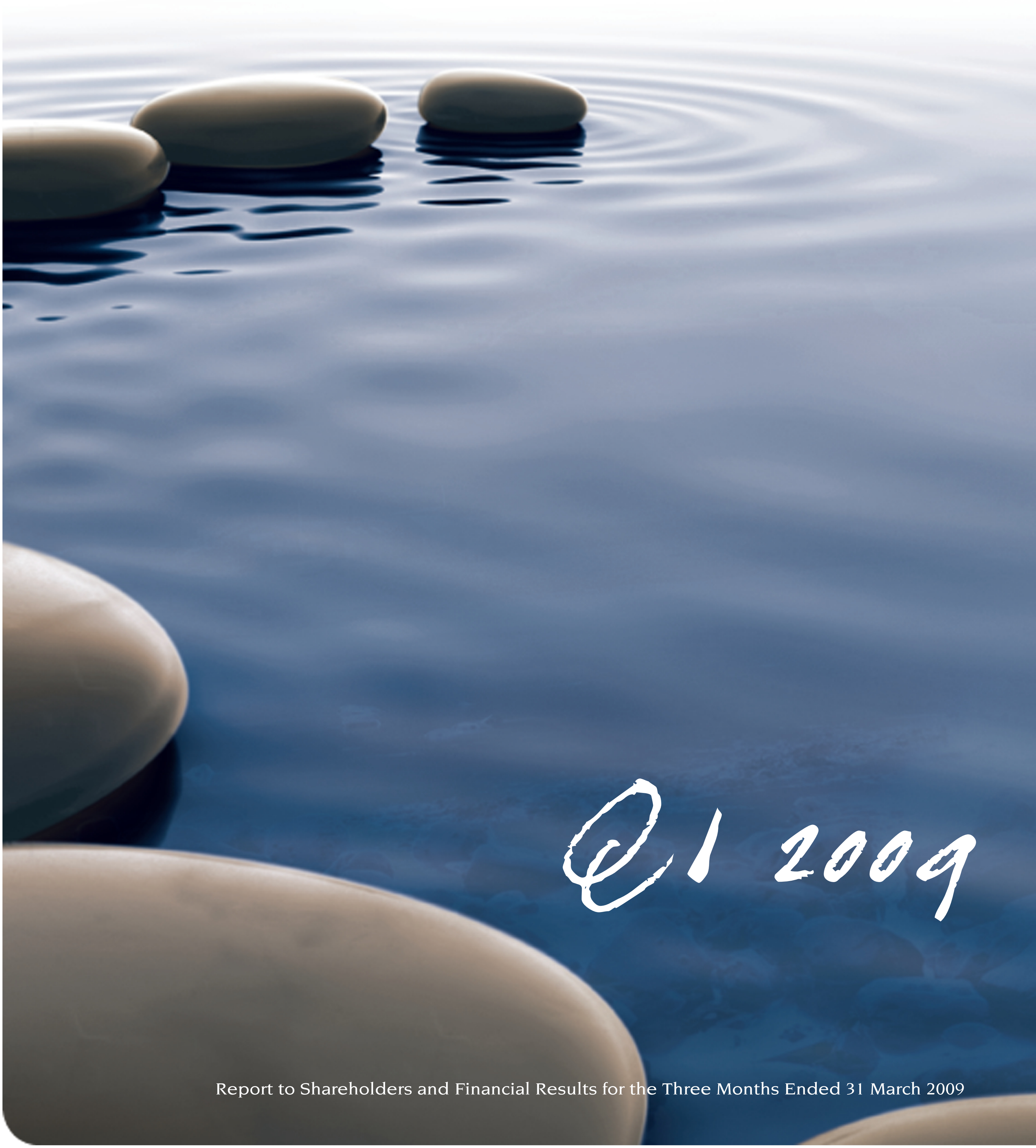
Butterfield



Q1 2009

Report to Shareholders and Financial Results for the Three Months Ended 31 March 2009

Consolidated Balance Sheet

(In $ thousands)

	As at	
	31 March 2009	31 December 2008
	Unaudited	
Assets		
Cash and demand deposits with banks	376,172	572,441
Term deposits with banks	2,552,895	1,648,949
Total cash and deposits with banks	2,929,067	2,221,390
Investments		
Trading	45,823	48,329
Available for sale	353,493	579,799
Held to maturity	2,532,325	3,195,951
Total investments	2,931,641	3,824,079
Loans, net of allowance for credit losses	4,258,875	4,418,277
Premises, equipment and computer software	205,180	197,155
Accrued interest	24,095	39,567
Goodwill	14,135	14,364
Intangible assets	55,075	57,250
Other assets	138,585	139,762
Total assets	10,556,653	10,911,844
Liabilities		
Deposits		
Non-interest bearing	1,325,776	920,866
Interest bearing		
Customers	7,908,240	8,485,309
Banks	106,692	395,094
Total deposits	9,340,708	9,801,269
Securities sold under agreement to repurchase	106,942	-
Employee future benefits	122,548	120,038
Accrued interest	22,511	24,931
Dividend payable	7,633	3,819
Other liabilities	180,694	161,051
Total other liabilities	440,328	309,839
Subordinated capital	282,172	282,296
Total liabilities	10,063,208	10,393,404
Shareholders' equity		
Common share capital ($1.00 par: Authorised shares 260,000,000 (31December 2008 260,000,000) issued and outstanding 98,399,858 (31December 2008 98,399,858))	98,400	98,400
Additional paid in capital	604,670	604,116
Retained earnings (accumulated deficit)	(59,594)	(35,006)
Less: treasury common stock	(82,334)	(82,700)
Accumulated other comprehensive loss	(67,697)	(66,370)
Total shareholders' equity	493,445	518,440
Total liabilities and shareholders' equity	10,556,653	10,911,844

Consolidated Statement of Income

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

	For the three month period ended	
	31 March 2009	31 March 2008
Non-interest income		
Asset management	7,456	10,765
Banking	8,942	9,127
Foreign exchange revenue	8,750	11,234
Investment and pension fund administration	-	12,763
Trust	6,484	6,957
Custody and other administration services	3,725	4,693
Other non-interest income (expense)	5,281	3,316
Total non-interest income	40,638	58,855
Interest income		
Loans	52,257	69,631
Investments	18,664	58,798
Deposits with banks	5,406	28,049
Total interest income	76,327	156,478
Interest expense		
Deposits	23,075	85,667
Subordinated capital	3,916	3,272
Securities sold under repurchase agreements	80	-
Total interest expense	27,071	88,939
Net interest income before provision for credit losses	49,256	67,539
Provision for credit losses	(978)	(229)
Net interest income after provision for credit losses	48,278	67,310
Revenue before gains and losses	88,916	126,165
Realised losses on available for sale securities	(273)	-
Goodwill impairment	-	-
Net realised / unrealised losses on trading securities	(214)	(1,090)
Realised gains on held to maturity investments	176	-
Other-than-temporary impairments on held to maturity investments	(40,949)	-
Net other gains (losses)	2,404	2,007
Total revenue	50,060	127,082
Non-interest expense		
Salaries and other employee benefits	40,675	49,552
Technology and communications	9,769	9,497
Professional and outside services	4,230	8,712
Property	6,907	7,804
Non-income taxes	2,908	3,845
Amortisation of intangible assets	1,463	1,962
Marketing	1,412	1,507
Other expenses	5,576	6,406
Total non-interest expense	72,940	89,285
Net (loss) income before income taxes	(22,880)	37,797
Income taxes benefit (expense)	2,107	(1,471)
Net (loss) income	(20,773)	36,326
Earnings per share		
Basic	(0.22)	0.39
Diluted	(0.22)	0.38

Consolidated Statement of Changes in Retained Earnings and Comprehensive Income

(In $ thousands - unaudited)

	For the three month period ended	
	31 March 2009	31 March 2008
Retained earnings (accumulated deficit)		
Balance at beginning of period	(35,006)	167,607
Effect of changing employee future benefit plans' measurement date	-	(1,068)
Net (loss) income for the period	(20,773)	36,326
Cash dividends declared	(3,815)	(14,803)
Stock dividend	-	(158,913)
Balance at end of period	(59,594)	29,149
Accumulated other comprehensive loss		
Balance at beginning of period	(66,370)	(11,271)
Net change in unrealised gains and losses on translation of net investment in foreign operations	(1,228)	(554)
Net change in unrealised gains and losses on available for sale securities	(1,254)	(339)
Net change in employee future benefits	1,155	458
Balance at end of period	(67,697)	(11,706)

Consolidated Statement of Cash Flows

(In $ thousands - unaudited)

	For the three month period ended	
	31 March 2009	31 March 2008
Cash flows from operating activities		
Net (loss) income	(20,773)	36,326
Adjustments to reconcile net (loss) income to operating cash flows		
Depreciation and amortisation	6,911	6,115
Increase in carrying value of investments in affiliates	(566)	(957)
Share-based compensation	803	3,350
Loss on sale of premises and equipment	-	1
Realised and unrealised net gains on private equity investments	(526)	(17,893)
(Gains) loss on credit derivative instruments	(1,830)	15,735
Other-than-temporary impairments on held to maturity investments	40,949	-
Realised gain on sale of available for sale securities	273	-
Provision for credit losses	978	229
Changes in operating assets and liabilities		
Decrease in accrued interest receivable	15,255	12,243
Decrease in other assets	2,067	12,317
Decrease in accrued interest payable	(2,290)	(2,622)
Increase in other liabilities	23,329	19,983
	64,580	84,827
Net change in trading account securities	2,162	(680)
Cash provided in operating activities	66,742	84,147
Cash flows from investing activities		
Net increase in term deposits with banks	(914,567)	(266,123)
Net additions to premises, equipment and computer software	(13,242)	(12,480)
Net decrease (increase) in loans	147,432	(121,286)
Held to maturity securities: proceeds from maturities	453,839	471,952
Held to maturity securities: purchases	-	(385,583)
Available for sale securities: proceeds from sale and maturities	644,998	1,614,324
Available for sale securities: purchases	(268,740)	(1,979,509)
Proceeds on sale of private equity investment	-	10,053
Cash provided by (used in) investing activities	49,720	(668,652)
Cash flows from financing activities		
Net (decrease) increase in demand and term deposit liabilities	(420,299)	870,686
Net increase in securities sold under agreement to repurchase	106,942	-
Proceeds from dividend re-investment plan	-	2,728
Shares repurchased	-	(14,411)
Treasury stock	117	2,199
Cash dividend paid	-	(13,508)
Cash (used in) provided by financing activities	(313,240)	847,694
Effect of exchange rates on cash and demand deposits with banks	509	206
Net (decrease) increase in cash and demand deposits with banks	(196,269)	263,395
Cash and demand deposits with banks: beginning of period	572,441	267,261
Cash and demand deposits with banks: end of period	376,172	530,656
Supplemental disclosure of cash flow information		
Cash interest paid	25,111	86,800
Cash income tax paid	371	59

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's 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 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 trusteed 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	
	31 March 2009	31 March 2008
Defined benefit pension expense		
Service cost	599	748
Interest cost	1,633	1,870
Expected return on plan assets	(1,955)	(2,223)
Amortisation of past service cost	8	10
Amortisation of net actuarial loss (gain)	738	(4)
Total defined benefit pension expense	1,023	401
Post-retirement medical benefit expense		
Service cost	961	791
Interest cost	1,862	1,769
Amortisation of net actuarial loss	401	322
Total post-retirement medical benefit expense	3,224	2,882

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 31 March 2009 the total number of options which can be exercised until 2019 was 9,859,042 with a weighted average exercise price of $13.54. The total compensation cost that has been charged against net income for this plan for the quarter ended 31 March 2009 was $0.5 million (31 March 2008: $1.6 million).

(In $ thousands, except per share data)

4. Investments

The following table presents securities by remaining term to maturity:

31 March 2008	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying value
	Remaining term to maturity					
Trading						
Debt securities issued by non-US governments	-	706	4,586	2,459	-	7,751
Corporate securities and other	-	-	-	-	38,072	38,072
Total trading	-	706	4,586	2,459	38,072	45,823
Available for sale						
Certificates of deposit	237,315	103,127	-	-	-	340,442
Debt securities issued by non-US governments	12,955	-	-	-	-	12,955
Equity securities	-	-	-	-	96	96
Total available for sale	250,270	103,127	-	-	96	353,493
Held to maturity						
US government and federal agencies / corporations	-	-	32,672	79,426	-	112,098
Certificates of deposit	7,000	137,000	69,505	-	-	213,505
Collateralised mortgage obligations	27,782	28,952	150,701	246,739	-	454,174
Debt securities issued by non-US governments	1,609	4,667	12,083	13,293	-	31,652
Corporate debt securities	62,150	227,766	686,115	6,326	-	982,357
Other, primarily asset-backed securities	28,239	22,008	431,383	256,909	-	738,539
Total held to maturity	126,780	420,393	1,382,459	602,693	-	2,532,325
Total investments	377,050	524,226	1,387,045	605,152	38,168	2,931,641
Total by currency						
Bermuda dollars					347	347
US dollars	286,062	388,429	1,167,641	498,521	33,287	2,373,940
Other	90,988	135,797	219,404	106,631	4,534	557,354
Total investments	377,050	524,226	1,387,045	605,152	38,168	2,931,641

31 December 2008	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying value
	Remaining term to maturity					
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)

Investments at carrying value includes $2,180 million (31 December 2008: $2,536 million) of floating-rate instruments and $714 million (31 December 2008: $1,248 million) of fixed-rate instruments. The approximate yield on floating-rate securities at 31 March 2008 was 1.72% (31 December 2008: 2.25%), while the approximate yield on fixed-rate securities was 3.61% (31 December 2008: 4.10%).

Certificates of deposit with a carrying value of $42.6 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:

	31 March 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	340,752	680	(990)	340,442	565,321	2,017	(130)	567,208
Debt securities issued by non-US governments	12,955	-	-	12,955	9,773	-	-	9,773
Equity securities	110	-	(14)	96	2,818	-	-	2,818
Total available for sale	353,817	680	(1,004)	353,493	577,912	2,017	(130)	579,799

	31 March 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	112,098	47	(2,305)	109,840	113,687	28	(3,784)	109,931
Certificates of deposit	213,505	1,545	-	215,050	511,406	2,812	-	514,218
Collateralised mortgage obligations	454,174	301	(191,364)	263,111	526,481	372	(211,060)	315,793
Debt securities issued by non-US governments	31,652	1,016	(15)	32,653	31,651	551	(53)	32,149
Corporate debt securities	982,357	10,085	(76,895)	915,547	1,262,389	2,091	(79,763)	1,184,717
Other, primarily asset-backed securities	738,539	800	(162,596)	576,743	750,337	-	(148,523)	601,814
Total held to maturity	2,532,325	13,794	(433,175)	2,112,944	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:

	Less than 12 months		12 months or more			
31 March 2009	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses	Total fair value	Total Gross unrealised losses
Available for sale						
Certificates of deposit	133,295	(962)	24,982	(28)	158,277	(990)
Equity securities	97	(14)	-	-	97	(14)
Total available for sale securities with unrealised losses	133,392	(976)	24,982	(28)	158,374	(1,004)
Held to maturity						
US government and federal agencies / corporations	8,968	(153)	97,095	(2,152)	106,063	(2,305)
Collateralised mortgage obligations	-	-	253,599	(191,364)	253,599	(191,364)
Debt securities issued by non-US governments	986	(15)	-	-	986	(15)
Corporate debt securities	105,460	(1,812)	747,410	(75,083)	852,870	(76,895)
Other, primarily asset-backed securities	-	-	367,462	(162,596)	367,462	(162,596)
Total held to maturity securities with unrealised losses	115,414	(1,980)	1,465,566	(431,195)	1,580,980	(433,175)
Total securities with unrealised losses	248,806	(2,956)	1,490,548	(431,223)	1,739,354	(434,179)

(In $ thousands, except per share data)

31 December 2008	Less than 12 months Fair value	Gross unrealised losses	12 months or more Fair value	Gross unrealised losses	Total fair value	Total Gross unrealised losses
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	(208,657)	307,285	(211,059)
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	(137,392)	401,398	(148,525)
Total held to maturity securities with unrealised losses	216,461	(17,969)	1,624,759	(425,215)	1,841,220	(443,184)
Total securities with unrealised losses	341,771	(18,099)	1,624,759	(425,215)	1,966,530	(443,314)

Management conducts an ongoing review to identify and evaluate securities that show objective indications of impairment. An investment is written down to fair value if its unrealised losses represent impairment that is considered to be other-than-temporary.

To assess whether an other-than-temporary impairment has occurred, management must make certain judgments and estimates and in determining whether a loss is temporary factors considered include the extent of the unrealised loss, current ratings from ratings agencies, the length of time that the security has been in an unrealised loss position, the financial condition of the issuer and prospects for recovery of contractual payments (principal and interest), and the Bank’s ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. If the decline is considered to be other-than-temporary, a write-down is recorded in the Consolidated Statement of 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 believe these losses are a result of technical spread widening rather than fundamental deterioration. The Bank has the ability and intent to hold these investments until there is a recovery of carrying value, which may be at maturity, and accordingly management does not believe these investments to be other-than-temporarily impaired.

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 at 31 March 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.

Investments in collateralised mortgage-backed securities with fair values significantly lower than amortised cost were stress tested using pipeline default and cumulative lifetime 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 balances, timing of losses, projected (forward) Libor rates, and recovery rates of approximately 30% on default.

During its assessment of other-than-temporary impairment Management determined that it did not have sufficient certainty that the issuers of certain securities could service all of the contractually obligated principal and interest payments. Therefore other-than-temporary impairment has taken place and these investments were written down to their fair value based on bid price. During the 3 month period ended 31 March 2009, other-than-temporary impairments of $37.449 million and $3.500 million were recorded on the Bank’s investments in a collateralised mortgage obligation and a CDO of residential mortgages held in the other, primarily asset-backed securities category respectively.

In respect of the following categories, except as noted in the previous paragraph, the Bank does not consider those investments to be other-than-temporarily impaired at 31 March 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 the Bank has the ability and intent to hold these investments until there is a recovery of carrying value, which may be at maturity, management believes that it will collect all amounts due according to the contractual terms of the investments.

US Government and federal agencies / corporations

The unrealised losses on the Bank's investments in US Treasury obligations and direct obligations of US government agencies 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 all of these securities are investment grade securities, and the Bank has the ability and intent to hold these investments until there is a recovery of carrying value, which may be at maturity, management believes that it will collect all amounts due according to the contractual terms of the investments.

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 the Bank has the ability and intent to hold these investments until there is a recovery of carrying value, which may be at maturity, management does not believe these investments to be other-than-temporarily impaired.

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 the Bank has the ability and intent to hold these investments until there is a recovery of carrying value, which may be at maturity, management does not believe these investments to be other-than-temporarily impaired.

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 the Bank has the ability and intent to hold these investments until there is a recovery of carrying value, which may be at maturity, management does not believe these investments to be other-than-temporarily impaired.

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, management assesses each security individually for impairment, and the Bank has the ability and intent to hold these investments until there is a recovery of carrying value, which may be at maturity, management does not believe these investments to be other-than-temporarily impaired.

Exclusive of US residential mortgage backed securities, total investments were $2.7 billion, with a market value of $2.4 billion as at 31 March 2009. 86% of the Bank's investments remained in securities rated 'A' or higher as at 31 March 2009.

Significant risk and uncertainty

In it's held to maturity portfolio, the Bank holds a collateralised mortgage obligation (the CMO Investment) at amortised cost of $11.4 million. Although realisation of the CMO Investment's amortised cost is not assured, management does not believe the CMO Investment to be other-than-temporarily impaired. The amount of the CMO Investment, however, could be reduced if the insurer of the CMO fails to meet its commitments and management then determines that it is not probable that contractual interest and principal payments will be received, then an other-than-temporary impairment equal to the difference between carrying value and fair market value of the CMO Investment shall be recorded in income. Management's best estimate of this amount is $8.3 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.

(In $ thousands, except per share data)

5. Segmented information

	For the three month period ended					
	31 March 2009			31 March 2008		
	Revenue before gains and losses	Net income (loss) before gains and losses	Net (loss) income*	Revenue before gains and losses	Net income (loss) before gains and losses	Net (loss) income*
Bermuda						
Community Banking	38,737	3,715	(25,542)	46,599	10,453	9,529
Wealth Management, Fiduciary Services and Investment & Pension Fund Administration	10,203	3,279	3,279	21,199	7,982	7,982
Real Estate	1,051	(1,448)	(1,448)	255	(2,176)	(2,176)
Sub-total Bermuda	49,991	5,546	(23,711)	68,053	16,259	15,335
Overseas businesses						
Barbados	3,821	1,287	1,341	3,262	351	2,192
Cayman	19,878	7,526	7,526	27,878	11,617	11,617
Guernsey	8,257	1,413	1,141	16,924	5,346	5,346
Switzerland	74	(761)	(761)	91	(752)	(752)
The Bahamas	1,916	151	151	3,121	741	741
United Kingdom	5,826	3,179	(6,202)	9,872	1,565	1,565
Malta	211	(52)	(52)	240	130	130
Hong Kong	576	(206)	(206)	717	152	152
Sub-total overseas	40,559	12,537	2,938	62,105	19,150	20,991
Less: inter-segment eliminations (principally rent and management fees)	(1,634)	-	-	(3,993)	-	-
Total	88,916	18,083	(20,773)	126,165	35,409	36,326

* All amounts shown before central allocations.

Total assets

As at	31 March 2009	31 December 2008
Bermuda	4,940,944	5,468,113
Barbados	257,725	264,521
Cayman	3,562,978	3,328,712
Guernsey	1,438,170	1,448,609
Switzerland	581	984
The Bahamas	152,315	155,260
United Kingdom	1,267,704	1,321,678
Malta	3,419	3,169
Hong Kong	8,593	8,633
	11,623,836	11,999,679
Less: inter-segment eliminations	(1,067,183)	(1,087,835)
Total	10,556,653	10,911,844

Notes to Interim Unaudited Consolidated Financial Statements (continued)

(In $ thousands, except per share data)

6. Fair value measurements

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:

31 March 2009	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	Total fair value / carrying value
Assets				
Investments				
Trading	25,539	9,695	10,589	45,823
Available for sale	-	353,493	-	353,493
Other assets - derivatives	-	26,887	-	26,887
Liabilities				
Other liabilities - derivatives	-	(79,051)	-	(79,051)

31 December 2008	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	Total fair value / carrying value
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)

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

	For the three month period ended	
	31 March 2009	31 December 2008
Trading investment		
Carrying value at beginning of period	12,599	13,460
Unrealised (losses) gains recognised in net income	(2,054)	(1,414)
Foreign exchange translation adjustment	44	553
Carrying value at end of period	10,589	12,599

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.

(In $ thousands, except per share data)

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 31 March 2009, was $24.8 million. The Bank has posted $14.2 million collateral against these liabilities and therefore the maximum amount of termination payments that could have been required at 31 March 2009 was $10.6 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.

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 quarter ended 31 March 2008 and 2009, no gain or losses were realised from ineffective portion 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 31 March 2009 and 2008, there was no hedge ineffectiveness related to cash flow hedges.

As of 31 March 2009 and 2008 there was no deferred net gains or losses on derivative instruments accumulated in other comprehensive income that are expected to be reclassified as earnings during the next twelve months. The maximum term over which the Bank is hedging its exposure to the variability of future cash flows is nil (2008: nil). As of 31 March 2009, the Bank has recorded the fair value of derivative instrument of nil (2009: nil) in other liabilities. Any ineffectiveness is recognised in earnings. As of March 31, 2009, there were no cash flow hedges in place.

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.

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 $2.25 million during the three month period covered by the Agreement ending 15 April 2009.

As at 31 March 2009 the Bank has recognised a derivative liability for the maximum value of the credit derivative which is $42.6 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 31 March 2009, no capital contributions have been made under the Agreement.

(In $ thousands, except per share data)

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.

31 March 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	195,436	10	(23,144)	(23,134)
Customer deposits	Interest rate swaps	10,785	81	(162)	(81)
Subtotal fair value hedges		206,221	91	(23,306)	(23,215)
Not designated as hedging instruments:					
Term deposits with banks	Interest rate swap	11,000	-	(1,019)	(1,019)
Subtotal risk management derivatives		217,221	91	(24,325)	(24,234)
Client Services Derivatives					
	Spot and forward foreign exchange	3,132,815	26,334	(11,694)	14,640
	Interest rate caps	34,426	462	(462)	-
Subtotal risk management derivatives		3,167,241	26,796	(12,156)	14,640
Other	Credit derivative	42,570	-	(42,570)	(42,570)
Total derivative instruments		3,427,032	26,887	(79,051)	(52,164)

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 swap	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	44,400	-	(44,400)	(44,400)
Total derivative instruments		4,001,357	68,945	(129,214)	(60,269)

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 dividend declared in 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	
	31 March 2009	31 March 2008
Basic earnings per share		
Net (loss) income for the period	(20,773)	36,326
Weighted average number of common shares issued (in thousands)	98,909	99,080
Weighted average number of common shares held as treasury stock (in thousands)	(6,502)	(5,684)
Adjusted weighted average number of common shares (in thousands)	92,407	93,396
	(0.22)	0.39
Diluted earnings per share		
Net (loss) income for the period	(20,773)	36,326
Weighted average number of common shares issued (in thousands)	98,909	99,080
Weighted average number of common shares held as treasury stock (in thousands)	(6,502)	(5,684)
Stock options (in thousands)	341	1,701
Adjusted weighted average number of diluted common shares (in thousands)	92,748	95,097
	(0.22)	0.38

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 31 March 2009, the fair value of assets held by the Fund were $4.0 billion. The contingent liability under the Agreement and the maximum exposure to loss were both $42.6 million. The entire amount of $42.6 million was recorded as a liability as at 31 March 2009.

The valuation of the contingent liability under the Agreement as of 31 March 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.

(In $ thousands, except per share data)

10. Share Buy-Back Plan

During the three month period ended 31 March 2009 nil common shares were purchased to be held as treasury stock at a cost of nil (31 March 2008: 811,036 shares at a cost of $14.4 million).

11. Large Shareholders

The following professional nominees at 31 March 2009 were registered holders of 5% or more of the issued common share capital: Harcourt & Co. (16.93%), Palmar Limited (5.93%) & Wilson & Co. (5.2%). Known beneficial holding of 5% or more of issued common share capital at that date was Bermuda Life Insurance Limited (7.05%).

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) Determining Whether a Market Is Not Active and a Transaction Is Not Distressed

In April 2009, the FASB issued FSP 157-4 Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP No. 157-4), which addresses how entities shall assess certain market conditions in determining the fair value of financial assets. FSP No. 157-4 provides additional guidance to highlight and expand on the factors that should be considered in estimating fair value when there has been a significant decrease in market activity for a financial asset. The FASB emphasized that the guidance will not change the objective of a fair value measurement, which is to identify the price that would be received to sell the asset in an orderly transaction at the measurement date between market participants (an "exit price" concept) in the current inactive market. FSP No. 157-4 will be effective for fiscal period beginning after 15 March 2009, and therefore, effective from the Bank's second quarter in 2009. Management is currently evaluating the effect of adoption.

(c) Recognition and Presentation of Other-Than-Temporary Impairments

In April 2009, the FASB issued FSP 115-2 and FAS 124-2 Recognition and Presentation of Other-Than-Temporary Impairments (FSP No. 115-2 and FAS No. 124-2), which addresses how entities shall recognise and present other-than-temporary impairments of debt securities. FSP No. 115-2 and FAS No. 124-2 changes 1) the method for determining whether an other-than-temporary impairment exists for debt securities and 2) amount of an impairment charge to be recorded in earnings. FSP No. 115-2 and FAS No. 124-2 also requires that to determine whether an other-than-temporary impairment exists, an entity shall assess the likelihood of selling the security prior to recovering its cost basis. This is a change from the current requirement for an entity to assess whether it has the intent and ability to hold a security to recovery. FSP No. 115-2 and FAS No. 124-2 will be effective for fiscal period beginning after 15 March 2009, and therefore, effective from the Bank's second quarter in 2009. Management is currently evaluating the effect of adoption.

(d) Interim Disclosures about Fair Value of Financial Instruments

In April 2009, the FASB issued FSP 107-1 Interim Disclosures about Fair Value of Financial Instruments (FSP No 107-1) which addresses how entities shall disclose certain information about the fair value of financial instruments. FSP No. 107-b requires to increase the frequency of fair value disclosures from annual only to quarterly to provide financial statement users with more timely information about the effects of current market conditions on their financial instruments. FSP No. 107-1 will require public entities to disclose in their interim financial statements the fair value of all financial instruments within the scope of FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, as well as the method(s) and significant assumptions used to estimate the fair value of those financial instruments. FSP No. 107-1 will be effective for fiscal period beginning after 15 March 2009, and therefore, effective from the Bank's second quarter in 2009. Management is currently evaluating the effect of adoption.

13. Subsequent event

At the Special General Meeting of Shareholders held on 14 April 2009, the Bank's shareholders approved the issue of $200 million of perpetual non-cumulative preference shares (the Issuance), which will qualify as Tier 1 capital when issued, with an expected closing date of 30 June 2009.

The Government of Bermuda has agreed to support the Issuance by guaranteeing the principal of, and dividend payments on, the preference shares. In addition, the Government has committed to purchase any preference shares from this offering that are not subscribed by private investors. In exchange for the Government's commitment, the Bank has agreed to issue to the Government 10-year warrants to purchase common shares of the Bank, representing some 4% of the issued shares of the Bank as at 31 March 2009, at an exercise price of $7.01 and to pay the Government a guarantee fee of 1% per annum with respect to any preference shares issued to private investors.

14. Comparative Information

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