

# Butterfield Bermuda Fund Limited

---

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2011

# Butterfield Bermuda Fund Limited

---

## *Butterfield Bermuda Fund Limited – Annual Report 2011*

During the last year, the net asset value per share, exclusive of dividends, increased 5.6% from \$15.90 to \$16.79. In addition, for the year ended June 30, 2011, the Fund paid total dividends of \$0.52 per share giving a total return for the year of 8.87% versus the composite benchmark return of 5.22% over the same period. The Fund's quarterly dividend rate remained stable throughout the year, with the dividend yield currently at 3.1%. The Fund continues to maintain a dividend policy whereby the dividend yield of the Fund is representative of the dividend yield for the Fund's composite benchmark.

### **Market Review**

As the broader global market continued to enjoy a relative strong recovery through the last 12 months, the local market, represented by the BSX Index (which increased 1.02% through the period) continued to perform poorly. The Bermuda Fund return was held up by the relatively better performance of the international holdings, indicated by the 8% return on the BSX Insurance Index for the year.

In the domestic markets, the prior years' volatility of Butterfield Bank stabilized as investors began to regain confidence after toxic assets were sold and losses realised in the 2010 financials as part of a planned de-risking of the balance sheet. The later part of 2010 and early 2011 saw several of the troubled tourism properties, funded by Butterfield, put into receivership. While the repossession of collateral may not be considered a positive, it removed a degree of uncertainty about the future of several large non performing loans in the banks commercial loan portfolio. This, combined with a return to profitability under a new leadership team, has resulted in a stabilization and steady growth in Butterfield's share price after high volatility continued into the early part of 2010. This was positive news for the BSX Index and the Fund, since both have heavy weights in the institution. Other domestic holdings continued to perform poorly as the Bermuda economy as a whole continues to suffer from the uncertainty surrounding the economy's two main pillars, tourism and international business. During the period, Argus was downgraded by rating agency A.M. Best and the Fund liquidated a portion of its Argus holdings as liquidity allowed, although this decision was made as a result of a review of the holdings mix rather than purely as a response to the downgrade.

The last year has been an interesting one for the Fund's international holdings, dominated by reinsurance names mostly in the property and casualty sector. The second half of 2010 was characterised by shareholder friendly activities such as buyback schemes as the reinsurance companies found themselves flush with excess capital after a period of mild claims. The stronger correlation with global markets and solid financial strength allowed insurance companies to participate, to an extent, in the strong gains enjoyed by the broader market and provided a welcomed offset to the poor performance of the local markets. The first half of 2011 was a stark contrast as insurance companies suffered massive losses from a series of natural disasters including the Japanese earthquake, Australian flooding, New Zealand earthquakes, European windstorms and North American tornadoes. While the majority of the insurance companies had adequate capital to deal with claims, most reduced or halted share buyback programs and a few held successful capital raises. While the large losses suffered in Q1 clearly interrupted the upward trend of reinsurance companies' stock prices, they also started an interesting debate on the effect losses would have on the ongoing soft premium markets. The general consensus seems to be that the rates in disaster affected areas have risen between 30% and 50% (June renewal numbers support this) while the North American market has seen a stabilisation of rates but no significant rise as yet.

We continue to see the low historical correlation between the Fund's two benchmark components providing stability in returns and a degree of protection from the poor performance of the local economy. The Fund continues to be fully invested and positioned roughly in line with the benchmark component weightings.

# Butterfield Bermuda Fund Limited

---

## *Outlook*

The Bermuda economy continues to suffer, resulting in a continuing rise in unemployment, an exodus of guest workers and downward pressure on both the housing markets and rental properties, all leading to poor consumer confidence and decreased economic activity. With continued pressure on government budgets, it is hard to see where the catalyst for a return to stronger growth will come from in the near term. We must also consider the important question of what portion of the recent poor economic performance is due to a trickle down effect from the recessions in the economies of our international trading partners and what portion can be attributed to what would be a much more serious issue of systematic problems specific to the Bermuda economy. We expect the international insurance holdings will continue to offer better returns and diversification as a degree of market hardening combined with continued balance sheet strength should translate into improving stock values.

A handwritten signature in black ink, appearing to read "M. Neff". The signature is fluid and cursive, with a large, stylized initial "M" and a long, sweeping underline.

Michael Neff  
President  
Butterfield Bermuda Fund Limited  
October 31, 2011

# Butterfield Bermuda Fund Limited

---

## **INDEPENDENT AUDITOR'S REPORT**

To the shareholders of Butterfield Bermuda Fund Limited

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Butterfield Bermuda Fund Limited (the "Fund"), which comprise the statement of net assets, including the statement of portfolio investments, as at June 30, 2011, and the statements of operations and changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Canada and Bermuda, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in Canada and Bermuda. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at June 30, 2011, and its financial performance for the year then ended in accordance with accounting principles generally accepted in Canada and Bermuda.

*Deloitte + Touche Ltd.*

**DELOITTE & TOUCHE LTD.**

Hamilton, Bermuda

October 31, 2011

# Butterfield Bermuda Fund Limited

---

## **DIRECTORS**

Sheila Brown  
Curtis Dickinson (Resigned June 15, 2011)  
David Stewart (Resigned June 30, 2011)  
Michael Neff (President) (Appointed June 15, 2011)  
Michael Collins (Appointed June 30, 2011)

## **INVESTMENT ADVISOR**

Butterfield Asset Management Limited  
P.O. Box HM 195  
Hamilton HM AX  
Bermuda

## **CUSTODIAN**

Butterfield Trust (Bermuda) Limited  
P.O. Box HM 195  
Hamilton HM AX  
Bermuda

## **REGISTRAR, TRANSFER AGENT AND ADMINISTRATOR**

Butterfield Fulcrum Group (Bermuda) Limited  
P.O. Box HM 195  
Hamilton HM AX  
Bermuda

## **AUDITORS**

Deloitte & Touche Ltd.  
P.O. Box HM 1556  
Hamilton HM FX  
Bermuda

# Butterfield Bermuda Fund Limited

## STATEMENT OF NET ASSETS As at June 30, 2011 (Expressed in Bermuda Dollars)

	2011	2010
<b>ASSETS</b>		
Investments, at current value (Cost 2011 - \$16,282,551; 2010 - \$18,359,998)	\$ 15,293,288	\$ 16,967,257
Cash and cash equivalents	298,257	594,128
Accrued dividends and interest receivable	14,052	64,645
Prepaid expenses	7,201	5,334
	<b>15,612,798</b>	<b>17,631,364</b>
<b>LIABILITIES</b>		
Dividends payable	119,389	183,729
Accrued expenses	64,579	71,407
Redemption payable	-	532
	<b>183,968</b>	<b>255,668</b>
	<b>15,428,830</b>	<b>17,375,696</b>
Organisational shares	<b>12,000</b>	<b>12,000</b>
<b>FUND NET ASSETS</b>	<b>\$ 15,416,830</b>	<b>\$ 17,363,696</b>
<b>NET ASSETS AVAILABLE TO CLASS A SHAREHOLDERS</b>	<b>\$ 15,416,830</b>	<b>\$ 16,032,898</b>
Number of common shares in issue Class A	<b>918,372</b>	<b>1,008,646</b>
<b>NET ASSET VALUE PER COMMON SHARE CLASS A</b>	<b>\$ 16.79</b>	<b>\$ 15.90</b>
<b>NET ASSETS AVAILABLE TO CLASS B SHAREHOLDERS</b>	<b>\$ -</b>	<b>\$ 1,330,798</b>
Number of common shares in issue Class B	<b>-</b>	<b>3,037,055</b>
<b>NET ASSET VALUE PER COMMON SHARE CLASS B</b>	<b>\$ -</b>	<b>\$ 0.44</b>

Signed on Behalf of the Board



DIRECTOR



DIRECTOR

The accompanying notes are an integral part of these financial statements

# Butterfield Bermuda Fund Limited

## STATEMENT OF PORTFOLIO INVESTMENTS

As at June 30, 2011

(Expressed in Bermuda Dollars)

Investment	Shares	2011		Shares	2010	
		Current Value	% of Portfolio		Current Value	% of Portfolio
<b>Common and Preference Shares</b>						
ACE Limited	23,300	\$ 1,533,606	10.03%	40,470	\$ 2,083,396	12.28%
Arch Capital Group Limited	32,400	1,034,208	6.76%	12,000	894,000	5.27%
Argus Group Holdings Limited	160,092	820,476	5.36%	172,793	1,092,915	6.44%
Ascendant Group Limited (formerly BELCO Holdings Limited)	160,426	2,270,028	14.84%	164,826	2,274,599	13.41%
Aspen Insurance Holdings Limited	23,000	591,790	3.87%	-	-	0.00%
Assurance Guaranty Limited	48,000	782,880	5.12%	-	-	-
Axis Capital Holdings Limited	11,620	359,755	2.35%	12,820	381,010	2.25%
Bank of N.T. Butterfield & Son Limited	1,089,518	1,525,325	9.97%	1,096,518	1,535,125	9.05%
Bank of N.T. Butterfield & Son Limited Contingent Value Preference Shares	38,460	53,844	0.36%	38,460	53,844	0.32%
Bank of N.T. Butterfield & Son Limited 8% Non Cumulative Preference Shares	-	-	0.00%	484	571,120	3.37%
Bermuda Aviation Services Limited	223,056	892,224	5.83%	223,056	1,076,245	6.34%
Bermuda Press (Holdings) Limited	5,431	71,961	0.47%	5,431	56,347	0.33%
BF&M Limited	18,973	280,797	1.84%	25,573	332,446	1.96%
Endurance Specialty Holdings	20,000	826,600	5.40%	-	-	-
Everest Re Group Limited	14,060	1,149,405	7.52%	15,660	1,107,475	6.53%
Flagstone Reinsurance Holdings S. A	-	-	0.00%	31,080	336,286	1.98%
KeyTech Limited	7,994	50,202	0.33%	13,094	100,169	0.59%
Montpelier Re Holdings Limited	16,800	302,400	1.98%	-	-	-
PartnerRe Limited	6,140	422,739	2.76%	30,940	2,170,132	12.79%
RenaissanceRe Holdings Limited	11,342	793,373	5.19%	12,642	711,365	4.19%
RenaissanceRe Holdings Limited Cl. C	22,839	545,167	3.56%	35,339	692,291	4.08%
Validus Holdings Limited	29,829	923,208	6.04%	57,729	1,409,742	8.31%
West Hamilton Holdings Limited	10,000	63,300	0.42%	10,000	88,750	0.51%
<b>TOTAL INVESTMENTS AT CURRENT VALUE</b>						
<b>(Cost 2011 - \$16,282,551 ; 2010 - \$18,359,998)</b>		<b>\$ 15,293,288</b>	<b>100.00%</b>		<b>\$ 16,967,257</b>	<b>100.00%</b>

The accompanying notes are an integral part of these financial statements

# Butterfield Bermuda Fund Limited

---

## STATEMENT OF OPERATIONS For the year ended June 30, 2011 (Expressed in Bermuda Dollars)

	2011		2010
<b>INVESTMENT INCOME</b>			
Dividends	\$ 495,703	\$	729,860
Deposit interest	3,156		31,642
	<b>498,859</b>		<b>761,502</b>
<b>EXPENSES</b>			
Management fee	125,205		143,749
Registrar & transfer agent fee	87,124		85,800
Accounting fee	49,882		48,099
Audit fee	18,155		28,574
Custodian fee	17,511		20,591
Miscellaneous fee	15,528		18,613
Secretarial fee	4,921		13,334
Government fee	5,665		1,713
	<b>323,991</b>		<b>360,473</b>
<b>NET INVESTMENT INCOME</b>	<b>174,868</b>		<b>401,029</b>
<b>NET REALISED AND UNREALISED GAIN/(LOSS) ON INVESTMENTS</b>			
Net realised gain/(loss) on investments	1,001,508		(210,229)
Net change in unrealised gain/(loss) on investments	403,477		(2,078,504)
<b>NET GAIN/(LOSS) ON INVESTMENTS</b>	<b>1,404,985</b>		<b>(2,288,733)</b>
<b>NET INCREASE/(DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$ 1,579,853</b>	<b>\$</b>	<b>(1,887,704)</b>

The accompanying notes are an integral part of these financial statements

# Butterfield Bermuda Fund Limited

---

## STATEMENT OF CHANGES IN NET ASSETS

For the year ended June 30, 2011

(Expressed in Bermuda Dollars)

	2011	2010
<b>NET INCREASE/(DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$ 1,579,853</b>	<b>\$ (1,887,704)</b>
<hr/>		
<b>DISTRIBUTIONS TO INVESTORS</b>		
Dividends paid and payable	<b>(553,235)</b>	(747,420)
<hr/>		
<b>CAPITAL STOCK TRANSACTIONS</b>		
Issue of shares	<b>1,267,150</b>	1,769,900
Redemption of shares	<b>(4,240,634)</b>	(2,164,710)
<hr/>		
Net capital stock transactions	<b>(2,973,484)</b>	(394,810)
<hr/>		
<b>NET DECREASE IN NET ASSETS FOR THE YEAR</b>	<b>(1,946,866)</b>	(3,029,934)
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>17,363,696</b>	20,393,630
<hr/>		
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 15,416,830</b>	<b>\$ 17,363,696</b>

The accompanying notes are an integral part of these financial statements

# Butterfield Bermuda Fund Limited

---

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

(Expressed in Bermuda Dollars)

### 1. ABOUT THE FUND

Butterfield Bermuda Fund Limited (the "Fund"), is an open-ended investment company which was incorporated under the laws of Bermuda on February 22, 1994.

The Fund commenced operations on March 31, 1994. Butterfield Trust (Bermuda) Limited, acts as Custodian. Butterfield Asset Management Limited acts as Investment Advisor. Butterfield Fulcrum Group (Bermuda) Limited acts as Registrar and Transfer Agent and as Accountants for the Fund. Butterfield Trust (Bermuda) Limited and Butterfield Asset Management Limited are wholly owned subsidiaries of The Bank of N.T. Butterfield & Son Limited (the "Bank"). The Bank held a significant interest in Butterfield Fulcrum Group (Bermuda) Limited until it was sold in February 2011.

The investment objective of the Fund is to provide long term capital growth and current income by investing in a diversified portfolio of Bermuda assets.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and Bermuda. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund.

#### a) Valuation of Investments

The fair value of investments traded in active markets are based on quoted market prices at the close of trading on the period end date. The quoted market price used for investments held by the Fund is the last sales price reported by the principal securities exchange on which the issue is traded, or lacking any sales, at the closing mid price. An investment is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The net change during the year between these amounts and cost is shown as net change in unrealized gain (loss) on investments in the statement of operations.

The requirements of the CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement ("CICA 3855") prescribe specific guidance for establishing fair values under GAAP, including the use of bid prices for long position and ask prices for short positions quoted in active markets. Had the Fund used the bid prices for long positions, the current value of investments and the fund net assets would have decreased by \$222,553 (2010: \$57,197) and the net asset value per common share would have decreased by \$0.24, for Class A, (2010: Class A - \$0.05; Class B \$0.00).

#### b) Investment Transactions and Income Recognition

Investment transactions are accounted for on the trade date. Gains or losses arising from the sale of investments are determined using the average cost basis. Income from investments is recorded on the accrual basis. Interest income is recorded as earned and dividend income is recorded on the ex-dividend date.

# Butterfield Bermuda Fund Limited

---

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

(Expressed in Bermuda Dollars)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### c) Cash and Cash Equivalents

Cash equivalents are comprised primarily of shares in the Butterfield Money Market Fund Limited, an affiliated money market fund, denominated in US\$ shares. Shares may be redeemed on 24 hours notice.

#### d) Financial Assets and Liabilities

In addition to the estimated fair values of investments as disclosed in the statements of portfolio investments, the estimated fair value of the Fund's other financial instruments, including cash and cash equivalents, accrued dividends/interest receivable, dividends payable and accrued expenses approximate their carrying value.

#### e) Adoption of New Accounting Standards

In January 2011, the Accounting Standards Board ("AcSB") amended the Introduction to Part I of the CICA Handbook—Accounting to allow investment companies, which include investment funds, to adopt International Financial Reporting Standards ("IFRS") for the first time no later than interim and annual financial statements relating to annual periods beginning on or after January 1, 2013. Investment companies electing to defer the first time adoption may continue to apply existing Canadian GAAP until the changeover to IFRS.

The Fund will defer the first time adoption and adopt IFRS beginning July 1, 2013.

### 3. FINANCIAL RISK MANAGEMENT

The Fund's overall risk management approach includes formal guidelines to govern the extent of exposure to various types of risk. The Investment Advisor also has various internal controls to oversee the Funds' investment activities, including monitoring compliance with the investment objective and strategies, internal guidelines and securities regulations.

#### Credit Risk

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. Financial instruments that potentially expose the Fund to credit risk consist primarily of cash and cash equivalents and balances held at brokers.

The value of such balances on the statement of net assets includes consideration of the creditworthiness of the issuer, and, accordingly represents the maximum credit risk exposure of the Fund. The Fund monitors the credit rating of its broker to mitigate this risk.

#### Currency Risk

Currency risk is the risk that the value of an investment will fluctuate due to changes in foreign exchange rates. When the Fund enters into transactions which are denominated in currencies other than the Fund's reporting currency the Investment Advisor attempts to mitigate the associated currency risk in accordance with the above mentioned guidelines which may include the use of forward currency contracts.

As at June 30, 2011 and 2010, the Fund's exposure to currencies other than the Funds' reporting currency was limited to small balances of cash and cash equivalents denominated in foreign currencies which are not significant to the Fund as a whole.

# Butterfield Bermuda Fund Limited

---

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

(Expressed in Bermuda Dollars)

### 3. FINANCIAL RISK MANAGEMENT (CONT'D)

#### Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Predominantly all of the Fund's investments are liquid securities which are actively traded on stock exchanges. As a result, the Fund is not subject to fair value interest rate risk due to possible fluctuations in the prevailing levels of market interest rates.

The Fund's exposure to cash flow interest rate risk is limited to its cash at bank which represents 1.91% (2010 - 3.71%) of the Fund's net assets. The Fund does not have any other significant interest-bearing assets or liabilities.

#### Liquidity Risk

Liquidity risk is the risk that the entity will encounter difficulty in meeting obligations associated with financial liabilities. The Fund is exposed to liquidity risk by way of weekly cash redemptions of redeemable units. However, the Fund retains sufficient cash, cash equivalents and actively traded marketable securities to maintain adequate liquidity to address this risk.

#### Price/market risk

Price/market risk is the risk that the value of investments will fluctuate as a result of market conditions. All investments of the Fund are exposed to other price/market risk. The Investment Advisor attempts to mitigate price/market risk by selecting appropriate portfolio investments based on the Fund's strategy. All of the Fund's investments at June 30, 2011 and 2010, are listed on stock exchanges.

As at June 30, 2011, all of the Fund's investments were exposed to changes in equity prices. As at June 30, 2011, if equity prices had been 5% higher or lower, adjusted for the correlation of the actual investment portfolio value held to equity price movements with all other variables held constant, the net assets of the Fund would have been \$242,800 (2010 - \$295,230) higher or lower. 5% is the sensitivity rate used when reporting price/market risk internally to key management personnel and represents management's assessment of possible change in market prices.

### 4. FAIR VALUE OF FINANCIAL ASSETS

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 - inputs for the asset or liability that are not based on observable market data, including the Company's own assumptions in determining the fair value of investments.

June 30, 2011					
Classification	Level 1	Level 2	Level 3	Total	
Financial Assets					
Equity	\$15,239,444	\$ 53,844	\$ -	\$15,293,288	
Total Financial Assets	\$15,239,444	\$ 53,844	\$ -	\$15,293,288	

# Butterfield Bermuda Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

(Expressed in Bermuda Dollars)

### 4. FAIR VALUE OF FINANCIAL ASSETS (CONT'D)

June 30, 2010 Classification	Level 1	Level 2	Level 3	Total
Financial Assets				
Equity	\$16,913,413	\$ 53,844	\$ -	\$16,967,257
Total Financial Assets	\$16,913,413	\$ 53,844	\$ -	\$16,967,257

#### Transfers of assets between level 1 and level 2

Financial assets and liabilities transferred from level 1 to level 2 are the result of the securities no longer being traded in an active market. There were no transfers of financial assets and liabilities from level 1 to level 2 during the years ended June 30, 2011 and 2010. Financial assets and liabilities transferred from level 2 to level 1 are the result of the securities now being traded in an active market. There were no transfers of financial assets and liabilities from level 2 to level 1 during the years ended June 30, 2011 and 2010.

#### Reconciliation of financial asset and liability movement — level 3

The Fund did not hold any level 3 investments at the beginning, during, or at the end of the years ended June 30, 2011 and 2010.

### 5. SHARES ISSUED AND OUTSTANDING

The authorised capital stock is as follows:

12,500,000 Class A common shares of a par value of \$1.00 each

12,500,000 Class B common shares of a par value of \$1.00 each

12,000 organisational shares of a par value of \$1.00 each

Details of shares issued and outstanding during the year are as follows:

Common Shares	2011		2010	
	CLASS A	CLASS B	CLASS A	CLASS B
Balance - beginning of year	1,008,646	3,037,055	1,079,012	1,517,279
Issue of common shares	52,853	819,356	53,863	1,519,880
Redemption of common shares	(143,127)	(3,856,411)	(124,229)	(104)
Balance - end of year	918,372	-	1,008,646	3,037,055
Organisational shares	12,000	-	12,000	-

Common shares are allotted to subscribers at a value determined by reference to the weekly valuation of the net assets of the Fund. Common shares may be redeemed for an amount equal to the net asset value per share as at the close of business on the Valuation Day, following receipt of the properly completed request for redemption, subject to the power of the directors to deduct there from an amount sufficient in their opinion to meet sale and fiscal charges incurred in realising assets to provide funds to meet the request. The organisational shares are owned by the Investment Advisor.

Under the Bye-Laws, the organisational shares have only nominal rights if and so long as there are any other shares of the Fund in issue.

# Butterfield Bermuda Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

(Expressed in Bermuda Dollars)

### 6. DIVIDENDS

Dividends declared by the Fund on Class A were as follows:

	2011	2010	Payment Date
\$0.13 per share (2010 \$0.13 per share)	\$ 132,023	\$ 162,452	October 4, 2010
\$0.13 per share (2010 \$0.13 per share)	128,966	161,659	January 10, 2011
\$0.13 per share (2011 \$0.13 per share)	126,502	149,079	April 17, 2011
\$0.13 per share (2011 \$0.13 per share)	119,388	141,210	July 11, 2011
	<b>\$ 506,879</b>	<b>\$ 614,400</b>	

Dividends declared by the Fund on Class B were as follows:

	2011	2010	Payment Date
\$0.013 per share (2010 \$0.015 per share)	\$ 46,356	\$ 26,326	October 4, 2010
- per share (2010 \$0.015 per share)	-	29,635	-
- per share (2010 \$0.014 per share)	-	34,540	-
- per share (2010 \$0.014 per share)	-	42,519	-
	<b>\$ 46,356</b>	<b>\$ 133,020</b>	

### 7. NET REALISED GAIN (LOSS) ON INVESTMENTS

The net realized gain (loss) on sale of investments was as follows:

	2011	2010
Proceeds on sale of investments	\$ 5,709,948	\$ 1,129,911
Less cost of investments sold:		
Investments owned at beginning of year	18,359,998	17,438,429
Investments purchased during year	2,630,993	2,261,709
Investments owned at end of year	(16,282,551)	(18,359,998)
Investments sold during the year	4,708,440	1,340,140
Net realized gain/(loss) on investments	\$ 1,001,508	\$ (210,229)

### 8. RELATED PARTY TRANSACTIONS

#### a) Management Fee

The Investment Manager is related to the Fund through common directorship.

Under the terms of the Management Agreement, the Investment Advisor is entitled to receive a monthly fee calculated at the rate of no more than 1% per annum of the average valuation of the net assets of the Fund carried out on the Valuation Days during each month. Presently, the monthly fee is calculated at the rate of 0.75% per annum for the Class A shares and 0.45% per annum for the Class B shares. The fee of the Investment Advisor is reduced to take account of the management fee already levied on assets held in shares of other funds managed by the Investment Advisor. The management fee for the year was \$125,205 (2010 - \$143,749) with \$11,478 (2010 - \$12,210) being payable at year end. These amounts were measured at the exchange amount, which is the amount agreed between the related parties.

# Butterfield Bermuda Fund Limited

---

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

(Expressed in Bermuda Dollars)

### 8. RELATED PARTY TRANSACTIONS (CONT'D)

#### b) Custodian Fee

The Custodian is related to the Fund through common directorship.

Under the Custodian Agreement, the Custodian is entitled to receive a quarterly fee calculated at the rate of 0.1% per annum, such fees to be calculated on each valuation of the gross assets of the Fund carried out on the Valuation Days during each quarter. For purposes of the fee calculation, the valuation excludes accrued income and prepaid expenses. Relevant out-of-pocket expenses may also be charged to the Fund by the Custodian. The custodian fee for the year was \$17,511 (2010 - \$20,591) with \$4,494 (2010 - \$4,929) being payable at year end. These amounts were measured at the exchange amount, which is the amount agreed between the related parties.

#### c) Accounting Fee and Registrar and Transfer Agent Fee

Accounting fees and Registrar and Transfer Agent fees were charged at a rate of 20 basis points per annum of the net asset value of the Fund accrued on a weekly basis. The accounting fee for the year was \$49,882 (2010 - \$48,099) with \$14,657 (2010 - \$13,975) being payable at year end. The registrar and transfer agent fee for the year was \$87,124 (2010 - \$85,800) with \$12,843 (2010 - \$11,518) being payable at year end. These amounts were measured at the exchange amount, which is the amount agreed between the related parties.

#### d) Corporate Secretarial Fee

The Corporate Secretary is related to the Fund through common directorship.

Corporate secretarial fees are charged on a time spent basis at their normal rates. The corporate secretarial fee for the year was \$4,921 (2010 - \$13,334) with \$800 (2010 - \$1,949) being payable at year end. These amounts were measured at the exchange amount, which is the amount agreed between the related parties.

#### e) Credit Facility

On June 17, 2009, the Fund entered into a revolving standby credit facility with the Bank of \$2 million to a maximum of 10% of the Fund's net asset value which expired on March 31, 2010. The facility was intended to assist the Fund in meeting short term liquidity. No amounts were drawn on the facility at March 31, 2010 upon expiration.

On October 7, 2010, the Fund renewed the credit facility with the Bank for the same terms and conditions as above, which expired on July 31, 2011. No amounts were drawn upon expiration.

### 9. TAXATION

Under current Bermuda law, the Fund is not obligated to pay taxes in Bermuda on either income or capital gains. The Fund has received an undertaking from the Minister of Finance in Bermuda, pursuant to the provisions of the exempted undertaking Tax Protection Act, 1966 which exempts the Fund from any such Bermuda taxes until March 28, 2016.

In March 2011, the Bermuda Government enacted the Exempted Undertakings Tax Protection Amendment Act 2011, allowing the Minister of Finance to grant assurance up to March 31, 2035.

# Butterfield Bermuda Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

(Expressed in Bermuda Dollars)

### 10. FINANCIAL HIGHLIGHTS

Class B shares were fully redeemed as of November 25, 2010. The information as follows is presented for the end of year June 30, 2011 for Class A shares, and end of period November 25, 2010 for Class B shares.

Per Share Information	2011		2010	
	CLASS A	CLASS B	CLASS A	CLASS B
<b>Net asset value</b>				
- beginning of year	\$ 15.90	\$ 0.44	\$ 18.14	\$ 0.54
<b>Income from investment operations</b>				
Net investment income	0.18	0.00	0.36	0.01
Net realised and unrealised gain/(loss) on investments	1.23	0.04	(2.02)	(0.05)
Total from investment operations	1.41	0.04	(1.66)	(0.04)
Distributions to investors	(0.52)	(0.02)	(0.58)	(0.06)
<b>Net asset value - end of year</b>	\$ 16.79	\$ 0.46	\$15.90	\$ 0.44
<b>Ratios / Supplemental Data</b>	CLASS A	CLASS B	CLASS A	CLASS B
Total net assets - end of year	\$ 15,416,830	\$ -	\$ 16,032,898	\$ 1,330,798
Weighted average net assets*	\$ 16,772,285	\$ 693,345	\$ 19,251,773	\$ 1,125,795
Ratio of expenses to weighted average net assets annualized	1.84%	2.27%	1.77%	1.81%
Portfolio turnover rate**	6.70%	6.70%	6.17%	6.17%
Annual rate of return***	9.70%	5.49%	(9.45%)	(8.83%)

\* Weighted average net assets are calculated using net assets on the last valuation date of each month.

\*\* Portfolio turnover rate is calculated for the total of Class A and B using the lesser of purchases or sales of investments for the year divided by the weighted average value of investments, calculated using the last valuation date of each month.

\*\*\* Annual rate of return for shareholders who reinvested dividends is calculated by comparing the end of year net asset value per share plus any dividend per share amounts to the beginning of year net asset value per share.