



A Foundation for *Growth*



Butterfield

First Quarter 2012

The Bank of N.T. Butterfield & Son Limited
Financial results for the three months ended 31 March 2012

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

(in thousands of Bermuda dollars)

As at

	31 March 2012	31 December 2011
Assets		
Cash and demand deposits with banks	457,569	413,213
Cash equivalents	1,110,558	1,566,245
Total cash and cash equivalents	1,568,127	1,979,458
Short-term investments	35,426	34,814
Debt and equity securities		
Trading	62,754	62,591
Available for sale	2,231,059	1,962,346
Held to maturity	199,479	64,789
Total investments in debt and equity securities	2,493,292	2,089,726
Loans, net of allowance for credit losses	4,328,920	4,247,260
Premises, equipment and computer software	274,177	276,114
Accrued interest	28,153	25,259
Goodwill	16,380	15,937
Intangible assets	32,499	33,247
Investments in affiliates	32,872	32,582
Other real estate owned	28,364	27,354
Other assets	55,932	62,358
Total assets	8,894,142	8,824,109
Liabilities		
Deposits		
Non interest-bearing	1,133,680	961,002
Interest-bearing		
Customers	6,255,457	6,439,076
Banks	118,116	125,362
Total deposits	7,507,253	7,525,440
Employee future benefits	103,620	104,913
Accrued interest	9,338	8,905
Preference share dividends payable	715	715
Payable for investments purchased	61,640	-
Other liabilities	93,761	86,656
Total other liabilities	269,074	201,189
Subordinated capital	260,000	267,755
Total liabilities	8,036,327	7,994,384
Shareholders' equity		
Common Share capital (BMD 0.01 par; authorised Shares 26,000,000,000 (2011: BMD 0.01 par; authorised Shares 26,000,000,000))		
issued and outstanding: 549,504,242 (2011: 549,468,349)	5,495	5,494
Preference Share capital (USD 0.01 par; USD 1,000 liquidation preference)		
issued and outstanding: 200,000 (2011: 200,000)	2	2
Contingent Value Convertible Preference Share capital (USD 0.01 par)		
issued and outstanding: 7,428,293 (2011: 7,464,186)	74	75
Additional paid-in capital	1,367,849	1,377,556
Accumulated deficit	(480,196)	(490,377)
Less: Treasury Common Shares: 1,069,931 Shares (2011: 2,163,958 Shares)	(10,652)	(21,723)
Accumulated other comprehensive loss	(24,757)	(41,302)
Total Shareholders' equity	857,815	829,725
Total liabilities and Shareholders' equity	8,894,142	8,824,109

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

The Bank of N.T. Butterfield & Son Limited

Unaudited Consolidated Statements of Operations

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

For the three month period ended

	31 March 2012	31 March 2011
Non-interest income		
Asset management	6,157	5,662
Banking	8,176	8,953
Foreign exchange revenue	6,949	7,466
Trust	7,760	7,227
Custody and other administration services	2,803	3,237
Other non-interest income	1,414	1,147
Total non-interest income	33,259	33,692
Interest income		
Loans	52,213	48,821
Investments	12,462	11,131
Deposits with banks	1,700	3,133
Total interest income	66,375	63,085
Interest expense		
Deposits	7,235	9,385
Subordinated capital	3,225	2,283
Total interest expense	10,460	11,668
Net interest income before provision for credit losses	55,915	51,417
Provision for credit losses	(3,803)	(3,847)
Net interest income after provision for credit losses	52,112	47,570
Net realised / unrealised gains on trading investments	442	187
Net realised gains on available for sale investments	2,077	193
Net other gains (losses)	10	(1,239)
Total net revenue	87,900	80,403
Non-interest expense		
Salaries and other employee benefits	36,397	36,082
Technology and communications	14,572	13,171
Property	7,038	7,164
Professional and outside services	4,345	3,805
Non-income taxes	3,571	3,906
Amortisation of intangible assets	1,391	1,405
Marketing	1,243	1,188
Other expenses	3,944	5,158
Total non-interest expense	72,501	71,879
Net income before income taxes	15,399	8,524
Income tax expense	(718)	(156)
Net income	14,681	8,368
Cash dividends declared on Preference Shares	(4,000)	(4,000)
Preference Shares guarantee fee	(500)	(500)
Net income attributable to Common Shareholders	10,181	3,868
Earnings per Share		
Basic	0.02	0.01
Diluted	0.02	0.01

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

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

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

For the three month period ended

	31 March 2012	31 March 2011
Net income	14,681	8,368
Other comprehensive income		
Net change in unrealised gains on translation of net investment in foreign operations	107	1,470
Net change in unrealised gains on available for sale investments	17,308	2,712
Net change in employee future benefits liability	(870)	(300)
Other comprehensive income	16,545	3,882
Total comprehensive income	31,226	12,250

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

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

(in thousands of Bermuda dollars)

	For the three month period ended	
	31 March 2012	31 March 2011
Common Share capital issued and outstanding		
Balance at beginning of period (2012: 549,468,349 Shares; 2011: 549,143,448 Shares)	5,494	5,491
Conversion of Contingent Value Preference Shares (2012: 35,893 Shares; 2011: 2,900 Shares)	1	-
Balance at end of period (2012: 549,504,242 Shares; 2011: 549,146,348 Shares)	5,495	5,491
Preference Shares		
Balance at beginning and end of period (2012: 200,000 Shares; 2011: 200,000 Shares)	2	2
Contingent Value Convertible Preference Shares		
Balance at beginning of period (2012: 7,789,087 Shares; 2011: 7,789,087)	75	78
Conversion to Common Shares (2012: 35,893 Shares; 2011: 2,900 Shares)	(1)	-
Balance at end of period (2012: 7,428,293 Shares; 2011: 7,786,187 Shares)	74	78
Additional paid-in capital		
Balance at beginning of period	1,377,556	1,376,037
Stock option plan expense	1,279	602
Reduction of additional paid-in capital on transfer and sale of Treasury Common Shares	(10,986)	-
Balance at end of period	1,367,849	1,376,639
Accumulated deficit		
Balance at beginning of period	(490,377)	(509,579)
Net income for year	14,681	8,368
Cash dividends declared on Preference Shares	(4,000)	(4,000)
Preference Shares guarantee fee	(500)	(500)
Balance at end of period	(480,196)	(505,711)
Treasury Common Shares		
Balance at beginning of period (2012: 2,163,958 Shares; 2011: 2,401,593 Shares)	(21,723)	(24,127)
Share-based compensation	85	-
Net purchases, sales and transfers of Treasury Common Shares	10,986	50
Balance at end of period (2012: 1,069,931 Shares; 2011: 2,402,874 Shares)	(10,652)	(24,077)
Accumulated other comprehensive loss		
Balance at beginning of period	(41,302)	(38,614)
Other comprehensive income	16,545	3,882
Balance at end of period	(24,757)	(34,732)
Total Shareholders' equity	857,815	817,690

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

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

(in thousands of Bermuda dollars)

	For the three month period ended	
	31 March 2012	31 March 2011
Cash flows from operating activities		
Net income	14,681	8,368
Adjustments to reconcile net income to operating cash flows:		
Depreciation and amortisation	11,802	8,339
(Increase) decrease in carrying value of investments in affiliates	(289)	1,199
Share-based payments	1,364	652
Loss on sale of premises and equipment	-	12
Net realised gains of available for sale securities	(2,077)	(193)
Provision for credit losses	3,803	3,847
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(2,635)	(2,392)
Decrease (increase) in other assets	7,199	(7,276)
Increase (decrease) in accrued interest payable	382	(659)
Decrease in other liabilities	(2,082)	(13,953)
	32,148	(2,056)
Net change in trading investments	182	(14)
Cash provided by (used in) operating activities	32,330	(2,070)
Cash flows from investing activities		
Net (increase) decrease in short-term investments	(429)	10,626
Additions to premises, equipment and computer software	(4,510)	(5,851)
Net (increase) decrease in loans	(58,478)	32,369
Held to maturity investments: proceeds from maturities and pay downs	561	-
Held to maturity investments: purchases	(135,298)	-
Available for sale investments: proceeds from sale, maturities and pay downs	375,386	810,453
Available for sale investments: purchases	(543,335)	(690,740)
Cash (used in) provided by investing activities	(366,103)	156,857
Cash flows from financing activities		
Net decrease in demand and term deposit liabilities	(82,217)	(98,254)
Repayment of subordinated capital	(7,946)	-
Cash dividends paid on Preference Shares	(4,000)	(4,000)
Preference Shares guarantee fee paid	(500)	(500)
Cash used in financing activities	(94,663)	(102,754)
Net effect of exchange rates on cash and cash equivalents	17,105	27,963
Net (decrease) increase in cash and cash equivalents	(411,331)	79,996
Cash and cash equivalents at beginning of period	1,979,458	2,429,699
Cash and cash equivalents at end of period	1,568,127	2,509,695

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

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements

(in thousands of Bermuda dollars)

Note 1: Significant Accounting Policies

The accompanying unaudited interim consolidated financial statements of The Bank of N.T. Butterfield & Son Limited (the "Bank") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and should be read in conjunction with the Bank's audited financial statements for the year ending 31 December 2011. To facilitate comparison of information across periods, certain reclassifications have been made to prior period amounts to conform to the current period's presentation.

In the opinion of Management, these unaudited interim consolidated financial statements reflect all adjustments (consisting principally of normal recurring accruals) considered necessary for a fair presentation of the Bank's financial position and results of operations as at the end of and for the periods presented. 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. Fair value of financial instruments
- iii. Impairment of long-lived assets
- iv. Impairment of goodwill
- v. Employee future benefits
- vi. Share-based payments
- vii. Concentrations of credit risk & customers
- viii. Commitments and contingencies

The following accounting developments were issued during the three month period ending 31 March 2012:

Offsetting Assets and Liabilities

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

Note 2: Cash and Cash Equivalents

	31 March 2012			31 December 2011		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Non interest-earning						
Cash and demand deposits	184,177	44,784	228,961	176,091	30,847	206,938
Interest-earning						
Demand deposits	68	228,540	228,608	49	206,226	206,275
Cash equivalents	325,206	785,352	1,110,558	489,391	1,076,854	1,566,245
Sub-total - Interest-earning	325,274	1,013,892	1,339,166	489,440	1,283,080	1,772,520
Total cash and cash equivalents	509,451	1,058,676	1,568,127	665,531	1,313,927	1,979,458

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

(in thousands of Bermuda dollars)

Note 3: Short-term Investments

	31 March 2012			31 December 2011		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Interest-earning						
Term deposits maturing between three to six months	-	4,341	4,341	-	4,630	4,630
Term deposits maturing between six to twelve months	-	882	882	-	2,900	2,900
Total unrestricted short-term investments	-	5,223	5,223	-	7,530	7,530
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Non interest-earning						
Demand deposits	-	11,965	11,965	-	12,394	12,394
Interest-earning						
Demand deposits	17,463	775	18,238	12,641	2,249	14,890
Total restricted short-term investments	17,463	12,740	30,203	12,641	14,643	27,284
Total short-term investments	17,463	17,963	35,426	12,641	22,173	34,814

Note 4: Investments

Amortised cost, carrying amounts and estimated fair value

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

	31 March 2012				31 December 2011			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value
Trading								
Debt securities issued by non-US governments	5,969	356	(299)	6,026	5,788	419	(236)	5,971
Mutual funds	56,964	304	(540)	56,728	56,964	224	(568)	56,620
Total trading	62,933	660	(839)	62,754	62,752	643	(804)	62,591
Available for sale								
Certificates of deposit	597,588	2,150	(26)	599,712	354,847	2,411	(765)	356,493
US government and federal agencies	780,923	18,152	(968)	798,107	778,387	14,419	(2,002)	790,804
Debt securities issued by non-US governments	112,341	714	(159)	112,896	111,172	1,966	(106)	113,032
Corporate debt securities guaranteed by non-US governments	122,676	87	(458)	122,305	122,987	38	(1,377)	121,648
Corporate debt securities	419,942	6,414	(306)	426,050	412,285	421	(3,744)	408,962
Asset-backed securities - Student loans	148,090	-	(4,505)	143,585	149,759	-	(5,413)	144,346
Pass-through note	32,714	-	(4,382)	28,332	33,696	-	(6,705)	26,991
Equity securities	124	-	(52)	72	120	-	(50)	70
Total available for sale	2,214,398	27,517	(10,856)	2,231,059	1,963,253	19,255	(20,162)	1,962,346

Sale proceeds and realised gains (losses)

During the three months ended 31 March 2012, the Bank disposed of:

- US agency securities totalling \$28.1 million in sale proceeds, resulting in a gross realised gain of \$0.5 million.
- Corporate bonds totalling \$162.7 million in sale proceeds, resulting in a gross realised loss of \$1.0 million.
- Other securities totalling \$0.6 million in sale proceeds, resulting in a gross realised gain of \$0.6 million.

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

(in thousands of Bermuda dollars)

Note 4: Investments (continued)

31 March 2012	Amortised cost	Non-credit impairments recognised in AOCI	Carrying amount	Gross unrecognised gains	Gross unrecognised losses	Fair value
Held to maturity						
US government and federal agencies	199,479	-	199,479	231	(1,275)	198,435
Total held to maturity	199,479	-	199,479	231	(1,275)	198,435

31 December 2011	Amortised cost	Non-credit impairments recognised in AOCI	Carrying amount	Gross unrecognised gains	Gross unrecognised losses	Fair value
Held to maturity						
US government and federal agencies	64,789	-	64,789	228	(429)	64,588
Total held to maturity	64,789	-	64,789	228	(429)	64,588

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.

31 March 2012	Less than 12 months		12 months or more		Total fair value	Total gross unrealised losses
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses		
Available for sale						
Certificates of deposit	47,962	(26)	-	-	47,962	(26)
US government and federal agencies	67,259	(899)	12,805	(69)	80,064	(968)
Debt securities issued by non-US governments	4,223	(27)	3,617	(132)	7,840	(159)
Corporate debt securities guaranteed by non-US governments	30,045	(7)	31,658	(451)	61,703	(458)
Corporate debt securities	15,775	(192)	58,866	(114)	74,641	(306)
Asset-backed securities - Student loans	-	-	143,585	(4,505)	143,585	(4,505)
Pass-through note	-	-	28,332	(4,382)	28,332	(4,382)
Equity securities	72	(52)	-	-	72	(52)
Total available for sale securities with unrealised losses	165,336	(1,203)	278,863	(9,653)	444,199	(10,856)
Held to maturity						
US government and federal agencies	134,862	(1,275)	-	-	134,862	(1,275)
Total held to maturity securities with unrealised losses	134,862	(1,275)	-	-	134,862	(1,275)

31 December 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		
Available for sale						
Certificates of deposit	48,623	(765)	-	-	48,623	(765)
US government and federal agencies	144,364	(1,585)	72,600	(417)	216,964	(2,002)
Debt securities issued by non-US governments	9,493	(54)	2,198	(52)	11,691	(106)
Corporate debt securities guaranteed by non-US governments	30,179	(3)	47,267	(1,374)	77,446	(1,377)
Corporate debt securities	217,612	(2,859)	125,101	(885)	342,713	(3,744)
Asset-backed securities - Student loans	-	-	144,346	(5,413)	144,346	(5,413)
Pass-through note	-	-	26,992	(6,705)	26,992	(6,705)
Equity securities	70	(50)	-	-	70	(50)
Total available for sale securities with unrealised losses	450,341	(5,316)	418,504	(14,846)	868,845	(20,162)
Held to maturity						
US government and federal agencies	30,034	(429)	-	-	30,034	(429)
Total held to maturity securities with unrealised losses	30,034	(429)	-	-	30,034	(429)

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(in thousands of Bermuda dollars)

Note 4: Investments (continued)

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

Certificates of deposit

As of 31 March 2012, gross unrealised losses on the Bank's holdings of certificates of deposit ("CDs") were \$0.03 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 31 March 2012, gross unrealised losses on securities related to United States ("US") government and federal agencies were \$1.0 million, \$0.1 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 31 March 2012, gross unrealised losses on debt securities issued by non-US governments were \$0.2 million, \$0.1 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 the United Kingdom and Caribbean jurisdictions. Management believes that 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 31 March 2012, gross unrealised losses related to corporate debt securities guaranteed by non-US governments were \$0.5 million, almost all of which related to investments that were in an unrealised loss position for greater than 12 months. All the bank issued securities acquired are explicitly guaranteed by the following governments: United Kingdom, Australia, Denmark and Germany. One security is jointly and explicitly guaranteed by three European Governments: Belgium, France and Luxembourg. Management believes that these securities do not have any credit losses, given the guarantees provided by the non-US governments.

Corporate debt securities

As of 31 March 2012, gross unrealised losses related to corporate debt securities were \$0.3 million, of which \$0.1 million related to investments that were in an unrealised loss position for longer than 12 months. Management estimates of cash flows are based on observable market data, issuer-specific information and credit ratings. Management believes these securities do not have any credit losses.

Asset-backed securities - Student loans

As of 31 March 2012, gross unrealised losses on student loan asset-backed securities were \$4.5 million, all of which related to securities that have been in an unrealised loss position for longer than 12 months. All of these securities are "AAA" rated and Management believes these securities do not have any credit losses. All student loan asset-backed securities are backed by loans that fall within the US federally guaranteed Federal Family Education Loan Program ("FFELP"). The unrealised losses were due to maturity profiles that were longer than was initially estimated.

Pass-through note ("PTN")

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

As of 31 March 2012, the PTN was in an unrealised loss position amounting to \$4.4 million (2011: \$6.7 million) for a period exceeding 12 months. Unrealised losses have decreased since 31 December 2011 as a result of general risk aversion in the market with regards to distressed assets. The net present value of expected cash flows, or the intrinsic value, to be generated from the underlying assets of the PTN, calculated on both a stressed and severely-stressed environment, is in excess of the amortised cost of the PTN and Management believes that these securities do not have any credit losses.

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

31 March 2012	Remaining term to earlier of expected or contractual maturity						Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	No specific maturity	
Trading							
Debt securities issued by non-US governments	-	819	2,052	2,135	1,020	-	6,026
Mutual funds	-	-	-	-	-	56,728	56,728
Total trading	-	819	2,052	2,135	1,020	56,728	62,754
Available for sale							
Certificates of deposit	214,743	354,050	30,919	-	-	-	599,712
US government and federal agencies	-	6,073	566,503	186,372	39,159	-	798,107
Debt securities issued by non-US governments	66,945	16,639	17,676	10,695	941	-	112,896
Corporate debt securities guaranteed by non-US governments	30,044	92,261	-	-	-	-	122,305
Corporate debt securities	107,445	-	317,668	937	-	-	426,050
Asset-backed securities - Student loans	-	574	55,337	75,592	12,082	-	143,585
Pass-through note	-	-	-	28,332	-	-	28,332
Equity securities	-	-	-	-	-	72	72
Total available for sale	419,177	469,597	988,103	301,928	52,182	72	2,231,059

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

(in thousands of Bermuda dollars)

Note 4: Investments (continued)

31 March 2012	Remaining term to earlier of expected or contractual maturity						Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	No specific maturity	
Held to maturity							
US government and federal agencies	-	-	34,173	113,579	51,727	-	199,479
Total held to maturity securities	-	-	34,173	113,579	51,727	-	199,479
Total investments	419,177	470,416	1,024,328	417,642	104,929	56,800	2,493,292
Total by currency							
Bermuda dollars	-	-	-	-	-	1	1
US dollars	170,769	174,616	992,905	405,875	102,968	55,303	1,902,436
Other	248,408	295,800	31,423	11,767	1,961	1,496	590,855
Total investments	419,177	470,416	1,024,328	417,642	104,929	56,800	2,493,292
31 December 2011							
31 December 2011	Remaining term to earlier of expected or contractual maturity						Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	No specific maturity	
Trading							
Debt securities issued by non-US governments	-	811	2,026	2,106	1,028	-	5,971
Mutual funds	-	-	-	-	-	56,620	56,620
Total trading	-	811	2,026	2,106	1,028	56,620	62,591
Available for sale							
Certificates of deposit	105,318	174,302	76,873	-	-	-	356,493
US government and federal agencies	-	4,740	622,559	149,245	14,258	2	790,804
Debt securities issued by non-US governments	7,749	66,056	17,905	20,349	971	2	113,032
Corporate debt securities guaranteed by non-US governments	-	90,882	30,766	-	-	-	121,648
Corporate debt securities	27,514	106,639	260,755	14,054	-	-	408,962
Asset-backed securities - Student loans	-	-	58,183	74,999	11,164	-	144,346
Pass-through note	-	-	-	26,991	-	-	26,991
Equity securities	-	-	-	-	-	70	70
Total available for sale	140,581	442,619	1,067,041	285,638	26,393	74	1,962,346
Held to maturity							
US government and federal agencies	-	-	-	24,854	39,935	-	64,789
Total held to maturity securities	-	-	-	24,854	39,935	-	64,789
Total investments	140,581	443,430	1,069,067	312,598	67,356	56,694	2,089,726
Total by currency							
Bermuda dollars	-	-	-	-	-	181	181
US dollars	-	186,614	990,571	300,714	65,358	55,226	1,598,483
Other	140,581	256,816	78,496	11,884	1,998	1,287	491,062
Total investments	140,581	443,430	1,069,067	312,598	67,356	56,694	2,089,726

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

(in thousands of Bermuda dollars)

Note 5: Loans

The composition of the loan portfolio by collateral exposure at each of the indicated dates was as follows:

	31 March 2012			31 December 2011		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Commercial loans						
Government	266,787	4,185	270,972	256,442	4,230	260,672
Commercial and industrial	88,764	199,111	287,875	103,922	186,715	290,637
Commercial overdrafts	72,750	28,109	100,859	64,733	28,209	92,942
Total commercial loans	428,301	231,405	659,706	425,097	219,154	644,251
Less specific allowance for credit losses on commercial loans	(1,201)	(1,703)	(2,904)	(1,222)	(1,655)	(2,877)
Total commercial loans after specific allowance for credit losses	427,100	229,702	656,802	423,875	217,499	641,374
Commercial real estate loans						
Commercial mortgage	518,089	329,321	847,410	502,110	330,286	832,396
Construction	49,448	2,320	51,768	37,178	2,814	39,992
Total commercial real estate loans	567,537	331,641	899,178	539,288	333,100	872,388
Less specific allowance for credit losses on commercial real estate loans	(9,668)	(2,919)	(12,587)	(9,225)	(2,829)	(12,054)
Total commercial real estate loans after specific allowance for credit losses	557,869	328,722	886,591	530,063	330,271	860,334
Consumer loans						
Automobile financing	22,323	5,726	28,049	23,964	5,862	29,826
Credit card	56,417	24,103	80,520	59,469	25,073	84,542
Overdrafts	11,135	5,536	16,671	9,147	5,731	14,878
Other consumer	83,590	149,567	233,157	87,889	144,002	231,891
Total consumer loans	173,465	184,932	358,397	180,469	180,668	361,137
Less specific allowance for credit losses on consumer loans	(189)	(452)	(641)	(160)	(388)	(548)
Total consumer loans after specific allowance for credit losses	173,276	184,480	357,756	180,309	180,280	360,589
Residential mortgage loans	1,335,771	1,140,728	2,476,499	1,348,606	1,082,308	2,430,914
Less specific allowance for credit losses on residential mortgage loans	(3,540)	(7,787)	(11,327)	(3,184)	(7,262)	(10,446)
Total residential mortgage loans after specific allowance for credit losses	1,332,231	1,132,941	2,465,172	1,345,422	1,075,046	2,420,468
Total gross loans	2,505,074	1,888,706	4,393,780	2,493,460	1,815,230	4,308,690
Less specific allowance for credit losses	(14,598)	(12,861)	(27,459)	(13,791)	(12,134)	(25,925)
Less general allowance for credit losses	(25,142)	(12,259)	(37,401)	(23,474)	(12,031)	(35,505)
Net loans	2,465,334	1,863,586	4,328,920	2,456,194	1,791,066	4,247,260

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

(in thousands of Bermuda dollars)

Note 5: Loans (continued)

The table below presents information about the loan delinquencies:

	31 March 2012			Total delinquent loans
	30 – 59 days	60 – 89 days	90 days or more	
Commercial loans				
Commercial and industrial	609	1,964	7,471	10,044
Commercial overdrafts	5	-	5,868	5,873
Total commercial loans	614	1,964	13,339	15,917
Commercial real estate loans				
Commercial mortgage	2,980	-	57,978	60,958
Construction	-	-	-	-
Total commercial real estate loans	2,980	-	57,978	60,958
Consumer loans				
Automobile financing	429	139	829	1,397
Credit card	2,801	932	1,773	5,506
Overdrafts	46	12	247	305
Other consumer	2,813	1,587	3,590	7,990
Total consumer loans	6,089	2,670	6,439	15,198
Residential mortgage loans	43,568	17,133	70,894	131,595
Total loans	53,251	21,767	148,650	223,668

	31 December 2011			Total delinquent loans
	30 – 59 days	60 – 89 days	90 days or more	
Commercial loans				
Commercial and industrial	2,297	210	6,136	8,643
Commercial overdrafts	-	26	4,810	4,836
Total commercial loans	2,297	236	10,946	13,479
Commercial real estate loans				
Commercial mortgage	9,866	1,280	47,032	58,178
Construction	16,680	1,629	-	18,309
Total commercial real estate loans	26,546	2,909	47,032	76,487
Consumer loans				
Automobile financing	611	299	633	1,543
Credit card	3,944	1,722	1,272	6,938
Overdrafts	6	9	76	91
Other consumer	2,776	839	3,351	6,966
Total consumer loans	7,337	2,869	5,332	15,538
Residential mortgage loans	68,173	37,238	52,983	158,394
Total loans	104,353	43,252	116,293	263,898

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

(in thousands of Bermuda dollars)

Note 5: Loans (continued)

The table below sets forth information about the Bank's non-accrual loans:

	31 March 2012		31 December 2011	
	Non-accrual gross recorded investments	Loans past due 90 days and still accruing interest	Non-accrual gross recorded investments	Loans past due 90 days and still accruing interest
Commercial loans				
Commercial and industrial	9,321	201	7,771	-
Commercial overdrafts	5,866	2	5,683	-
Total commercial loans	15,187	203	13,454	-
Commercial real estate loans	66,110	600	55,172	8
Consumer loans				
Automobile financing	988	99	983	-
Credit Cards	24	1,749	-	1,272
Overdrafts	166	81	65	11
Other consumer	4,340	377	3,368	173
Total consumer loans	5,518	2,306	4,416	1,456
Residential mortgage loans	54,128	23,126	49,450	17,589
Total loans	140,943	26,235	122,492	19,053

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

31 March 2012	Pass	Special mention	Substandard	Non-accrual	Total gross recorded investments
Commercial loans					
Government	270,972	-	-	-	270,972
Commercial and industrial	266,132	11,249	1,173	9,321	287,875
Commercial overdrafts	82,576	9,087	3,330	5,866	100,859
Total commercial loans	619,680	20,336	4,503	15,187	659,706
Commercial real estate loans					
Commercial mortgage	637,226	103,159	40,915	66,110	847,410
Construction	50,114	1,654	-	-	51,768
Total commercial real estate loans	687,340	104,813	40,915	66,110	899,178
Consumer loans					
Automobile financing	27,036	4	21	988	28,049
Credit card	78,698	-	1,798	24	80,520
Overdrafts	16,104	328	73	166	16,671
Other consumer	218,891	1,127	8,799	4,340	233,157
Total consumer loans	340,729	1,459	10,691	5,518	358,397
Residential mortgage loans	2,267,522	60,940	93,909	54,128	2,476,499
Total loans	3,915,271	187,548	150,018	140,943	4,393,780

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

(in thousands of Bermuda dollars)

Note 5: Loans (continued)

31 December 2011	Pass	Special mention	Substandard	Non-accrual	Total gross recorded investments
Commercial loans					
Government	260,672	-	-	-	260,672
Commercial and industrial	267,499	10,716	4,651	7,771	290,637
Commercial overdrafts	84,131	3,128	-	5,683	92,942
Total commercial loans	612,302	13,844	4,651	13,454	644,251
Commercial real estate loans					
Commercial mortgage	625,770	109,678	41,776	55,172	832,396
Construction	38,363	1,629	-	-	39,992
Total commercial real estate loans	664,133	111,307	41,776	55,172	872,388
Consumer loans					
Automobile financing	28,843	-	-	983	29,826
Credit card	83,159	-	1,383	-	84,542
Overdrafts	14,741	72	-	65	14,878
Other consumer	219,959	987	7,577	3,368	231,891
Total consumer loans	346,702	1,059	8,960	4,416	361,137
Residential mortgage loans	2,293,083	46,087	42,294	49,450	2,430,914
Total loans	3,916,220	172,297	97,681	122,492	4,308,690

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

Quality classification definitions

Pass:

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

Special Mention:

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

Substandard:

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

Non-accrual:

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

The table below presents the impairment methodology applied to the Bank's loan portfolio:

	31 March 2012		31 December 2011	
	Individually evaluated	Collectively evaluated	Individually evaluated	Collectively evaluated
Total gross loans evaluated for impairment				
Commercial loans	659,706	-	644,251	-
Commercial real estate loans	899,178	-	872,388	-
Consumer loans	5,518	352,879	4,416	356,721
Residential mortgage loans	64,497	2,412,002	56,832	2,374,082
Total gross loans	1,628,899	2,764,881	1,577,887	2,730,803

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

(in thousands of Bermuda dollars)

Note 5: Loans (continued)

The table below presents the changes in the allowance for credit loan losses:

Loan allowances	31 March 2012				31 December 2011	
	Commercial loans	Commercial real estate loans	Consumer loans	Residential mortgage loans	Total	Total
Allowances at beginning of period	9,181	17,925	9,168	25,156	61,430	66,775
Provision taken during the period	372	268	698	2,465	3,803	14,326
Recoveries	26	319	730	-	1,075	4,083
Charge-offs	(104)	-	(1,104)	(415)	(1,623)	(23,782)
Other	13	97	1	64	175	28
Allowances at end of period	9,488	18,609	9,493	27,270	64,860	61,430
Ending balance: individually evaluated for impairment	2,904	12,587	641	11,327	27,459	25,925
Ending balance: collectively evaluated for impairment	6,584	6,022	8,852	15,943	37,401	35,505

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

31 March 2012

	Impaired loans with an allowance			Impaired loans without an allowance		
	Gross recorded investments	Specific allowance	Net loans	Gross recorded investments	Specific allowance	Net loans
Commercial loans						
Commercial and industrial	3,566	(2,263)	1,303	7,618	-	7,618
Commercial overdrafts	653	(641)	12	6,342	-	6,342
Total commercial loans	4,219	(2,904)	1,315	13,960	-	13,960
Commercial real estate loans	41,652	(12,587)	29,065	34,147	-	32,319
Consumer loans						
Automobile financing	236	(75)	161	752	-	752
Credit cards	-	-	-	24	-	24
Overdrafts	-	-	-	166	-	166
Other consumer	981	(566)	415	3,359	-	3,359
Total consumer loans	1,217	(641)	576	4,301	-	4,301
Residential mortgage loans	30,146	(11,327)	18,819	32,523	-	34,351
Total impaired loans	77,234	(27,459)	49,775	84,931	-	84,931

31 December 2011

	Impaired loans with an allowance			Impaired loans without an allowance		
	Gross recorded investments	Specific allowance	Net loans	Gross recorded investments	Specific allowance	Net loans
Commercial loans						
Commercial and industrial	4,007	(2,208)	1,799	6,611	-	6,611
Commercial overdrafts	669	(669)	-	6,056	-	6,056
Total commercial loans	4,676	(2,877)	1,799	12,667	-	12,667
Commercial real estate loans	41,697	(12,054)	29,643	23,178	-	23,178
Consumer loans						
Automobile financing	240	(75)	165	743	-	743
Overdrafts	-	-	-	65	-	65
Other consumer	861	(473)	388	2,507	-	2,507
Total consumer loans	1,101	(548)	553	3,315	-	3,315
Residential mortgage loans	30,206	(10,446)	19,760	26,626	-	26,626
Total impaired loans	77,680	(25,925)	51,755	65,786	-	65,786

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

(in thousands of Bermuda dollars)

Note 5: Loans (continued)

31 March 2012	Troubled debt restructured and non-accrual loans	
	Average recorded investment	Interest income recognised
Commercial loans		
Commercial and industrial	9,550	10
Commercial overdrafts	8,142	5
Total commercial loans	17,692	15
Commercial real estate loans	75,939	157
Consumer loans		
Automobile financing	989	-
Credit cards	12	-
Overdrafts	274	-
Other consumer	6,003	-
Total consumer loans	7,278	-
Residential mortgage loans	54,794	123
Total troubled debt restructured and non-accrual loans	155,703	295

The table presents information about the Bank's loans modified in a troubled debt restructuring as of 31 March 2012:

	Number of contracts	Recorded investment	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Effect of modification on recorded investment	
					Changes in the timing of principal or interest payments	Interest capitalisation
Commercial loans						
Commercial and industrial	3	1,863	1,907	1,907	-	-
Commercial overdrafts	1	1,128	1,142	1,142	-	-
Total commercial loans	4	2,991	3,049	3,049	-	-
Commercial real estate loans	5	21,960	23,121	23,175	(8)	61
Residential mortgage loans	12	8,540	8,113	8,306	10	99
Total loans	21	33,491⁽¹⁾	34,283	34,530	2	160

⁽¹⁾ The amount comprised \$12.3 million of non-accrual loans and \$21.2 million of loans on accrual status.

Note 6: 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. The On-Balance Sheet exposure amounts disclosed is net of specific allowances and the off-Balance Sheet exposure amounts disclosed is gross of collateral held as disclosed in Note 9: Credit Related Arrangements and Commitments.

	31 March 2012			31 December 2011		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Banks and financial services	337,581	510,965	848,546	331,726	496,753	828,479
Commercial and merchandising	252,663	127,153	379,816	278,614	137,023	415,637
Governments	268,688	-	268,688	258,479	-	258,479
Individuals	2,354,365	124,143	2,478,508	2,301,823	100,500	2,402,323
Primary industry and manufacturing	136,995	7,098	144,093	226,030	2,692	228,722
Real estate	911,315	36,795	948,110	779,450	94,029	873,479
Hospitality industry	96,899	-	96,899	97,340	-	97,340
Transport and communication	7,815	-	7,815	9,303	-	9,303
Sub-total	4,366,321	806,154	5,172,475	4,282,765	830,997	5,113,762
General allowance	(37,401)	-	(37,401)	(35,505)	-	(35,505)
Total	4,328,920	806,154	5,135,074	4,247,260	830,997	5,078,257

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

(in thousands of Bermuda dollars)

Note 6: Credit Risk Concentrations (continued)

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

	31 March 2012			31 December 2011		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Bermuda	2,490,477	421,858	2,912,335	2,479,669	406,094	2,885,763
Barbados	181,816	7,512	189,328	181,325	8,563	189,888
Cayman	718,783	208,023	926,806	728,572	177,846	906,418
Guernsey	490,647	104,040	594,687	454,039	149,387	603,426
The Bahamas	4,749	90	4,839	4,742	90	4,832
United Kingdom	479,849	64,631	544,480	434,418	89,017	523,435
Sub-total	4,366,321	806,154	5,172,475	4,282,765	830,997	5,113,762
General allowance	(37,401)	-	(37,401)	(35,505)	-	(35,505)
Total	4,328,920	806,154	5,135,074	4,247,260	830,997	5,078,257

Note 7: Customer Deposits and Deposits from Banks

a) By Maturity

	31 March 2012			31 December 2011		
	Customers	Banks	Total	Customers	Banks	Total
Demand deposits						
Demand deposits - Non interest-bearing	1,133,680	-	1,133,680	961,002	-	961,002
Demand deposits - Interest-bearing	4,163,211	111,641	4,274,852	4,202,728	118,449	4,321,177
Sub-total - demand deposits	5,296,891	111,641	5,408,532	5,163,730	118,449	5,282,179
Term deposits						
Term deposits maturing within six months	1,875,399	6,087	1,881,486	2,005,446	6,410	2,011,856
Term deposits maturing between six to twelve months	124,521	267	124,788	131,932	382	132,314
Term deposits maturing after twelve months	92,326	121	92,447	98,970	121	99,091
Sub-total - term deposits	2,092,246	6,475	2,098,721	2,236,348	6,913	2,243,261
Total	7,389,137	118,116	7,507,253	7,400,078	125,362	7,525,440

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

(in thousands of Bermuda dollars)

Note 7: Customer Deposits and Deposits from Banks (continued)

b) By Type and Location

	31 March 2012			31 December 2011		
	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	2,366,151	932,179	3,298,330	2,237,849	1,021,747	3,259,596
Banks	103,869	-	103,869	109,923	-	109,923
Barbados						
Customers	175,444	81,824	257,268	171,705	97,378	269,083
Cayman						
Customers	1,339,070	426,766	1,765,836	1,319,357	423,436	1,742,793
Banks	5,650	5,915	11,565	5,692	6,074	11,766
Guernsey						
Customers	995,835	291,677	1,287,512	1,018,084	316,172	1,334,256
Banks	2,122	560	2,682	2,834	388	3,222
The Bahamas						
Customers	59,119	3,870	62,989	55,350	3,968	59,318
United Kingdom						
Customers	361,272	355,930	717,202	361,385	373,647	735,032
Banks	-	-	-	-	451	451
Total Customers	5,296,891	2,092,246	7,389,137	5,163,730	2,236,348	7,400,078
Total Banks	111,641	6,475	118,116	118,449	6,913	125,362
Total	5,408,532	2,098,721	7,507,253	5,282,179	2,243,261	7,525,440

Note 8: Employee Future Benefits

The Bank maintains trustee pension plans including non-contributory defined benefit plans and a number of defined contribution plans, and provides post-retirement medical benefits to its qualifying retirees. The defined benefit provisions under the pension plans are generally based upon years of service and average salary during the final years of employment. The defined benefit and post-retirement medical plans are not open to new participants and are non-contributory and the funding required is provided by the Bank, based upon the advice of an independent actuary.

The following table presents the expense constituents of the Bank's defined benefit pension plans and the Bank's post-retirement medical benefit plan:

	For the three month period ended	
	31 March 2012	31 March 2011
Defined benefit pension expense		
Service cost	443	697
Interest cost	1,763	1,879
Expected return on plan assets	(2,054)	(2,315)
Amortisation of net actuarial loss	330	1,005
Total defined benefit pension expense	482	1,266
Post-retirement medical benefit expense		
Service cost	236	185
Interest cost	1,051	1,107
Amortisation of net actuarial loss	519	234
Amortisation of past service cost	(1,680)	(1,540)
Total post-retirement medical benefits expense	126	(14)

Effective January 2012, all the participants of the Defined Benefit pension plan are inactive and in accordance with US GAAP, the net actuarial loss is amortised over the estimated average remaining life expectancy of the inactive participants of 22.8 years. Prior to all participants being inactive, the net actuarial loss was amortised to net income over the estimated average remaining service period for active members of 4.5 years.

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

(in thousands of Bermuda dollars)

Note 9: Credit Related Arrangements and Commitments

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

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

	31 March 2012			31 December 2011		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	337,415	288,021	49,394	321,059	303,769	17,290
Letters of guarantee	13,317	9,841	3,476	13,388	9,876	3,512
Total	350,732	297,862	52,870	334,447	313,645	20,802

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:

	31 March 2012	31 December 2011
Commitments to extend credit	449,708	491,251
Commitments to extend credit with terms modified by troubled debt restructuring	782	779
Documentary and commercial letters of credit	4,932	4,520
Total	455,422	496,550

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 31 March 2012, \$135.4 million (2011: \$137.1 million) of standby letters of credit were issued under this facility.

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

Legal Proceedings

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

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

(in thousands of Bermuda dollars)

Note 10: Segmented Information

Total Assets by Segment

	31 March 2012	31 December 2011
Bermuda	4,639,137	4,577,775
Barbados	291,746	303,960
Cayman	2,037,948	1,974,338
Guernsey	1,441,304	1,479,901
Switzerland	1,085	1,118
The Bahamas	81,919	77,565
United Kingdom	968,282	976,451
	9,461,421	9,391,108
Less: inter-segment eliminations	(567,279)	(566,999)
Total	8,894,142	8,824,109

Period ended 31 March 2012	Net interest income			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	Provision for credit losses						
Bermuda	32,832	296	(3,270)	15,767	45,625	42,098	3,527	2,319	5,846
Barbados	2,733	-	(365)	722	3,090	2,972	118	-	118
Cayman	10,417	310	(152)	8,528	19,103	13,469	5,634	239	5,873
Guernsey	5,710	2	(316)	5,169	10,565	8,106	2,459	-	2,459
Switzerland	-	-	-	292	292	560	(268)	-	(268)
The Bahamas	42	111	-	1,176	1,329	1,466	(137)	-	(137)
United Kingdom	4,181	(719)	300	2,387	6,149	5,330	819	(29)	790
Total before eliminations	55,915	-	(3,803)	34,041	86,153	74,001	12,152	2,529	14,681
Add / (Less): inter-segment eliminations / transactions	-	-	-	(782)	(782)	(782)	-	-	-
Total	55,915	-	(3,803)	33,259	85,371	73,219	12,152	2,529	14,681

Period ended 31 March 2011	Net interest income			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	Provision for credit losses						
Bermuda	33,065	181	(2,664)	16,673	47,255	43,284	3,971	(872)	3,099
Barbados	2,793	-	99	835	3,727	3,065	662	12	674
Cayman	8,617	226	(877)	7,485	15,451	12,497	2,954	1	2,955
Guernsey	3,160	(23)	-	5,859	8,996	7,548	1,448	273	1,721
Switzerland	-	-	-	150	150	515	(365)	-	(365)
The Bahamas	576	2	(163)	1,337	1,752	1,170	582	-	582
United Kingdom	3,206	(386)	(242)	2,572	5,150	5,175	(25)	-	(25)
Total before eliminations	51,417	-	3,847	34,911	82,481	73,254	9,227	(586)	8,641
Add / (Less): inter-segment eliminations / transactions	-	-	-	(1,219)	(1,219)	(1,219)	-	(273)	(273)
Total	51,417	-	(3,847)	33,692	81,262	72,035	9,227	(859)	8,368

The Bank of N.T. Butterfield & Son Limited

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

(in thousands of Bermuda dollars)

Note 11: Accounting for Derivative Instruments and Risk Management

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

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

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

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

Notional amounts

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

Fair value

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

Risk management derivatives

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

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

Fair value hedges

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

Cash flow hedges

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

As of 31 March 2012 and 2011 there were no cash flow hedges in place and there were no deferred net gains or losses on derivative instruments accumulated in other comprehensive income in relation with cash flow hedges.

Derivatives not formally designated as hedges

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

Client service derivatives

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

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

(in thousands of Bermuda dollars)

Note 11: 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.

31 March 2012	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk management derivatives					
Fair value hedges					
Fixed-rate loans	Interest rate swaps	11,794	-	(191)	(191)
Investments	Interest rate swaps	9,598	3	-	3
Sub-total fair value hedges		21,392	3	(191)	(188)
Not designated as hedging instruments					
	Currency swaps	418,877	125	(10,005)	(9,880)
	Foreign currency options	94,894	1,827	(1,565)	262
Sub-total not designated as hedges		513,771	1,952	(11,570)	(9,618)
Sub-total risk management derivatives		535,163	1,955	(11,761)	(9,806)
Client services derivatives					
	Spot and forward foreign exchange	5,991,197	24,122	(23,258)	864
	Interest rate caps	38,390	22	(22)	-
Sub-total client services derivatives		6,029,587	24,144	(23,280)	864
Total derivative instruments		6,564,750	26,099	(35,041)	(8,942)

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

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

For the three month period ended

Derivative Instrument	Consolidated Statement of Operations line item	31 March 2012	31 March 2011
Interest rate swaps	Net other gains (losses)	-	(178)
Forward foreign exchange	Foreign exchange revenue	1,259	1,692
Foreign currency options	Foreign exchange revenue	(591)	-
Total net gains recognised in net income		668	1,514

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

(in thousands of Bermuda dollars)

Note 12: 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 the 2011 annual audited financial statements.

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 the 2011 annual audited financial statements.

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

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

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

Items that are recognised at fair value on a recurring basis

	31 March 2012			Total carrying amount / Fair value	31 December 2011			Total carrying amount / Fair value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Financial assets								
Trading								
Debt securities issued by non-US governments	-	6,026	-	6,026	-	5,971	-	5,971
Mutual funds	5,197	51,531	-	56,728	5,368	51,252	-	56,620
Total Trading	5,197	57,557	-	62,754	5,368	57,223	-	62,591
Available for sale								
Certificates of deposit	-	599,712	-	599,712	-	356,493	-	356,493
US government and federal agencies	-	798,107	-	798,107	-	790,804	-	790,804
Debt securities issued by non-US governments	-	112,896	-	112,896	-	113,032	-	113,032
Corporate debt securities guaranteed by non-US governments	-	122,305	-	122,305	-	121,648	-	121,648
Corporate debt securities	-	426,050	-	426,050	-	408,962	-	408,962
Asset-backed securities - Student loans	-	132,421	11,164	143,585	-	133,182	11,164	144,346
Pass-through note	-	-	28,332	28,332	-	-	26,991	26,991
Equity securities	-	72	-	72	-	70	-	70
Total Available for sale	-	2,191,563	39,496	2,231,059	-	1,924,191	38,155	1,962,346
Other assets - Derivatives	-	26,099	-	26,099	-	48,505	-	48,505
Other assets - Closed ended real estate fund	-	-	6,352	6,352	-	-	6,199	6,199
Financial liabilities								
Other liabilities - Derivatives	-	(35,041)	-	(35,041)	-	(44,828)	-	(44,828)

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

Transfers of securities

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

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

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

(in thousands of Bermuda dollars)

Note 12: Fair Value of Financial Instruments (continued)

Level 3 reconciliation	For the three months ended			
	31 March 2012		31 March 2011	
	Available for sale investments	Closed ended property fund	Available for sale investments	Closed ended property fund
Carrying amount at beginning of period	38,155	6,199	44,483	9,044
Proceeds from sale / Capital distributions	(1,426)	-	(470)	-
Accretion recognised in net income	444	-	436	(82)
Realised and unrealised gains (losses) recognised in other comprehensive income	2,323	(41)	1,510	-
Foreign exchange translation adjustment	-	194	-	273
Carrying amount at end of period	39,496	6,352	45,959	9,235

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

	31 March 2012			31 December 2011		
	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
Financial assets						
Cash and cash equivalents	1,568,127	1,568,127	-	1,979,458	1,979,458	-
Short-term investments	35,426	35,426	-	34,814	34,814	-
Investments held to maturity	199,479	198,435	(1,044)	64,789	64,588	(201)
Loans, net of allowance for credit losses	4,328,920	4,322,107	(6,813)	4,247,260	4,241,040	(6,220)
Financial liabilities						
Customer deposits						
Demand deposits	5,296,891	5,296,891	-	5,163,730	5,163,730	-
Term deposits	2,092,246	2,089,084	3,162	2,236,348	2,232,570	3,778
Deposits from banks	118,116	118,116	-	125,362	125,362	-
Subordinated capital	260,000	236,518	23,482	267,755	225,019	42,736

Note 13: 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.

31 March 2012	Earlier of 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	
(in \$ millions)							
Assets							
Cash and cash equivalents	1,339	-	-	-	-	229	1,568
Short-term investments	18	4	1	-	-	12	35
Investments	596	365	129	943	403	57	2,493
Loans	3,423	228	64	347	166	101	4,329
Premises, equipment and computer software	-	-	-	-	-	274	274
Other assets	-	-	-	-	-	195	195
Total assets	5,376	597	194	1,290	569	868	8,894
Liabilities and Shareholders' equity							
Shareholders' equity	-	-	-	-	-	858	858
Demand deposits	4,275	-	-	-	-	1,134	5,409
Term deposits	1,510	371	125	92	-	-	2,098
Other liabilities	-	-	-	-	-	269	269
Subordinated capital	90	-	-	145	25	-	260
Total liabilities and Shareholders' equity	5,875	371	125	237	25	2,261	8,894
Interest rate swaps	10	-	(2)	(8)	-	-	-
Interest rate sensitivity gap	(489)	226	67	1,045	544	(1,393)	-
Cumulative interest rate sensitivity gap	(489)	(263)	(196)	849	1,393	-	-

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

(in thousands of Bermuda dollars)

Note 13: Interest Rate Risk

31 December 2011 (in \$ millions)	Earlier of 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 and cash equivalents	1,772	-	-	-	-	207	1,979
Short-term investments	15	5	3	-	-	12	35
Investments	450	209	128	993	253	57	2,090
Loans	3,534	121	53	368	117	54	4,247
Premises, equipment and computer software	-	-	-	-	-	276	276
Other assets	-	-	-	-	-	197	197
Total assets	5,771	335	184	1,361	370	803	8,824
Liabilities and Shareholders' equity							
Shareholders' equity	-	-	-	-	-	830	830
Demand deposits	4,321	-	-	-	-	961	5,282
Term deposits	1,712	300	132	99	-	-	2,243
Other liabilities	-	-	-	-	-	201	201
Subordinated capital	98	-	-	145	25	-	268
Total liabilities and Shareholders' equity	6,131	300	132	244	25	1,992	8,824
Interest rate swaps	2	8	(2)	(8)	-	-	-
Interest rate sensitivity gap	(358)	43	50	1,109	345	(1,189)	-
Cumulative interest rate sensitivity gap	(358)	(315)	(265)	844	1,189	-	-

Note 14: Earnings per Share

Earnings per Share have been calculated using the weighted average number of Common Shares outstanding during the period 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	
	31 March 2012	31 March 2011
Basic earnings per Share		
Net income for the period	14,681	8,368
Less: Preference dividends declared and guarantee fee	(4,500)	(4,500)
Net income attributable for Common Shareholders	10,181	3,868
Weighted average number of participating Shares ⁽¹⁾	556,933	556,933
Weighted average number of Common Shares held as treasury stock	(1,834)	(2,402)
Adjusted weighted average number of Common Shares	555,099	554,531
	0.02	0.01
Diluted earnings per Share		
Net income attributable for Common Shareholders	10,181	3,868
Weighted average number of participating Shares ⁽¹⁾	556,933	556,933
Weighted average number of Common Shares held as treasury stock	(1,834)	(2,402)
Weighted average number of dilutive Share-based awards	1,564	-
Adjusted weighted average number of diluted Common Shares	556,663	554,531
	0.02	0.01

⁽¹⁾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.

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

(in thousands of Bermuda dollars)

Note 15: Share-Based Payments

Employee Deferred Incentive Plan ("EDIP")

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

Executive long term incentive share plan ("ELTIP")

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

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

On 29 February 2012 the Board approved the 2011 Employee deferred incentive plan and the 2012 Executive long term incentive share plan resulting in 1.6 million and 3.7 million shares being awarded to eligible employees.

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

	For the three month period ended					
	31 March 2012			31 March 2011		
	Stock option plans	EDIP and ELTIP	Total	Stock option plans	EDIP and ELTIP	Total
Share-based compensation plans						
Awards granted in years 2010 and 2011	380	899	1,279	423	143	566
Total Share-based compensation	380	899	1,279	423	143	566
Share-based settlement plans						
Directors Shares and retainers settlement plans			86			86
Total Share-based payments			1,365			652

Number of shares transferable upon exercise (thousands)	For the three month period ended 31 March 2012	
	Stock option plans	
Outstanding at beginning of period		33,632
Granted		100
Forfeited / cancelled		(375)
Exercised		-
Resignation		(254)
Outstanding at the end of period		33,103

Number of shares transferable upon vesting (thousands)	For the three month period ended 31 March 2012	
	ELTIP and DIP	
Outstanding at beginning of period		3,791
Granted		5,291
Forfeited / cancelled		(88)
Vested		(1,228)
Outstanding unvested at end of period		7,766

Unrecognised expense	For the three months ended 31 March 2012	
2010 Stock Option Plan		
Time Vesting Options		5,253
Performance Vesting Options		9,070
2011/2012 EDIP		784
2011/2012 ELTIP		2,709
Time Vesting Shares		3,074
Performance Vesting Shares		3,081
		23,971

The Bank of N.T. Butterfield & Son Limited

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

(in thousands of Bermuda dollars)

Note 16: Variable Interest Entities

The Bank had no investments in variable interest entities for which it was deemed the primary beneficiary for the periods ended 31 March 2012 and 2011.

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

Note 17: Related party transactions

Interested director transactions

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

During the third quarter of 2011 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.

Financing transactions

Capital transaction

Canadian Imperial Bank of Commerce ("CIBC") and funds associated with the Carlyle Group each hold approximately 19%, of the Bank's equity voting power, along with the right to each designate 2 persons for nomination for election by the Shareholders as members of the Bank's Board of Directors.

Balance Sheet Management Advisory Agreement

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

Note 18: Comparative Information

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

Note 19: Subsequent Events

The Bank sold its 27.76 % interest in Island Heritage Holdings Ltd., a Cayman based insurance company to BF&M Limited. The transaction closed April 5, 2012. The sale will result in an initial gain of \$3.7 million in the second quarter, with a potential further gain of about \$1.0 million when certain contingencies are resolved

The financial statements were available to be issued and subsequent events have been evaluated up to 30 April 2012.