



Butterfield

Q2 2009

Report to Shareholders and Financial Results for the Three Months Ended 30 June 2009

Consolidated Balance Sheet

(In \$ thousands)

	As at	
	30 June 2009	31 December 2008
	Unaudited	
Assets		
Cash and demand deposits with banks	491,037	572,441
Term deposits with banks	1,788,040	1,648,949
Total cash and deposits with banks	2,279,077	2,221,390
Investments		
Trading	30,806	48,329
Available for sale	671,953	579,799
Held to maturity	2,208,714	3,195,951
Total investments	2,911,473	3,824,079
Loans, net of allowance for credit losses	4,418,949	4,418,277
Premises, equipment and computer software	220,470	197,155
Accrued interest	20,517	39,567
Goodwill	16,095	14,364
Intangible assets	59,458	57,250
Other assets	133,348	139,762
Total assets	10,059,387	10,911,844
Liabilities		
Deposits		
Non-interest bearing	993,769	920,866
Interest bearing		
Customers	7,638,956	8,485,309
Banks	145,171	395,094
Total deposits	8,777,896	9,801,269
Employee future benefits	125,083	120,038
Accrued interest	22,352	24,931
Dividend payable	3,884	3,819
Other liabilities	145,071	161,051
Total other liabilities	296,390	309,839
Subordinated capital	283,233	282,296
Total liabilities	9,357,519	10,393,404
Shareholders' equity		
Common share capital (\$1.00 par: Authorised shares 260,000,000 (31 December 2008: 260,000,000) issued and outstanding: 98,399,858 (31 December 2008: 98,399,858))	98,400	98,400
Preferred share capital (\$1,000 par: Authorised shares 200,000 (31 December 2008: nil) issued and outstanding: 200,000 (31 December 2008: nil)	200,000	-
Additional paid in capital	577,520	604,116
Accumulated deficit	(60,443)	(35,006)
Less: treasury common stock	(56,637)	(82,700)
Accumulated other comprehensive loss	(56,972)	(66,370)
Total shareholders' equity	701,868	518,440
Total liabilities and shareholders' equity	10,059,387	10,911,844

Consolidated Statement of Income

(In \$ thousands, except per share data - unaudited)

	For the three month period ended		For the six month period ended	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
Non-interest income				
Asset management	6,668	11,024	14,124	21,789
Banking	9,770	9,497	18,712	18,624
Foreign exchange revenue	9,113	11,135	17,863	22,369
Investment and pension fund administration	-	12,775	-	25,538
Trust	7,181	7,545	13,665	14,502
Custody and other administration services	3,259	5,059	6,984	9,752
Other non-interest income	4,181	2,510	9,462	5,826
Total non-interest income	40,172	59,545	80,810	118,400
Interest income				
Loans	53,712	66,386	105,969	136,017
Investments	10,671	48,790	29,335	107,588
Deposits with banks	3,168	22,470	8,574	50,519
Total interest income	67,551	137,646	143,878	294,124
Interest expense				
Deposits	17,547	72,068	40,622	157,735
Subordinated capital	3,790	3,126	7,706	6,398
Securities sold under repurchase agreements	178	-	258	-
Total interest expense	21,515	75,194	48,586	164,133
Net interest income before provision for credit losses	46,036	62,452	95,292	129,991
Provision for credit losses	(1,132)	(1,243)	(2,110)	(1,472)
Net interest income after provision for credit losses	44,904	61,209	93,182	128,519
Revenue before gains and losses	85,076	120,754	173,992	246,919
Realised losses on available for sale securities	(58)	-	(331)	-
Net realised / unrealised gains on trading securities	784	1,113	570	23
Realised gains (loss) on held to maturity investments	1,893	(23,032)	2,069	(23,032)
Other-than-temporary impairments on held to maturity investments	-	-	(40,949)	-
Net other gains (losses)	2,469	(20,913)	4,873	(18,906)
Total revenue	90,164	77,922	140,224	205,004
Non-interest expense				
Salaries and other employee benefits	41,983	51,995	82,658	101,547
Technology and communications	14,195	9,483	23,964	18,980
Professional and outside services	4,313	8,485	8,543	17,197
Property	6,924	8,419	13,831	16,223
Non-income taxes	3,602	3,945	6,510	7,790
Amortisation of intangible assets	1,573	1,958	3,036	3,920
Marketing	1,342	2,429	2,754	3,936
Other expenses	5,138	6,184	10,714	12,590
Total non-interest expense	79,070	92,898	152,010	182,183
Net income (loss) before income taxes	11,094	(14,976)	(11,786)	22,821
Income taxes (expense) benefit	(769)	(1,522)	1,338	(2,993)
Net income (loss)	10,325	(16,498)	(10,448)	19,828
Earnings (loss) per share				
Basic	0.11	(0.18)	(0.11)	0.21
Diluted	0.11	(0.17)	(0.11)	0.21

Earnings per share comparative figures have been restated for the \$0.04 stock dividend declared for March 2009 and May 2009.

Consolidated Statement of Changes in Retained Earnings and Comprehensive Income

(In \$ thousands - unaudited)

	For the three month period ended		For the six month period ended	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
Retained earnings (accumulated deficit)				
Balance at beginning of period	(59,594)	29,149	(35,006)	167,607
Effect of changing employee future benefit plans' measurement date	-	-	-	(1,068)
Net income (loss) for the period	10,325	(16,498)	(10,448)	19,828
Cash dividends declared	(3,658)	(14,695)	(7,473)	(29,498)
Stock dividend	(7,516)	-	(7,516)	(158,913)
Balance at end of period	(60,443)	(2,044)	(60,443)	(2,044)
Accumulated other comprehensive loss				
Balance at beginning of period	(67,697)	(11,706)	(66,370)	(11,271)
Net change in unrealised gains and losses on translation of net investment in foreign operations	6,912	(1,468)	5,684	(2,022)
Net change in unrealised gains and losses on available for sale securities	2,657	(293)	1,403	(632)
Net change in employee future benefits	1,156	304	2,311	762
Balance at end of period	(56,972)	(13,163)	(56,972)	(13,163)

Consolidated Statement of Cash Flows

(In \$ thousands - unaudited)

	For the three month period ended		For the six month period ended	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
Cash flows from operating activities				
Net income (loss)	10,325	(16,498)	(10,448)	19,828
Adjustments to reconcile net income (loss) to operating cash flows				
Depreciation and amortisation	5,871	6,012	12,782	12,127
Increase in carrying value of investments in affiliates	(706)	(1,239)	(1,272)	(2,196)
Share-based compensation	804	1,035	1,607	4,385
Loss on sale of premises and equipment	(18)	(69)	(18)	(68)
Realised and unrealised net gains on private equity investments	(911)	(6,903)	(1,437)	(24,796)
Net (gains) losses on credit derivative instruments	(1,474)	27,725	(3,304)	43,460
Other-than-temporary impairments on held to maturity investments	-	-	40,949	-
Realised (gains) losses on held to maturity investments	(1,893)	23,032	(2,069)	23,032
Realised losses on sale of available for sale securities	58	-	331	-
Provision for credit losses	1,132	1,243	2,110	1,472
Changes in operating assets and liabilities				
Decrease in accrued interest receivable	4,823	989	20,078	13,232
Decrease (increase) in other assets	9,717	(811)	11,784	11,506
Decrease in accrued interest payable	(920)	(2,294)	(3,210)	(4,916)
Decrease in other liabilities	(48,035)	(26,206)	(24,706)	(6,223)
	(21,227)	6,016	43,177	90,843
Net change in trading account securities	17,592	(234)	19,754	(914)
Cash (used in) provided by operating activities	(3,635)	5,782	62,931	89,929
Cash flows from investing activities				
Net decrease (increase) in term deposits with banks	879,563	447,339	(35,004)	181,216
Net additions to premises, equipment and computer software	(19,632)	(9,419)	(32,874)	(21,899)
Net (increase) decrease in loans	(47,358)	(66,201)	100,074	(187,487)
Held to maturity securities: proceeds from maturities	242,973	577,988	696,988	1,049,940
Held to maturity securities: purchases	-	(595,451)	-	(981,034)
Available for sale securities: proceeds from sale and maturities	293,364	1,716,168	938,362	3,330,492
Available for sale securities: purchases	(385,728)	(1,786,143)	(654,468)	(3,765,652)
Proceeds on sale of private equity investment	-	2,819	-	12,872
Cash provided by investing activities	963,182	287,100	1,013,078	(381,552)
Cash flows from financing activities				
Net (decrease) increase in demand and term deposit liabilities	(912,347)	(559,585)	(1,332,646)	311,101
Net decrease in securities sold under agreement to repurchase	(106,942)	-	-	-
Issuance of subordinated capital	-	78,000	-	78,000
Repayment of subordinated capital	-	(78,000)	-	(78,000)
Issuance of preferred share capital	200,000	-	200,000	-
Cost of issuing preferred share capital	(11,256)	-	(11,256)	-
Proceeds from dividend re-investment plan	1,470	2,904	1,470	5,632
Stamp duty paid to increase authorised share capital	-	(800)	-	(800)
Shares repurchased	-	(9,349)	-	(23,760)
Treasury stock	13	1,289	130	3,488
Cash dividend paid	(7,407)	(14,757)	(7,407)	(28,265)
Cash (used in) provided by financing activities	(836,469)	(580,298)	(1,149,709)	267,396
Effect of exchange rates on cash and demand deposits with banks	(8,213)	671	(7,704)	877
Net increase (decrease) in cash and demand deposits with banks	114,865	(286,745)	(81,404)	(23,350)
Cash and demand deposits with banks: beginning of period	376,172	530,656	572,441	267,261
Cash and demand deposits with banks: end of period	491,037	243,911	491,037	243,911
Supplemental disclosure of cash flow information				
Cash interest paid	21,070	73,490	46,181	160,290
Cash income tax paid	22	59	393	118

Notes to Interim Unaudited Consolidated Financial Statements

(In \$ thousands, except per share data)

1. Accounting Policies

These interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2008, as set out in the Annual Report. The accounting policies used in the preparation of these interim consolidated financial statements are consistent with the accounting policies used in The Bank of N.T. Butterfield & Son Limited (the Bank) year end audited financial statements for 2008.

In the opinion of management, all adjustments (consisting principally of normal recurring adjustments) necessary for fair presentation of the interim consolidated financial statements have been included therein. The results of interim periods are not necessarily indicative of results for the entire year.

2. 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 summarises the components of the Bank's defined benefit and post-retirement medical benefit plans' net expense recognised in the consolidated statement of income:

	For the three month period ended		For the six month period ended	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
Defined benefit pension expense				
Service cost	633	749	1,232	1,497
Interest cost	1,692	1,871	3,325	3,741
Expected return on plan assets	(2,020)	(2,223)	(3,975)	(4,446)
Amortisation of past service cost	9	10	17	20
Amortisation of net actuarial loss (gain)	736	(4)	1,474	(8)
Total defined benefit pension expense	1,050	403	2,073	804
Post-retirement medical benefit expense				
Service cost	961	792	1,922	1,583
Interest cost	1,862	1,768	3,724	3,537
Amortisation of net actuarial loss	402	322	803	644
Total post-retirement medical benefit expense	3,225	2,882	6,449	5,764

Estimated Bank contributions to the defined benefit pension and medical benefit plans for the 2009 financial year are \$2,700 and \$3,400 respectively.

3. Stock Option Plan

At the Annual General Meeting of Shareholders held on 29 October 1997, the Directors were granted authority to implement a Stock Option Plan for executive officers and employees. As at 30 June 2009 the total number of options which can be exercised until 2019 was 12,042,478 with a weighted average exercise price of \$12.21. The total compensation cost that has been charged against net income for this plan for the quarter ended 30 June 2009 was \$0.6 million (30 June 2008: \$0.6 million).

The following table presents the details of stock options granted to directors and executive officers:

	For the six month period ended 30 June 2009	
	Number of Stock Options	Weighted Average Exercise Price (\$)
Executive Officers' Stock Options		
Outstanding at beginning of period	1,888,956	12.48
Transfers in	471,638	14.86
Granted	590,000	6.40
Outstanding at end of period	2,950,594	11.65

Pursuant to Regulation 6.9(2)(x)(a) and (b) of Section IIA of the Bermuda Stock Exchange Listing Regulations, the total interests of all directors and executive officers of the Bank as at 30 June 2009 in the common shares of the Bank were 582,087 shares and in the preferred shares of the Bank were 375 shares.

Notes to Interim Unaudited Consolidated Financial Statements (continued)

(In \$ thousands, except per share data)

4. Investments

The following table presents securities by remaining term to maturity:

	Remaining term to maturity					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying value
30 June 2009						
Trading						
Debt securities issued by non-US governments	796	-	4,351	3,637	-	8,784
Corporate securities and other	-	-	-	-	22,022	22,022
Total trading	796	-	4,351	3,637	22,022	30,806
Available for sale						
Certificates of deposit	427,810	186,251	50,313	-	-	664,374
Debt securities issued by non-US governments	7,467	-	-	-	-	7,467
Equity securities	-	-	-	-	112	112
Total available for sale	435,277	186,251	50,313	-	112	671,953
Held to maturity						
US government and federal agencies / corporations	1,090	10,618	40,022	40,157	-	91,887
Collateralised mortgage obligations	-	28,229	183,786	224,138	-	436,153
Debt securities issued by non-US governments	-	5,333	12,083	12,626	-	30,042
Corporate debt securities	51,552	206,291	660,578	5,973	-	924,394
Other, primarily asset-backed securities	-	50,010	381,754	294,474	-	726,238
Total held to maturity	52,642	300,481	1,278,223	577,368	-	2,208,714
Total investments	488,715	486,732	1,332,887	581,005	22,134	2,911,473
Total by currency						
Bermuda dollars	-	-	-	-	338	338
US dollars	52,650	360,435	1,042,581	514,205	16,822	1,986,693
Other	436,065	126,297	290,306	66,800	4,974	924,442
Total investments	488,715	486,732	1,332,887	581,005	22,134	2,911,473

	Remaining term to maturity					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying value
31 December 2008						
Trading						
Debt securities issued by non-US governments	-	731	3,945	3,186	-	7,862
Corporate securities and other	-	-	-	-	40,467	40,467
Total trading	-	731	3,945	3,186	40,467	48,329
Available for sale						
Certificates of deposit	471,249	95,959	-	-	-	567,208
Debt securities issued by non-US governments	9,773	-	-	-	-	9,773
Equity securities	-	-	-	-	2,818	2,818
Total available for sale	481,022	95,959	-	-	2,818	579,799
Held to maturity						
US government and federal agencies / corporations	-	-	38,129	75,558	-	113,687
Certificates of deposit	51,000	304,000	156,406	-	-	511,406
Collateralised mortgage obligations	3,675	61,611	164,411	296,784	-	526,481
Debt securities issued by non-US governments	-	6,275	12,083	13,293	-	31,651
Corporate debt securities	187,073	326,723	739,911	6,326	2,356	1,262,389
Other, primarily asset-backed securities	15,416	26,960	449,572	258,389	-	750,337
Total held to maturity	257,164	725,569	1,560,512	650,350	2,356	3,195,951
Total investments	738,186	822,259	1,564,457	653,536	45,641	3,824,079
Total by currency						
Bermuda dollars	-	-	-	-	440	440
US dollars	376,492	712,447	1,324,334	542,955	37,631	2,993,859
Other	361,694	109,812	240,123	110,581	7,570	829,780
Total investments	738,186	822,259	1,564,457	653,536	45,641	3,824,079

Notes to Interim Unaudited Consolidated Financial Statements (continued)

(In \$ thousands, except per share data)

As at 30 June 2009, the carrying value of investments includes \$2,090 million (31 December 2008: \$2,536 million) of floating-rate instruments and \$798 million (31 December 2008: \$1,248 million) of fixed-rate instruments. The approximate yield on floating-rate securities at 30 June 2009 was 0.86% (31 December 2008: 2.25%), while the approximate yield on fixed-rate securities was 2.34% (31 December 2008: 4.10%).

As at 30 June 2009, certificates of deposit with a carrying value of \$41.1 million included in the held to maturity category are restricted from sale in accordance with a credit enhancement agreement.

The cost of available for sale securities, the amortised cost of held to maturity securities and their estimated fair values were as follows:

	30 June 2009				31 December 2008			
	Cost	Gross unrealised gains	Gross unrealised losses	Fair value	Cost	Gross unrealised gains	Gross unrealised losses	Fair value
Available for sale								
Certificates of deposit	662,467	1,954	(47)	664,374	565,321	2,017	(130)	567,208
Debt securities issued by non-US governments	7,467	-	-	7,467	9,773	-	-	9,773
Equity securities	128	(1)	(15)	112	2,818	-	-	2,818
Total available for sale	670,062	1,953	(62)	671,953	577,912	2,017	(130)	579,799

	30 June 2009				31 December 2008			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Fair value
Held to maturity								
US government and federal agencies / corporations	91,887	91	(1,645)	90,333	113,687	28	(3,784)	109,931
Certificates of deposit	-	-	-	-	511,406	2,812	-	514,218
Collateralised mortgage obligations	436,153	218	(205,906)	230,465	526,481	372	(211,060)	315,793
Debt securities issued by non-US governments	30,042	799	(38)	30,803	31,651	551	(53)	32,149
Corporate debt securities	924,394	1,560	(48,261)	877,693	1,262,389	2,091	(79,763)	1,184,717
Other, primarily asset-backed securities	726,238	800	(115,144)	611,894	750,337	-	(148,523)	601,814
Total held to maturity	2,208,714	3,468	(370,994)	1,841,188	3,195,951	5,854	(443,183)	2,758,622

The following table shows the fair value and gross unrealised losses of the Bank's investments with unrealised losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealised loss position. Debt securities on which we have taken only credit-related other-than-temporary impairments are categorised as being "less than 12 months" or "12 months or more" in a continuous loss position based on the point in time that the fair value declined below the cost basis and not the period of time since the other-than-temporary impairment was recognised.

	Less than 12 months		12 months or more			
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses	Total fair value	Total Gross unrealised losses
30 June 2009						
Available for sale						
Certificates of deposit	120,761	(47)	-	-	120,761	(47)
Equity securities	111	(15)	-	-	111	(15)
Total available for sale securities with unrealised losses	120,872	(62)	-	-	120,872	(62)
Held to maturity						
US government and federal agencies / corporations	-	-	74,845	(1,645)	74,845	(1,645)
Collateralised mortgage obligations	-	-	230,247	(205,906)	230,247	(205,906)
Debt securities issued by non-US governments	962	(38)	-	-	962	(38)
Corporate debt securities	27,644	(2,232)	793,099	(46,029)	820,743	(48,261)
Other, primarily asset-backed securities	-	-	413,257	(115,144)	413,257	(115,144)
Total held to maturity securities with unrealised losses	28,606	(2,270)	1,511,448	(368,724)	1,540,054	(370,994)
Total securities with unrealised losses	149,478	(2,332)	1,511,448	(368,724)	1,660,926	(371,056)

Notes to Interim Unaudited Consolidated Financial Statements (continued)

(In \$ thousands, except per share data)

	Less than 12 months		12 months or more		Total fair value	Total Gross unrealised losses
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses		
31 December 2008						
Available for sale						
Certificates of deposit	125,310	(130)	-	-	125,310	(130)
Held to maturity						
US government and federal agencies / corporations	16,065	(874)	90,065	(2,910)	106,130	(3,784)
Collateralised mortgage obligations	16,083	(2,402)	291,202	(208,658)	307,285	(211,060)
Debt securities issued by non-US governments	2,964	(36)	983	(17)	3,947	(53)
Corporate debt securities	136,722	(3,524)	885,738	(76,239)	1,022,460	(79,763)
Other, primarily asset-backed securities	44,627	(11,133)	356,771	(137,390)	401,398	(148,523)
Total held to maturity securities with unrealised losses	216,461	(17,969)	1,624,759	(425,214)	1,841,220	(443,183)
Total securities with unrealised losses	341,771	(18,099)	1,624,759	(425,214)	1,966,530	(443,313)

Management recognises other-than-temporary impairments for debt securities classified as held to maturity in accordance with FASB Statement No. 107 Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115). As required by SFAS No. 115, management assesses whether it intends to sell or it is more likely than not that the Bank will be required to sell a security before recovery of its amortised cost basis. For debt securities that are considered other-than-temporarily impaired and that management does not intend to sell and the Bank will not be required to sell prior to recovery of the amortised cost basis, management separates the amount of the impairment into 1) the amount that is credit related (credit loss component) and 2) the amount due to all other factors. The credit loss component is recognised in earnings and is the difference between the security's amortised cost basis and the expected cash flows of the security discounted at the interest rate used to recognise interest income on the security. The remaining difference between the security's fair value and the present value of future expected cash flows is due to factors that are not credit related and is recognised in other comprehensive income.

Unrealised losses for US Government and federal agencies / corporations, Collateralised mortgage obligations, Debt securities issued by non-US governments, Corporate debt securities and Other, primarily asset-backed securities, were due to widening credit spreads caused by illiquidity and credit concerns resulting from the disruption in the financial markets, the weakening of the US housing market, and credit rating downgrades of certain securities in the marketplace. However, given that a substantial portion of these securities are investment grade securities, and the unrealised losses are primarily in higher rated securities, management believes these losses are a result of technical spread widening rather than fundamental deterioration. Management believes that these securities will continue to perform and concludes that these securities are not other-than-temporarily impaired as at 30 June 2009.

The fair value of the Bank's collateralised mortgage obligations related exposure depends on market conditions and assumptions that are subject to change over time. The Bank expects that market conditions will continue to evolve, and that the fair value of the Bank's positions will frequently change. The degree of judgment involved in determining the fair value of an investment security is dependent upon the availability of observable market prices or observable market parameters. When observable market prices and parameters do not exist as was the case in a number of circumstances as at 30 June 2009, judgment is necessary to estimate fair value which gives rise to added uncertainty in the valuation process. The valuation process takes into consideration factors such as interest rate changes, movements in credit spreads, default rate assumptions, prepayment assumptions, type and quality of collateral, and market sentiment.

Management has supplemented its fair value and impairment analyses by stress testing mortgage-backed securities where the fair value is significantly lower than amortised cost using a widely employed industry modelling and analytics software tool. This analytics software tool provides an extensive, accurate, and timely set of structured securities deal models and data, covering the wide range of asset backed securities, collateralised mortgage obligations, residential collateralised mortgage obligations, and collateralised debt obligations (including collateralised bond obligations and collateralised loan obligations) deals.

Stress tests also utilise pipeline default and loan loss severities from published independent third party sources. Specific risk factors of the underlying collateral were considered in other-than-temporary impairment assessments, specifically, the vintage of the underlying loans, the percentage of first lien loan mortgages, home owner / owner occupied properties, geographic location and diversification, loan to value ratios and FICO scores, and seniority of tranche. Stress tests also considered expected prepayment rates and speeds, expected annual default rates, expected loss on existing loan pool balances, timing of losses, projected (forward) Libor rates, and recovery rates of approximately 30% on default.

Notes to Interim Unaudited Consolidated Financial Statements (continued)

(In \$ thousands, except per share data)

In respect of the following categories, the Bank does not consider those investments to be other-than-temporarily impaired at 30 June 2009:

Certificates of deposit

The unrealised losses on the Bank's certificates of deposit were due to widening credit spreads caused by illiquidity and credit concerns resulting from the disruption in the financial markets. However, given that all of these securities are investment grade securities and based on management's analysis of credit quality of the issuers, management believes that these investments will perform and were not other-than-temporarily impaired as at 30 June 2009.

US Government and federal agencies / corporations

The unrealised losses for US Government and federal agencies / corporations, Collateralised mortgage obligations, Debt securities issued by non-US governments, Corporate debt securities and Other, primarily asset-backed securities, were due to widening credit spreads caused by illiquidity and credit concerns resulting from the disruption in the financial markets, the weakened US housing market, and credit rating downgrades of certain securities in the marketplace. However, given that a substantial portion of these securities are investment grade securities, and the unrealised losses are primarily in higher rated securities, management believes these losses are a result of technical spread widening rather than fundamental deterioration. These securities are expected to perform and accordingly management does not believe these investments are other-than-temporarily impaired as at 30 June 2009.

Collateralised mortgage obligations

The unrealised losses on the Bank's investments in collateralised mortgage obligations were due to widening credit spreads caused by illiquidity and credit concerns resulting from the disruption in the financial markets, the weakening of the US housing market, and credit rating downgrades of certain securities in the marketplace. However, given that a substantial portion of these securities are investment grade securities, management assesses each security individually for impairment, and based upon our assessment that these securities will continue to perform, management concludes that these securities are not other-than-temporarily impaired as at 30 June 2009.

Debt securities issued by non-US governments

The unrealised losses on the Bank's investments in non-US government debt securities obligations and direct obligations of non-US government agencies were due to widening credit spreads caused by illiquidity and credit concerns resulting from the disruption in the financial markets. Given that these securities are investment grade, and based upon our assessment that these securities will continue to perform, management concludes that these securities are not other-than-temporarily impaired as at 30 June 2009.

Corporate debt securities

The unrealised losses on the Bank's investments in corporate bonds were due to widening credit spreads caused by illiquidity and credit concerns resulting from the disruption in the financial markets, and the weakening of the US housing market. However, given that these securities are predominantly investment grade, and based upon our assessment that these securities will continue to perform, management concludes that these securities are not other-than-temporarily impaired as at 30 June 2009.

Other, primarily asset-backed securities

The unrealised losses on the Bank's other investments, primarily asset-backed securities were due to widening credit spreads caused by illiquidity and credit concerns resulting from the disruption in the financial markets, the weakening of the US housing market, and credit rating downgrades of certain securities in the marketplace. However, given that a substantial portion of these securities are investment grade securities, and management's assessment of each security individually for impairment, management believes that these securities are not other-than-temporarily impaired at 30 June 2009.

As at 30 June 2009, total investments, exclusive of US residential mortgage backed securities, were \$2.7 billion, with a market value of \$2.4 billion. As at 30 June 2009, 87% of the Bank's investments remained in securities rated 'A' or higher.

Significant risk and uncertainty

In its held to maturity portfolio as at 30 June 2009, the Bank holds certain investments backed by mortgage collateral (the Mortgage Backed Investments) at amortised cost of \$85.4 million. Although realisation of the Mortgage Backed Investments' amortised cost is not assured, management does not believe the Mortgage Backed Investments to be other-than-temporarily impaired. The amount of the Mortgage Backed Investments, however, could be reduced if estimates of losses on existing loan pool balances, loss severity, delinquency default rates or certain other factors increase in the future, and it is possible that the rate of increase could be rapid. If these factors increase and management then determines that the amortised cost basis of the security does not exceed the present value of the cash flows expected to be collected (i.e., a credit loss exists), an other-than-temporary impairment equal to the credit loss shall be recorded in income. Management's best estimate of this amount is \$45.3 million.

Other currently non-investment grade securities in the collateralised mortgage obligation and other, primarily asset backed portfolios are not immune to future assessment for other-than-temporary impairment.

Notes to Interim Unaudited Consolidated Financial Statements (continued)

(In \$ thousands, except per share data)

5. Segmented information

	For the three month period ended						For the six month period ended					
	30 June 2009			30 June 2008			30 June 2009			30 June 2008		
	Revenue before gains and losses	Net income (loss) before gains and losses	Net income (loss)*	Revenue before gains and losses	Net income (loss) before gains and losses	Net income (loss)*	Revenue before gains and losses	Net income (loss) before gains and losses	Net income (loss)*	Revenue before gains and losses	Net income (loss) before gains and losses	Net income (loss)*
Bermuda												
Community Banking	35,537	(1,482)	3,528	40,759	4,640	(38,350)	70,977	36	(24,211)	85,346	13,601	(30,314)
Wealth Management**	11,316	3,450	3,450	22,660	8,622	8,622	24,816	8,926	8,926	45,871	18,096	18,097
Real Estate	301	(2,290)	(2,290)	303	(2,298)	(2,298)	1,352	(3,738)	(3,738)	558	(4,474)	(4,474)
Sub-total Bermuda	47,154	(322)	4,688	63,722	10,964	(32,026)	97,145	5,224	(19,023)	131,775	27,223	(16,691)
Overseas businesses												
Barbados	3,503	78	209	3,199	240	679	7,324	1,365	1,550	6,461	591	2,871
Cayman	16,504	3,409	3,370	25,634	7,954	7,954	36,382	10,935	10,896	53,512	19,571	19,571
Guernsey	7,751	351	337	16,494	5,130	5,130	16,008	1,764	1,478	33,418	10,476	10,476
Switzerland	91	(623)	(623)	56	(1,416)	(1,416)	165	(1,384)	(1,384)	147	(2,168)	(2,168)
The Bahamas	1,951	209	209	3,126	685	685	3,867	360	360	6,247	1,426	1,426
United Kingdom	8,298	1,869	1,869	11,073	2,236	1,955	14,124	5,048	(4,333)	20,945	3,801	3,520
Malta	387	327	327	610	170	170	598	275	275	850	300	300
Hong Kong	983	(61)	(61)	1,225	371	371	1,559	(267)	(267)	1,942	523	523
Sub-total overseas	39,468	5,559	5,637	61,417	15,370	15,528	80,027	18,096	8,575	123,522	34,520	36,519
Less: inter-segment eliminations ***	(1,546)	-	-	(4,385)	-	-	(3,180)	-	-	(8,378)	-	-
Total	85,076	5,237	10,325	120,754	26,334	(16,498)	173,992	23,320	(10,448)	246,919	61,743	19,828

* All amounts shown before central allocations.

** Includes Investment & Pension Fund Administration (2008 only) and Fiduciary Services.

*** Principally rent and management fees

Total assets

As at	30 June 2009	31 December 2008
Bermuda	5,016,107	5,468,113
Barbados	263,856	264,521
Cayman	2,461,710	3,328,712
Guernsey	1,774,878	1,448,609
Switzerland	1,043	984
The Bahamas	174,218	155,260
United Kingdom	1,359,540	1,321,678
Malta	2,719	3,169
Hong Kong	8,963	8,633
	11,063,034	11,999,679
Less: inter-segment eliminations	(1,003,647)	(1,087,835)
Total	10,059,387	10,911,844

Notes to Interim Unaudited Consolidated Financial Statements (continued)

(In \$ thousands, except per share data)

6. Fair value measurements

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Bank determines the fair values of its financial instruments based on the fair value hierarchy established in SFAS 157 which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. The Bank carries at fair value investments classified as trading and available for sale, and derivative assets and liabilities. The Bank carries a private equity investment in a credit card company at fair value in accordance with SFAS 159.

Level 1, 2 and 3 valuation inputs

Financial instruments are considered Level 1 when valuation can be based on unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

Investments

The fair values of investments are determined based on observable quoted prices for identical assets or liabilities in active markets when available. If unavailable, observable inputs from similar items in active markets or identical / similar items with inactive markets are used. In the absence of observable quoted prices unobservable inputs are used.

Derivatives

Fair value of exchange traded derivatives is based on quoted market prices. Fair value of over the counter derivatives is calculated as the net present value of contractual cash flows using prevailing market rates. The aggregate of the estimated fair value of amounts presented does not represent management's estimate of the underlying value to the Bank.

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:

a) Items that are recognised at fair value on a recurring basis:

	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	Total fair value / carrying value
30 June 2009				
Assets				
Investments				
Trading	10,694	10,561	9,551	30,806
Available for sale	-	671,953	-	671,953
Other assets - derivatives	-	28,055	-	28,055
Liabilities				
Other liabilities - derivatives	-	(69,089)	-	(69,089)
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	Total fair value / carrying value
31 December 2008				
Assets				
Investments				
Trading	27,868	7,862	12,599	48,329
Available for sale	-	579,799	-	579,799
Other assets - derivatives	-	68,945	-	68,945
Liabilities				
Other liabilities - derivatives	-	(129,214)	-	(129,214)

Notes to Interim Unaudited Consolidated Financial Statements (continued)

(In \$ thousands, except per share data)

b) Item measured on a recurring basis using significant unobservable inputs:

	For the three month period ended		For the six month period ended	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
Trading investment				
Carrying value at beginning of period	10,589	13,388	12,599	12,510
Unrealised (losses) gains recognised in net income	(821)	218	(2,823)	1,022
Foreign exchange translation adjustment	(217)	34	(225)	108
Carrying value at end of period	9,551	13,640	9,551	13,640

The trading investment measured using significant unobservable inputs consists of shares of a non-redeemable private equity fund investing primarily in the real estate sector (the "Fund"). The Fund's advisor retains the services of an independent valuation company at each reporting date. Due to the nature of the properties held by the Fund and lack of comparable market data, the fair values of investment properties are estimated based on the income capitalisation method, where the value is estimated from the expected future benefits to be generated by the property in the form of income streams from renting out of premises. The method considers net income generated by comparable property, capitalised to determine the value for the subject property.

The change in unrealised gains or losses in shares of the Fund are reported under Net realised / unrealised losses on trading securities in the Consolidated Statement of Income.

7. Derivative instruments

Effective January 1, 2009, the Bank adopted SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement 133", which enhanced required disclosures regarding derivatives and hedging activities, including disclosures regarding how an entity uses derivative instruments and how derivative instruments and related hedged items are accounted for and affect an entity's financial position, financial performance, and cash flows.

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 our net derivative liabilities with the counterparty in the event the Bank's credit rating falls below specified levels or the liabilities reaches certain levels. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on 30 June 2009, was \$15.4 million. The Bank has posted \$11.7 million collateral against these liabilities and therefore the maximum amount of termination payments that could have been required at 30 June 2009 was \$3.7 million. Accelerated settlement because of such events would not affect net income and would not have a material effect on the consolidated financial position or liquidity of the Bank.

All derivative financial instruments, whether designated as hedges or not, are recorded on the consolidated balance sheet at fair value within other assets or other liabilities. These amounts include the effect of netting as permitted under FASB Interpretation No. 39 Offsetting Amounts Related to Certain Contracts (FIN 39). The accounting for changes in the fair value of a derivative in the consolidated statement of income depends on whether the contract has been designated as a hedge and qualifies for hedge accounting in accordance with SFAS No. 133.

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.

Notes to Interim Unaudited Consolidated Financial Statements (continued)

(In \$ thousands, except per share data)

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 favorable 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 under SFAS No. 133 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, available under SFAS No. 133, which assumes there is no ineffectiveness in a hedge. As a result, changes recorded in the fair value of the hedged item are equal to the offsetting gain or loss on the derivative and are reflected in the same line item. For the quarters ended 30 June 2009 and 2008, no gains or losses were realised from ineffective portions of fair value hedges.

Cash flow hedges:

Derivatives are designated as cash flow hedges in order to minimise the variability in cash flows of interest earning assets caused by movements in interest rates. The effective portion of changes in the fair value of such derivatives is recognised in accumulated other comprehensive income, a component of stockholders' 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 under SFAS No.133, in assessing whether these hedging relationships are highly effective at inception and on an ongoing basis. Any ineffectiveness is recognised in earnings. As at 30 June 2009 and 2009, there was no hedge ineffectiveness related to cash flow hedges.

As of 30 June 2009 and 2008 there was no cash flow hedges in place and there was no deferred net gains or losses on derivative instruments accumulated in other comprehensive income in relation with cash flow hedges. Any ineffectiveness in cash flow hedge is recognised in earnings.

Derivatives not formally designated as hedges under SFAS No. 133

Derivatives not formally designated as hedges under SFAS No. 133 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 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.

Notes to Interim Unaudited Consolidated Financial Statements (continued)

(In \$ thousands, except per share data)

Credit derivatives

The Bank provides credit enhancement to a related party, namely Butterfield Money Market Fund Limited (BMMFL or the Fund). Under the credit enhancement agreement (the Agreement), the Bank is committed to compensate BMMFL subject to a maximum of 30% of BMMFL's holding of a specific identified investment should that security have a fair value less than BMMFL's carrying value and BMMFL is required to draw down on the obligation in order to retain its credit rating from the rating agency. The decision by the rating agency with regard to the rating requirements is outside the control of the Bank. In consideration, the Bank charged a fee of \$1.6 million during the three month period covered by the Agreement ended 15 July 2009.

As at 30 June 2009 the Bank has recognised a derivative liability for the maximum value of the credit derivative which is \$41.1 million. The Agreement may be terminated without being drawn down before its term expires in certain circumstances, including if the underlying asset backed commercial paper is sold or restructured into securities. On 16 April 2009 the Agreement was extended for three months. The liability is recorded within other liabilities in the Consolidated Balance Sheet and changes in the fair value of credit derivative instruments are recognised in the line item Net other gains (losses) in the Consolidated Statement of Income. As of 30 June 2009, no capital contributions have been made under the Agreement.

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 are 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 2009	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk Management Derivatives					
Fair Value Hedges:					
Fixed rate loans	Interest rate swaps	195,907	-	(14,828)	(14,828)
Customer deposits	Interest rate swaps	8,740	42	(450)	(408)
Subtotal fair value hedges		204,647	42	(15,278)	(15,236)
Not designated as hedging instruments:					
Term deposits with banks	Interest rate swaps	121,429	-	(60)	(60)
Subtotal risk management derivatives		326,076	42	(15,338)	(15,296)
Client Services Derivatives					
	Spot and forward foreign exchange	2,607,664	27,310	(11,952)	15,358
	Interest rate caps	39,521	703	(703)	-
Subtotal risk management derivatives		2,647,185	28,013	(12,655)	15,358
Other	Credit derivative	136,987	-	(41,096)	(41,096)
Total derivative instruments		3,110,248	28,055	(69,089)	(41,034)

31 December 2008	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	209,928	62	(26,775)	(26,713)
Customer deposits	Interest rate swaps	12,337	59	(351)	(291)
Subtotal fair value hedges		222,265	122	(27,126)	(27,004)
Not designated as hedging instruments:					
Time deposits with banks	Interest rate swaps	102,143	-	(97)	(97)
Subtotal risk management derivatives		324,408	122	(27,223)	(27,101)
Client Services Derivatives					
	Spot and forward foreign exchange	3,597,529	68,440	(57,208)	11,232
	Interest rate caps	35,021	383	(383)	-
Subtotal risk management derivatives		3,632,549	68,823	(57,591)	11,232
Other	Credit derivative	148,000	-	(44,400)	(44,400)
Total derivative instruments		4,104,957	68,945	(129,214)	(60,269)

Notes to Interim Unaudited Consolidated Financial Statements (continued)

(In \$ thousands, except per share data)

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

Derivative Instrument	Location	For the three month period ended		For the six month period ended	
		30 June 2009	30 June 2008	30 June 2009	30 June 2008
Interest rate swaps	Net other gains (losses)	(246)	-	(113)	-
Interest rate caps	Net other gains (losses)	-	-	-	-
Forward foreign exchange	Foreign exchange revenue	(3,055)	2,073	(2,706)	1,660
Credit derivative	Net other gains (losses)	1,474	(25,100)	3,304	(40,835)
Total net (losses) gains recognised in net income (loss)		(1,827)	(23,027)	485	(39,175)

8. 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 and adjusted for the \$0.04 stock dividends declared for May and March 2009. 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.

	For the three month period ended		For the six month period ended	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
Basic earnings per share				
Net income (loss) for the period	10,325	(16,498)	(10,448)	19,828
Weighted average number of common shares issued (in thousands)	98,767	99,821	99,218	99,821
Weighted average number of common shares held as treasury stock (in thousands)	(5,879)	(6,040)	(6,172)	(5,900)
Adjusted weighted average number of common shares (in thousands)	92,888	93,781	93,046	93,921
	0.11	(0.18)	(0.11)	0.21
Diluted earnings per share				
Net income (loss) for the period	10,325	(16,498)	(10,448)	19,828
Weighted average number of common shares issued (in thousands)	98,767	99,821	99,218	99,821
Weighted average number of common shares held as treasury stock (in thousands)	(5,879)	(6,040)	(6,172)	(5,900)
Stock options (in thousands)	90	1,583	208	1,640
Adjusted weighted average number of diluted common shares (in thousands)	92,978	95,364	93,254	95,561
	0.11	(0.17)	(0.11)	0.21

Notes to Interim Unaudited Consolidated Financial Statements (continued)

(In \$ thousands, except per share data)

9. Commitments

The Bank acts as investment advisor to BMMFL. Although not obligated to do so, in 2008 the Bank entered into the Agreement with the Fund in order to provide financial stability to BMMFL and investors in BMMFL, as discussed in Note 7 Derivative instruments.

Under the guidance of FASB Interpretation No. 46-R (FIN 46-R) and related interpretations, the Fund is considered a variable interest entity (VIE) and the Agreement is considered to reflect the Bank's interest in the credit risk of the Fund. FIN 46-R requires the disclosure of an entity's maximum exposure to loss where it has a 'significant' variable interest in an unconsolidated VIE. FIN 46-R does not define 'significant' and, as such, judgment is required. The variable interest holder, if any, that will absorb a majority of a VIE's expected losses, receive a majority of the expected residual returns, or both, is deemed to be the primary beneficiary of the VIE and is required to consolidate the VIE. Assessments of variable interests under FIN 46-R are based on expected losses and residual returns, which consider various scenarios on a probability-weighted basis. The fund was designed to create and pass to investors interest rate and credit risk. The Bank determined that interest rate risk is the primary driver of expected losses within the Fund and that it was not the primary beneficiary of the Fund and is not required to consolidate the Fund within its balance sheet.

As of 30 June 2009, the fair value of assets held by the Fund were \$3.6 billion. The contingent liability under the Agreement and the maximum exposure to loss were both \$41.1 million. The entire amount of \$41.1 million was recorded as a liability as at 30 June 2009.

The valuation of the contingent liability under the Agreement as of 30 June 2009 was calculated as the percentage of principal and interest due to BMMFL for the specific identified investment that is subject to support by the Bank. As the Bank has no plans to provide support additional to that which is noted above, the maximum exposure to loss from its implicit interest in the Fund is the contractual maximum exposure under the Agreement. Any potential future support would be evaluated by the Bank based on specific facts and circumstances and with careful consideration as to potential impacts to the Bank's ability to maintain well-capitalised status and meet its operational needs.

10. Share Buy-Back Plan

During the three month period ended 30 June 2009 nil common shares were purchased to be held as treasury stock at a cost of nil (30 June 2008: 564,625 shares at a cost of \$9.3 million).

11. Large Shareholders

The following professional nominees at 30 June 2009 were registered holders of 5% or more of the issued common share capital: Harcourt & Co. (15.48%), Palmar Limited (6.33%), Wilson & Co. (5.15%) & Murdoch & Co. (5.00%). Known beneficial holding of 5% or more of issued common share capital at that date was Bermuda Life Insurance Limited (7.24%).

12. Future Accounting Developments

(a) Disclosure about Assets of Employee Future Benefits Plans

In December 2008, the FASB issued FASB Staff Position (FSP) No. FAS 132(R)-1, Employer's Disclosures about Postretirement Benefit Plan Assets (FSP No. FAS 132(R)-1), which addresses information that employers shall disclose about postretirement plan assets as of each annual reporting date. FSP No. FAS 132(R)-1 is designed to improve the relevance, comparability, and transparency of financial information relating to Postretirement Benefit Plan Assets. FSP No. FAS 132(R)-1 will be effective for fiscal years ending after 15 December 2009, and therefore, effective from the Bank's fourth quarter in 2009. Management is currently evaluating the effect of adoption.

(b) Consolidation of variable interest entities

In June 2009, the FASB issued FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS No. 167), which addresses which entities shall be considered as consolidatable variable interest entities. SFAS No. 167 is designed to improve financial reporting by enterprises involved with variable interest entities. SFAS No. 167 will be effective for annual and interim periods beginning after 15 November 2009, and therefore, effective from the Bank's first quarter in 2010. Management is currently evaluating the effect of adoption.

13. Subsequent event

Subsequent events were evaluated up to 28 July 2009. The financial statements were available to be issued as of 28 July 2009.

14. Comparative Information

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