



Butterfield

First Quarter 2010
Report to Shareholders

The Bank of N.T. Butterfield & Son Limited

First Quarter 2010 Report to Shareholders

Dear Shareholder,

For the three months ended 31 March 2010, Butterfield had a net loss of \$176.3 million, or \$0.75 per share on a fully diluted basis. The net loss for the quarter is due primarily to realised/unrealised losses of \$174.3 million on the sale of \$820.1 million of asset-backed securities and reductions in the carrying value of remaining securities that became other-than-temporarily impaired during the quarter. Those events represent the last major steps under a plan to de-risk the balance sheet that was announced on 2 March 2010. At that time, Butterfield disclosed that we anticipated taking investment losses in the first quarter of between \$150 million and \$175 million as we worked to restructure assets and clear the balance sheet of problematic assets.

Under the strategic de-risking programme, \$550 million of new common equity was issued to a consortium of institutional investors, providing capital to offset loan loss provisions in respect of underperforming hospitality loans and enabling the Bank to sell the majority of its asset-backed securities and discontinue the use of held-to-maturity accounting. The sale of asset-backed securities has now been largely completed, and the Bank has closed its held-to-maturity investment portfolio.

Butterfield continues to hold structured investment vehicles ("SIVs") in its available-for-sale (AFS) portfolio, which were acquired from the Butterfield Money Market Fund in 2007, 2008 and 2009 as a means of helping the Fund maintain its AAAM S&P rating. As at 31 March 2010, following write downs of \$60.5 million during the quarter (included in the total realised/unrealised losses for the quarter of \$174.3 million), the SIVs were valued at \$136 million, representing 5.7% of the investment portfolio or 1.4% of total assets. In addition, the Bank continues to hold \$151 million of asset-backed and mortgage-backed securities in the AFS portfolio, which are high-quality and/or US government-guaranteed, and therefore not considered to be potentially problematic.

As part of the capital raising agreement with the new investors, legacy shareholders received rights to purchase up to \$130 million of common equity, which would reduce proportionately the ownership interest of the new investors. The Rights Offering commenced on 12 April and concluded on 11 May 2010. We are pleased to report that the Rights Shares available under the Offering were oversubscribed, with demand among common shareholders and investors who purchased rights on the Bermuda Stock Exchange exceeding available supply. This means legacy shareholders and investors who purchased Rights on the BSX now own collectively 37% of the Bank's outstanding common shares.

Despite the losses reported in Q1 2010, the Bank's regulatory capital base totalled just over \$1 billion as at 31 March 2010, with a total capital ratio of 20.0% and a tier 1 ratio of 14.3%, up 9.9% and 7.1% respectively. The Bank's capital ratios are now well in excess of the Bermuda Monetary Authority's (BMA) minimum tier 1 ratio and the Individual Capital Guidance for total capital set by the BMA under the Basel II framework. The Bank's tangible common equity ratio ended the quarter at 4.9%, higher than the 4.7% we had forecasted.

In keeping with the decision we announced in early March to suspend common dividend payments until the Bank returns to a position of sustainable profitability, the Board did not declare a dividend on common shares for the first quarter of 2010. The Board declared a dividend on the Bank's 8% preference shares payable on 15 June to preference shareholders of record on 1 June 2010.

REVIEW OF OPERATING PERFORMANCE

Normalised earnings, which exclude certain other gains and losses and other one-off items, were \$0.7 million for the first quarter, compared to \$11.1 million in Q1 2009. Butterfield's revenues continue to be suppressed as a consequence of both low interest rates and low asset values on the world's financial markets.

- Non-interest income at \$40.5 million, was down \$0.1 million, year-on-year, reflecting decreases in the values of assets under management. Asset management revenues were down \$1.5 million as net asset values of assets under management declined. This was offset by an increase in trust revenues of \$0.7 million, year on year, on an increase in assets under administration of 3.8%, from \$26.9 billion to \$27.9 billion. Non-interest revenues from banking were up \$0.3 million mainly due to loan exit fees in the UK. Income from foreign exchange remained in line with the prior year. Other non-interest income included a write off of \$5.8 million of unclaimed balances and dividends, a write off of \$0.3 million in receivables due from the sale of property in 2009, and losses on investments in affiliates of \$0.4 million. Total normalised non-interest income was \$35.4 million in Q1 2010, compared to \$35.8 million a year ago.
- Net interest income before credit provisions, at \$42.8 million in Q1 2010, was down by \$6.5 million (13.0%) versus Q1 2009. The reduction reflects lower margins from historically low interest rates worldwide, particularly in Bermuda, the United Kingdom and the United States,

as well as decreased values of interest-earning assets. Average interest earning assets were down \$1.2 billion (11.1%) year on year to \$9.2 billion, which accounted for \$5.5 million of the decrease in net interest income, whilst the net interest margin before credit provisions, at 1.89%, was down four basis points year on year, which accounted for the remaining \$0.9 million of the decrease in net interest income.

- Non-interest expenses increased year on year by \$14.9 million, or 20.4%, to \$87.8 million. \$14.8 million of the increase was due to one-time items that included: an accrual of \$3.3 million in connection with retention and staff-related benefits; a charge of \$5.8 million related to share-based compensation expenses that occurred as all stock options and deferred incentive shares immediately vested on the equity investment in March; the write off of \$0.3 million of previously capitalised property and premises planning costs, as the Bank cancelled non-critical premises upgrades during the quarter; the recovery of \$1.6 million of litigation fees following the successful settlement of a trust case in Guernsey; and \$7 million of fees incurred by the Bank payable to Canadian Imperial Bank of Commerce (CIBC) for the commitment for a line of credit. After adjusting for these one-time items, total normalised non-interest expenses in Q1 2010 of \$73.0 million were in line with the Q1 2009 figure of \$72.9 million.

Net income tax for the quarter ending 31 March 2010 was a credit of \$2.5 million compared to a credit of \$2.1 million in the first quarter of 2009.

- Total assets of the Group increased to \$10.1 billion at 31 March 2010, compared to \$9.6 billion as at 31 December 2009. This was largely due to the \$550 million capital raise in March 2010 and a \$45 million increase in customer deposits.
- The loan portfolio was \$4.1 billion at 31 March 2010, down \$103.9 million (2.4%) versus 31 December 2009. The Group's loan portfolio is experiencing higher net run-offs, coupled with a reduced corporate business pipeline. The loan portfolio represented 40.9% of total assets at 31 March 2010, compared to 44.0% at 31 December 2009, whilst loans as a percentage of customer deposits was 47.6% at end Q1 2010 compared to 49.2% at end 2009. Non-performing loans totalled \$234.6 million at 31 March 2010, representing 5.5% of total loans, compared to 5.4% at 2009 year end.

- Shareholders' equity increased in Q1 2010 by \$393.5 million (110.7%) to \$749.0 million as at 31 March 2010, primarily reflecting the proceeds of the capital raise (net of related transaction costs) of \$512.5 million and a net loss for the quarter of \$176.3 million.
- Assets under administration across the group decreased by \$3.1 billion from \$60.7 billion as at 31 December 2009 to \$57.5 billion at 31 March 2010.
- Assets under management stood at \$6.2 billion as at 31 March 2010.

By the end of the first quarter, Butterfield had significantly reduced its balance sheet exposure to potentially problematic securities. We are now focusing our resources on returning Butterfield's businesses to a state of healthy growth. We believe the Bank is well positioned for a return to profitability when interest rates rebound. We are pleased that we were able to provide our legacy shareholders with an opportunity to participate in that potential future growth of the Bank through the recent Rights Offering. Thank you for your ongoing support and loyalty to Butterfield.

For full financial results and a detailed review of the Butterfield's performance, please visit our website, www.butterfieldgroup.com.



Robert Mulderig
Chairman



Bradford Kopp
President &
Chief Executive Officer

Financial Highlights

(in \$ thousands except per share data - unaudited except where stated)

As at

Consolidated Balance Sheet	31 March 2010	31 December 2009*
Cash and deposits with banks	3,278,417	1,986,798
Investments	2,229,378	2,953,658
Loans, net of allowance for credit losses	4,114,438	4,218,332
Premises, equipment and computer software	249,618	244,242
Total assets	10,060,093	9,594,602
Total deposits	8,742,131	8,696,619
Subordinated capital	282,587	283,085
Shareholders' equity	749,004	355,460

*Audited

For the three-month period ended

Consolidated Statement of Income	31 March 2010	31 March 2009
Net interest income after provision for credit losses	41,771	48,278
Fee and other income	40,489	40,619
Revenue before gains and losses	82,260	88,897
Salaries and other employee benefits	47,782	40,675
Other non-interest expenses	40,044	32,265
Other losses	(173,268)	(38,837)
Net loss	(176,342)	(20,773)

Shareholder data

Earnings per share (\$)		
Basic	(0.75)	(0.22)
Diluted	(0.75)	(0.22)
Number of common shares (in thousands) - Average	145,720	98,909
Number of common shares (in thousands) - Period End	243,868	99,060
Cash dividend declared on common shares	-	0.04
Book value per share	0.99	1.63

Further Financial Information

The Group's results are prepared in accordance with US GAAP. Further financial information may be found on our website, www.butterfieldgroup.com

Investor Contact

John Maragliano
SVP, Finance
Tel: (441) 298 4758
E-mail: john.maragliano@bm.butterfieldgroup.com

Media Contact

Mark Johnson
AVP, Marketing & Corporate Communications
Tel: (441) 299 1624
E-mail: mark.johnson@bm.butterfieldgroup.com