



Butterfield

Q3 2015

Financial Results for the Nine Months Ended 30 September 2015
THE BANK OF N.T. BUTTERFIELD & SON LIMITED

The Bank of N.T. Butterfield & Son Limited

Unaudited Consolidated Balance Sheets

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

	30 September 2015	As at 31 December 2014
Assets		
Cash and demand deposits with banks	463,132	482,286
Cash equivalents	1,799,193	1,581,025
Cash due from banks	2,262,325	2,063,311
Short-term investments	330,932	394,770
Investment in securities		
Trading	6,120	6,871
Available-for-sale	2,909,139	2,644,063
Held-to-maturity	371,003	338,177
Total investment in securities	3,286,262	2,989,111
Loans, net of allowance for credit losses	3,973,582	4,019,128
Premises, equipment and computer software	193,077	215,123
Accrued interest	16,852	19,241
Goodwill	24,085	24,821
Intangible assets	29,172	33,041
Equity method investments	12,758	12,838
Other real estate owned	18,477	19,300
Other assets	68,979	67,756
Total assets	10,216,501	9,858,440
Liabilities		
Customer deposits		
Non-interest bearing	1,977,316	1,558,122
Interest bearing	7,120,388	7,073,549
Total customer deposits	9,097,704	8,631,671
Bank deposits	13,453	39,906
Total deposits	9,111,157	8,671,577
Employee benefit plans	118,673	117,897
Accrued interest	4,321	4,754
Preference share dividends payable	614	655
Other liabilities	90,810	97,183
Total other liabilities	214,418	220,489
Long-term debt	117,000	117,000
Total liabilities	9,442,575	9,009,066
Shareholders' equity		
Common share capital (BMD 0.01 par; authorised shares 26,000,000,000)		
issued and outstanding: 472,932,535 (2014: 550,023,138)	4,729	5,500
Preference share capital (USD 0.01 par; USD 1,000 liquidation preference)		
issued and outstanding: 182,863 (2014: 183,046)	2	2
Contingent value convertible preference share capital (USD 0.01 par)		
issued and outstanding: nil (2014: 6,909,397)	-	69
Additional paid-in capital	1,220,233	1,348,465
Accumulated deficit	(359,327)	(405,804)
Less: treasury common shares, at cost: 9,882,703 shares (2014: 12,770,604)	(17,486)	(22,086)
Accumulated other comprehensive loss	(74,225)	(76,772)
Total shareholders' equity	773,926	849,374
Total liabilities and shareholders' equity	10,216,501	9,858,440

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

The Bank of N.T. Butterfield & Son Limited
Unaudited Consolidated Statements of Operations

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

	For the three month period ended		For the nine month period ended	
	30 September 2015	30 September 2014	30 September 2015	30 September 2014
Non-interest income				
Asset management	4,672	4,427	13,613	13,376
Banking	8,461	7,654	25,019	25,058
Foreign exchange revenue	7,631	7,124	23,571	21,937
Trust	9,854	9,994	30,010	28,023
Custody and other administration services	2,274	2,681	7,184	7,684
Other non-interest income	1,339	1,636	3,517	4,080
Total non-interest income	34,231	33,516	102,914	100,158
Interest income				
Loans	46,698	49,345	139,273	143,118
Investments	17,141	16,715	52,063	51,227
Deposits with banks	1,542	1,277	4,762	3,728
Total interest income	65,381	67,337	196,098	198,073
Interest expense				
Deposits	4,379	5,313	14,263	15,813
Long-term debt	1,035	1,386	3,806	4,153
Securities sold under repurchase agreements	-	21	8	71
Total interest expense	5,414	6,720	18,077	20,037
Net interest income before provision for credit losses	59,967	60,617	178,021	178,036
Provision for credit losses	(901)	(1,429)	(3,095)	(8,045)
Net interest income after provision for credit losses	59,066	59,188	174,926	169,991
Net trading gains (losses)	(292)	(255)	33	272
Net realised gains (losses) on available-for-sale investments	-	(47)	(269)	8,697
Net realised / unrealised losses on other real estate owned	451	(880)	(353)	(1,071)
Impairment of fixed assets	-	(722)	-	(722)
Net gain on sale of equity method investments	-	3	-	257
Net other gains (losses)	(145)	205	389	1,314
Total other gains (losses)	14	(1,696)	(200)	8,747
Total net revenue	93,311	91,008	277,640	278,896
Non-interest expense				
Salaries and other employee benefits	32,117	32,391	97,089	96,590
Technology and communications	14,745	14,170	42,486	42,486
Property	5,667	6,493	16,003	18,552
Professional and outside services	5,821	5,427	13,938	18,427
Non-income taxes	4,166	4,025	12,274	12,056
Amortisation of intangible assets	1,112	1,129	3,327	3,152
Marketing	723	692	2,681	2,643
Other expenses	3,060	3,765	10,271	11,054
Total non-interest expense	67,411	68,092	198,069	204,960
Net income before income taxes	25,900	22,916	79,571	73,936
Income tax expense	(161)	(150)	(578)	(463)
Net income	25,739	22,766	78,993	73,473
Earnings per common share				
Basic earnings per share	0.05	0.03	0.13	0.11
Diluted earnings per share	0.05	0.03	0.13	0.11

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

(In thousands of Bermuda dollars)

	For the three month period ended		For the nine month period ended	
	30 September 2015	30 September 2014	30 September 2015	30 September 2014
Net income	25,739	22,766	78,993	73,473
Other comprehensive income (loss), net of taxes				
Net change in unrealised gains (losses) on translation of net investment in foreign operations	(1,875)	(2,416)	(2,210)	(1,239)
Net change in unrealised gains (losses) on available-for-sale investments	24,082	(7,012)	5,776	28,770
Employee benefit plans adjustments	166	(2,775)	(1,019)	(5,245)
Other comprehensive income (loss), net of taxes	22,373	(12,203)	2,547	22,286
Total comprehensive income (loss)	48,112	10,563	81,540	95,759

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

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

For the nine month period ended

	30 September 2015		30 September 2014	
	Number of shares	In thousands of Bermuda dollars	Number of shares	In thousands of Bermuda dollars
Common share capital issued and outstanding				
Balance at beginning of period	550,023,138	5,500	549,803,460	5,498
Conversion of contingent value preference shares	6,909,397	69	106,546	1
Retirement of shares	(84,000,000)	(840)	-	-
Balance at end of period	472,932,535	4,729	549,910,006	5,499
Preference shares				
Balance at beginning of period	183,046	2	183,606	2
Repurchase and cancellation of preference shares	(183)	-	(493)	-
Balance at end of period	182,863	2	183,113	2
Contingent value convertible preference shares				
Balance at beginning of period	6,909,397	69	7,129,075	71
Conversion to common shares	(6,909,397)	(69)	(106,546)	(1)
Balance at end of period	-	-	7,022,529	70
Additional paid-in capital				
Balance at beginning of period		1,348,465		1,344,755
Share-based compensation		5,550		5,324
Share-based settlements		(8,451)		(4,171)
Reduction of carrying value on repurchase of preference shares		(183)		(493)
Premium paid on repurchase of preference shares		(28)		(86)
Retirement of shares		(125,120)		-
Balance at end of period		1,220,233		1,345,329
Accumulated deficit				
Balance at beginning of period		(405,804)		(460,157)
Net income for period		78,993		73,473
Common share cash dividends declared and paid \$0.04 per share (2014 \$0.04 per share)		(20,216)		(21,991)
Cash dividends declared on preference shares \$60.00 per share (2014: \$60.00 per share)		(10,933)		(11,010)
Preference shares guarantee fee		(1,367)		(1,371)
Balance at end of period		(359,327)		(421,056)
Treasury common shares				
Balance at beginning of period	12,770,604	(22,086)	8,310,421	(10,948)
Purchase of treasury shares	2,407,186	(4,692)	6,555,547	(13,004)
Share-based settlements	(5,295,087)	9,292	(3,527,439)	4,879
Balance at end of period	9,882,703	(17,486)	11,338,529	(19,073)
Accumulated other comprehensive loss				
Balance at beginning of period		(76,772)		(76,660)
Other comprehensive income (loss), net of taxes		2,547		22,286
Balance at end of period		(74,225)		(54,374)
Total shareholders' equity		773,926		856,397

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 2015	30 September 2014
Cash flows from operating activities		
Net income	78,993	73,473
Adjustments to reconcile net income to operating cash flows		
Depreciation and amortisation	39,798	34,493
Decrease in carrying value of equity method investments	(906)	(571)
Share-based payments and settlements	5,760	5,504
Net realised losses (gains) on available-for-sale investments	269	(8,697)
Net realised / unrealised losses on other real estate owned	353	1,071
Gain on sale of premises and equipment	(164)	-
Net gain on sales of equity method investments	-	(257)
Provision for credit losses	3,095	8,045
Net change in trading investments	632	46,571
Changes in operating assets and liabilities		
Decrease in accrued interest receivable	2,257	376
Decrease (increase) in other assets	1,835	(32,689)
(Decrease) increase in accrued interest payable	(416)	1,223
(Decrease) increase in other liabilities and employee benefit plans	(2,165)	20,216
Cash provided by operating activities from operations	129,341	148,758
Cash flows from investing activities		
Net decrease (increase) in short-term investments	59,019	(134,007)
Available-for-sale investments: proceeds from sale	14,509	97,684
Available-for-sale investments: proceeds from maturities and pay downs	384,266	527,063
Available-for-sale investments: purchases	(694,311)	(1,000,636)
Held-to-maturity investments: proceeds from maturities and pay downs	16,620	8,740
Held-to-maturity investments: purchases	(50,283)	-
Net decrease in loans	15,516	61,366
Net additions to premises, equipment and computer software	(3,154)	(4,239)
Proceeds from sale of other real estate owned	3,295	11,146
Net proceeds on sale of equity method investment and dividends received	987	691
Purchase of subsidiary	-	(35,345)
Cash used in investing activities	(253,536)	(467,537)
Cash flows from financing activities		
Net increase in demand and term deposit liabilities	508,193	202,780
Net decrease in securities sold under agreement to repurchase	-	(1,756)
Repayment of long-term debt	-	(90,000)
Common shares repurchased	(130,652)	(13,004)
Preference shares repurchased	(211)	(579)
Proceeds from stock option exercises	630	528
Cash dividends paid on common and contingent value convertible preference shares	(20,216)	(21,991)
Cash dividends paid on preference shares	(10,975)	(11,011)
Preference shares guarantee fee paid	(1,367)	(1,371)
Cash provided by financing activities	345,402	63,596
Net effect of exchange rates on cash due from banks	(22,193)	(12,248)
Net increase (decrease) in cash due from banks	199,014	(267,431)
Cash due from banks at beginning of period	2,063,311	1,730,472
Cash due from banks at end of period	2,262,325	1,463,041
Non-cash item		
Transfer to other real estate owned	2,825	1,970

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

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars, unless otherwise stated)

Note 1: Nature of business

The Bank of N.T. Butterfield & Son Limited ("Butterfield", "Bank" or the "Company") is incorporated under the laws of Bermuda and has a banking licence under the Bank and Deposit Companies Act, 1999 ("the Act"). Butterfield is regulated by the Bermuda Monetary Authority ("BMA"), which operates in accordance with Basel principles.

Butterfield is a full service community bank in Bermuda and Cayman and a provider of specialised wealth management services in all its jurisdictions. Services offered include retail, private and corporate banking, treasury, custody, asset management and personal and institutional trust services. The Bank provides such services from six jurisdictions: Bermuda, Cayman, Guernsey, Switzerland, The Bahamas and the United Kingdom. The Bank holds all applicable licences required in the jurisdictions in which it operates.

Note 2: Significant accounting policies

The accompanying unaudited interim consolidated financial statements of the Bank have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information and should be read in conjunction with the Bank's audited financial statements for the year ended 31 December 2014. 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 US 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:

- Allowance for credit losses
- Fair value and impairment of financial instruments
- Impairment of long-lived assets
- Impairment of goodwill
- Employee benefit plans
- Share-based payments

The following accounting developments were issued during the nine month period ended 30 September 2015:

In February 2015, the Financial Accounting Standards Board ("FASB") published Accounting Standards Update No. 2015-02 Consolidation (Topic 810) which provides amendments to the current consolidation analysis which affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to revaluation under the revised consolidation model. In specific, the amendments: modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; eliminate the presumption that a general partner should consolidate a limited partnership; affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and provide a scope exception for entities required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The update is effective for public business entities for annual periods, and interim periods within those fiscal years, beginning after 15 December 2015. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance is not expected to have an impact on the Bank's consolidated financial position or results of operations.

In April 2015, FASB published Accounting Standards Update No. 2015-03 Interest - Imputation of Interest (Subtopic 835-30) which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The update is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after 15 December 2015. Early adoption is permitted for financial statements that have not been previously issued. The adoption of this guidance is not expected to have an impact on the Bank's consolidated financial position.

In April 2015, FASB published Accounting Standards Update No. 2015-05 Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) to provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If not, the arrangement should be accounted for as a service contract. The update is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after 15 December 2015. Early adoption is permitted. The Bank is assessing the impact of the adoption of this guidance.

In April 2015, FASB published Accounting Standards Update No. 2015-07 Fair Value Measurement (Topic 820) which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Current US GAAP requires that investments for which fair value is measured at net asset value (or its equivalent) using the practical expedient in Topic 820 be categorized within the fair value hierarchy using criteria that differs from the criteria used to categorize other fair value measurements within the hierarchy. Under the amendments in this update, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy. The update is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after 15 December 2015 and should be applied retrospectively to all periods presented. Early application is permitted. The Bank is assessing the impact of the adoption of this guidance.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars, unless otherwise stated)

In July 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-12, (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient. The ASU (1) requires a pension plan to use contract value as the only measure for fully benefit-responsive investment contracts, (2) simplifies and increases the effectiveness of the investment disclosure requirements for employee benefit plans, and (3) provides benefit plans with a measurement-date practical expedient which provides guidance for when a benefit plan's fiscal year end does not coincide with the end of a calendar month. The Bank does not have a fully benefit responsive investment contract, and the Bank's benefit plans' each have a fiscal year coinciding with a month end, and accordingly the Bank has concluded that Part I and Part III are not applicable. The Bank has concluded that its current disclosures meet the requirements as directed under Part II, and therefore the adoption of this guidance is not expected to have an impact on the Bank's consolidated financial statements.

In August 2015, FASB published Accounting Standards Update No. 2015-14 Revenue from Contracts with Customers (Topic 606) which defers the effective date of Accounting Standards Update No. 2014-09 for all entities by one year. Public business entities should apply the guidance in Update 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

Note 3: Cash due from banks

	30 September 2015			31 December 2014		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Non-interest earning						
Cash and demand deposits	26,815	109,810	136,625	23,609	116,056	139,665
Interest earning						
Demand deposits	142,326	184,181	326,507	203,572	139,049	342,621
Cash equivalents	739,632	1,059,561	1,799,193	469,388	1,111,637	1,581,025
Sub-total - Interest earning	881,958	1,243,742	2,125,700	672,960	1,250,686	1,923,646
Total cash due from banks	908,773	1,353,552	2,262,325	696,569	1,366,742	2,063,311

Note 4: Short-term investments

	30 September 2015			31 December 2014		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted term deposits, certificate of deposits and treasury bills						
Maturing within three months	-	177,883	177,883	-	144,632	144,632
Maturing between three to six months	-	129,447	129,447	-	223,563	223,563
Maturing between six to twelve months	-	3,622	3,622	-	15,694	15,694
Total unrestricted short-term investments	-	310,952	310,952	-	383,889	383,889
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Interest earning demand deposits	19,630	350	19,980	9,141	1,740	10,881
Total short-term investments	19,630	311,302	330,932	9,141	385,629	394,770

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 5: Investment in securities

Amortised Cost, Carrying Amount and Fair Value

Trading and available-for-sale ("AFS") investments are carried at fair value on the consolidated balance sheets. Held-to-maturity ("HTM") investments are carried at amortised cost on the consolidated balance sheets.

	30 September 2015				31 December 2014			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Fair value
Trading								
Mutual funds	5,725	828	(433)	6,120	6,778	1,037	(944)	6,871
Total trading	5,725	828	(433)	6,120	6,778	1,037	(944)	6,871
Available-for-sale								
Certificates of deposit	-	-	-	-	37,724	19	-	37,743
US government and federal agencies	2,289,329	21,635	(9,386)	2,301,578	1,881,728	17,140	(10,998)	1,887,870
Debt securities issued								
by non-US governments	37,494	1,052	-	38,546	38,254	196	(125)	38,325
Corporate debt securities	311,861	5,498	(568)	316,791	391,059	9,393	(1,163)	399,289
Asset-backed securities - Student loans	48,611	-	(1,478)	47,133	66,136	-	(1,313)	64,823
Commercial mortgage-backed securities	153,340	104	(1,154)	152,290	154,211	33	(3,075)	151,169
Residential mortgage-backed securities - Prime	52,944	192	(350)	52,786	65,167	264	(602)	64,829
Equity securities	15	-	-	15	15	-	-	15
Total available-for-sale	2,893,594	28,481	(12,936)	2,909,139	2,634,294	27,045	(17,276)	2,644,063
Held-to-maturity¹								
US government and federal agencies	371,003	8,832	(273)	379,562	338,177	6,330	(518)	343,989
Total held-to-maturity	371,003	8,832	(273)	379,562	338,177	6,330	(518)	343,989

¹ For the periods ended 30 September 2015 and 31 December 2014, non-credit impairments recognised in accumulated other comprehensive loss ("AOCL") for HTM investments were \$nil.

Pledged Investments

The Bank pledges certain US government and federal agency investment securities as follows:

	30 September 2015		31 December 2014	
	Amortised cost	Fair value	Amortised cost	Fair value
Classified as available-for-sale and pledged against:				
Bank deposit products where the secured party does not have the right to sell or repledge the collateral	405,997	408,811	381,434	383,665
Classified as held-to-maturity and pledged against:				
Bank deposit products where the secured party does not have the right to sell or repledge the collateral	106,650	110,513	107,837	110,175

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

(In thousands of Bermuda dollars, unless otherwise stated)

Unrealised Loss Positions

In the following tables, debt securities with unrealised losses that are not deemed to be other-than-temporary-impairment ("OTTI") are categorised as being in a loss position for "less than 12 months" or "12 months or more" based on the point in time that the fair value most recently declined below the amortised cost basis.

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	<u>Total gross</u>
	<u>Fair</u>	<u>Gross</u>	<u>Fair</u>	<u>Gross</u>		
	<u>value</u>	<u>unrealised</u>	<u>value</u>	<u>unrealised</u>	<u>fair value</u>	<u>unrealised</u>
		<u>losses</u>		<u>losses</u>		<u>losses</u>
30 September 2015						
Available-for-sale securities with unrealised losses						
US government and federal agencies	600,005	(1,724)	497,506	(7,662)	1,097,511	(9,386)
Corporate debt securities	-	-	39,432	(568)	39,432	(568)
Asset-backed securities - Student loans	25,302	(217)	21,829	(1,261)	47,131	(1,478)
Commercial mortgage-backed securities	-	-	136,063	(1,154)	136,063	(1,154)
Residential mortgage-backed securities - Prime	-	-	10,447	(350)	10,447	(350)
Total available-for-sale securities with unrealised losses	625,307	(1,941)	705,277	(10,995)	1,330,584	(12,936)
Held-to-maturity securities with unrealised losses						
US government and federal agencies	-	-	39,348	(273)	39,348	(273)
31 December 2014						
Available-for-sale securities with unrealised losses						
Certificates of deposit	5,454	-	-	-	5,454	-
US government and federal agencies	270,276	(1,942)	390,913	(9,056)	661,189	(10,998)
Debt securities issued by non-US governments	22,588	(125)	-	-	22,588	(125)
Corporate debt securities	8,090	(8)	38,845	(1,155)	46,935	(1,163)
Asset-backed securities - Student loans	-	-	64,847	(1,313)	64,847	(1,313)
Commercial mortgage-backed securities	-	-	150,216	(3,075)	150,216	(3,075)
Residential mortgage-backed securities - Prime	-	-	18,116	(602)	18,116	(602)
Total available-for-sale securities with unrealised losses	306,408	(2,075)	662,937	(15,201)	969,345	(17,276)
Held-to-maturity securities with unrealised losses						
US government and federal agencies	-	-	60,556	(518)	60,556	(518)

The Bank does not believe that the investment securities that were in an unrealised loss position as of 30 September 2015, which were comprised of 79 securities representing 42% of the portfolio's fair value, represent an OTTI. Total gross unrealised losses were 1.0% of the fair value of affected securities and were attributable primarily 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 processes for identifying credit impairment in security types with the most significant unrealised losses as shown in the preceding tables.

Management believes that all the **US government and federal agencies** securities do not have any credit losses, given the explicit and implicit guarantees provided by the US federal government.

The unrealised losses in **Corporate debt securities** relate primarily to one debt security issued by a US government-sponsored enterprise and is implicitly backed by the US federal government. Management believes that the value of this security will recover and the current unrealised loss position is a result of interest rate movements.

Investments in **Asset-backed securities - Student loans** are composed primarily of securities collateralised by Federal Family Education Loan Program loans ("FFELP loans"). FFELP loans benefit from a US 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.

Investments in **Commercial mortgage-backed securities** are predominantly rated "AAA" and possess significant subordination, a form of credit enhancement expressed hereafter as the percentage of pool losses that can occur before the senior securities held by the Bank will incur its first dollar of principal loss. No credit losses were recognised on these securities as credit support and loan-to-value ratios ("LTV") range from 5% - 36% and 25% - 60%, respectively. Current credit support is significantly greater than any delinquencies experienced on the underlying mortgages.

Investments in **Residential mortgage-backed securities - Prime** are predominantly rated "AAA" and possess significant credit enhancement as described above. No credit losses were recognised on these securities as there are no delinquencies over 30 days on the underlying mortgages and credit support and the weighted average LTV ratio is 7.5% and 60.5%, respectively.

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

(In thousands of Bermuda dollars, unless otherwise stated)

Contractual Maturities

The following table presents the remaining contractual maturities of the Bank's securities. For mortgage-backed securities (primarily US government agencies), management presents the maturity date as the mid-point between the reporting and expected contractual maturity date which is determined assuming no future prepayments. By using the aforementioned mid-point, this date represents management's best estimate of the date by which the remaining principal balance will be repaid given future principal repayments of such securities. The actual maturities may differ due to the uncertainty of the timing when borrowers make prepayments on the underlying mortgages.

30 September 2015	Remaining term to average contractual maturity					No specific maturity	Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years		
Trading							
Mutual funds	-	-	-	-	-	6,120	6,120
Available-for-sale							
US government and federal agencies	-	25,027	92,072	299,988	1,884,491	-	2,301,578
Debt securities issued by non-US governments	680	8,244	6,122	23,500	-	-	38,546
Corporate debt securities	50,828	116,995	109,536	39,432	-	-	316,791
Asset-backed securities - Student loans	-	-	34,773	-	12,360	-	47,133
Commercial mortgage-backed securities	-	-	-	43,587	108,703	-	152,290
Residential mortgage-backed securities - Prime	-	-	-	-	52,786	-	52,786
Equity securities	-	-	-	-	-	15	15
Total available-for-sale	51,508	150,266	242,503	406,507	2,058,340	15	2,909,139
Held-to-maturity							
US government and federal agencies	-	-	-	46,306	324,697	-	371,003
Total investments	51,508	150,266	242,503	452,813	2,383,037	6,135	3,286,262
Total by currency							
US dollars	51,508	150,266	242,503	452,813	2,383,037	5,828	3,285,955
Other	-	-	-	-	-	307	307
Total investments	51,508	150,266	242,503	452,813	2,383,037	6,135	3,286,262

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

(In thousands of Bermuda dollars, unless otherwise stated)

31 December 2014	Remaining term to average contractual maturity						No specific maturity	Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years			
Trading								
Mutual funds	-	-	-	-	-	-	6,871	6,871
Available-for-sale								
Certificates of deposit	18,246	19,497	-	-	-	-	-	37,743
US government and federal agencies	-	-	100,305	335,769	1,451,796	-	-	1,887,870
Debt securities issued by non-US governments	-	1,360	14,376	22,589	-	-	-	38,325
Corporate debt securities	8,090	121,930	230,424	38,845	-	-	-	399,289
Asset-backed securities - Student loans	-	-	52,597	-	12,226	-	-	64,823
Commercial mortgage-backed securities	-	-	-	43,128	108,041	-	-	151,169
Residential mortgage-backed securities - Prime	-	-	-	6,448	58,381	-	-	64,829
Equity securities	-	-	-	-	-	15	-	15
Total available-for-sale	26,336	142,787	397,702	446,779	1,630,444	15	6,886	2,644,063
Held-to-maturity								
US government and federal agencies	-	-	-	48,820	289,357	-	-	338,177
Total investments	26,336	142,787	397,702	495,599	1,919,801	6,886	6,886	2,989,111
Total by currency								
US dollars	13,088	123,290	397,702	473,011	1,919,801	6,037	-	2,932,929
Other	13,248	19,497	-	22,588	-	849	-	56,182
Total investments	26,336	142,787	397,702	495,599	1,919,801	6,886	6,886	2,989,111

Sale Proceeds and Realised Gains and Losses of AFS Securities

	For the nine month period ended			
	30 September 2015		30 September 2014	
	Sale proceeds	Gross realised gains (losses)	Sale proceeds	Gross realised gains (losses)
Residential mortgage-backed securities - Prime	6,056	(270)	-	-
Certificates of deposit	8,453	1	17,106	-
US government and federal agencies	-	-	46,155	(36)
Pass-through note	-	-	34,423	8,733
Net realised gains (losses) recognised in net income	14,509	(269)	97,684	8,697

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

(In thousands of Bermuda dollars, unless 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.

	30 September 2015			31 December 2014		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Commercial loans						
Government	130,800	24,649	155,449	66,316	46,776	113,092
Commercial and industrial	103,115	231,971	335,086	137,445	251,392	388,837
Commercial overdrafts	38,905	5,368	44,273	48,107	11,194	59,301
Total commercial loans	272,820	261,988	534,808	251,868	309,362	561,230
Less specific allowance for credit losses on commercial loans	(570)	-	(570)	(352)	(65)	(417)
Total commercial loans after specific allowance for credit losses	272,250	261,988	534,238	251,516	309,297	560,813
Commercial real estate loans						
Commercial mortgage	421,412	253,697	675,109	415,315	281,663	696,978
Construction	2,792	9,933	12,725	-	20,617	20,617
Total commercial real estate loans	424,204	263,630	687,834	415,315	302,280	717,595
Less specific allowance for credit losses on commercial real estate loans	(820)	(2,283)	(3,103)	(770)	(1,052)	(1,822)
Total commercial real estate loans after specific allowance for credit losses	423,384	261,347	684,731	414,545	301,228	715,773
Consumer loans						
Automobile financing	12,428	7,678	20,106	12,639	7,716	20,355
Credit card	57,908	19,491	77,399	58,500	20,684	79,184
Overdrafts	5,683	8,682	14,365	12,935	8,208	21,143
Other consumer	34,128	116,580	150,708	43,679	113,941	157,620
Total consumer loans	110,147	152,431	262,578	127,753	150,549	278,302
Less specific allowance for credit losses on consumer loans	(359)	-	(359)	(355)	-	(355)
Total consumer loans after specific allowance for credit losses	109,788	152,431	262,219	127,398	150,549	277,947
Residential mortgage loans	1,260,830	1,275,762	2,536,592	1,270,867	1,238,616	2,509,483
Less specific allowance for credit losses on residential mortgage loans	(14,000)	(1,954)	(15,954)	(14,771)	(1,446)	(16,217)
Total residential mortgage loans after specific allowance for credit losses	1,246,830	1,273,808	2,520,638	1,256,096	1,237,170	2,493,266
Total gross loans	2,068,001	1,953,811	4,021,812	2,065,803	2,000,807	4,066,610
Less specific allowance for credit losses	(15,749)	(4,237)	(19,986)	(16,248)	(2,563)	(18,811)
Less general allowance for credit losses	(19,125)	(9,119)	(28,244)	(18,992)	(9,679)	(28,671)
Net loans	2,033,127	1,940,455	3,973,582	2,030,563	1,988,565	4,019,128

The principal means of securing residential mortgages, personal, credit card and business loans are charges over assets and guarantees. Mortgage loans are generally repayable over periods of up to thirty years and personal, credit card, business and government loans are generally repayable over terms not exceeding five years. The effective yield on total loans as at 30 September 2015 is 4.58% (31 December 2014: 4.63%).

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

(In thousands of Bermuda dollars, unless otherwise stated)

Age Analysis of Past Due Loans (Including Non-Accrual Loans)

The following tables summarise the past due status of the loans at 30 September 2015 and 31 December 2014. 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.

	31 - 60 days	61 - 90 days	More than 90 days	Total past due loans	Total current ¹	Total loans
30 September 2015						
Commercial loans						
Government	-	-	-	-	155,449	155,449
Commercial and industrial	33	309	1,645	1,987	333,099	335,086
Commercial overdrafts	-	-	45	45	44,228	44,273
Total commercial loans	33	309	1,690	2,032	532,776	534,808
Commercial real estate loans						
Commercial mortgage	385	-	5,976	6,361	668,748	675,109
Construction	-	-	-	-	12,725	12,725
Total commercial real estate loans	385	-	5,976	6,361	681,473	687,834
Consumer loans						
Automobile financing	65	15	24	104	20,002	20,106
Credit card	474	245	80	799	76,600	77,399
Overdrafts	-	-	445	445	13,920	14,365
Other consumer	648	361	1,109	2,118	148,590	150,708
Total consumer loans	1,187	621	1,658	3,466	259,112	262,578
Residential mortgage loans	18,785	8,484	70,771	98,040	2,438,552	2,536,592
Total past due loans	20,390	9,414	80,095	109,899	3,911,913	4,021,812

¹ Loans less than 31 days past due are included in current loans.

	31 - 60 days	61 - 90 days	More than 90 days	Total past due loans	Total current ¹	Total loans
31 December 2014						
Commercial loans						
Government	-	-	-	-	113,092	113,092
Commercial and industrial	357	29	1,776	2,162	386,675	388,837
Commercial overdrafts	-	-	61	61	59,240	59,301
Total commercial loans	357	29	1,837	2,223	559,007	561,230
Commercial real estate loans						
Commercial mortgage	909	1,001	9,054	10,964	686,014	696,978
Construction	-	-	-	-	20,617	20,617
Total commercial real estate loans	909	1,001	9,054	10,964	706,631	717,595
Consumer loans						
Automobile financing	165	19	152	336	20,019	20,355
Credit card	753	384	202	1,339	77,845	79,184
Overdrafts	-	-	10	10	21,133	21,143
Other consumer	856	270	1,653	2,779	154,841	157,620
Total consumer loans	1,774	673	2,017	4,464	273,838	278,302
Residential mortgage loans	29,577	15,889	80,812	126,278	2,383,205	2,509,483
Total past due loans	32,617	17,592	93,720	143,929	3,922,681	4,066,610

¹ Loans less than 31 days past due are included in current loans.

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

(In thousands of Bermuda dollars, unless otherwise stated)

Loans' Credit Quality

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

	Pass	Special mention	Substandard	Non-accrual	Total gross recorded investments
30 September 2015					
Commercial loans					
Government	142,324	13,125	-	-	155,449
Commercial and industrial	329,326	3,561	554	1,645	335,086
Commercial overdrafts	41,003	3,029	201	40	44,273
Total commercial loans	512,653	19,715	755	1,685	534,808
Commercial real estate loans					
Commercial mortgage	548,613	87,926	29,016	9,554	675,109
Construction	12,725	-	-	-	12,725
Total commercial real estate loans	561,338	87,926	29,016	9,554	687,834
Consumer loans					
Automobile financing	19,649	389	-	68	20,106
Credit card	77,319	-	80	-	77,399
Overdrafts	12,311	33	2,011	10	14,365
Other consumer	147,595	1,399	511	1,203	150,708
Total consumer loans	256,874	1,821	2,602	1,281	262,578
Residential mortgage loans	2,377,876	46,141	56,850	55,725	2,536,592
Total gross recorded loans	3,708,741	155,603	89,223	68,245	4,021,812

	Pass	Special mention	Substandard	Non-accrual	Total gross recorded investments
31 December 2014					
Commercial loans					
Government	98,092	15,000	-	-	113,092
Commercial and industrial	381,952	4,254	1,898	733	388,837
Commercial overdrafts	55,439	3,452	304	106	59,301
Total commercial loans	535,483	22,706	2,202	839	561,230
Commercial real estate loans					
Commercial mortgage	544,832	91,500	48,373	12,273	696,978
Construction	20,617	-	-	-	20,617
Total commercial real estate loans	565,449	91,500	48,373	12,273	717,595
Consumer loans					
Automobile financing	19,615	564	-	176	20,355
Credit card	78,982	-	202	-	79,184
Overdrafts	20,933	167	-	43	21,143
Other consumer	153,226	1,917	714	1,763	157,620
Total consumer loans	272,756	2,648	916	1,982	278,302
Residential mortgage loans	2,344,836	49,819	58,124	56,704	2,509,483
Total gross recorded loans	3,718,524	166,673	109,615	71,798	4,066,610

Quality classification definitions

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.

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.

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.

A **non-accrual** loan shall mean either 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 mortgage loans which are not well secured and in the process of collection.

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

(In thousands of Bermuda dollars, unless otherwise stated)

Non-Performing Loans	30 September 2015			31 December 2014		
	Non-accrual ¹	Past due more than 90 days and accruing	Total non-performing loans	Non-accrual ¹	Past due more than 90 days and accruing	Total non-performing loans
Commercial loans						
Commercial and industrial	1,645	-	1,645	733	1,057	1,790
Commercial overdrafts	40	5	45	106	4	110
Total commercial loans	1,685	5	1,690	839	1,061	1,900
Commercial real estate loans						
Commercial mortgage	9,554	967	10,521	12,273	779	13,052
Consumer loans						
Automobile financing	68	-	68	176	-	176
Credit card	-	80	80	-	202	202
Overdrafts	10	-	10	43	-	43
Other consumer	1,203	436	1,639	1,763	619	2,382
Total consumer loans	1,281	516	1,797	1,982	821	2,803
Residential mortgage loans	55,725	20,337	76,062	56,704	29,052	85,756
Total non-performing loans	68,245	21,825	90,070	71,798	31,713	103,511

¹ Excludes purchased credit-impaired loans.

Gross Loans Evaluated For Impairment	30 September 2015		31 December 2014	
	Individually evaluated	Collectively evaluated	Individually evaluated	Collectively evaluated
Commercial	1,685	533,123	839	560,391
Commercial real estate	22,753	665,081	33,898	683,697
Consumer	2,356	260,222	2,068	276,234
Residential mortgage	106,796	2,429,796	105,777	2,403,706
Total gross loans evaluated for impairment	133,590	3,888,222	142,582	3,924,028

Changes in General and Specific Allowances For Credit Losses

	Nine month period ended 30 September 2015				
	Commercial	Commercial real estate	Consumer	Residential mortgage	Total
Allowances at beginning of period	7,831	5,920	2,797	30,934	47,482
Provision taken (released)	(719)	1,398	97	2,319	3,095
Recoveries	774	242	1,121	86	2,223
Charge-offs	(149)	(511)	(1,567)	(2,241)	(4,468)
Other	(9)	(49)	(22)	(22)	(102)
Allowances at end of period	7,728	7,000	2,426	31,076	48,230
Allowances at end of period: individually evaluated for impairment	570	3,103	359	15,954	19,986
Allowances at end of period: collectively evaluated for impairment	7,158	3,897	2,067	15,122	28,244

	Nine month period ended 30 September 2014				
	Commercial	Commercial real estate	Consumer	Residential mortgage	Total
Allowances at beginning of period	8,340	9,816	3,442	31,157	52,755
Provision taken (released)	478	2,946	(611)	5,232	8,045
Recoveries	84	-	1,649	90	1,823
Charge-offs	(606)	(6,585)	(1,505)	(4,796)	(13,492)
Other	(8)	(36)	(16)	(15)	(75)
Allowances at end of period	8,288	6,141	2,959	31,668	49,056
Allowances at end of period: individually evaluated for impairment	485	1,753	355	16,169	18,762
Allowances at end of period: collectively evaluated for impairment	7,803	4,388	2,604	15,499	30,294

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

(In thousands of Bermuda dollars, unless otherwise stated)

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 original 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 ended 30 September 2015, the amount of gross interest income that would have been recorded had impaired loans been current was \$2.8 million (30 September 2014: \$3.5 million). The tables below present information about the Bank's impaired loans:

	Impaired loans with an allowance			Gross recorded investment of impaired loans without an allowance	Total impaired loans ¹		
	Gross recorded investment	Specific allowance	Net loans		Gross recorded investment	Specific allowance	Net loans
30 September 2015							
Commercial loans							
Commercial and industrial	602	(570)	32	1,043	1,645	(570)	1,075
Commercial overdrafts	-	-	-	40	40	-	40
Total commercial loans	602	(570)	32	1,083	1,685	(570)	1,115
Commercial real estate loans							
Commercial mortgage	6,344	(3,103)	3,241	16,409	22,753	(3,103)	19,650
Consumer loans							
Automobile financing	-	-	-	68	68	-	68
Overdrafts	-	-	-	10	10	-	10
Other consumer	498	(359)	139	789	1,287	(359)	928
Total consumer loans	498	(359)	139	867	1,365	(359)	1,006
Residential mortgage loans	43,860	(15,875)	27,985	34,824	78,684	(15,875)	62,809
Total impaired loans	51,304	(19,907)	31,397	53,183	104,487	(19,907)	84,580

¹ Excludes purchased credit-impaired loans.

	Impaired loans with an allowance			Gross recorded investment of impaired loans without an allowance	Total impaired loans ¹		
	Gross recorded investment	Specific allowance	Net loans		Gross recorded investment	Specific allowance	Net loans
31 December 2014							
Commercial loans							
Commercial and industrial	575	(417)	158	158	733	(417)	316
Commercial overdrafts	-	-	-	106	106	-	106
Total commercial loans	575	(417)	158	264	839	(417)	422
Commercial real estate loans							
Commercial mortgage	5,854	(1,822)	4,032	28,044	33,898	(1,822)	32,076
Consumer loans							
Automobile financing	-	-	-	176	176	-	176
Overdrafts	-	-	-	43	43	-	43
Other consumer	515	(355)	160	1,344	1,859	(355)	1,504
Total consumer loans	515	(355)	160	1,563	2,078	(355)	1,723
Residential mortgage loans	45,673	(16,217)	29,456	29,764	75,437	(16,217)	59,220
Total impaired loans	52,617	(18,811)	33,806	59,635	112,252	(18,811)	93,441

¹ Excludes purchased credit-impaired loans.

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

(In thousands of Bermuda dollars, unless otherwise stated)

Average Impaired Loan Balances and Related Recognised Interest Income

	For the nine month period ended			
	30 September 2015		30 September 2014	
	Average gross recorded investment	Interest income recognised ¹	Average gross recorded investment	Interest income recognised ¹
Commercial loans				
Commercial and industrial	1,189	-	1,521	-
Commercial overdrafts	73	-	315	-
Total commercial loans	1,262	-	1,836	-
Commercial real estate loans				
Commercial mortgage	28,326	252	49,246	596
Construction	-	-	566	-
Total commercial real estate loans	28,326	252	49,812	596
Consumer loans				
Automobile financing	122	-	390	-
Credit card	-	-	70	-
Overdrafts	27	-	170	-
Other consumer	1,573	2	1,805	-
Total consumer loans	1,722	2	2,435	-
Residential mortgage loans	77,061	1,059	68,191	599
Total impaired loans	108,371	1,313	122,274	1,195

¹All interest income recognised on impaired loans relate to loans previously modified in a TDR.

Loans Modified in a TDR

	TDRs entered into during the nine month period ended					TDRs outstanding as at	
	30 September 2015					30 September 2015	
	Number of contracts	Pre-modification recorded investment	Effects of modifications Amount of repayments	Interest capitalisation	Post-modification recorded investment	Accrual	Non-accrual
Commercial real estate loans	-	-	-	-	-	13,199	1,633
Consumer loans	-	-	-	-	-	84	-
Residential mortgage loans	9	6,783	-	283	7,066	22,959	4,169
Total loans modified in a TDR	9	6,783	-	283	7,066	36,242	5,802

	TDRs entered into during the nine month period ended					TDRs outstanding as at	
	30 September 2014					31 December 2014	
	Number of contracts	Pre-modification recorded investment	Effects of modifications Amount of repayments	Interest capitalisation	Post-modification recorded investment	Accrual	Non-accrual
Commercial real estate loans	-	-	-	-	-	21,625	4,297
Consumer loans	-	-	-	-	-	96	-
Residential mortgage loans	17	12,503	-	259	12,762	18,733	2,886
Total loans modified in a TDR	17	12,503	-	259	12,762	40,454	7,183

As at 30 September 2015, the Bank has 1 loan (30 September 2014: nil) that was modified in a TDR during the preceding 12 months that subsequently defaulted (i.e. 90 days or more past due following a modification) with a recorded investment of \$0.5 million.

Purchased Credit-Impaired Loans

	For the nine month period ended			For the year ended		
	30 September 2015			31 December 2014		
	Contractual principal	Carrying amount	Accretable yield ¹	Contractual principal	Carrying amount	Accretable yield ¹
Balance at beginning of period	11,020	7,216	-	-	-	-
Purchases	-	-	-	11,001	7,197	-
Advances and increases in cash flows expected to be collected	122	122	-	19	19	-
Reductions resulting from repayments and charge-offs	(831)	(688)	107	-	-	-
Builds (reductions) to specific allowances	-	(80)	-	-	-	-
Accretion	-	-	(107)	-	-	-
Balance at end of period	10,311	6,570	-	11,020	7,216	-

¹ The accretable yield represents the excess of a loan's cash flows expected to be collected over the loan's initial carrying amount.

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

(In thousands of Bermuda dollars, unless 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 evaluated primarily by industry and by geographic region of loan origination. In the consumer portfolio, concentrations are evaluated primarily by products. Credit exposures include loans, guarantees and acceptances, letters of credit and commitments for undrawn lines of credit. Unconditionally cancellable credit cards and overdraft 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 are gross of collateral held:

Business sector	30 September 2015			31 December 2014		
	Loans	Off-balance	Total credit	Loans	Off-balance	Total credit
		sheet	exposure		sheet	exposure
Banks and financial services	230,560	309,019	539,579	307,835	299,934	607,769
Commercial and merchandising	222,050	113,921	335,971	252,945	113,432	366,377
Governments	155,449	135,900	291,349	109,051	-	109,051
Individuals	2,573,742	106,379	2,680,121	2,482,892	75,224	2,558,116
Primary industry and manufacturing	30,780	978	31,758	70,298	570	70,868
Real estate	660,420	4,241	664,661	710,905	5,703	716,608
Hospitality industry	122,729	-	122,729	107,538	275	107,813
Transport and communication	6,096	-	6,096	6,335	-	6,335
Sub-total	4,001,826	670,438	4,672,264	4,047,799	495,138	4,542,937
General allowance	(28,244)	-	(28,244)	(28,671)	-	(28,671)
Total	3,973,582	670,438	4,644,020	4,019,128	495,138	4,514,266

The following table summarises the credit exposure of the Bank by geographic region for cash due from banks, short-term investments, loans receivable and off-balance sheet exposure. The credit exposure by currency for investments is disclosed in Note 5: Investments.

Geographic region	30 September 2015				31 December 2014			
	Cash and cash equivalents and short-term investments	Loans	Off-balance	Total credit	Cash and cash equivalents and short-term investments	Loans	Off-balance	Total credit
			sheet	exposure			sheet	exposure
Australia	141,595	-	-	141,595	7,521	-	-	7,521
Belgium	3,334	-	-	3,334	-	-	-	-
Bermuda	14,895	2,243,490	385,579	2,643,964	18,486	2,269,748	263,407	2,551,641
Canada	148,034	-	-	148,034	16,648	-	-	16,648
Cayman	195,902	752,414	195,927	1,144,243	196,746	763,379	145,796	1,105,921
Guernsey	1	486,842	56,070	542,913	1,741	527,560	70,976	600,277
Hong Kong	1,089	-	-	1,089	131	-	-	131
Japan	31,484	-	-	31,484	32,464	-	-	32,464
New Zealand	3,151	-	-	3,151	3,384	-	-	3,384
Sweden	6,012	-	-	6,012	2,419	-	-	2,419
Switzerland	4,463	-	-	4,463	7,954	-	-	7,954
The Bahamas	3,564	30,678	-	34,242	4,423	31,809	-	36,232
United Kingdom	1,455,206	488,402	32,862	1,976,470	1,300,686	455,303	14,959	1,770,948
United States	583,721	-	-	583,721	864,361	-	-	864,361
Other	806	-	-	806	1,117	-	-	1,117
Sub-total	2,593,257	4,001,826	670,438	7,265,521	2,458,081	4,047,799	495,138	7,001,018
General allowance	-	(28,244)	-	(28,244)	-	(28,671)	-	(28,671)
Total	2,593,257	3,973,582	670,438	7,237,277	2,458,081	4,019,128	495,138	6,972,347

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 8: Customer deposits and deposits from banks

By Maturity	30 September 2015			31 December 2014		
	Customers	Banks	Total	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	1,977,316	572	1,977,888	1,558,122	408	1,558,530
Demand deposits - Interest bearing	5,429,692	7,296	5,436,988	5,179,522	26,512	5,206,034
Total demand deposits	7,407,008	7,868	7,414,876	6,737,644	26,920	6,764,564
Term deposits having a denomination of less than \$100 thousand						
Term deposits maturing within six months	52,456	8	52,464	57,451	82	57,533
Term deposits maturing between six to twelve months	13,326	-	13,326	18,310	-	18,310
Term deposits maturing after twelve months	17,200	-	17,200	18,492	-	18,492
Total term deposits having a denomination of less than \$100 thousand	82,982	8	82,990	94,253	82	94,335
Term deposits having a denomination of \$100 thousand or more						
Term deposits maturing within six months	1,423,980	5,577	1,429,557	1,445,072	9,368	1,454,440
Term deposits maturing between six to twelve months	121,806	-	121,806	294,175	3,536	297,711
Term deposits maturing after twelve months	61,928	-	61,928	60,527	-	60,527
Total term deposits having a denomination of \$100 thousand or more	1,607,714	5,577	1,613,291	1,799,774	12,904	1,812,678
Total term deposits	1,690,696	5,585	1,696,281	1,894,027	12,986	1,907,013
Total deposits	9,097,704	13,453	9,111,157	8,631,671	39,906	8,671,577

The weighted-average interest rate on interest-bearing demand deposits as at 30 September 2015 is 0.10% (31 December 2014: 0.16%).

By Type and Segment	30 September 2015			31 December 2014		
	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	3,602,424	618,067	4,220,491	2,914,440	955,683	3,870,123
Banks	572	-	572	9,508	-	9,508
Cayman						
Customers	2,457,254	434,820	2,892,074	2,153,500	437,259	2,590,759
Banks	6,040	5,585	11,625	15,797	12,986	28,783
Guernsey						
Customers	1,025,766	294,606	1,320,372	1,350,377	145,132	1,495,509
Banks	1,134	-	1,134	1,307	-	1,307
The Bahamas						
Customers	50,438	5,905	56,343	53,317	7,514	60,831
United Kingdom						
Customers	271,126	337,298	608,424	266,010	348,439	614,449
Banks	122	-	122	308	-	308
Total Customers	7,407,008	1,690,696	9,097,704	6,737,644	1,894,027	8,631,671
Total Banks	7,868	5,585	13,453	26,920	12,986	39,906
Total deposits	7,414,876	1,696,281	9,111,157	6,764,564	1,907,013	8,671,577

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 9: Employee benefit plans

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, which are included in the consolidated statements of operations under Salaries and other employee benefits:

	For the three month period ended		For the nine month period ended	
	30 September	30 September	30 September	30 September
	2015	2014	2015	2014
Defined benefit pension expense (income)				
Service cost	-	390	-	1,221
Interest cost	1,854	2,363	5,553	5,473
Expected return on plan assets	(2,358)	(3,762)	(7,064)	(7,753)
Amortisation of net actuarial loss	638	271	1,132	820
Total defined benefit pension expense (income)	134	(738)	(379)	(239)
Post-retirement medical benefit expense (income)				
Service cost	85	206	256	619
Interest cost	1,186	1,125	3,559	3,377
Amortisation of net actuarial loss	(1,585)	231	(4,757)	692
Amortisation of prior service cost	836	(1,680)	2,510	(5,040)
Total post-retirement medical benefit expense (income)	522	(118)	1,568	(352)

Effective 30 September 2014, the defined benefit pension benefits of the Bank's Guernsey operations were amended to freeze credited service and final average earnings for remaining active members. The benefits amendment resulted in a further reduction in the Guernsey defined benefit pension liability of \$4.59 million as at 30 September 2014.

Effective October 2014, all the participants of the Guernsey defined benefit pension plan are inactive and in accordance with US GAAP, the net actuarial loss of the Guernsey defined benefit pension plan will be amortised over the estimated average remaining life expectancy of the inactive participants of 39 years. Prior to all of the Guernsey participants being inactive, the net actuarial loss of the Guernsey defined benefit pension plan was amortised to net income over the estimated average remaining service period for active members of 15 years.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars, unless otherwise stated)

Note 10: Credit related arrangements and commitments

Credit-Related Arrangements

Standby letters of credit and letters of guarantee are issued at the request of a Bank customer in order to secure the customer's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Bank to pay the third party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the customer. Generally, the term of the standby letters of credit does not exceed one year, whilst the term of the letters of guarantee does not exceed four years. The types and amounts of collateral security held by the Bank for these standby letters of credit and letters of guarantee is generally represented by deposits with the Bank or a charge over assets held in mutual funds.

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:

	30 September 2015			31 December 2014		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	240,584	238,934	1,650	225,718	224,158	1,560
Letters of guarantee	11,699	8,463	3,236	10,227	7,594	2,633
Total	252,283	247,397	4,886	235,945	231,752	4,193

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

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

The following table presents the unfunded legally binding commitments to extend credit:

	30 September 2015	31 December 2014
Commitments to extend credit	417,807	257,266
Documentary and commercial letters of credit	348	1,927
Total unfunded commitments to extend credit	418,155	259,193

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 2015, \$121.1 million (31 December 2014: \$91.8 million) of standby letters of credit were issued under this facility.

Legal Proceedings

There are 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 in the aggregate not be material to the consolidated financial position of the Bank.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars, unless otherwise stated)

Note 11: Segmented information

As at 30 September 2015, 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 the 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 ended 31 December 2014.

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 Internet banking, mobile 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, mobile banking, 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 comprises 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.

	30 September 2015	31 December 2014
Total Assets by Segment		
Bermuda	5,087,434	4,797,235
Cayman	3,178,679	2,863,624
Guernsey	1,457,905	1,639,334
Switzerland	2,998	2,000
The Bahamas	66,258	70,265
United Kingdom	817,901	832,591
Total assets before inter-segment eliminations	10,611,175	10,205,049
Less: inter-segment eliminations	(394,674)	(346,609)
Total	10,216,501	9,858,440

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

(In thousands of Bermuda dollars, unless otherwise stated)

For the three month period ended 30 September 2015	Net interest income		Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses	Gains and losses	Net income
	Customer	Inter- segment							
Bermuda	35,937	646	(630)	15,006	50,959	35,942	15,017	206	15,223
Cayman	16,496	144	(393)	9,728	25,975	14,619	11,356	3	11,359
Guernsey	4,099	(68)	35	6,290	10,356	10,118	238	(191)	47
Switzerland	-	-	-	852	852	851	1	-	1
The Bahamas	(2)	26	-	1,304	1,328	1,231	97	1	98
United Kingdom	3,437	(748)	87	1,422	4,198	5,182	(984)	(5)	(989)
Total before eliminations	59,967	-	(901)	34,602	93,668	67,943	25,725	14	25,739
Inter-segment eliminations	-	-	-	(371)	(371)	(371)	-	-	-
Total	59,967	-	(901)	34,231	93,297	67,572	25,725	14	25,739

For the three month period ended 30 September 2014	Net interest income		Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses	Gains and losses	Net income
	Customer	Inter- segment							
Bermuda	35,021	916	(361)	15,242	50,818	36,278	14,540	(1,656)	12,884
Cayman	14,828	224	(469)	7,988	22,571	14,465	8,106	(32)	8,074
Guernsey	4,693	(418)	(3)	6,976	11,248	10,005	1,243	(8)	1,235
Switzerland	-	-	-	639	639	737	(98)	-	(98)
The Bahamas	(4)	43	-	1,320	1,359	1,342	17	-	17
United Kingdom	6,079	(765)	(596)	1,820	6,538	5,884	654	-	654
Total before eliminations	60,617	-	(1,429)	33,985	93,173	68,711	24,462	(1,696)	22,766
Inter-segment eliminations	-	-	-	(469)	(469)	(469)	-	-	-
Total	60,617	-	(1,429)	33,516	92,704	68,242	24,462	(1,696)	22,766

For the nine month period ended 30 September 2015	Net interest income		Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses	Gains and losses	Net income
	Customer	Inter- segment							
Bermuda	105,716	2,021	(1,955)	44,317	150,099	106,664	43,435	(24)	43,411
Cayman	49,603	425	173	29,232	79,433	42,827	36,606	3	36,609
Guernsey	12,728	(337)	51	19,304	31,746	29,109	2,637	(191)	2,446
Switzerland	-	-	-	2,507	2,507	2,449	58	-	58
The Bahamas	(12)	86	-	3,914	3,988	3,790	198	1	199
United Kingdom	9,986	(2,195)	(1,364)	4,859	11,286	15,027	(3,741)	11	(3,730)
Total before eliminations	178,021	-	(3,095)	104,133	279,059	199,866	79,193	(200)	78,993
Inter-segment eliminations	-	-	-	(1,219)	(1,219)	(1,219)	-	-	-
Total	178,021	-	(3,095)	102,914	277,840	198,647	79,193	(200)	78,993

For the nine month period ended 30 September 2014	Net interest income		Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses	Gains and losses	Net income
	Customer	Inter- segment							
Bermuda	105,248	2,188	(6,356)	45,500	146,580	110,327	36,253	8,530	44,783
Cayman	42,834	785	(615)	24,572	67,576	43,334	24,242	225	24,467
Guernsey	14,635	(839)	(86)	19,477	33,187	30,177	3,010	(8)	3,002
Switzerland	-	-	-	1,860	1,860	2,153	(293)	-	(293)
The Bahamas	(16)	137	-	4,169	4,290	4,076	214	-	214
United Kingdom	15,335	(2,271)	(988)	6,003	18,079	16,779	1,300	-	1,300
Total before eliminations	178,036	-	(8,045)	101,581	271,572	206,846	64,726	8,747	73,473
Inter-segment eliminations	-	-	-	(1,423)	(1,423)	(1,423)	-	-	-
Total	178,036	-	(8,045)	100,158	270,149	205,423	64,726	8,747	73,473

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 12: Derivative instruments and risk management

The Bank uses derivatives for risk management purposes and to meet the needs of its customers. The Bank's derivative contracts principally involve over-the-counter ("OTC") 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 statements 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.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars, unless otherwise stated)

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 the following:

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.

Net investment hedges

Foreign currency swaps and qualifying non-derivative instruments designated as net investment hedges are used to minimise 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 recognised in AOCL 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 minimise 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 AOCL. 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 AOCL 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 in foreign operations, the translation gain or loss that is recorded in AOCL is based on the spot exchange rate between the reporting currency of the Bank and the functional currency 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 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 classified 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.

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

(In thousands of Bermuda dollars, unless otherwise stated)

The following table shows the notional amounts and related fair value measurements of derivative instruments as at the balance sheet date:

30 September 2015		Notional amounts	Gross positive fair value	Gross negative fair value	Net fair value
	Derivative instrument				
Risk management derivatives					
Net investment hedges	Currency swaps	117,659	4,595	(111)	4,484
Derivatives not formally designated as hedging instruments	Currency swaps	148,303	-	(822)	(822)
Subtotal risk management derivatives		265,962	4,595	(933)	3,662
Client services derivatives	Spot and forward foreign exchange	2,513,252	9,715	(9,367)	348
Total derivative instruments		2,779,214	14,310	(10,300)	4,010
31 December 2014		Notional amounts	Gross positive fair value	Gross negative fair value	Net fair value
	Derivative instrument				
Risk management derivatives					
Net investment hedges	Currency swaps	114,759	1,095	(3,559)	(2,464)
Derivatives not formally designated as hedging instruments	Currency swaps	113,982	284	(1,749)	(1,465)
Subtotal risk management derivatives		228,741	1,379	(5,308)	(3,929)
Client services derivatives	Spot and forward foreign exchange	2,529,159	21,205	(19,588)	1,617
Total derivative instruments		2,757,900	22,584	(24,896)	(2,312)

In addition to the above, as at 30 September 2015 foreign denominated deposits of \$2.5 million (31 December 2014: \$15.7 million), were designated as a hedge of foreign exchange risk associated with the net investment in foreign operations.

The "Net amounts in consolidated balance sheet" column within the following table represents the aggregate of our net exposure to each counterparty after considering the effect of master netting agreements. We manage derivative exposure by monitoring the credit risk associated with each counterparty using counterparty specific credit risk limits, using master netting arrangements where appropriate and obtaining collateral.

30 September 2015		Gross fair value recognised	Gross amounts offset in the consolidated balance sheet	Net amounts in consolidated balance sheet	Less: collateral pledged	Exposures net of collateral
Derivative assets						
Spot and forward foreign exchange and currency swaps		14,310	(3,441)	10,869	(3,613)	7,256
Derivative liabilities						
Spot and forward foreign exchange and currency swaps		10,300	(3,441)	6,859	(4,913)	1,946
Net negative fair value				4,010		
31 December 2014		Gross fair value recognised	Gross amounts offset in the consolidated balance sheet	Net amounts in consolidated balance sheet	Less: collateral pledged	Exposures net of collateral
Derivative assets						
Spot and forward foreign exchange and currency swaps		22,584	(5,654)	16,930	(1,950)	14,980
Derivative liabilities						
Spot and forward foreign exchange and currency swaps		24,896	(5,654)	19,242	(5,608)	13,634
Net negative fair value				(2,312)		

The following table shows the location and amount of gains (losses) recorded in the consolidated statements of operations on derivatives instruments outstanding:

		For the three month period ended		For the nine month period ended	
		30 September 2015	30 September 2014	30 September 2015	30 September 2014
Derivative instrument	Consolidated statements of operations line item				
Spot and forward foreign exchange	Foreign exchange revenue	424	514	(49)	(205)
Total net losses recognised in net income		424	514	(49)	(205)

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

(In thousands of Bermuda dollars, unless otherwise stated)

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. Management classifies these items based on the level of inputs used in their respective fair value determination, as described in Note 2 of the Bank's audited financial statements for the year ended 31 December 2014.

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.

Financial instruments in Level 1 include 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 asset-backed securities for which the market is relatively illiquid and for which information about actual trading prices is not readily available.

	30 September 2015			Total carrying amount / fair value	31 December 2014			Total carrying amount / fair value
	Fair value				Fair value			
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Items that are recognised at fair value on a recurring basis:								
Financial assets								
Trading investments								
Mutual funds	5,828	292	-	6,120	6,038	833	-	6,871
Available-for-sale investments								
Certificates of deposit	-	-	-	-	-	37,743	-	37,743
US government and federal agencies	-	2,301,578	-	2,301,578	-	1,887,870	-	1,887,870
Debt securities issued								
by non-US governments	-	38,546	-	38,546	-	38,325	-	38,325
Corporate debt securities	-	316,791	-	316,791	-	399,289	-	399,289
Asset-backed securities - Student loans	-	34,773	12,360	47,133	-	52,596	12,227	64,823
Commercial mortgage-backed securities	-	152,290	-	152,290	-	151,169	-	151,169
Residential mortgage-backed securities - Prime	-	52,786	-	52,786	-	64,829	-	64,829
Equity securities	-	15	-	15	-	15	-	15
Total available-for-sale	-	2,896,779	12,360	2,909,139	-	2,631,836	12,227	2,644,063
Other assets - Derivatives	-	10,869	-	10,869	-	16,930	-	16,930
Financial liabilities								
Other liabilities - Derivatives	-	6,859	-	6,859	-	19,242	-	19,242

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

(In thousands of Bermuda dollars, unless otherwise stated)

There were no transfers between Level 1 and Level 2 during the nine month period ended 30 September 2015 and the year ended 31 December 2014.

The Asset-backed securities - Student loans is a federal family education loan programme 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 is illiquid, a Level 2 classification is not supported.

Significant increases (decreases) in any of the preceding 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.

	30 September	31 December
	2015	2014
Level 3 Reconciliation		
Carrying amount at beginning of period	12,227	45,304
Proceeds from sales, paydowns and maturities	-	(36,438)
Accretion recognised in net income	-	915
Realised and unrealised gains (losses) recognised in other comprehensive income	133	(6,286)
Realised and unrealised gains recognised in net income	-	8,732
Carrying amount at end of period	12,360	12,227

Items Other Than Those Recognised at Fair Value on a Recurring Basis:

	Level	30 September 2015			31 December 2014		
		Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
Financial assets							
Cash due from banks	Level 1	2,262,325	2,262,325	-	2,063,311	2,063,311	-
Short-term investments	Level 1	330,932	330,932	-	394,770	394,770	-
Investments held-to-maturity	Level 2	371,003	379,562	8,559	338,177	343,989	5,812
Loans, net of allowance for credit losses	Level 2	3,973,582	3,970,391	(3,191)	4,019,128	4,015,764	(3,364)
Other real estate owned ¹	Level 2	18,477	18,477	-	19,300	19,300	-
Financial liabilities							
Customer deposits							
Demand deposits	Level 2	7,407,008	7,407,008	-	6,737,644	6,737,644	-
Term deposits	Level 2	1,690,696	1,691,784	(1,088)	1,894,027	1,895,558	(1,531)
Deposits from banks	Level 2	13,453	13,453	-	39,906	39,906	-
Long term debt	Level 2	117,000	116,018	982	117,000	115,936	1,064

¹The current carrying value of OREO is adjusted to fair value only when there is devaluation below carrying value.

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 14: Interest rate risk

The following tables set 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 these tables 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 2015

(in \$ millions)	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	
Assets							
Cash due from banks	2,125	-	-	-	-	137	2,262
Short-term investments	198	129	4	-	-	-	331
Investments	830	68	99	319	1,964	6	3,286
Loans	3,529	199	81	81	47	37	3,974
Other assets	-	-	-	-	-	363	363
Total assets	6,682	396	184	400	2,011	543	10,216
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	774	774
Demand deposits	5,437	-	-	-	-	1,978	7,415
Term deposits	1,095	387	135	79	-	-	1,696
Other liabilities	-	-	-	-	-	214	214
Long-term debt	92	-	-	25	-	-	117
Total liabilities and shareholders' equity	6,624	387	135	104	-	2,966	10,216
Interest rate sensitivity gap	58	9	49	296	2,011	(2,423)	-
Cumulative interest rate sensitivity gap	58	67	116	412	2,423	-	-

31 December 2014

(in \$ millions)	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	
Assets							
Cash due from banks	1,923	-	-	-	-	140	2,063
Short-term investments	155	224	16	-	-	-	395
Investments	422	37	105	470	1,948	7	2,989
Loans	3,684	133	20	89	44	49	4,019
Other assets	-	-	-	-	-	392	392
Total assets	6,184	394	141	559	1,992	588	9,858
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	849	849
Demand deposits	5,142	64	-	-	-	1,559	6,765
Term deposits	1,168	344	316	79	-	-	1,907
Other liabilities	-	-	-	-	-	220	220
Long-term debt	47	-	45	25	-	-	117
Total liabilities and shareholders' equity	6,357	408	361	104	-	2,628	9,858
Interest rate sensitivity gap	(173)	(14)	(220)	455	1,992	(2,040)	-
Cumulative interest rate sensitivity gap	(173)	(187)	(407)	48	2,040	-	-

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

(In thousands of Bermuda dollars, unless 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
	2015	2014	2015	2014
Basic Earnings Per Share	0.05	0.03	0.13	0.11
Net income	25,739	22,766	78,993	73,473
Less: Preference dividends declared and guarantee fee	(4,114)	(4,125)	(12,300)	(12,381)
Less: Premium on preference share buyback	-	(53)	(28)	(86)
Net income attributable for common shareholders	21,625	18,588	66,665	61,006
Weighted average number of common shares issued	474,932	556,933	508,133	556,933
Weighted average number of common shares held as treasury stock	(9,885)	(9,859)	(11,107)	(8,447)
Adjusted weighted average number of common shares (in thousands)	465,047	547,074	497,026	548,486
Diluted Earnings Per Share	0.05	0.03	0.13	0.11
Net income attributable for common shareholders	21,625	18,588	66,665	61,006
Adjusted weighted average number of common shares issued	465,047	547,074	497,026	548,486
Net dilution impact related to options to purchase common shares	4,275	4,459	4,805	3,537
Net dilution impact related to awards of unvested common shares	4,905	4,975	6,327	4,529
Adjusted weighted average number of diluted common shares (in thousands)	474,227	556,508	508,158	556,552

Prior to their conversion into common shares on 31 March 2015, outstanding contingent value convertible preference ("CVCP") shares were classified as participating securities as they were entitled to dividends declared to common shareholders on a 1:1 basis and were therefore included in the basic earnings per share calculation.

During the nine month period ended 30 September 2015, options to purchase an average of 29.3 million (30 September 2014: 31.3 million) shares of common stock, were outstanding. During the nine month period ended 30 September 2015, the average number of outstanding awards of unvested common shares was 9.4 million (30 September 2014: 9.5 million). Only awards for which the sum of 1) the expense that will be recognised in the future (i.e. the unrecognised expense) and 2) its exercise price, if any, 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. An award's unrecognised expense is also considered to be the proceeds the employees would need to pay to purchase accelerated vesting of the awards. For purposes of calculating dilution, such proceeds are assumed to be used by the Bank to buy back common shares at the average market price. The weighted-average number of outstanding awards, net of the assumed weighted-average number of common 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 \$3.47 (31 December 2014: \$3.49) for 4.32 million shares of common stock (31 December 2014: 4.30 million) were not included in the computation of earnings per share as at 30 September 2015 and 2014 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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 16: Share-based payments

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 the 2010 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 Bank'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. The subscription price will be reduced for all special dividends declared by the Bank.

The 2010 Stock Option Plan will vest based on two specific types of vesting conditions i.e., time and performance conditions, as detailed below:

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.

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 transfer 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. As at 30 September 2015 the grant date fair value not yet recognised in expenses of outstanding performance options is \$8.7 million (30 September 2014: \$9.5 million). If the probability of a valuation event becomes more likely than not, some or all of the unrecognised expense relating to the performance options will be recognised as an expense.

In addition to the time and performance vesting conditions noted above, the options will generally vest immediately:

- by reason of the employee's death or disability,
- upon termination, by the Bank, of the holder's employment, unless if in relation with the holder's misconduct, or
- in limited circumstances and specifically approved by the Board, as stipulated in the holder's employment contract.

In the event of the employee's resignation, any unvested portion of the awards shall generally be forfeited and any vested portion of the options shall generally remain exercisable during the 90-day period following the termination date or, if earlier, until the expiration date, and any vested portion of the options not exercised as of the expiration of such period shall be forfeited without any consideration therefore.

Changes in Outstanding Stock Options

	Number of shares transferable upon exercise (thousands)		
	1997 Stock Option Plan	2010 Stock Option Plan	Total
For the nine month period ended 30 September 2015			
Outstanding at beginning of period	3,525	26,780	30,305
Exercised	-	(546)	(546)
Forfeitures and cancellations	(1,346)	(22)	(1,368)
Resignations, retirements, redundancies	-	(132)	(132)
Outstanding at end of period	2,179	26,080	28,259

	Number of shares transferable upon exercise (thousands)		
	1997 Stock Option Plan	2010 Stock Option Plan	Total
For the nine month period ended 30 September 2014			
Outstanding at beginning of period	3,992	27,808	31,800
Exercised	-	(438)	(438)
Forfeitures and cancellations	(371)	(1)	(372)
Resignations, retirements, redundancies	-	(2)	(2)
Expiration at end of plan life	(31)	-	(31)
Outstanding at end of period	3,590	27,367	30,957

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars, unless otherwise stated)

Share Based Plans

Recipients of unvested shares awards are entitled to the related common shares at no cost, at the time the award vests. Recipients of unvested shares may be entitled to receive additional unvested shares having a value equal to the cash dividends that would have been paid had the unvested shares been issued and vested. Such additional unvested shares granted as dividend equivalents are subject to the same vesting schedule and conditions as the underlying unvested shares.

Unvested shares subject only to time vesting condition generally vest upon retirement, death, disability or upon termination, by the Bank, of the holder's employment unless if in relation with the holder's misconduct. Unvested shares subject to both time vesting and performance vesting conditions remain outstanding and unvested upon retirement and will vest only if the performance conditions are met. Unvested shares can also vest in limited circumstances and if specifically approved by the Board, as stipulated in the holder's employment contract. In all other circumstances, unvested shares are generally forfeited when employment ends.

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.

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

2012 and 2011 ELTIP

Under the Bank's 2012 and 2011 ELTIP, shares were awarded to Bank employees and executive management, based on predetermined vesting conditions. Two types of vesting conditions upon which the shares were awarded comprise the ELTIP: 1) 50% of each share award were granted in the form of time vested shares, generally vesting equally over a three-year period from the effective grant date; and 2) 50% of each share award were granted in the form of performance shares, generally vesting upon the achievement of certain performance targets in the three-year period from the effective grant date.

2015, 2014 and 2013 ELTIP

The 2015 ELTIP was approved on 11 February 2015. Under the Bank's 2015, 2014 and 2013 ELTIP, performance shares were awarded to executive management. These shares will generally vest upon the achievement of certain performance targets in the three-year period from the effective grant date.

Number of shares transferable upon vesting of the ELTIP and EDIP shares (in thousands of shares)	For the nine month period ended			
	30 September 2015		30 September 2014	
	EDIP	ELTIP	EDIP	ELTIP
Outstanding at beginning of period	2,660	7,062	2,183	6,441
Granted	1,727	2,494	1,496	2,514
Vested	(1,991)	(2,535)	(999)	(1,824)
Resignations, retirements, redundancies	(73)	(311)	(4)	(23)
Outstanding at end of period	2,323	6,710	2,676	7,108

Share-based Compensation Cost Recognised in Net Income

	For the nine month period ended					
	30 September 2015			30 September 2014		
	Stock option plan	EDIP and ELTIP	Total	Stock option plan	EDIP and ELTIP	Total
Share-based compensation cost	391	5,159	5,550	974	4,350	5,324
Non-Executive Directors' annual retainer settled with fully vested and unrestricted Bank shares			210			180
Total share-based compensation cost recognised in net income			5,760			5,504

Unrecognised Expense Attributable to Each Plan

	As at	
	30 September 2015	30 September 2014
2010 Stock Option Plan		
Time vesting options	30	855
Performance vesting options	8,689	9,483
EDIP	2,775	2,794
ELTIP		
Time vesting shares	25	238
Performance vesting shares	4,664	5,798
Total unrecognised expense	16,183	19,168

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 17: Share buy-back plans

The Bank initially introduced two share buy-back programmes on 1 May 2012 as a means to improve shareholder liquidity and facilitate growth in share value. Each programme was approved by the Board of Directors for a period of 12 months, in accordance with the regulations of the BSX. The BSX must be advised monthly of shares purchased pursuant to each programme.

Common Share Buy-Back Programme

Effective 1 April 2014, the Board approved the 2014 common share buy-back programme authorising the purchase for treasury of up to 15 million common shares.

On 26 February 2015, the Board approved, with effect from 1 April 2015, the 2015 common share buy-back programme, authorising the purchase for treasury of up to eight million common shares.

	For the nine months ended	For the years ended			Total
	30 September 2015	31 December 2014	31 December 2013	31 December 2012	
Common share buy-backs					
Acquired number of shares (to the nearest 1)	2,407,186	8,567,340	4,038,482	7,260,051	22,273,059
Average cost per common share	1.95	1.99	1.39	1.24	1.63
Total cost (in Bermuda dollars)	4,691,707	17,018,412	5,610,907	8,999,061	36,320,087

Preference Share Buy-Back Programme

On 28 April 2014, the Board approved the 2014 preference share buy-back programme, authorising the purchase and cancellation of up to 26,600 preference shares.

On 26 February 2015, the Board approved, with effect from 5 May 2015, the 2015 preference share buy-back programme, authorising the purchase for cancellation of up to 5,000 preference shares.

	For the nine months ended	For the years ended			Total
	30 September 2015	31 December 2014	31 December 2013	31 December 2012	
Preference share buy-backs					
Acquired number of shares (to the nearest 1)	183	560	11,972	4,422	17,137
Average cost per preference share	1,151.55	1,172.26	1,230.26	1,218.40	1,224.46
Total cost (in Bermuda dollars)	210,734	656,465	14,728,624	5,387,777	20,983,600

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 each programme, provided no more than any such person's pro-rata share of the listed securities is repurchased. Pursuant to the BSX regulations, all repurchases made by any issuer pursuant to a securities repurchase programme must be made: (1) in the open market and not by private agreement; and (2) for a price not higher than the last independent trade for a round lot of the relevant class of securities.

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

(In thousands of Bermuda dollars, unless otherwise stated)

Note 18: Accumulated other comprehensive loss

The table below presents the changes in AOCL by component for the nine month period ended:

	Unrealised losses on translation of net investment in foreign operations	Unrealised gains (losses) on AFS investments	Employee benefit plans			Total AOCL
			Pension	Post-retirement healthcare	Subtotal - employee future benefits	
30 September 2015						
Balance at beginning of period	(10,506)	9,769	(53,169)	(22,866)	(76,035)	(76,772)
Other comprehensive income (loss), net of taxes	(2,210)	5,776	1,228	(2,247)	(1,019)	2,547
Balance at end of period	(12,716)	15,545	(51,941)	(25,113)	(77,054)	(74,225)

	Unrealised losses on translation of net investment in foreign operations	Unrealised gains (losses) on AFS investments	Employee benefit plans			Total AOCL
			Pension	Post-retirement healthcare	Subtotal - employee future benefits	
30 September 2014						
Balance at beginning of period	(7,632)	(40,136)	(35,616)	6,724	(28,892)	(76,660)
Other comprehensive income (loss), net of taxes	(1,239)	28,770	(897)	(4,348)	(5,245)	22,286
Balance at end of period	(8,871)	(11,366)	(36,513)	2,376	(34,137)	(54,374)

Net Change of AOCL Components

Line item in the consolidated statements of operations, if any	For the three month period ended		For the nine month period ended	
	30 September 2015	30 September 2014	30 September 2015	30 September 2014
Net unrealised (losses) gains on translation of net investment in foreign operations adjustments				
Foreign currency translation adjustments	N/A	(6,755)	(9,852)	(5,718)
Net investment hedge gains (losses)	N/A	4,880	7,436	3,508
Net change		(1,875)	(2,416)	(2,210)
Available-for-sale investment adjustments				
Gross unrealised gains (losses) arising during the year	N/A	24,073	(7,174)	5,381
Reclassification of realised losses (gains) to net income	Net realised gains (losses) on AFS investments	-	47	269
Foreign currency translation adjustments of related balances	N/A	9	115	126
Net change		24,082	(7,012)	5,776
Employee benefit plans adjustments				
Defined benefit pension plan				
Net actuarial gain (loss)	N/A	-	(6,633)	-
Net gain on plan's curtailment	N/A	-	4,592	-
Amortisation of actuarial gains	Salaries and other employee benefits	638	271	1,132
Change in deferred taxes	N/A	-	400	-
Foreign currency translation adjustments of related balances	N/A	277	44	96
Net change		915	(1,326)	1,228
Post-retirement healthcare plan				
Amortisation of net actuarial loss	Salaries and other employee benefits	(1,585)	231	(4,757)
Amortisation of prior service cost	Salaries and other employee benefits	836	(1,680)	2,510
Net change		(749)	(1,449)	(2,247)
Other comprehensive income (loss), net of taxes		22,373	(12,203)	2,547

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars, unless otherwise stated)

Note 19: Capital structure

Authorised Capital

The Bank's total authorised share capital as of 30 September 2015 and 2014 consisted of (i) 26 billion common shares of par value BD\$0.01, (ii) 100,200,001 preference shares of par value US\$0.01 and (iii) 50 million preference shares of par value £0.01.

On 30 April 2015, Butterfield repurchased and cancelled 80,000,000 shares held by CIBC for \$1.50 per share, for a total of \$120 million. The remaining CIBC shareholding in Butterfield (representing 23,434,232 shares) was taken up by Carlyle Global Financial Services, L.P. at \$1.50 per share and subsequently sold to other investors.

On 13 August 2015, Butterfield repurchased and cancelled 4,000,000 shares held by two shareholders for \$1.49 per share, for a total of \$5.96 million.

Dividend Declared

During the three month period ended 30 September 2015, the Bank declared cash dividends totalling \$0.01 (30 September 2014: \$0.01) for each common share and CVCP share on record (CVCP shares were all converted to common shares on 31 March 2015) as of the related record dates. During the three month period ended 30 September 2015 and 2014, the Bank declared the full 8.00% cash dividends on preference shares in each quarter.

The Bank is required to comply with Section 54 of the Companies Act 1981 issued by the Government of Bermuda (the "Companies Act") each time a dividend is declared or paid by the Bank and also obtain prior written approval from the BMA pursuant to the Banks and Deposit Companies Act 1999 for any dividends declared. The Bank has complied with Section 54 and has obtained BMA approval for all dividends declared during the periods under review.

Regulatory Capital

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

Effective 1 January 2015, the BMA adopted capital and liquidity regulatory requirements consistent with Basel III, a framework released by the Basel Committee on Banking Supervision. The finalisation of the implementation is subject to ongoing consultation with the BMA regarding the implementation and interpretation of these new rules. The Bank is assessing the impact of the adoption of this guidance. The impact is not expected to be material.

The Bank is fully compliant with all regulatory capital requirements and maintains capital ratios in excess of regulatory minimums as at 30 September 2015 and 31 December 2014. The following table sets forth the Bank's capital adequacy in accordance with Basel II framework:

	30 September 2015		31 December 2014	
	Actual	Regulatory minimum	Actual	Regulatory minimum
Capital				
Tier 1 capital	705,124		781,743	
Tier 2 capital	121,811		130,788	
Total capital	826,935		912,531	
Weighted Risk Assets	4,453,669		4,113,404	
Capital Ratios (%)				
Tier 1 common	11.7%		14.6%	
Tier 1 Total	15.8%	4.0%	19.0%	4.0%
Total Capital	18.6%	14.46%	22.2%	14.64%

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars, unless otherwise stated)

Note 20: Business combinations

Legis Acquisition

On 1 April 2014, the Bank via one of its subsidiaries, Butterfield Trust (Guernsey) Limited ("BTGL"), acquired all of the outstanding common shares of Legis T & C Holdings Limited ("Legis") for a maximum purchase price of up to \$39.6 million. Legis is a Guernsey-based trust and corporate services business. The acquisition was undertaken to enhance the Bank's market presence and widen the Bank's range of corporate and institutional trust services for private clients and institutional and corporate clients.

The acquisition date fair value of the cash consideration transferred amounted to \$34.8 million comprising cash settlement of \$31.9 million paid on 1 April 2014 and a contingent consideration of \$2.9 million. The contingent consideration is dependent on revenue performance and representation and warranties being met. The undiscounted contingent consideration ranges from \$2.3 million to \$5.4 million. The fair value is calculated as the discounted amount payable based on various case scenarios with equal probabilities assigned to the payouts being made under each scenario.

The final consideration payable may differ from the initial estimated liability with any changes in the liability recorded in other gains (losses) in the consolidated statement of operations until the liability is settled. Subsequent to the acquisition date, and primarily as a result of the change in payment probabilities as estimates were updated for actual results, the estimated fair value of the contingent consideration liability increased to \$3.7 million as at 31 December 2014 and remained unchanged up to 31 March 2015. At 30 September 2015, the estimated fair value of the contingent consideration liability increased to \$2.7 million as a result of payments made as well as changes in expected payments to be made in accordance with the terms of the acquisition. The contingent consideration is included in other liabilities in the consolidated balance sheet.

The following selected unaudited pro forma financial information has been provided to present a summary of the combined results of the Bank and Legis, assuming the transaction had been effected on 1 January, 2013. The unaudited pro forma data is for informational purposes only and does not necessarily represent results that would have occurred if the transaction had taken place on the basis assumed above. No unaudited pro forma data is prepared for the three month period ended 30 September 2014 and the three and nine month periods ended 30 September 2015 as the operating results of Legis were fully integrated throughout these periods.

For the nine month period ended 30 September 2014

Total net revenue	281,313
Total non-interest operating expense (including income tax expense)	206,895
Pro forma net income post business combination	74,418

HSBC Acquisition

On 7 November 2014, the Bank via one of its subsidiaries, Butterfield Bank (Cayman) Limited ("BNTB Cayman"), acquired substantially all the retail loans and deposits of HSBC Bank (Cayman) Limited ("HSBC Cayman") for a cash purchase price of \$5.3 million. The acquisition was undertaken to enhance the Bank's market presence and expand its community banking customer base in the Cayman Islands. The acquisition was accounted for as a business combination as the Bank acquired substantially all the loans and deposits of HSBC Cayman and deemed to obtain control over the business.

As the parts of the retail loans and deposits of HSBC Cayman were acquired after 30 September 2014, the date for which comparative information for the consolidated statements of operations is presented, no comparative information regarding this transaction is available. The information as presented in the consolidated balance sheets includes the effects of this transaction.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars, unless otherwise stated)

Note 21: Related party transactions

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 2015, related party Director loan balances were \$63.8 million (31 December 2014: \$58.0 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 2015, \$nil (31 December 2014: \$65.7 million) was outstanding under this agreement. For the nine month period ended 30 September 2015, \$1.0 million (30 September 2014: \$2.1 million) of interest income has been recognised in the consolidated statements of operations.

Capital Transaction

Funds associated with the Carlyle Group hold approximately 23% of the Bank's equity voting power along with the right to designate two persons for nomination for election by the shareholders as members of the Bank's Board of Directors. Prior to 30 April 2015, Canadian Imperial Bank of Commerce ("CIBC") held approximately 19% of the Bank's equity voting power. On 30 April 2015, the Bank completed the transaction with CIBC to repurchase for cancellation approximately 77% of CIBC's shares for \$1.50 per share, or a total of \$120 million, representing 80,000,000 common shares. The remaining 23% of CIBC's shareholding in Butterfield (representing 23.4 million shares) were taken up by Carlyle Global Financial Services, L.P. and subsequently sold to other investors.

Financial Instruments With Related Parties

The Bank holds seed investments in several Butterfield mutual funds, which are managed by a wholly owned subsidiary of the Bank. As at 31 December 2014, these investments have a fair value of \$5.0 million with an unrealized gain of \$1.0 million (31 December 2013: \$5.0 million and \$0.8 million respectively) and were included in trading investments at their fair value.

Note 22: Comparative information

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

Note 23: Subsequent events

On 26 October 2015, the Board of Directors declared an interim dividend of \$0.01 per common share to be paid on 27 November 2015 to shareholders of record on 13 November 2015.

The Bank has performed an evaluation of subsequent events through to 26 October 2015, the date the financial statements were issued.