



Butterfield

Second Quarter 2010
The Bank of N.T. Butterfield & Son Limited

The Bank of N.T. Butterfield & Son Limited

Unaudited Consolidated Balance Sheet

(In thousands of Bermuda dollars)

	As at	
	30 June 2010	31 December 2009
Assets		
Cash and demand deposits with banks	327,363	551,249
Term deposits with banks	2,282,567	1,435,549
Total cash and deposits with banks	2,609,930	1,986,798
Investments		
Trading	26,637	29,330
Available for sale	2,414,156	2,067,163
Held to maturity	-	838,715
Total investments	2,440,793	2,935,208
Loans, net of allowance for credit losses	4,158,674	4,218,332
Premises, equipment and computer software	258,386	244,242
Accrued interest	17,771	16,285
Goodwill	15,435	16,712
Intangible assets	44,561	50,129
Investments in affiliates	35,144	38,518
Other assets	116,355	88,378
Total assets	9,697,049	9,594,602
Liabilities		
Deposits		
Non-interest bearing	1,056,061	954,191
Interest bearing		
Customers	7,231,736	7,623,753
Banks	92,145	118,675
Total deposits	8,379,942	8,696,619
Employee future benefits	78,754	141,741
Accrued interest	10,639	12,391
Preference shares dividend payable	715	1,337
Other liabilities	96,765	103,969
Total other liabilities	186,873	259,438
Subordinated capital	282,479	283,085
Total liabilities	8,849,294	9,239,142
Shareholders' equity		
Common share capital (\$0.01 par; authorised shares 26,000,000,000 (2009: \$1 par; authorised shares 260,000,000) issued and outstanding: 549,052,975 (2009: 99,060,111)	5,491	99,060
Preferred share capital (\$0.01 par; \$1,000 liquidation preference) issued and outstanding: 200,000 (2009: 200,000)	2	2
Contingent convertible preferred share capital (\$0.01 par) issued and outstanding: 7,879,559 (2009: nil)	79	-
Additional paid-in capital	1,381,324	764,206
Accumulated deficit	(469,135)	(283,964)
Less: treasury common shares (2,539,521 shares; 2009: 3,426,106 shares)	(31,148)	(34,660)
Accumulated other comprehensive loss	(38,858)	(189,184)
Total shareholders' equity	847,755	355,460
Total liabilities and shareholders' equity	9,697,049	9,594,602

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
30 June 2010 30 June 2009 For the six month period ended
30 June 2010 30 June 2009

Non-interest income				
Asset management	6,575	6,668	12,604	14,124
Banking	9,431	9,770	18,704	18,712
Foreign exchange revenue	8,811	9,113	17,497	17,863
Trust	7,657	7,181	14,873	13,665
Custody and other administration services	3,602	3,259	7,205	6,984
Other non-interest income	1,596	4,181	7,296	9,462
Total non-interest income	37,672	40,172	78,179	80,810
Interest income				
Loans	49,443	53,712	97,706	105,969
Investments	5,587	10,671	13,110	29,335
Deposits with banks	2,681	3,168	5,320	8,574
Total interest income	57,711	67,551	116,136	143,878
Interest expense				
Deposits	11,631	17,547	23,794	40,622
Subordinated capital	3,365	3,790	6,798	7,706
Securities sold under repurchase agreements	-	178	-	258
Total interest expense	14,996	21,515	30,592	48,586
Net interest income before provision for credit losses	42,715	46,036	85,544	95,292
Provision for credit losses	(7,605)	(1,132)	(8,663)	(2,110)
Net interest income after provision for credit losses	35,110	44,904	76,881	93,182
Net trading (losses) gains	(356)	784	(30)	570
Net realised gains (losses) on available for sale investments	6,874	(58)	(106,883)	(331)
Other-than-temporary impairment losses on available for sale investments	-	-	(60,522)	-
Net realised gains on held to maturity investments	-	1,893	-	2,069
Other-than-temporary impairment losses on held to maturity investments	-	-	-	(40,949)
Net other (losses) gains	(3,175)	2,469	(2,508)	4,873
Total revenue (loss)	76,125	90,164	(14,883)	140,224
Non-interest expense				
Salaries and other employee benefits	39,423	41,983	87,205	82,658
Technology and communications	13,258	14,195	25,817	23,964
Professional and outside services	4,144	4,313	5,829	8,543
Property	6,620	6,924	13,697	13,831
Non-income taxes	3,625	3,602	7,383	6,510
Amortisation of intangible assets	1,426	1,573	2,891	3,036
Marketing	1,047	1,342	2,159	2,754
Other expenses	6,073	5,138	18,461	10,714
Total non-interest expense	75,616	79,070	163,442	152,010
Net income (loss) before income taxes	509	11,094	(178,325)	(11,786)
Income taxes (expense) benefit	(338)	(769)	2,154	1,338
Net income (loss)	171	10,325	(176,171)	(10,448)
Cash dividends declared on preferred shares	(4,000)	-	(8,000)	-
Preferred shares guarantee fee	(500)	-	(1,000)	-
Net (loss) income attributable to common shareholders	(4,329)	10,325	(185,171)	(10,448)
(Loss) Gain per common share				
Basic	(0.01)	0.11	(0.47)	(0.11)
Diluted	(0.01)	0.11	(0.47)	(0.11)

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 six month period ended	
	30 June 2010	30 June 2009
Common share capital issued and outstanding		
Balance at beginning of period (2010: 99,060,111 shares; 2009: 98,399,858 shares)	99,060	98,400
Issuance (2010: 147,703,758 shares; 2009: nil shares)	144,837	-
Reduction in Par value of shares	(241,429)	-
Repurchased (2010: 107,571,361 shares; 2009: nil shares)	(1,076)	-
Rights conversion (2010: 99,173,841 shares; 2009: nil shares)	992	-
Conversion of mandatory and contingent preference shares (2010: 310,302,028 shares; 2009: nil shares)	3,103	-
Conversion of contingent value preference shares (2010: 384,598 shares; 2009: nil shares)	4	-
Balance at end of period (2010: 549,052,975 shares; 2009: 98,399,858 shares)	5,491	98,400
Preferred shares		
Balance at beginning of period (2010: 200,000 shares; 2009: nil shares)	2	-
Issuance (2010: nil; 2009: 200,000 shares)	-	2
Balance at end of period (2010: 200,000 shares; 2009: 200,000 shares)	2	2
Mandatorily convertible preferred shares		
Balance at beginning of period (2010: nil shares; 2009: nil shares)	-	-
Issuance (2010: 281,770 shares; 2009: nil shares)	3	-
Conversion to Common Shares (2010: 281,770 shares; 2009: nil shares)	(3)	-
Balance at end of period (2010: nil shares; 2009: nil shares)	-	-
Contingent convertible preferred shares		
Balance at beginning of period (2010: nil shares; 2009: nil shares)	-	-
Issuance (2010: 93,230 shares; 2009: nil shares)	1	-
Conversion to Common Shares (2010: 93,230 shares; 2009: nil shares)	(1)	-
Balance at end of period (2010: nil shares; 2009: nil shares)	-	-
Contingent value convertible preferred shares		
Balance at beginning of period (2010: nil shares; 2009: nil shares)	-	-
Rights conversion (2010: 8,264,157 shares; 2009: nil shares)	83	-
Conversion to Common Shares (2010: 384,598 shares; 2009: nil shares)	(4)	-
Balance at end of period (2010: 7,879,559 shares; 2009: nil shares)	79	-
Additional paid in capital		
Balance at beginning of period	764,206	604,116
Stock dividends	-	(13,753)
Stock option plan expense	2,849	(1,585)
Issuance of common shares	30,192	-
Issuance of preferred shares	-	199,998
Issuance of mandatorily convertible preferred shares	281,767	-
Issuance of contingent convertible preferred shares	93,229	-
Reduction of par value of common shares	241,429	-
Conversion of mandatorily and contingent convertible preferred shares	(3,103)	-
Cost of capital raise and rights offering	(29,245)	(11,256)
Balance at end of period	1,381,324	777,520
Accumulated deficit		
Balance at beginning of period	(283,964)	(35,006)
Net loss for period	(176,171)	(10,448)
Cash dividends declared on common shares	-	(7,473)
Cash dividends declared on preferred shares	(8,000)	-
Stock dividend	-	(7,516)
Preferred shares guarantee fee	(1,000)	-
Balance at end of period	(469,135)	(60,443)
Treasury common shares		
Balance at beginning of period (2010: 3,426,106 shares; 2009: 6,473,180 shares)	(34,660)	(82,700)
Net purchases, sales and transfers of treasury shares	3,512	26,063
Balance at end of period (2010: 2,539,521 shares; 2009: 3,426,106 shares)	(31,148)	(56,637)

The Bank of N.T. Butterfield & Son Limited

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

(In thousands of Bermuda dollars)

	For the six month period ended	
	30 June 2010	30 June 2009
Accumulated other comprehensive loss		
Balance at beginning of period	(189,184)	(66,370)
Net change in unrealised gains and losses on translation of net investment in foreign operations	(5,458)	5,684
Net change in unrealised gains and losses on available for sale investments	26,343	1,403
Net change in unrealised non-credit losses on held to maturity investments	58,557	-
Net change in employee future benefits liability	70,884	2,311
Balance at end of period	(38,858)	(56,972)
Total shareholders' equity	847,755	701,868
Comprehensive loss		
Net loss	(176,171)	(10,448)
Other comprehensive income	150,326	9,398
Total comprehensive loss	(25,845)	(1,050)
Components of accumulated other comprehensive loss		
Cumulative unrealised gains and losses on translation of investment in foreign operations	(13,107)	(6,255)
Cumulative unrealised gains and losses on available for sale investments	(30,648)	(1,108)
Cumulative change in employee future benefits liability	4,897	(49,609)
Balance at end of period	(38,858)	(56,972)

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 six month period ended	
	30 June 2010	30 June 2009
Cash flows from operating activities		
Net loss	(176,171)	(10,448)
Adjustments to reconcile net loss to operating cash flows		
Depreciation and amortisation	11,366	12,782
Decrease (increase) in carrying value of investments in affiliates	3,374	(1,272)
Share-based payments	6,362	1,607
Loss on sale of premises and equipment	(8)	(18)
Net gains on credit derivative instruments	-	(3,304)
Net realised gains and other-than-temporary impairment on held to maturity investments	-	38,880
Net realised losses and other-than-temporary impairment on sale of available for sale investments	167,406	331
Provision for credit losses	8,663	2,110
Changes in operating assets and liabilities		
(Increase) Decrease in accrued interest receivable	(1,762)	20,078
(Increase) Decrease in other assets	(46,708)	10,347
Decrease in accrued interest payable	(1,656)	(3,210)
Increase (Decrease) in other liabilities	6,685	(24,706)
	(22,449)	43,177
Net change in trading investments	19,930	19,754
Cash provided by operating activities	(2,519)	62,931
Cash flows from investing activities		
Net increase in term deposits with banks	(904,803)	(35,004)
Net additions to premises, equipment and computer software	(23,067)	(32,874)
Net (increase) decrease in loans	(6,921)	100,074
Held to maturity investments: proceeds from maturities	16,517	696,988
Available for sale investments: proceeds from sale and maturities	3,448,381	938,362
Available for sale investments: purchases	(3,138,915)	(654,468)
Cash (used in) provided by investing activities	(608,808)	1,013,078
Cash flows from financing activities		
Net decrease in demand and term deposit liabilities	(127,095)	(1,332,646)
Issuance of common share capital	295,000	-
Issuance of preferred share capital	385,001	200,000
Cost of issuing share capital and rights	(29,222)	(11,256)
Common shares repurchased	(130,000)	-
Proceeds from dividend re-investment	-	1,470
Treasury stock	-	130
Cash dividends paid on preferred shares	(8,622)	-
Preferred shares guarantee fee paid	(1,000)	-
Cash dividends paid	-	(7,407)
Cash provided by (used in) financing activities	384,062	(1,149,709)
Effect of exchange rates on cash and demand deposits with banks	3,379	(7,704)
Net decrease in cash and demand deposits with banks	(223,886)	(81,404)
Cash and demand deposits with banks at beginning of period	551,249	572,441
Cash and demand deposits with banks at end of period	327,363	491,037

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 2009. To facilitate comparison of information across periods, certain reclassifications have been made to prior year 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 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 significant accounting policies were adopted by the Bank during the six months ended 30 June 2010. The adoption of these policies did not have a material impact on the Bank's financial position or results of operations

Fair value measurements and disclosures — improving disclosures about fair value measurements

In January 2010, the Financial Accounting Standards Board ("FASB") issued an accounting standards update on Improving Disclosures about Fair Value Measurements which clarified existing disclosure requirements, about fair value measurements. The additional requirements included disclosure regarding the amounts and reasons for significant transfers in and out of Level 1 and 2 of the fair value hierarchy and also separated presentation of purchases, sales, issuances and settlements of items measured using significant unobservable inputs (i.e. Level 3). The guidance clarified existing disclosure requirements regarding the inputs and valuation techniques used to measure fair value for measurements that fall in either Level 2 or Level 3 of the hierarchy. The requirements were effective for interim and annual reporting periods beginning after 15 December 2009 except for the disclosures about purchases, sales, issuances and settlements which will become effective for fiscal years beginning after 15 December 2010 and for interim periods within those fiscal years.

Accounting for transfers of financial assets

In June 2009, the FASB issued final authoritative guidance over accounting for transfers of financial assets which removed the concept of a qualifying special-purpose entity from existing accounting guidance over transfers of financial assets and also removed the exception from applying guidance surrounding consolidation of variable interest entities to qualifying special-purpose entities. The guidance was effective for all interim and annual periods beginning after 15 November 2009. Earlier application was prohibited.

Accounting for consolidation of variable interest entities

In June 2009, the FASB issued final authoritative accounting guidance in an effort to improve financial reporting by enterprises involved with variable interest entities. This guidance retained the scope of the previous standard covering variable interest entities with the addition of entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated in the new authoritative guidance. The new guidance required an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity under revised guidelines that are more qualitative than under previous guidance and amends previous guidance to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Before this update, previous guidance required reconsideration of whether an enterprise is the primary beneficiary of a variable interest entity only when specific events occurred.

The new guidance also amended previous guidance to require enhanced disclosures that provide users of financial statements with more transparent information about an enterprise's involvement with a variable interest entity. The enhanced disclosures are required for any enterprise that holds a variable interest in a variable interest entity. The guidance was effective for all interim and annual periods beginning after 15 November 2009. Earlier application was prohibited.

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 will significantly expand the existing requirements and is a clear reflection that the board is responding to a demand for greater transparency into a company's exposure to credit losses from "lending" type arrangements.

The extensive new disclosures of information will become effective for both interim and annual reporting periods ending after 15 December 15 2010. Specific items regarding activity that occurred before the issuance of the ASU, such as the allowance rollforward and modification disclosures will be required for periods beginning after 15 December 2010. The Bank is currently evaluating the required disclosures for subsequent periods.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 2: Cash and Deposits with Banks

	30 June 2010			31 December 2009		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Non-interest earning						
Cash and demand deposits	121,385	27,120	148,505	30,030	52,914	82,944
Interest earning						
Deposits maturing within three months and on demand	498,668	1,922,716	2,421,384	247,589	1,628,336	1,875,925
Deposits maturing between three to six months	-	2,461	2,461	-	2,030	2,030
Deposits maturing between six to twelve months	-	7,104	7,104	-	2,239	2,239
Sub-total - Interest earning	498,668	1,932,281	2,430,949	247,589	1,632,605	1,880,194
Total unrestricted cash and deposits	620,053	1,959,401	2,579,454	277,619	1,685,519	1,963,138
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Non-interest earning						
Demand deposits	-	11,175	11,175	-	8,463	8,463
Interest earning						
Deposits maturing within three months	18,748	553	19,301	14,871	326	15,197
Total restricted deposits	18,748	11,728	30,476	14,871	8,789	23,660
Total cash and deposits with banks	638,801	1,971,129	2,609,930	292,490	1,694,308	1,986,798

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

(In thousands of Bermuda dollars)

Note 3: Investments

Transfer of investments from the HTM to the AFS portfolio

The entire HTM portfolio as at 31 December 2009 was transferred to the AFS portfolio in March 2010 as the Company no longer had the intent following the Capital Raise to hold these securities to maturity. The net carrying amount of the transferred securities was \$805.0 million at the time of the transfer. Subsequent to the transfer, a net unrealized non-credit loss of \$126.3 million was recognized in AOCI.

Amortised cost, carrying amount and estimated fair value

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

	30 June 2010			31 December 2009				
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value
Available for sale								
Certificates of deposit	1,613,587	5,794	(64)	1,619,317	1,036,190	4,353	(946)	1,039,597
US government and federal agencies	38,690	58	(133)	38,615	66,915	89	(909)	66,095
Debt securities issued by non-US governments	82,411	1,268	(25)	83,654	12,456	-	-	12,456
Corporate debt securities	409,398	1	(6,711)	402,688	550,227	1,071	(9,154)	542,144
Mortgage-backed securities – Prime	-	-	-	-	30,967	-	(1,319)	29,648
Mortgage-backed securities – Subprime and Alt-A	-	-	-	-	35,033	421	(708)	34,746
Mortgage-backed securities – Commercial	-	-	-	-	6,312	8	-	6,320
Asset-backed securities - Student loans	153,871	-	(4,774)	149,097	156,285	-	(5,568)	150,717
Asset-backed securities - Automobile loans	-	-	-	-	116,018	-	(3,139)	112,879
Asset-backed securities - Credit cards	-	-	-	-	4,818	-	(322)	4,496
Collateralised debt and loan obligations	-	-	-	-	19,514	-	(1,450)	18,064
Structured investment vehicles	148,815	-	(28,097)	120,718	86,508	-	(36,579)	49,929
Equity securities	116	-	(49)	67	125	-	(53)	72
Total available for sale	2,446,888	7,121	(39,853)	2,414,156	2,121,368	5,942	(60,147)	2,067,163

There were no held to maturity investments as at 30 June 2010.

31 December 2009	Amortised cost	Non-credit impairments recognised in AOCI	Carrying amount	Gross unrecognised gains	Gross unrecognised losses	Fair value
Held to maturity						
Debt securities issued by non-US governments	28,893	-	28,893	1,160	(19)	30,034
Corporate debt securities	205,938	-	205,938	1,390	(5,677)	201,651
Mortgage-backed securities – Prime	18,498	-	18,498	-	(674)	17,824
Mortgage-backed securities – Subprime and Alt-A	216,573	(15,918)	200,655	-	(61,583)	139,072
Mortgage-backed securities – Commercial	39,996	-	39,996	-	(7,194)	32,802
Asset-backed securities - Student loans	10,854	-	10,854	-	(995)	9,859
Asset-backed securities - Automobile loans	10,000	-	10,000	-	(1,085)	8,915
Asset-backed securities - Commercial	43,560	(11,771)	31,789	-	(4,295)	27,494
Asset-backed securities - Credit cards	10,070	-	10,070	-	(675)	9,395
Collateralised debt and loan obligations	141,407	-	141,407	-	(37,691)	103,716
Structured investment vehicles	174,484	(33,869)	140,615	-	(30,184)	110,431
Total held to maturity	900,273	(61,558)	838,715	2,550	(150,072)	691,193

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

(In thousands of Bermuda dollars)

Note 3: 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.

	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		
30 June 2010						
Available for sale						
Certificates of deposit	833,300	(64)	-	-	833,300	(64)
US government and federal agencies	-	-	35,672	(133)	35,672	(133)
Debt securities issued by non-US governments	3,976	(24)	999	(1)	4,975	(25)
Corporate debt securities	-	-	396,675	(6,711)	396,675	(6,711)
Asset-backed securities - Student loans	-	-	149,096	(4,774)	149,096	(4,774)
Structured investments vehicles	-	-	120,718	(28,097)	120,718	(28,097)
Equity securities	-	-	67	(49)	67	(49)
Total available for sale securities with unrealised losses	837,276	(88)	703,227	(39,765)	1,540,503	(39,853)

	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		
31 December 2009						
Available for sale						
Certificates of deposit	226,933	(946)	-	-	226,933	(946)
US government and federal agencies	-	-	62,404	(909)	62,404	(909)
Corporate debt securities	-	-	502,440	(9,154)	502,440	(9,154)
Mortgage-backed securities – Prime	-	-	29,648	(1,319)	29,648	(1,319)
Mortgage-backed securities – Subprime and Alt-A	-	-	26,345	(708)	26,345	(708)
Asset-backed securities - Student loans	-	-	150,716	(5,568)	150,716	(5,568)
Asset-backed securities - Automobile loans	-	-	112,880	(3,139)	112,880	(3,139)
Asset-backed securities - Credit cards	-	-	4,496	(322)	4,496	(322)
Collateralised debt and loan obligations	-	-	18,063	(1,450)	18,063	(1,450)
Structured investment vehicles	49,929	(36,579)	-	-	49,929	(36,579)
Equity securities	72	(53)	-	-	72	(53)
Total available for sale securities with unrealised losses	276,934	(37,578)	906,992	(22,569)	1,183,926	(60,147)

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

(In thousands of Bermuda dollars)

Note 3: Investments (continued)

	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		
31 December 2009						
Held to maturity						
Debt securities issued by non-US governments	1,996	(19)	-	-	1,996	(19)
Corporate debt securities	12,961	(781)	183,782	(4,896)	196,743	(5,677)
Mortgage-backed securities – Prime	-	-	17,823	(674)	17,823	(674)
Mortgage-backed securities – Subprime and Alt-A	-	-	120,313	(61,583)	120,313	(61,583)
Mortgage-backed securities – Commercial	-	-	32,801	(7,194)	32,801	(7,194)
Asset-backed securities - Student loans	-	-	9,859	(995)	9,859	(995)
Asset-backed securities - Automobile loans	-	-	8,915	(1,085)	8,915	(1,085)
Asset-backed securities - Commercial	-	-	17,613	(4,295)	17,613	(4,295)
Asset-backed securities - Credit cards	-	-	9,395	(675)	9,395	(675)
Collateralised debt and loan obligations	-	-	101,700	(37,691)	101,700	(37,691)
Structured investment vehicles	63,362	(30,184)	-	-	63,362	(30,184)
Total held to maturity securities	78,319	(30,984)	502,201	(119,088)	580,520	(150,072)

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

Certificates of deposit

As of 30 June 2010, gross unrealised losses on the Bank's holdings of certificates of deposit (CDs) were \$0.06 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) and credit worthiness of the issuer and concluded that the CDs do not have any credit losses. The unrealised losses were due to increasing interest rates and widened credit spreads caused by illiquidity since the time of purchase.

US government and federal agencies

As of 30 June 2010, gross unrealised losses on securities related to United States (US) government and federal agencies were \$0.1 million, all of which related to investments that were in an unrealised loss position for longer than 12 months. Management believes these securities 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 30 June 2010, gross unrealised losses on debt securities issued by non-US governments were \$0.03 million, of which \$0.001 million related to investments that were in an unrealised loss position for longer 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 and implicit guarantees provided by the non-US governments. The unrealised losses were due to widened credit spreads caused by illiquidity.

Corporate debt securities

As of 30 June 2010, gross unrealised losses related to corporate debt securities were \$6.7 million, all of which related to investments that were in an unrealised loss position for longer than 12 months.

Asset-backed securities - Student loans

As of 30 June 2010, gross unrealised losses on student-loan asset backed securities were \$4.8 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. There are explicit and implicit guarantees provided by the US government. The unrealised losses were due to widened credit spreads caused by illiquidity.

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 invest 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 30 June 2010, gross unrealised losses related to SIVs were \$28.1 million, all of which related to SIVs that were in an unrealised loss position for greater than 12 months. Overall unrealised losses have decreased since 31 December 2009 as a result of the OTTI recognised which was slightly off-set by the increase in fair value. The Bank has recognised \$60.5 million of OTTI losses in net income for SIVs whose underlying cash flow assumptions have deteriorated. In analysing SIVs 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 2009 for each collateral class. During the quarter the Bank disposed of its investment in one SIV and realized a gain of \$4.9 million on disposal. At 30 June 2010, the Bank is exposed to 3 remaining SIVs.

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

(In thousands of Bermuda dollars)

Note 3: Investments (continued)

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

30 June 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	
Trading						
Debt securities issued by non-US governments	-	820	3,060	3,686	-	7,566
Corporate securities and other	-	-	-	-	19,071	19,071
Total trading	-	820	3,060	3,686	19,071	26,637
Available for sale						
Certificates of deposit	1,272,010	231,640	115,667	-	-	1,619,317
US government and federal agencies	-	1,739	9,814	27,062	-	38,615
Debt securities issued by non-US governments	15,246	1,333	53,943	13,132	-	83,654
Corporate debt securities	23,425	102,516	271,756	4,991	-	402,688
Asset-backed securities - Student loans	-	-	7,563	141,534	-	149,097
Structured investments vehicles	-	-	120,718	-	-	120,718
Equity securities	-	-	-	-	67	67
Total available for sale	1,310,681	337,228	579,461	186,719	67	2,414,156
Total investments	1,310,681	338,048	582,521	190,405	19,138	2,440,793
Total by currency						
Bermuda dollars	-	-	-	-	154	154
US dollars	820,993	141,775	373,748	172,597	13,790	1,522,903
Other	489,688	196,273	208,773	17,808	5,194	917,736
Total investments	1,310,681	338,048	582,521	190,405	19,138	2,440,793

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

(In thousands of Bermuda dollars)

Note 3: Investments (continued)

31 December 2009	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	
Trading						
Debt securities issued by non-US governments	-	910	3,297	3,458	-	7,665
Corporate securities and other	-	-	-	-	21,665	21,665
Total trading	-	910	3,297	3,458	21,665	29,330
Available for sale						
Certificates of deposit	285,920	569,093	184,584	-	-	1,039,597
US government and federal agencies	1	-	27,466	38,628	-	66,095
Debt securities issued by non-US governments	9,956	-	-	2,500	-	12,456
Corporate debt securities	35,068	99,142	407,934	-	-	542,144
Mortgage-backed securities – Prime	-	-	8,140	21,508	-	29,648
Mortgage-backed securities – Subprime and Alt-A	1,287	15,227	14,941	3,291	-	34,746
Mortgage-backed securities – Commercial	6,320	-	-	-	-	6,320
Asset-backed securities - Student loans	-	-	9,342	141,375	-	150,717
Asset-backed securities - Automobile loans	-	84,070	28,809	-	-	112,879
Asset-backed securities - Credit cards	-	-	4,496	-	-	4,496
Collateralised debt and loan obligations	-	-	-	18,064	-	18,064
Structured investments vehicles	-	-	49,929	-	-	49,929
Equity securities	-	-	-	-	72	72
Total available for sale	338,552	767,532	735,641	225,366	72	2,067,163
Held to maturity						
Debt securities issued by non-US governments	3	1,333	16,598	10,959	-	28,893
Corporate debt securities	19,304	32,587	148,525	5,522	-	205,938
Mortgage-backed securities – Prime	-	-	-	18,498	-	18,498
Mortgage-backed securities – Subprime and Alt-A	-	6,701	79,813	114,141	-	200,655
Mortgage-backed securities – Commercial	-	-	39,996	-	-	39,996
Asset-backed securities - Student loans	-	-	10,854	-	-	10,854
Asset-backed securities - Automobile loans	-	-	10,000	-	-	10,000
Asset-backed securities - Commercial	-	-	-	31,789	-	31,789
Asset-backed securities - Credit cards	-	-	10,070	-	-	10,070
Collateralised debt and loan obligations	-	50,960	17,009	73,438	-	141,407
Structured investments vehicles	-	-	140,615	-	-	140,615
Total held to maturity	19,307	91,581	473,480	254,347	-	838,715
Total investments	357,859	860,023	1,212,418	483,171	21,737	2,935,208
Total by currency						
Bermuda dollars	-	-	-	-	183	183
US dollars	102,852	449,925	935,521	411,944	16,307	1,916,549
Other	255,007	410,098	276,897	71,227	5,247	1,018,476
Total investments	357,859	860,023	1,212,418	483,171	21,737	2,935,208

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

(In thousands of Bermuda dollars)

Note 4: Loans

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

	30 June 2010			31 December 2009		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Commercial loans						
Banks	-	-	-	161	-	161
Government	92,671	4,433	97,104	36,323	4,500	40,823
Commercial real estate						
Commercial mortgage	636,074	300,862	936,936	651,239	361,006	1,012,245
Construction	22,755	14,285	37,040	15,744	16,377	32,121
Commercial and industrial						
Loans	348,013	357,371	705,384	367,794	392,855	760,649
Overdrafts	27,863	80,124	107,987	22,642	92,871	115,513
Total commercial loans	1,127,376	757,075	1,884,451	1,093,903	867,609	1,961,512
Less allowance for credit losses on commercial loans	(82,423)	(11,543)	(93,966)	(79,160)	(14,263)	(93,423)
Total commercial loans after allowance for credit losses	1,044,953	745,532	1,790,485	1,014,743	853,346	1,868,089
Consumer loans						
Automobile financing	44,843	-	44,843	51,780	6,076	57,856
Credit card	56,385	23,562	79,947	57,754	24,537	82,291
Mortgages	1,287,922	655,972	1,943,894	1,256,437	618,211	1,874,648
Overdrafts	5,206	3,070	8,276	5,582	3,198	8,780
Other consumer	162,670	172,635	335,305	180,660	182,902	363,562
Total consumer loans	1,557,026	855,239	2,412,265	1,552,213	834,924	2,387,137
Less allowance for credit losses on consumer loans	(35,370)	(8,706)	(44,076)	(31,989)	(4,905)	(36,894)
Total consumer loans after allowance for credit losses	1,521,656	846,533	2,368,189	1,520,224	830,019	2,350,243
Total loans	2,684,402	1,612,314	4,296,716	2,646,116	1,702,533	4,348,649
Less allowance for credit losses	(117,793)	(20,249)	(138,042)	(111,149)	(19,168)	(130,317)
Net loans	2,566,609	1,592,065	4,158,674	2,534,967	1,683,365	4,218,332

The principal means of securing residential mortgages, personal, credit card and business loans are charges over assets and guarantees. Mortgage loans are generally repayable over periods of up to thirty years and personal, credit card, business and government loans are generally repayable over terms not exceeding five years.

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

	30 June 2010			31 December 2009		
	Gross	Specific allowance	Total	Gross	Specific allowance	Total
Commercial loans – Bermuda	12,712	(2,192)	10,520	3,704	(1,937)	1,767
Commercial loans - Non-Bermuda	4,412	(254)	4,158	4,671	(208)	4,463
Consumer loans – Bermuda	17,150	(14,090)	3,060	5,701	(3,635)	2,066
Consumer loans - Non-Bermuda	8,150	(1,548)	6,602	6,265	(768)	5,497
Commercial and residential mortgages - Bermuda	176,272	(77,430)	98,842	175,386	(83,330)	92,056
Commercial and residential mortgages - Non-Bermuda	37,556	(10,325)	27,231	37,647	(8,704)	28,943
	256,252	(105,839)	150,413	233,374	(98,582)	134,792

For the period ended 30 June 2010, the amount of gross interest income that would have been recorded had impaired loans been current was \$6.5 million (2009: \$1.8 million). For the period ended 30 June 2010, the Bank recovered overdue interest of \$0.1 million (2009: \$0.1 million) on impaired loans that were repaid in the period. The average balance of non-accrual loans, net of specific allowances, during the period ended 30 June 2010 was \$142.6 million (2009: \$83.9 million).

As at 30 June 2010, \$54.5 million (2009: \$191.4 million) of non-delinquent loans were placed on non-accrual status since, in the opinion of Management, full payment of principal or interest was in doubt.

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

(In thousands of Bermuda dollars)

Note 4: Loans (continued)

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

	30 June 2010			31 December 2009		
	Specific allowances	General allowance	Total	Specific allowances	General allowance	Total
Allowance for credit losses at beginning of period	98,582	31,735	130,317	3,458	24,938	28,396
Provision taken during the period	9,249	(586)	8,663	99,338	5,541	104,879
Recoveries	-	1,128	1,128	-	1,784	1,784
Charge-offs	(1,945)	(176)	(2,121)	(4,318)	(528)	(4,846)
Other	(47)	102	55	104	-	104
Allowance for credit losses at end of period	105,839	32,203	138,042	98,582	31,735	130,317

The table below presents information about the loan delinquencies, and charge-offs:

	30 June 2010			31 December 2009		
	Total delinquent loans	Loans 90 days or more past due	Charge-offs	Total delinquent loans	Loans 90 days or more past due	Charge-offs
Credit card	4,407	644	489	4,449	525	2,077
Automobile financing	1,717	493	517	1,758	447	1,853
Residential mortgages and other consumer loans	98,935	65,590	1,115	38,879	15,714	916
Consumer loans	105,059	66,727	2,121	45,086	16,686	4,846
Commercial loans	150,858	74,059	-	46,519	45,370	-
Total loans reported	255,917	140,786	2,121	91,605	62,056	4,846

Total delinquent loans and loans 90 days or more past due are shown gross of specific provision. The Bank is carrying specific provisions of \$55.5 million against loans 90 days or more past due.

As at 30 June 2010, \$54.2 million (2009: \$49.7 million) of fully secured delinquent loans remained on accrual status since collection efforts are reasonably expected to result in repayment of all amounts due under the contractual term of the loans.

Note 5: 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:

	30 June 2010			31 December 2009		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Banks and financial services	356,715	394,419	751,134	332,965	404,864	737,829
Commercial and merchandising	460,752	271,912	732,664	967,804	256,591	1,224,395
Governments	95,796	-	95,796	40,823	-	40,823
Individuals	2,315,973	103,616	2,419,589	2,242,599	68,616	2,311,215
Primary industry and manufacturing	125,515	58,491	184,006	69,367	77,334	146,701
Real estate	653,473	-	653,473	459,604	1,453	461,057
Hospitality industry	159,306	6,679	165,985	134,879	14,912	149,791
Transport and communication	23,347	-	23,347	2,026	2,002	4,028
Sub-total	4,190,877	835,117	5,025,994	4,250,067	825,772	5,075,839
General allowance	(32,203)	-	(32,203)	(31,735)	-	(31,735)
Total	4,158,674	835,117	4,993,791	4,218,332	825,772	5,044,104

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

(In thousands of Bermuda dollars)

Note 5: Credit Risk Concentrations (continued)

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

	30 June 2010			31 December 2009		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Bermuda	2,590,691	457,350	3,048,041	2,557,213	509,149	3,066,362
Barbados	194,174	8,460	202,634	194,480	13,472	207,952
Cayman	553,950	217,950	771,900	541,058	169,040	710,098
Guernsey	328,515	129,546	458,061	354,485	100,911	455,396
The Bahamas	72,612	4,269	76,881	76,377	5,310	81,687
United Kingdom	450,935	17,542	468,477	526,454	27,890	554,344
Sub-total	4,190,877	835,117	5,025,994	4,250,067	825,772	5,075,839
General allowance	(32,203)	-	(32,203)	(31,735)	-	(31,735)
Total	4,158,674	835,117	4,993,791	4,218,332	825,772	5,044,104

Note 6: Customer Deposits and Deposits from Banks

a) By Maturity

	30 June 2010			31 December 2009		
	Customers	Banks	Total	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	1,056,061	-	1,056,061	954,191	-	954,191
Demand deposits - Interest bearing	4,461,221	33,887	4,495,108	4,753,743	27,681	4,781,424
Sub-total - demand deposits	5,517,282	33,887	5,551,169	5,707,934	27,681	5,735,615
Term deposits						
Term deposits maturing within six months	2,865	-	2,865	2,536,812	85,755	2,622,567
Term deposits maturing between six to twelve months	2,587,933	58,232	2,646,165	185,651	5,239	190,890
Term deposits maturing after twelve months	179,717	26	179,743	147,547	-	147,547
Sub-total - term deposits	2,770,515	58,258	2,828,773	2,870,010	90,994	2,961,004
Total	8,287,797	92,145	8,379,942	8,577,944	118,675	8,696,619

b) By Type and Location

	30 June 2010			31 December 2009		
	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	2,222,542	1,141,414	3,363,956	2,195,304	1,195,124	3,390,428
Banks	2,194	49,004	51,198	-	41,545	41,545
Barbados						
Customers	155,838	84,777	240,615	163,538	81,930	245,468
Banks	-	-	-	-	-	-
Cayman						
Customers	1,537,137	489,783	2,026,920	1,764,566	570,875	2,335,441
Banks	11,398	14,290	25,688	16,090	48,802	64,892
Guernsey						
Customers	1,020,563	480,749	1,501,312	980,013	377,324	1,357,337
Banks	13,260	(5,229)	8,031	7,712	404	8,116
The Bahamas						
Customers	97,170	46,158	143,328	67,429	65,760	133,189
Banks	-	-	-	-	-	-
United Kingdom						
Customers	484,032	527,634	1,011,666	537,098	578,983	1,116,081
Banks	7,035	193	7,228	3,865	257	4,122
Total Customers	5,517,282	2,770,515	8,287,797	5,707,948	2,869,996	8,577,944
Total Banks	33,887	58,258	92,145	27,667	91,008	118,675
Total	5,551,169	2,828,773	8,379,942	5,735,615	2,961,004	8,696,619

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 7: 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		For the six month period ended	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Defined benefit pension expense				
Service cost	608	633	1,228	1,232
Interest cost	1,757	1,692	3,541	3,325
Expected return on plan assets	(2,105)	(2,020)	(4,243)	(3,975)
Amortisation of past service cost	-	9	-	17
Amortisation of net actuarial loss	783	736	1,566	1,474
Total defined benefit pension expense	1,043	1,050	2,092	2,073
Post-retirement medical benefit expense				
Service cost	1,069	961	2,138	1,922
Interest cost	2,197	1,862	4,394	3,724
Amortisation of net actuarial loss	579	402	1,159	803
Total post-retirement medical benefit expense	3,845	3,225	7,691	6,449

As at 30 June 2010, the Bank conducted a tri-annual revaluation of its post retirement medical benefit obligations to qualifying retirees in Bermuda. Following the revaluation by an independent third party actuary, the associated liability for post retirement medical benefits decreased by approximately \$27 million, primarily as a result of changes in demographics and claim cost development since 2007.

Additionally, effective 30 June 2010, the Bank's post retirement medical benefits were amended whereby eligibility, benefits and cost sharing were modified for current active employees. The benefits amendment resulted in a further reduction in the post retirement medical liability of approximately \$41 million as at 30 June 2010. The benefits amendment did not have an impact on the Statement of Operations for the period ending 30 June 2010 and will be amortised to the Statement of Operations over the expected average remaining service lifetime of the active employees in the plan. Benefits paid in the six month period ended 30 June 2010 amounted to \$1.8 million.

As at 30 June 2010 the Bank's remaining liability for the Bank's post retirement medical benefit plan is \$78.7 million.

Note 8: 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 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:

	30 June 2010			31 December 2009		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	363,555	330,003	33,552	352,016	322,582	29,434
Letters of guarantee	18,003	9,264	8,739	23,101	15,135	7,966
Total	381,558	339,267	42,291	375,117	337,717	37,400

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:

	30 June 2010	31 December 2009
Commitments to extend credit	451,330	451,016
Documentary and commercial letters of credit	2,229	3,140
Total	453,559	454,156

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 30 June 2010, \$170.3 million (2009: \$133.3 million) of standby letters of credit were issued under this facility.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 8: Credit Related Arrangements and Commitments (continued)

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 9: Segmented Information

Total Assets by Segment

	30 June 2010	31 December 2009
Bermuda		
Community Banking	4,510,269	4,198,903
Wealth Management	383,786	351,336
Real Estate	71,242	72,671
Total Bermuda	4,965,297	4,622,910
Overseas		
Barbados	273,864	277,551
Cayman	2,242,591	2,607,542
Guernsey	1,651,737	1,534,520
Hong Kong	5,520	10,166
Malta	3,620	2,894
Switzerland	1,085	1,039
The Bahamas	171,616	166,455
United Kingdom	1,180,272	1,295,451
Total overseas	5,530,305	5,895,618
Total	10,495,602	10,518,528
Less: inter-segment eliminations	(798,553)	(923,926)
Total	9,697,049	9,594,602

Segment Analysis

For the three month period ended 30 June 2010	Net interest income		Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expense	Net income before gains and losses and central allocations	Gains and losses	Central allocations *	Net income
	Customer	Inter-segment								
Bermuda										
Community Banking	24,067	(776)	(4,410)	9,213	28,094	35,250	(7,156)	3,580	-	(3,576)
Wealth Management	2,137	940	-	7,615	10,692	7,515	3,177	-	-	3,177
Real Estate	-	(218)	-	957	739	2,713	(1,974)	-	-	(1,974)
Sub-total Bermuda	26,204	(54)	(4,410)	17,785	39,525	45,478	(5,953)	3,580	-	(2,373)
Overseas										
Barbados	3,364	-	(450)	662	3,576	3,242	334	(239)	-	95
Cayman	6,724	563	(2,762)	9,151	13,676	12,833	843	-	-	843
Guernsey	3,217	(30)	-	6,068	9,255	7,425	1,830	-	-	1,830
Hong Kong	-	-	-	918	918	794	124	-	-	124
Malta	1	-	-	365	366	384	(18)	-	-	(18)
Switzerland	-	-	-	101	101	504	(403)	-	-	(403)
The Bahamas	555	11	-	1,370	1,936	1,809	127	-	-	127
United Kingdom	2,650	(490)	17	2,589	4,766	4,822	(56)	2	-	(54)
Sub-total overseas	16,511	54	(3,195)	21,224	34,594	31,813	2,781	(237)	-	2,544
Total before eliminations	42,715	-	(7,605)	39,009	74,119	77,291	(3,172)	3,343	-	171
Less: inter-segment eliminations	-	-	-	(1,337)	(1,337)	(1,337)	-	-	-	-
Total	42,715	-	(7,605)	37,672	72,782	75,954	(3,172)	3,343	-	171

* During the period ending 30 June 2010 there were no central allocation costs.

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

(In thousands of Bermuda dollars)

Note 9: Segmented Information (continued)

For the three month period ended 30 June 2009	Net interest income		Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expense	Net income before gains and losses and central allocations	Gains and losses	Central allocations*	Net income
	Customer	Inter-segment								
Bermuda										
Community Banking	25,440	(1,013)	(363)	11,557	35,621	36,765	(1,144)	5,010	1,810	5,676
Wealth Management	2,224	270	-	8,851	11,345	8,105	3,240	-	(2,913)	327
Real Estate	-	(222)	-	522	300	2,590	(2,290)	-	2,290	-
Sub-total Bermuda	27,664	(965)	(363)	20,930	47,266	47,460	(194)	5,010	1,187	6,003
Barbados	3,031	3	(408)	876	3,502	3,425	77	131	(10)	198
Cayman	6,920	1,658	(361)	8,288	16,505	13,096	3,409	(39)	(738)	2,632
Guernsey	2,369	338	-	5,044	7,751	7,400	351	(14)	(236)	101
Hong Kong	3	-	-	866	869	1,058	(189)	-	-	(189)
Malta	(1)	-	-	387	386	59	327	-	-	327
Switzerland	-	-	-	91	91	714	(623)	-	-	(623)
The Bahamas	545	99	-	1,306	1,950	1,741	209	-	(64)	145
United Kingdom	5,505	(1,133)	-	3,926	8,298	6,428	1,870	-	(139)	1,731
Sub-total overseas	18,372	965	(769)	20,784	39,352	33,921	5,431	78	(1,187)	4,322
Total before	46,036	-	(1,132)	41,714	86,618	81,381	5,237	5,088	-	10,325
Less: inter-segment eliminations	-	-	-	(1,542)	(1,542)	(1,542)	-	-	-	-
Total	46,036	-	(1,132)	40,172	85,076	79,839	5,237	5,088	-	10,325

* This includes the allocation of property costs to the Bermuda business lines. In addition, it includes the charge out of the central costs across the Group.

For the six month period ended 30 June 2010	Net interest income		Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expense	Net income before gains and losses and central allocations	Gains and losses	Central allocations*	Net income
	Customer	Inter-segment								
Bermuda										
Community Banking	49,403	(1,707)	(4,099)	22,693	66,290	81,982	(15,692)	(146,646)	-	(162,338)
Wealth Management	4,096	1,988	-	14,691	20,775	15,467	5,308	-	-	5,308
Real Estate	-	(434)	-	1,458	1,024	5,659	(4,635)	-	-	(4,635)
Sub-total Bermuda	53,499	(153)	(4,099)	38,842	88,089	103,108	(15,019)	(146,646)	-	(161,665)
Barbados	6,463	(4)	(1,058)	1,431	6,832	6,714	118	(167)	-	(49)
Cayman	12,649	1,173	(3,047)	17,842	28,617	26,490	2,127	(11,606)	-	(9,479)
Guernsey	6,148	(56)	-	11,857	17,949	13,405	4,544	(1,449)	-	3,095
Hong Kong	-	-	-	1,905	1,905	1,523	382	-	-	382
Malta	3	-	-	758	761	711	50	-	-	50
Switzerland	1	-	-	188	189	1,071	(882)	-	-	(882)
The Bahamas	1,111	23	-	2,657	3,791	3,678	113	-	-	113
United Kingdom	5,670	(983)	(459)	5,363	9,591	7,252	2,339	(10,075)	-	(7,736)
Sub-total overseas	32,045	153	(4,564)	42,001	69,635	60,844	8,791	(23,297)	-	(14,506)
Total before eliminations	85,544	-	(8,663)	80,843	157,724	163,952	(6,228)	(169,943)	-	(176,171)
Less: inter-segment eliminations	-	-	-	(2,664)	(2,664)	(2,664)	-	-	-	-
Total	85,544	-	(8,663)	78,179	155,060	161,288	(6,228)	(169,943)	-	(176,171)

* During the period ending 30 June 2010 there were no central allocation costs.

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

(In thousands of Bermuda dollars)

Note 9: Segmented Information (continued)

For the six month period ended 30 June 2009	Net interest income		Provision for credit losses	Non- interest income	Revenue before gains and losses	Total expense	Net income before gains and losses and central allocations	Gains and losses	Central allocations*	Net income
	Customer	Inter- segment								
Bermuda										
Community Banking	53,535	(3,747)	(1,308)	22,584	71,064	70,691	373	(24,247)	8,761	(15,113)
Wealth Management	4,797	550	-	19,498	24,845	16,128	8,717	-	(9,533)	(816)
Real Estate	-	(442)	-	1,794	1,352	5,089	(3,737)	-	3,737	-
Sub-total Bermuda	58,332	(3,639)	(1,308)	43,876	97,261	91,908	5,353	(24,247)	2,965	(15,929)
Barbados	5,907	7	(290)	1,698	7,322	5,958	1,364	185	(25)	1,524
Cayman	14,531	5,004	(512)	17,360	36,383	25,449	10,934	(39)	(1,845)	9,050
Guernsey	4,824	728	-	10,456	16,008	14,244	1,764	(286)	(590)	888
Hong Kong	9	-	-	1,435	1,444	1,839	(395)	-	-	(395)
Malta	3	-	-	595	598	323	275	-	-	275
Switzerland	3	-	-	163	166	1,550	(1,384)	-	-	(1,384)
The Bahamas	1,106	196	-	2,564	3,866	3,506	360	-	(160)	200
United Kingdom	10,577	(2,296)	-	5,843	14,124	9,075	5,049	(9,381)	(345)	(4,677)
Sub-total overseas	36,960	3,639	(802)	40,114	79,911	61,944	17,967	(9,521)	(2,965)	5,481
Total before	95,292	-	(2,110)	83,990	177,172	153,852	23,320	(33,768)	-	(10,448)
Less: inter-segment eliminations	-	-	-	(3,180)	(3,180)	(3,180)	-	-	-	-
Total	95,292	-	(2,110)	80,810	173,992	150,672	23,320	(33,768)	-	(10,448)

* This includes the allocation of property costs to the Bermuda business lines. In addition, it includes the charge out of the central costs across the Group.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 10: 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 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. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on 30 June 2010, was \$20.5 million. The Bank has posted \$12.3 million collateral against these liabilities and therefore the maximum amount of termination payments that could have been required at 30 June 2010 was \$8.2 million. Accelerated settlement because of such events would not affect net income and would not have a material effect on the consolidated financial position or liquidity of the Bank.

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. For the period ended 30 June 2010 and 2009, no gains or losses were realised from ineffective portions of fair value hedges.

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 30 June 2010 and 2009 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 10: 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.

30 June 2010	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk Management Derivatives					
Fair Value Hedges					
Fixed rate loans	Interest rate swaps	214,858	317	(20,245)	(19,928)
Customer deposits	Interest rate swaps	8,997	-	(294)	(294)
Subtotal fair value hedges		223,855	317	(20,539)	(20,222)
Not designated as hedging instruments					
Term deposits with banks	Interest rate swaps	410,000	1,291	(408)	883
Subtotal risk management derivatives		633,855	1,608	(20,947)	(19,339)
Client Services Derivatives					
	Spot and forward foreign exchange	3,100,079	27,262	(17,251)	10,011
	Interest rate caps	35,904	525	(2)	523
Subtotal client services derivatives		3,135,983	27,787	(17,253)	10,534
Total derivative instruments		3,769,838	29,395	(38,200)	(8,805)

31 December 2009	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk Management Derivatives					
Fair Value Hedges					
Fixed rate loans	Interest rate swaps	188,689	-	(13,054)	(13,054)
Customer deposits	Interest rate swaps	10,497	11	(538)	(527)
Subtotal fair value hedges		199,186	11	(13,592)	(13,581)
Not designated as hedging instruments					
Time deposits with banks	Interest rate swaps	380,714	705	(933)	(228)
Subtotal risk management derivatives		579,900	716	(14,525)	(13,809)
Client Services Derivatives					
	Spot and forward foreign exchange	2,336,222	27,529	(27,996)	(467)
	Interest rate caps	38,808	752	(752)	-
Subtotal client services derivatives		2,375,030	28,281	(28,748)	(467)
Total derivative instruments		2,954,930	28,997	(43,273)	(14,276)

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	
		30 June 2010	30 June 2009
Interest rate swaps	Net other gains (losses)	(461)	(246)
Forward foreign exchange	Foreign exchange revenue	722	(3,055)
Credit derivative	Net other gains (losses)	-	1,474
Total net gains recognised in net loss		261	(1,827)

Derivative Instrument	Consolidated Statement of Operations line item	For the six month period ended	
		30 June 2010	30 June 2009
Interest rate swaps	Net other gains (losses)	1,110	(113)
Forward foreign exchange	Foreign exchange revenue	543	(2,706)
Credit derivative	Net other gains (losses)	-	3,304
Total net gains recognised in net loss		1,653	485

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

(In thousands of Bermuda dollars)

Note 11: 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 1 of the Bank's audited financial statements for the year ending 31 December 2009.

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 rates swaps and caps, forward foreign exchange and, in 2008 only, a credit derivative contract.

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

	30 June 2010				31 December 2009			
	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	
Financial assets								
Investments								
Trading								
Debt securities issued by non-US governments	-	7,566	-	7,566	-	7,665	-	7,665
Equity securities	8,689	1,632	8,750	19,071	11,674	1,389	8,602	21,665
Available for sale								
Certificates of deposit	-	1,619,317	-	1,619,317	-	1,039,597	-	1,039,597
US government and federal agencies	-	36,875	1,740	38,615	-	66,095	-	66,095
Debt securities issued by non-US governments	-	83,654	-	83,654	-	12,456	-	12,456
Corporate debt securities	-	119,253	283,435	402,688	-	349,130	193,014	542,144
Mortgage-backed securities – Prime	-	-	-	-	-	6,506	23,142	29,648
Mortgage-backed securities – Subprime and Alt-A	-	-	-	-	-	32,849	1,897	34,746
Mortgage-backed securities – Commercial	-	-	-	-	-	6,320	-	6,320
Asset-backed securities - Student loans	-	62,061	87,036	149,097	-	58,210	92,507	150,717
Asset-backed securities - Automobile loans	-	-	-	-	-	108,980	3,899	112,879
Asset-backed securities - Credit cards	-	-	-	-	-	4,496	-	4,496
Collateralised debts and loans obligations	-	-	-	-	-	-	18,064	18,064
Structured investments vehicles	-	120,718	-	120,718	-	-	49,929	49,929
Equity securities	-	67	-	67	-	72	-	72
Other assets – Derivatives	-	29,395	-	29,395	-	28,997	-	28,997
Financial liabilities								
Other liabilities – Derivatives	-	38,200	-	38,200	-	43,273	-	43,273

Transfers of securities

For the six month period ended

30 June 2010

	Trading investments	Available for sale investments
Transfers in and (out) of Level 1	-	-
Transfers in and (out) of Level 2	-	650,196

The transfer in to Available for sale investments Level 2 classification is primarily due to the transfer of the HTM portfolio to the AFS portfolio. These securities were transferred into the AFS portfolio and the related Level 2 hierarchy at the fair value of the securities.

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

(In thousands of Bermuda dollars)

Note 11: Fair Value of Financial Instruments (continued)

Level 3 reconciliation

For the six month period ended

	30 June 2010		30 June 2009	
	Trading investments	Available for sale investments	Trading investments	Available for sale investments
Carrying amount at beginning of period	8,602	382,452	12,599	-
Proceeds from sale	151	(72,600)	-	-
Realised and unrealised gains recognised in net income	-	(375)	-	-
Realised and unrealised gains (losses) recognised in other comprehensive income	(59)	(145,208)	(2,823)	-
Transfers in and out of Level 3	-	216,260	-	-
Foreign exchange translation adjustment	56	(8,318)	(225)	-
Carrying amount at end of period	8,750	372,211	9,551	-

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

	30 June 2010			31 December 2009		
	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
Financial assets						
Cash and deposits with banks	2,609,930	2,609,930	-	1,986,798	1,986,798	-
Investments held to maturity	-	-	-	838,715	691,193	(147,522)
Loans, net of allowance for credit losses						
Commercial	1,790,485	1,790,485	-	1,927,505	1,927,505	-
Consumer	2,368,189	2,368,189	-	2,290,827	2,290,827	-
Financial liabilities						
Customer deposits						
Demand deposits	5,517,282	5,517,282	-	5,707,948	5,707,948	-
Term deposits	2,770,515	2,778,378	(7,863)	2,869,996	2,874,019	(4,023)
Deposits from banks	92,145	92,145	-	118,675	118,675	-
Subordinated capital	282,479	223,226	59,253	283,085	223,624	59,461

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 12: 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 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, and certain investments which have call or pre-payment features.

(in \$ millions)	Earlier of contractual maturity or repricing date					Non-interest bearing funds	Total
	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years		
30 June 2010							
Assets							
Cash and deposits with banks	2,441	2	7	-	-	160	2,610
Investments	1,870	168	66	176	21	140	2,441
Loans	3,239	110	158	301	227	124	4,159
Premises, equipment and computer software	-	-	-	-	-	258	258
Other assets	-	-	-	-	-	229	229
Total assets	7,550	280	231	477	248	911	9,697
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	855	855
Demand deposits	4,493	-	-	-	-	1,058	5,551
Term deposits	1,932	444	270	180	3	-	2,829
Other liabilities	-	-	-	-	-	180	180
Subordinated capital	90	-	-	167	25	-	282
Total liabilities and shareholders' equity	6,515	444	270	347	28	2,093	9,697
Interest rate swaps	164	(36)	(5)	(71)	(52)	-	-
Interest rate sensitivity gap	1,199	(200)	(44)	59	168	(1,182)	-
Cumulative interest rate sensitivity gap	1,199	999	955	1,014	1,182	-	-
31 December 2009							
(in \$ millions)	Earlier of contractual maturity or repricing date					Non-interest bearing funds	Total
	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years		
Assets							
Cash and deposits with banks	1,891	2	2	-	-	92	1,987
Investments	1,908	146	488	164	25	223	2,954
Loans	3,706	44	59	206	60	143	4,218
Premises, equipment and computer software	-	-	-	-	-	244	244
Other assets	-	-	-	-	-	192	192
Total assets	7,505	192	549	370	85	894	9,595
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	355	355
Demand deposits	4,782	-	-	-	-	954	5,736
Term deposits	2,114	508	191	144	4	-	2,961
Other liabilities	-	-	-	-	-	260	260
Subordinated capital	-	90	-	108	85	-	283
Total liabilities and shareholders' equity	6,896	598	191	252	89	1,569	9,595
Interest rate swaps	99	19	67	(111)	(74)	-	-
Interest rate sensitivity gap	708	(387)	425	7	(78)	(675)	-
Cumulative interest rate sensitivity gap	708	321	746	753	675	-	-

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

(In thousands of Bermuda dollars)

Note 13: 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		For the six month period ended	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Basic earnings per share				
Net loss for the period	171	10,325	(176,171)	(10,448)
Less: Preferred dividends declared and guarantee fee	(4,500)	-	(9,000)	-
Net loss attributable for common shareholders	(4,329)	10,325	(185,171)	(10,448)
Weighted average number of common shares issued	551,149	98,767	399,272	99,218
Weighted average number of common shares held as treasury stock	(2,556)	(5,879)	(2,849)	(6,172)
Adjusted weighted average number of common shares	548,593	92,888	396,423	93,046
	(0.01)	0.11	(0.47)	(0.11)
Diluted earnings per share				
Net loss income attributable for common shareholders	(4,329)	10,325	(185,171)	(10,448)
Weighted average number of common shares issued	551,149	98,767	399,272	99,218
Weighted average number of common shares held as treasury stock	(2,556)	(5,879)	(2,849)	(6,172)
Dilutive stock options	-	90	-	208
Adjusted weighted average number of diluted common shares	548,593	92,978	396,423	93,254
	(0.01)	0.11	(0.47)	(0.11)

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 is therefore normally included in the basic earnings per share calculation. As the Bank have losses attributable to common shareholders for the three and six months period ending 30 June 2010, the contingent value convertible preference shares are excluded from the basic earnings per share calculation as they are not obligated to share in the Bank's losses.

The contingent value convertible preference shares are excluded from the dilutive earnings per share calculation as they are anti dilutive.

Note 14: Share-Based Payments

As a result of capital transaction announced on 2 March 2010, shares in the Bank's two share-based compensation plans being the Stock Option compensation plan and the Executive long-term incentive restricted shares compensation plan (ELTIP) became fully vested. Consequently compensation expense was recognised on the Stock Option compensation plan and ELTIP of \$2.6 million and \$3.4 million respectively.

In conjunction with the capital raise, the Board of Directors approved the 2010 Stock Option Plan (the "Plan") on 26 April 2010. Under the plan, five per cent of the Company's fully diluted common shares, equal to approximately 29.5 million shares, are available for grant to certain officers. Such options have time and performance vesting metrics and also require surrender of all prior vested options by certain executives. During the period ended 30 June 2010 the Bank recognized \$0.2 million compensation expense related to the time vesting options granted. The unrecognized expense for the time vesting options amounts to \$7.4 million. Additionally the Bank determined the performance stock options granted have an aggregate fair value of \$8.1 million. Such expense will only be recognized as and when the set performance criteria, primarily based on returns to shareholders, are achieved.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 15: Capital Structure

Authorised capital

The Bank's total authorised share capital as of 31 December 2009 consisted of (i) 260 million ordinary shares of par value BD\$1.00, (ii) 100,200,001 preference shares of par value US\$0.01 and (iii) 50 million preference shares of par value £0.01.

On 2 March 2010, the Bank issued 144.8 million common shares of par value \$1 per share, for a consideration of \$175 million.

Following the Bank's Annual General Meeting held on 8 April 2010, The Bank of N.T. Butterfield & Son Ltd's shareholders approved an increase in the authorised share capital to 26,000,000,000 common shares of par value BD\$0.01. Subsequent to the increase, conversion of 281,770 mandatorily convertible preference shares into 233,157,035 common shares and 93,230 contingent convertible preference shares into 77,144,993 common shares took place.

At the special general meeting of shareholders held on 14 April 2009, the Board of Directors were granted the authority to issue, allot or grant options, warrants or similar rights over or otherwise dispose of all the authorised but unissued share capital of the Bank.

On 11 May 2010 the rights were over subscribed with the maximum allowable number of rights of 107,438,016 were exercised and subsequently converted on the ratio of 0.92308 Common Shares for each right unit exercised amounting to 99,173,884 common shares issued.

Following the closing of the Rights Offering on 11 May 2010 the gross proceeds of \$130 million were used to repurchase 107,571,361 shares from the 2 March 2010 investors at the same price at which the investors originally subscribed for the shares.

As part of the cost of the Capital Raise, the Bank's investment advisor was compensated \$10 million in cash and \$3.5 million in common shares at the same prices as the New Investors. On 12 May 2010 in settlement of the aforementioned, the Bank issued 2,892,562 common shares to the Bank's investment advisor.

Preferred shares

On 22 June 2009, the Bank issued 200,000 Government guaranteed, 8.00% Non-Cumulative Perpetual Limited Voting Preference Shares (the "Preference Shares"). The issuance price was US\$1,000 per share. The Preference Share principal and dividend payments are guaranteed by the Government of Bermuda.

Holders of Preference Shares will be entitled to receive, on each Preference Share only when, as and if declared by our Board of Directors, non-cumulative cash dividends at a rate per annum equal to 8.00% on the liquidation preference of \$1,000 per Preference Share payable quarterly in arrears.

At any time after the expiry of the guarantee offered by the Government of Bermuda, and subject to the approval of the Bermuda Monetary Authority, the Bank may redeem, in whole or in part, any Preference Shares at the time issued and outstanding, at a redemption price equal to the liquidation preference plus any unpaid dividends at the time.

In exchange for the Government's commitment, the Bank issued to the Government 4,279,601 warrants to purchase common shares of the Bank at an exercise price of \$7.01. The warrants expire on 22 June 2019.

On 2 March 2010, the Bank issued 281,770 mandatorily convertible preference shares of par value \$0.01 per share and 93,230 contingent convertible preference shares of par value \$0.01 per share, for a consideration of \$281.8 million and \$93.2 million respectively. Subsequent to the Bank's Annual General Meeting held on 8 April 2010 the 281,770 mandatorily convertible preference shares and 93,230 contingent convertible preference shares were converted into 233,157,035 and 77,144,993 common shares respectively.

As stated above, on 11 May 2010 a 107,438,016 rights were exercised and subsequently converted on the ratio of 0.07692 Contingent Value Preference Share for each right unit exercised amounting to 8,264,157 common shares issued. The Contingent Value Preference Shares have specific rights and conditions attached which is explained in detail in the Prospectus of The Rights Offering.

Following the capital raise on 2 March 2010 the terms of the 4,279,601 warrants with an exercise price of \$7.01 previously issued to the Bermuda Government in conjunction with the issuance of 200,000 Government guaranteed 8% Non-Cumulative Perpetual Limited Voting Preference Shares in 2009 were adjusted in accordance with the terms of the guarantee. Subsequently, the Government of Bermuda now holds 4,150,774 warrants with an exercise price of \$3.614.

Note 16: Related parties transactions

Butterfield Fulcrum Group Limited

On 11 September 2008, the Bank completed the sale of its international fund administration services businesses to the Fulcrum Group. The sale was accomplished by a share purchase agreement (SPA), through which the Bank sold six subsidiaries that carried out its fund administration services operations. The Bank received, pursuant to the sale, an upfront cash payment of \$133 million and a 40% equity ownership in the combined fund administration services business, Butterfield Fulcrum Group Limited. The Bank also has the right to nominate two directors to the Butterfield Fulcrum Group's seven-member board of directors. As at 30 June 2010, these positions were held by Brad Kopp, the Bank's President and Chief Executive Officer, and Robert A. Mulderig, Butterfield's Chairman of the Board.

To facilitate the transaction, the Bank provided the Butterfield Fulcrum Group with \$65.0 million in seven-year term debt financing and a \$14.5 million three-year revolving credit facility on commercial market terms. The Bank also entered into a transition services agreement (TSA) with the Butterfield Fulcrum Group. Under the TSA, the Bank agreed to provide certain transition services to the Butterfield Fulcrum Group, including use of certain office facilities, information technologies and personnel, during the transition period. The Bank's obligations under the TSA expired during the year ended 31 December 2009. As part of the SPA, the Bank and the Butterfield Fulcrum Group undertook to create an arms-length client referral arrangement through which both the Bank and the Butterfield Fulcrum Group have the option to refer clients in need of each others' services in return for a nominal fee. Since the sale, the Bank has substantially ceased all fund administration services operations. As at 30 June 2010, \$72.8 million of the facilities were drawn.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 16: Related parties transactions (continued)

Employee loan programme

As of 17 May 2005, the Bank established a programme to offer loans with preferential rates to eligible bank employees, subject to certain conditions set by the Bank and provided that such employees meet certain credit criteria. Loan payments are serviced by automatically debiting the employee's chequing or savings account with the Bank. Applications for loans are handled according to the same policies as those for the Bank's regular retail banking clients. The Bank's ability to offer preferential rates on loans depends upon a number of factors, including market conditions, regulations and the Bank's overall profitability. The Bank has the right to change our employee loan policy at any time after notifying participants.

Interested officers and director transactions

In the ordinary course of business, the Bank provides loans and other banking services to the Bank's directors, as well as their family members and companies with which they are affiliated. The Bank provides these services on terms which management believe are no less favourable to the Bank than those with unaffiliated parties of comparable creditworthiness.

In connection with the capital transaction announced by the Bank on 2 March 2010, the Chief Executive Officer and the Senior Vice President General Counsel subscribed and paid for \$1.5 million and \$0.3 million of common and mandatorily convertible preference shares, respectively. The purchase price was the same as the other new investors. Additionally the Bank created a Director and Executive Stock Purchase Plan as part of the capital raise whereby directors and other members of management purchased an aggregate of 4,846,550 common shares at \$1.21. The total consideration received amounted to \$5.9 million of which \$4.2 million, was financed by loans to certain executives at normal staff rates.

Charitable Trust

The Bank historically has provided a loan facility to the Charitable Trust which it used to purchase shares in the Bank which amounted to \$1.2 million at 30 June 2010 (2009: \$2.7 million). As at 30 June 2010, the Charitable Trust held 729,088 Bank's common shares (2009: 729,088 shares).

Capital Transaction

The Carlyle Group and Canadian Imperial Bank of Commerce ("CIBC") 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 incurred \$29.2 million in transaction fees and related expenses in respect of the Capital Raise (of which \$8.5 million was paid to The Carlyle Group and \$6.5 million paid to CIBC) and the Rights Offering.

The Bank entered into a commitment letter for a \$500 million line of credit at market rates with CIBC. The fees incurred for the line of credit facility were \$7 million. As at 30 June 2010 the credit facility had been reduced to \$300 million remains undrawn and the Bank incurs facility fees of \$200,000 per month.

Note 17: Comparative Information

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

Note 18: Subsequent Events

The financial statements were available to be issued and subsequent events have been evaluated up to 5 August 2010.