013, the FASB issued an Accounting Standards Update that adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. The new guidance was effective for all annual and interim periods beginning 1 January 2013 and was applied prospectively. The adoption of this guidance did not have an impact on our financial position or results of operations. The new disclosure requirements of this Accounting Standards Update are included in Note 18: Accumulated Other Comprehensive Income to the Consolidated Financial Statements.

#### **Obligations Arising from Joint and Several Liability Arrangement**

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

#### **Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Group of Assets**

In March 2013, the FASB issued the final guidance related to the release of a cumulative translation adjustment ("CTA") upon derecognition of subsidiaries or group of assets within a foreign entity into net income. The guidance clarifies that when a parent ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity and the sale represents the complete or substantially complete liquidation of the investment in the foreign entity, or when a parent loses its controlling financial interest in an investment in a foreign entity, it should release the CTA into net income. The standard also requires the release of CTA into net income upon acquiring a controlling interest in a foreign entity that was accounted for under equity method investment prior to obtaining control, and consistent with current U.S. GAAP in this area, upon a partial sale of an equity method investment. The guidance is effective prospectively from 1 January 2014. The adoption of this guidance is not expected to have an impact on the Bank's consolidated financial condition or results of operations.

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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 2: Discontinued Operations**

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

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

	For the three month period ended		For the nine month period ended	
	30 September	30 September	30 September	30 September
	2013	2012	2013	2012
Non-interest income	-	410	-	1,701
Net interest income	-	1,809	-	7,267
Provision for credit losses	-	(124)	-	(548)
<b>Revenue before gains (losses)</b>	-	2,095	-	8,420
Gains (losses)	-	240	-	249
<b>Total net revenue</b>	-	2,335	-	8,669
Non-interest expenses	-	(2,188)	-	(7,976)
<b>Net income before income taxes</b>	-	147	-	693
Gain on sale of discontinued operations	-	7,240	-	7,240
Income tax expense	-	(87)	-	(313)
<b>Net income from discontinued operations</b>	-	7,300	-	7,620

**Note 3: Cash and Cash Equivalents**

	30 September 2013			31 December 2012		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
<b>Unrestricted</b>						
<b>Non-interest earning</b>						
Cash and demand deposits	181,360	40,547	221,907	172,179	44,425	216,604
<b>Interest earning</b>						
Demand Deposits	182	154,669	154,851	143	150,303	150,446
Cash equivalents	832,278	917,466	1,749,744	334,835	840,641	1,175,476
Sub-total - Interest earning	832,460	1,072,135	1,904,595	334,978	990,944	1,325,922
<b>Total cash and cash equivalent</b>	<b>1,013,820</b>	<b>1,112,682</b>	<b>2,126,502</b>	<b>507,157</b>	<b>1,035,369</b>	<b>1,542,526</b>



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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 4: Short-term Investments**

	30 September 2013			31 December 2012		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
<b>Unrestricted</b>						
<b>Interest earning</b>						
Term Deposits maturing within three months	-	69,303	69,303	-	56,727	56,727
Term Deposits maturing between three to six months	-	2,547	2,547	-	7,672	7,672
Term Deposits maturing between six to twelve months	-	8,177	8,177	-	4,761	4,761
<b>Total unrestricted short term investments</b>	-	80,027	80,027	-	69,160	69,160
<b>Affected by drawing restrictions related to minimum reserve and derivative margin requirements</b>						
<b>Interest earning</b>						
Deposits	15,067	112	15,179	6,942	111	7,053
<b>Total short-term investments</b>	15,067	80,139	95,206	6,942	69,271	76,213

**Note 5: Investments**

**Amortised cost, carrying amount and estimated fair value**

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

	30 September 2013				31 December 2012			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value
<b>Trading</b>								
Debt securities issued								
by non-US governments	3,133	631	-	3,764	4,301	930	-	5,231
Mutual funds	49,799	772	(875)	49,696	56,779	511	(736)	56,554
<b>Total Trading</b>	52,932	1,403	(875)	53,460	61,080	1,441	(736)	61,785

	30 September 2013				31 December 2012			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value
<b>Available for sale</b>								
Certificates of deposit	97,140	1,252	-	98,392	558,668	2,706	(14)	561,360
US government and federal agencies	1,354,253	11,460	(35,794)	1,329,919	1,156,307	23,613	(1,134)	1,178,786
Debt securities issued								
by non-US governments	76,922	370	(10)	77,282	89,609	438	(5)	90,042
Corporate debt securities guaranteed								
by non-US governments	-	-	-	-	32,021	5	-	32,026
Corporate debt securities	364,126	15,404	(65)	379,465	400,980	20,105	-	421,085
Asset-backed securities - Student loans	88,898	-	(2,695)	86,203	139,304	-	(3,203)	136,101
Mortgage backed securities - Commercial	155,670	-	(11,645)	144,025	130,526	231	(279)	130,478
Mortgage backed securities - Retail	24,519	-	(1,119)	23,400	-	-	-	-
Pass-through note	27,418	7,820	-	35,238	30,404	242	-	30,646
Equity securities	125	-	(73)	52	126	-	(73)	53
<b>Total available for sale</b>	2,189,071	36,306	(51,401)	2,173,976	2,537,945	47,340	(4,708)	2,580,577

	30 September 2013				31 December 2012			
	Amortised cost / Carrying amount	Gross unrealised gains	Gross unrealised losses	Fair value	Amortised cost / Carrying amount	Gross unrealised gains	Gross unrealised losses	Fair value
<b>Held to maturity<sup>1</sup></b>								
US government and federal agencies	336,962	1,259	(11,130)	327,091	239,342	6,691	(1,240)	244,793
<b>Total held to maturity</b>	336,962	1,259	(11,130)	327,091	239,342	6,691	(1,240)	244,793

<sup>1</sup> For the periods ended 30 September 2013 and 31 December 2012 non-credit impairments recognised in AOCI for held to maturity investments were \$nil.

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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 5: Investments (continued)**

**Pledged available for sale investments**

As at 30 September 2013, US government and federal agency investment securities classified as Available for sale with an amortised cost of \$373.8 million (31 December 2012: \$255.7 million) and fair value of \$366.4 million (31 December 2012: \$262.7 million) were pledged to secure Bank deposit products where the secured party did not have the right to sell or repledge the collateral.

US government and federal agency investment securities with an amortised cost of \$58.3 million (31 December 2012: \$120.9 million) and fair market value of \$61.2 million (31 December 2012: \$122.4 million) were pledged to secure repurchase agreements at 30 September 2013.

**Pledged held to maturity investments**

As at 30 September 2013, US government and federal agency investment securities with an amortised cost of \$37.8 million (31 December 2012: \$45.7 million) and fair market value of \$34.5 million (31 December 2012: \$44.5 million) were pledged to secure Bank deposit products where the secured party did not have the right to sell or repledge the collateral.

**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 OTTI, aggregated by investment category and length of time that individual securities have been in a continuous unrealised loss position. Debt securities are categorised as being in a continuous loss position for "Less than 12 months" or "12 months or more" based on the point in time that the fair value declined below the cost basis.

30 September 2013	Less than 12 months		More than 12 months		Total fair value	Total gross unrealised losses
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses		
<b>Available for sale</b>						
US government and federal agencies	808,727	(35,748)	14,281	(46)	823,008	(35,794)
Debt securities issued by non-US governments	67,910	(10)	-	-	67,910	(10)
Corporate debt securities	106	(65)	-	-	106	(65)
Asset-backed securities - Student loans	-	-	86,203	(2,695)	86,203	(2,695)
Mortgage backed securities - Commercial	144,024	(11,645)	-	-	144,024	(11,645)
Mortgage backed securities - Retail	23,399	(1,119)	-	-	23,399	(1,119)
Equity securities	-	-	53	(73)	53	(73)
<b>Total available-for-sale securities with unrealised losses</b>	<b>1,044,166</b>	<b>(48,587)</b>	<b>100,537</b>	<b>(2,814)</b>	<b>1,144,703</b>	<b>(51,401)</b>
<b>Held to maturity</b>						
US government and federal agencies	200,605	(6,509)	42,347	(4,621)	242,952	(11,130)
<b>Total held-to-maturity securities with unrealised losses</b>	<b>200,605</b>	<b>(6,509)</b>	<b>42,347</b>	<b>(4,621)</b>	<b>242,952</b>	<b>(11,130)</b>

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

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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 5: Investments (continued)**

**Unrealised loss positions (continued)**

The Bank does not believe that the investment securities that were in an unrealised loss position as of 30 September 2013, which was comprised of 109 securities, or, 56% of the portfolio by market value, represent an other-than-temporary impairment. Total gross unrealised losses were only 4.5% of the market value of affected securities and were primarily attributable to changes in market interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Bank does not intend to sell the investment securities that were in an unrealised loss position and it is not more likely than not that the Bank will be required to sell the investment securities before recovery of the amortised cost bases, which may be at maturity.

The following describes the process for identifying credit impairment in security types with the most significant unrealised losses As at 30 September 2013.

**US government and federal agencies**

As at 30 September 2013, gross unrealised losses on securities related to United States ("US") government and federal agencies were \$46.9 million (2012: \$2.4 million) of which \$42.3 million has been in an unrealised loss position for less than 12 months. 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 at 30 September 2013, gross unrealised losses on student loan asset-backed securities were \$2.7 million (2012: \$3.2 million) all of which related to investments that were in an unrealised loss position for greater than 12 months. Asset-backed securities collateralised by student loans are primarily composed of securities collateralised by Federal Family Education Loan Program ("FFELP loans"). FFELP loans benefit from a federal government guarantee of at least 97% of defaulted principal and accrued interest, with additional credit support provided in the form of over-collateralisation, subordination and excess spread, which collectively total in excess of 100%. Accordingly, the vast majority of FFELP loan-backed securities are not exposed to traditional consumer credit risk.

**Mortgage-backed securities – Commercial and Retail**

As at 30 September 2013, gross unrealised losses on commercial and prime mortgage backed securities were \$11.6 million and \$1.1 million respectively (2012: \$0.3 million and \$nil) all of which related to securities that were in an unrealised loss position for less than 12 months. The Bank's commercial and retail mortgage-backed securities are predominantly rated "AAA" and possess significant subordination (a form of credit enhancement for the benefit of senior securities, expressed here as the percentage of pool losses that can occur before a senior asset-backed security will incur its first dollar of principal loss). No credit losses were recognised on these securities as Management does not believe these securities have any credit losses.

**Contractual maturities**

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

30 September 2013	Remaining term to earlier of expected or contractual maturity						Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	No specific maturity	
<b>Trading</b>							
Debt securities issued by non-US governments	196	-	1,093	1,493	982	-	3,764
Mutual funds	-	-	-	-	-	49,696	49,696
<b>Total trading</b>	<b>196</b>	<b>-</b>	<b>1,093</b>	<b>1,493</b>	<b>982</b>	<b>49,696</b>	<b>53,460</b>
<b>Available for sale</b>							
Certificates of deposit	64,031	34,361	-	-	-	-	98,392
US government and federal agencies	-	-	114,982	306,611	908,326	-	1,329,919
Debt securities issued by non-US governments	42,756	26,553	5,600	2,373	-	-	77,282
Corporate debt securities guaranteed by non-US governments	-	-	-	-	-	-	-
Corporate debt securities	63	-	379,402	-	-	-	379,465
Asset-backed securities - Student loans	-	-	2,084	72,822	11,297	-	86,203
Mortgage backed securities - Commercial	-	-	-	134,779	9,246	-	144,025
Mortgage backed securities - Retail	-	-	-	-	23,400	-	23,400
Pass-through note	-	-	-	35,238	-	-	35,238
Equity securities	-	-	-	-	-	52	52
<b>Total available-for-sale</b>	<b>106,850</b>	<b>60,914</b>	<b>502,068</b>	<b>551,823</b>	<b>952,269</b>	<b>52</b>	<b>2,173,976</b>
<b>Held to maturity</b>							
US government and federal agencies	42	-	-	51,728	285,192	-	336,962
<b>Total held-to-maturity</b>	<b>42</b>	<b>-</b>	<b>-</b>	<b>51,728</b>	<b>285,192</b>	<b>-</b>	<b>336,962</b>
<b>Total investments</b>	<b>107,088</b>	<b>60,914</b>	<b>503,161</b>	<b>605,044</b>	<b>1,238,443</b>	<b>49,748</b>	<b>2,564,398</b>
<b>Total by currency</b>							
US dollars	10,715	31,801	502,068	603,551	1,237,461	48,793	2,434,389
Other	96,373	29,113	1,093	1,493	982	955	130,009
<b>Total investments</b>	<b>107,088</b>	<b>60,914</b>	<b>503,161</b>	<b>605,044</b>	<b>1,238,443</b>	<b>49,748</b>	<b>2,564,398</b>

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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 5: Investments (continued)**

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

**Sale proceeds and realised gains (losses)**

During the nine months ended 30 September 2013, the Bank disposed of:

- US agency securities totalling \$128.7 million in sale proceeds, resulting in gross realised gains of \$0.3 million and gross realised losses of \$0.6 million;
- Certificates of deposit totalling \$241.1 million in sale proceeds, resulting in gross realised gains of \$0.1 million;
- Corporate bonds totalling \$66.2 million in sale proceeds, resulting in gross realised gains of \$0.5 million; and
- Asset-backed securities totalling \$43.6 million in sale proceeds, resulting in gross realised losses of \$0.2 million.

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 a gross realised losses of \$0.2 million.
- Other securities totalling \$51.7 million in sale proceeds, resulting in gross realised gains of \$0.5 million.

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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 6: Loans**

The "Bermuda" and "Non-Bermuda" classifications purpose is to reflect Management segment reporting as described in Note 11: Segmented Information. The composition of the loan portfolio by reporting segment and collateral type at each of the indicated dates was as follows:

	30 September 2013			31 December 2012		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
<b>Commercial loans</b>						
Government	63,539	3,960	67,499	64,534	4,050	68,584
Commercial and industrial	138,769	244,415	383,184	121,947	190,002	311,949
Commercial overdrafts	69,088	22,164	91,252	58,973	22,929	81,902
Total commercial loans	271,396	270,539	541,935	245,454	216,981	462,435
Less specific allowance for credit losses on commercial loans	(240)	(1,835)	(2,075)	(166)	(1,250)	(1,416)
<b>Total commercial loans after specific allowance for credit</b>	<b>271,156</b>	<b>268,704</b>	<b>539,860</b>	<b>245,288</b>	<b>215,731</b>	<b>461,019</b>
<b>Commercial real estate loans</b>						
Commercial mortgage	401,285	365,063	766,348	495,466	281,456	776,922
Construction	-	2,789	2,789	109	2,119	2,228
Total commercial real estate loans	401,285	367,852	769,137	495,575	283,575	779,150
Less specific allowance for credit losses on commercial real estate loans	(4,064)	(5,543)	(9,607)	(8,772)	(4,711)	(13,483)
<b>Total commercial real estate loans after specific</b>	<b>397,221</b>	<b>362,309</b>	<b>759,530</b>	<b>486,803</b>	<b>278,864</b>	<b>765,667</b>
<b>Consumer loans</b>						
Automobile financing	16,584	6,750	23,334	19,663	6,050	25,713
Credit card	60,198	15,010	75,208	58,500	15,446	73,946
Overdrafts	13,542	6,615	20,157	8,488	3,933	12,421
Other consumer	58,476	92,839	151,315	66,044	94,819	160,863
Total consumer loans	148,800	121,214	270,014	152,695	120,248	272,943
Less specific allowance for credit losses on consumer loans	(160)	-	(160)	(160)	-	(160)
<b>Total consumer loans after specific allowance for credit</b>	<b>148,640</b>	<b>121,214</b>	<b>269,854</b>	<b>152,535</b>	<b>120,248</b>	<b>272,783</b>
<b>Residential mortgage loans</b>	<b>1,320,122</b>	<b>1,238,747</b>	<b>2,558,869</b>	<b>1,351,680</b>	<b>1,145,709</b>	<b>2,497,389</b>
Less specific allowance for credit losses on residential loans	(10,437)	(3,516)	(13,953)	(7,743)	(3,930)	(11,673)
<b>Total residential mortgage loans after specific allowance</b>	<b>1,309,685</b>	<b>1,235,231</b>	<b>2,544,916</b>	<b>1,343,937</b>	<b>1,141,779</b>	<b>2,485,716</b>
<b>Total gross loans</b>	<b>2,141,603</b>	<b>1,998,352</b>	<b>4,139,955</b>	<b>2,245,404</b>	<b>1,766,513</b>	<b>4,011,917</b>
Less specific allowance for credit losses	(14,901)	(10,894)	(25,795)	(16,841)	(9,891)	(26,732)
Less general allowance for credit losses	(20,967)	(9,569)	(30,536)	(20,817)	(8,408)	(29,225)
<b>Net loans</b>	<b>2,105,735</b>	<b>1,977,889</b>	<b>4,083,624</b>	<b>2,207,746</b>	<b>1,748,214</b>	<b>3,955,960</b>

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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 6: Loans (continued)**

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

The following table summarises the past due status of the loans at 30 September 2013 and 31 December 2012. The aging of past due amounts are determined based on the contractual delinquency status of payments under the loan and this aging may be affected by the timing of the last business day at period end. An account is generally considered to be contractually delinquent when payments have not been made in accordance with the loan terms.

	30 - 59 days	60 - 89 days	90 days or more	Total past due loans	Total current <sup>1</sup>	Total loans
<b>30 September 2013</b>						
<b>Commercial loans</b>						
Government	-	-	-	-	67,499	67,499
Commercial and industrial	1,402	43	2,237	3,682	379,502	383,184
Commercial overdrafts	49	1	295	345	90,907	91,252
<b>Total commercial loans</b>	<b>1,451</b>	<b>44</b>	<b>2,532</b>	<b>4,027</b>	<b>537,908</b>	<b>541,935</b>
<b>Commercial real estate loans</b>						
Commercial mortgage	2,164	9,376	46,531	58,071	708,277	766,348
Construction	-	-	-	-	2,789	2,789
<b>Total commercial real estate loans</b>	<b>2,164</b>	<b>9,376</b>	<b>46,531</b>	<b>58,071</b>	<b>711,066</b>	<b>769,137</b>
<b>Consumer loans</b>						
Automobile financing	206	208	396	810	22,524	23,334
Credit card	713	272	358	1,343	73,865	75,208
Overdrafts	44	-	367	411	19,746	20,157
Other consumer	1,075	415	1,241	2,731	148,584	151,315
<b>Total consumer loans</b>	<b>2,038</b>	<b>895</b>	<b>2,362</b>	<b>5,295</b>	<b>264,719</b>	<b>270,014</b>
<b>Residential mortgage loans</b>	<b>29,287</b>	<b>13,331</b>	<b>81,481</b>	<b>124,099</b>	<b>2,434,770</b>	<b>2,558,869</b>
<b>Total loans</b>	<b>34,940</b>	<b>23,646</b>	<b>132,906</b>	<b>191,492</b>	<b>3,948,463</b>	<b>4,139,955</b>

<sup>1</sup> Loans less than 30 days past due are included in current loans.

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

<sup>1</sup> Loans less than 30 days past due are included in current loans.

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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 6: Loans (continued)**

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

	30 September 2013			31 December 2012		
	Non-Accrual Loans	Accruing loans past due 90 days	Total non- performing loans	Non-Accrual Loans	Accruing loans past due 90 days	Total non- performing loans
<b>Commercial loans</b>						
Commercial and industrial	2,228	9	2,237	3,606	-	3,606
Commercial overdrafts	238	66	304	292	9	301
<b>Total commercial loans</b>	<b>2,466</b>	<b>75</b>	<b>2,541</b>	<b>3,898</b>	<b>9</b>	<b>3,907</b>
<b>Commercial real estate loans</b>	<b>46,396</b>	<b>136</b>	<b>46,532</b>	<b>55,167</b>	<b>417</b>	<b>55,584</b>
<b>Consumer loans</b>						
Automobile financing	435	12	447	581	57	638
Credit card	-	358	358	-	600	600
Overdrafts	202	165	367	217	10	227
Other consumer	1,315	24	1,339	1,984	76	2,060
<b>Total consumer loans</b>	<b>1,952</b>	<b>559</b>	<b>2,511</b>	<b>2,782</b>	<b>743</b>	<b>3,525</b>
<b>Residential mortgage loans</b>	<b>57,372</b>	<b>30,383</b>	<b>87,755</b>	<b>51,506</b>	<b>27,229</b>	<b>78,735</b>
<b>Total loans</b>	<b>108,186</b>	<b>31,153</b>	<b>139,339</b>	<b>113,353</b>	<b>28,398</b>	<b>141,751</b>

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

	30 September 2013				Total gross recorded investments
	Pass	Special Mention	Substandard	Non-Accrual	
<b>Commercial loans</b>					
Government	67,499	-	-	-	67,499
Commercial and industrial	375,125	2,983	2,848	2,228	383,184
Commercial overdrafts	79,824	11,046	144	238	91,252
<b>Total commercial loans</b>	<b>522,448</b>	<b>14,029</b>	<b>2,992</b>	<b>2,466</b>	<b>541,935</b>
<b>Commercial Real Estate</b>					
Commercial mortgage	571,441	97,193	51,318	46,396	766,348
Construction	1,085	-	1,704	-	2,789
<b>Total commercial real estate loans</b>	<b>572,526</b>	<b>97,193</b>	<b>53,022</b>	<b>46,396</b>	<b>769,137</b>
<b>Consumer loans</b>					
Automobile financing	21,740	1,147	12	435	23,334
Credit card	74,854	-	354	-	75,208
Overdrafts	19,082	470	403	202	20,157
Other consumer	147,323	2,507	170	1,315	151,315
<b>Total consumer loans</b>	<b>262,999</b>	<b>4,124</b>	<b>939</b>	<b>1,952</b>	<b>270,014</b>
<b>Residential</b>	<b>2,381,969</b>	<b>64,063</b>	<b>55,465</b>	<b>57,372</b>	<b>2,558,869</b>
<b>Total loans</b>	<b>3,739,942</b>	<b>179,409</b>	<b>112,418</b>	<b>108,186</b>	<b>4,139,955</b>

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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 6: Loans (continued)**

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

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 2013		31 December 2012	
	Individually evaluated	Collectively evaluated	Individually evaluated	Collectively evaluated
<b>Total gross loans evaluated for impairment</b>				
Commercial	357,676	184,259	329,680	132,755
Commercial Real Estate	563,180	205,957	677,638	101,512
Consumer	2,615	267,399	10,069	262,874
Residential	446,702	2,112,167	437,691	2,059,698
<b>Total gross loans</b>	<b>1,370,173</b>	<b>2,769,782</b>	<b>1,455,078</b>	<b>2,556,839</b>



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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 6: Loans (continued)**

	30 September 2013					31 December 2012
	Commercial	Commercial Real Estate	Consumer	Residential	Total	Total
<b>Allowances at beginning of year</b>	<b>6,596</b>	<b>18,394</b>	<b>5,440</b>	<b>25,527</b>	<b>55,957</b>	55,491
Provision taken (released) during the period	905	6,131	(1,252)	5,703	11,487	14,190
Recoveries	1,600	-	2,538	46	4,184	3,746
Charge-offs	(47)	(10,311)	(2,163)	(2,764)	(15,285)	(17,770)
Other	(11)	145	8	(154)	(12)	300
<b>Allowances at end of period</b>	<b>9,043</b>	<b>14,359</b>	<b>4,571</b>	<b>28,358</b>	<b>56,331</b>	55,957
Ending Balance: individually evaluated for impairment	2,075	9,607	160	13,953	25,795	26,732
Ending Balance: collectively evaluated for impairment	6,968	4,752	4,411	14,405	30,536	29,225

**Impaired loans**

A loan is considered to be impaired when, based on current information and events, the Bank determines that it will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Impaired loans include all non-accrual loans and all loans modified in a troubled debt restructuring ("TDR") even if full collectability is expected following the restructuring. For the nine month period ending 30 September 2013, the amount of gross interest income would have been recorded had impaired loans been current was \$5 million. The table below present information about the Bank's impaired loans:

30 September 2013	Impaired loans with an allowance			Impaired loans without an allowance	Total impaired loans		
	Gross recorded investment	Specific Allowance	Net loans	Gross recorded investment	Gross recorded investment	Specific Allowance	Net loans
<b>Commercial loans</b>							
Commercial and industrial	1,985	(1,975)	10	1,945	3,930	(1,975)	1,955
Commercial overdrafts	162	(100)	62	76	238	(100)	138
<b>Total commercial loans</b>	<b>2,147</b>	<b>(2,075)</b>	<b>72</b>	<b>2,021</b>	<b>4,168</b>	<b>(2,075)</b>	<b>2,093</b>
<b>Commercial real estate mortgage loans</b>	<b>37,533</b>	<b>(9,607)</b>	<b>27,926</b>	<b>18,664</b>	<b>56,197</b>	<b>(9,607)</b>	<b>46,590</b>
<b>Consumer loans</b>							
Automobile financing	211	(75)	136	224	435	(75)	360
Overdrafts	-	-	-	202	202	-	202
Other consumer	128	(85)	43	1,303	1,431	(85)	1,346
<b>Total consumer loans</b>	<b>339</b>	<b>(160)</b>	<b>179</b>	<b>1,729</b>	<b>2,068</b>	<b>(160)</b>	<b>1,908</b>
<b>Residential mortgage loans</b>	<b>45,092</b>	<b>(13,953)</b>	<b>31,139</b>	<b>20,589</b>	<b>65,681</b>	<b>(13,953)</b>	<b>51,728</b>
<b>Total impaired loans</b>	<b>85,111</b>	<b>(25,795)</b>	<b>59,316</b>	<b>43,003</b>	<b>128,114</b>	<b>(25,795)</b>	<b>102,319</b>

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

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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 6: Loans (continued)**

The following table presents information about the Bank's average impaired loan balances and interest income recognised on the impaired loans:

For the nine month period ended 30 September 2013

	Average gross recorded investment	Interest income recognised
<b>Impaired loans</b>		
<b>Commercial loans</b>		
Commercial and industrial	4,624	73
Commercial overdrafts	265	-
<b>Total commercial loans</b>	<b>4,889</b>	<b>73</b>
<b>Commercial real estate loans</b>	<b>60,468</b>	<b>412</b>
<b>Consumer loans</b>		
Automobile financing	508	-
Credit card	-	-
Overdrafts	210	-
Other consumer	1,708	3
<b>Total consumer loans</b>	<b>2,426</b>	<b>3</b>
<b>Residential mortgage loans</b>	<b>62,796</b>	<b>323</b>
<b>Total impaired loans</b>	<b>130,579</b>	<b>811</b>

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

				Effect of modification on recorded investment		
					Changes in the amount and/(or) timing of interest payments	Interest capitalisation
	Number of contracts	Recorded investment	Pre- modification outstanding recorded investment	Post- modification outstanding recorded investment		
<b>30 September 2013</b>						
<b>Commercial loans</b>						
Commercial and industrial	2	1,702	1,907	1,907	-	-
<b>Commercial real estate loans</b>	<b>8</b>	<b>18,417</b>	<b>24,785</b>	<b>24,882</b>	<b>-</b>	<b>97</b>
<b>Consumer loans</b>						
Other consumer	1	115	117	117	-	-
<b>Residential mortgage loans</b>	<b>19</b>	<b>12,575</b>	<b>12,365</b>	<b>12,714</b>	<b>121</b>	<b>228</b>
<b>Total loans</b>	<b>30</b>	<b>32,809</b>	<b>39,174</b>	<b>39,620</b>	<b>121</b>	<b>325</b>

<sup>1</sup>The amount is comprised of \$12.9 million of non-accrual loans and \$19.9 million of loans on accrual status.

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

<sup>1</sup>The amount is comprised of \$16.2 million of non-accrual loans and \$19.7 million of loans on accrual status.

The Bank has 4 loans modified in a TDR from 1 October 2012 to 30 September 2013 that subsequently defaulted (i.e., 90 days or more past due following a modification) with a recorded investment amounting to \$3.6 million.

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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 7: Credit Risk Concentrations**

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

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

	30 September 2013			31 December 2012		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Banks and financial services	318,730	357,842	676,572	277,273	394,858	672,131
Commercial and merchandising	257,603	139,649	397,252	263,723	88,551	352,274
Governments	58,312	3,388	61,700	58,811	28,153	86,964
Individuals	2,439,499	145,629	2,585,128	2,334,272	94,430	2,428,702
Primary industry and manufacturing	59,796	90	59,886	65,608	6,161	71,769
Real estate	886,571	15,295	901,866	887,178	36,523	923,701
Hospitality industry	87,125	-	87,125	90,978	-	90,978
Transport and communication	6,524	-	6,524	7,342	-	7,342
Sub-total	4,114,160	661,893	4,776,053	3,985,185	648,676	4,633,861
General allowance	(30,536)	-	(30,536)	(29,225)	-	(29,225)
<b>Total</b>	<b>4,083,624</b>	<b>661,893</b>	<b>4,745,517</b>	<b>3,955,960</b>	<b>648,676</b>	<b>4,604,636</b>

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

	30 September 2013			31 December 2012		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Bermuda	2,350,778	331,902	2,682,680	2,300,661	335,184	2,635,845
Cayman	574,962	175,453	750,415	547,779	194,634	742,413
Guernsey	562,101	103,265	665,366	534,226	72,961	607,187
The Bahamas	33,787	540	34,327	47,883	180	48,063
United Kingdom	592,532	50,733	643,265	554,636	45,717	600,353
Sub-total	4,114,160	661,893	4,776,053	3,985,185	648,676	4,633,861
General allowance	(30,536)	-	(30,536)	(29,225)	-	(29,225)
<b>Total</b>	<b>4,083,624</b>	<b>661,893</b>	<b>4,745,517</b>	<b>3,955,960</b>	<b>648,676</b>	<b>4,604,636</b>

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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 8: Customer Deposits and Deposits from Banks**

(a) By Maturity	30 September 2013			31 December 2012		
	Customers	Banks	Total	Customers	Banks	Total
<b>Demand deposits</b>						
Demand deposits - Non-interest bearing	1,030,400	385	1,030,785	918,814	567	919,381
Demand deposits - Interest bearing	4,638,160	44,218	4,682,378	4,405,291	99,573	4,504,864
<b>Sub-total - demand deposits</b>	<b>5,668,560</b>	<b>44,603</b>	<b>5,713,163</b>	<b>5,324,105</b>	<b>100,140</b>	<b>5,424,245</b>
<b>Term deposits</b>						
Term deposits maturing within six months	2,017,293	63,625	2,080,918	1,763,515	15,965	1,779,480
Term deposits maturing between six to twelve months	108,642	6,206	114,848	98,051	10,240	108,291
Term deposits maturing after twelve months	76,251	-	76,251	81,101	121	81,222
<b>Sub-total - term deposits</b>	<b>2,202,186</b>	<b>69,831</b>	<b>2,272,017</b>	<b>1,942,667</b>	<b>26,326</b>	<b>1,968,993</b>
<b>Total</b>	<b>7,870,746</b>	<b>114,434</b>	<b>7,985,180</b>	<b>7,266,772</b>	<b>126,466</b>	<b>7,393,238</b>

  

(b) By Type and Location	30 September 2013			31 December 2012		
	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
<b>Bermuda</b>						
Customers	2,595,660	1,272,767	3,868,427	2,364,433	890,886	3,255,319
Banks	17,579	33,332	50,911	88,169	249	88,418
<b>Cayman</b>						
Customers	1,615,240	383,120	1,998,360	1,468,025	394,159	1,862,184
Banks	25,697	36,499	62,196	10,643	26,077	36,720
<b>Guernsey</b>						
Customers	1,072,338	209,361	1,281,699	1,073,711	296,255	1,369,966
Banks	1,287	-	1,287	1,281	-	1,281
<b>The Bahamas</b>						
Customers	91,111	9,694	100,805	65,587	4,413	70,000
<b>United Kingdom</b>						
Customers	294,211	327,244	621,455	352,349	356,954	709,303
Banks	40	-	40	47	-	47
<b>Total Customers</b>	<b>5,668,560</b>	<b>2,202,186</b>	<b>7,870,746</b>	<b>5,324,105</b>	<b>1,942,667</b>	<b>7,266,772</b>
<b>Total Banks</b>	<b>44,603</b>	<b>69,831</b>	<b>114,434</b>	<b>100,140</b>	<b>26,326</b>	<b>126,466</b>
<b>Total</b>	<b>5,713,163</b>	<b>2,272,017</b>	<b>7,985,180</b>	<b>5,424,245</b>	<b>1,968,993</b>	<b>7,393,238</b>

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

(In thousands of Bermuda dollars, except otherwise stated)

**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	30 September	30 September	30 September
	2013	2012	2013	2012
<b>Defined benefit pension expense</b>				
Service cost	388	437	1,149	1,308
Interest cost	1,705	1,752	5,187	5,250
Expected return on plan assets	(2,286)	(2,042)	(6,824)	(6,119)
Amortisation of net actuarial loss	352	291	1,056	874
<b>Total defined benefit pension expense</b>	<b>159</b>	<b>438</b>	<b>568</b>	<b>1,313</b>
<b>Post-retirement medical benefit expense</b>				
Service cost	261	236	782	708
Interest cost	1,063	1,051	3,190	3,154
Amortisation of net actuarial loss	606	519	1,819	1,556
Amortisation of past service cost	(1,679)	(1,679)	(5,039)	(5,039)
<b>Total post-retirement medical benefit expense</b>	<b>251</b>	<b>127</b>	<b>752</b>	<b>379</b>

The net actuarial loss of the Bermuda Defined Benefit pension plan is amortised to net income over the estimated average remaining lifetime of all members of 22 years. The net actuarial loss of the Bermuda Post-Retirement medical plan is amortised to net income over the estimated average remaining service period for active members of 7.2 years and the past service costs are amortised to net income over the expected average remaining service period to full eligibility of active members expected to receive benefits under the plan (4.1 years for 2010 plan and 5.6 years for 2011 plan amendments). The Plans are subject to an annual actuarial review as at 31 December each year with the latest valuation performed as at 31 December 2012.

**Note 10: Credit Related Arrangements and Commitments**

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

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

	30 September 2013			31 December 2012		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	281,120	278,460	2,660	280,089	277,259	2,830
Letters of guarantee	11,047	9,252	1,795	11,207	8,694	2,513
<b>Total</b>	<b>292,167</b>	<b>287,712</b>	<b>4,455</b>	<b>291,296</b>	<b>285,953</b>	<b>5,343</b>

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 Bank of N.T. Butterfield & Son Limited

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

(In thousands of Bermuda dollars, except otherwise stated)

### Note 10: Credit Related Arrangements and Commitments (continued)

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

	30 September 2013	31 December 2012
Commitments to extend credit	368,383	356,122
Documentary and commercial letters of credit	1,343	1,258
<b>Total</b>	<b>369,726</b>	<b>357,380</b>

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 2013, \$135.5 million (2012: \$137.0 million) of standby letters of credit were issued under this facility.

### Legal Proceedings

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

### Note 11: Segmented Information

At 30 September 2013, for Management reporting purposes, the operations of the Bank are grouped into the following six business segments based upon the geographic location of the Bank's operations: Bermuda, Cayman, Guernsey, Switzerland, The Bahamas and United Kingdom. Accounting policies of the reportable segments are the same as those described in Note 2 in Bank's audited financial statements for the year ending 31 December 2012.

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

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

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

The Switzerland segment provides fiduciary services.

The Bahamas segment provides fiduciary and ancillary services.

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

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

<b>Total Assets by Segment</b>	30 September 2013	31 December 2012
Bermuda	5,038,387	4,624,036
Cayman	2,276,966	2,116,520
Guernsey	1,422,430	1,522,429
Switzerland	1,535	1,521
The Bahamas	114,023	82,712
United Kingdom	836,518	925,389
Total assets from continuing operations	9,689,859	9,272,607
Less: inter-segment eliminations	(456,612)	(439,598)
<b>Total</b>	<b>9,233,247</b>	<b>8,833,009</b>

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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 11: Segmented Information (continued)**

For the three month period ended 30 September 2013	Net interest income		Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses and central allocations	Gains and losses	Net income
	Customer	Inter- segment							
Bermuda	34,987	361	(2,224)	15,646	48,770	38,649	10,121	897	11,018
Cayman	13,683	315	(1,266)	7,660	20,392	13,058	7,334	404	7,738
Guernsey	4,969	1	(117)	4,658	9,511	7,735	1,776	(253)	1,523
Switzerland	-	-	-	394	394	592	(198)	-	(198)
The Bahamas	1	43	-	1,320	1,364	1,017	347	-	347
United Kingdom	5,006	(720)	(47)	1,686	5,925	4,811	1,114	17	1,131
<b>Total before eliminations</b>	<b>58,646</b>	<b>-</b>	<b>(3,654)</b>	<b>31,364</b>	<b>86,356</b>	<b>65,862</b>	<b>20,494</b>	<b>1,065</b>	<b>21,559</b>
Add / (deduct): inter- segment eliminations / transactions	-	-	-	(375)	(375)	(375)	-	-	-
<b>Total from continuing operations</b>	<b>58,646</b>	<b>-</b>	<b>(3,654)</b>	<b>30,989</b>	<b>85,981</b>	<b>65,487</b>	<b>20,494</b>	<b>1,065</b>	<b>21,559</b>

For the three month period ended 30 September 2012	Net interest income		Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses and central	Gains and losses	Net income
	Customer	Inter-segment							
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)
<b>Total before eliminations</b>	<b>52,000</b>	<b>-</b>	<b>(2,906)</b>	<b>32,699</b>	<b>81,793</b>	<b>69,343</b>	<b>12,450</b>	<b>(910)</b>	<b>11,540</b>
Add / (deduct): inter- segment eliminations / transactions	-	-	-	(527)	(527)	(527)	-	-	-
<b>Total from continuing operations</b>	<b>52,000</b>	<b>-</b>	<b>(2,906)</b>	<b>32,172</b>	<b>81,266</b>	<b>68,816</b>	<b>12,450</b>	<b>(910)</b>	<b>11,540</b>

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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 11: Segmented Information (continued)**

For the nine month period ended 30 September 2013	Net interest income		Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses and central allocations	Gains and losses	Net income
	Customer	Inter-segment							
Bermuda	100,760	1,114	(8,867)	44,827	137,834	111,943	25,891	14,188	40,079
Cayman	37,429	887	(2,117)	23,544	59,743	40,301	19,442	(492)	18,950
Guernsey	14,709	3	(146)	14,269	28,835	22,949	5,886	(253)	5,633
Switzerland	-	-	-	1,182	1,182	1,768	(586)	-	(586)
The Bahamas	36	97	58	4,237	4,428	3,580	848	-	848
United Kingdom	12,957	(2,101)	(415)	5,030	15,471	13,289	2,182	178	2,360
<b>Total before eliminations</b>	<b>165,891</b>	<b>-</b>	<b>(11,487)</b>	<b>93,089</b>	<b>247,493</b>	<b>193,830</b>	<b>53,663</b>	<b>13,621</b>	<b>67,284</b>
Add / (deduct): inter- segment eliminations / transactions	-	-	-	(1,220)	(1,220)	(1,220)	-	485	485
<b>Total from continuing operations</b>	<b>165,891</b>	<b>-</b>	<b>(11,487)</b>	<b>91,869</b>	<b>246,273</b>	<b>192,610</b>	<b>53,663</b>	<b>14,106</b>	<b>67,769</b>

For the nine month period ended 30 September 2012	Net interest income		Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses and central allocations	Gains and losses	Net income
	Customer	Inter-segment							
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)
<b>Total before eliminations</b>	<b>159,161</b>	<b>-</b>	<b>(11,285)</b>	<b>98,953</b>	<b>246,829</b>	<b>209,229</b>	<b>37,600</b>	<b>4,543</b>	<b>42,143</b>
Add / (deduct): inter- segment eliminations / transactions	-	-	-	(1,791)	(1,791)	(1,791)	-	-	-
<b>Total from continuing operations</b>	<b>159,161</b>	<b>-</b>	<b>(11,285)</b>	<b>97,162</b>	<b>245,038</b>	<b>207,438</b>	<b>37,600</b>	<b>4,543</b>	<b>42,143</b>



## **The Bank of N.T. Butterfield & Son Limited**

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

*(In thousands of Bermuda dollars, except otherwise stated)*

#### **Note 12: Accounting for Derivative Instruments and Risk Management**

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

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

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

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

##### **Notional amounts**

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

##### **Fair value**

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

##### **Risk management derivatives**

The Bank enters into interest 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 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 foreign currency derivative instruments to hedge its exposure to foreign currency risk. Certain hedging relationships are formally designated and qualify for hedge accounting as fair value or net investment hedges.

Risk management derivatives comprise:

##### **Fair value hedges**

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

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

(In thousands of Bermuda dollars, except otherwise stated)

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

**Net investment hedges**

Foreign currency swaps and qualifying non-derivative instruments designated as net investment hedges are used to minimize the Bank's exposure to variability in the foreign currency translation of net investments in foreign operations. The effective portion of changes in the fair value of the hedging instrument is recognized in AOCI consistent with the related translation gains and losses of the hedged net investment. For net investment hedges, all critical terms of the hedged item and the hedging instrument are matched at inception and on an ongoing basis to minimize the risk of hedge ineffectiveness.

For derivatives designated as net investment hedges, the Bank follows the forward-rate method in measuring the amount of ineffectiveness in a net investment hedge. According to that method, all changes in fair value, including changes related to the forward-rate component and the time value of currency swaps, are recorded in the foreign currency translation adjustment account within Accumulated other comprehensive income (loss). To the extent all terms are not perfectly matched, any ineffectiveness is measured using the hypothetical derivative method. Ineffectiveness resulting from net investment hedges is recorded in foreign exchange income. Amounts recorded in AOCI are reclassified to earnings only upon the sale or liquidation of an investment in a foreign subsidiary.

For foreign-currency-denominated debt instruments that are designated as hedges of net investments, the translation gain or loss that is recorded in the foreign currency translation adjustment account is based on the spot exchange rate between the functional currencies of the respective subsidiary.

**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 Banks' exposure. Changes in the fair value of derivative instruments not formally designated as hedges are recognised in foreign exchange 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.

<b>30 September 2013</b>	<b>Derivative Instrument</b>	<b>Notional amounts</b>	<b>Positive fair value</b>	<b>Negative fair value</b>	<b>Net fair value</b>
<b>Risk Management Derivatives</b>					
Fair Value Hedges of fixed rate loans	Interest rate swaps	-	-	-	-
Net investment hedges	Currency swaps	151,877	-	(6,571)	(6,571)
Derivatives not formally designated as hedging instruments	Currency swaps	116,094	347	(2,647)	(2,300)
Subtotal risk management derivatives		267,971	347	(9,218)	(8,871)
<b>Client Services Derivatives</b>	Spot and forward foreign exchange	3,759,881	17,484	(17,937)	(453)
<b>Total derivative instruments</b>		<b>4,027,852</b>	<b>17,831</b>	<b>(27,155)</b>	<b>(9,324)</b>
<b>31 December 2012</b>	<b>Derivative Instrument</b>	<b>Notional amounts</b>	<b>Positive fair value</b>	<b>Negative fair value</b>	<b>Net fair value</b>
<b>Risk Management Derivatives</b>					
Fair Value Hedges of fixed rate loans	Interest rate swaps	8,529	-	(89)	(89)
Net investment hedges	Currency swaps	42,523	-	(116)	(116)
Derivatives not formally designated as hedging instruments	Currency swaps	301,161	113	(10,779)	(10,666)
Subtotal risk management derivatives		352,213	113	(10,984)	(10,871)
<b>Client Services Derivatives</b>	Spot and forward foreign exchange	2,444,357	14,312	(13,972)	340
<b>Total derivative instruments</b>		<b>2,796,570</b>	<b>14,425</b>	<b>(24,956)</b>	<b>(10,531)</b>

In addition to the above, Foreign denominated deposits, totalling \$15.6 million at 30 September 2013 (31 December 2012: \$133.6 million), were designated as a hedge of foreign exchange risk associated with the net investment in foreign operations.

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

(In thousands of Bermuda dollars, except otherwise stated)

**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		For the nine month period ended	
		30 September 2013	30 September 2012	30 September 2013	30 September 2012
Interest rate swaps	Net other gains	12	26	85	308
Forward foreign exchange	Foreign exchange revenue	924	(576)	1,395	(663)
Forward currency options	Foreign exchange revenue	-	287	-	734
Total net gains recognised in net income		936	(263)	1,480	379

**Note 13: Fair Value of Financial Instruments**

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

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

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

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

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

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

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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 13: Fair Value of Financial Instruments (continued)**

**Items that are recognised at fair value on a recurring basis**

	30 September 2013				31 December 2012			
	Fair value			Total carrying amount / Fair value	Fair value			Total carrying amount / Fair value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
<b>Financial assets</b>								
<b>Trading investments</b>								
Debt securities issued								
by non-US governments	-	3,764	-	3,764	-	5,231	-	5,231
Mutual funds	5,632	44,064	-	49,696	5,337	51,217	-	56,554
<b>Total trading</b>	<b>5,632</b>	<b>47,828</b>	<b>-</b>	<b>53,460</b>	<b>5,337</b>	<b>56,448</b>	<b>-</b>	<b>61,785</b>
<b>Available for sale investments</b>								
Certificates of deposit	-	98,392	-	98,392	-	561,360	-	561,360
US government and federal agencies	-	1,329,919	-	1,329,919	-	1,178,786	-	1,178,786
Debt securities issued								
by non-US governments	-	77,282	-	77,282	-	90,042	-	90,042
Corporate debt securities guaranteed								
by non-US governments	-	-	-	-	-	32,026	-	32,026
Corporate debt securities	-	379,465	-	379,465	-	421,085	-	421,085
Asset-backed securities - Student loans	-	74,906	11,297	86,203	-	124,937	11,164	136,101
Mortgage backed securities - Commercial	-	144,025	-	144,025	-	130,478	-	130,478
Mortgage backed securities - Retail	-	23,400	-	23,400	-	-	-	-
Pass-through note	-	-	35,238	35,238	-	-	30,646	30,646
Equity securities	-	52	-	52	-	53	-	53
<b>Total available for sale</b>	<b>-</b>	<b>2,127,441</b>	<b>46,535</b>	<b>2,173,976</b>	<b>-</b>	<b>2,538,767</b>	<b>41,810</b>	<b>2,580,577</b>
Other assets - Derivatives	-	(9,197)	-	(9,197)	-	(8,481)	-	(8,481)
Other assets - Fund	-	-	-	-	-	-	4,397	4,397
<b>Financial liabilities</b>								
Other liabilities - Derivatives	-	(148)	-	(148)	-	(1,889)	-	(1,889)

There were no transfers between Level 1 and Level 2 during 30 September 2013 and 31 December 2012.

The following table presents quantitative information about recurring fair value measurements of assets classified with Level 3 of the fair value hierarchy:

**30 September 2013**

Financial Instrument Type	Valuation Technique	Fair Value
Asset-backed securities - Student loans	Unadjusted third party priced	11,297
Pass-through note	Unadjusted third party priced	35,238

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

**Unadjusted third party price**

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

• Asset-backed securities ("ABS") – The ABS is a Federal Family Education Loan Program guaranteed student loan security and is valued using a non-binding broker quote. The fair value provided by the broker is based on the last trading price of similar securities but as the market for the security illiquid, a Level 2 classification is not supported.

• Pass-through note ("PTN") – The PTN consists of a pool of floating rate income securities (typically US sub prime collateralised mortgage obligations and mortgage-backed securities). The third-party investment manager of the PTN determines the fair value of each underlying security within the PTN. The investment manager uses a variety of valuation techniques consistent with those disclosed in Note 2 in Bank's audited financial statements for the year ending 31 December 2012. Despite relying on the fair values provided by the investment manager, Management is still responsible for the final fair valuation used.

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

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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 13: Fair Value of Financial Instruments (continued)**

Level 3 reconciliation	For the nine month period ended			
	30 September 2013		30 September 2012	
	Available- for-sale investments	Closed ended fund	Available- for-sale investments	Closed ended fund
Carrying amount at beginning of year	41,810	4,397	38,155	6,199
Purchases	-	-	-	-
Proceeds from sales, paydowns and maturities	(4,442)	(4,111)	(3,780)	(1,154)
Realised and unrealised gains recognised in net income	1,456	-	1,225	-
Realised and unrealised gains (losses) recognised in other comprehensive income	7,711	-	7,011	33
Foreign exchange translation adjustment	-	(286)	-	(872)
Carrying amount at end of period	46,535	-	42,611	4,206

Items that are recognised at fair value on a non- recurring basis	30 September 2013				31 December 2012			
	Fair value			Total carrying amount / Fair value	Fair value			Total carrying amount / Fair value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Other real estate owned	-	32,201	-	32,201	-	34,360	-	34,360

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

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

	30 September 2013			31 December 2012		
	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
<b>Financial assets</b>						
Cash and cash equivalents	2,126,502	2,126,502	-	1,542,526	1,542,526	-
Short-term investments	95,206	95,206	-	76,213	76,213	-
Investments held to maturity	336,962	327,091	(9,871)	239,342	244,793	5,451
Loans, net of allowance for credit losses	4,083,624	4,075,647	(7,977)	3,955,960	3,946,081	(9,879)
<b>Financial liabilities</b>						
Customer deposits						
Demand deposits	5,668,560	5,668,560	-	5,324,105	5,324,105	-
Term deposits	2,202,186	2,203,623	(1,437)	1,942,667	1,944,531	(1,864)
Deposits from banks	114,434	114,434	-	126,466	126,466	-
Securities sold under repurchase agreements	61,083	61,083	-	109,021	109,021	-
Subordinated capital	207,000	200,117	6,883	260,000	254,127	5,873

All of the Held to maturity securities held by the Bank as at 30 September 2013 and 31 December 2012 are classified as Level 2 of the fair value hierarchy.

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

(In thousands of Bermuda dollars, except otherwise stated)

**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.

30 September 2013	Earlier of contractual maturity or repricing date						Total
	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	
<b>(in \$ millions)</b>							
<b>Assets</b>							
Cash and deposits with banks	1,905	-	-	-	-	222	2,127
Short term investments	84	3	8	-	-	-	95
Investments	378	37	32	493	1,574	50	2,564
Loans	2,762	985	63	154	48	71	4,083
Other assets	-	-	-	-	-	364	364
<b>Total assets</b>	<b>5,129</b>	<b>1,025</b>	<b>103</b>	<b>647</b>	<b>1,622</b>	<b>707</b>	<b>9,233</b>
<b>Liabilities and Shareholders' equity</b>							
Shareholders' equity	-	-	-	-	-	806	806
Demand deposits	4,682	-	-	-	-	1,031	5,713
Term deposits	1,654	427	115	76	-	-	2,272
Securities sold under agreement to repurchase	61	-	-	-	-	-	61
Other liabilities	-	-	-	-	-	174	174
Subordinated capital	137	-	-	70	-	-	207
<b>Total liabilities and Shareholders' equity</b>	<b>6,534</b>	<b>427</b>	<b>115</b>	<b>146</b>	<b>-</b>	<b>2,011</b>	<b>9,233</b>
Interest rate sensitivity gap	(1,405)	598	(12)	501	1,622	(1,304)	-
Cumulative interest rate sensitivity gap	(1,405)	(807)	(819)	(318)	1,304	-	-

31 December 2012	Earlier of contractual maturity or repricing date						Total
	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	
<b>(in \$ millions)</b>							
<b>Assets</b>							
Cash and deposits with banks	1,326	-	-	-	-	217	1,543
Short term investments	64	8	4	-	-	-	76
Investments	673	314	43	559	1,236	57	2,882
Loans	3,490	180	41	100	94	51	3,956
Other assets	-	-	-	-	-	376	376
<b>Total assets</b>	<b>5,553</b>	<b>502</b>	<b>88</b>	<b>659</b>	<b>1,330</b>	<b>701</b>	<b>8,833</b>
<b>Liabilities and Shareholders' equity</b>							
Shareholders' equity	-	-	-	-	-	857	857
Demand deposits	4,505	-	-	-	-	919	5,424
Term deposits	1,576	204	108	81	-	-	1,969
Securities sold under agreement to repurchase	109	-	-	-	-	-	109
Other liabilities	-	-	-	-	-	214	214
Subordinated capital	90	100	-	45	25	-	260
<b>Total liabilities and Shareholders' equity</b>	<b>6,280</b>	<b>304</b>	<b>108</b>	<b>126</b>	<b>25</b>	<b>1,990</b>	<b>8,833</b>
Interest rate swaps	8	-	(8)	-	-	-	-
Interest rate sensitivity gap	(719)	198	(28)	533	1,305	(1,289)	-
Cumulative interest rate sensitivity gap	(719)	(521)	(549)	(16)	1,289	-	-

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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 15: Earnings per Share**

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

	For the three month period ended		For the nine month period ended	
	30 September	30 September	30 September	30 September
	2013	2012	2013	2012
<b>Basic earnings per share<sup>1</sup></b>	<b>0.03</b>	0.03	<b>0.10</b>	0.07
Basic earnings per Share from continuing operations	<b>0.03</b>	0.01	<b>0.10</b>	0.05
Basic earnings per Share from discontinued operations	<b>0.00</b>	0.01	<b>0.00</b>	0.01
Net income from continuing operations	<b>21,559</b>	11,540	<b>67,769</b>	42,143
Less: Preferred dividends declared and guarantee fee	<b>(4,163)</b>	(4,500)	<b>(12,851)</b>	(13,500)
Less: Premium on Preferred Share buyback	<b>(102)</b>	-	<b>(2,669)</b>	-
Net income from continuing operations attributable for Common Shareholders	<b>17,294</b>	7,040	<b>52,249</b>	28,643
Net income from discontinued	-	7,300	-	7,620
<b>Net income attributable for Common Shareholders</b>	<b>17,294</b>	14,340	<b>52,249</b>	36,263
Weighted average number of common shares issued (in thousands)	<b>556,933</b>	556,933	<b>556,933</b>	556,933
Weighted average number of common shares held as treasury stock (in thousands)	<b>(7,744)</b>	(1,827)	<b>(7,350)</b>	(1,654)
<b>Adjusted weighted average number of common shares (in thousands)</b>	<b>549,189</b>	555,106	<b>549,583</b>	555,279
<b>Diluted earnings per share<sup>1</sup></b>	<b>0.03</b>	0.03	<b>0.09</b>	0.07
Diluted earnings per Share from continuing operations	<b>0.03</b>	0.01	<b>0.09</b>	0.05
Diluted earnings per Share from discontinued operations	<b>0.00</b>	0.01	<b>0.00</b>	0.01
Net (loss) income attributable for common shareholders	<b>17,294</b>	7,040	<b>52,249</b>	28,643
Net income from discontinued	-	7,300	-	7,620
<b>Net income attributable for Common Shareholders</b>	<b>17,294</b>	14,340	<b>52,249</b>	36,263
Adjusted weighted average number of common shares issued	<b>549,189</b>	555,106	<b>549,583</b>	555,279
Weighted average number of dilutive Share-based awards	<b>4,230</b>	3,834	<b>3,947</b>	2,726
<b>Adjusted weighted average number of diluted common shares</b>	<b>553,419</b>	558,940	<b>553,530</b>	558,005

<sup>1</sup> Due to rounding, earnings per Share on continuing and discontinued operations may not sum to earnings per Share amount on net income

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

During the nine months ended 30 September 2013, weighted-average options to purchase 32.5 million (2012: 33.5 million) Shares of Common stock (see Note 16), were outstanding. Only options where the option's expense that will be recognised in the future and its exercise price was lower than the average market price of the Bank's Common stock were considered dilutive and, therefore, included in the computation of diluted earnings per Share. The dilution effect of such options is a net increase of 1.1 million of the weighted-average number of Common Shares outstanding on a fully diluted basis. The awards' yet unrecognised expense is considered to be the proceeds the employees would need to pay to purchase accelerated vesting of the awards.

During the nine months ended 30 September 2013 the weighted-average number of outstanding awards of unvested Common Shares (see Note 16) was 8.5 million (2012: 7.2 million). All unvested awards of Common Shares were considered dilutive because each award's unrecognised expense was lower than the average market price of the Bank's Common stock. The awards' unrecognised expense is considered to be the proceeds the employees would need to pay to purchase accelerated vesting of the awards. For purpose of calculating dilution, such proceeds are assumed to be used by the Bank to buy-back Shares at the average market price. The weighted-average number of outstanding awards net of the assumed weighted-average number of Shares bought-back is included in the number of diluted participating Shares.

Warrants issued to the Government of Bermuda in exchange for the Government's guarantee of the Preference Shares, with an exercise price of \$3.51 (2012: \$3.61) for 4.28 million (2012: 4.15 million) Shares of Common stock were not included in the computation of earnings per Share as at 30 September 2013 and 2012 because the exercise price was greater than the average market price of the Bank's Common stock.

# The Bank of N.T. Butterfield & Son Limited

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

(In thousands of Bermuda dollars, except otherwise stated)

### Note 16: Share-Based Payments

As at 30 September 2013, the Bank has three Share-based compensation plans, which are described below.

#### Stock Option Plans

##### 1997 Stock Option Plan

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

##### 2010 Stock Option Plan

In conjunction with the capital raise, the Board of Directors approved the 2010 Stock Option Plan. Under the Plan, five per cent of the Company's fully diluted Common Shares, equal to approximately 29.5 million Shares, are available for grant to certain Officers. In May 2012 the Board of Directors approved an increase to the options allowed to be granted under the 2010 Stock Option Plan to 50 million Shares. Under the 2010 Stock Option Plan, options are awarded to Bank employees and Executive Management, based on predetermined vesting conditions that entitle the holder to purchase one Common Share at a subscription price usually equal to the last-traded Common Share price when granted and have a term of 10 years. Two types of vesting conditions upon which the options will be awarded comprise the 2010 Stock Option Plan i.e.:

##### Time Vesting Condition

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

##### Performance Vesting Condition

50% of each option award is granted in the form of Performance Options and vests on a "Valuation Event" date (date any of the 2 March 2010 Investors transfers at least 5% of total number of Shares or the date that there is a change in control and any of the New Investors achieve a Multiple of Invested Capital ("MOIC") based on predetermined MOIC tiers). In the event of a Valuation Event and the MOIC reaching 200% of the original \$1.21 per Share invested capital, all Performance Options would vest. The Bank determined the Performance Options granted have an aggregate fair value of \$9.5 million. If the probability of a Valuation Event becomes more likely than not, some or all of the \$9.5 million unrecognised expense relating to the Performance Options will be recognised as an expense.

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

Stock option plans	For the nine month period ended	
	30 September 2013	30 September 2012
	Number of shares transferable upon exercise	Number of shares transferable upon exercise (thousands)
Outstanding at beginning of period	33,327	33,632
Granted	-	3,100
Forfeited / cancelled	(230)	(2,575)
Exercised	(95)	(5)
Resignation / Retirement / Redundancy	(43)	(646)
Expiration at end of plan life	(436)	-
Outstanding at the end of the period	32,523	33,506

#### Employee Deferred Incentive Plan ("EDIP")

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

	For the nine month period ended	
	30 September 2013	30 September 2012
	Number of shares transferable upon vesting	Number of shares transferable upon vesting (thousands)
Outstanding at beginning of period	1,976	1,276
Granted	1,352	1,565
Forfeited / cancelled	(8)	(11)
Vested	(755)	(463)
Resignation / Retirement / Redundancy	(395)	(374)
Outstanding at the end of the period	2,170	1,993



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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 16: Share-Based Payments (continued)**

**2011 and 2012 Executive Long-Term Incentive Share plan ("ELTIP")**

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

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

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

**2013 Executive Long-Term Incentive Share plan ("2013 ELTIP")**

Under the Bank's 2013 ELTIP, Performance Shares were awarded to Executive Management. These Shares will vest upon the achievement of certain performance targets in the three-year period from the effective grant date. The Board approved the 2013 Employee Deferred Incentive Plan and the 2013 Executive Long-Term Incentive Share Plan on the 26th of February 2013.

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

	For the nine month period ended	
	30 September 2013	30 September 2012
	Number of shares transferable upon vesting	Number of shares transferable upon vesting (thousands)
<b>Outstanding at beginning of period</b>	<b>5,231</b>	<b>2,515</b>
Granted	3,476	4,067
Forfeited / cancelled	(1,110)	(20)
Vested	(900)	(908)
Resignation / Retirement / Redundancy	(326)	(420)
<b>Outstanding at the end of the period</b>	<b>6,371</b>	<b>5,234</b>

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 ending		
	30 September 2013		
	30 September 2012		
	Stock option plan	ELTIP and DIP	Total
<b>Share-based compensation plans</b>			
Awards granted in year 2010 and after - continuing	1,267	3,721	4,988
Awards granted in year 2010 and after - discontinued	-	-	-
<b>Total share-based compensation</b>	<b>1,267</b>	<b>3,721</b>	<b>4,988</b>
<b>Share-based settlement plans</b>			
Deferred incentive settlement plan	-	-	-
Directors shares and retainers settlement plan	-	-	293
<b>Total share-based payments</b>	<b>5,138</b>		<b>4,358</b>

The following table presents the unrecognised expense attributable each plan.

	As at	
	30 September 2013	30 September 2012
<b>Unrecognised expense</b>		
<b>2010 Stock Option Plan</b>		
Time Vesting Options	2,179	4,120
Performance Vesting Options	9,480	9,608
<b>DIP</b>	<b>1,912</b>	<b>1,814</b>
<b>ELTIP</b>		
Time Vesting Shares	960	2,218
Performance Vesting Shares	4,536	2,248
	<b>19,067</b>	<b>20,008</b>

**Directors' Compensation**

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

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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 17: Share Buy-Back Plans**

The Bank introduced two Share Buy-back Programmes on 1 May 2012 as a means to improve Shareholder liquidity and facilitate growth in Share value. Under these Programmes, up to six million Common Shares were authorised to be acquired and 2,000 Preference Shares were authorised to be purchased for cancellation. On 10 December 2012, the Board of the Bank approved increasing the number of Common Shares to be acquired up to 10 million and number of Preference Shares to be purchased for cancellation up to 8,000. The Board cancelled the existing Common Share Buy-back Programme effective 1 April 2013 and implemented a new programme for the purchase of up to 10 million Common Shares. During the second quarter of 2013, the Board also implemented a new Preference Share Buy-back programme to replace the old programme (under which the Bank was authorised to purchase for cancellation up to 8,000 Preference Shares), authorising in total the purchase and cancellation of up to 15,000 Preference Shares.

During the three month period ended 30 September 2013 the Bank acquired 0.7 million Common Shares to be held as Treasury Shares at an average cost of \$1.39 per Share (total cost of \$1.0 million), and purchased for cancellation 514 Preference Shares at a cost of \$0.6 million.

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

The BSX must be advised monthly of Shares repurchased and cancelled by the Bank.

**Note 18: Accumulated Other Comprehensive Income**

The table below presents the changes in Accumulated Other Comprehensive Income (Loss) (AOCI) by component for the nine month period ended:

**30 September 2013**

	Unrealised losses on translation of net investment in foreign operations	Unrealised gains (losses) on available for sale investments	Employee future benefits			
			Pension	Post- retirement healthcare	Subtotal	Total AOCI
Balance at beginning of period	(10,487)	44,781	(47,995)	1,178	(46,817)	(12,523)
Other comprehensive income (loss)	(529)	(57,058)	1,056	(3,220)	(2,164)	(59,751)
<b>Balance at end of period</b>	<b>(11,016)</b>	<b>(12,277)</b>	<b>(46,939)</b>	<b>(2,042)</b>	<b>(48,981)</b>	<b>(72,274)</b>

**30 September 2012**

	Unrealised losses on translation of net investment in foreign operations	Unrealised gains (losses) on available for sale investments	Employee future benefits			
			Pension	Post- retirement healthcare	Subtotal	Total AOCI
Balance at beginning of period	(11,321)	1,663	(40,515)	8,871	(31,644)	(41,302)
Other comprehensive income (loss)	1,237	42,923	874	(3,483)	(2,609)	41,551
<b>Balance at end of period</b>	<b>(10,084)</b>	<b>44,586)</b>	<b>(39,641)</b>	<b>5,388)</b>	<b>(34,253)</b>	<b>249)</b>

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

(In thousands of Bermuda dollars, except otherwise stated)

**Note 18: Accumulated other comprehensive income (continued)**

The net change in each component of Accumulated Other Comprehensive Income (Loss) is as follows:

Line item in the Consolidated Statement of Operations	For the three month period		For the nine month period	
	30 September 2013	30 September 2012	30 September 2013	30 September 2012
<b>Net unrealised (loss) gains on translation of net</b>				
Foreign Currency Translation Adjustments	11,952	6,216	(1,484)	8,053
Net Investment Hedge (Losses) Gains	(10,162)	(4,673)	955	(6,816)
Net change	1,790	1,543	(529)	1,237
<b>Available for sale investment adjustments</b>				
Gross unrealised gains (losses) arising during the period	7,463	23,289	(56,998)	44,724
Reclassification of realised gains to net income	(4)	-	(60)	(1,801)
Net change	7,459	23,289	(57,058)	42,923
<b>Employee future benefits adjustments</b>				
Amortisation of actuarial gains (losses) on defined benefit pension	352	291	1,056	874
Amortisation of actuarial gains (losses) on post-retirement medical benefit	606	519	1,819	1,556
Amortisation of prior period service cost on post-retirement medical benefit	(1,679)	(1,679)	(5,039)	(5,039)
Net change	(721)	(869)	(2,164)	(2,609)
<b>Other comprehensive income (loss)</b>	<b>8,528</b>	<b>23,963</b>	<b>(59,751)</b>	<b>41,551</b>

**Note 19: Regulatory Capital**

The Bank is fully compliant with all regulatory capital requirements and maintains capital ratios well in excess of regulatory minimums as at 30 September 2013 and 31 December 2012.

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

(in \$ millions)	30 September 2013	31 December 2012
<b>Capital</b>		
Tier 1 capital	801,183	792,266
Tier 2 capital	175,903	244,225
Deductions	(2,935)	(2,935)
Total capital	974,151	1,033,556
<b>Weighted Risk Assets</b>		
Total weighted risk assets	4,319,417	4,275,055
<b>Capital Ratios (%)</b>		
Tier 1 Common	14.3%	14.0%
Tier 1 Total	18.5%	18.5%
Total Capital	22.6%	24.2%

**Note 20: Variable Interest Entities**

The Bank had no investments in variable interest entities for which it was deemed the primary beneficiary for the periods ended 30 September 2013 and 2012.

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

## **The Bank of N.T. Butterfield & Son Limited**

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

*(In thousands of Bermuda dollars, except otherwise stated)*

#### **Note 21: Related Party Transactions**

##### **Charitable Trust**

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

##### **Financing transactions**

Certain directors of the Bank, companies in which they are principal owners, and trusts in which they are involved, have loans with the Bank. These loans were made in the ordinary course of business at normal credit terms, including interest rate and collateral requirements. As at 30 September 2013, related party director loan balances were \$52.2 million.

On 27 June 2013, the Bank executed a \$95 million loan agreement with an investment fund managed by a significant shareholder which provides for maturity on 30 June 2017. This loan was made in the ordinary course of business on normal commercial terms. At 30 September 2013, \$95 million was outstanding under this agreement. For the nine month period ending 30 September 2013, \$0.9 million of interest income has been recognised in the Statement of Operations.

##### **Capital transaction**

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

##### **Balance Sheet management advisory agreement**

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

#### **Note 22: Comparative Information**

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

#### **Note 23: Subsequent Events**

The Bank has performed an evaluation of subsequent events through to 30 October 2013, the date the financial statements were issued. On 30 October 2013, the Board declared an interim dividend of \$0.01 per Common and Contingent Value Convertible Preference Share to be paid on 22 November 2013 to shareholders of record on 8 November 2013.