Butterfield

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NEWS RELEASE

*** For Immediate Release***

Butterfield Reports 2012 Full Year Results

- **2012 core earnings of $54.9 million, up 45.2%**
- **Net income of $25.6 million after net one-off items totalling $29.3 million**
- **Board declares $0.04 special dividend**
- **Strong capital position with a total capital ratio of 24.2%**

Hamilton, Bermuda–26 February 2013: The Bank of N.T. Butterfield & Son Limited ("Butterfield" or the "Bank") today announced core earnings for the full year ended 31 December 2012 of $54.9 million ($0.07 per Share on a fully diluted basis), up 45.2% compared to $37.8 million a year ago. Net income for the year was $25.6 million, including one-time items that generated a net loss of $29.3 million, compared to net income of $40.5 million in 2011. Tangible book value per Share grew 10.5% to end the year at $1.16 per Share, compared to $1.05 per Share last year. The core cash return on tangible common equity increased from 3.8% in 2011 to 6.6% in 2012.

Brendan McDonagh, Butterfield's Chairman & Chief Executive Officer, said, "Butterfield's strategy is centered on deploying capital efficiently to grow both sustainable profits and shareholder returns. In 2012, the Bank made solid progress, selling non-core holdings, streamlining and coordinating operations across jurisdictions, focusing on effective expense management and instituting a Share Buy-Back Programme. Core earnings improved, as a result, by $17.1 million to $54.9 million building on our very strong capital position with total and tier 1 capital ratios of 24.2% and 18.5% respectively. The Board continues to monitor capital levels, maintaining a conservative capital management philosophy such that Butterfield remains well capitalised. To further enhance Common Shareholder returns, the Board has declared a special dividend of $0.04 per Share. On a going-forward basis, the Board will continue to assess capital planning options and declare dividends as warranted subject to regulatory approval." Mr. McDonagh continued, "The 6.6% core cash return on tangible common equity achieved in 2012 represents an improvement over 2011, but remains below acceptable levels. This is partially a reflection of the continuing economic challenges in our largest markets."

Financial highlights of the year ended 31 December 2012 (with comparisons to year-end 2011):

- **Core earnings** of $54.9 million, up $17.1 million
- **Net interest income before credit losses** at $211.1 million, up 4.4%
- **Net interest margin** at 2.58%, up from 2.42%
- **Tangible common equity ratio** of 7.17%, up from 6.89%
- **Core cash return on tangible common equity** of 6.56%, up from 3.75%
- **Efficiency ratio** of 79.27%, improved from 84.06%

Brad Rowse, Butterfield's Chief Financial Officer, said, "The efficiency ratio of 79% is an improvement over the 84% realised in the prior year, fueled by our asset and liability management strategy, increased revenue from loan growth in our European franchise and expense management across the Group. We have continued to apply conservative estimates to our balance sheet valuations and taken one-time charges totalling $41.1 million mainly in the fourth quarter, primarily related to goodwill and intangible assets, and certain buildings no longer used in our operations."

During the third quarter, Butterfield sold its wholly-owned Barbados subsidiary, Butterfield Bank (Barbados) Limited, to Trinidad and Tobago-based First Citizens Bank Limited ("First Citizens") for a net gain of $7.2 million. As a result, the Barbados segment has been reported in discontinued operations (*See Note (1) at the end of this News Release for details*). The operating results from this business were not material on a per Share basis; however, 2012 net income includes $7.6 million of discontinued operations related to the Barbados business, or $0.01 per Share, and the $4.2 million gain on the second quarter sale of an affiliate, resulting in total unusual gains, excluded from core earnings, of $11.8 million or $0.02 per Share.

Under the Bank's Share Buy-Back Programme, introduced in May, the Board authorised the buy-back of up to 6 million Common Shares and 2,000 Preference Shares. On 10 December 2012, the Board approved increasing the authorised number of Shares to be bought back to 10 million Common Shares and 8,000 Preference Shares. During 2012 the Bank bought back 7.3 million Common Shares to be held as Treasury Shares at an average price of $1.23 per Share (totalling $9.0 million) and 4,422 Preference Shares which were subsequently cancelled at a cost of $5.4 million.

The Board declared quarterly dividends of $20 per Share on the Bank's 8% Non-Cumulative Perpetual Voting Preference Shares, to be paid on 15 March 2013 to Preference Shareholders of record on 1 March 2013.

The Board also declared a special dividend of $0.04 cents per Common and Contingent Value Convertible Preference Share to be paid on 22 March 2013 to shareholders of record on 5 March 2013.

ANALYSIS AND DISCUSSION OF FULL YEAR RESULTS

Balance Sheet	**As at**	
(in $ millions)	**31-Dec-12**	**31-Dec-11**
Cash and cash equivalents	1,651.5	1,902.7
Investments and short-term investments	2,957.9	2,081.9
Loans, net of allowance for credit losses	3,956.0	4,069.4
Premises, equipment and computer software	243.3	272.5
Other assets of continuing operations	133.3	190.9
Total assets of continuing operations	**8,942.0**	**8,517.4**
Assets of discontinued operations	-	307.0
Total assets	**8,942.0**	**8,824.4**
Total deposits	7,502.3	7,256.6
Subordinated capital	260.0	267.8
Other liabilities of continuing operations	322.5	198.3
Liabilities of discontinued operations	-	272.0
Total Liabilities	**8,084.8**	**7,994.7**
Liquidation preference of Preference Shares	195.6	200.0
Common equity	661.6	629.7
Shareholders' equity	**857.2**	**829.7**

Key Balance Sheet Ratios:		
Tangible book value per Share	$1.16	$1.05
Tier 1 capital ratio	18. 53%	17.70%
Total capital ratio	24.18%	23.50%
Tangible common equity ratio	7.17%	6.89%
Tangible total equity ratio	9.36%	9.25%
Non-accrual loans/gross loans	2.83%	2.67%
Non-performing assets/total assets	1.35%	1.34%

Income Statement	**Year ended 31 December**	
(in $ millions)	**2012**	**2011**
Non-interest income	128.5	132.4
Net interest income before provision for credit losses	211.1	202.3
Total net revenue before other gains (losses) and provision for credit losses	**339.6**	**334.7**
Total other (losses) gains	(27.3)	4.2
Provision for credit losses	(14.2)	(13.2)
Total net revenue	**298.1**	**325.7**
Total operating expenses	274.2	286.6
Total net income before taxes	**23.9**	**39.1**
Income tax (expense) benefit	(5.9)	0.3
Net income from continuing operations	**18.0**	**39.4**
Net income from discontinued operations	7.6	1.1
Net income	**25.6**	**40.5**
Dividends and guarantee fee of Preference Shares	18.0	21.3
Net earnings attributable to Common Shareholders	7.6	19.2
Cash earnings attributable to Common Shareholders (before impairment and amortisation of intangibles)	49.5	46.3
Net earnings per Share		
- Basic	0.01	0.03
- Diluted	0.01	0.03
- Core (diluted)	0.07	0.03
Adjusted weighted average number of participating shares on a fully diluted basis [1] (thousands)	556,357	555,615
Key Financial Ratios		
Return on assets	0.29%	0.43%
Core cash return on tangible common equity	6.56%	3.75%
Net interest margin	2.58%	2.42%
Efficiency ratio	79.27%	84.06%

1) Includes both Common and Contingent Value Convertible Preferred equity.

Transactions that are viewed by Management not to be in the normal course of day-to-day business and which are unusual in nature are excluded from core earnings as they obscure or distort the analysis of trends. The table below shows the reconciliation of net income in accordance with US GAAP to core earnings.

Reconciliation of US GAAP Results to Core Earnings

(in $ millions)	Year ended 31 December 2012	Year ended 31 December 2011
Net income	**25.6**	**40.5**
Non-core items:		
Net income from discontinued operations	(7.6)	(1.1)
Net gain on sale of affiliate	(4.2)	(3.2)
Early retirement programme	2.2	1.6
Impairment of goodwill and intangible assets	18.6	-
Impairment of fixed assets	14.5	-
Deferred tax valuation allowance and tax adjustments	5.0	-
Onerous leases	0.8	-
Total one-time items	**29.3**	**(2.7)**
Core earnings	**54.9**	**37.8**
EPS impact of non-core items	0.05	-
EPS core earnings – fully diluted	0.07	0.03

COMMENTARY ON STATEMENT OF OPERATIONS FOR THE YEAR ENDED 31 DECEMBER 2012 (“2012”) COMPARED WITH THE YEAR ENDED 31 DECEMBER 2011 (“2011”)

Net Income

Core net income for the year ended 31 December 2012 was $54.9 million, up $17.1 million from $37.8 million in 2011. Total net income for the year, including one-time losses of $29.3 million, was $25.6 million compared to net income of $40.5 million in 2011.

Total net revenue before gains (losses) and credit provisions was $339.6 million in 2012, up $4.9 million from $334.7 million in 2011, primarily reflecting a $3.9 million decrease in non-interest income offset by stronger net interest income, up $8.8 million from the prior year.

Provisions for credit losses were $14.2 million in 2012, an increase of $1.0 million from $13.2 million in the prior year, reflecting relatively stable portfolios amidst the ongoing economic challenges in Butterfield’s major markets.

Net losses of $27.3 million are mainly due to the $18.6 million impairment of goodwill and intangible assets and $14.5 million impairment of fixed assets offset by a $4.2 million realised gain on the sale of an affiliate in the second quarter. Prior-year gains of $4.2 million primarily relate to the sale of the Bank’s minority interest in Butterfield Fulcrum.

Operating expenses improved by $12.4 million (4.3%) from $286.6 million in 2011 to $274.2 million in 2012. Net salaries and benefits costs were $7.7 million lower than in the prior year, at $137.4 million in 2012. Other notable expense reductions, totalling $8.5 million from cost management initiatives, mainly including a $3.0 million reduction in professional and outside services costs, a $1.0 million decrease in property costs, and $2.7 million savings in other non-interest expenses. These savings were offset by a $3.8 million increase in technology and communications costs driven by depreciation expenses on previously capitalised system implementation costs.

Income tax expense was $5.9 million compared to a tax benefit of $0.3 million in 2011. The increase is primarily due to a deferred tax valuation allowance of $4.1 million recognised in 2012 and a $0.9 million tax adjustment expense on finalising a prior-year tax filing position. The 2011 tax benefit included a $1.2 million tax benefit from losses in our United Kingdom operations.

Net Interest Income

Net interest income before provision for credit losses increased by $8.8 million (4.4%) to $211.1 million in 2012, compared to $202.3 million last year.

- Total interest income increased by $3.3 million to $244.8 million, as a result of higher revenues from investments combined with an increase in average loan balances;
- Total interest expense declined by $5.5 million primarily caused by lower interest expense on overall deposits;
- The increase in net interest income was driven by a 16 basis point increase in the net interest margin, from 2.42% in 2011 to 2.58% in 2012. The efficient deployment of excess liquidity under our new investment strategy, loan growth and disciplined deposit pricing drove the improvement in the net interest margin despite the sustained low interest rate environment;
- Although average interest-earning assets decreased by $166.3 million to $8.2 billion in 2012, the decrease had a positive impact on net interest income as the decline was driven by the migration of high-cost deposits which were deployed in lower yielding assets in the cash and cash equivalent category.

Non-Interest Income

Total non-interest income was down $3.9 million to $128.5 million in 2012, compared to $132.4 million in 2011; the net decrease is primarily attributed to:

- Banking services revenue of $33.7 million was up $2.1 million from $31.6 million a year ago, primarily as a result of loan prepayment penalty fee revenue received during 2012;
- Foreign exchange revenue of $26.5 million for the year was down $3.8 million compared to 2011, mainly due to a decline in customer transaction volumes;
- Custody and other administrative services revenues declined by $1.7 million to $10.7 million in 2012. The decrease is attributed predominantly to lower assets under administration in our custody and administrative banking businesses as several mandates matured, combined with lower transaction volumes.

Non-Interest Expense

Non-interest expenses decreased by $12.4 million, or 4.3%, to $274.2 million from $286.6 million in 2011 primarily as a result of the following:

- Salaries and employee benefits decreased by $7.7 million year on year. A $6.8 million reduction in net salary cost was mainly driven by a headcount reduction of 60. Additionally, overtime declined by $1.3 million, net pension expense fell by $3.2 million due to closing the Bermuda defined benefit plan to new benefits, offset by a $1.5 million increase in staff incentive expense, primarily from vesting of previously issued stock-based compensation, and rising medical costs, up $1.1 million to $7.1 million in 2012. Headcount at the end of 2012 was 1,210, compared to 1,270 a year ago on a full-time equivalency basis;
- Technology and communications expenses have increased by $3.8 million to $57.7 million as a result of increased depreciation costs related to system implementation projects that occurred in Bermuda and Cayman during 2011;
- Property costs declined by $1.0 million from $27.1 million in 2011 to $26.1 million in 2012, primarily due to improved management of property maintenance costs;
- Professional and outside services expenses decreased by $3.0 million from the reduction in the use of consultants and other expense management initiatives;
- Other non interest expenses decreased by $2.7 million, in part due to lower transaction processing fees as a result of lower volumes, a reduction in insurance costs, reduced spending on stationery and supplies, and lower operational losses than in the prior year.

COMMENTARY ON BALANCE SHEET AT 31 DECEMBER 2012 (“2012”) COMPARED WITH 31 DECEMBER 2011 (“2011”)

Total Assets

Total assets of the Bank were $8.9 billion at 31 December 2012, representing a $117.7 million increase over 2011. The Bank maintained a highly liquid position at 31 December 2012 with cash and cash equivalents plus short and long-term investments representing 51.5% of total assets, or $4.6 billion compared to $4.0 billion in 2011.

Loans Receivable

The loan portfolio decreased by $113.5 million to $4.0 billion at 31 December 2012 despite a $47 million increase due to changes in foreign exchange rates on the European loans. Commercial lending declined by $225.7 million mainly owing to the repayment of the Bermuda Government loan, offset by a $166.5 million increase in residential mortgages, primarily in our European operations. Consumer loans decreased by $53.8 million primarily due to repayments of individual loans.

Allowance for credit losses at 31 December 2012 totalled $56.0 million, an increase of $0.5 million from 2011. The movement in the allowance is mainly the result of additional provisions, before recoveries, of $18.3 million taken during 2012 net of $17.8 million in charge-offs.

The loan portfolio represented 44.2% of total assets at 31 December 2012, compared to 47.8% at the end of 2011, whilst loans as a percentage of customer deposits decreased from approximately 57.1% at year-end 2011 to 53.6% at the end of 2012.

As at 31 December 2012, the Bank had gross non-accrual loans of $113.4 million representing 2.8% of total gross loans compared to $110.1 million, or 2.7%, of total loans at year-end 2011. Net non-accrual loans were $86.6 million, equivalent to 2.2% of total loans, after specific provisions for such loans of $26.7 million, reflecting an improved specific coverage ratio of 23.6%, up from 21.3% at 31 December 2011.

Non-performing loans, which includes non-accrual loans and accruing loans past due by 90 days or more, totalled $141.8 million as at 31 December 2012, up $13.2 million from the prior year. The increase is primarily the result of non-performing residential mortgages, higher by $17.5 million, offset by a $5.9 million reduction in non-performing commercial loans. We continue to closely monitor early warning signs of stresses in our loan portfolio and work with customers who experience financial difficulty amidst on-going economic challenges in many of our largest jurisdictions.

Investments

The investment portfolio increased by $0.8 billion to $2.9 billion as at 31 December 2012 due primarily to net increases of $563 million of US Government Agency securities, $205 million of certificates of deposit and $130 million of commercial mortgage backed securities. The Bank held approximately $0.5 billion in US Treasury securities over year-end 2011, in cash and cash equivalents, as a conservative response to the heightened uncertainty in Europe. These funds were redeployed during 2012 in accordance with our prudent investment strategy.

Deposits

Average customer deposits decreased by $0.2 billion to $7.2 billion in 2012 compared to $7.4 billion in 2011. Strong deposit inflows were seen at year end 2012 resulting in a $0.2 billion increase to $7.5 billion of deposits versus $7.3 billion at the end of the prior year.

REVIEW OF RESULTS OF MAJOR OPERATIONS

Bermuda

Net income before gains and losses was $25.1 million in 2012, up $3.4 million from $21.7 million in 2011. Including net gains and losses – mainly one-time items in respect of fixed asset impairments and write-downs and the sale of an affiliate, net income of $12.1 million for 2012 represented a decrease of $14.3 million year-over-year.

Net interest income fell $2.4 million to $130.1 million in 2012 due to reduced loan volumes and depressed investment yields owing to the historically low interest rates. The net interest margin held steady at 3.2%, due primarily to lower deposit costs that offset the lower yields earned on loans and investments.

Provisions for credit losses were $6.4 million in 2012, compared to $1.2 million in 2011; the increase is attributable mainly to the Bank's residential mortgage portfolio.

Non-interest income of $65.6 million in 2012 was down 2.3% from 2011, reflecting lower foreign exchange, custody, and trust revenues which were partially offset by increased asset management fees and higher than normal loan prepayment fees.

Total expenses were down $12.5 million to $164.2 million in 2012, compared to $176.7 million in 2011. Salary costs declined $5.4 million as a result of reduced headcount which ended the year at 615, down 49, partially due to the Bank's voluntary early retirement programme, combined with natural attrition and redundancies. Expense savings, principally from expense management initiatives, contributed an additional $9.5 million in cost reductions, offset by a $2.4 million increase in technology costs from higher depreciation on system upgrades.

Total assets as at 31 December 2012 were $4.7 billion, up $0.2 billion from 2011. Customer deposits ended the year at $3.4 billion, up $0.1 billion from 2011, and loan balances decreased $0.2 billion to $2.2 billion compared to the prior year, mainly from the repayment of a Bermuda Government loan.

Client assets under administration for the trust and custody businesses were $30.1 billion and $27.8 billion, respectively, whilst assets under management declined by $0.3 billion to $3.1 billion.

Cayman Islands

Net income before gains and losses of $19.5 million was more than double the prior year's $9.0 million. The increase primarily reflects a $7.3 million increase in net interest income and a reduction of $2.7 million in provisions for credit losses. Net income increased by $13.0 million to $24.0 million in 2012.

Net interest income before loan loss provisions was $44.6 million in 2012, $7.3 million ahead of the prior year, driven primarily by the increase in investment income resulting in an average increase of $152 million in fixed income investments, which contributed to improved net interest margin of 2.3%, up from 2.0% in 2011.

Provisions for credit losses decreased by $2.7 million from reductions and recovery in provisions in the Cayman loan portfolio of $3.4 million in 2012 compared to 2011, offset by increased provisioning of $0.7 million on the Bahamian residential mortgage book in 2012.

Total assets at 31 December 2012 were $2.1 billion, up $0.1 billion from year-end 2011, reflecting higher corporate client deposit levels. Net loans decreased by $16.5 million from year-end 2011, reflecting significant principal repayments primarily on residential mortgages.

Client assets under administration for the trust and custody businesses were $1.7 billion and $1.4 billion, respectively, whilst assets under management declined by $0.2 billion to $0.8 billion.

Guernsey

Guernsey posted net income of $9.7 million in 2012, compared to net income of $9.4 million in 2011, an increase of 3.6%.

Net interest income increased $3.2 million to $21.6 million in 2012, compared to $18.4 million in 2011. Average loan balances increased $92.1 million, contributing to a 0.32% increase in the net interest margin to 1.43% in 2012, up from 1.16% in the prior year.

Provisions for credit losses of $1.0 million were required in 2012, compared to $0.6 million last year.

Non-interest income decreased $1.7 million to $20.0 million, mainly due to lower foreign exchange, asset management and custody revenue combined with lower income from administered banking services.

Total expenses, at $30.8 million, were $0.6 million higher than 2011, due mainly to an increase in salary and employee benefit costs, up 8.9% to support increased regional centralisation, and an increase in technology expense, offset by savings in property, professional services and other expenses.

Total assets at 31 December 2012 of $1.5 billion were consistent with year-end 2011.

Client assets under administration for the trust, custody and administered banking businesses were $9.9 billion (2011: $8.2 billion), $7.4 billion (2011: $6.7 billion), and $1.5 billion (2011: $1.7 billion), respectively reflecting solid growth in the trust business line. Client assets under management were consistent with the prior year at $0.6 billion.

United Kingdom

The United Kingdom recorded a net loss of $24.6 million in 2012, compared to a loss of $3.3 million in 2011. The majority of the loss was a result of a one-off impairment of the UK's goodwill and intangible assets totalling $16.6 million and a deferred tax valuation allowance and tax adjustment of $5.0 million.

Net interest income before credit provisions of $14.2 million was up $1.5 million. The net interest margin climbed 0.20% to 1.52% in 2012 from growth of $62 million in average loan balances and the repayment of subordinated debt in early 2012, offset by lower yields achieved on the investment portfolio.

Provisions for credit losses of $5.5 million were required in 2012, compared to $6.7 million of credit losses last year; both years' provisions related to legacy commercial loan facilities.

Non-interest income was $8.2 million, down $2.8 million from the prior year as a result of the cancellation of an investment management agreement with Bentley Reid at the end of the second quarter, and lower customer-led foreign exchange volumes.

Total expenses, at $24.6 million, were $4.3 million higher than 2011 due to the $5.0 million income tax expense (noted above), offset by continued cost management initiatives and the reduction in the UK headcount year on year.

Total assets stood at $0.9 billion at 31 December 2012, down from $1.0 billion at 31 December 2011. Loan balances increased $74 million from $433.6 million, offset by a reduction in investment and cash balances. Customer deposit balances declined by $25.7 million to end the year at $709.3 million.

Assets under management, totalling $0.2 billion, decreased from $0.6 billion at year-end 2011 following the termination of the Bentley Reid investment services contract. Custody client assets under administration at the end of 2012 amounted to $1.7 billion, up $0.4 billion from $1.3 billion at year-end 2011.

Shareholders are invited to hear Brad Rowse, Butterfield's Executive Vice President & Chief Financial Officer, provide a detailed review of the Bank's quarterly results via a recorded webcast available from 27 February 2013. Please visit the Investor Relations section of the Bank's website, www.butterfieldgroup.com, for details.

Notes:

(1) The results of Butterfield Bank (Barbados) Limited are presented as discontinued operations, and prior-period amounts have been adjusted accordingly. Revenues, non-interest expenses, income taxes, earnings before income taxes, net interest margin, return on tangible common equity, tangible equity and headcount throughout this News Release are from continuing operations (i.e., before discontinued operations) unless otherwise stated. Net income, earnings per Share, return on equity, and return on assets, throughout this news release are after discontinued operations unless otherwise stated.

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The Bank of N.T. Butterfield & Son Limited ("Butterfield") is Bermuda's first and largest independent bank, and a specialist provider of international financial services. The Butterfield Group offers a full range of community banking services in Bermuda, and the Cayman Islands, encompassing retail and corporate banking and treasury activities. In the wealth management area, the Group provides private banking, asset management, investment advisory and personal trust services from its headquarters in Bermuda and subsidiary offices in The Bahamas, the Cayman Islands, Guernsey, Switzerland and the United Kingdom. Butterfield also provides services to corporate and institutional clients from offices in Bermuda, The Bahamas, the Cayman Islands and Guernsey, which include asset management and corporate trust services.

Butterfield is a publicly traded corporation with shares listed on the Bermuda and Cayman Islands stock exchanges. Butterfield's Share price is published daily in *The Royal Gazette* (www.theroyalgazette.com) and is also available on *Bloomberg Financial Markets* (symbol: NTB BH) and the Bermuda Stock Exchange website (www.bsx.com). Further details on the Butterfield Group can be obtained from our website at: www.butterfieldgroup.com.

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