

Moving Forward

Together



Second Quarter 2011

The Bank of N.T. Butterfield & Son Limited

Report to shareholders and financial results for the
three months ended 30 June 2011



Butterfield

The Bank of N.T. Butterfield & Son Limited
Unaudited Consolidated Balance Sheet

(In thousands of Bermuda dollars)

	As at	
	30 June 2011	31 December 2010 Audited
Assets		
Cash and demand deposits with banks	466,404	300,865
Cash equivalents	1,853,432	2,128,834
Total cash and cash equivalents	2,319,836	2,429,699
Short term investments	30,873	26,392
Debt and equity securities		
Trading	18,136	18,088
Available for sale	2,630,543	2,611,056
Total investments in debt and equity securities	2,648,679	2,629,144
Loans, net of allowance for credit losses	4,100,065	4,043,360
Premises, equipment and computer software	265,435	261,955
Accrued interest	21,241	17,691
Goodwill	16,446	16,017
Intangible assets	36,977	38,946
Investments in affiliates	31,646	33,534
Receivable from investments sold	-	50,817
Other assets	70,953	75,505
Total assets	9,542,151	9,623,060
Liabilities		
Deposits		
Non-interest bearing	1,012,845	977,417
Interest bearing		
Customers	7,129,068	7,170,963
Banks	102,800	79,679
Total deposits	8,244,713	8,228,059
Employee future benefits	84,028	85,209
Accrued interest	8,086	9,647
Preference and Contingent value convertible preference share dividends payable	4,018	715
Payable for investments purchased	-	112,663
Other liabilities	77,090	94,680
Total other liabilities	173,222	302,914
Subordinated capital	283,034	282,799
Total liabilities	8,700,969	8,813,772
Shareholders' equity		
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	1,375,705	1,376,037
Accumulated deficit	(501,716)	(509,579)
Less: Treasury common shares (2,168,446 shares; 2010: 2,401,593 shares)	(21,901)	(24,127)
Accumulated other comprehensive loss	(16,477)	(38,614)
Total shareholders' equity	841,182	809,288
Total liabilities and shareholders' equity	9,542,151	9,623,060

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		For the six month period ended	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
Non-interest income				
Asset management	5,860	6,575	11,522	12,604
Banking	8,271	9,431	17,224	18,704
Foreign exchange revenue	7,618	8,811	15,084	17,497
Trust	7,321	7,657	14,548	14,873
Custody and other administration services	2,669	3,602	5,906	7,205
Other non-interest income	1,070	1,596	2,217	7,296
Total non-interest income	32,809	37,672	66,501	78,179
Interest income				
Loans	49,504	49,443	98,325	97,706
Investments	11,610	5,587	22,741	13,110
Deposits with banks	3,260	2,681	6,393	5,320
Total interest income	64,374	57,711	127,459	116,136
Interest expense				
Deposits	9,010	11,631	18,395	23,794
Subordinated capital	2,591	3,365	4,874	6,798
Total interest expense	11,601	14,996	23,269	30,592
Net interest income before provision for credit losses	52,773	42,715	104,190	85,544
Provision for credit losses	(2,596)	(7,605)	(6,443)	(8,663)
Net interest income after provision for credit losses	50,177	35,110	97,747	76,881
Net trading losses	(189)	(356)	(2)	(30)
Net realised gains (losses) on available for sale investments	-	6,874	193	(106,883)
Other-than-temporary impairment losses on available for sale investments	-	-	-	(60,522)
Net other gains (losses)	3,156	(3,175)	1,917	(2,508)
Total net revenue	85,953	76,125	166,356	(14,883)
Non-interest expense				
Salaries and other employee benefits	38,022	39,423	74,104	87,205
Technology and communications	13,542	13,258	26,713	25,817
Property	7,230	6,620	14,394	13,697
Professional and outside services	3,719	4,144	7,524	5,829
Non-income taxes	3,447	3,625	7,353	7,383
Amortisation of intangible assets	1,425	1,426	2,830	2,891
Marketing	1,275	1,047	2,463	2,159
Other expenses	5,066	6,073	10,224	18,461
Total non-interest expense	73,726	75,616	145,605	163,442
Net income (loss) before income taxes	12,227	509	20,751	(178,325)
Income taxes (expense) benefit	(429)	(338)	(585)	2,154
Net income (loss)	11,798	171	20,166	(176,171)
Cash dividends declared on contingent value convertible preferred shares	(3,303)	-	(3,303)	-
Cash dividends declared on preferred shares	(4,000)	(4,000)	(8,000)	(8,000)
Preferred shares guarantee fee	(500)	(500)	(1,000)	(1,000)
Net income (loss) attributable to common shareholders	3,995	(4,329)	7,863	(185,171)
Income (loss) per common share				
Basic	0.01	(0.01)	0.01	(0.47)
Diluted	0.01	(0.01)	0.01	(0.47)

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 2011	30 June 2010
Common share capital issued and outstanding		
Balance at beginning of period (2011: 549,143,448 shares; 2010: 99,060,111 shares)	5,491	99,060
Issuance (2011: nil shares; 2010: 147,703,758 shares)	-	144,837
Reduction in par value of shares	-	(241,429)
Repurchased (2011: nil shares; 2010: 107,571,361 shares)	-	(1,076)
Rights conversion (2011: nil shares; 2010: 99,173,842 shares)	-	992
Conversion of mandatory and contingent preference shares (2011: nil shares; 2010: 310,302,028 shares)	-	3,103
Conversion of contingent value preference shares (2011: 2,900 shares; 2010: 384,598 shares)	-	4
Balance at end of period (2011: 549,146,348 shares; 2010: 549,052,975 shares)	5,491	5,491
Preferred shares		
Balance at beginning of period (2011: 200,000 shares; 2010: 200,000 shares)	2	2
Issuance (2011: nil shares; 2010: nil shares)	-	-
Balance at end of period (2011: 200,000 shares; 2010: 200,000 shares)	2	2
Mandatorily convertible preferred shares		
Balance at beginning of period (2011: nil shares; 2010: nil shares)	-	-
Issuance (2011: nil shares; 2010: 281,770 shares)	-	3
Conversion to common shares (2011: nil shares; 2010: 281,770 shares)	-	(3)
Balance at end of period (2011: nil shares; 2010: nil shares)	-	-
Contingent convertible preferred shares		
Balance at beginning of period (2011: nil shares; 2010: nil shares)	-	-
Issuance (2011: nil shares; 2010: 93,230 shares)	-	1
Conversion to common shares (2011: nil shares; 2010: 93,230 shares)	-	(1)
Balance at end of period (2011: nil shares; 2010: nil shares)	-	-
Contingent value convertible preferred shares		
Balance at beginning of period (2011: 7,789,087 shares; 2010: nil shares)	78	-
Rights conversion (2011: nil shares; 2010: 8,264,157 shares)	-	83
Conversion to common shares (2011: 2,900 shares; 2010: 384,598 shares)	-	(4)
Balance at end of period (2011: 7,786,187 shares; 2010: 7,879,559 shares)	78	79
Additional paid-in capital		
Balance at beginning of period	1,376,037	764,206
Stock option plan expense	1,669	2,849
Reduction of additional paid in capital on transfer and sale of treasury shares	(2,001)	-
Issuance of common shares	-	30,192
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)
Balance at end of period	1,375,705	1,381,324
Accumulated deficit		
Balance at beginning of period	(509,579)	(283,964)
Net income (loss) for period	20,166	(176,171)
Cash dividends declared on contingent value convertible preferred shares	(3,303)	-
Cash dividends declared on preferred shares	(8,000)	(8,000)
Preferred shares guarantee fee	(1,000)	(1,000)
Balance at end of period	(501,716)	(469,135)
Treasury common shares		
Balance at beginning of period (2011: 2,401,593 shares; 2010: 3,426,106 shares)	(24,127)	(34,660)
Share based compensation	225	3,512
Net purchases, sales and transfers of treasury shares	2,001	-
Balance at end of period (2011: 2,168,446 shares; 2010: 2,539,521 shares)	(21,901)	(31,148)

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 2011	30 June 2010
Accumulated other comprehensive loss		
Balance at beginning of period	(38,614)	(189,184)
Net change in unrealised gains (losses) on translation of net investment in foreign operations	506	(5,458)
Net change in unrealised gains on available for sale investments	22,232	26,343
Net change in unrealised non-credit losses on held to maturity investments	-	58,557
Net change in employee future benefits liability	(601)	70,884
Balance at end of period	(16,477)	(38,858)
Total shareholders' equity	841,182	847,755
Comprehensive income (loss)		
Net income (loss)	20,166	(176,171)
Other comprehensive income	22,137	150,326
Total comprehensive income (loss)	42,303	(25,845)
Components of accumulated other comprehensive loss		
Cumulative unrealised losses on translation of investment in foreign operations	(11,638)	(13,107)
Cumulative unrealised losses on available for sale investments	4,050	(30,648)
Cumulative change in employee future benefits liability	(8,889)	4,897
Balance at end of period	(16,477)	(38,858)

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 2011	30 June 2010
Cash flows from operating activities		
Net income (loss)	20,166	(176,171)
Adjustments to reconcile net income (loss) to operating cash flows:		
Depreciation and amortization	17,714	11,366
Decrease in carrying value of investments in affiliates	1,888	3,374
Share-based payments	1,863	6,362
Loss (gain) on sale of premises and equipment	12	(8)
Net gain on sale of affiliate	(3,178)	-
Net realised (gains) losses and other-than-temporary impairment on sale of available for sale investments	(193)	167,406
Provision for credit losses	6,443	8,663
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(3,450)	(1,762)
Decrease (Increase) in other assets	42,689	(28,255)
Decrease in accrued interest payable	(1,619)	(1,656)
(Decrease) Increase in other liabilities	(120,598)	6,685
	(38,263)	(3,996)
Net change in trading investments	423	1,477
Cash used in operating activities	(37,840)	(2,519)
Cash flows from investing activities		
Net proceeds on sale of affiliate	3,178	-
Net (increase) decrease in short term investments	(4,481)	7,150
Additions to premises, equipment and computer software	(12,008)	(23,067)
Net increase in loans	(45,005)	(6,921)
Held to maturity investments: proceeds from maturities	-	16,517
Available for sale investments: proceeds from sale and maturities	1,006,560	1,426,272
Available for sale investments: purchases	(982,307)	(257,810)
Cash (used in) provided by investing activities	(34,063)	1,162,141
Cash flows from financing activities		
Net decrease in demand and term deposit liabilities	(56,464)	(127,095)
Issuance of common share capital	-	295,000
Issuance of preferred share capital	-	385,001
Cost of issuing share capital and rights	-	(29,222)
Common shares repurchased	-	(130,000)
Cash dividends paid on preferred shares	(8,000)	(8,622)
Preferred shares guarantee fee paid	(1,000)	(1,000)
Cash (used in) provided by financing activities	(65,464)	384,062
Net effect of exchange rates on cash and cash equivalents	27,504	(54,404)
Net (decrease) increase in cash and cash equivalents	(109,863)	1,489,280
Cash and cash equivalents at beginning of period	2,429,699	2,065,175
Cash and cash equivalents at end of period	2,319,836	3,554,455

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") 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 six month period ended 30 June 2011.

Financing receivables and the allowance for credit losses disclosures

In July 2010, the Financial Accounting Standards Board ("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 and were effective for the Bank on 1 January 2011. The prior period figures for loan disclosures have been reclassified to conform to the current enhanced note disclosures required by the standard. The standard did not affect the Bank's consolidated financial condition or results of operations.

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 impact of this additional accounting guidance is expected to be primarily on disclosures.

Other comprehensive income

In June 2011, the FASB issued an accounting standards update, "Presentation of Comprehensive Income" which eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The amendments are effective for fiscal years, and interim periods within those years, beginning after 15 December 2011 and should be applied retrospectively. Early adoption is permitted. The amendments do not require any transition disclosures. The impact of these amendments is primarily on disclosures on the face of the Consolidated Statement of Operations.

Fair value measurements

In May 2011, the FASB issued accounting standard update, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure requirements in U.S. GAAP and IFRS". The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. While many of the amendments to U.S. GAAP are not expected to have a significant effect on practice, the new guidance changes some fair value measurement principles and disclosure requirements. The amendments are effective for interim and annual periods beginning on or after 15 December 2011, with early adoption prohibited. The new guidance will require prospective application.

Repurchase agreements

During May 2011 the FASB issued an accounting standard update, "Reconsideration of Effective Control for Repurchase Agreements". The amendments in this update remove from the assessment of effective control the criterion relating to the transferor's ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. The amendments in this update also eliminate the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets.

The guidance in this update is effective for the first interim or annual period beginning on or after 15 December 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. As the Bank has not entered into any repurchase agreements at of 30 June 2011, the update does not have an impact on the Bank's consolidated financial statements.

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars)

Note 2: Change in accounting policy (continued)

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 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 31 December 2010	Adjustments 31 December 2010	Restated 31 December 2010
Consolidated Balance Sheet			
Cash and demand deposits with banks	325,367	(24,502)	300,865
Cash equivalents			
Term deposits with banks	1,950,179	(1,890)	1,948,289
Certificate of deposits and treasury bills	-	180,545	180,545
Total cash equivalents	1,950,179	178,655	2,128,834
Total cash and cash equivalents	2,275,546	154,153	2,429,699
Short term investments	-	26,392	26,392
Debt and equity securities			
Trading	18,088	-	18,088
Available for sale	2,791,601	(180,545)	2,611,056
Total investments in debt and equity securities	2,809,689	(180,545)	2,629,144

	As reported 30 June 2010	Adjustments 30 June 2010	Restated 30 June 2010
Extract of consolidated cash flow statement			
Cash flows from operating activities			
(Increase) decrease in other assets	(46,708)	18,453	(28,255)
Net change in trading account securities	19,930	(18,453)	1,477
Cash flows from investing activities			
Net increase in term deposits with banks	(904,803)	904,803	-
Net decrease in short term investments	-	7,150	7,150
Available for sale securities: proceeds from sale and maturities	3,448,381	(2,022,109)	1,426,272
Available for sale securities: purchases	(3,138,915)	2,881,105	(257,810)
Net effect of exchange rates on cash and cash equivalents	3,379	(57,785)	(54,404)
Net decrease in cash and cash equivalents	(223,886)	1,713,165	1,489,280
Cash and cash equivalents at beginning of period	551,249	1,513,926	2,065,175
Cash and cash equivalents at end of period	327,363	3,227,091	3,554,455

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

(In thousands of Bermuda dollars)

Note 3: Cash and Cash Equivalents

	30 June 2011			31 December 2010		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Non-interest earning						
Cash and demand deposits	221,343	146,016	367,359	118,155	42,895	161,050
Interest earning						
Demand deposits	23	99,022	99,045	44	139,771	139,815
Cash equivalents	393,190	1,460,242	1,853,432	602,135	1,526,699	2,128,834
Sub-total - Interest earning	393,213	1,559,264	1,952,477	602,179	1,666,470	2,268,649
Total cash and cash equivalents	614,556	1,705,280	2,319,836	720,334	1,709,365	2,429,699

Note 4: Short Term Investments

	30 June 2011			31 December 2010		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Interest earning						
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
Total unrestricted short term investments	-	1,215	1,215	-	1,607	1,607
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Non-interest earning						
Demand deposits	-	12,483	12,483	-	6,156	6,156
Interest earning						
Term deposits maturing within three months	16,722	453	17,175	18,157	472	18,629
Total restricted short term investments	16,722	12,936	29,658	18,157	6,628	24,785
Total short term investments	16,722	14,151	30,873	18,157	8,235	26,392

Note 5: Investments

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

	30 June 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
Trading								
Debt securities issued by non-US governments	6,750	121	(249)	6,622	6,553	150	(192)	6,511
Equity securities	11,982	338	(806)	11,514	11,981	273	(677)	11,577
Total trading	18,732	459	(1,055)	18,136	18,534	423	(869)	18,088
Available for sale								
Certificates of deposit	859,329	4,375	(12)	863,692	854,273	4,885	(12)	859,146
US government and federal agencies	1,019,743	3,987	(1,711)	1,022,019	927,598	398	(10,502)	917,494
Debt securities issued by non-US governments	134,824	2,265	(9)	137,080	131,028	1,675	(11)	132,692
Corporate debt securities guaranteed by non-US governments	149,076	453	(22)	149,507	149,948	76	(304)	149,720
Corporate debt securities	282,114	56	(2,131)	280,039	352,960	14	(5,504)	347,470
Asset-backed securities - Student loans	150,970	-	(4,497)	146,473	152,434	-	(5,623)	146,811
Structured investment vehicles	34,505	-	(2,847)	31,658	62,762	-	(5,116)	57,646
Equity securities	75	-	-	75	77	-	-	77
Total available for sale	2,630,636	11,136	(11,229)	2,630,543	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

(In thousands of Bermuda dollars)

Note 5: Investments (continued)

30 June 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		
Available for sale						
Certificates of deposit	33,541	(12)	-	-	33,541	(12)
US government and federal agencies	294,161	(1,683)	20,781	(28)	314,942	(1,711)
Debt securities issued by non-US governments	999	(1)	992	(8)	1,991	(9)
Corporate debt securities guaranteed by non-US governments	32,196	(22)	-	-	32,196	(22)
Corporate debt securities	7,229	(4)	221,059	(2,127)	228,288	(2,131)
Asset-backed securities - Student loans	-	-	146,473	(4,497)	146,473	(4,497)
Structured investments vehicles	-	-	31,658	(2,847)	31,658	(2,847)
Total available for sale securities with unrealised losses	368,126	(1,722)	420,963	(9,507)	789,089	(11,229)

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		
Available for sale						
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)
Total available for sale securities with unrealised losses	1,057,005	(13,421)	517,485	(13,651)	1,574,490	(27,072)

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

Certificates of deposit

As of 30 June 2011, gross unrealised losses on the Bank's holdings of certificates of deposit (CDs) were \$0.01 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 30 June 2011, gross unrealised losses on securities related to United States ("US") government and federal agencies were \$1.7 million, \$0.03 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 30 June 2011, gross unrealised losses on debt securities issued by non-US governments were \$0.009 million, \$0.001 million of which related to investments that were in an unrealised loss position for greater 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 30 June 2011, gross unrealised losses related to corporate debt securities guaranteed by non-US governments were \$0.02 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 30 June 2011, gross unrealised losses related to corporate debt securities were \$2.1 million, of which \$2.1 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.

Asset-backed securities - Student loans

As of 30 June 2011, gross unrealised losses on student-loan asset backed securities were \$4.5 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.

The Bank of N.T. Butterfield & Son Limited

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(In thousands of Bermuda dollars)

Note 5: Investments (continued)

Structured investment vehicle

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 2011, gross unrealised losses related to our remaining SIV were \$2.9 million. 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.

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

30 June 2011	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	720	-	2,990	2,912	-	6,622
Equity securities	-	-	-	-	11,514	11,514
Total trading	720	-	2,990	2,912	11,514	18,136
Available for sale						
Certificates of deposit	151,786	584,303	127,603	-	-	863,692
US government and federal agencies	305	12,049	992,322	17,343	-	1,022,019
Debt securities issued by non-US governments	18,165	55,020	43,422	20,473	-	137,080
Corporate debt securities guaranteed by non-US governments	-	56,055	93,452	-	-	149,507
Corporate debt securities	30,467	245,372	3,173	1,027	-	280,039
Asset-backed securities - Student loans	-	-	59,595	86,878	-	146,473
Structured investments vehicles	-	-	31,658	-	-	31,658
Equity securities	-	-	-	2	73	75
Total available for sale	200,723	952,799	1,351,225	125,723	73	2,630,543
Total investments	201,443	952,799	1,354,215	128,635	11,587	2,648,679
Total by currency						
Bermuda dollars	-	-	-	-	177	177
US dollars	126,314	356,404	1,288,664	116,244	5,338	1,892,964
Other	75,129	596,395	65,551	12,391	6,072	755,538
Total investments	201,443	952,799	1,354,215	128,635	11,587	2,648,679

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	
Trading						
Debt securities issued by non-US governments	-	728	2,967	2,816	-	6,511
Equity securities	-	-	-	-	11,577	11,577
Total trading	-	728	2,967	2,816	11,577	18,088
Available for sale						
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	-	31,770	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
Total available for sale	622,808	375,585	1,360,634	251,955	74	2,611,056
Total by currency						
Bermuda dollars	-	-	-	-	169	169
US dollars	257,887	112,939	1,241,064	242,523	5,272	1,859,685
Other	364,921	263,374	122,537	12,248	6,210	769,290
Total investments	622,808	376,313	1,363,601	254,771	11,651	2,629,144

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Note 6: Loans

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

	30 June 2011			31 December 2010		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Commercial loans						
Banks	35	-	35	276	81	357
Government	142,875	4,298	147,173	61,739	4,365	66,104
Commercial and industrial	171,105	230,765	401,870	249,965	190,424	440,389
Commercial overdrafts	40,116	49,014	89,130	35,539	40,691	76,230
Total commercial loans	354,131	284,077	638,208	347,519	235,561	583,080
Less specific allowance for credit losses on commercial loans	(1,251)	(1,502)	(2,753)	(313)	(1,746)	(2,059)
Total commercial loans after specific allowance for credit losses	352,880	282,575	635,455	347,206	233,815	581,021
Commercial real estate loans						
Commercial mortgage	485,788	360,758	846,546	567,776	366,933	934,709
Construction	40,666	5,119	45,785	44,093	13,047	57,140
Total commercial real estate loans	526,454	365,877	892,331	611,869	379,980	991,849
Less specific allowance for credit losses on commercial real estate loans	(19,525)	(4,535)	(24,060)	(16,400)	(4,900)	(21,300)
Total commercial real estate loans after specific allowance for credit	506,929	361,342	868,271	595,469	375,080	970,549
Consumer loans						
Automobile financing	29,490	5,271	34,761	37,296	6,025	43,321
Credit card	57,276	23,913	81,189	58,582	25,035	83,617
Overdrafts	5,759	7,797	13,556	4,995	5,415	10,410
Other consumer	95,290	156,698	251,988	94,756	139,276	234,032
Total consumer loans	187,815	193,679	381,494	195,629	175,751	371,380
Less specific allowance for credit losses on consumer loans	(113)	(1,527)	(1,640)	(118)	(2,269)	(2,387)
Total consumer loans after specific allowance for credit losses	187,702	192,152	379,854	195,511	173,482	368,993
Residential mortgage loans	1,336,490	923,773	2,260,263	1,341,461	822,365	2,163,826
Less specific allowance for credit losses on residential mortgage loans	(2,520)	(5,379)	(7,899)	(1,710)	(2,856)	(4,566)
Total residential mortgage loans after specific allowance for credit	1,333,970	918,394	2,252,364	1,339,751	819,509	2,159,260
Total gross loans	2,404,890	1,767,406	4,172,296	2,496,478	1,613,657	4,110,135
Less specific allowance for credit losses	(23,409)	(12,943)	(36,352)	(18,541)	(11,771)	(30,312)
Less general allowance for credit losses	(25,025)	(10,854)	(35,879)	(26,038)	(10,425)	(36,463)
Net loans	2,356,456	1,743,609	4,100,065	2,451,899	1,591,461	4,043,360

	30 June 2011		31 December 2010	
	Individually evaluated	Collectively evaluated	Individually evaluated	Collectively evaluated
Total gross loans evaluated for impairment				
Commercial loans	638,208	-	583,080	-
Commercial real estate loans	892,331	-	991,849	-
Consumer loans	5,402	376,092	9,035	362,345
Residential mortgage loans	50,019	2,210,244	45,598	2,118,228
Total gross loans	1,585,960	2,586,336	1,629,562	2,480,573

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Note 6: Loans (continued)

Loan allowances	30 June 2011					31 December 2010
	Commercial loans	Commercial real estate loans	Consumer loans	Residential mortgage loans	Total loans	Total loans
Allowances at beginning of period	8,166	28,813	10,878	18,918	66,775	130,317
Provision taken (release) during the period	291	1,882	2,204	2,066	6,443	41,970
Recoveries	451	634	1,371	10	2,466	2,456
Charge-offs	-	-	(3,510)	(162)	(3,672)	(107,935)
Other	(152)	(857)	(866)	2,094	219	(33)
Allowances at end of period	8,756	30,472	10,077	22,926	72,231	66,775
Ending Balance: individually evaluated for impairment	2,753	24,059	1,640	7,900	36,352	30,312
Ending Balance: collectively evaluated for impairment	6,003	6,413	8,437	15,026	35,879	36,463

30 June 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
Commercial loans						
Commercial and industrial	335	303	2,973	3,611	(2,040)	1,571
Commercial overdrafts	-	642	71	713	(713)	-
Total commercial loans	335	945	3,044	4,324	(2,753)	1,571
Commercial real estate loans	-	-	66,935	66,935	(24,059)	42,876
Consumer loans						
Overdrafts	-	-	351	351	(351)	-
Other consumer	-	-	1,289	1,289	(1,289)	-
Total consumer loans	-	-	1,640	1,640	(1,640)	-
Residential mortgage loans	3,517	911	16,148	20,576	(7,900)	12,676
Total loans with an allowance	3,852	1,856	87,767	93,475	(36,352)	57,123
	Non accrual loans without an allowance					
Commercial loans						
Commercial and industrial	54	23	4,110	4,187	-	4,187
Commercial overdrafts	-	-	6,280	6,280	-	6,280
Total commercial loans	54	23	10,390	10,467	-	10,467
Commercial real estate loans	1,848	-	10,783	12,631	-	12,631
Consumer loans						
Automobile financing	70	337	380	787	-	787
Overdrafts	-	-	28	28	-	28
Other consumer	460	438	2,049	2,947	-	2,947
Total consumer loans	530	775	2,457	3,762	-	3,762
Residential mortgage loans	5,749	4,953	18,741	29,443	-	29,443
Total loans without an allowance	8,181	5,751	42,371	56,303	-	56,303
Total impaired loans	12,033	7,607	130,138	149,778	(36,352)	113,426

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(In thousands of Bermuda dollars)

Note 6: Loans (continued)

31 December 2010

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

For the six month period ended

	30 June 2011	30 June 2010
Gross interest income would have been recorded had impaired loans been current	4,601	6,500
Average non accrual recorded investments	154,600	142,600

The table below presents information about the loan delinquencies:

	30 June 2011			Total delinquent loans	Loans past due 90 days and still accruing interest	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
Commercial loans							
Commercial and industrial	2,065	519	7,083	9,667	-	6,788	-
Commercial overdrafts	681	-	6,360	7,041	9	8,909	-
Total commercial loans	2,746	519	13,443	16,708	9	15,697	-
Commercial real estate loans							
Commercial mortgage	2,231	750	77,718	80,699	-	91,546	-
Construction	-	-	280	280	280	8,068	-
Total commercial real estate loans	2,231	750	77,998	80,979	280	99,614	-
Consumer loans							
Automobile financing	888	533	424	1,845	43	859	-
Credit card	3,704	379	760	4,842	760	4,779	659
Overdrafts	-	-	445	445	66	574	-
Other consumer	4,076	1,232	3,342	8,650	4	9,994	-
Total consumer loans	8,668	2,144	4,971	15,782	873	16,206	659
Residential mortgage loans	44,256	16,666	47,996	108,918	13,107	93,857	29,631
Total loans	57,901	20,079	144,407	222,387	14,269	225,374	30,020

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30 June 2011	Pass	Special Mention	Substandard	Non Accrual	Total
Commercial loans					
Banks	35	-	-	-	35
Government	147,164	9	-	-	147,173
Commercial and industrial	375,463	12,990	5,619	7,798	401,870
Commercial overdrafts	73,326	8,811	-	6,993	89,130
Total commercial loans	595,988	21,810	5,619	14,791	638,208
Commercial real estate loans					
Commercial mortgage	649,877	107,645	9,458	79,566	846,546
Construction	31,674	14,111	-	-	45,785
Total commercial real estate loans	681,551	121,756	9,458	79,566	892,331
Consumer loans					
Automobile financing	33,792	124	58	787	34,761
Credit card	80,490	-	699	-	81,189
Overdrafts	11,610	1,567	-	379	13,556
Other consumer	233,935	7,311	6,506	4,236	251,988
Total consumer loans	359,827	9,002	7,263	5,402	381,494
Residential mortgage loans	2,138,746	59,116	12,382	50,019	2,260,263
Total loans	3,776,113	211,684	34,722	149,778	4,172,296

31 December 2010	Pass	Special Mention	Substandard	Non Accrual	Total
Commercial loans					
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
Total commercial loans	546,471	21,240	1,128	14,241	583,080
Commercial real estate loans					
Commercial mortgage	743,221	90,034	10,827	90,627	934,709
Construction	40,549	16,591	-	-	57,140
Total commercial real estate loans	783,770	106,625	10,827	90,627	991,849
Consumer loans					
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
Total consumer loans	349,548	11,971	826	9,035	371,380
Residential mortgage loans	2,045,368	64,077	8,783	45,598	2,163,826
Total loans	3,725,157	203,913	21,564	159,501	4,110,135

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 substandard 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.

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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:

	30 June 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	154,151	453,417	607,568	355,215	423,295	778,510
Commercial and merchandising	641,216	230,613	871,829	439,429	250,927	690,356
Governments	142,171	80,000	222,171	68,250	-	68,250
Individuals	2,221,043	146,068	2,367,111	2,218,136	59,979	2,278,115
Primary industry and manufacturing	102,678	2,070	104,748	70,212	42,376	112,588
Real estate	730,416	29,530	759,946	789,155	25,960	815,115
Hospitality industry	131,027	754	131,781	128,724	2,804	131,528
Transport and communication	13,242	-	13,242	10,702	200	10,902
Sub-total	4,135,944	942,452	5,078,396	4,079,823	805,541	4,885,364
General allowance	(35,879)	-	(35,879)	(36,463)	-	(36,463)
Total	4,100,065	942,452	5,042,517	4,043,360	805,541	4,848,901

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

	30 June 2011			31 December 2010		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Bermuda	2,381,481	495,408	2,876,889	2,477,937	441,485	2,919,422
Barbados	184,813	7,609	192,422	188,938	8,127	197,065
Cayman	744,792	216,760	961,552	595,425	227,023	822,448
Guernsey	414,265	145,857	560,122	332,827	106,556	439,383
The Bahamas	4,749	-	4,749	69,321	1,734	71,055
United Kingdom	405,844	76,818	482,662	415,375	20,616	435,991
Sub-total	4,135,944	942,452	5,078,396	4,079,823	805,541	4,885,364
General allowance	(35,879)	-	(35,879)	(36,463)	-	(36,463)
Total	4,100,065	942,452	5,042,517	4,043,360	805,541	4,848,901

Note 8: Customer Deposits and Deposits from Banks

a) By Maturity

	30 June 2011			31 December 2010		
	Customers	Banks	Total	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	1,012,845	-	1,012,845	977,417	-	977,417
Demand deposits - Interest bearing	4,768,702	8,769	4,777,471	4,558,249	10,793	4,569,042
Sub-total - demand deposits	5,781,547	8,769	5,790,316	5,535,666	10,793	5,546,459
Term deposits						
Term deposits maturing within six months	2,094,473	93,397	2,187,870	2,353,217	64,133	2,417,350
Term deposits maturing between six to twelve months	158,315	634	158,949	132,359	4,753	137,112
Term deposits maturing after twelve months	107,578	-	107,578	127,138	-	127,138
Sub-total - term deposits	2,360,366	94,031	2,454,397	2,612,714	68,886	2,681,600
Total	8,141,913	102,800	8,244,713	8,148,380	79,679	8,228,059

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

b) By Type and Location

	30 June 2011			31 December 2010		
	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	2,414,154	1,082,316	3,496,470	2,458,003	1,146,796	3,604,799
Banks	-	75,836	75,836	-	44,988	44,988
Barbados						
Customers	173,284	90,293	263,577	159,255	80,686	239,941
Cayman						
Customers	1,439,055	429,684	1,868,739	1,348,636	432,140	1,780,776
Banks	6,145	18,195	24,340	8,587	22,387	30,974
Guernsey						
Customers	1,252,719	322,203	1,574,922	1,010,897	450,895	1,461,792
Banks	2,624	-	2,624	1,516	-	1,516
The Bahamas						
Customers	83,803	7,448	91,251	84,357	37,606	121,963
United Kingdom						
Customers	418,532	428,422	846,954	474,518	464,591	939,109
Banks	-	-	-	690	1,511	2,201
Total Customers	5,781,547	2,360,366	8,141,913	5,535,666	2,612,714	8,148,380
Total Banks	8,769	94,031	102,800	10,793	68,886	79,679
Total	5,790,316	2,454,397	8,244,713	5,546,459	2,681,600	8,228,059

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		For the six month period ended	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
Defined benefit pension expense				
Service cost	649	608	1,346	1,228
Interest cost	1,786	1,757	3,665	3,541
Expected return on plan assets	(2,193)	(2,105)	(4,508)	(4,243)
Amortisation of net actuarial loss	1,006	783	2,011	1,566
Total defined benefit pension expense	1,248	1,043	2,514	2,092
Post-retirement medical benefit expense				
Service cost	185	1,069	370	2,138
Interest cost	1,107	2,197	2,214	4,394
Amortisation of net actuarial loss	234	579	468	1,159
Amortisation of past service cost	(1,539)	-	(3,079)	-
Total post-retirement medical benefit expense	(13)	3,845	(27)	7,691

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.

The Bank of N.T. Butterfield & Son Limited

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(In thousands of Bermuda dollars)

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 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 2011			31 December 2010		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	377,012	343,939	33,073	386,728	354,310	32,418
Letters of guarantee	12,383	7,133	5,250	14,115	8,655	5,460
Total	389,395	351,072	38,323	400,843	362,965	37,878

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 2011	31 December 2010
Commitments to extend credit	551,726	402,567
Documentary and commercial letters of credit	1,331	2,131
Total	553,057	404,698

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 2011, \$170.5 million (2010: \$170.3 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

	30 June 2011	31 December 2010
Bermuda	4,464,972	5,192,585
Barbados	298,031	273,797
Cayman	2,123,942	2,036,512
Guernsey	1,720,989	1,617,976
Switzerland	525	1,191
The Bahamas	114,690	146,069
United Kingdom	1,014,345	1,104,946
Total overseas	5,272,522	5,180,491
Less: inter-segment eliminations	(195,343)	(750,016)
Total	9,542,151	9,623,060

The Bank of N.T. Butterfield & Son Limited
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Note 11: Segmented Information (continued)

For the three month period
ended 30 June 2011

	Net interest income						Net income (loss) before gains and losses	Gains and losses	Net income (loss)
	Customer	Inter- segment	Provision for credit losses	Non- interest income	Revenue before gains and losses	Total expense			
Bermuda	32,655	180	(2,264)	15,769	46,340	42,309	4,031	2,941	6,972
Barbados	2,926	-	(17)	754	3,663	3,362	301	-	301
Cayman	9,161	197	(343)	7,836	16,851	14,284	2,567	-	2,567
Guernsey	4,071	1	-	5,293	9,365	7,558	1,807	2	1,809
Switzerland	-	-	-	156	156	509	(353)	-	(353)
The Bahamas	385	44	30	1,257	1,716	1,491	225	2	227
United Kingdom	3,575	(422)	(2)	2,978	6,129	5,876	253	24	277
Sub-total overseas	20,118	(180)	(332)	18,274	37,880	33,080	4,800	28	4,828
Total before eliminations	52,773	-	(2,596)	34,043	84,220	75,389	8,831	2,969	11,800
Less: inter-segment eliminations	-	-	-	(1,234)	(1,234)	(1,234)	-	(2)	(2)
Total	52,773	-	(2,596)	32,809	82,986	74,155	8,831	2,967	11,798

For the three month period
ended 30 June 2010

	Net interest income						Net income (loss) before gains and losses	Gains and losses	Net income (loss)
	Customer	Inter- segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expense			
Bermuda	26,204	(54)	(4,410)	17,785	39,525	45,478	(5,953)	3,580	(2,373)
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

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

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

(In thousands of Bermuda dollars)

Note 11: Segmented Information (continued)

For the six month period
ended 30 June 2011

	Net interest income			Non-interest income	Revenue before gains and losses	Total expense	Net income (loss) before gains and losses	Gains and losses	Net income (loss)
	Customer	Inter-segment	Provision for credit losses						
Bermuda	65,720	360	(4,928)	32,443	93,595	85,592	8,003	2,069	10,072
Barbados	5,719	-	82	1,589	7,390	6,427	963	12	975
Cayman	17,778	423	(1,220)	15,321	32,302	26,781	5,521	1	5,522
Guernsey	7,231	(21)	-	11,151	18,361	15,107	3,254	275	3,529
Switzerland	-	-	-	307	307	1,024	(717)	-	(717)
The Bahamas	961	46	(133)	2,593	3,467	2,661	806	2	808
United Kingdom	6,781	(808)	(244)	5,550	11,279	11,051	228	24	252
Sub-total overseas	38,470	(360)	(1,515)	36,511	73,106	63,051	10,055	314	10,369
Total before eliminations	104,190	-	(6,443)	68,954	166,701	148,643	18,058	2,383	20,441
Less: inter-segment eliminations	-	-	-	(2,453)	(2,453)	(2,453)	-	(275)	(275)
Total	104,190	-	(6,443)	66,501	164,248	146,190	18,058	2,108	20,166

For the six month period ended
30 June 2010

	Net interest income			Non-interest income	Revenue before gains and losses	Total expense	Net income (loss) before gains	Gains and losses	Net income (loss)
	Customer	Inter-segment	Provision for credit losses						
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)

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

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars)

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 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 six months ended 30 June 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 30 June 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

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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.

30 June 2011	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	3,813	-	(129)	(129)
Investments	Interest rate swaps	35,350	106	-	106
Subtotal fair value hedges		39,163	106	(129)	(23)
Not designated as hedging instruments					
	Interest rate swaps	365,447	556	(486)	70
	Currency swaps	319,490	1,793	(1,098)	695
Subtotal not designated as hedges		684,937	2,349	(1,584)	765
Subtotal risk management derivatives		724,100	2,455	(1,713)	742
Client services derivatives					
	Spot and forward foreign exchange	6,305,343	37,241	(37,392)	(151)
	Interest rate caps	38,563	219	(219)	-
Subtotal client services derivatives		6,343,906	37,460	(37,611)	(151)
Total derivative instruments		7,068,006	39,915	(39,324)	591

31 December 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	175,858	47	(17,151)	(17,104)
Investments	Interest rate swaps	34,316	228	-	228
Customer deposits	Interest rate swaps	5,447	-	(26)	(26)
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
Subtotal risk management derivatives		840,464	5,784	(17,733)	(11,949)
Client services derivatives					
	Spot and forward foreign exchange	4,842,989	39,774	(39,755)	19
	Interest rate caps	37,435	389	(389)	-
Subtotal client services derivatives		4,880,424	40,163	(40,144)	19
Total derivative instruments		5,720,888	45,947	(57,877)	(11,930)

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		For the six month period ended	
		30 June 2011	30 June 2010	30 June 2011	30 June 2010
Interest rate swaps	Net other gains (losses)	(254)	(461)	(432)	1,110
Forward foreign exchange	Foreign exchange revenue	(684)	722	1,008	543
Total net gains recognised in net income (loss)		(938)	261	576	1,653

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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 2010 annual financial statements.

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 2010 annual financial statements.

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

	30 June 2011				31 December 2010			
	Fair value			Total carrying amount / Fair value	Fair value			Total carrying amount / Fair value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Financial assets								
Debt and equity securities								
Trading								
Debt securities issued by non-US governments	-	6,622	-	6,622	-	6,511	-	6,511
Equity securities	10,035	1,479	-	11,514	10,021	1,556	-	11,577
Total Trading	10,035	8,101	-	18,136	10,021	8,067	-	18,088
Available for sale								
Certificates of deposit	-	863,692	-	863,692	-	859,146	-	859,146
US government and federal agencies	-	1,022,019	-	1,022,019	-	917,494	-	917,494
Debt securities issued by non-US governments	-	137,080	-	137,080	-	132,692	-	132,692
Corporate debt securities guaranteed by non-US governments	-	149,507	-	149,507	-	149,720	-	149,720
Corporate debt securities	-	280,039	-	280,039	-	347,470	-	347,470
Asset-backed securities - Student loans	-	134,512	11,961	146,473	-	135,632	11,179	146,811
Structured investments vehicles	-	-	31,658	31,658	-	24,342	33,304	57,646
Equity securities	-	75	-	75	-	77	-	77
Total Available for sale	-	2,586,924	43,619	2,630,543	-	2,566,573	44,483	2,611,056
Other assets - Closed ended real estate fund	-	-	9,215	9,215	-	-	9,044	9,044
Other assets - Derivatives	-	39,915	-	39,915	-	45,947	-	45,947
Financial liabilities								
Other liabilities - Derivatives	-	39,324	-	39,324	-	57,877	-	57,877

Transfers of securities

	30 June 2011		31 December 2010	
	Trading investments	Available for sale investments	Trading investments	Available for sale investments
Transfers in and (out) of Level 1	-	-	-	-
Transfers in and (out) of Level 2	-	-	-	1,002,803

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Note 13: Fair Value of Financial Instruments (continued)

Level 3 reconciliation	30 June 2011			31 December 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	296	382,452	8,307
Purchases	-	290	-	151	-	-
Proceeds from sale	-	(2,276)	-	(447)	(103,064)	-
Realised and unrealised losses recognised in net income	-	888	(103)	-	(3,245)	1,020
Realised and unrealised losses recognised in other comprehensive income	-	234	-	-	(137,093)	-
Transfers in and out of Level 3	-	-	-	-	(94,567)	-
Foreign exchange translation adjustment	-	-	274	-	-	(283)
Carrying amount at end of period	-	43,619	9,215	-	44,483	9,044

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

	30 June 2011			31 December 2010		
	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
Financial assets						
Cash and cash equivalents	2,319,836	2,319,836	-	2,429,699	2,429,699	-
Short term investments	30,873	30,873	-	26,392	26,392	-
Investments held to maturity	-	-	-	-	-	-
Loans, net of allowance for credit losses	4,100,065	4,100,065	-	4,043,360	4,043,360	-
Financial liabilities						
Customer deposits						
Demand deposits	5,781,547	5,781,547	-	5,535,666	5,535,666	-
Term deposits	2,360,366	2,366,531	(6,165)	2,612,714	2,621,188	(8,474)
Deposits from banks	102,800	102,800	-	79,679	79,679	-
Subordinated capital	283,034	255,713	27,321	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.

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Note 14: Interest Rate Risk (continued)

30 June 2011

Earlier of maturity or repricing date

(in \$ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash and cash equivalents	1,953	-	-	-	-	367	2,320
Short term investments	19	-	-	-	-	12	31
Investments	614	336	371	1,261	24	43	2,649
Loans	3,657	89	18	72	155	109	4,100
Premises, equipment and computer software	-	-	-	-	-	265	265
Other assets	-	-	-	-	-	177	177
Total assets	6,243	425	389	1,333	179	973	9,542
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	841	841
Demand deposits	4,777	-	-	-	-	1,013	5,790
Term deposits	1,882	306	159	108	-	-	2,455
Other liabilities	-	-	-	-	-	173	173
Subordinated capital	90	-	8	160	25	-	283
Total liabilities and shareholders' equity	6,749	306	167	268	25	2,027	9,542
Interest rate swaps	(37)	22	17	(2)	-	-	-
Interest rate sensitivity gap	(543)	141	239	1,063	154	(1,054)	-
Cumulative interest rate sensitivity gap	(543)	(402)	(163)	900	1,054	-	-

31 December 2010

Earlier of maturity or repricing date

(in \$ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
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
Total assets	7,015	77	249	1,253	201	828	9,623
Liabilities and shareholders' equity							
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
Total liabilities and shareholders' equity	6,748	376	137	247	26	2,089	9,623
Interest rate swaps	448	-	(339)	(48)	(61)	-	-
Interest rate sensitivity gap	715	(299)	(227)	958	114	(1,261)	-
Cumulative interest rate sensitivity gap	715	416	189	1,147	1,261	-	-

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars)

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		For the six month period ended	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
Basic earnings per share				
Net income (loss) for the period	11,798	171	20,166	(176,171)
Less: Preferred dividends declared and guarantee fee	(7,803)	(4,500)	(12,303)	(9,000)
Net income (loss) attributable for common shareholders	3,995	(4,329)	7,863	(185,171)
Weighted average number of common shares issued	556,933	551,149	556,933	399,272
Weighted average number of common shares held as treasury stock	(2,402)	(2,556)	(2,402)	(2,849)
Adjusted weighted average number of common shares	554,531	548,593	554,531	396,423
	0.01	(0.01)	0.01	(0.47)
Diluted earnings per share				
Net income (loss) attributable for common shareholders	3,995	(4,329)	7,863	(185,171)
Weighted average number of common shares issued	556,933	551,149	556,933	399,272
Weighted average number of common shares held as treasury stock	(2,402)	(2,556)	(2,402)	(2,849)
Adjusted weighted average number of diluted common shares	554,531	548,593	554,531	396,423
	0.01	(0.01)	0.01	(0.47)

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.

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.

The 2010 Stock Option Plan are described in the 2010 annual financial statements.

The following table presents the share-based compensation cost that has been charged against net income and the value of share-based settlements.

	For the six month period ended					
	30 June 2011			30 June 2010		
	Stock option plans	DIP and ELTIP	Total	Stock option plans	DIP and ELTIP	Total
Share-based compensation plans						
Awards granted in years 2009 and prior	-	-	-	2,655	3,381	6,036
Awards granted in years 2010 and 2011	847	844	1,691	-	-	-
Total share-based compensation	847	844	1,691	2,655	3,381	6,036
Share-based settlement plans						
Directors shares and retainers settlement plans			172			63
Total share-based payments			1,863			6,099

The Bank of N.T. Butterfield & Son Limited

Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars)

Note 16: Share-Based Payments (continued)

Number of shares transferable upon exercise (thousands)	For the six month period ended 30 June 2011	
	Stock option plans	ELTIP and DIP
Outstanding at beginning of period	34,047	-
Granted	1,200	3,921
Forfeited / cancelled	(172)	
Exercised	-	(3)
Resignation	(28)	(9)
Vested and exercisable at end of period	35,047	3,909

Unrecognised expense

	For the six month period ended 30 June 2011	
2010 Stock Option Plan		
Time Vesting Options		6,764
Performance Vesting Options		8,399
2010 DIP		1,307
2011 ELTIP		
Time Vesting Shares		1,282
Performance Vesting Shares		1,282
		19,034

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")

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"). The sale was completed in the second quarter of 2011 and resulted in a gain on sale of \$3.1 million.

Under the terms of the agreement, BV Investor Group paid down BFG's existing debt and revolving credit facility with the Bank and combined their overall funding requirements with another related entity, FORS Limited ("FORS"), whereby the total loan facilities post-disposition, on commercial market terms, is \$45.1 million. A Bank Non-Executive director is a minority shareholder of approximately 3% of FORS. As at 30 June 2011, \$42.6 million of the facilities were drawn

In addition, 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.

As a result of the sale, the Bank will pay a dividend of \$3.3 million in the third quarter to contingent value convertible preference shareholders of record on 26 July 2011.

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.

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 27 July 2011.