2011 Financial Results

The Bank of N.T. Butterfield & Son Limited

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2011 – Key accomplishments

Key accomplishments in 2011 were as follows:

- ✓ **Systems:** We implemented new core banking systems in Bermuda and the Cayman Islands.
- ✓ **Capital:** We maintained a strong capital position, with over $1.0 billion of regulatory capital, a Tier 1 capital ratio of 17.7% at 31 December 2011, with a tangible common equity to tangible asset ratio of 6.6%, up 13.8% from 5.8% in 2010.
- ✓ **Profitability**: The Bank delivered four consecutive quarters of profitability; with net income for the year rising from $14.8 million normalised in 2010 to $40.5 million in 2011.
- ✓ **Investment strategy:** We implemented a new investment strategy for the deployment of excess liquidity that contributed to the improvement in the net interest margin by 47 basis points, from 2.03% in 2010 to 2.50% in 2011, despite an environment of falling interest rates and our dedication to conservative investments.
- ✓ **Expenses**: We reduced non-interest expenses by $11.0 million, from $309.5 million in 2010, to $298.5 million in 2011.
- ✓ **Head count**: Across the Group, headcount was reduced by 135, from 1,519 as at 31 December 2010 to 1,384 by the end of 2011.
- ✓ **Deposits:** The Bank maintained stable core deposits, whilst decreasing deposit costs by 13 basis points, from 65 basis points in 2010 to 52 basis points in 2011.
- ✓ **Loan quality**: Gross non-accrual loans as a percentage of gross loans decreased to 2.8% at year-end 2011 from 3.9% at year-end 2010 as certain properties previously pledged as security for customer loans are now held directly by the Bank as Other Real Estate Owned.
- ✓ **Asset quality:** Non-performing assets as a percentage of total assets, at 1.7% at year-end 2011, is a new measure reflecting both non-accrual loans and Other Real Estate Owned.
- ✓ **Ratings reaffirmed:** Standard & Poor's ratings reaffirmed at A- under new ratings methodology; Fitch reaffirmed at A-

Statement of operations – actual

Net income was $40.5 million in 2011 compared to a loss of $207.6 million in 2010. Return to profitability was driven by losses recognized in 2010 to clean-up the balance sheet, and 2011 improvements in operating income. Operating income benefitted from increased lending, the new investment strategy, and discipline over deposit pricing and expense management, which overcame reductions in non-interest income due to economic conditions.

In $ millions	31 Dec 2011	31 Dec 2010	YoY
Non-interest income	135.2	143.4	(8.2)
Net interest income	213.7	178.9	34.8
Operating revenues	**349.0**	**322.4**	**26.6**
Non-interest expenses	(298.5)	(309.5)	11.0
Operating income	**50.5**	**12.9**	**37.6**
Gains (Losses)	4.3	(180.5)	184.8
Provision for credit losses	(14.3)	(42.0)	27.6
Net income (loss) before taxes	**40.5**	**(209.6)**	**250.1**
Income taxes	-	2.0	(2.0)
Net income (loss)	**40.5**	**(207.6)**	**248.1**
Cash dividends on CVCP shares	(3.3)	-	(3.3)
Cash dividends on preferred shares	(16.0)	(16.0)	-
Preferred share guarantee fee	(2.0)	(2.0)	-
Net income (loss) attributable to common shareholders	**19.2**	**(225.6)**	**244.8**
Diluted cash earnings (loss) per share	0.03	(0.47)	0.50

Statement of operations – normalised

Net income was $40.5 million in 2011 compared to a normalised net income of $14.8 million in 2010. The increase in profitability was due to increased lending, the new investment strategy and discipline over deposit pricing, which overcame reductions in non-interest income due to economic conditions, higher expenses due to efficiency project costs and higher credit provisions as tough economic conditions continue.

In $ millions	31 Dec 2011	31 Dec 2010	YoY
Non-interest income	135.2	139.6	(4.4)
Net interest income	213.7	178.9	34.8
Operating revenues	**349.0**	**318.6**	**30.4**
Non-interest expenses	(298.5)	(292.0)	(6.5)
Operating income	**50.5**	**26.5**	**23.9**
Gains	4.3	-	4.3
Provision for credit losses	(14.3)	(10.1)	(4.2)
Net income before taxes	**40.5**	**16.4**	**24.1**
Income taxes	-	(1.6)	(1.6)
Net income	**40.5**	**14.8**	**25.7**
Cash dividends on CVCP shares	(3.3)	-	(3.3)
Cash dividends on preferred shares	(16.0)	(16.0)	-
Preferred share guarantee fee	(2.0)	(2.0)	-
Net income (loss) attributable to common shareholders	**19.2**	**(3.2)**	**22.4**
Diluted cash earnings (loss) per share	0.03	(0.01)	0.04

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Net interest margin

Net interest income of$213.8 million in 2011 was favourable compared to the prior year of $178.9. Higher lending, particularly Bermuda government and UK residential mortgages, the new investment strategy and deposit pricing discipline overcame a low and declining interest rate environment. Rate curves both fell and flattened much more than anticipated.

In $ million	Year ended 31 Dec 2011			Year ended 31 Dec 2010			YoY ($)
Assets	Average Balance	Interest	Rate	Average Balance	Interest	Rate	
Cash equivalents and short term investments	1,932.5	10.8	0.56%	2,107.6	11.0	0.52%	(0.2)
Investments	2,486.0	45.6	1.84%	2,595.6	28.3	1.09%	17.3
Loans	4,132.8	202.6	4.90%	4,119.6	198.1	4.81%	4.5
Earning assets	**8,551.4**	**259.0**	**3.03%**	**8,822.8**	**237.4**	**2.69%**	**21.6**
Other assets	466.3	-	-	467.8	-	-	-
Total assets	**9,017.6**	**259.0**	**2.87%**	**9,290.6**	**237.4**	**2.56%**	**21.6**
Liabilities							
Deposits	6,720.9	(34.7)	(0.52%)	7,103.2	(46.0)	(0.65%)	11.3
Securities sold under repurchase agreements	3.6	-	-	-	-	-	-
Subordinate debt	278.4	(10.5)	(3.77%)	282.7	(12.5)	(4.41%)	2.0
Interest bearing liabilities	**7,002.9**	**(45.2)**	**(0.65%)**	**7,385.9**	**(58.5)**	**(0.79%)**	**13.3**
Non-interest bearing current accounts	987.7	-	-	961.6	-	-	-
Other liabilities	192.3	-	-	243.0	-	-	-
Total liabilities	**8,182.9**	**(45.2)**	**(0.55%)**	**8,581.5**	**(58.5)**	**(0.68%)**	**13.3**
Shareholders' equity	834.7	-	-	709.1	-	-	
Liabilities and shareholders' equity	**9,017.6**			**9,290.6**			
Net interest margin		**213.8**	**2.50%**		**178.9**	**2.03%**	**34.9**
Free balance	1,548.4			1,436.9			

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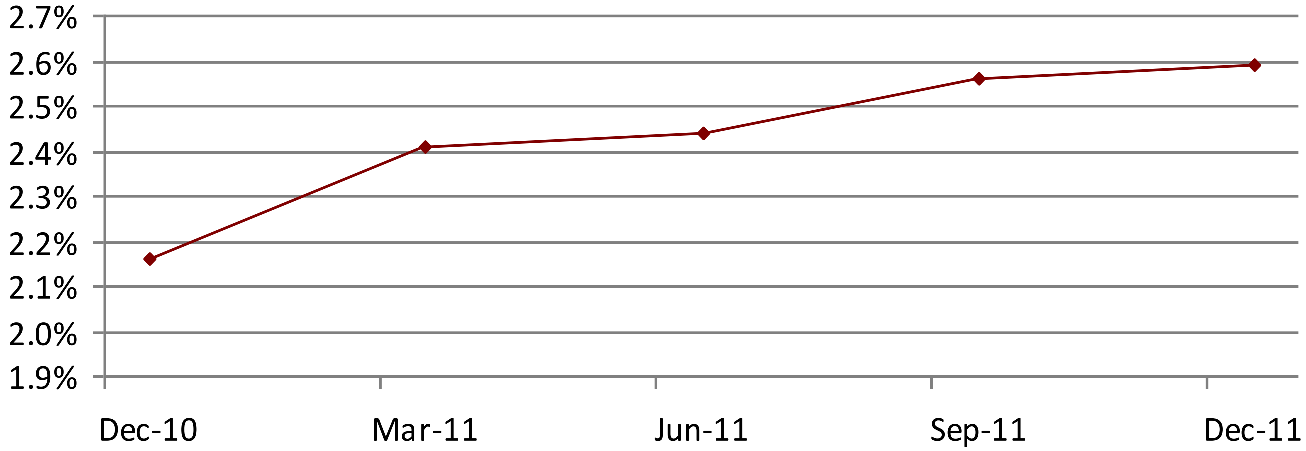
Net interest margin trend

Quarterly group margins have increased year over year from 2.16% to 2.59% mainly due to a change in the investment strategy, increase in the loan portfolio by $204 million, and lower deposit costs.



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Non-interest income

Non-interest income of $135.2 million in 2011 was down $8.2 million over the prior year, and down $4.4 million or 3.2% over the normalised 2010 results. The decrease is primarily due to the sale of Hong Kong and Malta which generated revenues of $2.9 million in 2010. The remaining net decrease was driven by reduced volumes in both custody and foreign exchange transactions.

In $ millions	31 Dec 2011	31 Dec 2010	YoY
Banking	33.3	33.9	(0.6)
Asset management	22.9	24.5	(1.6)
Foreign exchange	31.5	32.5	(1.0)
Trust	30.0	30.5	(0.5)
Custody and other administrative services	11.8	13.6	(1.8)
Other non-interest income	5.7	8.3	(2.6)
Non-interest income	**135.2**	**143.4**	**(8.2)**
Normalised adjustments:			
Decrease in carrying value of investments in affiliates	-	1.6	(1.6)
Write-back of unclaimed balances and dividends	-	(5.8)	5.8
Other non-recurring items	-	0.3	(0.3)
Normalized non-interest income	**135.2**	**139.6**	**(4.4)**

Non-interest expenses

Non-interest expenses of $298.5 million in 2011 represented a decrease of $11.0 million from the prior year, but an increase of $6.5 million from the normalised 2010 expenses. The increase from normalised results was due to $7.9 million of amounts incurred in 2011 related to downsizing and system conversion costs, that would have been “normalised” if such a concept continued. The residual reduction of $1.4 million is due to management driven cost savings of $9.1 million, partially related to the head count reduction of 135, offset by $6.2 million of increased incentive pools and $1.5 million of merit increases.

In $ millions	31 Dec 2011	31 Dec 2010	YoY
Salaries and employee benefits	150.8	159.1	8.3
Technology and communications	55.0	54.0	(1.0)
Property	29.3	27.5	(1.8)
Professional and outside services	18.8	13.8	(5.0)
Non-income taxes	14.5	15.4	0.9
Amortisation of intangible assets	5.8	5.7	(0.1)
Marketing	5.3	5.0	(0.3)
Other expenses	19.1	28.9	9.9
Non-interest expenses	**298.5**	**309.5**	**11.0**
Non-recurring organisational change costs	-	(12.4)	(12.4)
Fees pertaining to liquidity facility	-	(7.4)	(7.8)
Other non-recurring items	-	2.3	2.3
Normalised non-interest expenses	**298.5**	**292.0**	**(6.5)**

Headcount by jurisdiction

Headcount declined by 135 year over year across the Group as a result of natural attrition, targeted redundancies across most jurisdictions and an early retirement program in Bermuda.

Jurisdiction	31 Dec 2011	31 Dec 2010	YoY
Bermuda	664	732	*(68)*
Cayman	308	326	*(18)*
Bahamas	28	43	*(15)*
Barbados	114	138	*(24)*
Guernsey	165	166	*(1)*
Switzerland	5	5	-
UK	101	109	*(8)*
Total Group	**1,384**	**1,519**	***(135)***

Balance sheet

In $ millions	Dec 2011	Dec 2010	*YoY*
Assets			
Cash and cash equivalent	1,979	2,430	*(450)*
Short term investments	35	26	*8*
Investments	2,090	2,629	*(539)*
Loans	4,247	4,043	*204*
Goodwill and other intangible assets	49	55	*(6)*
Total other assets	424	440	*(16)*
Total assets	**8,824**	**9,623**	***(799)***
Liabilities			
Deposits	7,525	8,228	*(703)*
Subordinated debt	268	283	*(15)*
Other liabilities	201	303	*(102)*
Equity	830	809	*20*
Total liabilities and equity	**8,824**	**9,623**	***(799)***
Balance sheet ratios			
Tangible common equity	6.6%	5.8%	*0.7%*
Loans to customer deposits	57.4%	49.6%	*4.6%*

Cash and cash equivalents have decreased by $450m consistent with the decline in deposits.

Investments declined by $539m due to the sale of European exposures in Q4 2011 replaced with treasuries categorised as cash and cash equivalents.

Loans increased by $204m from year-end driven by net loans to the Bermuda Government of $196m and $121m growth in Guernsey offset by run-off and loan repayments.

Deposits have decreased by $703m primarily due to the timing of large institutional flows and a strategic decision to exit unprofitable deposit business in the UK.

Other liabilities have decreased by $102 million primarily due to the $113 million settlement of investment purchases that was outstanding at year-end 2010.

Tangible common equity ratio at 6.6% has increased from 5.8% as at 31 December 2010.

Equity roll forward

Shareholders' equity increased $20.4 million during the year ended 2011 mostly driven by an increase in net income and gains realised on available for sale investments.

In $ millions	12 Months to 31 Dec 2011	12 Months to 31 Dec 2010
Balance at beginning of period	**809.3**	**355.5**
New capital raised:		
Common capital raise	-	550.0
Common capital raise and rights costs	-	(28.7)
Net new capital raised	**-**	**521.3**
Other changes in equity:		
Net income	40.5	(207.6)
Share-based compensation	3.9	7.6
Preferred dividend and guarantee fee (inc CVCP dividend)	(21.3)	(18.0)
Net other changes in equity	**23.1**	**(218.0)**
Accumulated other comprehensive income (AOCI):		
Translation adjustment on foreign operations	0.8	(4.5)
Unrealised gains (loss) on AFS securities	19.8	38.8
Unrealised gains (loss) on HTM securities	-	58.6
Employee future benefits	(23.4)	57.7
Net change in AOCI	**(2.7)**	**150.6**
Net change in shareholders' equity	**20.4**	**453.8**
Balance as at end of period	**829.7**	**809.3**

Investments

Total cash and cash equivalents and investments were $4.1 billion, down $1.0 billion from last year-end due to increased lending and a decline in year-end deposit balances.

Total cash and investments made up 46.5% of total assets compared to 52.8% last year-end.

In $ millions	31 Dec 2011	31 Dec 2010	*YoY*
Cash, cash equivalent and short term investments	2,014	2,456	(442)
Investments :			
Trading	63	18	45
Available for Sale	1,962	2,611	(649)
Held to Maturity	65	-	65
Total investments	**2,090**	**2,629**	**(539)**
Total	**4,104**	**5,085**	**(981)**
In % of total assets	46.5%	52.8%	(6.3%)

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Investments and deposit with banks

The average maturity of the investment portfolio increased from 1.3 years last year to 1.9 years at the end of 2011 due the purchase of longer duration assets in the corporate debt and US government agency categories.

The investments'estimated weighted average yield is 1.27%, up from 1.07% last year as the new investment strategy has been deployed, offsetting a lower rate environment.

	31 December 2011				31 December 2010			
In $ millions	Carrying amount	Loss (gain) in AOCI	Weighted average years to maturity	Weighted average yield to amortised cost	Carrying amount	Loss (gain) in AOCI	Weighted average years to maturity	Weighted average yield to amortised cost
Cash, cash equivalent and short term investments	2,014	-	0.0	0.39%	2,456	-	-	0.52%
Certificates of deposit	356	(2)	0.6	1.88%	859	(5)	0.5	1.22%
Corporate debt securities	409	3	2.8	2.26%	347	5	1.0	0.65%
Corporate debt securities guaranteed by non-US governments	122	1	0.8	1.08%	150	-	1.8	1.06%
Asset-backed securities	144	5	7.4	0.66%	147	6	8.5	0.41%
Pass through notes	27	7	5.8	-	58	5	6.5	-
Debt securities issued by non-US governments	119	(2)	2.2	2.55%	139	(2)	2.9	2.59%
US government and federal agencies	856	(12)	5.3	2.61%	917	10	4.1	2.52%
Equity securities	57	-	n/a	n/a	12	-	n/a	n/a
Total	**4,104**	**1**	**1.9**	**1.27%**	**5,085**	**20**	**1.3**	**1.07%**

Net loans by jurisdiction

Loans increased $204 million to $4.2 billion primarily due to the net advancement of $196 million to the Bermuda Government and an increase of $121 million in Guernsey. This was offset primarily by repayments of certain large corporate loans. During 2011, there were intergroup transfers of loans primarily between Bermuda, The Bahamas, and Cayman which was the primary driver for the increase in Cayman's loan balance.

In $ millions	31 Dec 2011	31 Dec 2010	YoY
Bermuda	2,507	2,505	2
Barbados	178	185	*(7)*
Cayman	722	608	*114*
Guernsey	453	333	*121*
The Bahamas	5	68	*(64)*
United Kingdom	434	415	*19*
Less: intercompany loans	(50)	(70)	*19*
Total	**4,247**	**4,043**	**204**

In £ millions (local currency)			
Guernsey	292	213	*79*
United Kingdom	280	268	*11*
Foreign exchange			
£ to $ FX rate	1.56	1.56	-
Fx impact from YE (in $ millions)	(5)	-	(5)

Loan credit quality

Specific allowance decreased by $4 million in the year primarily due to the charge-off of certain loan facilities.

General allowance remained steady at $36 million.

Non-accrual loans declined from $160 million last year-end to $122 million at the ended of 31 December 2011 primarily due to the transfer of $27 million of non-accrual loans ('NAL') to the Other Real Estate Owned ('OREO') category. The NAL/gross loan ratio fell from 3.9% last year end to 2.8% as at 31 December 2011. Non-performing assets/total assets, which includes NAL and OREO assets, was 1.7% at year end compared to 1.6% last year.

In $ millions	31 Dec 2011	31 Dec 2010	YoY
Gross loans	4,309	4,110	*199*
Specific allowance	26	30	*(4)*
General allowance	36	36	*(1)*
Total allowance	61	67	*(5)*
Net loans	**4,247**	**4,043**	***204***
Non-accrual loans	122	160	*(37)*
Other real estate owned	27	-	*27*
Non-accrual loans /gross loans	2.8%	3.9%	*(1.0%)*
Non-performing assets/total assets	1.7%	1.6%	*0.1%*
Coverage ratio by specific provision	21.2%	19.0%	*2.2%*

Average customer deposits by jurisdiction

Average customer deposits were $7.7 billion in 2011, down $356 million compared to 2010 primarily from a decrease of $218 million in the UK related to the exit of non-core business and $90 million lower hedge fund deposits in Cayman. Core deposits have remained stable.

In $ millions	Average 31 Dec 2011	Average 31 Dec 2010	*YoY*
Bermuda	3,340	3,351	*(11)*
Barbados	259	240	*19*
Cayman	1,732	1,823	*(90)*
Guernsey	1,470	1,488	*(19)*
The Bahamas	92	129	*(37)*
United Kingdom	816	1,034	*(218)*
Total	**7,709**	**8,065**	***(356)***
In £ millions (local currency)			
Guernsey	947	954	*(7)*
United Kingdom	526	663	*(137)*
Foreign exchange			
£ to $ FX rate	1.55	1.56	-
Fx impact from YE (in $ millions)	*(13)*	-	-

*Average balances calculated from daily balances

Capital ratios remain strong

The Tier 1 capital ratio was 17.7% at 31 December 2011, up from 15.7% last year. The total capital ratio increased to 23.5% compared to 21.6% a year ago. As at December 2011, total capital stood at $1.041bn. During Q3 2011, $15m, 5.11% subordinated debt was repurchased.

The Tier 1 common ratio was very strong ending the year at 13.1%, up from 11.6% last year.

(in $ millions)	31 Dec 2011	31 Dec 2010
Tier 1 capital	781	773
Tier 2 capital	276	310
Deductions	(17)	(15)
Total capital	**1,041**	**1,068**
Risk weighted assets	4,426	4,935
Ratios		
Tier 1 common ratio (%)	13.1%	11.6%
Tier 1 capital ratio (%)	17.7%	15.7%
Total capital ratio (%)	23.5%	21.6%