

Moving Forward

*Together*



## Third Quarter 2011

The Bank of N.T. Butterfield & Son Limited

Report to shareholders and financial results for the  
nine months ended 30 September 2011



Butterfield

**The Bank of N.T. Butterfield & Son Limited**  
**Unaudited Consolidated Balance Sheet**

(In thousands of Bermuda dollars)

	As at 30 September 2011	31 December 2010 Audited
<b>Assets</b>		
Cash and demand deposits with banks	257,075	300,865
Cash equivalents	2,028,168	2,128,834
<b>Total cash and cash equivalents</b>	<b>2,285,243</b>	<b>2,429,699</b>
Short term investments	45,198	26,392
Debt and equity securities		
Trading	66,199	18,088
Available for sale	2,100,655	2,611,056
<b>Total investments in debt and equity securities</b>	<b>2,166,854</b>	<b>2,629,144</b>
Loans, net of allowance for credit losses	4,255,603	4,043,360
Premises, equipment and computer software	272,115	261,955
Accrued interest	21,087	17,691
Goodwill	16,040	16,017
Intangible assets	34,953	38,946
Investments in affiliates	32,364	33,534
Receivable for securities sold under agreement to repurchase	46,373	-
Receivable from investments sold	-	50,817
Other assets	67,408	75,505
<b>Total assets</b>	<b>9,243,238</b>	<b>9,623,060</b>
<b>Liabilities</b>		
Deposits		
Non-interest bearing	990,683	977,417
Interest bearing		
Customers	6,850,771	7,170,963
Banks	68,113	79,679
<b>Total deposits</b>	<b>7,909,567</b>	<b>8,228,059</b>
Securities sold under agreement to repurchase	46,373	-
Employee future benefits	84,949	85,209
Accrued interest	8,681	9,647
Preference shares dividends payable	715	715
Payable for investments purchased	-	112,663
Other liabilities	74,606	94,680
<b>Total other liabilities</b>	<b>215,324</b>	<b>302,914</b>
Subordinated capital	267,812	282,799
<b>Total liabilities</b>	<b>8,392,703</b>	<b>8,813,772</b>
<b>Shareholders' equity</b>		
Common share capital (BMD0.01 par; authorised shares 26,000,000,000 (2010: BMD0.01 par; authorised shares 26,000,000,000)		
issued and outstanding: 549,332,014 (2010: 549,143,448)	5,493	5,491
Preference share capital (USD0.01 par; USD1,000 liquidation preference)		
issued and outstanding: 200,000 (2010: 200,000)	2	2
Contingent value convertible preference share capital (USD0.01 par)		
issued and outstanding 7,600,521 (2010: 7,789,087)	76	78
Additional paid-in capital	1,376,608	1,376,037
Accumulated deficit	(494,950)	(509,579)
Less: Treasury common shares (2,168,446 shares; 2010: 2,401,593 shares)	(21,809)	(24,127)
Accumulated other comprehensive loss	(14,885)	(38,614)
<b>Total shareholders' equity</b>	<b>850,535</b>	<b>809,288</b>
<b>Total liabilities and shareholders' equity</b>	<b>9,243,238</b>	<b>9,623,060</b>

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

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

## Unaudited Consolidated Statements of Operations

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

	For the three month period ended		For the nine month period ended	
	30 September 2011	30 September 2010	30 September 2011	30 September 2010
<b>Non-interest income</b>				
Asset management	5,399	6,187	16,921	18,791
Banking	7,872	8,657	25,096	27,361
Foreign exchange revenue	7,539	7,314	22,623	24,811
Trust	7,384	7,905	21,932	22,778
Custody and other administration services	3,045	3,353	8,951	10,558
Other non-interest income	1,846	602	4,063	7,898
<b>Total non-interest income</b>	<b>33,085</b>	<b>34,018</b>	<b>99,586</b>	<b>112,197</b>
<b>Interest income</b>				
Loans	51,667	50,555	149,992	148,261
Investments	11,866	6,699	34,607	19,809
Deposits with banks	2,591	2,992	8,984	8,312
<b>Total interest income</b>	<b>66,124</b>	<b>60,246</b>	<b>193,583</b>	<b>176,382</b>
<b>Interest expense</b>				
Deposits	8,443	11,355	26,838	35,149
Subordinated capital	2,721	2,665	7,595	9,463
<b>Total interest expense</b>	<b>11,164</b>	<b>14,020</b>	<b>34,433</b>	<b>44,612</b>
<b>Net interest income before provision for credit losses</b>	<b>54,960</b>	<b>46,226</b>	<b>159,150</b>	<b>131,770</b>
Provision for credit losses	(3,827)	(16,114)	(10,270)	(24,777)
<b>Net interest income after provision for credit losses</b>	<b>51,133</b>	<b>30,112</b>	<b>148,880</b>	<b>106,993</b>
Net trading (losses) gains	(908)	489	(910)	459
Net realised gains (losses) on available for sale investments	888	(406)	1,081	(107,289)
Other-than-temporary impairment losses on available for sale investments	-	-	-	(60,522)
Realised loss on disposal of subsidiaries	-	(7,425)	-	(7,425)
Net other gains (losses)	1,400	(273)	3,317	(2,781)
<b>Total other gains (losses)</b>	<b>1,380</b>	<b>(7,615)</b>	<b>3,488</b>	<b>(177,558)</b>
<b>Total net revenue</b>	<b>85,598</b>	<b>56,515</b>	<b>251,954</b>	<b>41,632</b>
<b>Non-interest expense</b>				
Salaries and other employee benefits	36,899	37,387	111,003	124,593
Technology and communications	13,423	13,995	40,136	39,812
Property	7,503	6,831	21,897	20,528
Professional and outside services	5,436	3,798	12,960	9,627
Non-income taxes	3,477	4,202	10,830	11,585
Amortisation of intangible assets	1,404	1,439	4,234	4,330
Marketing	1,253	1,013	3,716	3,172
Other expenses	4,475	6,699	14,699	25,159
<b>Total non-interest expense</b>	<b>73,870</b>	<b>75,364</b>	<b>219,475</b>	<b>238,806</b>
<b>Net income (loss) before income taxes</b>	<b>11,728</b>	<b>(18,849)</b>	<b>32,479</b>	<b>(197,174)</b>
Income taxes (expense) benefit	(495)	211	(1,080)	2,365
<b>Net income (loss)</b>	<b>11,233</b>	<b>(18,638)</b>	<b>31,399</b>	<b>(194,809)</b>
Cash dividends declared on contingent value convertible preferred shares	33	-	(3,270)	-
Cash dividends declared on preferred shares	(4,000)	(4,000)	(12,000)	(12,000)
Preferred shares guarantee fee	(500)	(500)	(1,500)	(1,500)
<b>Net income (loss) attributable to common shareholders</b>	<b>6,766</b>	<b>(23,138)</b>	<b>14,629</b>	<b>(208,309)</b>
<b>Income (loss) per common share</b>				
Basic	0.01	(0.04)	0.03	(0.47)
Diluted	0.01	(0.04)	0.03	(0.47)

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**

(In thousands of Bermuda dollars)

	For the nine month period ended	
	30 September 2011	30 September 2010
<b>Common share capital issued and outstanding</b>		
Balance at beginning of period (2011: 549,143,448 shares; 2010: 99,060,111 shares)	5,491	99,060
Issuance (2011: nil shares; 2010: 147,703,758 shares)	-	144,837
Reduction in par value of shares	-	(241,429)
Repurchased (2011: nil shares; 2010: 107,571,361 shares)	-	(1,076)
Rights conversion (2011: nil shares; 2010: 99,173,842 shares)	-	992
Conversion of mandatory and contingent preference shares (2011: nil shares; 2010: 310,302,028 shares)	-	3,103
Conversion of contingent value preference shares (2011: 188,566 shares; 2010: 468,788 shares)	2	5
<b>Balance at end of period (2011: 549,332,014 shares; 2010: 549,137,166 shares)</b>	<b>5,493</b>	<b>5,492</b>
<b>Preferred shares</b>		
Balance at beginning of period (2011: 200,000 shares; 2010: 200,000 shares)	2	2
Issuance (2011: nil shares; 2010: nil shares)	-	-
<b>Balance at end of period (2011: 200,000 shares; 2010: 200,000 shares)</b>	<b>2</b>	<b>2</b>
<b>Mandatorily convertible preferred shares</b>		
Balance at beginning of period (2011: nil shares; 2010: nil shares)	-	-
Issuance (2011: nil shares; 2010: 281,770 shares)	-	3
Conversion to common shares (2011: nil shares; 2010: 281,770 shares)	-	(3)
<b>Balance at end of period (2011: nil shares; 2010: nil shares)</b>	<b>-</b>	<b>-</b>
<b>Contingent convertible preferred shares</b>		
Balance at beginning of period (2011: nil shares; 2010: nil shares)	-	-
Issuance (2011: nil shares; 2010: 93,230 shares)	-	1
Conversion to common shares (2011: nil shares; 2010: 93,230 shares)	-	(1)
<b>Balance at end of period (2011: nil shares; 2010: nil shares)</b>	<b>-</b>	<b>-</b>
<b>Contingent value convertible preferred shares</b>		
Balance at beginning of period (2011: 7,789,087 shares; 2010: nil shares)	78	-
Rights conversion (2011: nil shares; 2010: 8,264,157 shares)	-	83
Conversion to common shares (2011: 188,566 shares; 2010: 468,788 shares)	(2)	(5)
<b>Balance at end of period (2011: 7,600,521 shares; 2010: 7,795,369 shares)</b>	<b>76</b>	<b>78</b>
<b>Additional paid-in capital</b>		
Balance at beginning of period	1,376,037	764,206
Stock option plan expense	2,619	3,309
Reduction of additional paid in capital on transfer and sale of treasury shares	(2,048)	-
Issuance of common shares	-	30,192
Issuance of mandatorily convertible preferred shares	-	281,767
Issuance of contingent convertible preferred shares	-	93,229
Reduction of par value of common shares	-	241,429
Conversion of mandatorily and contingent convertible preferred shares	-	(3,103)
Cost of capital raise and rights offering	-	(29,245)
<b>Balance at end of period</b>	<b>1,376,608</b>	<b>1,381,784</b>
<b>Accumulated deficit</b>		
Balance at beginning of period	(509,579)	(283,964)
Net income (loss) for period	31,399	(194,809)
Cash dividends declared on contingent value convertible preferred shares	(3,270)	-
Cash dividends declared on preferred shares	(12,000)	(12,000)
Preferred shares guarantee fee	(1,500)	(1,500)
<b>Balance at end of period</b>	<b>(494,950)</b>	<b>(492,273)</b>
<b>Treasury common shares</b>		
Balance at beginning of period (2011: 2,401,593 shares; 2010: 3,426,106 shares)	(24,127)	(34,660)
Share based compensation	270	3,544
Net purchases, sales and transfers of treasury shares	2,048	-
<b>Balance at end of period (2011: 2,168,446 shares; 2010: 2,401,595 shares)</b>	<b>(21,809)</b>	<b>(31,116)</b>

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

(In thousands of Bermuda dollars)

For the nine month period ended

	30 September 2011	30 September 2010
<b>Accumulated other comprehensive loss</b>		
Balance at beginning of period	(38,614)	(189,184)
Net change in unrealised losses on translation of net investment in foreign operations	(342)	(3,292)
Net change in unrealised gains (losses) on available for sale investments	24,972	42,073
Net change in unrealised non-credit losses on held to maturity investments	-	58,557
Net change in employee future benefits liability	(901)	70,591
<b>Balance at end of period</b>	<b>(14,885)</b>	<b>(21,255)</b>
<b>Total shareholders' equity</b>	<b>850,535</b>	<b>842,712</b>
<b>Comprehensive income (loss)</b>		
Net income (loss)	31,399	(194,809)
Other comprehensive income	23,729	167,929
<b>Total comprehensive income (loss)</b>	<b>55,128</b>	<b>(26,880)</b>
<b>Components of accumulated other comprehensive loss</b>		
Cumulative unrealised losses on translation of investment in foreign operations	(12,486)	(10,942)
Cumulative unrealised gains (losses) on available for sale investments	6,790	(14,918)
Cumulative change in employee future benefits liability	(9,189)	4,605
<b>Balance at end of period</b>	<b>(14,885)</b>	<b>(21,255)</b>

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

**The Bank of N.T. Butterfield & Son Limited**  
**Unaudited Consolidated Statements of Cash Flows**

(In thousands of Bermuda dollars)

For the nine month period ended

	30 September 2011	30 September 2010
<b>Cash flows from operating activities</b>		
Net income (loss)	31,399	(194,809)
Adjustments to reconcile net income (loss) to operating cash flows:		
Depreciation and amortization	28,034	16,906
Decrease in carrying value of investments in affiliates	1,171	4,178
Share-based payments	2,889	6,853
Loss (gain) on sale of premises and equipment	1	(8)
Net gain on sale of affiliate / subsidiaries	(3,178)	7,425
Net (gain) loss on repayment of sub-debt	(1,125)	-
Net realised (gains) losses of available for sale securities	(1,081)	-
Net realised (gains) losses and other-than-temporary impairment on sale of available for sale investments	-	167,811
Provision for credit losses	10,270	24,777
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(3,455)	(5,481)
Decrease (Increase) in other assets	(38,249)	780
Decrease in accrued interest payable	(997)	(2,553)
(Decrease) Increase in other liabilities	(21,518)	(3,405)
	4,161	22,474
Net change in trading investments	(47,887)	1,505
<b>Cash used in operating activities</b>	<b>(43,726)</b>	<b>23,979</b>
<b>Cash flows from investing activities</b>		
Net (increase) decrease in short term investments	(18,806)	5,468
Net proceeds on sale of affiliate	3,178	-
Additions to premises, equipment and computer software	(23,565)	(34,092)
Net decrease in loans	(226,328)	68,928
Held to maturity investments: proceeds from maturities	-	18,787
Available for sale investments: proceeds from sale and maturities	2,179,636	1,791,328
Available for sale investments: purchases	(1,713,260)	(1,046,123)
Cash and demand deposits held by subsidiaries at time of sale	-	(4,657)
<b>Cash (used in) provided by investing activities</b>	<b>200,855</b>	<b>799,639</b>
<b>Cash flows from financing activities</b>		
Net decrease in demand and term deposit liabilities	(322,388)	(560,844)
Net increase in securities sold under agreement to repurchase	46,373	-
Repayment of subordinated capital	(13,875)	-
Issuance of common share capital	-	295,000
Issuance of preferred share capital	-	385,001
Cost of issuing share capital and rights	-	(29,222)
Common shares repurchased	-	(130,000)
Cash dividends paid on contingent value convertible preferred shares	(3,270)	-
Cash dividends paid on preferred shares	(12,000)	(12,622)
Preferred shares guarantee fee paid	(1,500)	(1,500)
<b>Cash (used in) provided by financing activities</b>	<b>(306,660)</b>	<b>(54,187)</b>
Net effect of exchange rates on cash and cash equivalents	5,075	(11,711)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(144,456)</b>	<b>757,720</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>2,429,699</b>	<b>2,065,175</b>
<b>Cash and cash equivalents at end of period</b>	<b>2,285,243</b>	<b>2,822,895</b>

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

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

## Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars)

### Note 1: Significant Accounting Policies

The accompanying unaudited interim consolidated financial statements of The Bank of N.T. Butterfield & Son Limited (the "Bank") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and should be read in conjunction with the Bank's audited financial statements for the year ending 31 December 2010. 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. Consequently, the Bank's results for interim periods are not necessarily indicative of results for the full year.

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

- i. Allowance for credit losses
- ii. Investments
- iii. Impairment of long-lived assets
- iv. Impairment of goodwill
- v. Employee future benefits
- vi. Fair value of financial instruments
- vii. Concentrations of credit risk & customers
- viii. Commitments and contingencies

The following accounting developments were issued during the nine month period ended 30 September 2011:

#### Financing receivables and the allowance for credit losses disclosures

In July 2010, the Financial Accounting Standards Board ("FASB") issued an accounting standards update about additional "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses". The new disclosure guidance significantly expanded the existing requirements and were effective for the Bank on 1 January 2011. The prior period figures for loan disclosures have been reclassified to conform to the current enhanced note disclosures required by the standard. The standard did not affect the Bank's consolidated financial condition or results of operations.

#### Troubled debt restructurings

During March 2011, the FASB issued an accounting standards update, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring" to assist creditors in determining whether a loan modification is a troubled debt restructuring. The additional guidance could result in more loan modifications being classified as troubled debt restructurings. The new guidance is effective for public companies in interim and annual periods beginning on or after 15 June 2011 and must be applied retrospectively to restructurings occurring on or after the beginning of the year. The impact of this additional accounting guidance is expected to be primarily on disclosures.

#### Fair value measurements

In May 2011, the FASB issued accounting standard update, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure requirements in U.S. GAAP and IFRS". The amendments clarify the application of the highest and best use and valuation premise concepts, preclude the application of blockage factors in the valuation of all financial instruments and include criteria for applying the fair value measurement principles to portfolios of financial instruments. The amendments additionally prescribe enhanced financial statement disclosures for Level 3 fair value measurements. The new amendments will be effective on January 1, 2012. The new guidance will require prospective application.

#### Repurchase agreements

During May 2011, the FASB issued an accounting standard update, "Reconsideration of Effective Control for Repurchase Agreements". The amendments in this update remove from the assessment of effective control the criterion relating to the transferor's ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. The amendments in this update also eliminate the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets.

The guidance in this update is effective for the first interim or annual period beginning on or after 15 December 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted.]

#### Other comprehensive income

In June 2011, the FASB issued an accounting standards update, "Presentation of Comprehensive Income" which eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The amendments are effective for fiscal years, and interim periods within those years, beginning after 15 December 2011 and should be applied retrospectively. Early adoption is permitted but the Bank elected not to early adopt. These amendments do not require any transition disclosures. The impact of these amendments is primarily on disclosures on the face of the Consolidated Statement of Operations.

#### Goodwill impairment test

During September 2011, the FASB issued an accounting standards update, "Testing Goodwill for Impairment (the revised standard)" that permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. The update applies is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011. Early adoption is permitted. The Bank is assessing the impact of these amendments.

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

(In thousands of Bermuda dollars)

**Note 2: Change in accounting policy (continued)**

Effective 1 January 2011, the Bank changed its accounting policy with respect to cash and cash equivalents for the purposes of the Consolidated Statement of Cash Flows. The Bank defines cash and cash equivalents to include cash on hand, cash items in the process of collection, amounts due from correspondent banks and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in fair value. Such investments are those with less than three months maturity from the date of acquisition and include unrestricted term deposits, certificates of deposit, treasury bills and securities purchased under agreements to resell. Previously cash and demand deposits with banks only included cash and demand deposits, vault cash and cash in transit for the purposes of the Consolidated Statement of Cash Flows. The Bank believes the new policy is preferable as it more closely reflects the manner in which the Bank manages its liquid assets.

The impact of this voluntary change in accounting policy on the consolidated financial statements since the Bank's adoption of the change in accounting policy is shown in the table below:

	As reported 31 December 2010	Adjustments 31 December 2010	Restated 31 December 2010
<b>Consolidated Balance Sheet</b>			
Cash and demand deposits with banks	325,367	(24,502)	300,865
Cash equivalents			
Term deposits with banks	1,950,179	(1,890)	1,948,289
Certificate of deposits and treasury bills	-	180,545	180,545
Total cash equivalents	1,950,179	178,655	2,128,834
Total cash and cash equivalents	2,275,546	154,153	2,429,699
Short term investments	-	26,392	26,392
Debt and equity securities			
Trading	18,088	-	18,088
Available for sale	2,791,601	(180,545)	2,611,056
Total investments in debt and equity securities	2,809,689	(180,545)	2,629,144

	As reported 30 September 2010	Adjustments 30 September 2010	Restated 30 September 2010
<b>Extract of consolidated cash flow statement</b>			
<b>Cash flows from operating activities</b>			
(Increase) decrease in other assets	(17,269)	18,049	780
Net change in trading account securities	19,554	(18,049)	1,505
<b>Cash flows from investing activities</b>			
Net increase in term deposits with banks	(326,927)	326,927	-
Net decrease in short term investments	-	5,468	5,468
Available for sale securities: proceeds from sale and maturities	5,072,141	(3,280,813)	1,791,328
Available for sale securities: purchases	(4,998,626)	3,952,503	(1,046,123)
Net effect of exchange rates on cash and cash equivalents	268	(11,979)	(11,711)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(234,386)</b>	<b>992,106</b>	<b>757,720</b>
Cash and cash equivalents at beginning of period	551,249	1,513,926	2,065,175
Cash and cash equivalents at end of period	316,863	2,506,032	2,822,895



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

(In thousands of Bermuda dollars)

**Note 3: Cash and Cash Equivalents**

	30 September 2011			31 December 2010		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
<b>Unrestricted</b>						
<b>Non-interest earning</b>						
Cash and demand deposits	102,720	38,962	141,682	118,155	42,895	161,050
<b>Interest earning</b>						
Demand deposits	31	115,362	115,393	44	139,771	139,815
Cash equivalents	583,852	1,444,316	2,028,168	602,135	1,526,699	2,128,834
Sub-total - Interest earning	583,883	1,559,678	2,143,561	602,179	1,666,470	2,268,649
<b>Total cash and cash equivalents</b>	<b>686,603</b>	<b>1,598,640</b>	<b>2,285,243</b>	<b>720,334</b>	<b>1,709,365</b>	<b>2,429,699</b>

**Note 4: Short Term Investments**

	30 September 2011			31 December 2010		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
<b>Unrestricted</b>						
<b>Interest earning</b>						
Term deposits maturing between three to six months	-	-	-	-	392	392
Term deposits maturing between six to twelve months	-	1,267	1,267	-	1,215	1,215
<b>Total unrestricted short term investments</b>	<b>-</b>	<b>1,267</b>	<b>1,267</b>	<b>-</b>	<b>1,607</b>	<b>1,607</b>
<b>Affected by drawing restrictions related to minimum reserve and derivative margin requirements</b>						
<b>Non-interest earning</b>						
Demand deposits	-	12,594	12,594	-	6,156	6,156
<b>Interest earning</b>						
Term deposits maturing within three months	30,783	554	31,337	18,157	472	18,629
<b>Total restricted short term investments</b>	<b>30,783</b>	<b>13,148</b>	<b>43,931</b>	<b>18,157</b>	<b>6,628</b>	<b>24,785</b>
<b>Total short term investments</b>	<b>30,783</b>	<b>14,415</b>	<b>45,198</b>	<b>18,157</b>	<b>8,235</b>	<b>26,392</b>

**Note 5: Investments**

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

	30 September 2011				31 December 2010			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value
<b>Trading</b>								
Debt securities issued by non-US governments	5,830	305	(213)	5,922	6,553	150	(192)	6,511
Equity securities <sup>(1)</sup>	61,981	111	(1,815)	60,277	11,981	273	(677)	11,577
<b>Total trading</b>	<b>67,811</b>	<b>416</b>	<b>(2,028)</b>	<b>66,199</b>	<b>18,534</b>	<b>423</b>	<b>(869)</b>	<b>18,088</b>
<b>Available for sale</b>								
Certificates of deposit	472,114	2,435	(624)	473,925	854,273	4,885	(12)	859,146
US government and federal agencies <sup>(2)</sup>	850,670	16,194	(1,368)	865,496	927,598	398	(10,502)	917,494
Debt securities issued by non-US governments	89,480	1,695	(31)	91,144	131,028	1,675	(11)	132,692
Corporate debt securities guaranteed by non-US governments	123,314	274	(490)	123,098	149,948	76	(304)	149,720
Corporate debt securities	376,886	16	(4,639)	372,263	352,960	14	(5,504)	347,470
Asset-backed securities - Student loans	150,339	-	(4,622)	145,717	152,434	-	(5,623)	146,811
Structured investment vehicles	33,942	-	(5,000)	28,942	62,762	-	(5,116)	57,646
Equity securities	121	-	(51)	70	77	-	-	77
<b>Total available for sale</b>	<b>2,096,866</b>	<b>20,614</b>	<b>(16,825)</b>	<b>2,100,655</b>	<b>2,631,080</b>	<b>7,048</b>	<b>(27,072)</b>	<b>2,611,056</b>

<sup>(1)</sup> The Bank invested \$50 million seed money in the BNY Mellon Butterfield Income Advantage Fund during September 2011.

<sup>(2)</sup> Investment securities with an amortized cost of \$48 million and fair market value of \$48.9 million were pledged to secure repurchase agreements at 30 September 2011.

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

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

(In thousands of Bermuda dollars)

### Note 5: Investments (continued)

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

During the nine months ended 30 September 2011, the Bank disposed of:

- Certificates of deposits totalling \$580.2 million in sale proceeds, resulting in a gross realised gain of \$0.3 million
- US agency securities totalling \$170.0 million in sale proceeds, resulting in a gross realised gain of \$0.9 million.
- Corporate bonds totalling \$68.3 million in sale proceeds, resulting in a gross realised loss of \$0.2 million.

#### Unrealised loss positions

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

30 September 2011	Less than 12 months		12 months or more		Total fair value	Total gross unrealised losses
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses		
<b>Available for sale</b>						
Certificates of deposit	14,376	(624)	-	-	14,376	(624)
US government and federal agencies	159,787	(1,322)	15,735	(46)	175,522	(1,368)
Debt securities issued by non-US governments	2,984	(16)	985	(15)	3,969	(31)
Corporate debt securities guaranteed by non-US governments	-	-	31,696	(490)	31,696	(490)
Corporate debt securities	190,843	(3,120)	124,838	(1,519)	315,681	(4,639)
Asset-backed securities - Student loans	-	-	145,718	(4,622)	145,718	(4,622)
Structured investments vehicles	-	-	28,942	(5,000)	28,942	(5,000)
Equity securities	-	-	70	(51)	70	(51)
<b>Total available for sale securities with unrealised losses</b>	<b>367,990</b>	<b>(5,082)</b>	<b>347,984</b>	<b>(11,743)</b>	<b>715,974</b>	<b>(16,825)</b>
31 December 2010	Less than 12 months		12 months or more			
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses	Total fair value	Total gross unrealised losses
<b>Available for sale</b>						
Certificates of deposit	128,619	(12)	-	-	128,619	(12)
US government and federal agencies	775,157	(10,459)	23,337	(43)	798,494	(10,502)
Debt securities issued by non-US governments	3,239	(11)	-	-	3,239	(11)
Corporate debt securities guaranteed by non-US governments	108,611	(304)	-	-	108,611	(304)
Corporate debt securities	8,075	(46)	322,995	(5,458)	331,070	(5,504)
Asset-backed securities - Student loans	-	-	146,811	(5,623)	146,811	(5,623)
Structured investments vehicles	33,304	(2,589)	24,342	(2,527)	57,646	(5,116)
<b>Total available for sale securities with unrealised losses</b>	<b>1,057,005</b>	<b>(13,421)</b>	<b>517,485</b>	<b>(13,651)</b>	<b>1,574,490</b>	<b>(27,072)</b>

The following is a description of the Bank's main investments.

#### Certificates of deposit

As of 30 September 2011, gross unrealised losses on the Bank's holdings of certificates of deposit (CDs) were \$0.6 million, all of which related to CDs that have been in an unrealised loss position for less than 12 months. Management assesses the credit quality of the issuers, which includes assessments of credit ratings (the Bank only purchases CDs that are rated investment grade or above) and credit worthiness of the issuer and concluded that the CDs do not have any credit losses.

#### US government and federal agencies

As of 30 September 2011, gross unrealised losses on securities related to United States ("US") government and federal agencies were \$1.4 million, \$0.05 million of which related to investments that were in an unrealised loss position for longer than 12 months. Overall, Management believes that all the securities in this class do not have any credit losses, given the explicit and implicit guarantees provided by the US federal government.

#### Debt securities issued by non-US governments

As of 30 September 2011, gross unrealised losses on debt securities issued by non-US governments were \$0.03 million, \$0.02 million of which related to investments that were in an unrealised loss position for greater than 12 months. All securities in this category were issued by governments of Caribbean jurisdictions. These securities do not have any credit losses, given the explicit guarantees provided by the non-US governments.

#### Corporate debt securities guaranteed by non-US governments

As of 30 September 2011, gross unrealised losses related to corporate debt securities guaranteed by non-US governments were \$0.5 million, all of which related to investments that were in an unrealised loss position for less than 12 months. All the bank issued securities acquired are explicitly guaranteed by the following governments: United Kingdom, Netherlands, Australia, Denmark and Germany. One security is jointly and explicitly guaranteed by three European Governments, Belgium, France and Luxembourg. These securities do not have any credit losses, given the guarantees provided by the non-US governments.





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

(In thousands of Bermuda dollars)

**Note 6: Loans (continued)**

Loan allowances	30 September 2011					31 December 2010
	Commercial loans	Commercial real estate loans	Consumer loans	Residential mortgage loans	Total loans	Total loans
Allowances at beginning of period	8,166	28,813	10,878	18,918	66,775	130,317
Provision taken during the period	1,815	1,028	2,900	4,528	10,271	41,970
Recoveries	517	634	2,263	17	3,431	2,456
Charge-offs	(1,386)	-	(5,333)	(1,339)	(8,058)	(107,935)
Other	(382)	(629)	(1,804)	2,948	133	(33)
<b>Allowances at end of period</b>	<b>8,730</b>	<b>29,846</b>	<b>8,904</b>	<b>25,072</b>	<b>72,552</b>	<b>66,775</b>
Ending Balance: individually evaluated for impairment	2,258	24,341	423	10,183	37,205	30,312
Ending Balance: collectively evaluated for impairment	6,472	5,505	8,481	14,889	35,347	36,463

30 September 2011	Non accrual loans with an allowance					
	Non delinquent	30 – 90 days past due	90 days past due	Gross recorded investments	Specific allowance	Net recorded investments
<b>Commercial loans</b>						
Commercial and industrial	13	150	2,766	2,929	(1,646)	1,283
Commercial overdrafts	-	-	612	612	(612)	-
<b>Total commercial loans</b>	<b>13</b>	<b>150</b>	<b>3,378</b>	<b>3,541</b>	<b>(2,258)</b>	<b>1,283</b>
<b>Commercial real estate loans</b>	<b>-</b>	<b>-</b>	<b>79,022</b>	<b>79,022</b>	<b>(24,341)</b>	<b>54,681</b>
<b>Consumer loans</b>						
Overdrafts	-	-	243	243	(75)	168
Other consumer	-	-	911	911	(348)	563
<b>Total consumer loans</b>	<b>-</b>	<b>-</b>	<b>1,154</b>	<b>1,154</b>	<b>(423)</b>	<b>731</b>
<b>Residential mortgage loans</b>	<b>3,621</b>	<b>4,968</b>	<b>18,379</b>	<b>26,968</b>	<b>(10,183)</b>	<b>16,785</b>
<b>Total loans with an allowance</b>	<b>3,634</b>	<b>5,118</b>	<b>101,933</b>	<b>110,685</b>	<b>(37,205)</b>	<b>73,480</b>
	<b>Non accrual loans without an allowance</b>					
<b>Commercial loans</b>						
Commercial and industrial	39	32	4,028	4,099	-	4,099
Commercial overdrafts	2,436	-	2,428	4,864	-	4,864
<b>Total commercial loans</b>	<b>2,475</b>	<b>32</b>	<b>6,456</b>	<b>8,963</b>	<b>-</b>	<b>8,963</b>
<b>Commercial real estate loans</b>	<b>-</b>	<b>1,830</b>	<b>2,104</b>	<b>3,934</b>	<b>-</b>	<b>3,934</b>
<b>Consumer loans</b>						
Automobile financing	70	308	467	845	-	845
Overdrafts	-	-	67	67	-	67
Other consumer	104	174	1,605	1,883	-	1,883
<b>Total consumer loans</b>	<b>174</b>	<b>482</b>	<b>2,139</b>	<b>2,795</b>	<b>-</b>	<b>2,795</b>
<b>Residential mortgage loans</b>	<b>7,704</b>	<b>2,983</b>	<b>10,517</b>	<b>21,204</b>	<b>-</b>	<b>21,204</b>
<b>Total loans without an allowance</b>	<b>10,353</b>	<b>5,327</b>	<b>21,216</b>	<b>36,896</b>	<b>-</b>	<b>36,896</b>
<b>Total impaired loans</b>	<b>13,987</b>	<b>10,445</b>	<b>123,149</b>	<b>147,581</b>	<b>(37,205)</b>	<b>110,376</b>

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

(In thousands of Bermuda dollars)

**Note 6: Loans (continued)**

31 December 2010

	Non delinquent	30 – 90 days past due	90 days past due	Non accrual loans Gross non accrual loans	Specific allowance	Net non accrual loans
Commercial loans						
Commercial and industrial	-	-	5,364	5,364	(2,002)	3,362
Commercial overdrafts	-	22	8,855	8,877	(57)	8,820
<b>Total commercial loans</b>	-	22	14,219	14,241	(2,059)	12,182
Commercial real estate loans						
Commercial mortgage	-	2,151	88,476	90,627	(21,300)	69,327
<b>Total commercial real estate loans</b>	-	2,151	88,476	90,627	(21,300)	69,327
Consumer loans						
Automobile financing	130	519	340	989	-	989
Overdrafts	-	-	556	556	-	556
Other consumer	164	843	6,483	7,490	(2,387)	5,103
<b>Total consumer loans</b>	294	1,362	7,379	9,035	(2,387)	6,648
Residential mortgage loans	2,483	10,870	32,245	45,598	(4,566)	41,032
<b>Total loans</b>	<b>2,777</b>	<b>14,405</b>	<b>142,319</b>	<b>159,501</b>	<b>(30,312)</b>	<b>129,189</b>

For the nine month period ended

**30 September 2011**      30 September 2010

Gross interest income would have been recorded had impaired loans been current	<b>5,784</b>	8,864
Average non accrual recorded investments	<b>153,542</b>	143,489

The table below presents information about the loan delinquencies:

	30 September 2011				31 December 2010		
	30 – 59 days	60 – 89 days	90 days or more	Total delinquent loans	Loans past due 90 days and still accruing interest	Total delinquent loans	Loans past due 90 days and still accruing interest
Commercial loans							
Commercial and industrial	1,341	1,265	6,794	9,400	-	6,788	-
Commercial overdrafts	9	1	3,040	3,050	-	8,909	-
<b>Total commercial loans</b>	<b>1,350</b>	<b>1,266</b>	<b>9,834</b>	<b>12,450</b>	-	<b>15,697</b>	-
Commercial real estate loans							
Commercial mortgage	3,778	1,830	81,126	86,734	-	91,546	-
Construction	-	-	-	-	-	8,068	-
<b>Total commercial real estate loans</b>	<b>3,778</b>	<b>1,830</b>	<b>81,126</b>	<b>86,734</b>	-	<b>99,614</b>	-
Consumer loans							
Automobile financing	839	494	710	2,043	-	859	-
Credit card	2,760	1,159	1,070	4,989	1,070	4,779	659
Overdrafts	21	6	67	94	-	574	-
Other consumer	3,605	2,438	2,516	8,559	-	9,994	-
<b>Total consumer loans</b>	<b>7,225</b>	<b>4,097</b>	<b>4,363</b>	<b>15,685</b>	<b>1,070</b>	<b>16,206</b>	<b>659</b>
Residential mortgage loans	67,924	20,945	50,220	139,089	21,324	93,857	29,631
<b>Total loans</b>	<b>80,277</b>	<b>28,138</b>	<b>145,543</b>	<b>253,958</b>	<b>22,394</b>	<b>225,374</b>	<b>30,290</b>

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

(In thousands of Bermuda dollars)

**Note 6: Loans (continued)**

	Pass	Special Mention	Substandard	Non Accrual	Total
<b>30 September 2011</b>					
<b>Commercial loans</b>					
Banks	25	-	-	-	25
Government	236,668	5	-	-	236,673
Commercial and industrial	345,551	15,310	3,661	7,028	371,550
Commercial overdrafts	63,799	6,709	1,286	5,476	77,270
<b>Total commercial loans</b>	<b>646,043</b>	<b>22,024</b>	<b>4,947</b>	<b>12,504</b>	<b>685,518</b>
<b>Commercial real estate loans</b>					
Commercial mortgage	616,506	82,651	54,397	82,956	836,510
Construction	50,793	2,997	-	-	53,790
<b>Total commercial real estate loans</b>	<b>667,299</b>	<b>85,648</b>	<b>54,397</b>	<b>82,956</b>	<b>890,300</b>
<b>Consumer loans</b>					
Automobile financing	31,372	99	91	1,088	32,650
Credit card	81,837	-	1,070	-	82,907
Overdrafts	12,287	85	94	67	12,533
Other consumer	235,278	7,678	321	2,794	246,071
<b>Total consumer loans</b>	<b>360,774</b>	<b>7,862</b>	<b>1,576</b>	<b>3,949</b>	<b>374,161</b>
<b>Residential mortgage loans</b>	<b>2,235,684</b>	<b>79,266</b>	<b>15,054</b>	<b>48,172</b>	<b>2,378,176</b>
<b>Total loans</b>	<b>3,909,800</b>	<b>194,800</b>	<b>75,974</b>	<b>147,581</b>	<b>4,328,155</b>
<b>31 December 2010</b>					
<b>Commercial loans</b>					
Banks	357	-	-	-	357
Government	66,104	-	-	-	66,104
Commercial and industrial	421,306	12,929	790	5,364	440,389
Commercial overdrafts	58,704	8,311	338	8,877	76,230
<b>Total commercial loans</b>	<b>546,471</b>	<b>21,240</b>	<b>1,128</b>	<b>14,241</b>	<b>583,080</b>
<b>Commercial real estate loans</b>					
Commercial mortgage	743,221	90,034	10,827	90,627	934,709
Construction	40,549	16,591	-	-	57,140
<b>Total commercial real estate loans</b>	<b>783,770</b>	<b>106,625</b>	<b>10,827</b>	<b>90,627</b>	<b>991,849</b>
<b>Consumer loans</b>					
Automobile financing	42,095	159	78	989	43,321
Credit card	83,079	-	538	-	83,617
Overdrafts	9,286	437	131	556	10,410
Other consumer	215,088	11,375	79	7,490	234,032
<b>Total consumer loans</b>	<b>349,548</b>	<b>11,971</b>	<b>826</b>	<b>9,035</b>	<b>371,380</b>
<b>Residential mortgage loans</b>	<b>2,045,368</b>	<b>64,077</b>	<b>8,783</b>	<b>45,598</b>	<b>2,163,826</b>
<b>Total loans</b>	<b>3,725,157</b>	<b>203,913</b>	<b>21,564</b>	<b>159,501</b>	<b>4,110,135</b>

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

**Quality classification definitions**

Pass:

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

Special Mention:

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

Substandard:

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

Non Accrual:

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

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

(In thousands of Bermuda dollars)

**Note 7: Credit Risk Concentrations**

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

The following table summarises the credit exposure of the Bank by business sector:

	30 September 2011			31 December 2010		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Banks and financial services	139,320	444,588	583,908	355,215	423,295	778,510
Commercial and merchandising	662,027	223,219	885,246	439,429	250,927	690,356
Governments	236,913	-	236,913	68,250	-	68,250
Individuals	2,260,049	125,906	2,385,955	2,218,136	59,979	2,278,115
Primary industry and manufacturing	92,304	21,575	113,879	70,212	42,376	112,588
Real estate	758,425	20,162	778,587	789,155	25,960	815,115
Hospitality industry	128,652	100	128,752	128,724	2,804	131,528
Transport and communication	13,260	-	13,260	10,702	200	10,902
Sub-total	4,290,950	835,550	5,126,500	4,079,823	805,541	4,885,364
General allowance	(35,347)	-	(35,347)	(36,463)	-	(36,463)
<b>Total</b>	<b>4,255,603</b>	<b>835,550</b>	<b>5,091,153</b>	<b>4,043,360</b>	<b>805,541</b>	<b>4,848,901</b>

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

	30 September 2011			31 December 2010		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Bermuda	2,465,751	386,315	2,852,066	2,477,937	441,485	2,919,422
Barbados	181,664	10,842	192,506	188,938	8,127	197,065
Cayman	752,639	214,160	966,799	595,425	227,023	822,448
Guernsey	448,932	161,673	610,605	332,827	106,556	439,383
The Bahamas	4,749	57	4,806	69,321	1,734	71,055
United Kingdom	437,215	62,503	499,718	415,375	20,616	435,991
Sub-total	4,290,950	835,550	5,126,500	4,079,823	805,541	4,885,364
General allowance	(35,347)	-	(35,347)	(36,463)	-	(36,463)
<b>Total</b>	<b>4,255,603</b>	<b>835,550</b>	<b>5,091,153</b>	<b>4,043,360</b>	<b>805,541</b>	<b>4,848,901</b>

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

a) By Maturity

	30 September 2011			31 December 2010		
	Customers	Banks	Total	Customers	Banks	Total
<b>Demand deposits</b>						
Demand deposits - Non-interest bearing	990,683	-	990,683	977,417	-	977,417
Demand deposits - Interest bearing	4,488,732	17,757	4,506,489	4,558,249	10,793	4,569,042
<b>Sub-total - demand deposits</b>	<b>5,479,415</b>	<b>17,757</b>	<b>5,497,172</b>	<b>5,535,666</b>	<b>10,793</b>	<b>5,546,459</b>
<b>Term deposits</b>						
Term deposits maturing within six months	2,063,650	49,320	2,112,970	2,353,217	64,133	2,417,350
Term deposits maturing between six to twelve months	180,954	915	181,869	132,359	4,753	137,112
Term deposits maturing after twelve months	117,435	121	117,556	127,138	-	127,138
<b>Sub-total - term deposits</b>	<b>2,362,039</b>	<b>50,356</b>	<b>2,412,395</b>	<b>2,612,714</b>	<b>68,886</b>	<b>2,681,600</b>
<b>Total</b>	<b>7,841,454</b>	<b>68,113</b>	<b>7,909,567</b>	<b>8,148,380</b>	<b>79,679</b>	<b>8,228,059</b>



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

(In thousands of Bermuda dollars)

**Note 8: Customer Deposits and Deposits from Banks (continued)**

b) By Type and Location

	30 September 2011			31 December 2010		
	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
<b>Bermuda</b>						
Customers	2,348,180	1,035,702	3,383,882	2,458,003	1,146,796	3,604,799
Banks	697	41,945	42,642	-	44,988	44,988
<b>Barbados</b>						
Customers	177,426	93,055	270,481	159,255	80,686	239,941
<b>Cayman</b>						
Customers	1,228,454	496,050	1,724,504	1,348,636	432,140	1,780,776
Banks	10,010	8,075	18,085	8,587	22,387	30,974
<b>Guernsey</b>						
Customers	1,277,910	316,461	1,594,371	1,010,897	450,895	1,461,792
Banks	7,050	-	7,050	1,516	-	1,516
<b>The Bahamas</b>						
Customers	55,793	6,825	62,618	84,357	37,606	121,963
<b>United Kingdom</b>						
Customers	391,652	413,946	805,598	474,518	464,591	939,109
Banks	-	336	336	690	1,511	2,201
<b>Total Customers</b>	<b>5,479,415</b>	<b>2,362,039</b>	<b>7,841,454</b>	<b>5,535,666</b>	<b>2,612,714</b>	<b>8,148,380</b>
<b>Total Banks</b>	<b>17,757</b>	<b>50,356</b>	<b>68,113</b>	<b>10,793</b>	<b>68,886</b>	<b>79,679</b>
<b>Total</b>	<b>5,497,172</b>	<b>2,412,395</b>	<b>7,909,567</b>	<b>5,546,459</b>	<b>2,681,600</b>	<b>8,228,059</b>

**Note 9: Repurchase Transaction**

Securities sold under agreements to repurchase of \$46.3 million at 30 September 2011 mature within 12 days from the transaction date and represent a U.S. Government Agency security with a fair value of \$48.9 million at 30 September 2011. The weighted average interest rate on these agreements was 0.23% at 30 September 2011. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities.

**Note 10: Employee Future Benefits**

The Bank maintains trustee pension plans including non-contributory defined benefit plans and a number of defined contribution plans, and provides post-retirement medical benefits to its qualifying retirees. The defined benefit provisions under the pension plans are generally based upon years of service and average salary during the final years of employment. The defined benefit 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 benefits:

	For the three month period ended		For the nine month period ended	
	30 September 2011	30 September 2010	30 September 2011	30 September 2010
<b>Defined benefit pension expense</b>				
Service cost	758	574	2,104	1,802
Interest cost	1,996	2,185	5,661	5,726
Expected return on plan assets	(2,469)	(2,392)	(6,978)	(6,635)
Amortisation of net actuarial loss	1,005	1,104	3,017	2,670
<b>Total defined benefit pension expense</b>	<b>1,290</b>	<b>1,471</b>	<b>3,804</b>	<b>3,563</b>
<b>Post-retirement medical benefit expense</b>				
Service cost	185	366	555	2,504
Interest cost	1,107	2,226	3,321	6,620
Amortisation of past service cost	(1,539)	-	(4,618)	-
Amortisation of net actuarial loss (gain)	233	(2,668)	701	(1,509)
<b>Total post-retirement medical benefit expense</b>	<b>(14)</b>	<b>(76)</b>	<b>(41)</b>	<b>7,615</b>

Estimated Bank contributions to the defined benefit pension plans and post-retirement medical benefit plans for the 2011 financial year are \$4.6 million and \$2.7 million respectively.

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

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

(In thousands of Bermuda dollars)

### Note 11: Credit Related Arrangements and Commitments

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, while 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 with contractual amounts representing credit risk as follows:

	30 September 2011			31 December 2010		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	357,566	335,109	22,457	386,728	354,310	32,418
Letters of guarantee	11,798	1,966	9,832	14,115	8,655	5,460
<b>Total</b>	<b>369,364</b>	<b>337,075</b>	<b>32,289</b>	<b>400,843</b>	<b>362,965</b>	<b>37,878</b>

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

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

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

	30 September 2011	31 December 2010
Commitments to extend credit	464,258	402,567
Documentary and commercial letters of credit	1,928	2,131
<b>Total</b>	<b>466,186</b>	<b>404,698</b>

The Bank has a facility by one of its custodians, whereby the Bank may offer up to US\$200 million of standby letters of credit to its customers on a fully secured basis. Under the standard terms of the facility, the custodian has the right to set-off against securities held of 110% of the utilised facility. At 30 September 2011, \$167.4 million (2010: \$166.5 million) of standby letters of credit were issued under this facility.

### Legal Proceedings

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

### Note 12: Segmented Information

#### Total Assets by Segment

	30 September 2011	31 December 2010
Bermuda	4,661,537	5,192,585
Barbados	305,005	273,797
Cayman	1,961,424	2,036,512
Guernsey	1,750,039	1,617,976
Switzerland	1,370	1,191
The Bahamas	81,355	146,069
United Kingdom	1,009,246	1,104,946
	<b>9,769,976</b>	<b>10,373,076</b>
Less: inter-segment eliminations	(526,738)	(750,016)
<b>Total</b>	<b>9,243,238</b>	<b>9,623,060</b>

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

(In thousands of Bermuda dollars)

**Note 12: Segmented Information (continued)**

For the three month period  
ended 30 September 2011

	Net interest income		Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expense	Net income (loss) before gains and losses	Gains and losses	Net income (loss)
	Customer	Inter-segment							
<b>Bermuda</b>	33,481	196	(2,032)	15,904	47,549	42,270	5,279	2,346	7,625
Barbados	2,906	-	(549)	647	3,004	3,117	(113)	8	(105)
Cayman	9,361	139	(1,236)	7,415	15,679	14,044	1,635	1,573	3,208
Guernsey	5,463	2	-	5,292	10,757	7,696	3,061	(31)	3,030
Switzerland	-	-	-	141	141	520	(379)	-	(379)
The Bahamas	37	114	-	1,289	1,440	1,323	117	1	118
United Kingdom	3,712	(451)	(10)	2,591	5,842	5,589	253	(42)	211
<b>Sub-total overseas</b>	21,479	(196)	(1,795)	17,375	36,863	32,289	4,574	1,509	6,083
<b>Total before eliminations</b>	54,960	-	(3,827)	33,279	84,412	74,559	9,853	3,855	13,708
Less: inter-segment eliminations	-	-	-	(194)	(194)	(194)	-	(2,475)	(2,475)
<b>Total</b>	54,960	-	(3,827)	33,085	84,218	74,365	9,853	1,380	11,233

For the three month period  
ended 30 September 2010

	Net interest income		Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expense	Net income (loss) before gains and losses	Gains and losses	Net income (loss)
	Customer	Inter-segment							
<b>Bermuda</b>	29,153	(5)	(13,364)	16,264	32,048	45,959	(13,911)	(196)	(14,107)
Barbados	3,459	-	(330)	708	3,837	3,287	550	19	569
Cayman	6,843	528	(139)	8,455	15,687	12,962	2,725	4	2,729
Guernsey	3,216	(35)	-	5,737	8,918	7,471	1,447	(17)	1,430
Hong Kong *	-	-	-	201	201	196	5	(3,636)	(3,631)
Malta *	1	-	-	123	124	145	(21)	(3,789)	(3,810)
Switzerland	-	-	-	92	92	509	(417)	-	(417)
The Bahamas	606	15	-	1,242	1,863	1,728	135	-	135
United Kingdom	2,948	(503)	(2,281)	2,204	2,368	3,904	(1,536)	-	(1,536)
<b>Sub-total overseas</b>	17,073	5	(2,750)	18,762	33,090	30,202	2,888	(7,419)	(4,531)
<b>Total before eliminations</b>	46,226	-	(16,114)	35,026	65,138	76,161	(11,023)	(7,615)	(18,638)
Less: inter-segment eliminations	-	-	-	(1,008)	(1,008)	(1,008)	-	-	-
<b>Total</b>	46,226	-	(16,114)	34,018	64,130	75,153	(11,023)	(7,615)	(18,638)

\* Disposed of the subsidiaries on 8 September 2010 disclosed in the 2010 annual financial statements.

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

(In thousands of Bermuda dollars)

**Note 12: Segmented Information (continued)**

For the nine month period  
ended 30 September 2011

	Net interest income		Provision for credit losses	Non- interest income	Revenue before gains and losses	Total expense	Net income (loss) before gains and losses	Gains and losses	Net income (loss)
	Customer	Inter- segment							
<b>Bermuda</b>	99,200	556	(6,960)	48,345	141,141	127,863	13,278	4,414	17,692
Barbados	8,625	-	(467)	2,237	10,395	9,544	851	20	871
Cayman	27,139	562	(2,456)	22,736	47,981	40,824	7,157	1,574	8,731
Guernsey	12,694	(19)	-	16,443	29,118	22,802	6,316	244	6,560
Switzerland	1	-	-	448	449	1,545	(1,096)	-	(1,096)
The Bahamas	998	160	(133)	3,883	4,908	3,984	924	3	927
United Kingdom	10,493	(1,259)	(254)	8,141	17,121	16,640	481	(17)	464
<b>Sub-total overseas</b>	59,950	(556)	(3,310)	53,888	109,972	95,339	14,633	1,824	16,457
<b>Total before eliminations</b>	159,150	-	(10,270)	102,233	251,113	223,202	27,911	6,238	34,149
Less: inter-segment eliminations	-	-	-	(2,647)	(2,647)	(2,647)	-	(2,750)	(2,750)
<b>Total</b>	159,150	-	(10,270)	99,586	248,466	220,555	27,911	3,488	31,399

For the nine month period  
ended 30 September 2010

	Net interest income		Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expense	Net income (loss) before gains	Gains and losses	Net income (loss)
	Customer	Inter- segment							
<b>Bermuda</b>	82,650	(158)	(17,464)	55,108	120,136	149,066	(28,930)	(146,840)	(175,770)
Barbados	9,922	(4)	(1,388)	2,140	10,670	10,002	668	(149)	519
Cayman	19,492	1,701	(3,186)	26,296	44,303	39,452	4,851	(11,602)	(6,751)
Guernsey	9,365	(91)	-	17,594	26,868	20,875	5,993	(1,467)	4,526
Hong Kong *	1	-	-	2,106	2,107	1,720	387	(3,636)	(3,249)
Malta *	5	-	-	880	885	856	29	(3,789)	(3,760)
Switzerland	1	-	-	280	281	1,580	(1,299)	-	(1,299)
The Bahamas	1,717	38	-	3,899	5,654	5,407	247	-	247
United Kingdom	8,617	(1,486)	(2,739)	7,567	11,959	11,156	803	(10,075)	(9,272)
<b>Sub-total overseas</b>	49,120	158	(7,313)	60,762	102,727	91,048	11,679	(30,718)	(19,039)
<b>Total before eliminations</b>	131,770	-	(24,777)	115,870	222,863	240,114	(17,251)	(177,558)	(194,809)
Less: inter-segment eliminations	-	-	-	(3,673)	(3,673)	(3,673)	-	-	-
<b>Total</b>	131,770	-	(24,777)	112,197	219,190	236,441	(17,251)	(177,558)	(194,809)

\* Disposed of the subsidiaries on 8 September 2010 disclosed in the 2010 annual financial statements.

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

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

(In thousands of Bermuda dollars)

### Note 13: Accounting for Derivative Instruments and Risk Management

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

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

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

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

#### Notional amounts

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

#### Fair value

Derivative instruments, in the absence of any compensating up-front cash payments, generally have no market value at inception. They obtain value, positive or negative, as relevant interest rates, exchange rates, equity or commodity prices or indices change, such that previously contracted derivative transactions have become more or less favourable than what can be negotiated under current market conditions for contracts with the same remaining period to maturity. The potential for derivatives to increase or decrease in value as a result of the foregoing factors is generally referred to as market risk. Market risk is managed within clearly defined parameters as prescribed by senior management of the Bank. The fair value is defined as the profit or loss associated with replacing the derivative contracts at prevailing market prices.

#### Risk management derivatives

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

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

#### Fair value hedges

Derivatives are designated as fair value hedges to minimise the Bank's exposure to changes in the fair value of assets and liabilities due to movements in interest rates. The Bank enters into interest rate swaps to convert its fixed-rate long-term loans to floating-rate loans, and convert fixed-rate deposits to floating-rate deposits. Changes in fair value of these derivatives are recognised in income. For fair value hedges, the Bank applies the "shortcut" method of accounting, which assumes there is no ineffectiveness in a hedge. As a result, changes recorded in the fair value of the hedged item are equal to the offsetting gain or loss on the derivative and are reflected in the same line item. During the six months ended 30 June 2011, the Bank cancelled their Interest Rate Swaps designated as fair value hedges of loans receivable and therefore discontinued hedge accounting for these financial instruments. The fair value attributable to the hedged loans are accounted for prospectively and will be amortised to net income over the remaining life of each individual loan using the effective interest method.

#### Cash flow hedges

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

As of 30 September 2011 and 2010 there were no cash flow hedges in place and there were no deferred net gains or losses on derivative instruments accumulated in other comprehensive income in relation with cash flow hedges.

#### Derivatives not formally designated as hedges

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

#### Client service derivatives

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

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

(In thousands of Bermuda dollars)

**Note 13: Accounting for Derivative Instruments and Risk Management (continued)**

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

30 September 2011	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
<b>Risk management derivatives</b>					
Fair value hedges					
Fixed rate loans	Interest rate swaps	11,519	-	(301)	(301)
Customer Deposits	Interest rate swaps	34,371	58	-	58
Subtotal fair value hedges		45,890	58	(301)	(243)
Not designated as hedging instruments					
	Interest rate swaps	305,447	252	(205)	47
	Currency swaps	357,264	5,759	(624)	5,135
Subtotal not designated as hedges		662,711	6,011	(829)	5,182
<b>Subtotal risk management derivatives</b>		<b>708,601</b>	<b>6,069</b>	<b>(1,130)</b>	<b>4,939</b>
<b>Client services derivatives</b>					
	Spot and forward foreign exchange	5,827,201	92,726	(92,481)	245
	Interest rate caps	37,495	167	(167)	-
Subtotal client services derivatives		5,864,696	92,893	(92,648)	245
<b>Total derivative instruments</b>		<b>6,573,297</b>	<b>98,962</b>	<b>(93,778)</b>	<b>5,184</b>
31 December 2010	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
<b>Risk management derivatives</b>					
Fair value hedges					
Fixed rate loans	Interest rate swaps	175,858	47	(17,151)	(17,104)
Investments	Interest rate swaps	34,316	228	-	228
Customer deposits	Interest rate swaps	5,447	-	(26)	(26)
Subtotal fair value hedges		215,621	275	(17,177)	(16,902)
Not designated as hedging instruments					
	Interest rate swaps	360,000	1,481	(555)	926
	Currency swaps	264,843	4,028	(1)	4,027
Subtotal not designated as hedges		624,843	5,509	(556)	4,953
<b>Subtotal risk management derivatives</b>		<b>840,464</b>	<b>5,784</b>	<b>(17,733)</b>	<b>(11,949)</b>
<b>Client services derivatives</b>					
	Spot and forward foreign exchange	4,842,989	39,774	(39,755)	19
	Interest rate caps	37,435	389	(389)	-
Subtotal client services derivatives		4,880,424	40,163	(40,144)	19
<b>Total derivative instruments</b>		<b>5,720,888</b>	<b>45,947</b>	<b>(57,877)</b>	<b>(11,930)</b>

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

Derivative Instrument	Consolidated Statement of Operations line item	For the three month period ended		For the nine month period ended	
		30 September 2011	30 September 2010	30 September 2011	30 September 2010
Interest rate swaps	Net other gains (losses)	(12)	(65)	(444)	1,045
Forward foreign exchange	Foreign exchange revenue	596	595	1,604	1,138
<b>Total net gains recognised in net income (loss)</b>		<b>584</b>	<b>530</b>	<b>1,160</b>	<b>2,183</b>

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

(In thousands of Bermuda dollars)

**Note 14: Fair Value of Financial Instruments**

The following table presents the financial assets and liabilities that are measured at fair value on a recurring basis and classifies such fair value based on the type of input used in the related valuations as described in 2010 annual financial statements.

The carrying amount of cash and demand deposits with banks, being short term in nature, is deemed to equate to the fair value. Cash equivalents include unrestricted term deposits and certificates of deposits with a maturity of less than 90 days from the date of acquisition and the carrying value at cost is considered to approximate fair value because they are short-term in nature, bear interest rates that approximate market rates, and generally have negligible credit risk.

Management classifies items that are recognised at fair value on a recurring basis based on the Level of Inputs used in their respective fair value determination as described in 2010 annual financial statements.

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

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

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

Items that are recognised at fair value on a recurring basis	30 September 2011				31 December 2010			
	Fair value			Total carrying amount / Fair value	Fair value			Total carrying amount / Fair value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
<b>Financial assets</b>								
Debt and equity securities								
Trading								
Debt securities issued by non-US governments	-	5,922	-	5,922	-	6,511	-	6,511
Equity securities	58,819	1,458	-	60,277	10,021	1,556	-	11,577
<b>Total Trading</b>	<b>58,819</b>	<b>7,380</b>	<b>-</b>	<b>66,199</b>	<b>10,021</b>	<b>8,067</b>	<b>-</b>	<b>18,088</b>
Available for sale								
Certificates of deposit	-	473,925	-	473,925	-	859,146	-	859,146
US government and federal agencies	-	865,496	-	865,496	-	917,494	-	917,494
Debt securities issued by non-US governments	-	91,144	-	91,144	-	132,692	-	132,692
Corporate debt securities guaranteed by non-US governments	-	123,098	-	123,098	-	149,720	-	149,720
Corporate debt securities	-	372,263	-	372,263	-	347,470	-	347,470
Asset-backed securities - Student loans	-	133,756	11,961	145,717	-	135,632	11,179	146,811
Structured investments vehicles	-	-	28,942	28,942	-	24,342	33,304	57,646
Equity securities	-	70	-	70	-	77	-	77
<b>Total Available for sale</b>	<b>-</b>	<b>2,059,752</b>	<b>40,903</b>	<b>2,100,655</b>	<b>-</b>	<b>2,566,573</b>	<b>44,483</b>	<b>2,611,056</b>
Other assets - Closed ended real estate fund	-	-	5,488	5,488	-	-	9,044	9,044
Other assets - Derivatives	-	98,962	-	98,962	-	45,947	-	45,947
<b>Financial liabilities</b>								
Other liabilities - Derivatives	-	93,778	-	93,776	-	57,877	-	57,877

Transfers of securities	30 September 2011		31 December 2010	
	Trading investments	Available for sale investments	Trading investments	Available for sale investments
Transfers in and (out) of Level 1	-	-	-	-
Transfers in and (out) of Level 2	-	-	-	1,002,803

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

(In thousands of Bermuda dollars)

**Note 14: Fair Value of Financial Instruments (continued)**

Level 3 reconciliation	30 September 2011			31 December 2010		Closed ended property fund
	Trading investments	Available for sale investments	Closed ended property fund	Trading investments	Available for sale investments	
Carrying amount at beginning of period	-	44,483	9,044	296	382,452	8,307
Purchases	-	290	1,185	151	-	-
Proceeds from sale / Capital distributions	-	(3,283)	(3,765)	(447)	(103,064)	-
Realised and unrealised losses recognised in net income	-	1,332	-	-	(3,245)	1,020
Realised and unrealised losses recognised in other comprehensive income	-	(1,919)	(1,036)	-	(137,093)	-
Transfers in and out of Level 3	-	-	-	-	(94,567)	-
Foreign exchange translation adjustment	-	-	60	-	-	(283)
<b>Carrying amount at end of period</b>	<b>-</b>	<b>40,903</b>	<b>5,488</b>	<b>-</b>	<b>44,483</b>	<b>9,044</b>

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

	30 September 2011			31 December 2010		
	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
<b>Financial assets</b>						
Cash and cash equivalents	2,285,243	2,285,243	-	2,429,699	2,429,699	-
Short term investments	45,198	45,198	-	26,392	26,392	-
Investments held to maturity	-	-	-	-	-	-
Loans, net of allowance for credit losses	4,255,603	4,255,603	-	4,043,360	4,043,360	-
<b>Financial liabilities</b>						
Customer deposits						
Demand deposits	5,479,415	5,479,415	-	5,535,666	5,535,666	-
Term deposits	2,362,039	2,367,199	(5,160)	2,612,714	2,621,188	(8,474)
Deposits from banks	68,113	68,113	-	79,679	79,679	-
Subordinated capital	267,812	227,793	40,019	282,799	244,606	38,193

**Note 15: Interest Rate Risk**

The following table sets out the assets, liabilities and shareholders' equity and off-balance sheet instruments on the date of the earlier of contractual maturity, expected maturity or repricing date. Use of this table to derive information about the Bank's interest rate risk position is limited by the fact that customers may choose to terminate their financial instruments at a date earlier than the contractual maturity or repricing date. Examples of this include fixed-rate mortgages, which are shown at contractual maturity but which may pre-pay earlier, and certain term deposits, which are shown at contractual maturity but which may be withdrawn before their contractual maturity. Investments are shown based on expected duration which the Bank believes is more representative of maturity date than actual contractual maturity.



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

(In thousands of Bermuda dollars)

**Note 15: Interest Rate Risk (continued)**

	Earlier of maturity or repricing date						
30 September 2011	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
<b>(in \$ millions)</b>							
<b>Assets</b>							
Cash and cash equivalents	2,143	-	-	-	-	142	2,285
Short term investments	31	-	1	-	-	13	45
Investments	493	137	257	1,106	114	60	2,167
Loans	3,882	30	39	99	96	110	4,256
Premises, equipment and computer software	-	-	-	-	-	272	272
Other assets	-	-	-	-	-	218	218
<b>Total assets</b>	<b>6,549</b>	<b>167</b>	<b>297</b>	<b>1,205</b>	<b>210</b>	<b>815</b>	<b>9,243</b>
<b>Liabilities and shareholders' equity</b>							
Shareholders' equity	-	-	-	-	-	851	851
Demand deposits	4,506	-	-	-	-	991	5,497
Term deposits	1,685	430	181	116	-	-	2,412
Other liabilities	-	-	-	-	-	215	215
Subordinated capital	90	8	-	145	25	-	268
<b>Total liabilities and shareholders' equity</b>	<b>6,281</b>	<b>438</b>	<b>181</b>	<b>261</b>	<b>25</b>	<b>2,057</b>	<b>9,243</b>
<b>Interest rate swaps</b>	<b>(7)</b>	<b>9</b>	<b>8</b>	<b>(10)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Interest rate sensitivity gap	261	(262)	124	934	185	(1,242)	-
Cumulative interest rate sensitivity gap	261	(1)	123	1,057	1,242	-	-

	Earlier of maturity or repricing date						
31 December 2010	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
<b>(in \$ millions)</b>							
<b>Assets</b>							
Cash and cash equivalents	2,269	-	-	-	-	161	2,430
Short term investments	19	-	1	-	-	6	26
Investments	1,139	14	200	1,115	92	69	2,629
Loans	3,588	63	48	138	109	98	4,044
Premises, equipment and computer software	-	-	-	-	-	262	262
Other assets	-	-	-	-	-	232	232
<b>Total assets</b>	<b>7,015</b>	<b>77</b>	<b>249</b>	<b>1,253</b>	<b>201</b>	<b>828</b>	<b>9,623</b>
<b>Liabilities and shareholders' equity</b>							
Shareholders' equity	-	-	-	-	-	809	809
Demand deposits	4,569	-	-	-	-	977	5,546
Term deposits	2,042	376	137	126	1	-	2,682
Other liabilities	-	-	-	-	-	303	303
Subordinated capital	137	-	-	121	25	-	283
<b>Total liabilities and shareholders' equity</b>	<b>6,748</b>	<b>376</b>	<b>137</b>	<b>247</b>	<b>26</b>	<b>2,089</b>	<b>9,623</b>
<b>Interest rate swaps</b>	<b>448</b>	<b>-</b>	<b>(339)</b>	<b>(48)</b>	<b>(61)</b>	<b>-</b>	<b>-</b>
Interest rate sensitivity gap	715	(299)	(227)	958	114	(1,261)	-
Cumulative interest rate sensitivity gap	715	416	189	1,147	1,261	-	-

**Note 16: Subordinated Capital**

On 27 June 2005, the Bank issued US \$150 million of Subordinated Lower Tier II capital notes. The notes were issued at par in two tranches, namely US \$90 million in Series A notes due 2015 and US \$60 million in Series B notes due 2020. The issuance was by way of private placement with US institutional investors. The notes are listed on the BSX in the specialist debt securities category. The Series B notes pays a fixed coupon of 5.11% until 2 July 2015 when they will become redeemable in whole at the Bank's option. The Series B notes were priced at a spread of 1.10% over the 10-year US Treasury yield.

During September 2011, the Bank repurchased a portion of the outstanding 5.11% 2005 Series B Subordinated Notes ("the Note"). The face value of the portion of the Note repurchased was \$15 million and the purchase price paid for the repurchase was \$13.875 million, which realized a gain of \$1.125 million. The repurchase was completed under a Note Repurchase Agreement dated 7 September 2011 between the Bank and the noteholder.

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

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

(In thousands of Bermuda dollars)

### Note 16: Subordinated Capital (continued)

The following table presents for the remaining subordinated capital issued by the Bank as at 30 September 2011.

Subordinated capital	Earliest date redeemable	Contractual maturity date	Interest rate until date redeemable	Interest rate from earliest date redeemable to contractual maturity	Principal outstanding
<b>Bermuda</b>					
2003 issuance - Series B	27 May 2013	27 May 2018	5.15%	3 months US\$ LIBOR + 2.000%	47,000
2005 issuance - Series A	2 July 2010	2 July 2015	4.81%	3 months US\$ LIBOR + 1.095%	90,000
2005 issuance - Series B	2 July 2015	2 July 2020	5.11%	3 months US\$ LIBOR + 1.695%	45,000
2008 issuance - Series A	27 May 2013	27 May 2018	7.59%	3 months US\$ LIBOR + 4.185%	53,000
2008 issuance - Series B	27 May 2018	27 May 2023	8.44%	3 months US\$ LIBOR + 4.929%	25,000
<b>Subsidiary</b>	8 February 2012	8 February 2017	9.29%	10.29%	7,812
<b>Total</b>					<b>267,812</b>

### Note 17: Earnings per Share

Earnings per share has 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 period. Diluted earnings per common share include the dilutive effect resulting from the conversion of treasury stock. Numbers of shares are expressed in thousands.

	For the three month period ended		For the nine month period ended	
	30 September 2011	30 September 2010	30 September 2011	30 September 2010
<b>Basic earnings per share</b>				
Net income (loss) for the period	11,233	(18,638)	31,399	(194,809)
Less: Preferred dividends declared and guarantee fee	(4,467)	(4,500)	(16,770)	(13,500)
Net income (loss) attributable for common shareholders	6,766	(23,138)	14,629	(208,309)
Weighted average number of common shares issued	556,933	549,095	556,933	449,761
Weighted average number of common shares held as treasury stock	(2,168)	(2,556)	(2,323)	(2,751)
Adjusted weighted average number of common shares	554,765	546,539	554,610	447,010
	0.01	(0.04)	0.03	(0.47)
<b>Diluted earnings per share</b>				
Net income (loss) attributable for common shareholders	6,766	(23,138)	14,629	(208,309)
Weighted average number of common shares issued	556,933	549,095	556,933	449,761
Weighted average number of common shares held as treasury stock	(2,168)	(2,556)	(2,323)	(2,751)
Adjusted weighted average number of diluted common shares	554,765	546,539	554,610	447,010
	0.01	(0.04)	0.03	(0.47)

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

### Note 18: Share-Based Payments

On 22 February 2011 the Board approved the 2010 Employee deferred incentive plan and the 2011 Executive long term incentive share plan.

#### 2010 Employee Deferred Incentive Plan ("EDIP")

Under the Bank's 2010 EDIP Plan, shares were awarded to Bank employees and executive management based on time vesting condition which states that the shares will vest equally over a three year period from the effective grant date subject to employee's continued employment.

#### 2011 Executive long term incentive share plan ("ELTIP")

Under the Bank's 2011 ELTIP Plan, shares were awarded to Bank employees and executive management, based on predetermined vesting conditions. The ELTIP Plan comprises 2 types of vesting conditions upon which the shares will be awarded i.e.

- o Time Vesting Condition – 50% of each share award is granted in the form of Time Vested Shares, vesting over a three year period from the effective grant date subject to employee's continued employment ; and
- o Performance Vesting Condition - 50% of each share award is granted in the form of Performance Shares, vesting upon the achievement of certain performance targets.

The 2010 Stock Option Plan is described in the 2010 annual financial statements.

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

(In thousands of Bermuda dollars)

**Note 18: Share-Based Payments (continued)**

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

	For the nine month period ended					
	30 September 2011			30 September 2010		
	Stock option plans	DIP and ELTIP	Total	Stock option plans	DIP and ELTIP	Total
Share-based compensation plans						
Awards granted in years 2009 and prior	-	-	-	3,309	3,391	6,700
Awards granted in years 2010 and 2011	1,250	1,369	2,619	-	-	-
<b>Total share-based compensation</b>	<b>1,250</b>	<b>1,369</b>	<b>2,619</b>	<b>3,309</b>	<b>3,391</b>	<b>6,700</b>
Share-based settlement plans						
Directors shares and retainers settlement plans			270			163
<b>Total share-based payments</b>			<b>2,889</b>			<b>6,863</b>

**Number of shares transferable upon exercise (thousands)**

	For the nine month period ended 30 September 2011	
	Stock option plans	ELTIP and DIP
Outstanding at beginning of period	34,047	-
Granted	1,605	3,921
Forfeited / cancelled	(1,052)	-
Exercised	-	(3)
Resignation	(381)	(90)
<b>Vested and exercisable at end of period</b>	<b>34,219</b>	<b>3,828</b>

**Unrecognised expense**

**2010 Stock Option Plan**

	For the nine month period ended 30 September 2011
Time Vesting Options	6,281
Performance Vesting Options	8,060

**2010 DIP**

	1,071
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**2011 ELTIP**

Time Vesting Shares	1,099
Performance Vesting Shares	1,099

**17,610**

**Note 19: Variable Interest Entities**

The Bank had no investments in variable interest entities for which it was deemed the primary beneficiary for the nine month period ended 30 September 2011 and year ended 31 December 2010.

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

**Note 20: Related party transactions**

**Butterfield Fulcrum Group Limited ("BFG")**

On 8 February 2011, the Bank entered into an agreement with an investor group (comprised of BV Investor Partners, Glen Henderson and Tim Calveley, "BV Investor Group") to dispose of its 36% equity interest on a diluted basis in Butterfield Fulcrum Group Limited ("BFG"). The sale was completed in the second quarter of 2011 and resulted in a gain on sale of \$3.1 million.

Under the terms of the agreement, BV Investor Group paid down BFG's existing debt and revolving credit facility with the Bank and combined their overall funding requirements with another related entity, FORS Limited ("FORS"), whereby the total loan facilities post-disposition, on commercial market terms, is \$45.1 million. A Bank Non-Executive director is a minority shareholder of approximately 3% of FORS.

As a result of the sale, the Bank paid a dividend of \$3.3 million during the third quarter to contingent value convertible preference shareholders as of record on 26 July 2011.

In addition, the Bank has guaranteed to purchase services from BFG, on commercial market terms, for three years at minimum agreed revenue levels of \$5.5 million, \$5.0 million and \$4.5 million per annum. In the event there is a shortfall, the Bank is required to pay 38% of the shortfall.

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

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

*(In thousands of Bermuda dollars)*

#### **Note 20: Related party transactions *(continued)***

Renegotiations of Agreements occurred during the three months ending 30 September 2011 resulting in an expected shortfall from the revenue guarantees over the three year period whereby the resultant fair value of the liability is estimated at approximately \$0.5 million as at 30 September 2011.

##### **Financing transactions**

During the third quarter the Bank provided a loan to a trust company controlled by a Bank Non-Executive director, amounting to \$2.45 million. The terms of the loan are market related including comprehensive security provided.

##### **Capital transaction**

Canadian Imperial Bank of Commerce ("CIBC") and funds associated with the Carlyle Group each hold approximately 18% of the Bank's equity voting power, along with the right to each designate 2 members of the Bank's Board of Directors.

##### **Liquidity Facility Agreement**

During 2010, the Bank entered into a commitment letter for a \$500 million line of credit at market rates with CIBC which was subsequently reduced to \$300 million. The Bank cancelled the credit facility effective 1 March 2011.

##### **Balance Sheet Management Advisory Agreement**

The Bank entered into an asset liability management agreement with Carlyle Investment Management LLC, an affiliated company of the Carlyle Group with an effective date of 1 October 2010. Per the agreement the Carlyle Group has agreed to provide balance sheet management advisory services to the Bank for an annual fee of \$4 million for a three year period.

#### **Note 21: Comparative Information**

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

#### **Note 22: Subsequent Events**

The financial statements were available to be issued and subsequent events have been evaluated up to 27 October 2011.