

Moving Forward

*Together*



## First Quarter 2011

The Bank of N.T. Butterfield & Son Limited

Report to shareholders and financial results for the  
three months ended 31 March 2011



Butterfield

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

## Unaudited Consolidated Balance Sheet

(In thousands of Bermuda dollars)

	As at	
	31 March 2011	31 December 2010 Audited
<b>Assets</b>		
Cash and demand deposits with banks	307,099	300,865
Cash equivalents	2,202,596	2,128,834
<b>Total cash and cash equivalents</b>	<b>2,509,695</b>	<b>2,429,699</b>
Short term investments	15,766	26,392
Debt and equity securities		
Trading	18,572	18,088
Available for sale	2,428,115	2,611,056
<b>Total investments in debt and equity securities</b>	<b>2,446,687</b>	<b>2,629,144</b>
Loans, net of allowance for credit losses	4,026,581	4,043,360
Premises, equipment and computer software	263,810	261,955
Accrued interest	20,196	17,691
Goodwill	16,447	16,017
Intangible assets	38,353	38,946
Investments in affiliates	32,335	33,534
Receivable from investments sold	28,459	50,817
Other assets	69,845	75,505
<b>Total assets</b>	<b>9,468,174</b>	<b>9,623,060</b>
<b>Liabilities</b>		
Deposits		
Non-interest bearing	1,017,796	977,417
Interest bearing		
Customers	7,082,762	7,170,963
Banks	102,121	79,679
<b>Total deposits</b>	<b>8,202,679</b>	<b>8,228,059</b>
Employee future benefits	83,219	85,209
Accrued interest	9,041	9,647
Preference shares dividend payable	715	715
Payable for investments purchased	-	112,663
Other liabilities	71,795	94,680
<b>Total other liabilities</b>	<b>164,770</b>	<b>302,914</b>
Subordinated capital	283,035	282,799
<b>Total liabilities</b>	<b>8,650,484</b>	<b>8,813,772</b>
<b>Shareholders' equity</b>		
Common share capital (\$0.01 par; authorised shares 26,000,000,000 (2010: \$0.01 par; authorised shares 26,000,000,000) issued and outstanding: 549,146,348 (2010: 549,143,448)	5,491	5,491
Preference share capital (\$0.01 par; \$1,000 liquidation preference) issued and outstanding: 200,000 (2010: 200,000)	2	2
Contingent value convertible preference share capital (\$0.01 par) issued and outstanding 7,786,187 (2010: 7,789,087)	78	78
Additional paid-in capital	1,376,639	1,376,037
Accumulated deficit	(505,711)	(509,579)
Less: treasury common shares (2,402,874 shares; 2010: 2,401,593 shares)	(24,077)	(24,127)
Accumulated other comprehensive loss	(34,732)	(38,614)
<b>Total shareholders' equity</b>	<b>817,690</b>	<b>809,288</b>
<b>Total liabilities and shareholders' equity</b>	<b>9,468,174</b>	<b>9,623,060</b>

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

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

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

	For the three month period ended	
	31 March 2011	31 March 2010
<b>Non-interest income</b>		
Asset management	5,662	6,029
Banking	8,953	9,273
Foreign exchange revenue	7,466	8,686
Trust	7,227	7,216
Custody and other administration services	3,237	3,603
Other non-interest income	1,147	5,682
<b>Total non-interest income</b>	<b>33,692</b>	<b>40,489</b>
<b>Interest income</b>		
Loans	48,821	48,263
Investments	11,131	7,523
Deposits with banks	3,133	2,639
<b>Total interest income</b>	<b>63,085</b>	<b>58,425</b>
<b>Interest expense</b>		
Deposits	9,385	12,163
Subordinated capital	2,283	3,433
<b>Total interest expense</b>	<b>11,668</b>	<b>15,596</b>
<b>Net interest income before provision for credit losses</b>	<b>51,417</b>	<b>42,829</b>
Provision for credit losses	(3,847)	(1,058)
<b>Net interest income after provision for credit losses</b>	<b>47,570</b>	<b>41,771</b>
Net trading gains	187	957
Net realised gains (losses) on available for sale investments	193	(113,757)
Other-than-temporary impairment losses on available for sale investments	-	(60,522)
Net other (losses) gains	(1,239)	54
<b>Total net revenue</b>	<b>80,403</b>	<b>(91,008)</b>
<b>Non-interest expense</b>		
Salaries and other employee benefits	36,082	47,782
Technology and communications	13,171	12,559
Property	7,164	7,077
Professional and outside services	3,805	1,685
Non-income taxes	3,906	3,758
Amortisation of intangible assets	1,405	1,465
Marketing	1,188	1,112
Other expenses	5,158	12,388
<b>Total non-interest expense</b>	<b>71,879</b>	<b>87,826</b>
<b>Net income (loss) before income taxes</b>	<b>8,524</b>	<b>(178,834)</b>
Income taxes (expense) benefit	(156)	2,492
<b>Net income (loss)</b>	<b>8,368</b>	<b>(176,342)</b>
Cash dividends declared on preferred shares	(4,000)	(4,000)
Preferred shares guarantee fee	(500)	(500)
<b>Net income (loss) attributable to common shareholders</b>	<b>3,868</b>	<b>(180,842)</b>
<b>Income (loss) per common share</b>		
Basic	0.01	(0.75)
Diluted	0.01	(0.75)

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

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

(In thousands of Bermuda dollars)

	For the three month period ended	
	31 March 2011	31 March 2010
<b>Common share capital issued and outstanding</b>		
Balance at beginning of period (2011: 549,143,448 shares; 2010: 99,060,111 shares)	5,491	99,060
Issuance (2011: nil shares; 2010: 144,807,606 shares)	-	144,808
Conversion of contingent value preference shares (2011: 2,900 shares; 2010: nil shares)	-	-
<b>Balance at end of period (2011: 549,146,348 shares; 2010: 243,867,717 shares)</b>	<b>5,491</b>	<b>243,868</b>
<b>Preferred shares</b>		
Balance at beginning of period (2011: 200,000 shares; 2010: 200,000 shares)	2	2
Issuance (2011: nil shares; 2010: nil shares)	-	-
<b>Balance at end of period (2011: 200,000 shares; 2010: 200,000 shares)</b>	<b>2</b>	<b>2</b>
<b>Mandatorily convertible preferred shares</b>		
Balance at beginning of period (2011: nil shares; 2010: nil shares)	-	-
Issuance (2011: nil shares; 2010: 281,770 shares)	-	3
<b>Balance at end of period (2011: nil shares; 2010: 281,770 shares)</b>	<b>-</b>	<b>3</b>
<b>Contingent convertible preferred shares</b>		
Balance at beginning of period (2011: nil shares; 2010: nil shares)	-	-
Issuance (2011: nil shares; 2010: 93,230 shares)	-	1
<b>Balance at end of period (2011: nil shares; 2010: 93,230 shares)</b>	<b>-</b>	<b>1</b>
<b>Contingent value convertible preferred shares</b>		
Balance at beginning of period (2011: 7,789,087 shares; 2010: nil shares)	78	-
Conversion to common shares (2011: 2,900 shares; 2010: nil shares)	-	-
<b>Balance at end of period (2011: 7,786,187 shares; 2010: nil shares)</b>	<b>78</b>	<b>-</b>
<b>Additional paid in capital</b>		
Balance at beginning of period	1,376,037	764,206
Stock option plan expense	602	2,654
Issuance of common shares	-	30,192
Issuance of mandatorily convertible preferred shares	-	281,769
Issuance of contingent convertible preferred shares	-	93,229
Cost of capital raise and rights offering	-	(37,500)
<b>Balance at end of period</b>	<b>1,376,639</b>	<b>1,134,550</b>
<b>Accumulated deficit</b>		
Balance at beginning of period	(509,579)	(283,964)
Net income (loss) for period	8,368	(176,342)
Cash dividends declared on preferred shares	(4,000)	(4,000)
Preferred shares guarantee fee	(500)	(500)
<b>Balance at end of period</b>	<b>(505,711)</b>	<b>(464,806)</b>
<b>Treasury common shares</b>		
Balance at beginning of period (2011: 2,401,593 shares; 2010: 3,426,106 shares)	(24,127)	(34,660)
Share based compensation	-	3,444
Net purchases, sales and transfers of treasury shares	50	-
<b>Balance at end of period (2011: 2,402,874 shares; 2010: 2,556,379 shares)</b>	<b>(24,077)</b>	<b>(31,216)</b>

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

### Unaudited Consolidated Statements of Changes in Shareholders' Equity (continued)

(In thousands of Bermuda dollars)

	For the three month period ended	
	31 March 2011	31 March 2010
<b>Accumulated other comprehensive loss</b>		
Balance at beginning of period	(38,614)	(189,184)
Net change in unrealised gains (losses) on translation of net investment in foreign operations	1,470	(5,230)
Net change in unrealised gains on available for sale investments	2,712	1,097
Net change in unrealised non-credit losses on held to maturity investments	-	58,557
Net change in employee future benefits liability	(300)	1,362
<b>Balance at end of period</b>	<b>(34,732)</b>	<b>(133,398)</b>
<b>Total shareholders' equity</b>	<b>817,690</b>	<b>749,004</b>
<b>Comprehensive income (loss)</b>		
Net income (loss)	8,368	(176,342)
Other comprehensive income	3,882	55,786
<b>Total comprehensive income (loss)</b>	<b>12,250</b>	<b>(120,556)</b>
<b>Components of accumulated other comprehensive loss</b>		
Cumulative unrealised losses on translation of investment in foreign operations	(10,674)	(12,880)
Cumulative unrealised losses on available for sale investments	(15,470)	(55,894)
Cumulative change in employee future benefits liability	(8,588)	(64,624)
<b>Balance at end of period</b>	<b>(34,732)</b>	<b>(133,398)</b>

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

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

(In thousands of Bermuda dollars)

	For the three month period ended	
	31 March 2011	31 March 2010
<b>Cash flows from operating activities</b>		
Net income (loss)	8,368	(176,342)
Adjustments to reconcile net income (loss) to operating cash flows:		
Depreciation and amortization	8,339	5,748
Decrease in carrying value of investments in affiliates	1,199	561
Share-based payments	652	6,099
Loss (gain) on sale of premises and equipment	12	(8)
Net realised (gains) losses and other-than-temporary impairment on sale of available for sale investments	(193)	174,279
Provision for credit losses	3,847	1,058
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(2,392)	(2,431)
(Increase) Decrease in other assets	15,082	(1,884)
Decrease in accrued interest payable	(659)	(1,220)
(Decrease) Increase in other liabilities	(126,617)	29,858
	<b>(92,362)</b>	<b>35,718</b>
Net change in trading investments	(14)	1,538
<b>Cash (used in) provided by operating activities</b>	<b>(92,376)</b>	<b>37,256</b>
<b>Cash flows from investing activities</b>		
Net decrease in short term investments	10,626	7,361
Additions to premises, equipment and computer software	(5,851)	(10,120)
Net decrease in loans	32,369	50,665
Held to maturity investments: proceeds from maturities	-	21,026
Available for sale investments: proceeds from sale and maturities	788,095	1,991,195
Available for sale investments: purchases	(578,076)	(1,025,635)
<b>Cash provided by investing activities</b>	<b>247,163</b>	<b>1,034,492</b>
<b>Cash flows from financing activities</b>		
Net (decrease) increase in demand and term deposit liabilities	(98,254)	203,273
Issuance of common share capital	-	175,000
Issuance of preferred share capital	-	375,000
Cost of issuing share capital and rights	-	(26,578)
Cash dividends paid on preferred shares	(4,000)	(4,622)
Preferred shares guarantee fee paid	(500)	(500)
<b>Cash (used in) provided by financing activities</b>	<b>(102,754)</b>	<b>721,573</b>
Net effect of exchange rates on cash and cash equivalents	27,963	(47,193)
<b>Net increase in cash and cash equivalents</b>	<b>79,996</b>	<b>1,746,128</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>2,429,699</b>	<b>2,065,175</b>
<b>Cash and cash equivalents at end of period</b>	<b>2,509,695</b>	<b>3,811,303</b>

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

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

## Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars)

### Note 1: Significant Accounting Policies

The accompanying unaudited interim consolidated financial statements of The Bank of N.T. Butterfield & Son Limited (the "Bank" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and should be read in conjunction with the Bank's audited financial statements for the year ending 31 December 2010. To facilitate comparison of information across periods, certain reclassifications have been made to prior period amounts to conform to the current period's presentation.

In the opinion of Management, these unaudited interim consolidated financial statements reflect all adjustments (consisting principally of normal recurring accruals) considered necessary for a fair presentation of the Bank's financial position and results of operations as at the end of and for the periods presented. Consequently, the Bank's results for interim periods are not necessarily indicative of results for the full year.

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

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

The following accounting developments were issued during the three months ended 31 March 2011. These developments did not have a material impact on the Bank's financial position or results of operations.

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

In July 2010, the FASB issued an accounting standards update about additional "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses". The new disclosure guidance significantly expanded the existing requirements. The extensive new disclosures of information became effective for both interim and annual reporting periods ending after 15 December 2010. Specific items regarding activity that occurred before the issuance of the Accounting Standards Update, such as the allowance roll forward and modification disclosures are required for periods beginning after 15 December 2010. The adoption of this standard did not affect the Bank's consolidated financial condition or results of operations since it amended only the disclosure requirements for financing receivables and the allowance for credit losses. The disclosure requirements that relate to activity that occurs during a reporting period were effective for the Bank on 1 January 2011 and did not affect the Bank's consolidated financial condition or results of operations since it amended only the disclosure requirements for the allowance for credit losses. The prior period figures for loan disclosures have been reclassified to conform to the current enhanced note disclosures required by the standard.

#### Troubled debt restructurings

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

### Note 2: Change in accounting policy

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

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

(In thousands of Bermuda dollars)

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

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

	As reported		Adjustments		Restated	
	31 March 2011	31 December 2010	31 March 2011	31 December 2010	31 March 2011	31 December 2010
<b>Consolidated Balance Sheet</b>						
Cash and demand deposits with banks	321,422	325,367	(14,323)	(24,502)	307,099	300,865
Cash equivalents						
Term deposits with banks	1,900,565	1,950,179	(1,443)	(1,890)	1,899,122	1,948,289
Certificate of deposits and treasury bills	-	-	303,474	180,545	303,474	180,545
Total cash equivalents	1,900,565	1,950,179	302,031	178,655	2,202,596	2,128,834
Total cash and cash equivalents	2,221,987	2,275,546	287,708	154,153	2,509,695	2,429,699
Short term investments	-	-	15,766	26,392	15,766	26,392
Debt and equity securities						
Trading	18,572	18,088	-	-	18,572	18,088
Available for sale	2,731,589	2,791,601	(303,474)	(180,545)	2,428,115	2,611,056
Total investments in debt and equity securities	2,750,161	2,809,689	(303,474)	(180,545)	2,446,687	2,629,144

	As reported	Adjustments	Restated
	31 March 2010	31 March 2010	31 March 2010
<b>Extract of consolidated cash flow statement</b>			
<b>Cash flows from operating activities</b>			
(Increase) decrease in other assets		(766)	(1,884)
Net change in trading account securities	772	766	1,538
<b>Cash flows from investing activities</b>			
Net decrease in term deposits with banks	(1,450,534)	1,450,534	-
Net decrease in short term investments	-	7,361	7,361
Available for sale securities: proceeds from sale and maturities	1,544,048	447,147	1,991,195
Available for sale securities: purchases	(1,025,635)	-	(1,025,635)
Net effect of exchange rates on cash and cash equivalents	2,046	(49,239)	(47,193)
Net decrease in cash and cash equivalents	(109,674)	1,855,802	1,746,128
Cash and cash equivalents at beginning of period	551,249	1,513,926	2,065,175
Cash and cash equivalents at end of period	441,575	3,369,728	3,811,303

**Note 3: Cash and Cash Equivalents**

	31 March 2011			31 December 2010		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
<b>Unrestricted</b>						
<b>Non-interest earning</b>						
Cash and demand deposits	143,966	37,888	181,854	118,155	42,895	161,050
<b>Interest earning</b>						
Demand Deposits	-	125,245	125,245	44	139,771	139,815
Cash equivalents	391,686	1,810,910	2,202,596	602,135	1,526,699	2,128,834
Sub-total - Interest earning	391,686	1,936,155	2,327,841	602,179	1,666,470	2,268,649
<b>Total cash and cash equivalents</b>	<b>535,652</b>	<b>1,974,043</b>	<b>2,509,695</b>	<b>720,334</b>	<b>1,709,365</b>	<b>2,429,699</b>



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

(In thousands of Bermuda dollars)

**Note 4: Short Term Investments**

	31 March 2011			31 December 2010		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
<b>Unrestricted</b>						
<b>Interest earning</b>						
Term deposits maturing between three to six months	-	1,215	1,215	-	392	392
Term deposits maturing between six to twelve months	-	-	-	-	1,215	1,215
<b>Total unrestricted short term investments</b>	-	1,215	1,215	-	1,607	1,607
<b>Affected by drawing restrictions related to minimum reserve and derivative margin requirements</b>						
<b>Non-interest earning</b>						
Demand deposits	-	11,996	11,996	-	6,156	6,156
<b>Interest earning</b>						
Term deposits maturing within three months	1,810	745	2,555	18,157	472	18,629
<b>Total restricted short term investments</b>	1,810	12,741	14,551	18,157	6,628	24,785
<b>Total short term investments</b>	1,810	13,956	15,766	18,157	8,235	26,392

**Note 5: Investments**

**Amortised cost, carrying amounts and estimated fair value**

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

	31 March 2011				31 December 2010			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value
<b>Trading</b>								
Debt securities issued by non-US governments	6,750	115	(270)	6,595	6,553	150	(192)	6,511
Equity securities	12,065	323	(411)	11,977	11,981	273	(677)	11,577
<b>Total trading</b>	18,815	438	(681)	18,572	18,534	423	(869)	18,088
<b>Available for sale</b>								
Certificates of deposit	632,294	2,713	(286)	634,721	854,273	4,885	(12)	859,146
US government and federal agencies	1,024,018	45	(12,614)	1,011,449	927,598	398	(10,502)	917,494
Debt securities issued by non-US governments	135,347	1,643	(49)	136,941	131,028	1,675	(11)	132,692
Corporate debt securities guaranteed by non-US governments	149,512	211	(508)	149,215	149,948	76	(304)	149,720
Corporate debt securities	318,159	14	(3,433)	314,740	352,960	14	(5,504)	347,470
Asset-backed securities - Student loans	151,748	-	(4,648)	147,100	152,434	-	(5,623)	146,811
Structured investment vehicles	35,097	-	(1,227)	33,870	62,762	-	(5,116)	57,646
Equity securities	79	-	-	79	77	-	-	77
<b>Total available for sale</b>	2,446,254	4,626	(22,765)	2,428,115	2,631,080	7,048	(27,072)	2,611,056

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

(In thousands of Bermuda dollars)

**Note 5: Investments (continued)**

**Unrealised loss positions**

The following tables show the fair value and gross unrealised losses of the Bank's 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 2011	Less than 12 months		12 months or more		Total fair value	Total gross unrealised losses
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses		
<b>Available for sale</b>						
Certificates of deposit	225,404	(286)	-	-	225,404	(286)
US government and federal agencies	883,759	(12,513)	22,945	(101)	906,704	(12,614)
Debt securities issued by non-US governments	32,590	(42)	2,493	(7)	35,083	(49)
Corporate debt securities guaranteed by non-US governments	63,767	(508)	-	-	63,767	(508)
Corporate debt securities	7,222	(10)	247,483	(3,423)	254,705	(3,433)
Asset-backed securities - Student loans	-	-	147,100	(4,648)	147,100	(4,648)
Structured investments vehicles	-	-	33,870	(1,227)	33,870	(1,227)
<b>Total available for sale securities with unrealised losses</b>	<b>1,212,742</b>	<b>(13,359)</b>	<b>453,891</b>	<b>(9,406)</b>	<b>1,666,633</b>	<b>(22,765)</b>

31 December 2010	Less than 12 months		12 months or more		Total fair value	Total gross unrealised losses
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses		
<b>Available for sale</b>						
Certificates of deposit	128,619	(12)	-	-	128,619	(12)
US government and federal agencies	775,157	(10,459)	23,337	(43)	798,494	(10,502)
Debt securities issued by non-US governments	3,239	(11)	-	-	3,239	(11)
Corporate debt securities guaranteed by non-US governments	108,611	(304)	-	-	108,611	(304)
Corporate debt securities	8,075	(46)	322,995	(5,458)	331,070	(5,504)
Asset-backed securities - Student loans	-	-	146,811	(5,623)	146,811	(5,623)
Structured investments vehicles	33,304	(2,589)	24,342	(2,527)	57,646	(5,116)
<b>Total available for sale securities with unrealised losses</b>	<b>1,057,005</b>	<b>(13,421)</b>	<b>517,485</b>	<b>(13,651)</b>	<b>1,574,490</b>	<b>(27,072)</b>

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

**Certificates of deposit**

As of 31 March 2011, gross unrealised losses on the Bank's holdings of certificates of deposit (CDs) were \$0.3 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 2011, gross unrealised losses on securities related to United States (US) government and federal agencies were \$12.6 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 2011, gross unrealised losses on debt securities issued by non-US governments were \$0.05 million, \$0.04 million of which related to investments that were in an unrealised loss position for less than 12 months. All securities in this category were issued by governments of Caribbean jurisdictions. These securities do not have any credit losses, given the explicit guarantees provided by the non-US governments.

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

As of 31 March 2011, gross unrealised losses related to corporate debt securities guaranteed by non-US governments were \$0.5 million, all of which related to investments that were in an unrealised loss position for less than 12 months. All the bank issued securities acquired are explicitly guaranteed by the following governments: United Kingdom, Netherlands, France, Australia, Denmark and Germany. One security is jointly and explicitly guaranteed proportionately by three European Governments, Belgium, France and Luxembourg. These securities do not have any credit losses, given the guarantees provided by the non-US governments.

**Corporate debt securities**

As of 31 March 2011, gross unrealised losses related to corporate debt securities were \$3.43 million, of which \$3.42 million related to investments that were in an unrealised loss position for longer than 12 months. Management estimates of cash flows are based on market observable data, issuer specific information and credit ratings. Management believes these securities do not have any credit losses.

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

(In thousands of Bermuda dollars)

**Note 5: Investments (continued)**

**Asset-backed securities - Student loans**

As of 31 March 2011, gross unrealised losses on student-loan asset backed securities were \$4.6 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 wider credit spreads and a maturity profile that was longer than was initially estimated.

**Structured investment vehicles**

A structured investment vehicle (SIV) was a type of fund whose strategy was to borrow money by issuing highly rated short-term securities bearing low interest and then invests that money by buying long-term securities such as a range of asset-backed securities, as well as some corporate bonds, earning higher interest, making a profit from the spread.

As of 31 March 2011, gross unrealised losses related to our remaining SIV were \$1.2 million, all of which related to a SIV that have been in an unrealised loss position for greater than 12 months. Overall unrealised losses have decreased since 31 December 2010 as a result of the disposal of another SIV investment held at 31 December 2010, resulting in proceeds of \$26.5 million and a gain of \$0.1 million. In analyzing the SIV for potential credit losses, key inputs to cash flow projections were congruous with the key inputs noted in the Bank's audited financial statements for the year ending 31 December 2010 for each collateral class.

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

	Remaining term to earlier of expected or contractual maturity					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying amount
<b>31 March 2011</b>						
<b>Trading</b>						
Debt securities issued by non-US governments	-	735	3,003	2,857	-	6,595
Equity securities	84	-	-	-	11,893	11,977
<b>Total trading</b>	<b>84</b>	<b>735</b>	<b>3,003</b>	<b>2,857</b>	<b>11,893</b>	<b>18,572</b>
<b>Available for sale</b>						
Certificates of deposit	154,804	354,840	125,077	-	-	634,721
US government and federal agencies	76	1,231	866,093	144,049	-	1,011,449
Debt securities issued by non-US governments	671	33,945	81,672	20,653	-	136,941
Corporate debt securities guaranteed by non-US governments	-	-	149,215	-	-	149,215
Corporate debt securities	25,917	177,298	110,459	1,066	-	314,740
Asset-backed securities - Student loans	-	-	40,736	106,364	-	147,100
Structured investments vehicles	-	-	33,870	-	-	33,870
Equity securities	-	-	-	2	77	79
<b>Total available for sale</b>	<b>181,468</b>	<b>567,314</b>	<b>1,407,122</b>	<b>272,134</b>	<b>77</b>	<b>2,428,115</b>
<b>Total investments</b>	<b>181,552</b>	<b>568,049</b>	<b>1,410,125</b>	<b>274,991</b>	<b>11,970</b>	<b>2,446,687</b>
<b>Total by currency</b>						
Bermuda dollars	-	-	-	-	173	173
US dollars	20,794	180,203	1,289,106	262,736	5,323	1,758,162
Other	160,758	387,846	121,019	12,255	6,474	688,352
<b>Total investments</b>	<b>181,552</b>	<b>568,049</b>	<b>1,410,125</b>	<b>274,991</b>	<b>11,970</b>	<b>2,446,687</b>

	Remaining term to earlier of expected or contractual maturity					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying amount
<b>31 December 2010</b>						
<b>Trading</b>						
Debt securities issued by non-US governments	-	728	2,967	2,816	-	6,511
Equity securities	-	-	-	-	11,577	11,577
<b>Total trading</b>	<b>-</b>	<b>728</b>	<b>2,967</b>	<b>2,816</b>	<b>11,577</b>	<b>18,088</b>
<b>Available for sale</b>						
Certificates of deposit	582,783	198,362	78,001	-	-	859,146
US government and federal agencies	660	23,575	803,851	89,408	-	917,494
Debt securities issued by non-US governments	(454)	32,224	80,384	20,538	-	132,692
Corporate debt securities guaranteed by non-US governments	-	-	149,720	-	-	149,720
Corporate debt securities	39,365	121,878	185,160	1,067	-	347,470
Asset-backed securities - Student loans	-	-	5,872	140,939	-	146,811
Structured investments vehicles	-	-	57,646	-	-	57,646
Equity securities	-	-	-	3	74	77
<b>Total available for sale</b>	<b>622,354</b>	<b>376,039</b>	<b>1,360,634</b>	<b>251,955</b>	<b>74</b>	<b>2,611,056</b>
<b>Total investments</b>	<b>622,354</b>	<b>376,767</b>	<b>1,363,601</b>	<b>254,771</b>	<b>11,651</b>	<b>2,629,144</b>

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

(In thousands of Bermuda dollars)

**Note 5: Investments (continued)**

31 December 2010	Remaining term to earlier of expected or contractual maturity					Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	
Total by currency						
Bermuda dollars	-	-	-	-	169	169
US dollars	257,433	113,393	1,241,064	242,523	5,272	1,859,685
Other	364,921	263,374	122,537	12,248	6,210	769,290
<b>Total investments</b>	<b>622,354</b>	<b>376,767</b>	<b>1,363,601</b>	<b>254,771</b>	<b>11,651</b>	<b>2,629,144</b>

**Note 6: Loans**

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

	31 March 2011			31 December 2010		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
<b>Commercial loans</b>						
Banks	40	-	40	276	81	357
Government	62,300	4,331	66,631	61,739	4,365	66,104
Commercial and industrial	215,586	200,740	416,326	249,965	190,424	440,389
Commercial overdrafts	35,891	35,488	71,379	35,539	40,691	76,230
<b>Total commercial loans</b>	<b>313,817</b>	<b>240,559</b>	<b>554,376</b>	<b>347,519</b>	<b>235,561</b>	<b>583,080</b>
Less specific allowance for credit losses on commercial loans	(331)	(283)	(614)	(313)	(1,746)	(2,059)
<b>Total commercial loans after specific allowance for credit losses</b>	<b>313,486</b>	<b>240,276</b>	<b>553,762</b>	<b>347,206</b>	<b>233,815</b>	<b>581,021</b>
<b>Commercial real estate loans</b>						
Commercial mortgage	495,710	432,591	928,301	567,776	366,933	934,709
Construction	36,099	4,897	40,996	44,093	13,047	57,140
<b>Total commercial real estate loans</b>	<b>531,809</b>	<b>437,488</b>	<b>969,297</b>	<b>611,869</b>	<b>379,980</b>	<b>991,849</b>
Less specific allowance for credit losses on commercial real estate loans	(19,025)	(5,749)	(24,774)	(16,400)	(4,900)	(21,300)
<b>Total commercial real estate loans after specific allowance for credit losses</b>	<b>512,784</b>	<b>431,739</b>	<b>944,523</b>	<b>595,469</b>	<b>375,080</b>	<b>970,549</b>
<b>Consumer loans</b>						
Automobile financing	32,289	5,709	37,998	37,296	6,025	43,321
Credit card	55,755	23,474	79,229	58,582	25,035	83,617
Overdrafts	5,016	8,547	13,563	4,995	5,415	10,410
Other consumer	97,517	135,064	232,581	94,756	139,276	234,032
<b>Total consumer loans</b>	<b>190,577</b>	<b>172,794</b>	<b>363,371</b>	<b>195,629</b>	<b>175,751</b>	<b>371,380</b>
Less specific allowance for credit losses on consumer loans	(85)	(1,475)	(1,560)	(118)	(2,269)	(2,387)
<b>Total consumer loans after specific allowance for credit losses</b>	<b>190,492</b>	<b>171,319</b>	<b>361,811</b>	<b>195,511</b>	<b>173,482</b>	<b>368,993</b>
<b>Residential mortgage loans</b>	<b>1,343,113</b>	<b>866,973</b>	<b>2,210,086</b>	<b>1,341,461</b>	<b>822,365</b>	<b>2,163,826</b>
Less specific allowance for credit losses on residential mortgage loans	(2,135)	(5,379)	(7,514)	(1,710)	(2,856)	(4,566)
<b>Total residential mortgage loans after specific allowance for credit losses</b>	<b>1,340,978</b>	<b>861,594</b>	<b>2,202,572</b>	<b>1,339,751</b>	<b>819,509</b>	<b>2,159,260</b>
<b>Total gross loans</b>	<b>2,379,316</b>	<b>1,717,814</b>	<b>4,097,130</b>	<b>2,496,478</b>	<b>1,613,657</b>	<b>4,110,135</b>
Less specific allowance for credit losses	(21,576)	(12,886)	(34,462)	(18,541)	(11,771)	(30,312)
Less general allowance for credit losses	(25,325)	(10,762)	(36,087)	(26,038)	(10,425)	(36,463)
<b>Net loans</b>	<b>2,332,415</b>	<b>1,694,166</b>	<b>4,026,581</b>	<b>2,451,899</b>	<b>1,591,461</b>	<b>4,043,360</b>

	31 March 2011		31 December 2010	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
<b>Total loans</b>				
Commercial loans	554,376	-	583,080	-
Commercial real estate loans	969,297	-	991,849	-
Consumer loans	6,052	357,319	9,035	362,345
Residential mortgage loans	46,335	2,163,751	45,598	2,118,228
<b>Total</b>	<b>1,576,060</b>	<b>2,521,070</b>	<b>1,629,562</b>	<b>2,480,573</b>

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

(In thousands of Bermuda dollars)

**Note 6: Loans (continued)**

The table below summarizes the changes in allowances for credit losses:

General allowances	31 March 2011				31 December 2010	
	Commercial loans	Commercial real estate loans	Consumer loans	Residential mortgage loans	Total loans	
General allowances at beginning of period	6,107	7,513	8,491	14,352	36,463	31,735
Provision taken (release) during the period	1,221	(1,644)	(1,263)	(24)	(1,710)	2,933
Recoveries	-	-	1,428	-	1,428	2,456
Charge-offs	-	-	(119)	-	(119)	(628)
Other	10	-	15	-	25	(33)
General allowances at end of period	7,338	5,869	8,552	14,328	36,087	36,463

Specific allowances	31 March 2011				31 December 2010	
	Commercial loans	Commercial real estate loans	Consumer loans	Residential mortgage loans	Total loans	
Specific allowances at beginning of period	2,059	21,300	2,387	4,566	30,312	98,582
Provision taken during the period	18	3,170	1,548	821	5,557	39,037
Charge-offs	-	-	(1,603)	-	(1,603)	(107,307)
Other	(1,463)	304	(772)	2,127	196	-
Specific allowances at end of period	614	24,774	1,560	7,514	34,462	30,312
Ending Balance: individually evaluated for impairment	614	24,774	1,560	7,514	34,462	30,312
Ending Balance: collectively evaluated for impairment	7,338	5,869	8,552	14,328	36,087	36,463

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

31 March 2011	Non accrual loans with an allowance					
	Non delinquent	30 – 90 days past due	90 days past due	Gross recorded investments	Specific allowance	Net recorded investments
<b>Commercial loans</b>						
Commercial and industrial	176	-	1,696	1,872	(559)	1,313
Commercial overdrafts	-	-	21	21	(55)	(34)
<b>Total commercial loans</b>	<b>176</b>	<b>-</b>	<b>1,717</b>	<b>1,893</b>	<b>(614)</b>	<b>1,279</b>
<b>Commercial real estate loans</b>	<b>-</b>	<b>-</b>	<b>77,235</b>	<b>77,235</b>	<b>(24,774)</b>	<b>52,461</b>
<b>Consumer loans</b>						
Overdrafts	-	-	323	323	(323)	-
Other consumer	-	-	1,518	1,518	(1,237)	281
<b>Total consumer loans</b>	<b>-</b>	<b>-</b>	<b>1,841</b>	<b>1,841</b>	<b>(1,560)</b>	<b>281</b>
<b>Residential mortgage loans</b>	<b>-</b>	<b>1,316</b>	<b>19,831</b>	<b>21,147</b>	<b>(7,514)</b>	<b>13,633</b>
<b>Total loans</b>	<b>176</b>	<b>1,316</b>	<b>100,624</b>	<b>102,116</b>	<b>(34,462)</b>	<b>67,654</b>
	Non accrual loans without an allowance					
<b>Commercial loans</b>						
Commercial and industrial	46	12	3,206	3,264	-	3,264
Commercial overdrafts	-	-	7,224	7,224	-	7,224
<b>Total commercial loans</b>	<b>46</b>	<b>12</b>	<b>10,430</b>	<b>10,488</b>	<b>-</b>	<b>10,488</b>
<b>Commercial real estate loans</b>	<b>1,494</b>	<b>-</b>	<b>3,370</b>	<b>4,864</b>	<b>-</b>	<b>4,864</b>
<b>Consumer loans</b>						
Automobile financing	263	493	562	1,318	-	1,318
Overdrafts	-	-	43	43	-	43
Other consumer	222	554	2,074	2,850	-	2,850
<b>Total consumer loans</b>	<b>485</b>	<b>1,047</b>	<b>2,679</b>	<b>4,211</b>	<b>-</b>	<b>4,211</b>
<b>Residential mortgage loans</b>	<b>1,137</b>	<b>4,316</b>	<b>19,735</b>	<b>25,188</b>	<b>-</b>	<b>25,188</b>
<b>Total loans</b>	<b>3,162</b>	<b>5,375</b>	<b>36,214</b>	<b>44,751</b>	<b>-</b>	<b>44,751</b>
<b>Total impaired loans</b>	<b>3,338</b>	<b>6,691</b>	<b>136,838</b>	<b>146,867</b>	<b>(34,462)</b>	<b>112,405</b>

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

(In thousands of Bermuda dollars)

**Note 6: Loans (continued)**

31 December 2010

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

	31 March 2011	31 March 2010
Gross interest income would have been recorded had impaired loans been current	2,100	3,200
Average non accrual recorded investments	153,200	233,400

The table below presents information about the loan delinquencies:

	31 March 2011			31 December 2010			
	30 – 59 days	60 – 89 days	90 days or more	Total delinquent loans	Loans past due 90 days and still accruing interest	Total delinquent loans	Loans past due 90 days and still accruing interest
<b>Commercial loans</b>							
Commercial and industrial	978	643	4,946	6,567	44	6,788	-
Commercial overdrafts	30	1	7,246	7,277	1	8,909	-
<b>Total commercial loans</b>	1,008	644	12,192	13,844	45	15,697	-
<b>Commercial real estate loans</b>							
Commercial mortgage	843	-	80,605	81,448	-	91,546	-
Construction	-	-	-	-	-	8,068	-
<b>Total commercial real estate loans</b>	843	-	80,605	81,448	-	99,614	-
<b>Consumer loans</b>							
Automobile financing	915	482	562	1,959	-	859	-
Credit card	2,926	591	1,191	4,708	1,191	4,779	659
Overdrafts	160	4	366	530	-	574	-
Other consumer	4,734	1,183	3,659	9,576	67	9,994	-
<b>Total consumer loans</b>	8,735	2,260	5,778	16,773	1,258	16,206	659
<b>Residential mortgage loans</b>	41,175	11,538	65,459	118,172	25,893	93,857	29,361
<b>Total loans</b>	51,761	14,442	164,034	230,237	27,196	225,374	30,020

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

(In thousands of Bermuda dollars)

**Note 6: Loans (continued)**

The following table presents information about the credit quality of the Bank's loan portfolio.

<b>31 March 2011</b>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Non Accrual</b>	<b>Total</b>
<b>Commercial loans</b>					
Banks	40	-	-	-	40
Government	66,631	-	-	-	66,631
Commercial and industrial	396,461	10,848	3,881	5,136	416,326
Commercial overdrafts	54,885	9,249	-	7,245	71,379
<b>Total commercial loans</b>	<b>518,017</b>	<b>20,097</b>	<b>3,881</b>	<b>12,381</b>	<b>554,376</b>
<b>Commercial real estate loans</b>					
Commercial mortgage	764,398	71,346	10,458	82,099	928,301
Construction	30,190	10,806	-	-	40,996
<b>Total commercial real estate loans</b>	<b>794,588</b>	<b>82,152</b>	<b>10,458</b>	<b>82,099</b>	<b>969,297</b>
<b>Consumer loans</b>					
Automobile financing	36,456	161	63	1,318	37,998
Credit card	78,038	-	1,191	-	79,229
Overdrafts	12,362	835	-	366	13,563
Other consumer	210,772	16,263	1,178	4,368	232,581
<b>Total consumer loans</b>	<b>337,628</b>	<b>17,259</b>	<b>2,432</b>	<b>6,052</b>	<b>363,371</b>
<b>Residential mortgage loans</b>	<b>2,115,029</b>	<b>40,238</b>	<b>8,484</b>	<b>46,335</b>	<b>2,210,086</b>
<b>Total loans</b>	<b>3,765,262</b>	<b>159,746</b>	<b>25,255</b>	<b>146,867</b>	<b>4,097,130</b>

<b>31 December 2010</b>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Non Accrual</b>	<b>Total</b>
<b>Commercial loans</b>					
Banks	357	-	-	-	357
Government	66,104	-	-	-	66,104
Commercial and industrial	421,306	12,929	790	5,364	440,389
Commercial overdrafts	58,704	8,311	338	8,877	76,230
<b>Total commercial loans</b>	<b>546,471</b>	<b>21,240</b>	<b>1,128</b>	<b>14,241</b>	<b>583,080</b>
<b>Commercial real estate loans</b>					
Commercial mortgage	773,350	59,905	10,827	90,627	934,709
Construction	40,549	16,591	-	-	57,140
<b>Total commercial real estate loans</b>	<b>813,899</b>	<b>76,496</b>	<b>10,827</b>	<b>90,627</b>	<b>991,849</b>
<b>Consumer loans</b>					
Automobile financing	42,095	159	78	989	43,321
Credit card	83,079	-	538	-	83,617
Overdrafts	9,286	437	131	556	10,410
Other consumer	215,088	11,375	79	7,490	234,032
<b>Total consumer loans</b>	<b>349,548</b>	<b>11,971</b>	<b>826</b>	<b>9,035</b>	<b>371,380</b>
<b>Residential mortgage loans</b>	<b>2,071,185</b>	<b>38,260</b>	<b>8,783</b>	<b>45,598</b>	<b>2,163,826</b>
<b>Total loans</b>	<b>3,781,103</b>	<b>147,967</b>	<b>21,564</b>	<b>159,501</b>	<b>4,110,135</b>

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

**Quality classification definitions**

Pass:

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

Special Mention:

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

Substandard:

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

Non Accrual:

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

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

(In thousands of Bermuda dollars)

**Note 7: Credit Risk Concentrations**

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

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

	31 March 2011			31 December 2010		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Banks and financial services	164,268	408,768	573,036	355,215	423,295	778,510
Commercial and merchandising	631,924	303,205	935,129	439,429	250,927	690,356
Governments	66,049	-	66,049	68,250	-	68,250
Individuals	2,193,329	102,851	2,296,180	2,218,136	59,979	2,278,115
Primary industry and manufacturing	86,808	20,750	107,558	70,212	42,376	112,588
Real estate	773,963	-	773,963	789,155	25,960	815,115
Hospitality industry	133,155	754	133,909	128,724	2,804	131,528
Transport and communication	13,172	-	13,172	10,702	200	10,902
Sub-total	4,062,668	836,328	4,898,996	4,079,823	805,541	4,885,364
General allowance	(36,087)	-	(36,087)	(36,463)	-	(36,463)
<b>Total</b>	<b>4,026,581</b>	<b>836,328</b>	<b>4,862,909</b>	<b>4,043,360</b>	<b>805,541</b>	<b>4,848,901</b>

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

	31 March 2011			31 December 2010		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Bermuda	2,357,740	426,155	2,783,895	2,477,937	441,485	2,919,422
Barbados	184,839	7,691	192,530	188,938	8,127	197,065
Cayman	679,967	221,356	901,323	595,425	227,023	822,448
Guernsey	356,850	148,749	505,599	332,827	106,556	439,383
The Bahamas	66,702	964	67,666	69,321	1,734	71,055
United Kingdom	416,570	31,413	447,983	415,375	20,616	435,991
Sub-total	4,062,668	836,328	4,898,996	4,079,823	805,541	4,885,364
General allowance	(36,087)	-	(36,087)	(36,463)	-	(36,463)
<b>Total</b>	<b>4,026,581</b>	<b>836,328</b>	<b>4,862,909</b>	<b>4,043,360</b>	<b>805,541</b>	<b>4,848,901</b>

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

a) **By Maturity**

	31 March 2011			31 December 2010		
	Customers	Banks	Total	Customers	Banks	Total
<b>Demand deposits</b>						
Demand deposits - Non-interest bearing	1,013,675	4,121	1,017,796	977,417	-	977,417
Demand deposits - Interest bearing	4,584,384	28,212	4,612,596	4,558,249	10,793	4,569,042
<b>Sub-total - demand deposits</b>	<b>5,598,059</b>	<b>32,333</b>	<b>5,630,392</b>	<b>5,535,666</b>	<b>10,793</b>	<b>5,546,459</b>
<b>Term deposits</b>						
Term deposits maturing within six months	2,231,387	72,333	2,303,720	2,353,217	64,133	2,417,350
Term deposits maturing between six to twelve months	145,426	1,473	146,899	132,359	4,753	137,112
Term deposits maturing after twelve months	121,565	103	121,668	127,138	-	127,138
<b>Sub-total - term deposits</b>	<b>2,498,378</b>	<b>73,909</b>	<b>2,572,287</b>	<b>2,612,714</b>	<b>68,886</b>	<b>2,681,600</b>
<b>Total</b>	<b>8,096,437</b>	<b>106,242</b>	<b>8,202,679</b>	<b>8,148,380</b>	<b>79,679</b>	<b>8,228,059</b>



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

(In thousands of Bermuda dollars)

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

b) By Type and Location

	31 March 2011			31 December 2010		
	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
<b>Bermuda</b>						
Customers	2,258,349	1,096,056	3,354,405	2,458,003	1,146,796	3,604,799
Banks	-	53,949	53,949	-	44,988	44,988
<b>Barbados</b>						
Customers	168,334	90,795	259,129	159,255	80,686	239,941
Banks	-	-	-	-	-	-
<b>Cayman</b>						
Customers	1,514,492	458,784	1,973,276	1,348,636	432,140	1,780,776
Banks	18,591	19,960	38,551	8,587	22,387	30,974
<b>Guernsey</b>						
Customers	1,134,886	407,518	1,542,404	1,010,897	450,895	1,461,792
Banks	13,493	-	13,493	1,516	-	1,516
<b>The Bahamas</b>						
Customers	90,591	34,577	125,168	84,357	37,606	121,963
Banks	-	-	-	-	-	-
<b>United Kingdom</b>						
Customers	431,407	410,648	842,055	474,518	464,591	939,109
Banks	249	-	249	690	1,511	2,201
<b>Total Customers</b>	<b>5,598,059</b>	<b>2,498,378</b>	<b>8,096,437</b>	<b>5,535,666</b>	<b>2,612,714</b>	<b>8,148,380</b>
<b>Total Banks</b>	<b>32,333</b>	<b>73,909</b>	<b>106,242</b>	<b>10,793</b>	<b>68,886</b>	<b>79,679</b>
<b>Total</b>	<b>5,630,392</b>	<b>2,572,287</b>	<b>8,202,679</b>	<b>5,546,459</b>	<b>2,681,600</b>	<b>8,228,059</b>

**Note 9: Employee Future Benefits**

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

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

	For the three month period ended	
	31 March 2011	31 March 2010
<b>Defined benefit pension expense</b>		
Service cost	697	620
Interest cost	1,879	1,784
Expected return on plan assets	(2,315)	(2,138)
Amortisation of net actuarial loss	1,005	783
<b>Total defined benefit pension expense</b>	<b>1,266</b>	<b>1,049</b>
<b>Post-retirement medical benefit expense</b>		
Service cost	185	1,069
Interest cost	1,107	2,197
Amortisation of net actuarial loss	234	580
Amortisation of past service cost	(1,540)	-
<b>Total post-retirement medical benefit expense</b>	<b>(14)</b>	<b>3,846</b>

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

**Note 10: Credit Related Arrangements and Commitments**

Standby letters of credit and letters of guarantee are issued at the request of a Bank customer in order to secure the customer's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Bank to pay the third party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the customer. Generally, the term of the standby letters of credit does not exceed one year, while the term of the letters of guarantee does not exceed four years. The types and amounts of collateral security held by the Bank for these standby letters of credit and letters of guarantee is generally represented by deposits with the Bank or a charge over assets held in mutual funds.

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

(In thousands of Bermuda dollars)

**Note 10: Credit Related Arrangements and Commitments (continued)**

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 December	31 March 2011			31 December 2010		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	375,540	348,191	27,349	386,728	354,310	32,418
Letters of guarantee	13,208	6,539	6,669	14,115	8,655	5,460
<b>Total</b>	<b>388,748</b>	<b>354,730</b>	<b>34,018</b>	<b>400,843</b>	<b>362,965</b>	<b>37,878</b>

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

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

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

31 December	31 March 2011	31 December 2010
Commitments to extend credit	446,251	402,567
Documentary and commercial letters of credit	1,329	2,131
<b>Total</b>	<b>447,580</b>	<b>404,698</b>

The Bank has a facility by one of its custodians, whereby the Bank may offer up to US\$200 million of standby letters of credit to its customers on a fully secured basis. Under the standard terms of the facility, the custodian has the right to set-off against securities held of 110% of the utilised facility. At 31 March 2011, \$173.7 million (2010: \$174.5 million) of standby letters of credit were issued under this facility.

**Legal Proceedings**

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

**Note 11: Segmented Information**

**Total Assets by Segment**

31 December	31 March 2011	31 December 2010
<b>Bermuda</b>		
Community Banking	4,128,630	4,780,465
Wealth Management	378,922	342,108
Real Estate	69,063	70,012
<b>Total Bermuda</b>	<b>4,576,615</b>	<b>5,192,585</b>
Barbados	292,981	273,797
Cayman	2,217,354	2,036,512
Guernsey	1,692,785	1,617,976
Switzerland	811	1,191
The Bahamas	150,754	146,069
United Kingdom	1,006,446	1,104,946
<b>Total overseas</b>	<b>5,361,131</b>	<b>5,180,491</b>
Less: inter-segment eliminations	(469,572)	(750,016)
<b>Total</b>	<b>9,468,174</b>	<b>9,623,060</b>

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

(In thousands of Bermuda dollars)

**Segment Analysis**

Period ended 31 March 2011	Net interest income		Provision for credit losses	Non- interest income	Revenue before gains and losses	Total expense	Net income (loss) before gains and losses and central allocations	Gains and losses	Net income (loss)
	Customer	Inter- segment							
<b>Bermuda</b>									
Community Banking	30,785	1,932	(2,664)	7,796	37,849	33,349	4,500	615	5,115
Wealth Management	2,280	(1,538)	-	8,024	8,766	6,761	2,005	(1,487)	518
Real Estate	-	(213)	-	853	640	3,174	(2,534)	-	(2,534)
<b>Sub-total Bermuda</b>	<b>33,065</b>	<b>181</b>	<b>(2,664)</b>	<b>16,673</b>	<b>47,255</b>	<b>43,284</b>	<b>3,971</b>	<b>(872)</b>	<b>3,099</b>
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)
<b>Sub-total overseas</b>	<b>18,352</b>	<b>(181)</b>	<b>(1,183)</b>	<b>18,238</b>	<b>35,226</b>	<b>29,970</b>	<b>5,256</b>	<b>286</b>	<b>5,542</b>
<b>Total before eliminations</b>	<b>51,417</b>	<b>-</b>	<b>(3,847)</b>	<b>34,911</b>	<b>82,481</b>	<b>73,254</b>	<b>9,227</b>	<b>(586)</b>	<b>8,641</b>
Less: inter-segment eliminations	-	-	-	(1,219)	(1,219)	(1,219)	-	(273)	(273)
<b>Total</b>	<b>51,417</b>	<b>-</b>	<b>(3,847)</b>	<b>33,692</b>	<b>81,262</b>	<b>72,035</b>	<b>9,227</b>	<b>(859)</b>	<b>8,368</b>

Period ended 31 March 2010	Net interest income		Provision for credit losses	Non- interest income	Revenue before gains and losses	Total expense	Net income (loss) before gains and losses and central allocations	Gains and losses	Net income (loss)
	Customer	Inter- segment							
<b>Bermuda</b>									
Community Banking	25,337	(932)	310	13,527	38,242	47,232	(8,990)	(150,208)	(159,198)
Wealth Management	1,959	1,048	-	6,752	9,759	7,697	2,062	-	2,062
Real Estate	-	(216)	-	501	285	2,946	(2,661)	-	(2,661)
<b>Sub-total Bermuda</b>	<b>27,296</b>	<b>(100)</b>	<b>310</b>	<b>20,780</b>	<b>48,286</b>	<b>57,875</b>	<b>(9,589)</b>	<b>(150,208)</b>	<b>(159,797)</b>
Barbados	3,099	(4)	(608)	769	3,256	3,472	(216)	71	(145)
Cayman	5,925	609	(285)	8,691	14,940	13,657	1,283	(11,606)	(10,323)
Guernsey	2,931	(25)	-	5,789	8,695	5,979	2,716	(1,449)	1,267
Hong Kong *	-	-	-	1,246	1,246	484	762	-	762
Malta *	2	-	-	393	395	327	68	-	68
Switzerland	1	-	-	87	88	567	(479)	-	(479)
The Bahamas	556	12	-	1,287	1,855	1,870	(15)	-	(15)
United Kingdom	3,019	(492)	(475)	2,774	4,826	2,430	2,396	(10,076)	(7,680)
<b>Sub-total overseas</b>	<b>15,533</b>	<b>100</b>	<b>(1,368)</b>	<b>21,036</b>	<b>35,301</b>	<b>28,786</b>	<b>6,515</b>	<b>(23,060)</b>	<b>(16,545)</b>
<b>Total before eliminations</b>	<b>42,829</b>	<b>-</b>	<b>(1,058)</b>	<b>41,816</b>	<b>83,587</b>	<b>86,661</b>	<b>(3,074)</b>	<b>(173,268)</b>	<b>(176,342)</b>
Less: inter-segment eliminations	-	-	-	(1,327)	(1,327)	(1,327)	-	-	-
<b>Total</b>	<b>42,829</b>	<b>-</b>	<b>(1,058)</b>	<b>40,489</b>	<b>82,260</b>	<b>85,334</b>	<b>(3,074)</b>	<b>(173,268)</b>	<b>(176,342)</b>

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

**Note 12: 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 of N.T. Butterfield & Son Limited

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

(In thousands of Bermuda dollars)

### Note 12: Accounting for Derivative Instruments and Risk Management (continued)

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

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

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

#### Notional amounts

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

#### Fair value

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

#### Risk management derivatives

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

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

#### Fair value hedges

Derivatives are designated as fair value hedges to minimise the Bank's exposure to changes in the fair value of assets and liabilities due to movements in interest rates. The Bank enters into interest rate swaps to convert its fixed-rate long-term loans to floating-rate loans, and convert fixed-rate deposits to floating-rate deposits. Changes in fair value of these derivatives are recognised in income. For fair value hedges, the Bank applies the "shortcut" method of accounting, which assumes there is no ineffectiveness in a hedge. As a result, changes recorded in the fair value of the hedged item are equal to the offsetting gain or loss on the derivative and are reflected in the same line item. During the three months ended 31 March 2011, the Bank cancelled their Interest Rate Swaps designated as fair value hedges of loans receivable and therefore discontinued hedge accounting for these financial instruments. The fair value attributable to the hedged loans are accounted for prospectively and will be amortised to net income over the remaining life of each individual loan using the effective interest method.

#### Cash flow hedges

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

As of 31 March 2011 and 2010 there were no cash flow hedges in place and there were no deferred net gains or losses on derivative instruments accumulated in other comprehensive income in relation with cash flow hedges.

#### Derivatives not formally designated as hedges

Derivatives not formally designated as hedges are entered into to manage the interest rate risk of fixed rate deposits with banks. 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 12: 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 2011	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
<b>Risk management derivatives</b>					
Fair value hedges					
Fixed rate loans	Interest rate swaps	35,352	157	-	157
Customer deposits	Interest rate swaps	3,813	-	(157)	(157)
Subtotal fair value hedges		39,165	157	(157)	-
Not designated as hedging instruments					
	Interest rate swaps	365,447	1,025	(707)	318
	Currency swaps	369,443	938	(1,336)	(398)
Subtotal not designated as hedges		734,890	1,963	(2,043)	(80)
<b>Subtotal risk management derivatives</b>		<b>774,055</b>	<b>2,120</b>	<b>(2,200)</b>	<b>(80)</b>
<b>Client services derivatives</b>					
	Spot and forward foreign exchange	5,853,890	35,796	(34,904)	892
	Interest rate caps	38,566	323	(323)	-
<b>Subtotal client services derivatives</b>		<b>5,892,456</b>	<b>36,119</b>	<b>(35,227)</b>	<b>892</b>
<b>Total derivative instruments</b>		<b>6,666,511</b>	<b>38,239</b>	<b>(37,427)</b>	<b>812</b>

31 December 2010	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
<b>Risk management derivatives</b>					
Fair value hedges					
Fixed rate loans	Interest rate swaps	206,473	275	(16,971)	(16,696)
Customer deposits	Interest rate swaps	9,148	-	(206)	(206)
Subtotal fair value hedges		215,621	275	(17,177)	(16,902)
Not designated as hedging instruments					
	Interest rate swaps	360,000	1,481	(555)	926
	Currency swaps	264,843	4,028	(1)	4,027
Subtotal not designated as hedges		624,843	5,509	(556)	4,953
<b>Subtotal risk management derivatives</b>		<b>840,464</b>	<b>5,784</b>	<b>(17,733)</b>	<b>(11,949)</b>
<b>Client services derivatives</b>					
	Spot and forward foreign exchange	4,842,989	39,774	(39,755)	19
	Interest rate caps	37,435	389	(389)	-
<b>Subtotal client services derivatives</b>		<b>4,880,424</b>	<b>40,163</b>	<b>(40,144)</b>	<b>19</b>
<b>Total derivative instruments</b>		<b>5,720,888</b>	<b>45,947</b>	<b>(57,877)</b>	<b>(11,930)</b>

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

Derivative Instrument	Consolidated Statement of Operations line item	For the three month period ended	
		31 March 2011	31 March 2010
Interest rate swaps	Net other gains (losses)	(178)	1,571
Forward foreign exchange	Foreign exchange revenue	1,692	(179)
<b>Total net gains recognised in net income (loss)</b>		<b>1,514</b>	<b>1,392</b>

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

(In thousands of Bermuda dollars)

**Note 13: 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 Note 2.

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

Management classifies items that are recognised at fair value on a recurring basis based on the Level of Inputs used in their respective fair value determination as described in Note 2.

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

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

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

**Items that are recognised at fair value on a recurring basis**

31 December	31 March 2011				31 December 2010			
	Fair value determination			Total carrying amount / Fair value	Fair value determination			Total carrying amount / Fair value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
<b>Financial assets</b>								
Debt and equity securities								
Trading								
Debt securities issued by non-US governments	-	6,595	-	6,595	-	6,511	-	6,511
Equity securities	10,296	1,681	-	11,977	10,021	1,556	-	11,577
<b>Total Trading</b>	<b>10,296</b>	<b>8,276</b>	<b>-</b>	<b>18,572</b>	<b>10,021</b>	<b>8,067</b>	<b>-</b>	<b>18,088</b>
Available for sale								
Certificates of deposit	-	634,721	-	634,721	-	859,146	-	859,146
US government and federal agencies	-	1,011,449	-	1,011,449	-	917,494	-	917,494
Debt securities issued by non-US governments	-	136,941	-	136,941	-	132,692	-	132,692
Corporate debt securities guaranteed by non-US governments	-	149,215	-	149,215	-	149,720	-	149,720
Corporate debt securities	-	314,740	-	314,740	-	347,470	-	347,470
Asset-backed securities - Student loans	-	135,011	12,089	147,100	-	135,632	11,179	146,811
Structured investments vehicles	-	-	33,870	33,870	-	24,342	33,304	57,646
Equity securities	-	79	-	79	-	77	-	77
<b>Total Available for sale</b>	<b>-</b>	<b>2,382,156</b>	<b>45,959</b>	<b>2,428,115</b>	<b>-</b>	<b>2,566,573</b>	<b>44,483</b>	<b>2,611,056</b>
Other assets - Closed ended real estate fund	-	-	9,235	9,235	-	-	9,044	9,044
Other assets - Derivatives	-	38,239	-	38,239	-	45,947	-	45,947
<b>Financial liabilities</b>								
Other liabilities - Derivatives	-	37,427	-	37,427	-	57,877	-	57,877

Transfers of Securities	31 March 2011			31 December 2010		
	Trading investments	Available for sale investments		Trading investments	Available for sale investments	
Transfers in and (out) of Level 1	224	-	-	-	-	-
Transfers in and (out) of Level 2	346	1,139	-	-	1,002,803	-

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

(In thousands of Bermuda dollars)

**Note 13: Fair Value of Financial Instruments (continued)**

Level 3 reconciliation	For the three months ended					
	31 March 2011			31 March 2010		
	Trading investments	Available for sale investments	Closed ended property fund	Trading investments	Available for sale investments	Closed ended property fund
Carrying amount at beginning of period	-	44,483	9,044	295	382,452	8,307
Purchases	-	-	-	-	-	-
Proceeds from sale	-	(470)	-	-	(45,236)	-
Realised and unrealised losses recognised in net income	-	436	(82)	151	(375)	(23)
Realised and unrealised losses recognised in other comprehensive income	-	1,510	-	-	(145,259)	-
Transfers in and out of Level 3	-	-	-	-	197,038	-
Foreign exchange translation adjustment	-	-	273	-	(4,401)	(68)
<b>Carrying amount at end of period</b>	<b>-</b>	<b>45,959</b>	<b>9,235</b>	<b>446</b>	<b>384,219</b>	<b>8,216</b>

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

	31 March 2011			31 December 2010		
	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
<b>Financial assets</b>						
Cash and cash equivalents	2,509,695	2,509,695	-	2,429,699	2,429,699	-
Short term Investments	15,766	15,766	-	26,392	26,392	-
Investments held to maturity	-	-	-	-	-	-
Loans, net of allowance for credit losses	4,026,581	4,026,581	-	4,043,360	4,043,360	-
<b>Financial liabilities</b>						
<b>Customer deposits</b>						
Demand deposits	5,598,059	5,598,059	-	5,535,666	5,535,666	-
Term deposits	2,498,378	2,505,484	(7,106)	2,612,714	2,621,188	(8,474)
Deposits from banks	106,242	106,242	-	79,679	79,679	-
Subordinated capital	283,035	254,344	28,691	282,799	244,606	38,193

**Note 14: 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 2011	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	
<b>(in \$ millions)</b>							
<b>Assets</b>							
Cash and cash equivalents	2,326	-	2	-	-	182	2,510
Short term investments	3	1	-	-	-	12	16
Investments	696	70	260	1,225	149	46	2,446
Loans	3,366	56	106	209	177	112	4,026
Premises, equipment and computer software	-	-	-	-	-	264	264
Other assets	-	-	-	-	-	206	206
<b>Total assets</b>	<b>6,391</b>	<b>127</b>	<b>368</b>	<b>1,434</b>	<b>326</b>	<b>822</b>	<b>9,468</b>
<b>Liabilities and shareholders' equity</b>							
Shareholders' equity	-	-	-	-	-	818	818
Demand deposits	4,613	-	-	-	-	1,018	5,631
Term deposits	1,973	330	147	121	1	-	2,572
Other liabilities	-	-	-	-	-	164	164
Subordinated capital	90	-	8	160	25	-	283
<b>Total liabilities and shareholders' equity</b>	<b>6,676</b>	<b>330</b>	<b>155</b>	<b>281</b>	<b>26</b>	<b>2,000</b>	<b>9,468</b>
<b>Interest rate swaps</b>	<b>(97)</b>	<b>60</b>	<b>31</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>-</b>
Interest rate sensitivity gap	(382)	(143)	244	1,159	300	(1,178)	-
Cumulative interest rate sensitivity gap	(382)	(525)	(281)	878	1,178	-	-

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

(In thousands of Bermuda dollars)

**Note 14: Interest Rate Risk (continued)**

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

**Note 15: Earnings per Share**

Earnings per share has been calculated using the weighted average number of common shares outstanding during the year after deduction of the shares held as treasury stock. The dilutive effect of share-based compensation plans was calculated using the treasury stock method, whereby the proceeds received from the exercise of share-based awards are assumed to be used to repurchase outstanding shares, using the average market price of the Bank's shares for the period. Diluted earnings per common share include the dilutive effect resulting from the conversion of treasury stock. Numbers of shares are expressed in thousands.

	For the three month period ended	
	31 March 2011	31 March 2010
<b>Basic earnings per share</b>		
Net income (loss) for the period	8,368	(176,342)
Less: Preferred dividends declared and guarantee fee	(4,500)	(4,500)
Net income (loss) attributable for common shareholders	3,868	(180,842)
Weighted average number of common shares issued	556,933	145,720
Weighted average number of shares on conversion of mandatorily and contingent convertible preferred stock	-	99,986
Weighted average number of common shares held as treasury stock	(2,402)	(3,146)
Adjusted weighted average number of common shares	554,531	242,560
	0.01	(0.75)
<b>Diluted earnings per share</b>		
Net income (loss) attributable for common shareholders	3,868	(180,842)
Weighted average number of common shares issued	556,933	145,720
Weighted average number of shares on conversion of mandatorily and contingent convertible preferred stock	-	99,986
Weighted average number of common shares held as treasury stock	(2,402)	(3,146)
Adjusted weighted average number of diluted common shares	554,531	242,560
	0.01	(0.75)

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 16: Share-Based Payments

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

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

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

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

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

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

For the period ended 31 March 2011, 3,474,778 shares were granted under the approved plans.

The unrecognised expense for the 2011 ELTIP plan related to the time vesting shares granted amounts to \$1.3 million. That cost is expected to be recognised over a weighted average period of 2.9 years. Additionally the Bank determined the performance stock shares granted have an aggregate fair value of \$1.4 million. Such expense will only be recognized over the three year vesting period.

The following table presents the share-based compensation cost that has been charged against net income and the value of share-based settlements. The 2010 Stock Option Plan is described below.

	For the three month period ended			31 March 2010		
	31 March 2011			31 March 2010		
	Stock option plans	DIP and ELTIP	Total	Stock option plans	DIP and ELTIP	Total
<b>Share-based compensation plans</b>						
Awards granted in years 2009 and prior	-	-	-	2,655	3,381	6,036
Awards granted in years 2010 and 2011	423	143	566	-	-	-
<b>Total share-based compensation</b>	<b>423</b>	<b>143</b>	<b>566</b>	<b>2,655</b>	<b>3,381</b>	<b>6,036</b>
<b>Share-based settlement plans</b>						
Directors shares and retainers settlement plans			86			63
<b>Total share-based payments</b>			<b>652</b>			<b>6,099</b>

### Note 17: Variable Interest Entities

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

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

### Note 18: Related party transactions

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

The Bank provided BFG with \$65.0 million in seven-year term debt financing and a \$14.5 million three-year revolving credit facility on commercial market terms. As at 31 March 2011, \$73 million of the facilities were drawn.

On 8 February 2011, the Bank entered into an agreement with an investor group (comprised of BV Investor Partners, Glen Henderson and Tim Calveley, "BV Investor Group") to dispose of its 36% equity interest on a diluted basis in Butterfield Fulcrum Group Limited ("BFG"). It is anticipated that the sale will be completed in the second quarter of 2011. Additionally, under the terms of the agreement, BV Investor Group will pay down BFG's existing debt and revolving credit facility with the Bank and combine their overall funding requirements with another related entity, FORS Limited ("FORS"), whereby the total loan facilities post-disposition, on commercial market terms, will be \$45.1 million. A Bank Non-Executive director is a minority shareholder of approximately 3% of FORS.

The Bank has guaranteed to purchase services from BFG, on commercial market terms, for three years at minimum agreed revenue levels of \$5.5 million, \$5.0 million and \$4.5 million per annum. It is anticipated, given anticipated levels of services provided to the Bank by BFG, that there will be no shortfalls to the minimum agreed revenue levels. In the event there is a shortfall, the Bank is required to pay 38% of the shortfall.

Upon closing, the sale is expected to result in a distribution equivalent to \$3.3 million to be distributed to Contingent Value Convertible Preference shareholders.

#### Capital transaction

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

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

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

*(In thousands of Bermuda dollars)*

#### **Note 18: Related party transactions (continued)**

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

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

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

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

#### **Note 19: Comparative Information**

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

#### **Note 20: Subsequent Events**

The financial statements were available to be issued and subsequent events have been evaluated up to 26 April 2011.