Butterfield

Second Quarter 2010
Report to Shareholders

The Bank of N.T. Butterfield & Son Limited

Second Quarter 2010 Report to Shareholders

Dear Shareholder,

In the second quarter of 2010, Butterfield had net income of $0.2 million, compared to a net loss of $176.3 million in the first quarter (with Q1 results reflecting the sale of principally all of the Bank's problematic asset backed securities during that quarter). This brings the net loss for the first half of 2010 to $176.2 million. On a normalised basis, net income for the second quarter was $2.2 million, compared to normalised income of $4.1 million for Q1 2010, bringing normalised income for the first half of 2010 to $6.3 million.

Butterfield has made good progress to de-risk its Balance Sheet over the last six months and continues to take action to manage its exposure to structured investment vehicles ("SIVs"). In Q2, Butterfield sold one of its remaining SIVs, thereby realising a gain of $5 million and reducing its exposure by $31.6 million. Offsetting this gain were increased loss provisions on two hospitality loans.

The Bank's regulatory capital base increased by $77.9 million during the quarter to $1.13 billion as at 30 June 2010, bringing the total capital ratio to 21.7% and the tier 1 ratio to 15.9%. The Bank's capital ratios remain well in excess of applicable regulatory minimums. Tangible common equity increased from 4.9% to 6.1% during the quarter. The Bank's net book value per share increased from $0.99 at 31 March 2010 to $1.17 at 30 June 2010, an 18% increase.

The Board did not declare a dividend on common shares for the second quarter of 2010, in keeping with the previous decision to withhold common dividends until such time as the Bank returns to a position of sustainable growth. The Board approved the payment of dividends and guarantee fees on Butterfield preference shares totalling $4.5 million for the quarter.

REVIEW OF OPERATING PERFORMANCE

Butterfield continues to be challenged with respect to revenue generation in the current environment, marked by low interest rates and slow-to-recover key market economies. The Bank, therefore, continues to focus on improving expense management.

- Non-interest income decreased by 6% year on year to $37.7 million in Q2 2010 on decreases in asset management revenues (down 1% year on year) and decreases of $2.5 million of other non-interest income (due to non-recurring items), which was offset by an increase in trust revenues of $0.5 million year on year.

- Net interest income before provisions for credit losses decreased by 7% year on year to $42.7 million. The decrease is due to ongoing challenges in banking markets, including low interest rates and the inability of the Bank to pass on in full interest rate cuts to depositors as yields on short-dated assets reprice at lower rates, resulting in lower interest margins. Butterfield's net interest margin before credit provisions was down 8 basis points year on year, leading to a decrease in net interest income of $1.7 million. In addition, the reduction in the Bank's average interest-earning assets by 3% year on year resulted in a decrease in interest earned of $1.6 million.

- Non-interest expenses decreased year on year by $3.5 million (4.4%) to $75.6 million in Q2 2010. The decreases are attributed to expense management measures implemented by Butterfield and salary and benefits cost reductions associated with a reduction in the total number of employees by 114 during the last 12 months, primarily from attrition.

- Total assets of the Group, at $9.7 billion, remained relatively unchanged at the end of Q2 2010 compared with year end 2009. The Bank maintained a highly liquid position at 30 June 2010 with cash and deposits with banks and investments representing 52.1% of total assets, compared to 51.3% at 31 December 2009.

- The loan portfolio decreased by 1.4% from $4,218 million at year end 2009 to $4,159 million at the end of Q2 2010, whilst provisions for loan allowances increased by $8 million to $138 million. The loan portfolio represented 42.9% of total assets at the end of Q2 2010, compared to 43.9% at year end 2009, whilst loans as a percentage of customer deposits increased by 1% to 50.2%.

  Non-accrual loans net of specific provisions increased by 11.6% with net non-accrual loans representing 3.6% of net total loans in Q2 2010, compared with 3.2% at year end.

- Over the six months ended 30 June 2010, shareholders' equity increased by $493 million, reflecting the net proceeds of the capital raise in Q1 and changes to the Bank's post-retirement health benefits programme and actuarial assumptions that were introduced in June.

- Assets under administration increased by $4.4 billion year on year to reach $60.2 billion at the end of Q2 2010. The increase is due to growth in our trust and custody businesses during the year.

- Assets under management declined by $0.4 billion year on year to $6.0 billion in Q2 2010.

Butterfield continues to make progress under a strategic plan to de-risk the balance sheet and return the Bank to healthy growth. Execution of that plan began in Q1 with the infusion of significant capital from our new investor group, allowing the Bank to divest itself of the majority of its problematic asset-backed securities.

We also continue to focus on upgrading and aligning our processes and technology Group wide, through our strategic IT initiative, "One Butterfield".

We are pleased that we continue to enjoy a high level of customer loyalty, evidenced by a deposit base that has remained stable during the first half of the year. We thank all of our stakeholders for their business and ongoing support.

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

Robert Mulderig
Chairman

Bradford Kopp
President &
Chief Executive Officer

Financial Highlights

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

Consolidated Balance Sheet	As at	
	30 June 2010	31 December 2009*
Cash and deposits with banks	2,609,930	1,986,798
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
Total assets	9,697,049	9,594,602
Total deposits	8,379,942	8,696,619
Subordinated capital	282,479	283,085
Shareholders' equity	847,755	355,460

*Audited

Consolidated Statement of Operations	For the three-month period ended		For the six-month period ended	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Total non-interest income	37,672	40,172	78,179	80,810
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	93,812
Revenue before gains and losses	72,782	85,076	155,060	173,992
Other losses	3,343	5,088	(169,943)	(33,768)
Salaries and other employee benefits	39,423	41,983	87,205	82,658
Other non-interest expense	36,193	37,087	76,237	69,352
Net income (loss)	171	10,325	(176,171)	(10,448)
Shareholder data				
(Loss) Gain per common share ($)				
Basic	(0.01)	0.11	(0.47)	(0.11)
Diluted	(0.01)	0.11	(0.47)	(0.11)
Average number of common shares (in thousands)	548,593	92,888	396,423	93,046
Period end number of common shares (thousands)	549,053	98,400	549,053	98,400
Cash dividend declared on common shares	-	-	-	-
Book value per share	1.17	5.36	1.17	5.36