Moving Forward *Together*

Annual Report 2010

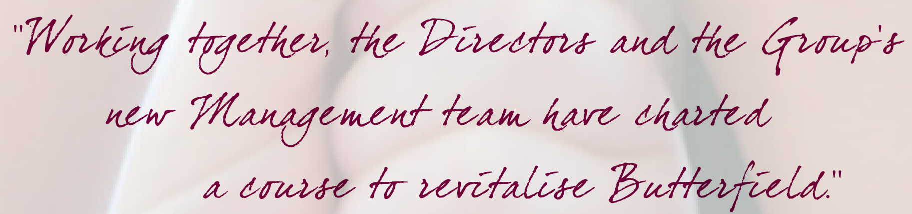
The Bank of N.T. Butterfield & Son Limited

Butterfield

Cover photo: *Spirit of Bermuda*, owned and operated by the Bermuda Sloop Foundation, whose vision is to provide superior youth development to large numbers of Bermudian youth using a ship as a unique, dynamic ‘24/7’ operating community and classroom.

About Butterfield

Butterfield is a diversified financial services company operating in seven jurisdictions. We have total assets of $9.6 billion and $69.9 billion of client assets under administration. We employ over 1,500 people around the world. Butterfield is a publicly traded company with a primary share listing on the Bermuda Stock Exchange and secondary listing on the Cayman Islands Stock Exchange. Additional information can be obtained from our website, www.butterfieldgroup.com.


"Working together, the Directors and the Group's
new Management team have charted
a course to revitalise Butterfield."

CHAIRMAN'S LETTER TO THE SHAREHOLDERS

In the first quarter of 2010, Butterfield raised $550 million of new capital from a group of institutional investors that included The Carlyle Group and CIBC. This was a necessary yet painful measure that substantially diluted the ownership of our shareholders at the time. It was taken in order to allow the Bank to sell the problematic assets on its Balance Sheet and still maintain a strong capital position.

Over the last 12 months, we completed the sale of all of Butterfield's troubled asset-backed securities and sold three of the Bank's four remaining structured investment vehicles. We made significant additional provisions against the troubled hospitality loans in the Bank's portfolio during 2010, and took decisive actions with respect to these credit facilities. The Bank's Balance Sheet is now largely free of underperforming assets and its capital position is strong.

The capital raise was a turning point for the Bank, and a first step toward returning Butterfield to profitability. We still face challenges from a very low interest rate environment, which makes it difficult to generate normal levels of net interest income. The normalised net income of the Bank in 2010, although positive, was not sufficient to cover the dividend on the preference shares. Under the direction of new members of the Management team, Butterfield is working to acquire longer term fixed-rate assets and to take other actions which are expected to increase the Bank's earnings power in 2011.

In the spring, legacy shareholders were given the opportunity to reduce the dilutive effect of the capital raise and increase their proportional ownership positions in Butterfield through the Rights Offering. A majority of shareholders elected to participate, with the result that the Offering—the largest such offering in Bermuda's history—was oversubscribed. Those who participated received a combination of common shares and Contingent Value Convertible Preference Shares ("CVCP shares") for each Rights Unit exercised.

Holders of CVCP shares are eligible for distributions and/or downward adjustments of the price at which CVCP shares are convertible to common shares, contingent on the Bank realising certain loan recoveries and the sale or public offerings of the Bank's equity interest in Butterfield Fulcrum Group. The Bank announced it was selling its minority ownership stake in Butterfield Fulcrum in February 2011. As a result, CVCP shareholders will receive a distribution of between $0.39 and $0.41 per CVCP share during the first quarter of 2011. Based upon the current performance of hospitality loans in the Bank's credit portfolio, however, CVCP shareholders should not reasonably expect to receive additional distributions or conversion price adjustments.

In 2010, your Board welcomed Directors James Burr and Wolf Schoellkopf following their nominations by The Carlyle Group, and John Orr and Richard Venn following their nominations by CIBC. Messrs. Burr, Schoellkopf, Orr and Venn are career bankers whose experience and insights have benefited Butterfield. Bradford Kopp, who was named President & Chief Executive Officer of the Bank in March, also joined the Board. Subsequent to year end, Julian Francis, who had served as a Director since 2007, resigned from the Board. We wish Mr. Francis well and thank him for his valuable contributions to the Bank.

Working together, the Directors and the Group's new Management team have charted a course to revitalise Butterfield. With the support of our shareholders and customers, we made good progress on that journey. The Bank is well capitalised and largely de-risked, and is now well positioned for future growth.

On behalf of the Board of Directors, I thank you for your ongoing loyalty to Butterfield.

Robert Mulderig

Chairman of the Board

"Moving forward together, with a common vision, the right tools and demonstrated progress."

PRESIDENT & CHIEF EXECUTIVE OFFICER'S REPORT

As I prepare this year's *Report to Shareholders*, I am nearing the conclusion of my first year as Butterfield's President & Chief Executive Officer. Over the last 12 months, I have had the opportunity to work closely with a reorganised Management team to continue the process of strengthening the Bank. I am very proud of the progress we made during 2010 to revitalise Butterfield financially and reputationally.

THE YEAR IN REVIEW

In the annals of Butterfield's 153-year history, 2010 will go down as a pivotal year. Following 2009's net loss of $213.4 million, we announced in March that we had secured $550 million of new capital from a group of institutional investors; sufficient to return the Bank to a strong capital position and begin the process of ridding our Balance Sheet of problematic assets. Completing the recapitalisation of Butterfield concurrently with the announcement of the loss was essential to safeguard the long-term value of the Bank. However, that action was highly dilutive to existing shareholders' ownership, and was understandably met with mixed reactions.

The oversubscription of the $130 million Rights Offering in May by legacy shareholders who took advantage of the opportunity to recoup a portion of their prior ownership positions, along with new investors who purchased Rights Units on the Bermuda Stock Exchange, was, therefore, a welcome development. It was an affirmation of optimism among our stakeholders about the future of Butterfield, and a vote of confidence in the new Management team. During 2010, all of us at Butterfield worked hard to strengthen our core businesses, trim expenses and position the Bank for a return to profitability.

Although we again posted a net loss for 2010—amounting to $207.6 million—it was largely the result of planned events under our strategy to remove problematic assets from the Balance Sheet. As we advised in last year's *Annual Report*, during the first quarter of 2010 we sold principally all of the asset-backed securities in the Bank's held to maturity investment portfolio, crystallising losses of $113.8 million, and recognised other-than-temporary impairments of $60.5 million on four structured investment vehicles (SIVs) that were originally acquired from the Butterfield Money Market Fund.

The plan to de-risk the Balance Sheet also necessarily included reserves against a few large, underperforming hospitality loans, and we took total provisions of $104.9 million for 2009. Unfortunately, 2010 was a difficult year for tourism and hotels, particularly in Bermuda, had difficulty generating revenues on lower occupancy numbers. This contributed to Butterfield taking additional provisions of $42.0 million during the year.

To date, the Bank has taken action to place two hotel properties in Bermuda in receivership—the first in the third quarter and another subsequent to year end—where we deemed receivership to be the best course of action to protect the value of the assets and safeguard the interests of the Bank's shareholders. Early in 2011, a troubled hospitality loan on a Bahamian property was settled. We continue to work with our customers regarding repayment solutions and we are making good progress to resolve problems associated with the few remaining non-performing hospitality loans in our portfolio.

Aside from the write-offs on investments and loans, there were other notable one-time items recorded during the year. These included a reduction in the Bank's post-retirement health care plan liability of $67.6 million during the second quarter following an actuarial review of the plan and adjustments to participant eligibility. During the third quarter, the Bank sold its subsidiaries in Malta and Hong Kong at a loss of $7.4 million, as they were no longer a strategic fit.

Exclusive of one-time gains and losses, our normalised income from operations was $14.8 million in 2010, compared to $21.0 million the previous year. This reflects the impact on our business of continuing low interest rates and the effects of the global economic slowdown being felt acutely in Butterfield's markets.

On a normalised basis, revenues (before provisions for credit losses) were down slightly from $332.1 million at year end 2009, to $321.3 million at year end 2010. Net interest income (before provisions for credit losses) was down 4% year on year to $178.9 million, owing to compressed margins in the low-interest-rate environment and reduced deposits. Non-interest income also declined from $145.2 million in 2009 to $142.4 million, on assets under management that declined in value by 6% during the year.

Cost control was an area of focus in 2010 and will continue to be a priority going forward. On a normalised basis, non-interest expenses were down by $5.8 million year on year. This was achieved through a reduction in salaries and benefits associated with a reduced headcount, decreased professional and outside services fees, lower

property costs and decreased marketing expenditures across the Group. The reduction in expenses would have been larger had it not been for increases in technology and communications costs associated with a major systems initiative and the increase in non-income taxes across the Group.

Butterfield closed 2010 as a well capitalised bank, with a tangible common equity ratio of 5.8%, up from 0.9% at the end of 2009. Our total capital ratio at 31 December 2010 was 21.6%, whilst our Tier 1 capital ratio was 15.7%; well in excess of regulatory minimums.

MOVING FORWARD…

Butterfield's enhanced capital position in 2010 facilitated the sale of asset-backed investments and SIVs and the decisive actions we took in respect of underperforming hospitality loans. With those events behind us, we believe that we have finally loosed the Bank from the anchor of problematic assets that have negatively impacted our earnings and reputation. 2011 will be a year of continued rebuilding for the Bank; one that will be marked by further paring down of expenses and the installation of new core technology applications in our largest jurisdictions. We are guardedly optimistic that it will also be a year of marginal profitability for the Bank.

TOGETHER…

Our ability to successfully introduce common technology and continue to trim expenses across the Group will depend upon our ability to work together across geographic and business boundaries. To foster more efficient sharing of resources and solutions across Butterfield, in 2010 we reorganised the Management team and filled numerous vacancies, assigning responsibility for key functions to Group heads.

Conor O'Dea was named Senior Executive Vice President of the Caribbean in March 2010, with direct responsibility for our operations in the Cayman Islands, Barbados and The Bahamas, and Group-wide oversight of the development of our community banking business. As head of our largest trust jurisdiction, Robert Moore, Managing Director of Butterfield Bank (Guernsey) Limited, now leads the coordination and development of our fiduciary services businesses internationally. Conor and Robert work closely with Michael Collins, who was named Senior Executive Vice President for Bermuda during the year, with responsibility for all client-facing businesses in Bermuda, the Group's headquarters and largest operation. Donna Harvey Maybury was promoted to Executive Vice President, Human Resources at the end of the year, and she now has overall responsibility for the management of personnel-related functions across the Group. Michael Neff joined the Bank in February 2011 as Executive Vice President, Group Asset Management with responsibility for the Bank's portfolio and discretionary management services, and research functions internationally.

Bradley Rowse joined Butterfield as Executive Vice President & Chief Financial Officer in September, filling a vacancy that had existed since March when I took up the position of CEO. James McPherson joined Butterfield in October as Senior Vice President, Group Internal Audit. In December, Daniel Frumkin joined as Executive Vice President & Chief Risk Officer. Finally, Raymond Sykes, formerly the head of our private banking operation in London, was appointed Managing Director of Butterfield Bank (UK) Limited in November.

The individuals who comprise the Group Executive team, along with all of the Bank's Senior Officers, are highly experienced professionals. I am fortunate to have them as my colleagues.

WITH A COMMON VISION…

We, and all of Butterfield's employees worldwide, are focused on returning the Bank to profitability as quickly as possible, restoring confidence in the company and building sustainable value for our shareholders. We have charted a course to get us there that involves rationalising our operations so we can focus our resources on the core businesses of community banking and wealth management in markets where we have strong local knowledge and a meaningful presence.

In keeping with that focus, we sold our subsidiaries in Hong Kong and Malta in the third quarter of 2010, as those operations were not benefiting the Group's revenues materially and were resident in markets where we did not have a material presence. We similarly announced that we were selling our minority ownership stake in fund administrator Butterfield Fulcrum Group in February 2011, as fund administration is no longer considered a core business for the Bank.

Beyond our business model and geographic footprint, our vision for the revitalised Butterfield is that of a company that supports our communities and continually reinforces our relationships with clients through service excellence and the development of proactive solutions.

Throughout our history, Butterfield has made a priority of giving back to the communities that support us. In 2010, we upheld that commitment but, due to disappointing financial results and smaller budgets, we necessarily scaled back our charitable donations.

"… our vision for the revitalised Butterfield is that of a company that supports our communities and continually reinforces our relationships with clients through service excellence …"

Against the backdrop of a severe recession, we are also putting greater discipline around directing funds to organisations that provide humanitarian support. In Bermuda, for example, we launched the Butterfield Hope Award to provide $25,000 per month to a local registered charity working in the field of human services. We have always repaid the loyalty of our stakeholders through an involvement with the third sector. To abandon the place we have historically occupied as a socially responsible company during a time of great need would have been the wrong thing to do.

In terms of serving customers effectively, one of Butterfield's strengths is our size—large enough to provide the complete range of banking and wealth management services demanded by our clients, but small enough to be flexible with their delivery and administration. This enables us to offer more customised services than many of our competitors. Despite the financial challenges that the Bank has grappled with over the last few years, we remain committed to this ideal. In 2010, we delivered new products and services and invested heavily in new technology that will further enhance the efficiency of our service and broaden our product offerings in the future.

THE RIGHT TOOLS…

Butterfield is on track to meet major milestones in the deployment of new banking systems, with our Cayman franchise due to convert to a new technology platform in the second quarter, followed by Bermuda late in the third quarter. With our two largest operations using common software applications and processes, we will be able to realise economies of scale, more easily launch similar products in multiple jurisdictions and further develop cross-border capabilities for the benefit of our clients. In addition, the rationalisation of the Group's technology infrastructure should yield benefits in terms of savings from licensing, development and support, all of which will be managed by HP as the Group's technology provider.

AND DEMONSTRATED PROGRESS

All of us at Butterfield are cognizant of the loss in value of shareholders' holdings in the Bank over the last few years. Rebuilding that value—by carefully managing our expenditures, investing in our core businesses and reaffirming our commitment to service—is our primary goal. I opened this year's *Report* by noting how gratifying it has been to have made good progress toward that goal in 2010. It is gratifying, too, to know that industry experts have acknowledged our progress and the value of our services.

In 2010, Butterfield received prestigious industry awards, including Best Developed Market Bank – Bermuda from *Global Finance* magazine and Best Private Bank in the Cayman Islands from *Euromoney*. In addition, five senior Butterfield representatives were named in the annual *CityWealth Leaders List* of highly regarded figures in wealth management and private banking.

On behalf of the Management team, I would like to express our appreciation to the Board of Directors for their guidance, and to our shareholders and customers for their support as we continue to work to return the Bank to profitability. I would also like to acknowledge the hard work and commitment of our great team of employees, whose dedication to our customers is simply unrivaled.

Together, we have returned Butterfield to a position of capital strength and good liquidity. At 31 December 2010, we had approximately $1.1 billion of capital. 52.8% of our total assets were held as cash, deposits with banks and high quality investment securities. Our asset quality improved markedly during the year, with non-accrual loans down to $159.5 million from $233.4 million a year ago, or just 3.9% of total loans (which reduced further to 3.7% subsequent to year end with the settlement on a troubled hospitality loan on a Bahamian property). Our operating earnings are trending upwards in 2011.

I look forward to continuing to work with the Butterfield team to continue to move the Bank forward on this positive heading.

Bradford Kopp

President & Chief Executive Officer

BOARD OF DIRECTORS & PRINCIPAL BOARD COMMITTEES

COMMITTEES INDICATED BY NUMBERS

1,5
CHAIRMAN
ROBERT MULDERIG
Retired Chairman & Chief Executive Officer,
Mutual Risk Management Ltd.
Chairman, Woodmont Trust Co. Ltd.

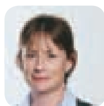
1,2,5
VICE CHAIRMAN
ROBERT STEINHOFF
Retired Partner, KPMG
Director, Argus Insurance Co. Ltd.

2,5,6
JAMES BURR
Managing Director,
Carlyle Global Financial Services Group

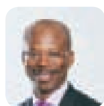
1,3,4*
JULIAN FRANCIS*
Former Governor, Central Bank of The Bahamas

**Retired from Butterfield's Board in January 2011*

1
BRADFORD KOPP
President & Chief Executive Officer,
The Bank of N.T. Butterfield & Son Limited

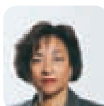


2,6
SHEILA LINES
Chief Executive Officer, Keytech Limited



1,4
SHAUN MORRIS
Managing Partner of the Appleby Bermuda Law Firm

3,4
JOHN ORR
Chief Executive Officer,
FirstCaribbean International Bank



2,4,6
PAULINE RICHARDS
Chief Operating Officer,
Armour Reinsurance Group Holdings Limited
Director, Wyndham Worldwide Inc.
Former Director and Audit Committee Chair,
Cendant Corporation

1,3
WOLF SCHOELLKOPF
Managing Partner,
Lykos Capital Management

1,3,5
RICHARD VENN
Senior Executive Vice-President,
Corporate Development, CIBC

3,6
JOHN WRIGHT
Retired Bank Chief Executive

PRINCIPAL BOARD COMMITTEES

1. EXECUTIVE COMMITTEE OF THE BOARD OF DIRECTORS
Supports the Board in fulfilling its overall governance responsibilities

2. AUDIT COMMITTEE
Oversees Butterfield's financial reports, internal financial controls, internal audit processes and compliance

3. RISK POLICY & COMPLIANCE COMMITTEE
Focuses on credit, market and operational risk

4. CORPORATE GOVERNANCE COMMITTEE
Focuses on Directors' and Board Committee governance, performance and Directors' nominations

5. COMPENSATION & HUMAN RESOURCES COMMITTEE
Focuses on compensation and benefits, employee development and succession

6. INFORMATION TECHNOLOGY COMMITTEE
Focuses on technology and systems development

DIRECTORS' CODE OF PRACTICE AND GROUP CODE OF CONDUCT

The Directors have adopted a *Code of Best Practice* based upon recommended principles of corporate governance. In implementing the *Code*, the Board meets regularly, retains full effective control over the Bank, and monitors Executive Management. A *Group Code of Conduct* applies to Directors and employees and imposes Butterfield's principles of business, including ethics and conflicts of interest. Copies of the *Codes* can be accessed on www.butterfieldgroup.com.

GROUP EXECUTIVE MANAGEMENT

BRADFORD KOPP
President & Chief Executive Officer

TONYA MARSHALL
Senior Vice President,
General Counsel and
Secretary to the Board of Directors

MICHAEL COLLINS
Senior Executive Vice President,
Bermuda

JAMES MCPHERSON
Senior Vice President,
Group Internal Audit

CONOR O'DEA
Senior Executive Vice President,
Caribbean

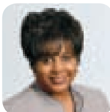
ROBERT MOORE
Managing Director,
Butterfield Bank (Guernsey) Limited

WILTON DOLLOFF
Executive Vice President,
Chief Operating Officer

MICHAEL NEFF
Executive Vice President,
Group Asset Management

DANIEL FRUMKIN
Executive Vice President,
Chief Risk Officer

BRADLEY ROWSE
Executive Vice President,
Chief Financial Officer



DONNA HARVEY MAYBURY
Executive Vice President,
Human Resources

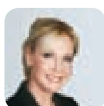
RAYMOND SYKES
Managing Director,
Butterfield Bank (UK) Limited

SENIOR OFFICERS

CURTIS BALLANTYNE
Senior Vice President,
Chief Credit Officer

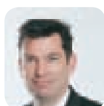
RUPERT BENTLEY
Head of Asset Management,
United Kingdom

KATIE BOOTH
Managing Director,
Butterfield International Private Office Limited



DIANNE BREWER
Senior Vice President,
Marketing & Corporate Communications

SHEILA BROWN
Senior Vice President,
Investment Services, Bermuda

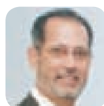


DAVID CARRICK
Group Controller

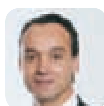
CURTIS DICKINSON
Executive Vice President,
Bermuda Wealth Management

CHARLES LAWRENCE
Senior Vice President,
Treasury, Bermuda

SEAN LEE
Executive Vice President,
Retail Banking, Bermuda



ROBERT LOTMORE
Managing Director,
Butterfield Bank (Bahamas) Limited



JOHN MARAGLIANO
Senior Vice President,
Finance

MICHAEL MCWATT
Deputy Managing Director and Head of Banking,
Butterfield Bank (Cayman) Limited

JIM PARKER
Managing Director,
Butterfield Trust (Switzerland) Limited

W. AARON M. SPENCER
Senior Vice President,
Group Operations and Information Technology

DAVID STEWART
Senior Vice President,
Chief Investment Officer

LLOYD WIGGAN
Managing Director,
Butterfield Bank (Barbados) Limited

BOB WILSON
Executive Vice President,
Corporate Banking, Bermuda

Jurisdiction Overviews

BERMUDA

Bermuda is home to Butterfield's headquarters and remains the Bank's largest jurisdiction in terms of number of employees, Banking Centre locations and business volumes.

Bermuda's revenue before gains, losses and credit provisions decreased year over year by $3.0 million, or 1.6%, reflecting lower fee revenues as a result of declining assets under management offset by higher net interest income as margins, which increased by 0.16% over the prior year.

The Bank continued to work through issues related to a small number of hospitality industry loans to Bermuda properties. In July, and latterly in January 2011, to protect the value of underlying assets and ensure the viability of the properties as tourist destinations and employers, and to protect the interests of the Bank and our shareholders, receivers were appointed for two local hotel properties. The properties are being managed professionally with a view to selling them as going concerns.

Credit provisions were $25.6 million in 2010 compared to $94.3 million in 2009, primarily related to commercial mortgage facilities in the hospitality industry. As a result, net income before gains and losses was up $53.6 million to a loss of $33.1 million for the year ended 31 December 2010. Total assets were $5.2 billion at 31 December 2010, up $570 million from 31 December 2009, reflecting net proceeds from the capital raise. Assets under management were $3.6 billion at 31 December 2010, down from $4.0 billion at 31 December 2009, reflecting net redemptions, whilst assets under administration for our trust and custody businesses at 31 December 2010 were $21.3 billion and $22.7 billion, respectively, compared to $18.5 billion and $22.1 billion at 31 December 2009.

Against a backdrop of economic difficulties locally, and despite the impact they had on the Bank's performance in 2010, Butterfield has reaffirmed our commitment to supporting the third sector locally. The Bank believes that its long-term success and growth as an organisation depends on the prosperity of the communities it serves. In 2010, the Bank reduced the total amount it donated to local charities in Bermuda, but refocused its giving efforts on human services.

In product news, Butterfield in Bermuda enhanced its suite of credit card products with the launch of the AAdvantage® Business MasterCard® in November, giving local businesses the opportunity to earn American Airlines AAdvantage miles on business-related purchases.

(in $ thousands)	2010	2009	$ change
Net interest income	*113,363*	*110,376*	*2,987*
Provision for credit losses	*(25,650)*	*(94,334)*	*68,684*
Non-interest income	*71,325*	*77,285*	*(5,960)*
Revenue before gains and losses	*159,038*	*93,327*	*65,711*
Total expenses	*192,174*	*180,015*	*(12,259)*
Net income before gains and losses & central allocations	*(33,136)*	*(86,688)*	*53,552*
Net gains and (losses)	*(149,940)*	*(124,710)*	*(25,230)*
Central allocations	*-*	*2,965*	*(2,965)*
Net loss	*(183,076)*	*(208,433)*	*(25,366)*
As at 31 December			
(in $ millions)			
Customer deposits	*3,605*	*3,390*	*215*
Loans, net of allowance for credit losses	*2,505*	*2,577*	*(72)*
Total assets	*5,193*	*4,623*	*570*
Assets under administration			
Custody and other administration services	*22,719*	*22,081*	*638*
Trust	*21,285*	*18,482*	*2,803*
Total assets under administration	*44,004*	*40,563*	*3,441*
Assets under management			
Butterfield Funds	*2,870*	*3,254*	*(384)*
Other assets under management	*747*	*695*	*52*
Total assets under management	*3,617*	*3,949*	*(332)*
Number of employees	***732***	***761***	***(29)***

Note: Bermuda results include all head office overhead costs.

CARIBBEAN

THE BAHAMAS

A net loss of $4.0 million for the year ended 31 December 2010 primarily reflected an increase in provision for credit losses of $3.7 million from $Nil in 2009. Whilst Butterfield Bank (Bahamas) Limited has no prior history of loan losses, in 2010 there was deterioration in delinquency rates and non-accrual loans resulting in the creation of a $2.9 million specific provision and a general provision of $0.8 million. At year end, total assets were $146 million compared to $166 million at 31 December 2009, due to a decrease in customer deposits. Client assets under administration increased $0.8 billion to $3.2 billion by year end, due to new business acquired during the year.

In November, Butterfield in The Bahamas initiated a strategic business realignment that resulted in a paring back of private banking and lending services offered in the jurisdiction and a refocusing of resources on the exclusive development of its Trust and Corporate Services businesses. This resulted in a significant headcount reduction. Butterfield is committed to maintaining a presence in The Bahamas due to its pre-eminence as an international finance and trust jurisdication.

During the year, the Bank continued its local support of the Ranfurly Home for Children. Additionally, on-the-job training opportunities were provided to Bahamian university students through the Bank's Summer Student Programme.

(in $ thousands)	2010	2009	$ change
Net interest income	*2,318*	*2,610*	*(292)*
Provision for credit losses	*(3,669)*	*-*	*(3,669)*
Non-interest income	*5,201*	*5,332*	*(131)*
Revenue before gains and losses	*3,850*	*7,942*	*(4,092)*
Total expenses	*7,812*	*7,016*	*(796)*
Net income before gains and losses	*(3,962)*	*926*	*(4,888)*
Gains and losses	*-*	*(885)*	*885*
Central allocations	*-*	*(160)*	*160*
Net loss	*(3,962)*	*(119)*	*(3,843)*
As at 31 December			
(in $ millions)			
Customer deposits	*122*	*133*	*(11)*
Loans, net of allowance for credit losses	*68*	*76*	*(8)*
Total assets	*146*	*166*	*(20)*
Assets under administration – Trust	*3,172*	*2,394*	*778*
Assets under management			
Butterfield Funds	*26*	*85*	*(59)*
Other assets under management	*9*	*1*	*8*
Total assets under management	*35*	*86*	*(51)*
Number of employees	***43***	***54***	***(11)***

BARBADOS

Total revenues before gains and losses in Barbados were up 6.7% year over year on strong earnings from net interest income and reduced credit provisions, offset by a decrease in lower fees from banking services. Provisions for credit losses decreased by $0.5 million compared to 2009 due to decreased write-offs of consumer loan and credit card balances, offset by an increase in the country risk premium included in the Bank's general provisioning model.

During 2010, Butterfield in Barbados continued its efforts to attract new customers and build brand recognition in the highly competitive local banking sector. To that end, Butterfield introduced a Premium Banking offering for high net worth clientele at the Somerley Banking Centre during the fourth quarter.

In terms of community support, the Bank was, once again, the title sponsor of the Barbados Seniors' Expo, and provided financial support to the Barbados Youth Business Trust (BYBT) and its Global Entrepreneurship Week.

(in $ thousands)	2010	2009	$ change
Net interest income	*12,917*	*12,199*	*718*
Provision for credit losses	*(1,707)*	*(2,164)*	*457*
Non-interest income	*2,948*	*3,232*	*(284)*
Revenue before gains and losses	*14,158*	*13,267*	*891*
Total expenses	*13,863*	*12,920*	*(943)*
Net income before gains and losses & central allocations	*295*	*347*	*(52)*
Net gains and (losses)	*(151)*	*679*	*(830)*
Central allocations	*-*	*(25)*	*25*
Net income	*144*	*1,001*	*(857)*
As at 31 December			
(in $ millions)			
Customer deposits	*240*	*245*	*(5)*
Loans, net of allowance for credit losses	*185*	*193*	*(8)*
Total assets	*274*	*278*	*(4)*
Number of employees	***138***	***137***	***1***

CAYMAN ISLANDS

Cayman is Butterfield's second largest jurisdiction in terms of business and market presence. The Bank offers a full range of personal and corporate financial services in the Cayman Islands and is among the leaders in this highly competitive market. To complement Butterfield's strong retail banking presence, Butterfield Bank (Cayman) Limited continued to focus on developing its wealth management businesses. In April, Butterfield's private banking service in Cayman was named "Best Private Bank in the Cayman Islands" by *Euromoney's* Private Banking and Wealth Management Survey, considered the benchmark of excellence in international private wealth management.

The year-on-year decline in net income in Cayman was primarily attributable to the realised loss of $11.6 million on the sale of asset-backed securities in the available for sale portfolio. Net interest income was down 16.9%, year over year, to $28.6 million, whilst non-interest income was up $0.4 million, resulting from increases in gross banking service fees, trust fees and foreign exchange commissions. Cayman experienced steady growth in residential mortgages in 2010, leading to an increase in balances on the Bank's loan book of $54 million year on year.

Total expenses were $52.9 million in 2010, up $2.6 million from $50.3 million in 2009 due to an increase in salaries, health care costs and additional share-based compensation, as a result of stock options accelerated vesting in the first quarter upon change of control. Provisions for credit losses were $3.8 million, primarily related to an overseas hotel property loan. Total assets, at $2.0 billion, were down $571 million on a decline in hedge fund client deposits. Client assets under administration decreased by 8.7%, to $4.6 billion, primarily due to a decline in the value of assets relating to trust clients.

In 2010, Butterfield continued to demonstrate its commitment to the Cayman Islands by supporting high-profile economic development events and charitable causes. The Bank provides support and board representation to Cayman Finance, the Government-led organisation that fosters the ongoing development of financial services in the Cayman Islands. Butterfield also had a prominent showing at the Cayman Captive Forum conference and co-sponsored the Chamber of Commerce's single largest Cayman event, 'Business After Hours with Island Companies'. Butterfield also sponsored the eighteenth annual St. Patrick's Day Irish Jog, benefiting Cayman Islands' diabetes-care initiatives, and the grand finale youth concert at the Cayman Arts Festival. Butterfield Cayman continues to be a major contributor to organisations such as Cayman Hospice Care, the Cayman Heart Fund, the Cancer Society, the Cayman Islands Red Cross, Cayman Islands Little League and Junior Squash, as well as educational institutions throughout the Cayman Islands.

(in $ thousands)	2010	2009	$ change
Net interest income	*28,571*	*34,362*	*(5,791)*
Provision for credit losses	*(3,808)*	*(7,787)*	*3,979*
Non-interest income	*35,180*	*34,809*	*371*
Revenue before gains and losses	*59,943*	*61,384*	*(1,441)*
Total expenses	*52,936*	*50,298*	*(2,638)*
Net income before gains and losses	*7,007*	*11,086*	*(4,079)*
Net gains and (losses)	*(11,600)*	*261*	*(11,861)*
Central allocations	*-*	*(1,845)*	*(1,845)*
Net (loss) / income	*(4,593)*	*9,502*	*(14,095)*
As at 31 December			
(in $ millions)			
Customer deposits	*1,781*	*2,335*	*(554)*
Loans, net of allowance for credit losses	*608*	*554*	*54*
Total assets	*2,037*	*2,608*	*(571)*
Assets under administration			
Custody and other administration services	*1,187*	*1,221*	*(34)*
Trust	*3,401*	*3,802*	*(401)*
Total assets under administration	*4,588*	*5,023*	*(435)*
Assets under management			
Butterfield Funds	*270*	*415*	*(145)*
Other assets under management	*837*	*794*	*43*
Total assets under management	*1,107*	*1,209*	*(102)*
Number of employees	***326***	***326***	***-***

Note: Number of employees includes 28 temporary staff assigned to a major technology project.

EUROPE

GUERNSEY

In Guernsey, Butterfield offers private banking, lending, asset management, custody, administered banking and fiduciary services.

Non-interest income increased by $1.1 million from $21.9 million in 2009 to $23.0 million in 2010, primarily from trust revenues. Total expenses decreased by $1.7 million to $27.6 million for the year ended 31 December 2010, primarily as a result of the successful settlement of a trust case in the first quarter. Total assets at 31 December 2010 were $1.6 billion (£0.9 billion), up from $1.5 billion (£1.0 billion) at 31 December 2009, due to customer deposit growth of $105 million offset by year-on-year exchange translation variances. Client assets under administration were $16.4 billion at 31 December 2010, down from $18.8 billion a year earlier. In Sterling terms, client assets under administration were £10.5 billion as at 31 December 2010, down from £11.6 billion at 31 December 2009, reflecting declines in net asset values.

As a non-retail financial services provider, Butterfield was able to enhance its visibility in the community through sponsorships of the Guernsey Sailing Trust, the Guernsey Volleyball Junior Development Programme, the Guernsey Squash Rackets Association's first ever Racquetball Tournament and the Guernsey Annual Squash Open. Butterfield was also the primary sponsor of the West End musical, "Buddy" in Guernsey.

To continue to build upon the Group's reputation for excellence in the field of fiduciary services, the Guernsey office led Butterfield's sponsorship of the Society of Trust and Estate Practitioners' Asia conference in Hong Kong. Guernsey's Custody team was also a secondary sponsor at the 2010 Guernsey Funds Forum in London.

(in $ thousands)	2010	2009	$ change
Net interest income	*12,384*	*11,782*	*602*
Non-interest income	*23,003*	*21,904*	*1,099*
Revenue before gains and losses	*35,387*	*33,686*	*1,701*
Total expenses	*27,625*	*29,341*	*1,716*
Net income before gains and losses	*7,762*	*4,345*	*3,417*
Net gains and (losses)	*(1,433)*	*(298)*	*(1,135)*
Central allocations	*-*	*(590)*	*(590)*
Net income	*6,329*	*3,457*	*2,872*
As at 31 December			
(in $ millions)			
Customer deposits	*1,462*	*1,357*	*105*
Loans, net of allowance for credit losses	*333*	*354*	*(21)*
Total assets	*1,618*	*1,535*	*83*
Assets under administration			
Custody and other administration services	*7,305*	*11,680*	*(4,375)*
Trust	*9,144*	*7,136*	*2,008*
Total assets under administration	*16,449*	*18,816*	*(2,367)*
Assets under management			
Butterfield Funds	*180*	*151*	*29*
Other assets under management	*512*	*514*	*(2)*
Total assets under management	*692*	*665*	*27*
Number of employees	***166***	***185***	***(19)***

SWITZERLAND

Butterfield Trust (Switzerland) Limited, which specialises in structuring private wealth solutions for international clientele, continued its business development programme during 2010 to enhance its visibility and reputation among high net worth individuals and their professional advisers. As an indication of the level of interest it is generating and the increased respect with which the company is regarded, it was accepted in July 2010 as a full member of the Swiss Association of Trust Companies, an organisation that works in conjunction with the Swiss Federal authorities and the Society of Trust and Estate Practitioners to strengthen the standing of the trust industry in Switzerland.

Switzerland recorded a net loss of $1.7 million in 2010, compared to a net loss of $3.0 million the year before. This improvement was primarily due to a decrease in the expense base resulting from the closure of the asset management business in 2009, but also to a marked increase in new business. This continued momentum led to non-interest income rising by 59.8% year on year.

(in $ thousands)	2010	2009	$ change
Net interest income	*2*	*4*	*(2)*
Non-interest income	*489*	*306*	*183*
Revenue before gains and losses	*491*	*310*	*181*
Total expenses	*2,159*	*3,075*	*(916)*
Net income before gains and losses	*(1,668)*	*(2,765)*	*1,097*
Gains and losses	*-*	*(235)*	*235*
Net loss	*(1,668)*	*(3,000)*	*1,332*
As at 31 December			
(in $ millions)			
Total assets	*1*	*1*	*-*
Assets under administration – Trust	*349*	*52*	*297*
Number of employees	***5***	***6***	***(1)***

UNITED KINGDOM

In the UK, Butterfield Private Bank provides a range of exclusive banking, lending, treasury and investment management services. Its sister company, Butterfield International Private Office, provides family office services to high net worth international clients and their advisers from offices in London.

The UK's net loss of $13.8 million in 2010 was a result of the disposal of the Bank's entire portfolio of mortgage-backed floating rate notes in the first quarter of 2010 as part of Management's strategy to de-risk the Balance Sheet. This generated a realised loss, net of tax, of $7.3 million (£4.7 million). Provisions totalling $7.1 million (£4.6 million) were also raised in the year. Total revenues before gains and losses were $12.3 million (£8.0 million), down $13.1 million from $25.4 million (£16.2 million) as a result of specific loan loss provisions and the lower return the Bank achieved on its debt securities in 2010. At 31 December 2010, total assets were $1.1 billion (£0.7 billion), down $190 million due to the decrease in the value of the loan portfolio by $114.4 million (£61.3 million) to $414.5 million (£265.8 million), reflecting the strategy of de-risking the loan portfolio.

During 2010, Butterfield introduced further enhancements to its Private Banking offering, with the launch of GBP, USD and EUR debit cards to improve the service for clients, along with a Flexible Mortgage product. Butterfield International Private Office similarly broadened its offering with the introduction of a Family Office Incubator Service in 2010.

The Bank made a number of small donations to a range of charities connected with private clients during the year.

(in $ thousands)	**2010**	**2009**	**$ change**
Net interest income	*9,381*	*15,173*	*(5,792)*
Provision for credit losses	*(7,136)*	*(594)*	*(6,542)*
Non-interest income	*10,027*	*10,847*	*(820)*
Revenue before gains and losses	*12,272*	*25,426*	*(13,154)*
Total expenses	*16,088*	*19,280*	*3,192*
Net income before gains and losses	*(3,816)*	*6,146*	*(9,962)*
Gains and losses	*(9,964)*	*(9,381)*	*(583)*
Central allocations	*-*	*(345)*	*(345)*
Net loss	*(13,780)*	*(3,580)*	*(10,200)*
As at 31 December			
(in $ millions)			
Customer deposits	*939*	*1,116*	*(177)*
Loans, net of allowance for credit losses	*415*	*529*	*(114)*
Total assets	*1,105*	*1,295*	*(190)*
Assets under administration – Custody	*1,263*	*1,153*	*110*
Assets under management			
Butterfield Funds	*331*	*289*	*42*
Other assets under management	*296*	*265*	*31*
Total assets under management	*627*	*554*	*73*
Number of employees	***109***	***112***	***(3)***

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MANAGEMENT'S DISCUSSION & ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

The financial overview of results of operations and financial condition should be read in conjunction with our consolidated financial statements and the related notes. The financial statements and notes have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). All references to "Butterfield", the "Group" or the "Bank" refer to The Bank of N.T. Butterfield & Son Limited and its subsidiaries on a consolidated basis. Certain statements in this discussion and analysis may be deemed to include "forward looking statements" and are based on Management's current expectations and are subject to uncertainty and changes in circumstances. Forward looking statements are not historical facts but instead represent only Management's beliefs regarding future events, many of which by their nature are inherently uncertain and outside of Management's control. Actual results may differ materially from those included in these statements due to a variety of factors, including worldwide economic conditions, success in business retention and obtaining new business and other factors.

2010 SUMMARY

Positive Developments in 2010

Reorganised Management team delivered:

- Strong capital position through the $550.0 million capital raise, $67.6 million from restructuring of the post-retirement health care plan and $38.8 million from the recovery of unrealised losses on investments recorded in Accumulated Other Comprehensive Income
- Significantly de-risked Balance Sheet
- $48.0 million recovery of value in the remaining four structured investment vehicles ("SIVs") and realised gain on the sale of two positions. Third SIV security sold for a small gain subsequent to year end
- Deposit growth in the latter half of the year
- Growth in our Trust business to record high revenues
- Cost management focus resulting in a decline in normalised expense run rate
- Significant progress towards replacing outdated technology platforms
- 10% increase in book value per share to $1.09 since the capital raise in Q1 2010

These positive developments were offset by continued recessionary conditions leading to:

- $42.0 million provision for credit losses
- $167.5 million net loss on the sale and write-down of investments previously announced as part of the de-risking strategy

For much of 2010, the ripple effects of the credit crisis that began in 2008 continued to plague developed economies creating instability, deteriorating economic conditions and prolonged record low interest rates in most jurisdictions in which we operate. Against this backdrop, sustained negative trends continued to afflict the hospitality industry in Bermuda and the Caribbean regions, as demand for travel and vacation products diminished, driving large provisions for credit losses in a few large loans in this book of business. Loan demand continued to decline, negatively impacting our revenues from banking fees and net interest income.

For Butterfield, 2010 was a year of rebuilding. The Bank raised $550.0 million of new common equity, of which $130.0 million was offered to existing shareholders in a Rights Offering, facilitating the restructuring of the Balance Sheet. This involved write-downs on hospitality loans and the sale of many of our problem asset-backed securities in the first quarter of the year. Additionally, other organisational restructuring took place in the year involving the reorganisation of the Management team, position redundancies in some of our jurisdictions and the sale of our Hong Kong and Malta operations, resulting in further non-recurring charges.

The record-low interest rate environment continued to suppress both net interest income and fees from asset management, as we were forced to waive management fees on our money market funds due to low yields and invest excess liquidity in short-term, low-yield assets for the majority of the year. With the capital raise behind us and signs of recovery in the United States in the latter part of the year, a new investment strategy was employed, with the help of our investment advisers, in response to record-low interest rates as we began to build a laddered, high-quality government-backed bond portfolio in the third and fourth quarters to hedge against a possible continued low-rate environment and lift net interest income going into 2011.

2011 OUTLOOK

We remain cautiously optimistic about 2011, based on our strengthened Balance Sheet and signs of economic recovery in the United States. However, with the lagging effect of the global economic downturn being experienced in most of our island jurisdictions, we are carefully monitoring delinquency trends and working closely with customers who are experiencing difficulties. Cost control will be a continued focus for us as we recalibrate our cost base to the reality of the prolonged low interest rate environment and reduced transaction volumes.

Whilst remaining well capitalised with good liquidity, our strategy is focused on building shareholder value by expanding our banking business in jurisdictions in which we have a meaningful presence, whilst leveraging our multi-jurisdictional trust, custody and asset management offerings to pursue wealth management opportunities from both existing customers and growth markets. To support that strategy, we are investing heavily in new technology that will allow for new and flexible products, enhance customer service and bring new revenue opportunities and the ability to streamline processes, which we believe will give us a competitive advantage in the coming years.

Cost management will continue to be an area of focus in 2011 as we look for continued opportunities to centralise support services, whilst remaining nimble, with local management empowered to make decisions and provide customised service. We are employing an investment strategy comprised of both medium-duration, fixed rate government-backed bonds and floating rate investments that will return moderate yields in a sustained low interest rate environment, whilst positioning us to benefit when interest rates rise. This strategy will maximise returns to our shareholders and position Butterfield to capitalise on the continuing recovery of markets.

FINANCIAL SUMMARY (in $ thousands, except per share data)

Balance Sheet	**2010**	**2009**	**2008**	**2007**	**2006**
Cash and deposits with banks	2,275,546	1,986,798	2,221,390	2,517,012	3,151,191
Investments	2,809,689	2,926,901	3,824,079	4,744,989	3,786,793
Loans, net of allowance for credit losses	4,043,360	4,218,332	4,418,277	4,124,764	3,760,745
Premises, equipment and computer software	261,955	244,242	197,155	215,379	171,326
Total assets	9,623,060	9,594,602	10,911,844	11,910,920	11,132,802
Total deposits	8,228,059	8,696,619	9,801,269	10,747,971	10,042,932
Subordinated capital	282,799	283,085	282,296	284,191	280,168
Shareholders' equity					
Liquidation preference of preference shares	200,000	200,000	-	-	-
Common equity	609,288	155,460	518,440	629,330	549,553
Income Statement					
Net interest income before provision for credit losses	178,942	186,907	254,481	252,600	218,218
Provision for credit losses	(41,970)	(104,879)	(3,045)	(1,983)	(2,997)
Fee and other income (as reported)	146,211	151,705	212,941	219,682	193,654
Fee and other income (excluding fund administration services business)	146,211	151,705	177,358	170,426	147,856
Salaries and other employee benefits	159,082	156,839	183,152	184,751	162,504
Other non-interest expenses	151,199	143,351	167,335	139,217	118,465
Net income before gains and losses	(27,098)	(66,457)	113,890	146,331	127,906
Gains and losses	(180,517)	(146,956)	(109,051)	(336)	6,177
Net (loss) income	(207,615)	(213,413)	4,839	145,995	134,083
Dividends and guarantee fee of preference shares	18,000	9,450	-	-	-
Net (loss) income available to common shareholders	(225,615)	(222,863)	4,839	145,995	134,083
Common dividends paid	-	14,938	57,733	54,366	46,496
Financial ratios					
Return on assets	(2.2%)	(2.1%)	0.0%	1.2%	1.3%
Return on common shareholders' equity	(44.3%)	(47.0%)	0.8%	25.2%	24.6%
Tier 1 capital ratio	15.7%	7.2%	7.5%	8.6%	8.9%
Total capital ratio	21.6%	10.1%	11.2%	13.0%	13.5%
Tangible common equity ratio	5.8%	0.9%	4.1%	4.4%	4.1%
Net interest margin	1.97%	1.95%	2.18%	2.20%	2.18%
Efficiency ratio	211.9%	86.9%	72.8%	65.7%	64.8%
Per common share ($)					
Net income (diluted)	(0.47)	(2.34)	0.05	1.48	1.35
Cash dividends	-	0.12	0.52	0.64	0.60
Net book value	1.09	1.64	5.44	6.53	5.70
Number of employees					
Bermuda	732	761	803	843	845
Overseas	787	845	889	1,007	885
Total	1,519	1,606	1,692	1,850	1,730
Other data					
Average number of common shares on a fully diluted basis	477,225	95,065	96,683	98,732	99,265
Risk-weighted assets	4,934,569	5,734,096	6,199,963	6,345,754	5,468,668

All prior period per common share data and number of common shares, with the exception of dividends, have been restated to reflect the $0.04 stock dividend declared for March, May, August and November 2009 and the one for ten stock dividends in February 2008 and August 2006.

All prior period per share data have been restated to reflect the three for one stock split in August 2007.

CONSOLIDATED RESULTS OF OPERATIONS AND DISCUSSION FOR FISCAL YEAR ENDED 31 DECEMBER 2010

We evaluate our performance on a reported basis (i.e., as reported in our consolidated financial statements prepared in accordance with GAAP) as well as on a normalised basis. Transactions that are viewed by Management not to be in the normal course of day-to-day business and are unusual in nature are excluded from normalised earnings as they obscure or distort the analysis of trends. Certain earnings measures, such as normalised earnings, do not have standardised meanings as prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies.

NET (LOSS) INCOME

The Bank reported a net loss of $207.6 million for the year ended 31 December 2010, compared to a net loss of $213.4 million in 2009. Results in both years were adversely affected by various non-operating gains and losses. After the effect of dividends and the guarantee fee on preference shares, the net loss available to common shareholders was $225.6 million ($0.47 per share) in 2010, compared to a loss of $222.9 million ($2.34 per share) in 2009.

On a normalised basis, earnings from banking and wealth management activities were $14.8 million in 2010 (2009: $21.0 million). After deducting the $18.0 million of preferred dividends declared and related guarantee fees (2009: $9.5 million), the net normalised loss to common shareholders was $3.2 million (2009: earnings of $11.5 million) or a loss of $0.01 (2009: earnings of $0.12) per diluted common share. The net effect of normalisation adjustments recorded in gains and losses, other non-interest income, provision for credit losses and non-interest expenses totalled a net loss of $222.4 million in 2010 (2009: $234.4 million), or a loss of $0.46 per diluted share (2009: loss of $2.46). Non-recurring normalisation adjustments include losses on the sale and write-down of asset-backed securities announced last year, additional specific provisions for loan losses on troubled hospitality loans previously written down, the loss on the sale of the Bank's subsidiaries in Hong Kong and Malta and organisational restructuring charges.

The following table states normalised earnings for 2010 compared to 2009:

	Year ended 31 December	
(in $ millions)	**2010**	**2009**
Non-interest income	**142.4**	145.2
Net interest income	**178.9**	186.9
Total revenue before provision for credit losses	**321.3**	332.1
Provision for credit losses	**(10.1)**	(10.9)
Total revenue after provision for credit losses	**311.2**	321.2
Total expenses	**(294.8)**	(300.5)
Total normalised net income before taxes	**16.4**	20.7
Income tax	**(1.6)**	0.3
Net normalised income	**14.8**	21.0
Dividends and guarantee fee of preferred shares	**(18.0)**	(9.5)
Normalised (loss) / earnings attributable to common shareholders	**(3.2)**	11.5
Normalised (loss) / earnings per common share		
- Basic	**(0.01)**	0.12
- Diluted	**(0.01)**	0.12

The following table reconciles the Bank's GAAP reported loss with normalised earnings for 2010 compared to 2009:

(in $ millions)	Year ended 31 December			
	2010		2009	
	Net income	Diluted EPS	Net income	Diluted EPS
Net loss as reported	(207.6)	(0.47)	(213.4)	(2.34)
Non-core items:				
Net other gains & losses (1)	172.9	0.36	138.7	1.45
Investments in affiliates	1.5	-	1.7	0.02
Specific provision for credit losses (2)	31.8	0.06	94.0	0.99
Legal fees pertaining to liquidity facility	7.4	0.02	-	-
Non-recurring organisational change costs (3)	12.4	0.03	-	-
Non-recurring taxation credit	(3.6)	(0.01)	-	-
Net normalised income	14.8	(0.01)	21.0	0.12

Transactions that are viewed by Management not to be in the normal course of day-to-day business and are unusual in nature are excluded from normalised earnings as they obscure or distort the analysis of trends.

(1) Net other gains & losses, include:

- Net realised losses of $107.0 million, of which $113.8 million relates to realised losses on the sale of asset-backed securities held in the available for sale portfolio, partially offset by realised gains of $1.9 million on the disposal of fixed income securities and realised gains of $4.7 million on the disposal of SIVs during 2010
- Other-than-temporary impairments of $60.5 million on the Bank's holdings of SIVs
- Realised loss on the sale of the Bank's subsidiaries in Hong Kong and Malta of $7.4 million
- Write-down of $3.8 million of previously capitalised software development no longer in use

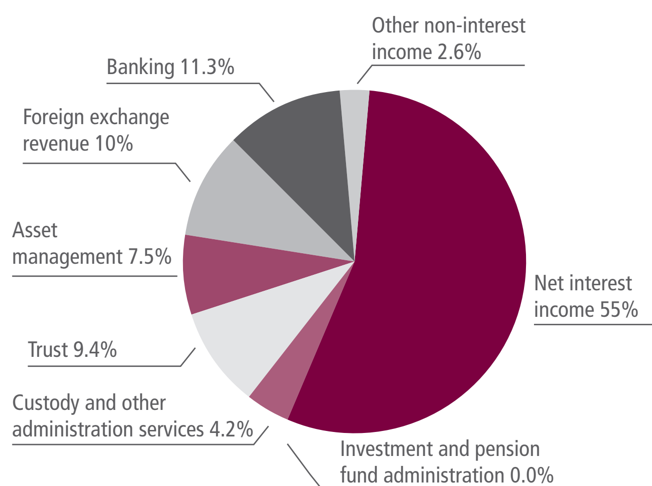
(2) Specific provisions for credit losses of $31.8 million primarily related to commercial mortgage facilities in the hospitality industry in Bermuda and The Bahamas, as well as private banking exposures in the UK.

(3) The organisational change costs are non-recurring expenses incurred, which comprise acceleration of vesting on stock options on change in control, restructuring fees relating to changes to Executive Management and rationalisation of headcount in various jurisdictions.

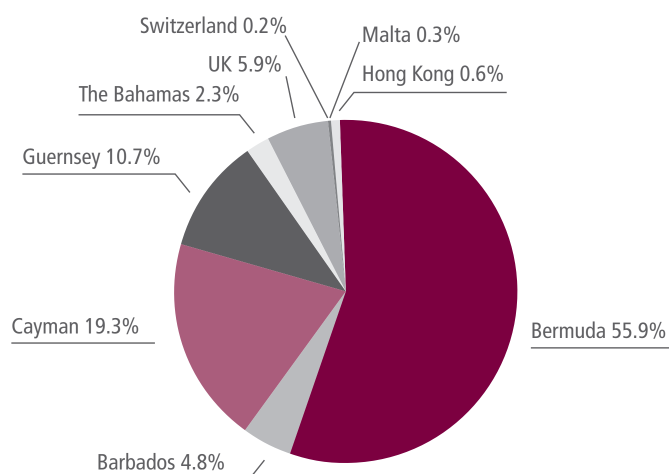
REVENUE

Total revenue before provisions for credit losses and gains and losses for 2010 was $325.2 million, down $13.4 million (4.0%) from $338.6 million in 2009. Total non-interest income was down $5.5 million from $151.7 million in 2009 to $146.2 million in 2010; the decrease was primarily attributable to declining asset management fees as a result of reduced assets under management and declining fees in addition to lower foreign exchange revenues from decreased customer driven volumes. Net interest income before provisions for credit losses was down $8.0 million (4.3%) from $186.9 million in 2009 to $178.9 million in 2010 on reduced average interest earnings assets and margin. Our margin remains compressed from historical levels due to the sustained low interest rate environment given our relatively low loan-to-total-asset ratio of 42.0% and conservatively short investment portfolio. The Fed fund rate averaged just 0.18% in 2010, marginally higher than the 0.16% seen in 2009 and ended the year at 0.13%.

DISTRIBUTION OF 2010 TOTAL REVENUE, BEFORE GAINS AND LOSSES AND CREDIT PROVISIONS



DISTRIBUTION OF 2010 TOTAL REVENUE BY LOCATION BEFORE GAINS AND LOSSES AND CREDIT PROVISIONS



NON-INTEREST INCOME

Non-interest income is a function of a number of factors including the composition and value of client assets under management and administration, the volume and nature of clients' transaction activities, and the types of products and services our clients use. Our fee structure provides for varied pricing that depends on the value of client assets and the nature of services provided. As a result it is not always possible to draw a direct relationship between the value of client assets and the level of non-interest income, although the trend of non-interest income generally follows the trend in client asset levels.

Total non-interest income was down $5.5 million from $151.7 million in 2009 to $146.2 million in 2010 and represents 45% of total revenues before provisions for credit losses and gains and losses for 2010, compared to 44.8% in 2009.

The following table presents the components of non-interest income for the years ended 31 December 2010 and 2009:

(in $ thousands)	2010	2009	$ change	% change
Asset management	24,544	27,211	(2,667)	(9.8%)
Banking	36,732	37,094	(362)	(1.0%)
Foreign exchange revenue	32,479	34,044	(1,565)	(4.6%)
Trust	30,534	29,894	640	2.1%
Custody and other administration services	13,574	13,840	(266)	(1.9%)
Other non-interest income	8,348	9,622	(1,274)	(13.2%)
Total non-interest income	**146,211**	**151,705**	**(5,494)**	**(3.6%)**

ASSET MANAGEMENT

Asset management revenues are generally based on the market value of assets managed and the volume of transactions and fees for other services rendered. We provide asset management services from our offices in Bermuda, the Cayman Islands, Guernsey and the United Kingdom. Revenues from asset management were $24.5 million in 2010, down $2.7 million from $27.2 million in 2009; the decrease is primarily due to decreased client assets under management of $0.4 billion, generally due to redemptions from the Butterfield Money Market Fund and reduced management fees due to low yields. The sustained low interest rate environment and rising equity markets seen in 2010, led investors to seek higher returns in alternative asset classes. This was partially offset by an increase of 5.7% in our discretionary assets under management.

The table that follows shows the changes in the year-end values of clients' assets under management, sub-divided between those managed for clients on a discretionary basis and those client funds invested in mutual funds that we manage:

(in $ billions)	2010	2009	$ change	% change
Butterfield Funds	3.68	4.20	(0.52)	(12.4%)
Discretionary	2.40	2.27	0.13	5.7%
Total assets under management	**6.08**	**6.47**	**(0.39)**	**(6.0%)**

BANKING

During 2010, Butterfield provided a full range of community, commercial and private banking services in select jurisdictions. Retail and community banking services are offered to individuals and small to medium sized businesses through branch locations, telephone banking, Internet banking, automated teller machines and debit cards in Bermuda, the Cayman Islands and Barbados, whilst private banking services are offered in The Bahamas, Bermuda, the Cayman Islands, Guernsey and the United Kingdom. Banking fee revenues reflect loans, transaction and processing, and other fees earned in these respective jurisdictions. Despite downward pressures on transaction and volume levels, in line with general economic activity, banking fees only fell by 1.1% in 2010 at $36.7 million, compared to $37.1 million in 2009, primarily as a result of reduced loan volumes offset by increases in fees charged for banking services.

FOREIGN EXCHANGE

We provide foreign exchange services in the normal course of business as an integral part of our business lines which we offer in all jurisdictions. The major contributors to foreign exchange revenues are Bermuda and the Cayman Islands, accounting for 76% of the Group's foreign exchange revenue (2009: 74%). Foreign exchange income totalling $32.5 million in 2010 was generated from client-driven transactions, compared with $34.0 million in 2009; the Bank does not have a proprietary trading book. The $1.5 million decrease in 2010 compared to 2009 reflects declining client volumes from 2009 levels. Institutional volumes, primarily from hedge fund clients, hit a low in the first half of the year but increased in the latter half of the year from lows not seen in a decade. Our hedge fund clients are beginning to see a return of client risk appetite and rising subscriptions, which should help fuel foreign exchange transactions and fees. To a lesser extent, the volumes of retail transactions generated from the tourism industry was strained in Bermuda and the Cayman Islands where a decrease in hotel and restaurant volumes impacted local merchants.

TRUST

We provide both personal and institutional trust services from our operations in Bermuda, The Bahamas, the Cayman Islands, Guernsey, the United Kingdom and Switzerland. Trust revenues are derived from a combination of fixed fees, fees based on the market values of assets held in trust and fees based on time spent in relation to the range of personal trust and company administration services and pension and employee benefit trust services we provide. In 2010, trust revenues rose to a record level of $30.5 million, up from $29.9 million in 2009, whilst assets under administration increased by $4.7 billion (14.4%) to $37.4 billion. Trust revenues represented 20.9% of total non-interest income in 2010, up from 19.7% in 2009.
In our Guernsey operation, trust revenues increased by 16.1% year on year to a record level, with assets under administration registering growth of 33% to $5.9 billion, whilst in Switzerland, momentum was achieved with revenues up 93.6% year on year and assets under administration ending the year at $349 million, up from $52 million the year before. Significant new systems implementations were undertaken in our Bermuda and Cayman trust businesses to provide robust support for business growth in the future. In December, restructuring of our Bahamas operations was announced, focusing our activities predominantly on trust business. In September 2010, the Bank concluded the sale of its trust operations located in Malta, which did not contribute significantly to this line of business.

CUSTODY AND OTHER ADMINISTRATION SERVICES

Custody fees are generally based on market values of assets in custody, the volume of transactions and flat fees for other services rendered.
We provide custody services from our offices in Bermuda, the Cayman Islands, Guernsey and the United Kingdom and other administration services, primarily administered banking in Guernsey. In 2010, revenues were $13.6 million compared to $13.8 million in 2009, down 1.4% principally due to declining assets under administration from administered banking in Guernsey.

The table that follows shows the changes in the year-end values of assets under administration in respect of trust, custody and other administration services, which include the administered banking services operations provided by our Guernsey business.

(in $ billions)	2010	2009	$ change	% change
Custody and other administrative services	32.5	36.1	(3.6)	(10.0%)
Trust	37.4	32.6	4.8	14.7%
Total assets under administration	**69.9**	**68.7**	**1.2**	**1.7%**

OTHER NON-INTEREST INCOME

The components of other non-interest income are set forth in the following table:

	Year ended 31 December	
(in $ thousands)	**2010**	**2009**
Decrease in carrying value of investments in affiliates	(1,587)	(1,688)
Rental income	2,779	2,268
Fees earned on credit support agreement	-	4,168
Transitional service agreement with BFG	-	3,371
Write-back of unclaimed balances and dividends	5,785	-
Other	1,371	1,503
Total non-interest income	**8,348**	**9,622**

The $1.6 million decrease in the carrying value of investments in affiliates in 2010 and $1.7 million decrease in 2009 reflect our 40% equity interest in the Butterfield Fulcrum Group, for which we recorded equity pickup losses of $2.9 million in 2010 and $3.8 million in 2009. As a result, the carrying value of our investment declined to $1.3 million as at 31 December 2010. These losses were offset by a net increase of $1.3 million in 2010 (2009: $2.1 million) in the carrying value of our other investments in affiliates, principally in Bermuda and the Cayman Islands. Rental income of $2.8 million in 2010, and $2.3 million in 2009, were received on various premises the Bank owns in Bermuda that are leased to tenants. Included in the "Other" category of $1.4 million in 2010 are maintenance fees for premises and Director fee income.

NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES

Net interest income is the amount of interest earned on our interest earning assets less interest paid on our interest bearing liabilities.
There are several drivers of the change in net interest income including changes in the volume and mix of interest earning assets and interest bearing liabilities, their relative sensitivity to interest rate movements and the proportion of non-interest bearing sources of funds such as equity and non-interest bearing current accounts.

The following table presents the components of net interest income for the years ended 31 December 2010 and 2009:

	2010			2009		
(in $ millions)	Average Balance	Interest	Average rate	Average balance	Interest	Average rate
Assets						
Cash and deposits with banks	2,385.3	11.0	0.46%	2,163.5	12.7	0.59%
Investments	2,595.6	28.3	1.09%	3,090.2	46.2	1.50%
Loans	4,119.6	198.1	4.81%	4,340.0	211.7	4.88%
Interest earning assets	**9,100.5**	**237.4**	**2.61%**	**9,593.7**	**270.6**	**2.82%**
Other assets	467.8	-	-	449.1	-	-
Total assets	**9,568.3**	**237.4**	**2.48%**	**10,042.8**	**270.6**	**2.77%**
Liabilities						
Deposits	7,285.3	(46.0)	(0.63%)	7,820.1	(68.5)	(0.88%)
Securities sold under repurchase agreements	-	-	-	33.6	(0.3)	(0.77%)
Subordinated debt	282.7	(12.5)	(4.41%)	282.8	(14.9)	(5.28%)
Interest bearing liabilities	**7,568.0**	**(58.5)**	**(0.77%)**	**8,136.5**	**(83.7)**	**(1.03%)**
Non-interest bearing current accounts	1,057.2	-	-	1,037.6	-	-
Other liabilities	234	-	-	290.6	-	-
Total liabilities	**8,859.2**	**(58.5)**	**(0.66%)**	**9,464.7**	**(83.7)**	**(0.88%)**
Shareholders' equity	**709.1**	**-**	**-**	**578.1**	**-**	**-**
Total liabilities and shareholders' equity	**9,568.3**			**10,042.8**		
Spread			1.84%			1.79%
Net interest margin		178.9	1.97%		186.9	1.95%
Free balances	1,532.5			1,457.2		

Net interest income before provisions for credit losses declined by 4.3% to $178.9 million in 2010 compared to $186.9 million in 2009, of which 63.3% (2009: 59.0%) was generated in Bermuda and 16.0% (2009: 18.4%) in the Cayman Islands. The decrease reflects the decline in average interest earning assets to $9.1 billion in 2010 from $9.6 billion in 2009 as a result of the decrease in average deposits of $534.8 million, primarily from our Cayman operations, which held unusually high balances from hedge fund clients in 2009 as they built up cash balances in response to record redemptions. The average net interest margin increased by 2 basis points to 1.97% in 2010 from 1.95% in 2009, reflecting the sustained low interest rate environment throughout much of 2010, which constrained our net interest margin on lower deposit volumes. The reduction in average interest earning assets accounts for $9.6 million of the decrease, whilst the 2 basis point increase in the net interest margin offset the negative volume variance by $1.6 million. Our margin has been steadily increasing in the third and fourth quarters as we have re-invested more of our excess liquidity in high quality government-backed bonds, which improved margins and positioned us well for 2011. Free balances of $1,532.5 million in 2010 (2009: $1,457.2 million) include non-interest bearing current accounts of $1,057.2 million (2009: $1,037.6 million) and shareholders' equity of $709.1 million (2009: $578.1 million) net of other assets and other liabilities. See the Risk Management section for more information on how interest rate risk is managed.

PROVISION FOR CREDIT LOSSES

Non-accrual loans totalled $159.5 million at 31 December 2010, down $73.9 million from $233.4 million at 31 December 2009 and represented 3.9% of the total loan portfolio at 31 December 2010, compared to 5.4% in 2009. The Bank deemed that $94.2 million of tourism-related exposures were no longer recoverable during the year and consequently charged these amounts off against existing reserves.

For many of the jurisdictions in which the Bank operates, tourism and the related hospitality industries are key drivers to the success of the associated economies. There is a heavy reliance on the direct and indirect economic inflows from the related airline, cruise ships and taxi services as well as hotels, resorts, restaurants and retail sales. 2010 saw continued declines in tourism-related economic activity, putting increased doubt on the recoverability of our troubled hospitality exposures. As a result, the Bank made net provisions for credit losses in 2010 of $42.0 million, compared to $104.9 million in 2009, of which $36.1 million and $72.5 million, respectively, were in respect of hospitality exposures. The Bank anticipates the difficulties in the hospitality sector to continue for the foreseeable future and has provided sufficient amounts in anticipation of a difficult market. The incremental provisions were required principally for the specific reserves pertaining to the hospitality industry, as well as enhancements to the general provision, primarily in Bermuda, following increased delinquencies in 2010. These provisions were partially offset by a provision release of $12.4 million on a private banking loan.

Charge-offs were $107.9 million in 2010 compared to $4.8 million in 2009, whilst recoveries totalled $2.5 million in 2010 compared to $1.8 million in 2009. Total allowance for credit losses was $66.8 million at 31 December 2010, down from $130.3 million at 31 December 2009. Of the total allowance, the general allowance was $36.5 million (2009: $31.7 million) and the specific allowance was $30.3 million (2009: $98.6 million) and represents a total coverage ratio of 19.0% of non-accrual loans at 31 December 2010, compared to 42.2% at 31 December 2009.

GAINS AND LOSSES

The following table represents the components of gains and losses for the years ended 31 December 2010 and 2009:

(in $ thousands)	2010	2009
Net realised / unrealised gains on trading securities	971	983
Net realised (losses) gains on available for sale securities	(107,047)	236
Other-than-temporary impairment losses on held to maturity and available for sale investments	(60,522)	(132,095)
Net realised gain on held to maturity investments	-	2,298
Goodwill and intangible assets impairment	-	(13,266)
Loss on sale of subsidiaries	(7,430)	-
Write-off of computer software in development	(3,831)	-
Net other losses	(2,658)	(5,112)
Total gains and losses	**(180,517)**	**(146,956)**

Gains and losses totalled a net loss of $180.5 million in 2010, compared to a net loss of $147.0 million in 2009. The primary components of gains and losses are as follows:

NET REALISED/UNREALISED GAINS ON TRADING SECURITIES

A $1.0 million gain was recorded with respect to trading securities in each of the years 2010 and 2009, which was principally from our investment of $9.8 million of 'seed money' in shares of the Butterfield Canadian Systematic Equity Fund, the Butterfield Select Investment Fund and the Butterfield Select Alternative Fund. During the year, we redeemed $1.9 million of our seed money as it is no longer required.

NET REALISED/UNREALISED (LOSSES) GAINS ON AVAILABLE FOR SALE SECURITIES

Net realised losses totalled $107.0 million, of which $113.8 million was in relation to the sale of $820.1 million of asset-backed securities in March 2010 as part of the Balance Sheet restructuring and de-risking strategy announced last year, offset by realised gains of $1.9 million on the sale of a restructured corporate bond previously written down, and $4.7 million gain on the sale of two SIV investments.

OTHER-THAN-TEMPORARY IMPAIRMENT LOSSES ON HELD TO MATURITY AND AVAILABLE FOR SALE INVESTMENTS

As part of the Balance Sheet restructuring strategy, other-than-temporary impairment ("OTTI") losses of $60.5 million were recognised on four SIV securities in the first quarter, as the Bank did not sell these positions as part of the restructuring as Management believed the market values of the SIVs at the time reflected unreasonably high liquidity discounts and very low bids given the complexity of these securities. The write-down brought the carrying value of the four SIVs to $135.9 million as at 31 March 2010, with a mark-to-market loss of $53.9 million included in Accumulated Other Comprehensive Income ("AOCI"), which represented the estimated liquidity discount based on our impairment testing methodology. Subsequently, the markets for these securities have substantially recovered, with the AOCI loss improving to $5.1 million as at 31 December 2010 representing a net gain to shareholder's equity of $48.8 million. The Bank realised gains of $4.7 million on the disposal of two SIV securities which were included in "Net realised/unrealised (losses) gains on available for sale securities." Subsequent to year end, a third SIV was sold, resulting in a gain of $0.1 million. As a result, the single remaining SIV, on a pro-forma basis, had a carrying value of $33.3 million including a $2.6 million unrealised loss recorded in AOCI.

LOSS ON SALE OF SUBSIDIARIES

Consistent with Management's strategy of focusing resources in jurisdictions where we have a meaningful market presence and a depth of local market knowledge, in September 2010, the Bank sold its trust, wealth management and advisory businesses in Hong Kong and its trust operation in Malta with a resultant net loss of $7.4 million. There were no sales of subsidiaries in 2009.

WRITE-OFF OF COMPUTER SOFTWARE IN DEVELOPMENT

In anticipation of our conversion to our new technology platforms in 2010 and 2011, a full review of our existing technology assets was performed in 2010. As a result, a write-off of $3.8 million was recorded in respect of previously capitalised costs for software development that is no longer being utilised under our new technology platforms.

NET REALISED GAIN ON HELD TO MATURITY INVESTMENTS

The Bank no longer uses held to maturity ("HTM") accounting, effective 2 March 2010, the date on which $805 million of then HTM classified asset-backed securities were sold, with the remaining HTM portfolio reclassed as available for sale.

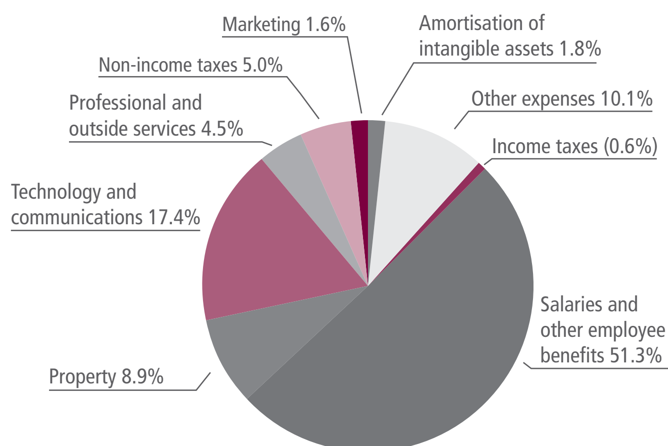
NET OTHER LOSSES

Net other losses of $2.7 million were recorded in 2010, which mainly include: a $1.5 million loss on the write-down of an amount receivable from the Bank's charitable foundation; realised losses of $1.4 million on the Bank's equity holdings in two credit cards companies, which were sold during the year; losses of $0.7 million on the write-down of a private equity investment and an investment in affiliate to reflect lower expectation of proceeds on eventual sales; and a $1.2 million gain on interest rate swaps designated as trading instruments, as they do not qualify for hedge accounting but are used as part of the Bank's overall asset and liability management strategy. This compares to the $5.1 million loss recorded in 2009, which mainly consisted of a $9.0 million write-down of a receivable due from the Bank's charitable foundation and an additional write-off of a previously capitalised investment in technology costs of $5.2 million, offset by unrealised mark-to-market gains of $6.5 million from our equity holdings in two credit card companies and a $3.3 million gain stemming from a credit support agreement provided by the Bank to the Butterfield Money Market Fund.

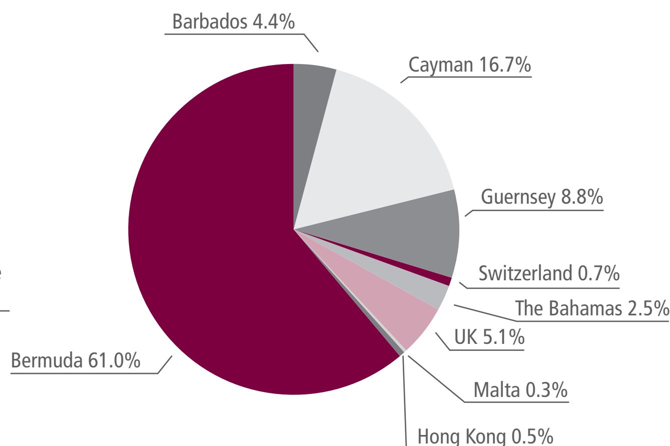
NON-INTEREST EXPENSES

Cost control continued to be a key focus of the Bank in 2010 as economic conditions and the sustained low interest rate environment challenged the banking business model. Although reported operating expenses in 2010 increased by $11.8 million (3.9%) to $312.3 million when compared to $300.5 million in 2009, on a normalised basis (as detailed below), the 2010 operating expenses decreased by $5.8 million to $294.8 million despite investment in technology and asset and liability management.

DISTRIBUTION OF 2010 TOTAL EXPENSE



DISTRIBUTION OF 2010 TOTAL EXPENSE BY LOCATION



Note: Bermuda includes all head office overhead costs.

The following table presents the components of total expenses for the years ended 31 December 2010 and 2009:

(in $ thousands)	2010 Reported	2010 Normalised	2009*	$ change Normalised	% change Normalised
Salaries and other employee benefits	159,082	147,113	156,839	9,726	6.2%
Technology and communications	54,037	54,037	50,094	(3,943)	(7.9%)
Property	27,469	28,169	28,833	664	2.3%
Professional and outside services	13,811	15,411	17,490	2,079	11.9%
Non-income taxes	15,405	15,405	13,197	(2,208)	(16.7%)
Amortisation of intangible assets	5,711	5,711	6,258	547	8.7%
Marketing	5,002	5,002	5,911	909	15.4%
Other non-interest expenses	31,739	23,907	21,898	(2,009)	(9.2%)
Total non-interest expenses	**312,256**	**294,755**	**300,520**	**5,765**	**1.9%**
Income tax benefit	(1,975)	1,690	(330)	(2,020)	612.1%
Total expenses	**310,281**	**296,445**	**300,190**	**3,745**	**1.3%**

* There were no significant non-recurring non-interest expenses recognised in 2009.

SALARIES AND OTHER EMPLOYEE BENEFITS

Salaries and other employee benefits expense in 2010 includes a charge of $6.6 million in connection with retention and termination payments and other staff-related benefits. These costs were incurred as part of the implementation of non-recurring organisational changes, including changes to Executive Management. Also included in salaries and other employee benefits expense in 2010 is a charge of $5.8 million related to share-based compensation expenses that occurred as all stock options and deferred incentive shares immediately vested on the equity investment in March

2010. On a normalised basis, salaries and other employee benefits, which are the largest component of non-interest expenses at 50.0% in 2010, were $147.1 million for 2010, representing a decline of $9.7 million (6.2%) compared to the $156.8 million recorded in 2009. A $7.7 million reduction in post-retirement health care expenses was recorded in the second half of the year following an independent tri-annual actuarial review of the assumptions and changes to the eligibility, benefits and cost sharing criteria, which combined resulted in a $67.6 million reduction in the obligation for post-retirement benefits. The remaining decline is a result of a decrease in headcount from 1,606 last year to 1,519 as at 31 December 2010 from the combination of a general headcount freeze, attrition and restructuring in certain locations. This was offset by a $1.2 million increase in performance-related compensation which was not awarded in 2009 and a 1.5% cost of living increase from 2009 salary levels.

TECHNOLOGY AND COMMUNICATIONS

Technology and communication costs were $54.0 million in 2010, up $3.9 million on the $50.1 million recorded in 2009, the increase primarily driven by contractual costs associated with the Bank's outsourcing agreement with HP. During the two-and-a-half-year transitional phase of our outsourcing arrangement, which began in January 2009, duplicate costs have been incurred as a result of running legacy systems and transitioning to new systems and services, including duplicate software maintenance costs. In addition, we are incurring certain costs of developing new software that are not capitalised. We expect that these costs will taper off as we start to attain improvements in operating efficiency and retire legacy systems. However, the savings will be offset by the amortisation expense of capitalised software development costs, totalling $79.6 million as at 31 December 2010, once the systems are in use.

PROPERTY

Property costs, which reflect occupancy expenses, building maintenance, and depreciation of property, plant and equipment, decreased by $1.4 million to $27.5 million in 2010 versus the $28.9 million recorded in 2009. Energy efficiency efforts and rationalisation of premises was the main driver of the decrease.

PROFESSIONAL AND OUTSIDE SERVICES

Professional and outside services primarily include consulting, legal, audit and other professional services. In 2010, the expense was $13.8 million, down $3.7 million compared to $17.5 million incurred in 2009, as tighter controls on consultancy agreements were implemented.

NON-INCOME TAXES

These taxes reflect non-income related taxes levied on us in the various jurisdictions in which we operate, including those associated with employee-related costs such as payroll tax, customs duties and business licenses. In 2010, we incurred costs of $15.4 million compared to $13.2 million in 2009, primarily from the increased payroll tax rate in Bermuda increasing from 14% to 16% in 2010.

AMORTISATION OF INTANGIBLE ASSETS

Intangible assets relate to client relationships acquired from business acquisitions and are amortised on a straight-line basis over their estimated useful lives, not exceeding 15 years. Acquired intangible assets estimated lives are re-evaluated annually and tested for impairment. The amortisation expense associated with intangible assets was $5.7 million in 2010, compared to $6.3 million in 2009, the decrease principally reflecting the sale of the Bank's subsidiaries in Hong Kong and Malta.

MARKETING

Marketing costs reflect costs incurred in advertising and promoting our products and services. They totalled $5.0 million in 2010, down $0.9 million from 2009 due to Management's focused effort to reduce operating expenses.

OTHER NON-INTEREST EXPENSES

(in $ thousands)	2010	2009	$ change	% change
Custodian & handling	1,810	1,967	157	8.0%
Charitable donations	1,240	1,418	178	12.6%
Insurance	3,241	2,895	(346)	(12.0%)
Stationery & supplies	2,209	2,282	73	3.2%
Other expenses				
Maintenance fees for liquidity facility	1,765	-	(1,765)	-
Investment advisory services	1,004	-	(1,004)	-
Cheque processing	1,662	1,682	20	1.2%
Credit card processing	2,791	2,721	(70)	(2.6%)
Dues and subscriptions	676	1,441	765	53.1%
Registrar and transfer agent fee	931	1,104	173	15.7%
Agent commission fees	848	930	82	8.8%
Foreign bank charges	755	861	106	12.3%
Directors fees	747	487	(260)	(53.4%)
Internal audit	290	435	145	33.3%
ATM fees	506	501	(5)	(1.0%)
General expenses	1,396	1,423	27	1.9%
Other	2,036	1,751	(285)	(16.2%)
Total normalised non-interest expenses	**23,907**	**21,898**	**(2,009)**	**(9.2%)**
Commitment and legal fees to establish a liquidity facility with CIBC	7,480	-	(7,480)	-
Other non-recurring organisational costs	352	-	(352)	-
Total non-interest expenses	**31,739**	**21,898**	**(9,841)**	**(44.9%)**

Other expenses increased by $9.8 million, principally driven by $7.5 million of fees incurred for establishing a $300 million liquidity facility with CIBC, and monthly maintenance fees totalling $1.8 million during the year, as well as the added quarterly cost of $1 million in respect of our investment advisory agreement with Carlyle Investment Management LLC ("Carlyle"), an affiliated company of The Carlye Group, which began October 2010. Group insurance costs increased on rising group premiums, whilst Directors' fees increased as the Bank has improved its corporate governance with additional Board meetings throughout the year.

INCOME TAXES

In 2010, income tax expenses in our businesses in taxable jurisdictions, namely Barbados, Hong Kong, Guernsey, Malta, Switzerland and the United Kingdom, was a benefit of $2.0 million compared to a benefit of $0.3 million in 2009. The tax credit reflects a significant investment loss incurred in our UK operations in 2010 resulting in a tax benefit of $3.3 million and the $0.1 million tax refund receivable with respect to the sale of our Malta operations. This was offset by income tax expenses of $0.6 million (2009: $0.1 million) in Guernsey, and $0.8 million (2009: $0.2 million) in Barbados.

CONSOLIDATED BALANCE SHEET AND DISCUSSION

The following table shows the Balance Sheet as reported as at 31 December 2010 and 31 December 2009:

(in $ millions)	2010	2009
Assets		
Cash and deposits with banks	2,275.5	1,986.8
Investments	2,809.7	2,926.9
Loans, net of allowance for credit losses	4,043.4	4,218.3
Premises, equipment and computer software	262.0	244.2
Other assets	232.5	218.4
Total assets	9,623.1	9,594.6
Liabilities		
Total deposits	8,228.1	8,696.6
Total other liabilities	302.9	259.4
Subordinated capital	282.8	283.1
Total liabilities	8,813.8	9,239.1
Preferred equity*	200.0	200.0
Common equity	609.3	155.5
Total shareholders' equity	809.3	355.5
Total liabilities and shareholders' equity	9,623.1	9,594.6
Capital Ratios		
Risk weighted assets	4,934.5	5,734.1
Tangible common equity (TCE)	554.3	88.6
Tangible assets (TA)	9,568.1	9,527.7
TCE/TA	5.8%	0.9%
Tier 1 common ratio	11.2%	1.5%
Tier 1 ratio	15.7%	7.2%
Total capital ratio	21.6%	10.1%

*shown at liquidation preference

Total assets of the Bank stood at $9.6 billion, unchanged from year end 2009. The Bank maintains a highly liquid balance sheet. At 31 December 2010, cash and deposits with banks and investments represented $5.1 billion or 52.8% of total assets, up from 51.2% at year-end 2009.
At 31 December 2010, Butterfield had a tangible common equity ratio of 5.8%, total capital ratio of 21.6% and Tier 1 capital ratio of 15.7%.

CASH AND DEPOSITS WITH BANKS

The Bank only places deposits with highly rated institutions and ensures there is appropriate geographic diversification in its exposures. Limits are set for aggregate geographic exposures and for each institution monitored and reviewed by our Credit Risk Management division approved by the Financial Institutions Committee and are monitored for compliance with policy. As at 31 December 2010, cash and deposits with banks was $2.3 billion, compared to $2.0 billion as at 31 December 2009.

INVESTMENTS

Total investments were $2.8 billion as at 31 December 2010, down $0.1 billion from the prior year-end balance.

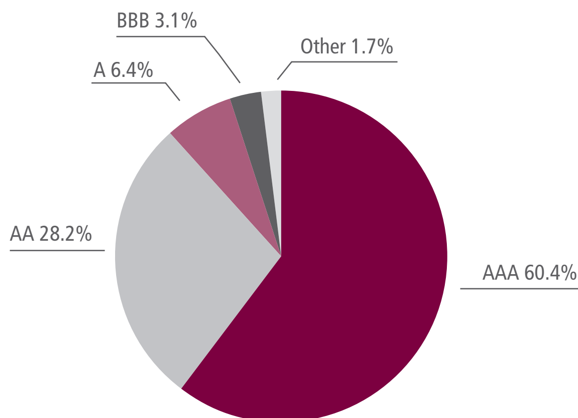
As part of the strategic restructuring and de-risking of the Bank's Balance Sheet, $820.1 million of asset-backed securities were sold in March 2010, which, combined with further other-than-temporary impairment charges, contributed to overall recorded losses on asset-backed securities of $174.3 million in 2010. Subsequently, in the fourth quarter, the Bank sold two of its four SIV positions for a realised gain of $4.7 million. The Bank has now largely diminished the Balance Sheet exposure to potentially problematic investment securities, allowing us to focus our resources on returning our businesses to a state of healthy growth. As at the end of 2010, the only remaining asset-backed securities with exposure to non-government secured asset-backed securities are the two remaining SIVs, which are described in more detail below.

Effective 1 October 2010, the Bank entered into an investment advisory agreement with Carlyle. Under the agreement, Carlyle has agreed to provide, for renumeration of $12 million over three years, Balance Sheet management advisory services to the Bank including, but not limited to, development of investment strategies for consideration by the Bank's Asset and Liability Committee; Balance Sheet simulation analysis including

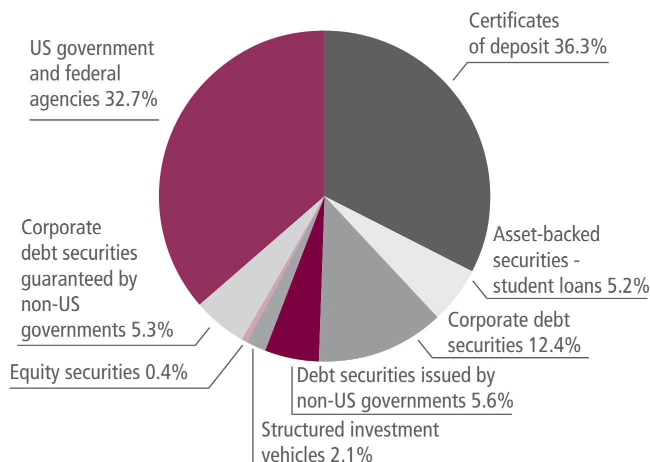
interest rate sensitivity, economic value at risk, interest at risk and stress testing; detailed investment portfolio reporting; cash flow and net interest income forecasting; deposit behaviour analysis and pricing strategies; and assistance with credit advisory and workout strategies.

Our investment policies require Management to maintain a portfolio of securities that will provide the liquidity necessary to facilitate the funding of loans and cover deposit fluctuations, and to mitigate our overall Balance Sheet exposure to interest rate risk, whilst achieving a satisfactory return on the funds invested. The securities in which we may invest are limited to securities that are considered investment grade. Securities in our investment portfolio are accounted for under GAAP as either trading or available for sale. Investment policies are approved by the Board of Directors, governed by the Group Asset and Liability Management Committee and monitored daily by Group Market Risk, a division of Enterprise Risk Management.

INVESTMENT PORTFOLIO BY LONG-TERM DEBT RATING



INVESTMENT PORTFOLIO BY TYPE



Trading securities, consisting of holdings of non-US government securities, corporate equities and seed money invested in mutual funds managed by us, totalled $18.1 million at year-end 2010, compared to $21 million at year-end 2009. The $2.9 million decline primarily reflects redemptions by the Bank in Butterfield Funds as certain Funds no longer require seed money.

Available for sale ("AFS") securities totalled $2.8 billion at year-end 2010, compared to $2.1 billion at year-end 2009. Held to maturity ("HTM") investments were $839 million as at 31 December 2009 and nil at the end of 2010, reflecting the transfer of all investments from the HTM portfolio to the AFS portfolio. The Bank no longer uses the HTM classification.

Securities principally consist of holdings of certificates of deposit issued by highly-rated banking institutions, which had a carrying value of $1.0 billion at year-end 2010, unchanged from year-end 2009. Also included are $917.5 million (2009: $66.1 million) in US government and federal agency securities, $150.1 million (2009: $41.4million) in debt securities issued by non-US governments, $149.7 million (2009: $nil) in corporate debt securities guaranteed by non-US governments, $347.5 million (2009: $748.0 million) in corporate debt securities, $146.8 million (2009: $161.5 million) in US government-backed student loans and $57.6 million (2009: $190.5 million) in SIVs. As part of the Balance Sheet restructuring in March 2010, the Bank disposed of the majority of its mortgage-backed securities and other primarily asset-backed securities, which had a carrying value of $517.2 million as at 31 December 2009.

As at 31 December 2010, 98.1% of our total investments were rated investment grade (i.e., rated 'BBB' or higher).

The following table shows the par value, carrying value, and unrealised losses of our two SIV holdings at 31 December 2010, and four SIV holdings at 31 December 2009:

(in $ millions)	31-Dec-2010	31-Dec-2009
Par value	122.2	355.5
Carrying value	57.6	190.5
Unrealised loss in accumulated other comprehensive income	5.1	70.4
Total amortised cost	62.7	260.9
OTTI taken during the year	(60.5)	(10.7)
Carrying amount / Par value	47.1%	53.6%
Market value / Par value	47.1%	45.1%
Amortised cost / Par value	51.3%	73.4%

As at 31 December 2010, the Bank held two SIV securities that had a combined carrying value of $57.6 million (2009: four SIVs with carrying value of $190.5 million) including the $5.1 million unrealised loss recorded in Accumulated Other Comprehensive Income, which recovered from an unrealised loss of $53.9 million as at 31 March 2010 when the impairment was recorded. In 2010, the Bank sold two of its SIV securities and realised gains of $4.7 million, which is included in other gains and losses. Subsequent to year end, a third SIV with a carrying value of $24.3 million was sold, resulting in a gain of $0.1 million. As a result, the single remaining SIV, on a pro-forma basis, had a carrying value of $33.3 million, and $2.6 million unrealised loss recorded in AOCI.

Securities in unrealised loss positions are analysed as part of Management's ongoing assessment of OTTI. When Management intends to sell securities, it recognises an impairment loss equal to the full difference between the amortised cost basis and the fair value of those securities. When Management does not intend to sell equity or debt securities in an unrealised loss position, potential OTTI is considered using a variety of factors, including the length of time and extent to which the market value has been less than cost; adverse conditions specifically related to the industry, geographic area or financial condition of the issuer or underlying collateral of a security; payment structure of the security; changes to the rating of the security by a rating agency; the volatility of the fair value changes; and changes in fair value of the security after the Balance Sheet date.

For debt securities, Management estimates cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist and to determine if any adverse changes in cash flows have occurred. Management's cash flow estimates take into account expectations of relevant market and economic data such as GDP and unemployment during the cash flow cycle as of the end of the reporting period and includes, for example, underlying loan-level data, and structural features of securitisation, such as subordination, excess spread, overcollateralisation or other forms of credit enhancement. Management compares the losses projected for the underlying collateral ("pool losses") against the level of credit enhancement in the securitisation structure to determine whether these features are sufficient to absorb the pool losses, or whether a credit loss on the debt security exists. Management's cash flow forecasts are created in conjunction with well-known third-party corporations specialising in analytical cash flow modelling. Management also performs other analyses to support its cash flow projections, such as stress scenarios. For debt securities, Management considers a decline in fair value to be other-than-temporary when it does not expect to recover the entire amortised cost basis of the security.

See "Note 4: Investments" in the 31 December 2010 audited financial statements for additional tables and information.

LOANS

The loan portfolio stood at $4.0 billion at 31 December 2010, down $0.2 billion from $4.2 billion the year before, as loan demand tapered off with slower economic conditions in most of the jurisdictions in which we operate. At 31 December 2010, the loan portfolio represented 42.0% of total assets, compared to 44.0% at 31 December 2009, whilst loans as a percentage of customer deposits was 49.6% (2009: 49.2%).

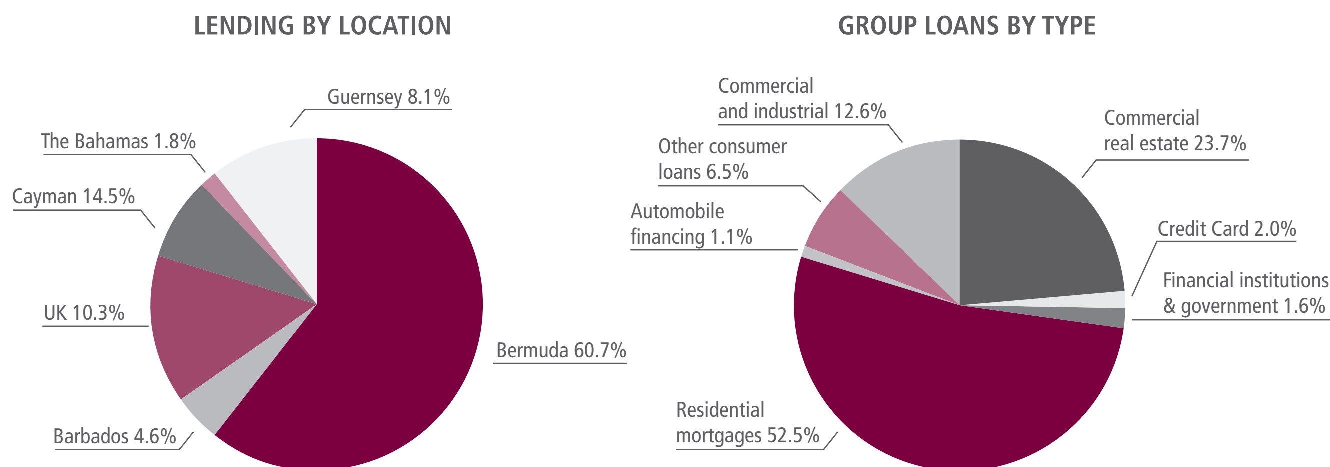
Specific and general allowances for loan losses at 2010 totalled $66.8 million at 31 December 2010, a decrease of $63.5 million from $130.3 million at year-end 2009. The movement in the allowance results from $107.9 million (2009: $4.8 million) of partial charge-offs primarily on hospitality-related exposures as the Bank deemed they were no longer recoverable, offset by $2.5 million of recoveries ($2009: $1.8 million) and $42.0 million (2009: $104.9 million) of incremental provision for specific reserves pertaining to the hospitality industry, as well as enhancements to the general provisions, primarily in Bermuda, in line with our provisioning policy, which incorporates projected losses in changing economic environments.

Non-accrual loans net of specific provisions decreased by 4.2% from $134.8 million to $129.2 million. Total non-accrual loans were $159.5 million, a decline of $73.9 million from $233.4 million a year ago and represented 3.9% of total loans in 2010, down from 5.4% last year end. Subsequent to year end, a troubled hospitality loan was settled, further reducing non-accrual loans to $151.7 million or 3.7% of total loans.

The ratio of gross non-accrual loans to tangible common equity and provisions for loan losses (also known as the "Texas ratio") was 25.7% at 31 December 2010.

LOANS

A significant component of our credit risk relates to our loan portfolio. In addition, credit risk is inherent in certain contractual obligations such as legally binding unfunded commitments to extend credit, commercial letters of credit, and standby letters of credit. Our real estate loan portfolio comprises lending secured by commercial and residential real estate.



COMMERCIAL AND INDUSTRIAL

The commercial and industrial loan portfolio, which totalled $440.4 million as at 31 December 2010 (2009: $489.6 million), includes loans to businesses, other than financial institutions, that are not primarily collateralised by mortgages on commercial real estate. Loan repayment is expected to flow from the operation of the underlying businesses.

COMMERCIAL REAL ESTATE

In managing our credit exposure, Management has defined a commercial real estate loan as one where the principal collateral is real estate held for commercial purposes and is supported by a registered mortgage.

Construction loans provide financing for the initial phases of the acquisition or development of commercial real estate, with the intent that the borrower will refinance the loan or sell the project upon its completion. These interim loans are primarily in those markets where we have a strong presence and a thorough knowledge of the local economy, particularly in Bermuda. These loans totalled $57.1 million at 31 December 2010 compared to $35.0 million the prior year end.

Commercial mortgage financing, which totalled $934.7 million at 31 December 2010 compared to $1,107.6 million at the end of 2009, is provided for the acquisition or refinancing of income-producing properties. Cash flows from the properties, primarily from rental income generally supported by long-term leases to high quality international businesses, are principally sufficient to service the loan. These loans are primarily located in Bermuda and in the United Kingdom.

RESIDENTIAL

The residential mortgage portfolio is composed of mortgages to clients with whom we are seeking to establish, or already have, a comprehensive financial services relationship and include mortgages to individuals and corporate loans secured by residential property. At 31 December 2010, residential mortgages totalled $2.2 billion (or 52.5% of total loans) of which $1.3 billion, or 62.1%, were in Bermuda and the remainder distributed throughout our other banking operations. This compares to 31 December 2009 when residential loans totalled $2.2 billion or 51.0% of total loans. All mortgages were underwritten utilising our stringent credit standards. Residential loans consist of conventional home mortgages and equity credit lines.

OTHER LOAN PORTFOLIOS

In addition, we provide loans as part of our normal banking business in respect of automobile financing, consumer financing, credit cards, commercial financing, loans to financial institutions and governments and overdraft facilities to retail, corporate and private banking clients in the jurisdictions in which we operate.

Our loan portfolio and contractual obligations and arrangements are discussed in Notes 5 and 6 to the consolidated financial statements and are presented in the table that follows.

See "Note 5: Loans" and "Note 6: Credit Risk Concentration" in the 31 December 2010 audited financial statements for additional tables and information.

(in $ millions)	Year ended 31 December 2010					
	Floating rate		Fixed rate		Total	
	Net carrying value	Average maturity in years	Net carrying value	Average maturity in years	Net carrying value	Average maturity in years
Commercial loans						
Banks	0.3	0.0	0.1	0.0	0.4	0.0
Government	66.1	1.4	-	-	66.1	1.4
Commercial and industrial	408.4	3.5	30.0	9.5	438.4	4.0
Commercial overdrafts	73.0	-	3.1	-	76.1	-
Total commercial loans	**547.8**	**2.8**	**33.2**	**8.6**	**581.0**	**3.1**
Commercial mortgage	740.3	5.6	173.1	9.5	913.4	6.3
Construction	57.1	8.7	-	-	57.1	8.7
Total commercial real estate loans	**797.4**	**5.8**	**173.1**	**9.5**	**970.5**	**6.5**
Consumer loans						
Automobile financing	14.2	3.4	29.1	3.0	43.3	3.1
Credit card	13.6	-	70.0	-	83.6	-
Overdrafts	10.0	0.1	0.4	-	10.4	0.1
Other consumer	164.8	1.8	66.9	7.0	231.7	3.3
Total consumer loans	**202.6**	**1.7**	**166.4**	**3.4**	**369.0**	**2.4**
Residential mortgage loans	**1,980.0**	**13.2**	**179.3**	**23.3**	**2,159.3**	**14.1**
Total gross loans	**3,527.8**	**9.1**	**552.0**	**12.1**	**4,079.8**	**9.5**
Less general provision for credit losses	(32.8)	-	(3.7)	-	(36.5)	-
Total net loans	**3,495.0**	**9.4**	**548.3**	**12.2**	**4,043.3**	**9.7**

DEPOSITS

Deposits are our principal funding source for use in lending, investments and liquidity. Total customer deposits were $8.1 billion as at 31 December 2010, compared to $8.6 billion as at 31 December 2009. The 5.8% decrease is primarily due to a decline in hedge fund client deposits in Cayman, due to large cash deposit levels last year end as hedge funds liquidated portfolios to meet the high level of fund redemptions within the industry. Demand deposits, which include chequing accounts, both interest and non-interest bearing, savings and call accounts, totalled $5.5 billion, or 67.9% of total customer deposits at year-end 2010, compared to $5.7 billion, or 66.3%, at year-end 2009. Term deposits decreased by 8.9% from $3.0 billion in 2009 to $2.7 billion in 2010.

See "Note 9: Customer Deposits and Deposits from Banks" in the 31 December 2010 audited financial statements for additional tables and information.

BORROWINGS

We have no issuances of certificates of deposit (CD), commercial paper (CP) or senior notes outstanding and have no CD or CP issuance programmes.

As at 31 December 2010, the Bank had a $300 million committed line of credit from CIBC and we are also able to source funding on an uncommitted basis from a number of major banks, including our principal correspondent banks. We use funding from the inter-bank market as part of interest rate and liquidity management. At 31 December 2010, deposits from banks totalled $79.7 million compared to $118.7 million at 31 December 2009.

EMPLOYEE FUTURE BENEFITS

In Q2 2010, shareholders' equity was bolstered by a combination of changes to post-retirement health care benefits. Following an independent, tri-annual actuarial review, the health care liability was reduced by approximately $27 million, reflecting changes in demographics and claims costs. Additionally, the Bank amended the plan for eligibility, benefits and cost sharing criteria, which resulted in a further reduction of approximately $41 million. As at 31 December 2010, the Bank still had a substantial obligation for post-retirement health care benefits in the amount of $81.1 million, down $60.5 million from $141.6 million the year before.

SUBORDINATED DEBT, INTEREST PAYMENTS AND MATURITIES

We have outstanding issuances of subordinated debt with a carrying value of $282.8 million as at 31 December 2010, of which $275.0 million is issued in US dollars and £5.0 million in Sterling. All but $18.0 million of outstanding subordinated debt is eligible for inclusion in our Tier 2 regulatory capital base and is limited to 50% of Tier 1 capital.

See "Note 17: Subordinated Capital" in the 31 December 2010 audited financial statements for additional tables and information.

REPURCHASE AGREEMENTS

We also obtain funds from time to time from the sale of securities to institutional investors under repurchase agreements. In a repurchase agreement transaction, we will generally sell an investment security, agreeing to repurchase either the same or a substantially identical security on a specified later date, generally not more than 90 days, at a price greater than the original sales price. The difference in the sale price and repurchase price is the cost of the use of the proceeds, or interest expense. The investment securities underlying these agreements may be delivered to securities dealers who arrange such transactions as collateral for the repurchase obligation. Repurchase agreements represent a cost competitive funding source and also provides liquidity on agency paper for us. However, we are subject to the risk that the borrower of the securities may default at maturity and not return the collateral. In order to minimise this potential risk when entering into such transactions, we generally deal with large, established investment brokerage firms with whom we have 'master repurchase' agreements. Repurchase transactions are accounted for as financing arrangements rather than as sales of such securities, and the obligation to repurchase such securities is reflected as a liability in our consolidated financial statements. No repurchase agreements had been entered into as at year-ends 2010 and 2009.

SHAREHOLDERS' EQUITY

Shareholders' equity increased during the year ended 31 December 2010 by $453.8 million to $809.3 million, primarily reflecting:

- $521.3 million of net proceeds from the capital raise in March 2010
- $57.7 million net increase from changes to post-retirement health benefits and actuarial review of the assumptions net of 2010 accrued costs and increase in the defined benefit pension plan liability
- $38.8 million from unrealised gains on AFS securities, primarily recoveries in market value of the four SIVs, net of unrealised losses in other investment asset classes
- $58.6 million from the transfer of unrealised losses on HTM investments included in Accumulated Other Comprehensive Income to realised losses recognised in income as a result of the sale of asset-backed securities included in the Balance Sheet de-risking strategy

These increases were offset by:

- $207.6 million net loss for the year
- $18.0 million preferred dividend and guarantee fee

CAPITAL RESOURCES

One of Management's primary objectives is to maintain a strong capital base to promote confidence in the Bank among our clients, the investing public, bank regulators and shareholders. The Bank manages its capital both on a total Group basis and, where appropriate, on a legal entity basis. The Finance department has the responsibility for measuring, monitoring and reporting capital levels within guidelines and limits established by the Risk Policy & Compliance Committee of the Board. The management of capital will also involve regional management when appropriate. In establishing the guidelines and limits for capital, a variety of factors are taken into consideration, including the overall risk of the business in stressed scenarios, regulatory requirements, capital levels relative to our peers and the impact on our credit ratings.

The Bank is subject to Basel II, which is a risk-based capital adequacy framework developed by the Basel Committee on Banking Supervision (the "Basel Committee") and has been endorsed by the central bank governors and heads of bank supervision of the G10 countries. In December 2008, the Bermuda Monetary Authority (BMA) published final rules, effective 1 January 2009, with respect to the implementation of the Basel II framework. From this date, the Bank has calculated its capital requirement on the Standardised approach under Basel II requirements.

The Bank is fully compliant with all regulatory capital requirements and maintains capital ratios well in excess of regulatory minimums as at 31 December 2010.

As at 31 December 2010, the Bank's regulatory capital stood at $1,067.5 million with the consolidated Tier 1 total and total capital ratios being 15.7% and 21.6%, respectively (31 December 2009: 7.2% and 10.1%, respectively).

The following table sets forth our capital adequacy as at 31 December 2010 and 31 December 2009 in accordance with the Basel II framework:

Year ended 31 December (in $ millions)	**2010**	**2009**
Capital		
Tier 1 capital	772.5	412.7
Tier 2 capital	310.3	238.0
Deductions	(15.3)	(73.5)
Total capital	1,067.5	577.2
Weighted risk assets		
Cash and inter-bank placements	451.2	397.3
Investments	506.4	1,289.5
Loans	2,552.2	2,744.3
Other assets	426.0	362.6
Off-balance sheet items	372.4	313.2
Operational risk charge	626.4	627.2
Total weighted risk assets	4,934.6	5,734.1
Capital ratios (%)		
Tier 1 common	11.2%	1.5%
Tier 1 total	15.7%	7.2%
Total capital	21.6%	10.1%

Under Basel II Pillar III (market disclosure), the Bank is required to publish further information about the risks to which it is exposed. The Bank's Pillar III disclosures for the year ended 31 December 2010 will be published on the corporate website, www.butterfieldgroup.com, shortly after the publication of these financial statements.

PREFERENCE SHARES

In June 2009, the Bank offered 200,000 of 8.00% Non-Cumulative Perpetual Limited Voting Preference Shares (the "preference shares"), liquidation preference of US $1,000 per share and $200,000,000 in the aggregate. The preference shares are fully and unconditionally guaranteed, with the full faith and credit of the Government of Bermuda (the "Guarantor"), as to payment of dividends for up to ten years and as to payment of the liquidation preference on, or in certain circumstances prior to, the ten-year anniversary of the date of issuance (the "Guarantee").

Dividends on the preference shares are payable quarterly on a non-cumulative basis, only when, as and if declared by our Board of Directors, on 15 March, 15 June, 15 September and 15 December of each year at a fixed rate equal to 8.00% per annum on the liquidation preference, commencing on 15 September 2009. In the event that, during the ten-year term of the Guarantee, the Bank does not pay full dividends in respect of any quarterly dividend period on any preference shares that are then issued and outstanding, the Guarantor has agreed to pay to holders of the preference shares an amount equal to such unpaid dividends pursuant to the Guarantee. The Bank may redeem the preference shares at its option, subject to approval of the BMA, in whole or in part, on the tenth day prior to the ten-year anniversary of the date of issuance (the "Bank Redemption Date"), at a redemption price equal to 100% of the liquidation preference thereof plus any unpaid dividends for the then-current dividend period to the Guarantee end date, regardless of whether any dividends are actually declared for such dividend period. In addition, the Bank may redeem the preference shares prior to the Bank Redemption Date, at its option, subject to approval of the BMA, in whole or in part, at any time and from time to time, at a redemption price equal to the Make-Whole Redemption Price. Unless previously redeemed, the Guarantor has agreed to purchase from the holders thereof, and such holders will be required to transfer to the Guarantor, on the ten-year anniversary of the date of issuance, all preference shares then issued and outstanding, at a price per preference share equal to the liquidation preference thereof plus any unpaid dividends for the then-current dividend period to the date of such purchase, regardless of whether any dividends are actually declared for such dividend period. In addition, upon the occurrence of a Liquidation Event at any time prior to the ten-year anniversary of the date of issuance of the preference shares, the Guarantor has agreed to purchase from the holders thereof, and such holders will be required to transfer to the Guarantor, all preference shares then issued and outstanding, at a price per preference share equal to the liquidation preference thereof plus any unpaid dividends for the then-current dividend period to the date of payment, regardless of whether any dividends are actually declared for such dividend period.

CAPITAL RAISE

On 2 March 2010, the Bank issued 144.8 million common shares of par value $1 per share, for a consideration of $175.0 million and 281,770 Mandatorily Convertible Preference Shares of par value $0.01 per share and 93,230 Contingent Convertible Preference Shares of par value $0.01 per share, for a consideration of $281.8 million and $93.2 million respectively.

Following the Bank's Annual General Meeting held on 8 April 2010, The Bank of N.T. Butterfield & Son Limited's shareholders approved an increase in the authorised share capital to 26,000,000,000 common shares of par value BD$0.01. Subsequent to the increase, conversion of 281,770 Mandatorily Convertible Preference Shares into 233,157,035 common shares and 93,230 Contingent Convertible Preference Shares into 77,144,993 common shares took place.

At the Special General Meeting of Shareholders held on 14 April 2009, the Board of Directors were granted the authority to issue, allot or grant options, warrants or similar rights over or otherwise dispose of all the authorised but unissued share capital of the Bank.

RIGHTS OFFERING (see the *Rights Offering Prospectus* for details)

In March 2010, the Bank offered up to 99.3 million common shares and 8.3 million contingent value convertible preference shares ("CVCP shares") in the form of up to 107.6 million Rights Units, each Unit consisting of 0.92038 common shares and 0.07692 CVCP shares, for each common share held at a price of BD$1.21 per Rights Unit. Each qualifying shareholder received 1.113 transferable rights to purchase one Rights Unit. Unallocated Rights Shares were available to qualifying shareholders who exercised all the rights issued to them. Any unallocated Rights Units remaining thereafter were available to qualifying holders of 8.0% preference shares.

Following the closing of the Rights Offering on 11 May 2010, the gross proceeds of $130 million were used to repurchase 107,571,361 shares from the 2 March 2010 investors at the same price at which the investors originally subscribed for the shares.

CONTINGENT VALUE CONVERTIBLE PREFERENCE SHARES (see the *Rights Offering Prospectus* for details)

A holder of CVCP shares has the option to convert any such shares to common shares at any time. All CVCP shares outstanding will automatically convert into common shares at the earlier of 31 March 2015 or a sale of the Bank. On such conversion, the CVCP shares will convert into common shares at the Conversion Price. The initial Conversion Price shall be US $1.21 subject to any customary anti-dilution adjustments and certain downward notional adjustment based on certain loan recoveries.

A holder of CVCP shares will be entitled to certain distributions in connection with certain sales or public offerings of the Bank's equity interest in BFG. On 9 February 2011, the Bank announced that it has agreed to sell its minority ownership position in BFG to a new company founded by fund industry executives Tim Calveley and Glenn Henderson and private equity firm, BV Investment Partners. BFG will operate as a subsidiary of the new company. The Bank will continue to provide BFG and its clients with commercial banking, foreign exchange and custody services. BFG was established in 2008 through the merger of Butterfield Fund Services and the Fulcrum Group. Through this transaction, the Bank will fully divest itself of its minority ownership stake in BFG. The transaction is expected to close during the first quarter of 2011, subject to regulatory approvals. Proceeds from the sale will result in a distribution to holders of the Bank's CVCP shares, estimated at $0.39 to $0.41 per share. See "Note 27: Subsequent events" of the 31 December 2010 audited financial statements for details of distributions attributable to the sale of the Bank's 36% diluted interest in BFG.

When, as and if declared by the Board, holders of the outstanding CVCP shares will be entitled to receive dividends, when, as and if declared by the Board, based on the number of common shares into which the CVCP shares would be convertible as of the dividend record date.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Bank, the holders of the CVCP shares will be entitled to receive from its assets legally available for distribution to shareholders as a liquidation preference before any distribution of assets is made to or set aside for the holders of any junior shares, such as the common shares, the greater of (i) US$1.21 per CVCP share plus any declared but unpaid dividends with respect to the then-current dividend period and (ii) the amount per CVCP share that would be received if such CVCP share had converted into common shares immediately prior to such liquidation, dissolution or winding up.

The CVCP shares are issued as perpetual securities subject to conversion to common shares and shall not be redeemable by any holders at any time.

The holders of the CVCP shares will vote together with the holders of the common shares on all matters upon which the holders of the common shares are entitled to vote. The CVCP shares shall be entitled to such number of votes based on the number of common shares into which the CVCP shares are convertible as of the applicable record date.

The class vote of the holders of at least 66.6% of the CVCP shares shall be required for (i) the creation or issuance of shares that are senior to liquidation, (ii) an amendment of rights of the CVCP shares or (iii) a reclassification, merger, amalgamation or consolidation where the holders of CVCP shares would not receive the consideration that would be received if such CVCP shares had converted into common shares immediately prior to such event.

The CVCP shares shall be privately transferable (subject to applicable securities laws and any required regulatory consents) but shall not be listed on the Bermuda Stock Exchange or any other stock exchange. The CVCP shares will not be registered under the securities laws of any jurisdiction. This will result in a limited market for the CVCP shares.

With respect to the 8.0% preference shares, the CVCP shares rank pari passu as to liquidation and pari passu as to dividends and, with respect to common shares, the CVCP shares rank senior as to liquidation and pari passu as to dividends (other than dividends relating to BFG, as to which the CVCP shares rank senior).

As at 31 December 2010, there were 7.8 million CVCP shares outstanding with 0.5 million shares converted to common shares at the holders' option during the year. As at 31 December 2010 there were no loan recoveries attributable to the CVCP shares as defined in the certificate of designation. Consequently, the conversion factor to common shares at 31 December 2010 remained 1 to 1. Loan recoveries mean the amount by which the cumulative amount of collections actually received by the Bank with respect to "Covered Loans" from and after 1 January 2010 and through (and including) the Measurement Date exceeds US$102.3 million but in no event shall the loan recoveries exceed US$42 million. As at 31 December 2010, the carrying value of the Covered Loans was $58.5 million reflecting charge-offs during the year as approved by the Audit Committee and reviewed by an independent committee of the Board of Directors.

WARRANTS

Following the capital raise on 2 March 2010, the terms of the 4,279,601 warrants with an exercise price of $7.01 previously issued to the Bermuda Government in conjunction with the issuance of 200,000 Government guaranteed 8% Non-Cumulative Perpetual Limited Voting Preference Shares in 2009 were adjusted in accordance with the terms of the guarantee. Subsequently, the Government of Bermuda now holds 4,150,774 warrants with an exercise price of $3.614.

DIVIDENDS

No common dividends were declared or paid in 2010. In 2009, dividends declared on common shares were $0.24 per share, comprised of $0.12 in cash and $0.12 in bonus common shares. There were four preference share dividends paid in 2010 of $16.6 million in total (2009: two dividends totalling $7.1 million).

CASH FLOW

For the year ended 31 December 2010, net cash provided by operating activities totalled $128.8 million (2009: $58.0 million). Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income. Cash provided by operating activities increased $71.0 million from 2009 to 2010 due primarily from the net reduction in other assets and liabilities.

Our investing activities include capital expenditures, loan activities, investment activities and divesture and acquisition activities. We do not own, directly or indirectly, any shares of stock or any other equity interest or long-term debt securities of any company, corporation , firm, partnership, joint venture, association or other entity, except pursuant to the ordinary course of investment activities or as a result of the ordinary course loan work-outs. Net cash used in investing activities for the year ending 31 December 2010 totalled $476.5 million compared to cash provided by investing activities of $1,072.8 million in 2009. The $1,549.3 million decrease in 2010 over 2009 was mainly due to a $908.7 million net cash payment provided from proceeds from the sale of HTM investments in 2009 compared to $20.6 million in 2010, as well as the movement in term deposits with banks year over year (2010: decrease of $536.2 million; 2009: increase of $276.7 million).

Net cash provided by financing activities totalled $121.8 million in 2010 compared to the $1,149.5 million net cash used in financing activities in 2009. The $1,271.3 million increase reflects the net cash used to fund deposit decreases in 2009, compared to the $380.8 million decrease in deposits offset by the $521 million net issuance of shares and rights.

OFF BALANCE SHEET ARRANGEMENTS

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

The Bank, in the normal course of business, holds assets under administration and assets under management in a fiduciary or agency capacity for our clients. In accordance with GAAP, these assets are not assets of the Bank and are not included in our Consolidated Balance Sheet.

CREDIT-RELATED ARRANGEMENTS

We enter into standby letters of credit, letters of guarantee and contractual commitments to extend credit in the normal course of business, which are not required to be recorded on the Balance Sheet. Since many commitments expire unused or only partially used, these totals do not necessarily reflect future cash requirements. Management believes there are no material commitments to extend credit that represent risks of an unusual nature.

Standby letters of credit and letters of guarantee are issued at the request of our clients in order to secure a client's payment or performance obligations to a third party. These guarantees represent our irrevocable obligation to pay the third-party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the client. Generally, the term of the standby letters of credit does not exceed one year, whilst the term of the letters of guarantee does not exceed four years.

Credit risk is the principal risk associated with these instruments. The contractual amounts of these instruments represent the credit risk should the instrument be fully drawn upon and the client defaults. To control the credit risk associated with issuing letters of credit and letters of guarantee, we subject such activities to the same credit quality and monitoring controls as our lending activities. The types and amounts of collateral security we hold for these standby letters of credit and letters of guarantee are generally represented by our deposits or a charge over assets held in mutual funds. We are obligated to meet the entire financial obligation of these agreements and in certain cases are able to recover the amounts paid through recourse against the collateral security.

The following table sets forth the outstanding financial guarantees with contractual amounts representing credit risk:

As at 31 December 2010

(in $ thousands)	Gross	Collateral	Net
Standby letters of credit	386,728	354,310	32,418
Letters of guarantee	14,115	8,655	5,460
Total	400,843	362,965	37,878

Collateral is shown at estimated market value less selling cost. Where cash is the collateral, it is shown in gross amounts including interest income.

CONTRACTUAL OBLIGATIONS (INCLUDING SUBORDINATED DEBT)

We enter into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. These credit arrangements are subject to our normal credit standards and collateral is obtained where appropriate. Substantially all of our commitments to extend credit are contingent upon clients maintaining specific credit standards at the time of loan funding. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for possible loan losses.

The Bank entered into a commitment letter for a $500 million line of credit at market rates with CIBC. The fees incurred for the line of credit facility were $7.4 million. As at 31 December 2010 the credit facility had been reduced to $300 million and remains undrawn. The Bank incurs facility fees of $200,000 per month.

The Bank entered into an asset liability management agreement with Carlyle with an effective date of 1 October 2010. Per the agreement Carlyle has agreed to provide Balance Sheet management advisory services to the Bank for an annual fee of $4 million for a three-year period.

The Bank has a facility by one of its custodians, whereby the Bank may offer up to US$200 million of standby letters of credit to its customers on a fully secured basis. Under the standard terms of the facility, the custodian has the right to set-off against securities held of 110% of the utilised facility. At 31 December 2010, $174.5 million (2009: $133.3 million) of standby letters of credit were issued under this facility.

The contractual amounts for these commitments represent the maximum payments we would have to make should the contracts be fully drawn, the counterparty default and any collateral held prove to be of no value. Commitments when drawn would be funded from our free cash resources.

We enter into other contractual obligations in the normal course of business. Certain of these obligations, such as subordinated debt, are recorded as liabilities in our Consolidated Balance Sheet. Other items, such as sourcing agreements, operating leases and other purchase contracts, are not required to be recorded on the Balance Sheet. Expected cash payments associated with subordinated debt are based on principal payment dates. See "Note 17: Subordinated Capital" in the 31 December 2010 audited financial statements for terms of subordinated debt arrangements and interest rates.

The $133.2 million contractual obligation in respect of sourcing—Bermuda and the Cayman Islands—relates to an eight-year agreement entered into in October 2008 with global technology service provider HP (previously EDS) to supply technology infrastructure and application development management, information security and technical support for our locations in Bermuda and the Cayman Islands. With HP, we have commenced the process of transitioning all our business applications and legacy systems in these locations to a new, common platform that will be centrally managed. Under our agreement with HP, server management and maintenance, technology field support, application support and development and help desk functions will be managed by HP. In addition, HP will manage the installation of and conversion to a new, common core banking system in Bermuda and the Cayman Islands. The transition of functional responsibility for information technology management and support and the implementation of a new core banking system are expected to be largely completed in the Cayman Islands by the end of the second quarter of 2011, and in Bermuda by the end of the third quarter in 2011. Under the agreement, we have the option to expand HP's service to our other locations, subject to agreement on an expansion plan and fees.

We believe that our arrangement with HP will help us to optimise operations, improve productivity and enhance client service and may potentially impact revenues in Bermuda and the Cayman Islands by reducing the amount of time our relationship managers must spend on processing data, freeing up time to spend on business development and client service. We also expect to derive synergies in the form of cost savings gradually over time. Management and coordination of our international information technology functions will continue to be carried out from our head office in Bermuda.

We have entered into additional contractual obligations in the normal course of business which are not significant to the amounts above.

RISK MANAGEMENT: CREDIT, LIQUIDITY, MARKET AND OPERATIONAL RISK OVERVIEW

The Board of Directors' Risk Policy & Compliance Committee provides oversight with respect to credit, market, interest rate and foreign exchange, liquidity, fiduciary, operational, compliance and reputational risks. The Committee's expectation is that risk is consciously considered by our Management as part of strategic decisions and in day-to-day activities.

Risk tolerances are detailed in separate credit, operational, market, fiduciary and compliance risk policies and tolerance statements. Various corporate committees and oversight entities have been established to review and approve risk management strategies, standards, management practices and tolerance levels. These committees and entities monitor and provide periodic reporting to the Risk Policy & Compliance Committee on risk performance and the effectiveness of risk management processes. Our business units are expected to manage business activities within the parameters set forth in the various risk policy statements.

Our Enterprise Risk Management ("ERM") Division has overall responsibility for assessing all risks associated with our activities. ERM provides for clear Senior Management responsibility for all risks with each product having a designated risk owner. Our control framework establishes objectives with regard to the processes and resources that should be brought to bear in the design, implementation and application of internal controls along product lines. Through periodic risk assessments, the Board of Directors and Executive Management are able to obtain a view of key product risks and an evaluation of the effectiveness of controls.

With regard to risk management governance, the Risk Policy & Compliance Committee has responsibility for establishing and periodically updating the policies that are to be consistently applied across the Bank to manage market, liquidity, credit, interest rate, foreign exchange, operational, legal, reputational, fiduciary and strategic risks. Consistent with our commitment to ERM, the Risk Policy & Compliance Committee promotes an integrated view across all risk disciplines, focusing on all elements of risk at the strategic level. Our compliance with Basel II framework (having been adopted in Bermuda under the auspices of the BMA is also a key priority to the Risk Policy & Compliance Committee.

The Group Risk Committee is chaired by the Group Chief Risk Officer and is attended by members of the Executive Committee, including the Chief Executive Officer. The Group Risk Committee ensures that Butterfield develops and maintains Group-wide risk management strategies based on an integrated view of credit , market, liquidity, compliance, operational, interest rate, investment, capital and reputational risks. The Committee ensures that risk owners effectively and efficiently manage exposures across all product and support activities and assume risk exposures that are consistent with the Bank's risk appetite and tolerances. These Committees regularly review reports from the Head of Group Compliance related to the anti-money laundering/anti-terrorist financing activities of the Group. Additionally, the Committee develops and proposes to the President & Chief Executive Officer strategies for the effective management of risk-based capital under Basel II.

The Asset and Liability Committee (ALCO), chaired by the Chief Financial Officer, reports into the Group Risk Committee and monitors our Balance Sheet trends, liquidity, trading positions and off Balance Sheet exposures, investment portfolios, interest rate and exchange rate exposures and capital position. ALCO has developed specific guidelines for investing in securitised assets and monitors and tests mortgage and asset-backed securities for potential impairment. Day-to-day interest rate and liquidity risks are managed by our Treasurer and monitored by the market risk team within ERM.

The Financial Institutions Committee, chaired by the Chief Credit Officer, identifies, assesses, prioritises and manages our risks associated with counterparty exposure to other financial institutions, as well as country-specific exposures.

Chaired by our Group Chief Risk Officer, the Credit Committee provides a forum for ongoing executive review of credit activity, establishing our credit guidelines and policies and approving selected credit transactions in accordance with our business objectives. The Committee reviews large credit exposures, establishes and reviews credit strategy and policy and approves selected credit transactions. Overall responsibility for managing credit policy and process is delegated to the Chief Credit Officer.

INTEREST RATE, FOREIGN EXCHANGE RATE AND MARKET RISK

Market risk is the risk of a loss in earnings or economic value due to adverse movements in market factors such as interest rates, credit spreads and equity prices. We consider interest rate risk to be a significant market risk for us. Interest rate risk is our exposure to adverse changes in our net income, or our economic value, as a result of changes in interest rates. Consistency in our earnings is related to the effective management of interest rate sensitive assets and liabilities due to changes in interest rates, and on the degree of fluctuation of investment management fee income due to movements in the bond and equity markets. We are also subject to market risk in connection with the fair value of our investments, which consist of cash and cash equivalents and investment securities.

Fee income from investment management, custody and trust services is not directly dependent on market interest rates and may provide us with a relatively stable source of income in varying market interest rate environments. However, this fee income is generally based upon the value of assets under management and, therefore, can be significantly affected by changes in the values of equities and bonds.

In addition to directly impacting net interest income, changes in the level of interest rates can also affect (i) the amount of loans originated, (ii) the ability of borrowers to repay loans, (iii) the average maturity of loans, deposits and mortgage-backed securities, (iv) the rate of amortisation of premiums paid on securities, and (v) the amount of unrealised gains and losses on securities available for sale.

We hold various non-US dollar denominated assets and liabilities and maintain investments in subsidiaries whose domestic currency is either not the US dollar or their domestic currency is not pegged to the US dollar. The domestic currencies of Barbados, Bermuda, the Cayman Islands and The Bahamas are all pegged to the US dollar, although that may not always remain the case. Assets and liabilities denominated in currencies other than the US dollar are translated to Bermuda dollars at the rates of exchange prevailing at the Balance Sheet date. The resulting gains or losses are included in foreign exchange revenue in the consolidated statement of income. Assets and liabilities of subsidiaries outside of Bermuda are translated at the rate of exchange prevailing on the Balance Sheet date while associated revenues and expenses are translated to Bermuda dollars at the average rate of exchange prevailing through the accounting period. Unrealised translation gains or losses on investments in foreign currency based subsidiaries are recorded as a separate component of shareholders' equity within Accumulated Other Comprehensive Income. Such gains or losses are recorded in the Consolidated Statement of Income only when realised. Our foreign currency subsidiaries which may give rise to significant foreign currency translation movements against the US dollar are located in Guernsey, the United Kingdom and Switzerland. We also provide foreign exchange services to our clients, principally in connection with our community banking and wealth management businesses, and effect other transactions in non-US dollar currencies. Foreign currency volatility and fluctuations in exchange rates may impact the value of non-US dollar denominated assets and liabilities and raise the potential for losses resulting from foreign currency trading positions where aggregate obligations to purchase and sell a currency other than the US dollar do not offset one another, or offset each other in different time periods. If the policies and procedures we have in place to assess and mitigate potential impacts of foreign exchange volatility are not followed, or are not effective to mitigate such risks, our results and earnings may be negatively affected.

The principal objective of our interest rate risk management is to maintain the appropriate balance between profit potential and our vulnerability to changes in interest rates by means of managing the ratio of interest rate sensitive assets to interest rate sensitive liabilities within specified maturities or repricing dates. Our actions in this regard are taken under the guidance of the ALCO, which is comprised of members of Senior Management. The committee is actively involved in formulating the economic assumptions that we use in our financial planning and budgeting processes and establishes policies which control and monitor the sources, uses and pricing of funds. We may utilise hedging techniques to reduce interest rate risk. ALCO uses both interest rate "gap" sensitivity and interest income simulation analysis to measure inherent risk in our Balance Sheets at specific points in time. See "Note 16: Interest Rate Risk" in the 31 December 2010 audited financial statements for our interest rate sensitivity gap profile.

LIQUIDITY

The objectives of liquidity risk management are to ensure that we can meet our cash flow requirements and capitalise on business opportunities in a timely and cost effective manner. Liquidity is defined as the ability to generate sufficient cash to meet normal operating requirements. Liquidity risk is the risk of potential loss if we were unable to meet our funding requirements at a reasonable cost.

We do not manage our liquidity on a Group-wide basis, but rely on treasury operations in our subsidiaries located in Bermuda, Barbados, Guernsey, the United Kingdom and The Bahamas to manage day-to-day liquidity. The Group Market Risk department of ERM is responsible for measuring and reporting liquidity risk positions by calculating various ratios of assets to liabilities within specified maturity dates. Management's actions in this regard are taken under ALCO's guidance, and are designed to respond to the needs of depositors and borrowers as well as to earnings enhancement opportunities in a changing marketplace.

Consistent with prudent industry practice, we maintain a contingent liquidity plan which can be employed in the event of a liquidity crisis. The objective of the contingent liquidity plan is to ensure that we maintain our liquidity during periods of stress. This plan takes into consideration a variety of scenarios that could challenge our liquidity. These scenarios include specific and systemic events that can impact our on-and off-balance sheet sources and uses of liquidity. We have kept the BMA apprised of our liquidity position throughout the year.

There is no central bank in Bermuda and thus we have no 'lender of last resort'. We do have access to funding from the inter-bank market on an uncommitted basis and also have put in place formalised 'repo' facilities with counterparties which enable us to access funding on a secured basis. However, in a financial crisis, our access to these liquidity sources may be restricted or we may not be able to access these sources at all. Another source of liquidity for us is the ability to draw funding from capital markets globally. The availability and cost of these funds are influenced by our credit rating; as a result, a downgrade in our credit ratings could have an adverse impact on our liquidity. Similarly, a downgrade in Bermuda's sovereign credit rating could also adversely affect our ability to access liquidity because, historically, our ratings have been closely linked to those of Bermuda.

The Bank's asset funding strategies draw upon our ability to allocate funding among subsidiaries through inter-company loans. As of 31 December 2010, material outstanding loans between jurisdictions included an inter-company deposit from Cayman to Bermuda for $253.2 million, down from $501.0 million.

CREDIT RISK

Credit risk is tied to the ability of a client or other counterparty to meet his / her financial obligations and is relevant to many of our products and services. In general, we extend credit on a relationship basis; that is, to clients who also take advantage of our other financial services. Credit risk is managed through the Credit Risk Management ("CRM") department, headed up by the Chief Credit Officer, to whom we have delegated overall responsibility for managing credit policy and process, including responsibility for ensuring adherence to a high level of credit standards. The Chief Credit Officer reports to our Group Chief Risk Officer.

CRM provides a system of checks and balances for our diverse credit-related activities by establishing and monitoring all credit-related policies and practices throughout our Bank and assuring their uniform application. These activities are designed to diversify credit exposure on an industry and client basis, thus lessening overall credit risk. These credit management activities also apply to our use of derivative financial instruments, including foreign exchange contracts and interest rate management instruments, which are primarily used to facilitate client transactions. We also use derivatives in the asset and liability management of positions to minimise significant unplanned fluctuations in earnings that are caused by interest rate volatility. Our 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.

Our derivative contracts principally involve over-the-counter transactions that are privately negotiated between ourselves and the counterparty to the contract. Derivative instruments that are used as part of our interest rate risk management strategy include interest rate swaps and option 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. Interest rate options represent contracts that allow the holder of the option to receive cash or purchase, sell, or enter into a financial instrument at a specified price within a specified period.

Individual credit authority for commercial and other loans is limited to specified amounts and maturities. Credit decisions involving commitment exposure in excess of the specified individual limits are submitted to the Chief Credit Officer and then to the Credit Committee, chaired by the President & Chief Executive Officer, which provides a forum for ongoing executive review of loan activity, establishing our credit guidelines and policies and approving selected credit transactions in accordance with our business objectives. The committee reviews large credit exposures, establishes and reviews credit strategy and policy and approves selected credit transactions.

The Financial Institutions Committee manages counterparty risk. This committee has sole credit authority for exposure to all banks which are deemed to be counterparties and which do not have commercial credit relationships within our Bank, and certain other exposures. Under the auspices of CRM, country exposure limits are reviewed and approved on a country-by-country basis.

An integral part of the CRM function is a formal review of past due and potential problem loans to determine which credits, if any, need to be placed on non-accrual status or charged off. The provision for credit losses is reviewed quarterly to determine the amount necessary to maintain an adequate provision for credit losses.

Our Loan Review function, which reports to the Head of Group Internal Audit, independently reviews and reports on credit processes and exposures across all subsidiaries that have loan portfolios. The function's primary goal is to ensure that we maintain and observe procedures, practices and credit exposures that are consistent with Group policies and standards and our risk tolerance.

OPERATIONAL RISK MANAGEMENT

In providing our services, we are exposed to operational risk which is the risk of loss from inadequate or failed internal processes, people, and systems or from external events. Our success depends, in part, upon maintaining our reputation as a well managed institution with shareholders, existing and prospective clients, creditors and regulators. In order to maintain this reputation, we seek to minimise the frequency and severity of operational losses associated with compliance and fiduciary matters, product, process, and technology failures, and business continuity.

Operational risk is mitigated through a system of internal controls and risk management practices that are designed to keep operational risk at levels appropriate to our overall risk appetite and the inherent risk in the markets in which we operate. While operational risk controls are extensive, operational losses have occurred in the past, and there can be no assurance that such losses will not occur in the future.

The Group Risk Committee approves Group business risk strategies to ensure compliance with Group Operational Risk Management policies and jurisdictional regulatory requirements.

We manage operational risk through policies, procedures and controls that are developed based on the following principles:

- assessing risks is a day-to-day business activity that is the concern of every employee
- decisions are based on an assessment of all relevant operational risks
- risk decisions shall be made at the appropriate level based on delegated authority
- unnecessary risks shall be avoided

The ERM function is the focal point for the operational risk management framework and works closely with the business units to achieve the goal of assuring proactive management of operational risk within the Bank. Each business unit is responsible for complying with corporate policies and external regulations applicable to the unit.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In order to provide better service to our clients, we are in the process of implementing new systems and information technology infrastructure with the aid of HP to transition our business applications and legacy systems in Bermuda and the Cayman Islands to a new, common platform that will be centrally managed.

Like all financial services firms, information technology is critical to our business, and related transition projects are complex. Potential challenges include:

- interruption or impairment of business operations
- additional development and remediation costs
- diversion of technical and other resources
- loss of clients
- negative publicity
- litigation or other customer claims

Although we maintain project methodologies and controls that are designed to reduce the probability and severity of these exposures, any combination of these outcomes could have an adverse effect on our results of operations and financial condition.

CREDIT RATINGS

Our credit ratings are provided in the table below:

	Standard & Poor's	Moody's	Fitch
Short-term deposits	A-2	P-1	F1
Long-term deposits and debt	A-	A2	A-
Outlook	Negative	Negative	Stable

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MANAGEMENT'S FINANCIAL REPORTING RESPONSIBILTY

The Management of The Bank of N.T. Butterfield & Son Limited is responsible for the preparation of the consolidated financial statements contained in this Report, which covers all of the interests of the Bank. Management has fully disclosed its income, assets, liabilities and off Balance Sheet commitments. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and, where appropriate, are based on the best estimates and judgement of Management.

Management has established and maintains a system of financial reporting and internal controls to provide reasonable assurance that transactions are properly authorised and recorded, assets are protected against unauthorised use or disposition and liabilities are recognised. These procedures include the careful selection and training of qualified staff, the establishment of organisational structures providing an appropriate and well-defined division of responsibilities, and the communication of policies and standards of business conduct throughout the Bank.

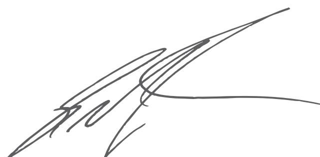
The system of internal controls is further supported by a professional staff of internal auditors who conduct periodic inspections of all aspects of the Bank's operations. In addition, the Bank's Head of Group Internal Audit reports to, and has full and free access to the Audit Committee of the Board of Directors.

The Audit Committee, composed entirely of Directors who are not employees of the Bank, reviews the financial statements before such statements are approved by the Board of Directors and submitted to the Bank's shareholders. The Committee meets and consults regularly with Management, the internal auditors and our external independent auditors to review the scope and results of their work.

Under the provisions of the Bermuda Monetary Authority Act 1969, the Bermuda Monetary Authority is charged with the supervision of the Bank. Such supervision is in line with international practices and combines a comprehensive system of statistical returns, providing a detailed breakdown of the Balance Sheet and Statement of Income accounts of the Bank, and regular meetings with the senior Management of the Bank. Such regular reviews are intended to satisfy the Authority that the safety and interests of the depositors, creditors and shareholders of the Bank are being duly observed and that the Bank is in a sound financial condition.

The accounting firm of PricewaterhouseCoopers, the shareholders' independent auditors, has examined the consolidated financial statements of the Bank in accordance with auditing standards generally accepted in the United States of America and have expressed their opinion in their report to the shareholders. The auditors have unrestricted access to, and meet periodically with, the Audit & Compliance Committee to review their findings regarding internal controls over the financial reporting process, auditing matters and financial reporting issues. Management has made available to PricewaterhouseCoopers all of the Bank's financial records and related data, as well as the minutes of shareholders' and Directors' meetings.

Bradford Kopp
President & Chief Executive Officer
22 February 2011



Bradley Rowse
Executive Vice President & Chief Financial Officer
22 February 2011

February 22, 2011

To the Shareholders of
The Bank of N.T. Butterfield & Son Limited

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in shareholders' equity and comprehensive income (loss), and of cash flows present fairly, in all material respects, the financial position of The Bank of N.T. Butterfield & Son Limited and its subsidiaries at 31 December 2010 and 2009 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers
Chartered Accountants

CONSOLIDATED BALANCE SHEET As at 31 December (In thousands of Bermuda dollars)

	2010	2009
Assets		
Cash and demand deposits with banks	**325,367**	551,249
Term deposits with banks	**1,950,179**	1,435,549
Total cash and deposits with banks	**2,275,546**	1,986,798
Debt and equity securities		
Trading	**18,088**	21,023
Available for sale	**2,791,601**	2,067,163
Held to maturity	**-**	838,715
Total investments in debt and equity securities	**2,809,689**	2,926,901
Loans, net of allowance for credit losses	**4,043,360**	4,218,332
Premises, equipment and computer software	**261,955**	244,242
Accrued interest	**17,691**	16,285
Goodwill	**16,017**	16,712
Intangible assets	**38,946**	50,129
Investments in affiliates	**33,534**	38,518
Receivable from investments sold	**50,817**	-
Other assets	**75,505**	96,685
Total assets	**9,623,060**	9,594,602
Liabilities		
Deposits		
Non-interest bearing	**977,417**	954,191
Interest bearing		
Customers	**7,170,963**	7,623,753
Banks	**79,679**	118,675
Total deposits	**8,228,059**	8,696,619
Employee future benefits	**85,209**	141,741
Accrued interest	**9,647**	12,391
Preference shares dividend payable	**715**	1,337
Payable for investments purchased	**112,663**	-
Other liabilities	**94,680**	103,969
Total other liabilities	**302,914**	259,438
Subordinated capital	**282,799**	283,085
Total liabilities	**8,813,772**	9,239,142
Shareholders' equity		
Common share capital ($0.01 par; authorised shares 26,000,000,000 (2009: $1 par; authorised shares 260,000,000) issued and outstanding: 549,143,488 (2009: 99,060,111))	**5,491**	99,060
Preference share capital ($0.01 par; $1,000 liquidation preference) issued and outstanding: 200,000 (2009: 200,000)	**2**	2
Contingent value convertible preference share capital ($0.01 par) issued and outstanding: 7,789,087 (2009: nil)	**78**	-
Additional paid-in capital	**1,376,037**	764,206
Accumulated deficit	**(509,579)**	(283,964)
Less: treasury common shares (2,401,593 shares; 2009: 3,426,106 shares)	**(24,127)**	(34,660)
Accumulated other comprehensive loss	**(38,614)**	(189,184)
Total shareholders' equity	**809,288**	355,460
Total liabilities and shareholders' equity	**9,623,060**	9,594,602

The accompanying notes are an integral part of these consolidated financial statements.

Robert Mulderig
Chairman of the Board

Robert Steinhoff
Vice Chairman

Bradford Kopp
President & Chief Executive Officer

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended 31 December (In thousands of Bermuda dollars, except per share data)

	2010	2009
Non-interest income		
Asset management	**24,544**	27,211
Banking	**36,732**	37,094
Foreign exchange revenue	**32,479**	34,044
Trust	**30,534**	29,894
Custody and other administration services	**13,574**	13,840
Other non-interest income	**8,348**	9,622
Total non-interest income	**146,211**	151,705
Interest income		
Loans	**198,008**	211,694
Investments	**28,330**	46,215
Deposits with banks	**11,047**	12,660
Total interest income	**237,385**	270,569
Interest expense		
Deposits	**45,988**	68,471
Subordinated capital	**12,455**	14,933
Securities sold under repurchase agreements	**-**	258
Total interest expense	**58,443**	83,662
Net interest income before provision for credit losses	**178,942**	186,907
Provision for credit losses	**(41,970)**	(104,879)
Net interest income after provision for credit losses	**136,972**	82,028
Net realised / unrealised gains on trading investments	**971**	983
Net realised (losses) gains on available for sale investments	**(107,047)**	236
Other-than-temporary impairment losses on available for sale investments	**(60,522)**	-
Net realised gains on held to maturity investments	**-**	2,298
Other-than-temporary impairment losses on held to maturity investments	**-**	(132,095)
Goodwill and intangible assets impairment	**-**	(13,266)
Loss on sale of subsidiaries	**(7,430)**	-
Net other losses	**(6,489)**	(5,112)
Total revenue	**102,666**	86,777
Non-interest expense		
Salaries and other employee benefits	**159,082**	156,839
Technology and communications	**54,037**	50,094
Property	**27,469**	28,833
Professional and outside services	**13,811**	17,490
Non-income taxes	**15,405**	13,197
Amortisation of intangible assets	**5,711**	6,258
Marketing	**5,002**	5,911
Other expenses	**31,739**	21,898
Total non-interest expense	**312,256**	300,520
Net loss before income taxes	**(209,590)**	(213,743)
Income tax benefit	**1,975**	330
Net loss	**(207,615)**	(213,413)
Cash dividends declared on preference shares	**(16,000)**	(8,400)
Preference shares guarantee fee	**(2,000)**	(1,050)
Net loss attributable to common shareholders	**(225,615)**	(222,863)
Loss per common share		
Basic	**(0.47)**	(2.34)
Diluted	**(0.47)**	(2.34)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

For the year ended 31 December (In thousands of Bermuda dollars)

	2010	2009
Common share capital issued		
Balance at beginning of year (2010: 99,060,111 shares; 2009: 98,399,858 shares)	**99,060**	98,400
Issuance (2010: 147,703,758 shares; 2009: nil shares)	**144,836**	-
Reduction in par value of shares	**(241,429)**	-
Repurchased (2010: 107,571,361 shares; 2009: nil shares)	**(1,076)**	-
Rights conversion (2010: 99,173,842 shares; 2009: nil shares)	**992**	-
Conversion of mandatorily and contingent convertible preference shares (2010: 310,302,028 shares; 2009: nil shares)	**3,103**	-
Conversion of contingent value convertible preference shares (2010: 475,070 shares; 2009: nil shares)	**5**	-
Dividend reinvestment (2010: nil shares; 2009: 572,246 shares)	**-**	572
of which issued from treasury common shares (2010: nil shares; 2009: 572,246 shares)	**-**	(572)
Stock dividend (2010: nil shares; 2009: 3,061,919 shares)	**-**	3,062
of which issued from treasury common shares (2010: nil shares; 2009: 2,401,666 shares)	**-**	(2,402)
Balance at end of year (2010: 549,143,488 shares; 2009: 99,060,111 shares)	**5,491**	99,060
Preference shares		
Balance at beginning of year (2010: 200,000 shares; 2009: nil shares)	**2**	-
Issuance (2010: nil; 2009: 200,000 shares)	**-**	2
Balance at end of year (2010: 200,000 shares; 2009: 200,000 shares)	**2**	2
Mandatorily convertible preference shares		
Balance at beginning of year (2010: nil shares; 2009: nil shares)	**-**	-
Issuance (2010: 281,770 shares; 2009: nil shares)	**3**	-
Conversion to common shares (2010: 281,770 shares; 2009: nil shares)	**(3)**	-
Balance at end of year (2010: nil shares; 2009: nil shares)	**-**	-
Contingent convertible preference shares		
Balance at beginning of year (2010: nil shares; 2009: nil shares)	**-**	-
Issuance (2010: 93,230 shares; 2009: nil shares)	**1**	-
Conversion to common shares (2010: 93,230 shares; 2009: nil shares)	**(1)**	-
Balance at end of year (2010: nil shares; 2009: nil shares)	**-**	-
Contingent value convertible preference shares		
Balance at beginning of year (2010: nil shares; 2009: nil shares)	**-**	-
Rights conversion (2010: 8,264,157 shares; 2009: nil shares)	**83**	-
Conversion to common shares (2010: 475,070 shares; 2009: nil shares)	**(5)**	-
Balance at end of year (2010: 7,789,087 shares; 2009: nil shares)	**78**	-
Additional paid in capital		
Balance at beginning of year	**764,206**	604,116
Issuance of common shares	**30,192**	-
Issuance of preference shares	**-**	199,998
Issuance of mandatorily convertible preference shares	**281,767**	-
Issuance of contingent convertible preference shares	**93,229**	-
Reduction of par value of common shares	**241,429**	-
Conversion of mandatorily and contingent convertible preference shares	**(3,099)**	-
Cost of capital raise and rights offering	**(28,767)**	-
Reduction of additional paid in capital on transfer and sale of treasury shares	**(6,939)**	(31,485)
Cost of issuing preference share capital	**-**	(12,655)
Dividend reinvestment	**-**	2,274
of which related to treasury common shares	**-**	(2,274)
Stock dividend	**-**	1,984
Stock option plan expense	**4,019**	2,248
Balance at end of year	**1,376,037**	764,206

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS) *Continued*

For the year ended 31 December (In thousands of Bermuda dollars)

	2010	2009
Accumulated deficit		
Balance at beginning of year	**(283,964)**	(35,006)
Net loss for year	**(207,615)**	(213,413)
Cash dividends declared on common shares	**-**	(11,124)
Cash dividends declared on preference shares	**(16,000)**	(8,400)
Preference shares guarantee fee	**(2,000)**	(1,050)
Stock dividend	**-**	(14,971)
Balance at end of year	**(509,579)**	(283,964)
Treasury common shares		
Balance at beginning of year (2010: 3,426,106 shares; 2009: 6,473,180 shares)	**(34,660)**	(82,700)
Share based compensation	**3,593**	1,255
Net purchases, sales and transfers of treasury shares	**6,940**	46,785
Balance at end of year (2010: 2,401,593 shares; 2009: 3,426,106 shares)	**(24,127)**	(34,660)
Accumulated other comprehensive loss		
Balance at beginning of year	**(189,184)**	(66,370)
Net change in unrealised (losses) gains on translation of net investment in foreign operations	**(4,494)**	4,289
Net change in unrealised gains (losses) on available for sale investments	**38,809**	(54,480)
Net change in unrealised non-credit losses on held to maturity investments	**58,557**	(58,557)
Net change in employee future benefits liability	**57,698**	(14,066)
Balance at end of year	**(38,614)**	(189,184)
Total shareholders' equity	**809,288**	355,460
Comprehensive loss		
Net loss	**(207,615)**	(213,413)
Other comprehensive income (loss)	**150,570**	(122,814)
Total comprehensive loss	**(57,045)**	(336,227)
Components of accumulated other comprehensive loss		
Cumulative change in unrealised losses on translation of investment in foreign operations	**(12,144)**	(7,650)
Cumulative change in unrealised losses on available for sale investments	**(18,182)**	(56,991)
Cumulative change in unrealised non-credit losses on held to maturity investments	**-**	(58,557)
Cumulative change in employee future benefits liability	**(8,288)**	(65,986)
Balance at end of year	**(38,614)**	(189,184)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December (In thousands of Bermuda dollars)

	2010	2009
Cash flows from operating activities		
Net loss	**(207,615)**	(213,413)
Adjustments to reconcile net loss to operating cash flows:		
Depreciation and amortisation	**25,216**	27,859
Goodwill Impairment	**-**	8,020
Intangible assets impairment	**-**	5,246
Write down of computer software in development	**3,831**	5,120
Decrease in carrying value of investments in affiliates	**1,959**	1,688
Share-based payments	**7,612**	3,498
Realised loss on disposal of subsidiaries	**7,430**	-
Loss on sale of premises and equipment	**63**	200
Net gains on credit derivative instruments	**-**	(3,304)
Net realised and unrealised gains on private equity investments	**-**	(6,220)
Net realised gains on held to maturity investments	**-**	(2,298)
Other-than-temporary impairments on held to maturity investments	**-**	132,095
Net realised losses (gains) on sale of available for sale investments	**107,047**	(236)
Other-than-temporary impairments on available for sale investments	**60,522**	-
Provision for credit losses	**41,970**	104,879
Net change in trading investments	**2,371**	21,022
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**(1,520)**	24,422
(Increase) decrease in other assets	**(27,557)**	19,617
Decrease in accrued interest payable	**(2,707)**	(13,186)
Increase (decrease) in other liabilities	**110,223**	(57,048)
Cash provided by operating activities	**128,845**	57,961
Cash flows from investing activities		
Net (increase) decrease in term deposits with banks	**(536,208)**	276,722
Additions to premises, equipment and computer software	**(39,611)**	(51,832)
Net decrease in loans	**104,878**	156,721
Held to maturity investments: proceeds from maturities	**20,584**	908,725
Held to maturity investments: purchases	**-**	(3,515)
Available for sale investments: proceeds from sales and maturities	**6,315,787**	2,053,818
Available for sale investments: purchases	**(6,337,270)**	(2,263,266)
Payment of deferred consideration in relation with acquisition of subsidiaries	**-**	(4,618)
Cash and demand deposits held by subsidiaries at time of sale	**(4,657)**	-
Cash (used in) provided by investing activities	**(476,497)**	1,072,755
Cash flows from financing activities		
Net decrease in demand and term deposit liabilities	**(380,828)**	(1,316,814)
Issuance of common share capital	**295,000**	-
Issuance of preference share capital	**385,001**	200,000
Cost of issuing share capital and rights	**(28,767)**	(12,655)
Common shares repurchased	**(130,000)**	-
Proceeds from dividend re-investment plan	**-**	2,846
Treasury shares	**-**	133
Cash dividends paid on common shares	**-**	(14,938)
Cash dividends paid on preference shares	**(16,622)**	(7,067)
Preference shares guarantee fee paid	**(2,000)**	(1,050)
Cash provided by (used in) financing activities	**121,784**	(1,149,545)
Effect of exchange rates on cash and demand deposits with banks	**(14)**	(2,363)
Net decrease in cash and demand deposits with banks	**(225,882)**	(21,192)
Cash and demand deposits with banks at beginning of year	**551,249**	572,441
Cash and demand deposits with banks at end of year	**325,367**	551,249
Supplemental disclosure of cash flow information		
Cash interest paid	**58,770**	**62,778**
Cash income tax paid	**468**	**899**

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of Bermuda dollars)

NOTE 1: NATURE OF BUSINESS

The Bank of N.T. Butterfield & Son Limited ("Butterfield", "Bank" or the "Company") is incorporated under the laws of Bermuda and has a banking license under the Bank and Deposit Companies Act, 1999 ("the Act"). Butterfield is regulated by the Bermuda Monetary Authority ("BMA"), which operates in accordance with Basel principles.

Butterfield is a full service community bank and a provider of specialised wealth management services. Our services offered include retail, private & corporate banking, treasury, custody, asset management and personal & institutional trust services. The Bank provides such services from our seven jurisdictions: Bermuda, The Bahamas, Barbados, Cayman, Guernsey, Switzerland and the United Kingdom.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation and Use of Estimates and Assumptions

The accounting and financial reporting policies of the Bank and its subsidiaries conform to generally accepted accounting principles in the United States of America ("GAAP"). The preparation of financial statements in accordance with GAAP requires Management to make estimates and assumptions that affect the reported amounts 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, and actual results could differ from those estimates.

Critical accounting estimates are those that require Management to make subjective or complex judgments about the effect of matters that are inherently uncertain and may change in subsequent periods. Changes that may be required in the underlying assumptions or estimates in these areas could have a material impact on our future financial condition and results of operations. We believe that our most critical accounting policies upon which our financial condition depends, and which involves the most complex or subjective decisions or assessments, are as follows:

- i. Allowance for credit losses
- ii. Investments
- iii. Impairment of long-lived assets
- iv. Impairment of goodwill
- v. Employee future benefits
- vi. Fair value of financial instruments
- vii. Concentrations of credit risk & customers
- viii. Commitments and contingencies

b. Basis of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its majority-owned subsidiaries (collectively the "Bank") and those variable interest entities ("VIEs") where the Company is the primary beneficiary. Intercompany accounts and transactions have been eliminated. The Bank consolidates subsidiaries where it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. The Bank consolidates VIEs where it is considered to be the primary beneficiary. The Bank is deemed to have a controlling financial interest and is the primary beneficiary of a VIE if it has both the power to direct the activities of the VIE that most significantly impact the VIEs economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The determination of whether the Bank meets the criteria to be considered the primary beneficiary of a VIE requires a periodic evaluation of all transactions (such as investments, loans and fee arrangements) with the entity. Entities where the Bank holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence, other than investments in designated VIEs, are accounted for under the equity method, and the pro rata share of their income (loss) is included in other non-interest income.

c. Foreign Currency Translation

Assets, liabilities, revenues and expenses denominated in US dollars are translated to Bermuda dollars at par. Assets and liabilities arising from other foreign currency transactions are translated into Bermuda dollars at the rates of exchange prevailing at the Balance Sheet date. The resulting gains or losses are included in foreign exchange revenue in the Consolidated Statement of Operations.

The assets and liabilities of foreign currency based subsidiaries are translated at the rate of exchange prevailing on the Balance Sheet date while associated revenues and expenses are translated to Bermuda dollars at the average rates of exchange prevailing throughout the period. Unrealised translation gains or losses on investments in foreign currency based subsidiaries are recorded as a separate component of shareholders' equity within accumulated other comprehensive income (loss) ("AOCI"). Gains and losses on foreign currency based subsidiaries are recorded in the Consolidated Statement of Operations only when realised.

d. Assets Held in Trust or Custody

Securities and properties (other than cash and deposits held with the Bank and its subsidiaries) held in trust, custody, agency or fiduciary capacity for customers are not included in the Consolidated Balance Sheet because the Bank is not the beneficiary of these assets.

e. Investments

Investments in debt and equity securities are classified as trading, available for sale ("AFS") or held to maturity ("HTM").

Investments are classified primarily as AFS when used to manage the Bank's exposure to interest rate and liquidity movements, as well as to make

strategic longer-term investments. AFS investments are carried at fair value in the Consolidated Balance Sheet with unrealised gains and losses reported as net increase or decrease to accumulated other comprehensive income (loss). Debt and equity securities classified as trading investments are carried at fair value in the Consolidated Balance Sheet, with unrealised gains and losses included in the Consolidated Statement of Operations as net realised / unrealised gains (losses) on trading investments.

Investments that the Bank has the positive intent and ability to hold to maturity are classified as HTM and are carried at amortised cost in the Consolidated Balance Sheet. Unrecognised gains and losses on HTM securities are disclosed in the notes to the financial statements. The specific identification method is used to determine realised gains and losses on AFS and HTM investments, which are included in net realised gains and losses on AFS and HTM investments respectively in the Consolidated Statement of Operations.

As of 2 March 2010 the Bank no longer applied the HTM classification.

Dividend and interest income, including amortisation of premiums and discounts, on securities for which cash flows are not considered uncertain are included in interest income in the Consolidated Statement of Operations. For securities with uncertain cash flows, the investments are accounted for under the cost recovery method, whereby all principal and coupon payments received are applied as a reduction of the amortised cost and carrying amount. Accrual of income is suspended in respect of debt securities that are in default, or from which it is unlikely that future interest payments will be received as scheduled.

Contained within other assets are investments in a closed ended fund and private equity companies for which the Bank does not have sufficient rights or ownership interests to follow the equity method of accounting. The Bank accounts for these investments, which do not have readily determinable market values, at estimated fair value as it has no significant influence over these entities. Fair values for investments in the closed ended fund and private equity companies are primarily based on the net asset value provided by the investment manager or the respective entity, recent financial information, available market data or, in certain cases, Management judgment may be required. The change in fair value in these investments are included in other gains/(losses) in the Consolidated Statement of Operations.

Recognition of other-than-temporary impairments
In April 2009, the FASB amended the other-than-temporary impairment ("OTTI") model for debt securities. The impairment model for equity securities was not affected. Under this guidance, OTTI loss must be recognised in net income if it is more likely than not that the investor will sell the debt security before recovery of its amortised cost basis. However, even if an investor does not expect to sell a debt security, the investor must evaluate expected cash flows to be received and determine if recovery of the security's entire amortised cost basis (the recoverable value) is expected and whether a credit loss exists.

In situations where there is a credit loss, only the amount of impairment relating to credit losses on AFS and HTM investments is recognised in net income and for AFS Investements, the decrease in fair value relating to factors other than credit losses are recognised in Other Comprehensive Income (Loss) ("OCI").

The Bank adopted the aforementioned guidance effective for the period ending 30 June 2009. The Bank did not record a transition adjustment for securities held at 30 June 2009, which were previously considered other-than-temporarily impaired, as Management's analysis showed OTTI on securities which it had previously recognised other-than-temporary impairments to be entirely credit related.

Investments in debt securities in unrealised loss positions are analysed as part of Management's ongoing assessment of OTTI. When Management intends to sell such securities or it is more likely than not that the Bank will be required to sell the securities before recovering the amortised cost, it recognises an impairment loss equal to the full difference between the amortised cost basis and the fair value of those securities. When Management does not intend to sell or it is not more likely than not that the Bank will be required to sell such securities before recovering the amortised cost, Management estimates cash flows over the remaining lives of the underlying security to assess whether credit losses exist. In determining whether credit losses exist, Management considers a variety of factors, including the length of time and extent to which the fair value has been less than cost; adverse conditions specifically related to the industry, geographic area or financial condition of the issuer or underlying collateral of a security; payment structure of the security; changes to the rating of the security by a rating agency; the volatility of the fair value changes; and changes in fair value of the security after the Balance Sheet date. The degree of judgment involved in determining the recoverable 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, judgment is necessary to estimate recoverable 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.

Cash flow estimates take into account expectations of relevant market and economic data as of the end of the reporting period – including, for example, underlying loan-level data, and structural features of securitisation, such as subordination, excess spread, over collateralisation or other forms of credit enhancement.

Losses projected for the underlying collateral ("pool losses") are compared against the level of credit enhancement in the securitisation structure to determine whether these features are sufficient to absorb the pool losses, or whether a credit loss on the debt security exists. As at 31 December 2010, Management's cash flow forecasts for structured investment vehicles ("SIVs") were created in conjunction with a third-party specialist in analytical cash flow modelling. Management also performs other analyses to support its cash flow projections. For debt securities, Management considers a decline in fair value to be other-than-temporary when it does not expect to recover the entire amortised cost basis of the security.

Management's valuations may include inputs and assumptions that are less observable or require greater estimation, thereby resulting in values which may be greater or lower than the actual value at which the investments may be ultimately sold or the ultimate cash flows that may be recovered. If the assumptions on which Management based its valuations change, the Bank may experience additional OTTI or realised losses or gains, and the period-to-period changes in value could vary significantly.

f. Loans

Loans are reported at the principal amount outstanding, net of allowance for credit losses, unearned income and net deferred loan fees. Interest income is recognised over the term of the loan using the effective interest method, or on a basis approximating a level rate of return over the term of the loan, except for loans classified as non-accrual.

Impaired loans

A loan is considered to be impaired when, based on current information and events, the Bank determines that it will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. The Bank accounts for and discloses non-accrual loans as impaired loans.

When a loan is identified as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases the current fair value of the collateral, less selling costs, is used instead of discounted cash flows.

If the Bank determines that the expected realisable value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortised premium or discount), impairment is recognised through an allowance estimate or a charge-off.

Non-accrual

Commercial, Commercial real estate and Consumer loans (excluding credit card consumer loans) are placed on non-accrual status immediately if:

- in the opinion of Management, full payment of principal or interest is in doubt; or
- principal or interest is 90 days past due.

Residential mortgages are placed on non-accrual status immediately if:

- in the opinion of Management, full payment of principal or interest is in doubt; or
- when principal or interest is 90 days past due, unless the loan is well secured and any ongoing collection efforts are reasonably expected to result in repayment of all amounts due under the contractual terms of the loan.

Interest income on non-accrual loans is recognised only to the extent it is received in cash. Cash received on non-accrual loans where there is no doubt regarding full repayment (no impairment recognised in the form of a specific allowance) is first applied as repayment of the past due principal amount of the loan and secondly to past due interest and fees.

Where there is doubt regarding the ultimate full repayment of the non-accrual loan (impairment recognised in the form of a specific allowance), all cash received is applied to reduce the principal amount of the loan. Interest income on these loans is recognised only after the entire balance receivable is recovered and interest is actually received.

Loans are restored to accrual status only when interest and principal payments are brought current and future payments are reasonably assured.

Delinquencies

The entire balance of an account is contractually delinquent if the minimum payment of principal or interest is not received by the specified due date. Delinquency is reported on loans that are 30 days or more past due.

Charge-offs

The Bank recognises charge-offs when it determines that loans are uncollectible and this generally occurs when all commercially reasonable means of recovering the loan balance have been exhausted.

Commercial and Consumer loans are either fully or partially charged off down to the fair value of collateral securing the loans when:

- Management judges the loan to be uncollectible;
- repayment is expected to be protracted beyond reasonable time frames;
- the asset has been classified as a loss by either the Bank's internal loan review process or external examiners; or
- the customer has filed bankruptcy and the loss becomes evident owing to a lack of assets or cash flow.

The outstanding balance of Commercial and Consumer real estate secured loans and residential mortgages that are in excess of the estimated property value, less cost to sell, is charged off once there is reasonable assurance that such excess outstanding balance is not recoverable.

Credit card consumer loans that are contractually 180 days past due and other consumer loans with an outstanding balance under $100,000 that are contractually 180 days past due are written off and reported as charge-offs.

g. Allowance for Credit Losses

The Bank maintains an allowance for credit losses, which in Management's opinion is adequate to absorb all estimated credit related losses in its lending and off-Balance Sheet credit related arrangements at the Balance Sheet date. The allowance for credit losses consists of specific allowances and a general allowance as follows:

Specific Allowances

Specific allowances are determined on an exposure by exposure basis and reflect the associated estimated credit loss. The specific allowance for credit loss is computed as the difference between the recorded investment in the loan and the present value of expected future cash flows from the loan. The effective rate of return on the loan is used for discounting the cash flows. However, when foreclosure of a collateral-dependent loan is probable, the Bank measures impairment based on the fair value of the collateral. The Bank considers estimated costs to sell, on a discounted basis, in the measurement of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan. If the measurement of an impaired loan is less than the recorded investment in the loan, then the Bank recognises impairment by creating an allowance with a corresponding charge to provision for credit losses.

General Allowance

The allowance for credit losses attributed to the remaining portfolio is established through various analyses that estimate the incurred loss at the Balance Sheet date inherent in the lending and off-Balance Sheet credit related arrangements portfolios. These analyses consider historical default rates and loss severities, internal risk ratings, and geographic, industry, and other environmental factors. Management also considers overall portfolio indicators including trends in internally risk rated exposures, cash-basis loans, historical and forecasted write-offs, and a review of industry, geographic and portfolio concentrations, including current developments within those segments. In addition, Management considers the current business strategy and credit process, including limit setting and compliance, credit approvals, loan underwriting criteria and loan workout procedures.

Each portfolio of smaller balance, homogeneous loans, including consumer installment, revolving credit, and most other consumer loans, is collectively evaluated for impairment. The allowance for credit losses attributed to these loans is established via a process that estimates the probable losses inherent and incurred in the portfolio, based upon various analyses. Management considers overall portfolio indicators including historical credit losses; delinquent (defined as loans with payments contractually over 30 days past due), non-performing, and classified loans; trends in volumes and terms of loans; an evaluation of overall credit quality; the credit process, including lending policies and procedures; and economic, geographical, product, and other environmental factors.

h. Business Combinations, Goodwill and Intangible Assets

All business combinations are accounted for using the purchase method. Identifiable intangible assets (mostly customer relationships) are recognised separately from goodwill and are initially valued using discounted cash flow calculations and other recognised valuation techniques. Goodwill represents the excess of the price paid for the acquisition of a business over the fair value of the net assets acquired.

Goodwill is tested annually for impairment at the reporting unit level, or more frequently if events or circumstances indicate there may be impairment. If the carrying amount of a reporting unit, including the allocated goodwill, exceeds its fair value, goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill. Other acquired intangible assets with finite lives are amortised on a straight-line basis over their estimated useful lives, not exceeding 15 years. Intangible assets' estimated lives are re-evaluated annually and an impairment test is carried out if certain indicators of impairment exist.

i. Premises, Equipment and Computer Software

Land, building, equipment and computer software, including leasehold improvements, are carried at cost less accumulated depreciation. The Bank generally computes depreciation using the straight-line method over the estimated useful life of an asset, which is 50 years for buildings, and 3 to 10 years for other equipment. For leasehold improvements the Bank uses the straight-line method over the lesser of the remaining term of the leased facility or the estimated economic life of the improvement. The Bank capitalises certain costs, including interest cost incurred during the development phase, associated with the acquisition or development of internal use software. Once the software is ready for its intended use, these costs are amortised on a straight-line basis over the software's expected useful life, which is between 5 and 10 years.

Management reviews the recoverability of the carrying amount of premises, equipment and computer software when indicators of impairment exist and an impairment charge is recorded when the carrying amount of the reviewed asset is deemed not recoverable by future expected cash flows to be derived from the use and disposition of the asset.

j. Derivatives

All derivatives are recognised on the Consolidated Balance Sheet at their fair value. On the date that the Bank enters into a derivative contract, it designates the derivative as: a hedge of the fair value of a recognised asset or liability (a fair value hedge); a hedge of a forecasted transaction or the variability of cash flows that are to be received or paid in connection with a recognised asset or liability (a cash flow hedge); or an instrument that is held for trading or non-hedging purposes (a trading or non-hedging instrument).

The changes in the fair value for a derivative that is designated and qualifies as a fair value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk, are recorded in current period earnings. When the hedge is highly effective, the changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction. Any hedge ineffectiveness is recorded in current period earnings.

The changes in the fair value of a derivative that is designated and qualifies as a foreign currency hedge is recorded in either current period earnings or other comprehensive income, depending on whether the hedging relationship satisfies the criteria for a fair value or cash flow when the hedge is highly effective. If, however, a derivative is used as a hedge of a net investment in a foreign operation, the changes in the derivative's fair value, to the extent that the derivative is effective as a hedge, are recorded in the cumulative translation adjustment account within other comprehensive income. Changes in the fair value of derivative trading and non-hedging instruments are reported in current period earnings.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value, cash flow, or foreign currency hedges to specific assets and liabilities on the Consolidated Balance Sheet or specific firm commitments or forecasted transactions. The Bank also formally assesses whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative has ceased to be highly effective as a hedge, the Bank discontinues hedge accounting prospectively.

For those hedge relationships that are terminated, hedge designations that are removed, or forecasted transactions that are no longer expected to occur, the hedge accounting treatment described in the paragraphs above is no longer applied and the end-user derivative is terminated or transferred to the trading account. For fair value hedges, any changes to the hedged item remain as part of the basis of the asset or liability and are ultimately reflected as an element of the yield. For cash flow hedges, any changes in fair value of the end-user derivative remain in other comprehensive income and are included in retained earnings of future periods when earnings are also affected by the variability of the hedged cash flows. If the forecasted transaction is no longer likely to occur, any changes in fair value of the end-user derivatives are recognised in net income.

k. Employee Future Benefits

The Bank maintains trusteed pension plans for substantially all employees as either non-contributory defined benefit plans or defined contribution plans. Benefits under the defined benefit plans are primarily based on the employee's years of credited service and average annual salary during the final years of employment as defined in the plans. The Bank also provides post-retirement medical benefits for certain qualifying active and retired Bermuda-based employees.

Expense for the defined benefit pension plans and the post-retirement medical benefits plan is comprised of (a) the actuarially determined benefits for the current year's service, (b) imputed interest on the actuarially determined liability of the plan, (c) in the case of the defined benefit pension plans, the expected investment return on the fair value of plan assets and (d) amortisation of certain items over the expected average remaining service life of employees in the case of the defined benefit pension plans, and the expected average remaining service life to full eligibility age of employees covered by the plan in the case of the post-retirement medical benefits plan. The items amortised are amounts arising as a result of experience gains and losses, changes in assumptions, plan amendments and the change in the net pension asset or post-retirement medical benefits liability arising on adoption of revised accounting standards.

For each of the defined benefit pension plans and for the post-retirement medical benefits plan, the asset (liability) recognised for accounting purposes is reported in other assets and employee future benefits. The actuarial gains and losses, transition obligation and past service costs of the defined pension plans and post-retirement medical benefits plan are recognised in OCI net of tax and amortised to net income over the average service period.

For the defined contribution pension plans the Bank and participating employees provide an annual contribution based on each participating employee's pensionable earnings. Amounts paid are expensed in the period.

l. Share-Based Compensation

The Bank engages in equity settled share-based payment transactions in respect of services received from eligible employees. The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in respect of the shares or share options granted is recognised in the Income Statement over the shorter of the vesting or service period.

The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the current share price, the risk free interest rate, expected dividend rate, the expected volatility of the share price over the life of the option and other relevant factors. Time vesting conditions are taken into account by adjusting the number of shares or share options included in the measurement of the cost of employee services so that ultimately, the amount recognised in the income statement reflects the number of vested shares or share options. The Bank recognises compensation cost for awards with performance conditions if and when the Bank concludes that it is probable that the performance condition will be achieved, net of an estimate of pre-vesting forfeitures (e.g., due to termination of employment prior to vesting).

m. Revenue Recognition

Trust and investment services fees include fees for private and institutional trust, executorship, and custody services. Asset management fees include fees for investment management, investment advice and brokerage services. Fees are recognised as revenue over the period of the relationship or when the Bank has rendered all services to the clients and is entitled to collect the fee from the client, as long as there are no contingencies associated with the fee.

Banking services fees primarily include fees for certain loan origination, letters of credit, other financial guarantees, compensating balances and other financial services related products. Certain loan origination fees are primarily overdraft and other revolving lines of credit fees. These fees are recognised as revenue over the period of the underlying facilities. Letters of credit fees are recognised as revenue over the period in which the related service is

provided. All other fees are recognised as revenue in the period in which the service is provided.

Loan interest income includes the amortisation of non-refundable loan origination and commitment fees. These fees are deferred (except for certain retrospectively determined fees meeting specified criteria) and recognised as an adjustment of yield over the life of the related loan. These loan origination and commitment fees are offset by their related direct cost and only the net amounts are deferred and amortised into interest income.

Dividend and interest income, including amortisation of premiums and discounts, on securities for which cash flows are not considered uncertain are included in interest income in the Consolidated Statement of Operations. Loans placed on non-accrual status and investments with uncertain cash flows are accounted for under the cost recovery method, whereby all principal, dividends, interest and coupon payments received are applied as a reduction of the amortised cost and carrying amount.

n. Fair Values

Fair value is defined 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 assets and liabilities based on the fair value hierarchy which requires an entity to maximise the use of observable inputs and minimise the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. Investments classified as trading and available for sale, and derivative assets and liabilities are recognised in the Consolidated Balance Sheet at fair value.

Level 1, 2 and 3 valuation inputs

Management classifies items that are recognised at fair value on a recurring basis based on the Level of inputs used in their respective fair value determination as described below.

Fair value inputs are considered Level 1 when based on unadjusted quoted prices in active markets for identical assets.

Fair value inputs are considered Level 2 when based on internally developed models or based on prices published by independent pricing services using proprietary models. To qualify for Level 2, all significant inputs used in these models must be observable in the market place or can be corroborated by observable market data for substantially the full term of the instrument and includes, among others: interest yield curves, credit spreads, prices for similar assets and foreign exchange rates. Level 2 also includes financial instruments that are valued using quoted price for identical assets but for which the market is not considered active due to low trading volumes.

Fair value inputs are considered Level 3 when based on internally developed models using significant unobservable assumptions involving Management's estimations or non-binding bid quotes from brokers.

The following methods and assumptions were used in the determination of the fair value of financial instruments:

Cash and deposits with banks

The carrying amount of cash and deposits with banks, being short term in nature, is deemed to equate to the fair value.

Investments and employee future benefits plans' assets

The fair values of investments and pension plans assets 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.

Loans

The majority of loans are variable rate and re-price in response to changes in market rates and hence Management estimates that the fair value of loans is not significantly different than their carrying amount. The fair value of significant fixed-rate loan exposures have been hedged by entering into corresponding pay-fixed-receive-floating interest rate swaps. These swaps are considered effective hedges of the fair value of fixed-rate loans and are designated as such. Accordingly, the carrying amount of hedged fixed-rate loans is adjusted to reflect their fair value.

Accrued interest

The carrying amounts of accrued interest receivable and payable are assumed to approximate their fair values given their short-term nature.

Deposits

The fair value of fixed-rate deposits has been estimated by discounting the contractual cash flows, using market interest rates offered at the balance sheet date for deposits of similar terms. The carrying amount of deposits with no stated maturity date is deemed to equate to the fair value.

Subordinated capital

The fair value of the subordinated capital has been estimated by discounting the contractual cash flows, using current market interest rates applicable to the Bank.

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.

Reporting units
The fair value of reporting units for which goodwill is recognised is determined by discounting estimated future cash flows using discount rates reflecting valuation-date market conditions and risks specific to the reporting unit.

o. Credit Related Arrangements
In the normal course of business, the Bank enters into various commitments to meet the credit requirements of its customers. Such commitments, which are not included in the Consolidated Balance Sheet, include:

i. Commitments to extend credit which represent undertakings to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions.
ii. Standby letters of credit, which represent irrevocable obligations to make payments to third parties in the event that the customer is unable to meet its financial obligations.
iii. Documentary and commercial letters of credit, primarily related to the import of goods by customers, which represent agreements to honour drafts presented by third parties upon completion of specific activities.

These credit arrangements are subject to the Bank's normal credit standards and collateral is obtained where appropriate. The contractual amounts for these commitments set out in the table in Note 11 represent the maximum payments the Bank would have to make should the contracts be fully drawn, the counterparty default, and any collateral held prove to be of no value. As many of these arrangements will expire or terminate without being drawn upon or are fully collateralised, the contractual amounts do not necessarily represent future cash requirements. The Bank does not carry any liability for these obligations.

p. Income Taxes
The Bank uses the asset and liability method whereby income taxes reflect the expected future tax consequences of temporary differences between the financial statements' carrying amounts of assets and liabilities and their respective tax bases. Accordingly, a deferred income tax asset or liability is determined for each temporary difference based on the enacted tax rates to be in effect on the expected reversal date of the temporary difference. Income taxes on the Consolidated Statement of Operations include the current and deferred portions of the income taxes. Income taxes applicable to items charged or credited directly to shareholders' equity are included in such items.

Net deferred income tax assets or liabilities accumulated as a result of temporary differences are included in other assets or other liabilities, respectively. A valuation allowance is established to reduce deferred income tax assets to the amount more likely than not to be realised.

The Bank initially recognises the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. The Bank recognises interest accrued and penalties related to unrecognised tax benefits in operating expenses.

q. Consolidated Statement of Cash Flows
For the purposes of the Consolidated Statement of Cash Flows, cash and demand deposits with banks include cash and demand deposits, vault cash and cash in transit where the Bank holds the related assets.

r. Earnings Per Share
Earnings per share have been calculated using the weighted average number of common shares outstanding during the year (see also Notes 18 and 22). Dividends declared on preference shares and related guarantee fees are deducted from net income to obtain net income available to common shareholders. In periods when basic earnings per share is positive, the dilutive effect of share-based compensation plans is 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 common shares, using the quarterly average market price of the Bank's shares for the period.

s. Impairment or Disposal of Long-Lived Assets
Impairment losses are recognised when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected from its use and disposal. The impairment recognised is measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets that are to be disposed of other than by sale are classified and accounted for as held for use until the date of disposal or abandonment. Assets that meet certain criteria are classified as held for sale and are measured at the lower of their carrying amounts or fair value, less costs of sale.

t. Charitable Trust
In July 2000, the Bank established a charitable trust with the irrevocable purpose to make charitable donations to persons ordinarily resident in Bermuda (the Charitable Trust). As a not-for-profit organisation, the Charitable Trust is not consolidated in the Bank's financial statements. As the Charitable Trust's trustees are representatives of the Bank, the Bank's endowment donations to the Charitable Trust are recognised at their recoverable amount in Other assets in the Consolidated Balance Sheet until dispersed by the Charitable Trust, at which time, donations are recognised in Other expenses in the Consolidated Statement of Income.

u. New Accounting Pronouncements

Accounting for transfers of financial assets

In June 2009, the Financial Accounting Standards Board ("FASB") issued final authoritative guidance over accounting for transfers of financial assets which removed the concept of a qualifying special-purpose entity from existing accounting guidance over transfers of financial assets and also removed the exception from applying guidance surrounding consolidation of variable interest entities to qualifying special-purpose entities. The guidance was effective for all interim and annual periods beginning after 15 November 2009. Earlier application was prohibited. This new guidance was applied by the Bank from 1 January 2010; however, it did not have a material impact on the Bank's consolidated financial condition or results of operations.

Accounting for consolidation of variable interest entities

In June 2009, the FASB issued final authoritative accounting guidance in an effort to improve financial reporting by enterprises involved with variable interest entities. This guidance retained the scope of the previous standard covering variable interest entities with the addition of entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated in the new authoritative guidance. The new guidance required an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity under revised guidelines that are more qualitative than under previous guidance and amends previous guidance to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Before this update, previous guidance required reconsideration of whether an enterprise is the primary beneficiary of a variable interest entity only when specific events occurred.

The new guidance also amended previous guidance to require enhanced disclosures that provide users of financial statements with more transparent information about an enterprise's involvement with a variable interest entity. The enhanced disclosures are required for any enterprise that holds a variable interest in a variable interest entity. The guidance was effective for all interim and annual periods beginning after 15 November 2009. Earlier application was prohibited. The Bank applied this new guidance from 1 January 2010; however, it did not have a material impact on the Bank's consolidated financial condition and results of operations.

In February 2010, the FASB issued an accounting standards update for amendments to certain investment funds which indefinitely defers the effective date of the new guidance for an asset manager's interests in entities that have attributes of investment companies (e.g., mutual funds, hedge funds, private equity funds, and venture capital funds), provided that the asset manager does not have an explicit or implicit obligation to fund actual losses that potentially could be significant to the investment company. The update also clarifies certain conditions under which fees paid to a decision maker or service provider are considered variable interests in a variable interest entity. Under the provisions of the new guidance the Bank may have been required to consolidate certain entities to which we provide asset management services. In accordance with the provisions of the update, the Bank deferred adoption of the new guidance for those entities. The Bank has not yet completed its assessment of the effect, if any, that the lapsing of the deferral period will have on the Bank's consolidated financial condition or results of operations.

Fair value measurements and disclosures — improving disclosures about fair value measurements

In January 2010, FASB issued an accounting standards update on Improving Disclosures about Fair Value Measurements which clarified existing disclosure requirements, about fair value measurements. The additional requirements included disclosure regarding the amounts and reasons for significant transfers in and out of Level 1 and 2 of the fair value hierarchy and also separated presentation of purchases, sales, issuances and settlements of items measured using significant unobservable inputs (i.e., Level 3). The guidance clarified existing disclosure requirements regarding the inputs and valuation techniques used to measure fair value for measurements that fall in either Level 2 or Level 3 of the hierarchy. The requirements were effective for interim and annual reporting periods beginning after 15 December 2009 except for the disclosures about Level 3 purchases, sales, issuances and settlements which are effective for fiscal years beginning after 15 December 2010 and for interim periods within those fiscal years. The Bank has added the fair value disclosures that are required by this update to our consolidated financial statement footnotes. This standard affected disclosures only and accordingly did not have an impact on the Bank's consolidated financial condition or results of operations.

Financing receivables and the allowance for credit losses disclosures

In July 2010, the FASB issued an accounting standards update about additional "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses". The new disclosure guidance significantly expanded the existing requirements. The extensive new disclosures of information became effective for both interim and annual reporting periods ending after 15 December 2010. Specific items regarding activity that occurred before the issuance of the Accounting Standards Update, such as the allowance roll forward and modification disclosures are required for periods beginning after 15 December 2010. The adoption of this standard did not affect the Bank's consolidated financial condition or results of operations since it amended only the disclosure requirements for financing receivables and the allowance for credit losses. The prior period figures for loan disclosures have been reclassified to conform to the current enhanced note disclosures required by the standard.

NOTE 3: CASH AND DEPOSITS WITH BANKS

	2010			2009		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Non-interest earning						
Cash and demand deposits	**118,155**	**42,895**	**161,050**	30,030	52,914	82,944
Interest earning						
Deposits maturing within three months and on demand	**502,174**	**1,585,930**	**2,088,104**	247,589	1,628,336	1,875,925
Deposits maturing between three to six months	**-**	**392**	**392**	-	2,030	2,030
Deposits maturing between six to twelve months	**-**	**1,215**	**1,215**	-	2,239	2,239
Sub-total - Interest earning	**502,174**	**1,587,537**	**2,089,711**	247,589	1,632,605	1,880,194
Total unrestricted cash and deposits	**620,329**	**1,630,432**	**2,250,761**	277,619	1,685,519	1,963,138
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Non-interest earning						
Demand deposits	**-**	**6,156**	**6,156**	-	8,463	8,463
Interest earning						
Deposits maturing within three months	**18,157**	**472**	**18,629**	14,871	326	15,197
Total restricted deposits	**18,157**	**6,628**	**24,785**	14,871	8,789	23,660
Total cash and deposits with banks	**638,486**	**1,637,060**	**2,275,546**	292,490	1,694,308	1,986,798

NOTE 4: INVESTMENTS

Amortised cost, carrying amounts and estimated fair value.

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

	2010				2009			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount/ Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount/ Fair value
Trading								
Debt securities issued by non-US governments	**6,553**	**150**	**(192)**	**6,511**	7,724	215	(274)	7,665
Equity securities	**11,981**	**273**	**(677)**	**11,577**	13,358	-	-	13,358
Total trading	**18,534**	**423**	**(869)**	**18,088**	21,082	215	(274)	21,023
Available for sale								
Certificates of deposit	**1,017,378**	**4,890**	**(14)**	**1,022,254**	1,036,190	4,353	(946)	1,039,597
US government and federal agencies	**927,598**	**398**	**(10,502)**	**917,494**	66,915	89	(909)	66,095
Debt securities issued by non-US governments	**148,465**	**1,675**	**(11)**	**150,129**	12,456	-	-	12,456
Corporate debt securities guaranteed by non-US governments	**149,948**	**76**	**(304)**	**149,720**	-	-	-	-
Corporate debt securities	**352,960**	**14**	**(5,504)**	**347,470**	550,227	1,071	(9,154)	542,144
Mortgage-backed securities - Prime	**-**	**-**	**-**	**-**	30,967	-	(1,319)	29,648
Mortgage-backed securities - Subprime and Alt-A	**-**	**-**	**-**	**-**	35,033	421	(708)	34,746
Mortgage-backed securities - Commercial	**-**	**-**	**-**	**-**	6,312	8	-	6,320
Asset-backed securities - Student loans	**152,434**	**-**	**(5,623)**	**146,811**	156,285	-	(5,568)	150,717
Asset-backed securities - Automobile loans	**-**	**-**	**-**	**-**	116,018	-	(3,139)	112,879
Asset-backed securities - Credit cards	**-**	**-**	**-**	**-**	4,818	-	(322)	4,496
Collateralised debt and loan obligations	**-**	**-**	**-**	**-**	19,514	-	(1,450)	18,064
Structured investment vehicles	**62,762**	**-**	**(5,116)**	**57,646**	86,508	-	(36,579)	49,929
Equity securities	**77**	**-**	**-**	**77**	125	-	(53)	72
Total available for sale	**2,811,622**	**7,053**	**(27,074)**	**2,791,601**	2,121,368	5,942	(60,147)	2,067,163

There were no held to maturity investments as at 31 December 2010.

31 December 2009	Amortised cost	Non-credit impairments recognised in AOCI	Carrying amount	Gross unrecognised gains	Gross unrecognised losses	Fair values
Held to maturity						
Debt securities issued by non-US governments	28,893	-	28,893	1,160	(19)	30,034
Corporate debt securities	205,938	-	205,938	1,390	(5,677)	201,651
Mortgage-backed securities - Prime	18,498	-	18,498	-	(674)	17,824
Mortgage-backed securities - Subprime and Alt-A	216,573	(15,918)	200,655	-	(61,583)	139,072
Mortgage-backed securities - Commercial	39,996	-	39,996	-	(7,194)	32,802
Asset-backed securities - Student loans	10,854	-	10,854	-	(995)	9,859
Asset-backed securities - Automobile loans	10,000	-	10,000	-	(1,085)	8,915
Asset-backed securities - Commercial	43,560	(11,771)	31,789	-	(4,295)	27,494
Asset-backed securities - Credit cards	10,070	-	10,070	-	(675)	9,395
Collateralised debt and loan obligations	141,407	-	141,407	-	(37,691)	103,716
Structured investment vehicles	174,484	(33,869)	140,615	-	(30,184)	110,431
Total held to maturity	900,273	(61,558)	838,715	2,550	(150,072)	691,193

The impairments recognised in AOCI in 2010 represent the total loss that would have been recognised in net income if the investment securities had been sold at their estimated fair value on 31 December 2010 and are the result of various factors other than deterioration in the creditworthiness of the issuer such as changes in interest rates, credit spreads or liquidity discounts. As at 31 December 2010, Management did not intend to sell these securities and believed it not likely that the Bank would be required to sell these securities prior to recovery of their amortised cost basis.

Unrecognised and unrealised losses have decreased since 31 December 2009 due primarily to the transfer of investments from the HTM to the AFS portfolio and the effect of the recognition of $60.5 million of impairment during the year 2010, the disposal of securities resulting in a realised loss of $107 million, reduction of amortised cost from application of cash receipts and increased fair values across asset classes resulting from improved market spread and market liquidity.

Unrealised loss positions

The following tables show the fair value and gross unrealised losses of the Bank's available for sale and held to maturity 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 are categorised as being in a continuous loss position for "Less than 12 months" or "12 months or more" based on the point in time that the fair value declined below the cost basis.

31 December 2010	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
Available for sale						
Certificates of deposit	176,125	(14)	-	-	176,125	(14)
US government and federal agencies	775,157	(10,459)	23,337	(43)	798,494	(10,502)
Debt securities issued by non-US governments	3,239	(11)	-	-	3,239	(11)
Corporate debt securities guaranteed by non-US governments	108,611	(304)	-	-	108,611	(304)
Corporate debt securities	8,075	(46)	322,995	(5,458)	331,070	(5,504)
Asset-backed securities - Student loans	-	-	146,811	(5,623)	146,811	(5,623)
Structured investment vehicles	-	-	57,646	(5,116)	57,646	(5,116)
Total available for sale securities with unrealised losses	1,071,207	(10,834)	550,789	(16,240)	1,621,996	(27,074)

31 December 2009	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
Available for sale						
Certificates of deposit	226,933	(946)	-	-	226,933	(946)
US government and federal agencies	-	-	62,404	(909)	62,404	(909)
Corporate debt securities	-	-	502,440	(9,154)	502,440	(9,154)
Mortgage-backed securities - Prime	-	-	29,648	(1,319)	29,648	(1,319)
Mortgage-backed securities - Subprime and Alt-A	-	-	26,345	(708)	26,345	(708)
Asset-backed securities - Student loans	-	-	150,716	(5,568)	150,716	(5,568)
Asset-backed securities - Automobile loans	-	-	112,880	(3,139)	112,880	(3,139)
Asset-backed securities - Credit cards	-	-	4,496	(322)	4,496	(322)
Collateralised debt and loan obligations	-	-	18,063	(1,450)	18,063	(1,450)
Structured investment vehicles	49,929	(36,579)	-	-	49,929	(36,579)
Equity securities	72	(53)	-	-	72	(53)
Total available for sale securities with unrealised losses	276,934	(37,578)	906,992	(22,569)	1,183,926	(60,147)
Held to maturity						
Debt securities issued by non-US governments	1,996	(19)	-	-	1,996	(19)
Corporate debt securities	12,961	(781)	183,782	(4,896)	196,743	(5,677)
Mortgage-backed securities - Prime	-	-	17,823	(674)	17,823	(674)
Mortgage-backed securities - Subprime and Alt-A	-	-	120,313	(61,583)	120,313	(61,583)
Mortgage-backed securities - Commercial	-	-	32,801	(7,194)	32,801	(7,194)
Asset-backed securities - Student loans	-	-	9,859	(995)	9,859	(995)
Asset-backed securities - Automobile loans	-	-	8,915	(1,085)	8,915	(1,085)
Asset-backed securities - Commercial	-	-	17,613	(4,295)	17,613	(4,295)
Asset-backed securities - Credit cards	-	-	9,395	(675)	9,395	(675)
Collateralised debt and loan obligations	-	-	101,700	(37,691)	101,700	(37,691)
Structured investment vehicles	63,362	(30,184)	-	-	63,362	(30,184)
Total held to maturity securities with unrecognised losses	78,319	(30,984)	502,201	(119,088)	580,520	(150,072)

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

Certificates of deposit

As of 31 December 2010, gross unrealised losses on the Bank's holdings of certificates of deposit ("CDs") were $0.01 million, all of which related to CDs that have been in an unrealised loss position for less than 12 months. Management assesses the credit quality of the issuers, which includes assessments of credit ratings (the Bank only purchases CDs that are rated investment grade) and credit worthiness of the issuer and concluded that the CDs do not have any credit losses.

US government and federal agencies

As of 31 December 2010, gross unrealised losses on the Bank's holdings of securities guaranteed by the United States ("US") government and its federal agencies were $10.5 million, $0.04 million of which related to investments that were in an unrealised loss position for longer than 12 months. Management believes that all the securities in this class do not have any credit losses, given the explicit and implicit guarantees provided by the US federal government.

Debt securities issued by non-US governments

As of 31 December 2010, gross unrealised losses on debt securities issued by non-US governments were $0.01 million, all of which related to investments that were in an unrealised loss position for less than 12 months. All securities in this category were issued by governments of Caribbean jurisdictions. These securities do not have any credit losses, given the explicit guarantees provided by the non-US governments.

Corporate debt securities guaranteed by non-US governments

As of 31 December 2010, gross unrealised losses related to corporate debt securities guaranteed by non-US governments were $0.3 million, all of which related to investments that were in an unrealised loss position for less than 12 months. All the bank issued securities held are explicitly guaranteed by the following governments: United Kingdom, Netherlands, France, Australia, Denmark and Germany. One security is jointly and explicitly guaranteed proportionately by three European Governments: Belgium, France and Luxembourg. These securities do not have any credit losses, given the guarantees provided by the non-US governments.

Corporate debt securities

As of 31 December 2010, gross unrealised losses related to corporate debt securities were $5.5 million, all of which related to investments that were in an unrealised loss position for longer than 12 months. Management estimates of cash flows are based on market observable data, issuer-specific information and credit ratings. Management believes these securities do not have any credit losses.

Asset-backed securities - Student loans

As of 31 December 2010, gross unrealised losses on student-loan asset-backed securities were $5.6 million, all of which related to securities that have been in an unrealised loss position for longer than 12 months. All of these securities are "AAA" rated and Management believes these securities do not have any credit losses. All student loan asset-backed securities ("ABS") are backed by loans that fall within the US Federally guaranteed Federal Family Education Loan Program ("FFELP"). The unrealised losses were due to wider credit spreads and a maturity profile that was longer than was initially estimated.

Structured investment vehicles

A structured investment vehicle ("SIV") was a type of fund whose strategy was to borrow money by issuing highly rated short-term securities bearing low interest and then invests that money by buying long-term securities such as a range of asset-backed securities, as well as some corporate bonds, earning higher interest, making a profit from the spread.

As of 31 December 2010, gross unrealised losses related to SIVs were $5.1 million (2009: $66.8 million), all of which related to SIVs that were in an unrealised loss position for greater than 12 months. Unrealised losses have decreased since 31 December 2009 as a result of the OTTI recognised increases in fair value, reduction of amortised cost from application of cash receipts and the disposal of two SIVs during 2010. The Bank recognised $60.5 million of OTTI losses in net income for SIVs whose underlying cash flow assumptions deteriorated. In analysing SIVs for potential credit losses, key inputs to cash flow projections were congruous with the key inputs noted in the Bank's audited financial statements for the year ending 31 December 2009 for each collateral class.

During the year ended 31 December 2010 the Bank disposed of its investment in two SIVs and realised a net gain of $4.7 million on disposal. At 31 December 2010, the Bank is exposed to two remaining SIVs. See Note 27 for subsequent events.

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

	Remaining term to earlier of expected or contractual maturity					
31 December 2010	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No specific maturity**	**Carrying amount**
Trading						
Debt securities issued by non-US governments	-	728	2,967	2,816	-	6,511
Equity securities	-	-	-	-	11,577	11,577
Total trading	-	728	2,967	2,816	11,577	18,088
Available for sale						
Certificates of deposit	785,891	158,362	78,001	-	-	1,022,254
US government and federal agencies	660	23,575	803,851	89,408	-	917,494
Debt securities issued by non-US governments	16,982	32,224	80,385	20,538	-	150,129
Corporate debt securities guaranteed by non-US governments	-	-	149,720	-	-	149,720
Corporate debt securities	39,365	121,878	185,160	1,067	-	347,470
Asset-backed securities - Student loans	-	-	5,872	140,939	-	146,811
Structured investment vehicles	-	-	57,646	-	-	57,646
Equity securities	-	-	-	3	74	77
Total available for sale	842,898	336,039	1,360,635	251,955	74	2,791,601
Total investments	842,898	336,767	1,363,602	254,771	11,651	2,809,689
Total by currency						
Bermuda dollars	-	-	-	-	169	169
US dollars	407,509	73,393	1,241,066	242,523	5,273	1,969,764
Other	435,389	263,374	122,536	12,248	6,209	839,756
Total investments	842,898	336,767	1,363,602	254,771	11,651	2,809,689

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

31 December 2009	Remaining term to earlier of expected or contractual maturity Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying amount
Trading						
Debt securities issued by non-US governments	-	910	3,297	3,458	-	7,665
Equity securities	-	-	-	-	13,358	13,358
Total trading	-	910	3,297	3,458	13,358	21,023
Available for sale						
Certificates of deposit	285,920	569,093	184,584	-	-	1,039,597
US government and federal agencies	1	-	27,466	38,628	-	66,095
Debt securities issued by non-US governments	9,956	-	-	2,500	-	12,456
Corporate debt securities	35,068	99,142	407,934	-	-	542,144
Mortgage-backed securities - Prime	-	-	8,140	21,508	-	29,648
Mortgage-backed securities - Subprime and Alt-A	1,287	15,227	14,941	3,291	-	34,746
Mortgage-backed securities - Commercial	6,320	-	-	-	-	6,320
Asset-backed securities - Student loans	-	-	9,342	141,375	-	150,717
Asset-backed securities - Automobile loans	-	84,070	28,809	-	-	112,879
Asset-backed securities - Credit cards	-	-	4,496	-	-	4,496
Collateralised debt and loan obligations	-	-	-	18,064	-	18,064
Structured investment vehicles	-	-	49,929	-	-	49,929
Equity securities	-	-	-	-	72	72
Total available for sale	338,552	767,532	735,641	225,366	72	2,067,163
Held to maturity						
Debt securities issued by non-US governments	3	1,333	16,598	10,959	-	28,893
Corporate debt securities	19,304	32,587	148,525	5,522	-	205,938
Mortgage-backed securities - Prime	-	-	-	18,498	-	18,498
Mortgage-backed securities - Subprime and Alt-A	-	6,701	79,813	114,141	-	200,655
Mortgage-backed securities - Commercial	-	-	39,996	-	-	39,996
Asset-backed securities - Student loans	-	-	10,854	-	-	10,854
Asset-backed securities - Automobile loans	-	-	10,000	-	-	10,000
Asset-backed securities - Commercial	-	-	-	31,789	-	31,789
Asset-backed securities - Credit cards	-	-	10,070	-	-	10,070
Collateralised debt and loan obligations	-	50,960	17,009	73,438	-	141,407
Structured investment vehicles	-	-	140,615	-	-	140,615
Total held to maturity	19,307	91,581	473,480	254,347	-	838,715
Total investments	357,859	860,023	1,212,418	483,171	13,430	2,926,901
Total by currency						
Bermuda dollars	-	-	-	-	183	183
US dollars	102,852	449,925	935,521	411,944	8,000	1,908,242
Other	255,007	410,098	276,897	71,227	5,247	1,018,476
Total investments	357,859	860,023	1,212,418	483,171	13,430	2,926,901

Transfer of investments from the Held To Maturity ("HTM") to the Available For Sale ("AFS") portfolio

The entire HTM portfolio as at 31 December 2009 was transferred to the AFS portfolio in March 2010 as the Company no longer had the intent following the capital raise to hold these securities to maturity. The net carrying amount of the transferred securities was $805.0 million at the time of the transfer. Subsequent to the transfer, a net unrealised non-credit loss of $126.3 million was recognised in AOCI.

Receivable from investments sold and payable from investments purchased

At 31 December 2010, the Bank had a pending receivable due from the sale of a SIV of $50.8 million (2009: nil) and subsequent to year end received the amount receivable. The payable of $112.7 million (2009: nil) was due to trades entered into before year end that were settled subsequent to year end.

Disposals of investments

The Bank disposed of asset-backed securities and SIV investments in 2010 totalling $907.1 million in sale proceeds, resulting in a gross realised loss of $113.8 million and a gross realised gain of $4.7 million, respectively.

Gains and losses on investments

The following table presents gains and losses on investments:

Year ended 31 December	2010				2009			
	Trading	Available for sale	Held to maturity	Total	Trading	Available for sale	Held to maturity	Total
Gains (losses) other than OTTI recognised in net income	971	(107,047)	-	(106,076)	983	236	2,298	3,517
Total impairment applied against carrying amount	-	36,844	-	36,844	-	-	(190,851)	(190,851)
Less: change in non-credit related impairments recognised in OCI	-	(97,366)	-	(97,366)	-	-	58,756	58,756
OTTI impairments recognised in net income	-	(60,522)	-	(60,522)	-	-	(132,095)	(132,095)
Net gains (losses) recognised in net income	971	(167,569)	-	(166,598)	983	236	(129,797)	(128,578)
Non-credit related impairments recognised in OCI	-	97,366	-	97,366	-	(54,281)	(58,756)	(113,037)
Effect of transfer of HTM to AFS	-	(58,557)	58,557	-		(199)	199	-
Net change in gains (losses) recognised in AOCI	-	38,809	58,557	97,366	-	(54,480)	(58,557)	(113,037)

NOTE 5: LOANS

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

31 December	2010			2009		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Commercial loans						
Banks	276	81	357	161	-	161
Government	61,739	4,365	66,104	36,323	4,500	40,823
Commercial and industrial	249,965	190,424	440,389	299,098	190,462	489,560
Commercial overdrafts	35,539	40,691	76,230	22,642	92,872	115,514
Total commercial loans	347,519	235,561	583,080	358,224	287,834	646,058
Less specific allowance for credit losses on commercial loans	(313)	(1,746)	(2,059)	(1,937)	(208)	(2,145)
Total commercial loans after specific allowance for credit losses	347,206	233,815	581,021	356,287	287,626	643,913
Commercial real estate loans						
Commercial mortgage	567,776	366,933	934,709	705,986	401,576	1,107,562
Construction	44,093	13,047	57,140	18,596	16,377	34,973
Total commercial real estate loans	611,869	379,980	991,849	724,582	417,953	1,142,535
Less specific allowance for credit losses on commercial real estate loans	(16,400)	(4,900)	(21,300)	(83,165)	(7,293)	(90,458)
Total commercial real estate loans after specific allowance for credit losses	595,469	375,080	970,549	641,417	410,660	1,052,077
Consumer loans						
Automobile financing	37,296	6,025	43,321	50,468	6,076	56,544
Credit card	58,582	25,035	83,617	57,754	24,537	82,291
Overdrafts	4,995	5,415	10,410	5,582	3,198	8,780
Other consumer	94,756	139,276	234,032	116,257	142,331	258,588
Total consumer loans	195,629	175,751	371,380	230,061	176,142	406,203
Less specific allowance for credit losses on consumer loans	(118)	(2,269)	(2,387)	(3,635)	(768)	(4,403)
Total consumer loans after specific allowance for credit losses	195,511	173,482	368,993	226,426	175,374	401,800
Residential mortgage loans	1,341,461	822,365	2,163,826	1,333,249	820,604	2,153,853
Less specific allowance for credit losses on residential mortgage loans	(1,710)	(2,856)	(4,566)	(165)	(1,411)	(1,576)
Total residential mortgage loans after specific allowance for credit losses	1,339,751	819,509	2,159,260	1,333,084	819,193	2,152,277
Total gross loans	2,496,478	1,613,657	4,110,135	2,646,116	1,702,533	4,348,649
Less specific allowance for credit losses	(18,541)	(11,771)	(30,312)	(88,902)	(9,680)	(98,582)
Less general allowance for credit losses	(26,038)	(10,425)	(36,463)	(22,247)	(9,488)	(31,735)
Net loans	2,451,899	1,591,461	4,043,360	2,534,967	1,683,365	4,218,332

31 December	2010				
	Commercial	Commercial real estate	Consumer	Residential	Total
Total loans individually evaluated for impairment	583,080	991,849	9,035	45,598	1,629,562
Total loans collectively evaluated for impairment	-	-	362,345	2,118,228	2,480,573

The principal means of securing residential mortgages, personal, credit card and business loans are charges over assets and guarantees. Mortgage loans are generally repayable over periods of up to thirty years and personal, credit card, business and government loans are generally repayable over terms not exceeding five years. The effective yield on total loans as at 31 December 2010 is 4.81% (2009: 4.88%).

The table below summarizes the changes in allowances for credit losses:

General allowances	31 December 2010	31 December 2009
General allowances at beginning of year	31,735	24,938
Provision taken during the year	2,933	5,541
Recoveries	2,456	1,784
Charge-offs	(628)	(528)
Other	(33)	-
General allowances at end of year	36,463	31,735

Specific allowances	31 December 2010	31 December 2009
Specific allowances at beginning of year	98,582	3,458
Provision taken during the year	39,037	99,338
Charge-offs	(107,307)	(4,318)
Other	-	104
Specific allowances at end of year	30,312	98,582

	31 December 2010	31 December 2009
Ending Balance: individually evaluated for impairment	30,312	98,582
Ending Balance: collectively evaluated for impairment	36,463	31,735

The table below sets forth information about the Bank's impairment loans:

31 December 2010	Non-accrual Loans					
	Non-delinquent	30-90 days past due	90 days past due	Gross non-accrual loans	Specific allowance	Net non-accrual loans
Commercial loans						
Commercial and industrial	-	-	5,364	5,364	(2,002)	3,362
Commercial overdrafts	-	22	8,855	8,877	(57)	8,820
Total commercial loans	-	22	14,219	14,241	(2,059)	12,182
Commercial real estate loans						
Commercial mortgage	-	2,151	88,476	90,627	(21,300)	69,327
Total commercial real estate loans	-	2,151	88,476	90,627	(21,300)	69,327
Consumer loans						
Automobile financing	130	519	340	989	-	989
Overdrafts	-	-	556	556	-	556
Other consumer	164	843	6,483	7,490	(2,387)	5,103
Total consumer loans	294	1,362	7,379	9,035	(2,387)	6,648
Residential mortgage loans	2,483	10,870	32,245	45,598	(4,566)	41,032
Total loans	2,777	14,405	142,319	159,501	(30,312)	129,189

31 December 2009	Non-accrual Loans					
	Non-delinquent	30-90 days past due	90 days past due	Gross non-accrual loans	Specific allowance	Net non-accrual loans
Commercial loans						
Commercial and industrial	2,297	556	5,286	8,139	(2,104)	6,035
Commercial overdrafts	235	-	-	235	(41)	194
Total commercial loans	2,532	556	5,286	8,374	(2,145)	6,229
Commercial real estate loans						
Commercial mortgage	174,826	-	8,848	183,674	(90,458)	93,216
Construction	-	-	-	-	-	-
Total commercial real estate loans	174,826	-	8,848	183,674	(90,458)	93,216
Consumer loans						
Automobile financing	128	306	343	777	-	777
Credit card	404	-	-	404	-	404
Overdrafts	31	-	-	31	-	31
Other consumer	4,334	-	5,861	10,195	(4,403)	5,792
Total consumer loans	4,897	306	6,204	11,407	(4,403)	7,004
Residential mortgage loans	9,181	4,803	15,934	29,918	(1,576)	28,342
Total loans	191,436	5,665	36,272	233,373	(98,582)	134,791

	31 December 2010	31 December 2009
Gross interest income would have been recorded had impaired loans been current	**10,800**	1,800

The table below presents information about the loan delinquencies:

31 December	**2010**					2009	
	30-59 days	**60-89 days**	**90 days or more**	**Total delinquent loans**	**Loans past due 90 days and still accruing interest**	Total delinquent loans	Loans past due 90 days and still accruing interest
Commercial loans							
Commercial and industrial	**1,219**	**205**	**5,364**	**6,788**	**-**	10,242	-
Commercial overdrafts	**-**	**54**	**8,855**	**8,909**	**-**	6	-
Total commercial loans	**1,219**	**259**	**14,219**	**15,697**	**-**	10,248	-
Commercial real estate loans							
Commercial mortgage	**2,971**	**99**	**88,476**	**91,546**	**-**	9,168	-
Construction	**-**	**8,068**	**-**	**8,068**	**-**	-	-
Total commercial real estate loans	**2,971**	**8,167**	**88,476**	**99,614**	**-**	9,168	-
Consumer loans							
Automobile financing	**197**	**322**	**340**	**859**	**-**	1,758	-
Credit card	**3,720**	**400**	**659**	**4,779**	**659**	4,449	525
Overdrafts	**10**	**8**	**556**	**574**	**-**	-	-
Other consumer	**1,718**	**1,793**	**6,483**	**9,994**	**-**	8,888	-
Total consumer loans	**5,645**	**2,523**	**8,038**	**16,206**	**659**	15,095	525
Residential mortgage loans	**21,285**	**10,966**	**61,606**	**93,857**	**29,361**	57,093	21,021
Total loans	**31,120**	**21,915**	**172,339**	**225,374**	**30,020**	91,604	21,546

The following table presents information about the credit quality of the Bank's loan portfolio:

31 December 2010	**Pass**	**Special mention**	**Substandard**	**Non-accrual**	**Total**
Commercial loans					
Banks	**357**	**-**	**-**	**-**	**357**
Government	**66,104**	**-**	**-**	**-**	**66,104**
Commercial and industrial	**421,306**	**12,929**	**790**	**5,364**	**440,389**
Commercial overdrafts	**58,704**	**8,311**	**338**	**8,877**	**76,230**
Total commercial loans	**546,471**	**21,240**	**1,128**	**14,241**	**583,080**
Commercial real estate loans					
Commercial mortgage	**773,350**	**59,905**	**10,827**	**90,627**	**934,709**
Construction	**40,549**	**16,591**	**-**	**-**	**57,140**
Total commercial real estate loans	**813,899**	**76,496**	**10,827**	**90,627**	**991,849**
Consumer loans					
Automobile financing	**42,095**	**159**	**78**	**989**	**43,321**
Credit card	**83,079**	**-**	**538**	**-**	**83,617**
Overdrafts	**9,286**	**437**	**131**	**556**	**10,410**
Other consumer	**215,088**	**11,375**	**79**	**7,490**	**234,032**
Total consumer loans	**349,548**	**11,971**	**826**	**9,035**	**371,380**
Residential mortgage loans	**2,071,185**	**38,260**	**8,783**	**45,598**	**2,163,826**
Total loans	**3,781,103**	**147,967**	**21,564**	**159,501**	**4,110,135**

31 December 2009	Pass	Special mention	Substandard	Non-accrual	Total
Commercial loans					
Banks	161	-	-	-	161
Government	40,823	-	-	-	40,823
Commercial and industrial	463,042	14,152	4,227	8,139	489,560
Commercial overdrafts	111,375	2,923	981	235	115,514
Total commercial loans	615,401	17,075	5,208	8,374	646,058
Commercial Real Estate					
Commercial mortgage	870,118	53,311	459	183,674	1,107,562
Construction	32,121	2,852	-	-	34,973
Total commercial real estate	902,239	56,163	459	183,674	1,142,535
Consumer loans					
Automobile financing	55,413	214	140	777	56,544
Credit card	81,461	-	426	404	82,291
Overdrafts	8,723	5	21	31	8,780
Other consumer	228,016	12,843	7,534	10,195	258,588
Total consumer loans	373,613	13,062	8,121	11,407	406,203
Residential mortgage loans	2,043,091	77,882	2,962	29,918	2,153,853
Total loans	3,934,344	164,182	16,750	233,373	4,348,649

The four credit quality classifications set out above are defined below and describe the credit quality of the Group's lending portfolio. These classifications each encompass a range of more granular, internal credit rating grades assigned.

Quality classification definitions

Pass:
A pass loan shall mean a loan that is expected to be repaid as agreed. A loan is classified as pass where the Bank is not expected to face repayment difficulties because the present and projected cash flows are sufficient to repay the debt and the repayment schedule as established by the agreement is being followed.

Special mention:
A special mention loan shall mean a loan under close monitoring by the Bank's Management. Loans in this category are currently protected and still performing (current with respect to interest and principal payments), but are potentially weak and present an undue credit risk exposure, but not to the point of justifying a classification of Substandard.

Substandard:
A Substandard loan shall mean a loan whose evident unreliability makes repayment doubtful and there is a threat of loss to the Bank unless the unreliability is averted.

Non-accrual:
Either where management is of the opinion full payment of principal or interest is in doubt or when principal or interest is 90 days past due and for residential loans which are not well secured and in the process of collection.

NOTE 6: CREDIT RISK CONCENTRATIONS

Concentrations of credit risk in the lending and off-balance sheet credit related arrangements portfolios arise when a number of customers are engaged in similar business activities, are in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. The Bank regularly monitors various segments of its credit risk portfolio to assess potential concentrations of risks and to obtain collateral when deemed necessary. In the Bank's commercial portfolio, risk concentrations are primarily evaluated by industry and also by geographic region. In the consumer portfolio, concentrations are primarily evaluated by products. Credit exposures include loans, guarantees and acceptances, letters of credit and commitments for undrawn lines of credit. Unconditionally cancellable credit cards and overdrafts lines of credit are excluded from the tables below.

The following table summarises the credit exposure of the Bank by business sector. The on-Balance Sheet exposure amounts disclosed is net of specific allowances and the off-Balance Sheet exposure amounts disclosed is gross of collateral held as disclosed in Note 11: Commitments and Credit Related Arrangements.

	31 December 2010			31 December 2009		
	On-Balance Sheet	Off-Balance Sheet	Total credit exposure	On-Balance Sheet	Off-Balance Sheet	Total credit exposure
Banks and financial services	355,215	423,295	778,510	406,526	404,864	811,390
Commercial and merchandising	439,429	250,927	690,356	536,230	256,591	792,821
Governments	68,250	-	68,250	40,823	-	40,823
Individuals	2,218,136	59,979	2,278,115	2,240,465	68,616	2,309,081
Primary industry and manufacturing	70,212	42,376	112,588	73,972	77,334	151,306
Real estate	789,155	25,960	815,115	789,143	1,453	790,596
Hospitality industry	128,724	2,804	131,528	151,682	14,912	166,594
Transport and communication	10,702	200	10,902	11,226	2,002	13,228
Sub-total	4,079,823	805,541	4,885,364	4,250,067	825,772	5,075,839
General allowance	(36,463)	-	(36,463)	(31,735)	-	(31,735)
Total	4,043,360	805,541	4,848,901	4,218,332	825,772	5,044,104

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

	31 December 2010			31 December 2009		
	On-Balance Sheet	Off-Balance Sheet	Total credit exposure	On-Balance Sheet	Off-Balance Sheet	Total credit exposure
Bermuda	2,477,937	441,485	2,919,422	2,557,213	509,149	3,066,362
Barbados	188,938	8,127	197,065	194,480	13,472	207,952
Cayman	595,425	227,023	822,448	541,058	169,040	710,098
Guernsey	332,827	106,556	439,383	354,485	100,911	455,396
The Bahamas	69,321	1,734	71,055	76,377	5,310	81,687
United Kingdom	415,375	20,616	435,991	526,454	27,890	554,344
Sub-total	4,079,823	805,541	4,885,364	4,250,067	825,772	5,075,839
General allowance	(36,463)	-	(36,463)	(31,735)	-	(31,735)
Total	4,043,360	805,541	4,848,901	4,218,332	825,772	5,044,104

NOTE 7: PREMISES, EQUIPMENT AND COMPUTER SOFTWARE

The following table summarises land, buildings, equipment and computer software:

31 December	2010			2009		
	Cost	Accumulated depreciation	Net carrying value	Cost	Accumulated depreciation	Net carrying amount
Land	**13,371**	**-**	**13,371**	13,371	-	13,371
Buildings	**185,335**	**(46,524)**	**138,811**	185,623	(41,670)	143,953
Equipment	**55,383**	**(41,588)**	**13,795**	54,901	(38,957)	15,944
Computer software in use	**60,202**	**(43,796)**	**16,406**	55,220	(39,978)	15,242
Computer software in development	**79,572**	**-**	**79,572**	55,732	-	55,732
Total	**393,863**	**(131,908)**	**261,955**	364,847	(120,605)	244,242

31 December	2010	2009
Depreciation		
Buildings (included in property expense)	**5,257**	5,223
Equipment (included in property expense)	**3,207**	3,547
Computer hardware and software (included in technology & communications expense)	**8,070**	11,388
Total depreciation charged to operating expenses	**16,534**	20,158
Impairment		
Write off of computer software in development (included in net other losses)	**3,831**	5,120

NOTE 8: GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents goodwill and other intangible assets by business segment:

Goodwill

Business segment	Guernsey	The Bahamas	United Kingdom	Malta	Hong Kong	Total
Balance as at 31 December 2008	6,227	891	7,246	-	-	14,364
Goodwill acquired during the year	-	-	1,782	2,228	4,901	8,911
Goodwill impairment	-	(891)	-	(2,228)	(4,901)	(8,020)
Foreign exchange translation adjustment	690	-	767	-	-	1,457
Balance as at 31 December 2009	**6,917**	**-**	**9,795**	**-**	**-**	**16,712**
Foreign exchange translation adjustment	**(245)**	**-**	**(450)**	**-**	**-**	**(695)**
Balance as at 31 December 2010	**6,672**	**-**	**9,345**	**-**	**-**	**16,017**

Customer relationship intangible assets

31 December	2010				2009			
	Cost	Accumulated impairment	Accumulated amortisation	Net carrying amount	Cost	Accumulated impariment	Accumulated amortisation	Net carrying amount
Bermuda - Wealth Management	**8,342**	**-**	**(3,479)**	**4,863**	8,341	-	(2,922)	5,419
Barbados	**6,681**	**-**	**(3,152)**	**3,529**	6,681	-	(2,708)	3,973
Cayman	**1,211**	**-**	**(511)**	**700**	1,211	-	(430)	781
Guernsey	**41,242**	**-**	**(24,924)**	**16,318**	40,598	-	(20,806)	19,792
The Bahamas	**5,204**	**-**	**(2,517)**	**2,687**	5,090	-	(2,173)	2,917
United Kingdom	**19,153**	**-**	**(8,304)**	**10,849**	19,284	-	(6,721)	12,563
Malta	**-**	**-**	**-**	**-**	3,626	-	(524)	3,102
Hong Kong	**-**	**-**	**-**	**-**	7,978	(5,246)	(1,150)	1,582
Total	**81,833**	**-**	**(42,887)**	**38,946**	92,809	(5,246)	(37,434)	50,129

Customer relationships are initially valued based on the present value of net cash flows expected to be derived solely from the recurring customer base existing as at the date of acquisition. Customer relationship intangible assets may or may not arise from contracts. There have been no intangible asset impairment losses for the year ended 31 December 2010.

The 31 December 2010 fair value of customer relationship intangible assets is based on the present value of net cash flows expected to be derived solely from the recurring customer base existing as at 31 December 2010. The discount rate used for testing is the discount rate implied in the initial purchase price acquisition.

During 2010 and 2009, the Bank did not acquire new customer relationship intangible assets. During 2010, the amortisation expense amounted to $5.7 million (2009: $6.2 million) and the foreign exchange translation adjustment increased the net carrying amount by $0.05 million (2009: increased by $4.4 million). The estimated aggregate amortisation expense for each of the succeeding five years (until 31 December 2016) is $27.4 million.

NOTE 9: CUSTOMER DEPOSITS AND DEPOSITS FROM BANKS

a) By Maturity

	31 December 2010			31 December 2009		
	Customers	**Banks**	**Total**	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	**977,417**	**-**	**977,417**	954,191	-	954,191
Demand deposits - Interest bearing	**4,558,249**	**10,793**	**4,569,042**	4,753,743	27,681	4,781,424
Sub-total - demand deposits	**5,535,666**	**10,793**	**5,546,459**	5,707,934	27,681	5,735,615
Term deposits						
Term deposits maturing within six months	**2,353,217**	**64,133**	**2,417,350**	2,536,812	85,755	2,622,567
Term deposits maturing between six to twelve months	**132,359**	**4,753**	**137,112**	185,651	5,239	190,890
Term deposits maturing after twelve months	**127,138**	**-**	**127,138**	147,547	-	147,547
Sub-total - term deposits	**2,612,714**	**68,886**	**2,681,600**	2,870,010	90,994	2,961,004
Total	**8,148,380**	**79,679**	**8,228,059**	8,577,944	118,675	8,696,619

b) By Type and Location

	31 December 2010			31 December 2009		
	Payable on demand	**Payable on a fixed date**	**Total**	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	**2,458,003**	**1,146,796**	**3,604,799**	2,195,304	1,195,124	3,390,428
Banks	**-**	**44,988**	**44,988**	-	41,545	41,545
Barbados						
Customers	**159,255**	**80,686**	**239,941**	163,538	81,930	245,468
Banks	**-**	**-**	**-**	-	-	-
Cayman						
Customers	**1,348,636**	**432,140**	**1,780,776**	1,764,566	570,875	2,335,441
Banks	**8,587**	**22,387**	**30,974**	16,090	48,802	64,892
Guernsey						
Customers	**1,010,897**	**450,895**	**1,461,792**	980,013	377,324	1,357,337
Banks	**1,516**	**-**	**1,516**	7,712	404	8,116
The Bahamas						
Customers	**84,357**	**37,606**	**121,963**	67,429	65,760	133,189
Banks	**-**	**-**	**-**	-	-	-
United Kingdom						
Customers	**474,518**	**464,591**	**939,109**	537,098	578,983	1,116,081
Banks	**690**	**1,511**	**2,201**	3,865	257	4,122
Total Customers	**5,535,666**	**2,612,714**	**8,148,380**	5,707,948	2,869,996	8,577,944
Total Banks	**10,793**	**68,886**	**79,679**	27,667	91,008	118,675
Total	**5,546,459**	**2,681,600**	**8,228,059**	5,735,615	2,961,004	8,696,619

NOTE 10: 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 presents the expense constituents of the Bank's defined benefit pension plans and the Bank's post-retirement medical benefits:

For the year ended 31 December 2010	**2010**		2009	
	Pension plans	**Post-retirement medical benefit plan**	Pension plans	Post-retirement medical benefit plan
Accumulated benefit obligation at year end	**131,177**	**-**	115,187	-
Change in projected benefit obligation				
Opening projected benefit obligation	**125,470**	**141,645**	107,990	119,952
Service cost	**2,366**	**2,466**	2,513	3,635
Employee contributions	**248**	**-**	259	-
Interest cost	**7,424**	**6,521**	6,746	7,318
Benefits paid	**(5,727)**	**(2,452)**	(4,586)	(1,960)
Settlement and curtailment of liability	**-**	**-**	-	(1,917)
Plan amendment	**-**	**(40,641)**	-	-
Actuarial loss (gain)	**12,959**	**(26,425)**	7,819	14,617
Foreign exchange translation adjustment	**(1,866)**	**-**	4,729	-
Closing projected benefit obligation	**140,874**	**81,114**	125,470	141,645
Change in plan assets				
Opening fair value of plan assets	**135,986**	**-**	121,935	-
Actual return on plan assets	**10,931**	**-**	8,435	-
Employer contribution	**4,557**	**2,452**	4,695	1,960
Employee contributions	**248**	**-**	259	-
Benefits paid	**(5,727)**	**(2,452)**	(4,586)	(1,960)
Foreign exchange translation adjustment	**(2,017)**	**-**	5,248	-
Closing fair value of plan assets	**143,978**	**-**	135,986	-
Amounts recognised in the balance sheet consist of:				
Prepaid benefit cost included in other assets	**7,199**	**-**	10,612	-
Accrued pension benefit cost included in employee future benefits liability	**(4,095)**	**(81,114)**	(96)	(141,645)
Surplus (deficit) of plan assets over projected benefit obligation at measurement date	**3,104**	**(81,114)**	10,516	(141,645)
Amounts recognised in accumulated other comprehensive loss consist of:				
Net actuarial loss	**(29,405)**	**(15,781)**	(22,146)	(43,840)
Past service cost	**-**	**37,520**	-	-
Net amount recognised in accumulated other comprehensive loss	**(29,405)**	**21,739**	(22,146)	(43,840)

As at 30 June 2010, the Bank conducted a tri-annual revaluation of its post retirement medical benefit obligations to qualifying retirees in Bermuda. Following the revaluation by an independent third party actuary, the associated liability for post retirement medical benefits decreased by $26.9 million, primarily as a result of changes in demographics and claim cost development since 2007.

Additionally, effective 30 June 2010, the Bank's post retirement medical benefits were amended whereby eligibility, benefits and cost sharing were modified for current active employees. The benefits amendment resulted in a further reduction in the post retirement medical liability of $40.7 million as at 30 June 2010. The benefits amendment are being amortised to the Statement of Operations over the expected average remaining service lifetime of the active employees in the plan.

The following table presents the expense constituents of the Bank's defined benefit pension plans and the Bank's post-retirement medical benefit plan:

For the year ended 31 December	2010		2009	
	Pension plans	**Post-retirement medical benefit plan**	Pension plans	Post-retirement medical benefit plan
Annual benefit expense				
Service cost	**2,366**	**2,466**	2,513	3,635
Interest cost	**7,424**	**6,521**	6,746	7,318
Expected return on plan assets	**(8,617)**	**N/A**	(8,055)	N/A
Amortisation of past service cost	**-**	**(3,121)**	36	-
Amortisation of net actuarial loss	**3,386**	**1,634**	2,945	1,476
Loss on settlement	**-**	**-**	1,332	-
Defined benefit expense	**4,559**	**7,500**	5,517	12,429
Defined contribution expense	**5,043**	**-**	4,893	-
Total benefit expense	**9,602**	**7,500**	10,410	12,429
Other changes recognised in other comprehensive loss				
Net loss arising during the year	**(10,645)**	**26,425**	(5,819)	(12,700)
Past service (credit) / cost arising during the year	**-**	**40,641**	-	-
Amortisation of past service cost	**-**	**(3,121)**	32	-
Amortisation of net actuarial loss (gain)	**3,386**	**1,634**	2,945	1,476
Total changes recognised in other comprehensive loss	**(7,259)**	**65,579**	(2,842)	(11,224)

The estimated portion of the net actuarial loss for the pension plans that will be amortised from accumulated other comprehensive loss into benefit expense over the next fiscal year is $4.0 million. The estimated portion of the net actuarial loss and the past service cost for the post-retirement medical benefit plan that will be amortised from accumulated other comprehensive loss into benefit expense over the next fiscal year is $0.9 million for the net actuarial loss and a credit of $6.2 million for the past service cost.

31 December	2010		2009	
	Pension plans	**Post-retirement medical benefit plan**	Pension plans	Post-retirement medical benefit plan
Actuarial assumptions used to determine annual benefit expense				
Weighted average discount rate	**5.85%**	**6.10%**	6.15%	6.10%
Weighted average rate of compensation increases	**3.80%**	**N/A**	3.70%	N/A
Weighted average expected long-term rate of return on plan assets	**6.45%**	**N/A**	6.50%	N/A
Weighted average annual medical cost increase rate	**N/A**	**7.5% to 4.5% in 2027**	N/A	8% to 5% in 2013
Actuarial assumptions used to determine benefit obligations at end of year				
Weighted average discount rate	**5.30%**	**5.50%**	5.85%	6.10%
Weighted average rate of compensation increases	**3.75%**	**N/A**	3.80%	N/A
Weighted average annual medical cost increase rate	**N/A**	**7.5% to 4.5% in 2027**	N/A	7.5% to 4.5% in 2027

For 2010, the effect of a one percentage point increase or decrease in the assumed medical cost increase rate on the aggregate of service and interest costs is a $2.1 million increase (2009: $2.7 million) and a $1.6 million decrease (2009: $2.0 million), respectively, and on the benefit obligation a $13.7 million increase (2009: $30.3 million) and a $11.1 million decrease (2009: $23.8 million), respectively.

To develop the expected long-term rate of return on the plan assets assumption for each plan, the Bank considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocations of the funds. The weighted average discount rate used to determine benefit obligations at the end of the year is derived from interest rates on high quality corporate bonds with maturities that match the expected benefit payments.

The weighted average annual medical cost increase rate remained unchanged at 7.5% to 4.5% in 2010.

Investments policies and strategies

The pension plans assets are managed according to each plan's Investment Policy Statement which outlines the Purpose of the Plan, Statement of Objectives and Guidelines & Investment Policy. The asset allocation is diversified and any use of derivatives is limited to hedging purposes only.

The weighted average actual and target asset allocations of the pension plans by asset category are as follows:

31 December	2010		2009	
	Actual allocation	Target allocation	Actual allocation	Target allocation
Asset category				
Debt securities (including debt mutual funds)	**46%**	**46%**	45%	46%
Equity securities (including equity mutual funds)	**52%**	**47%**	50%	52%
Other	**2%**	**7%**	5%	2%
Total	**100%**	**100%**	100%	100%

Fair value measurements of pension plans assets

The following table presents the fair value of plans assets by category and Level of Inputs used in their respective fair value determination as described in Note 1.

31 December	2010				2009			
	Fair value determination				Fair value determination			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
US government and federal agencies	**-**	**8,242**	**-**	**8,242**	-	6,243	-	6,243
Corporate debt securities	**-**	**47,912**	**-**	**47,912**	2,651	45,039	-	47,690
Debt securities issued by non-US governments	**-**	**9,696**	**-**	**9,696**	7,975	-	-	7,975
Equity securities and mutual funds	**-**	**74,794**	**377**	**75,171**	55,338	12,042	-	67,380
Other	**-**	**2,957**	**-**	**2,957**	2,180	4,518	-	6,698
Total fair value of plans assets	**-**	**143,601**	**377**	**143,978**	68,144	67,842	-	135,986

At 31 December 2010, 28.7% (2009: 29.5 %) of the assets of the pension plans were mutual funds and alternative investments managed or administered by wholly-owned subsidiaries of the Bank. At 31 December 2010, 0.4% and 1.6% (2009: 0.8% and 1.7%) of the plans' assets were invested in common and preference shares of the Bank respectively.

The investments of the pension funds are diversified across a range of asset classes and are diversified within each asset class. The assets are generally actively managed with the goal of adding some incremental value through security selection and asset allocation.

Estimated 2011 Bank contribution to, and estimated benefit payments for the next ten years under, the pension and post-retirement medical benefit plans are as follows:

31 December 2010	Pension Plans	Post-retirement medical benefit plan
Estimated Bank contributions for 2011	**4,553**	**2,700**
Estimated benefit payments by year:		
2011	**5,500**	**2,700**
2012	**5,500**	**2,921**
2013	**5,800**	**3,156**
2014	**6,300**	**3,402**
2015	**6,900**	**3,698**
2016 - 2020	**32,800**	**22,409**

The projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets were $81.7 million and $77.7 million as at 31 December 2010.

NOTE 11: COMMITMENTS AND CREDIT RELATED ARRANGEMENTS

Commitments

The Bank was committed to expenditures under contract for sourcing and leases of $133.2 million and $29.5 million respectively as at 31 December 2010 (2009: $142.9 million and $33.0 million respectively). Rental expense for premises leased on a long-term basis for the year ended 31 December 2010 amounted to $5.8 million (2009: $6.2 million). The expenditures committed under the other agreements relate to the Liquidity Facility Agreement and the Balance Sheet Management Advisory Agreement entered into with CIBC and Carlyle as disclosed in Note 25: Related Party transactions.

The following table summarises the Bank's commitments for sourcing, long-term leases and other agreements:

31 December 2010	Sourcing	Leases	Other agreements	Total
2011	24,297	5,643	6,400	36,340
2012	23,373	5,130	4,000	32,503
2013	23,116	4,977	3,000	31,093
2014	22,207	4,429	-	26,636
2015	22,020	3,915	-	25,935
2016 & thereafter	18,212	5,422	-	23,634
Total commitments	133,225	29,516	13,400	176,141

Credit Related Arrangements

Standby letters of credit and letters of guarantee are issued at the request of a Bank customer in order to secure the customer's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Bank to pay the third party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the customer. Generally, the term of the standby letters of credit does not exceed one year, while the term of the letters of guarantee does not exceed four years. The types and amounts of collateral security held by the Bank for these standby letters of credit and letters of guarantee is generally represented by deposits with the Bank or a charge over assets held in mutual funds.

The Bank considers the fees collected in connection with the issuance of standby letters of credit and letters of guarantee to be representative of the fair value of its obligation undertaken in issuing the guarantee. In accordance with applicable accounting standards related to guarantees, the Bank defers fees collected in connection with the issuance of standby letters of credit and letters of guarantee. The fees are then recognised in income proportionately over the life of the credit agreements.

The following table presents the outstanding financial guarantees with contractual amounts representing credit risk as follows:

31 December		2010			2009	
	Gross	**Collateral**	**Net**	Gross	Collateral	Net
Standby letters of credit	**386,728**	**354,310**	**32,418**	352,016	322,582	29,434
Letters of guarantee	**14,115**	**8,655**	**5,460**	19,601	15,135	4,466
Total	**400,843**	**362,965**	**37,878**	371,617	337,717	33,900

Collateral is shown at estimated market value less selling cost. Where cash is the collateral, this is shown gross including interest income.

The Bank enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of the Bank's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for possible loan losses.

The following table presents the unfunded legally binding commitments to extend credit with contractual amounts representing credit risk as follows:

31 December	2010	2009
Commitments to extend credit	**402,567**	451,015
Documentary and commercial letters of credit	**2,131**	3,140
Total	**404,698**	454,155

The Bank has a facility by one of its custodians, whereby the Bank may offer up to US$200 million of standby letters of credit to its customers on a fully secured basis. Under the standard terms of the facility, the custodian has the right to set-off against securities held of 110% of the utilised facility. At 31 December 2010, $174.5 million (2009: $133.3 million) of standby letters of credit were issued under this facility.

Legal Proceedings

There are a number of actions and legal proceedings pending against the Bank and its subsidiaries which arose in the normal course of its business. Management, after reviewing all actions and proceedings, pending against or involving the Bank and its subsidiaries, considers that the resolution of these matters would not be material to the consolidated financial position of the Bank.

NOTE 12: INTEREST INCOME

Loans
The following table presents the components of loan interest income:

31 December	2010	2009
Mortgages	**97,667**	95,229
Other loans	**93,958**	109,744
	191,625	204,973
Amortisation of loan premium / discount	**53**	-
Amortisation of loan origination fees (net of amortised costs)	**6,330**	6,721
Total loan interest income	**198,008**	211,694
Balance of unamortised loan fees as at 31 December	**7,764**	10,829

NOTE 13: OPERATING SEGMENTS

At 31 December 2010, for management reporting purposes, the operations of the Bank are grouped into the following 9 business segments based upon the geographic location of the Bank's operations: Bermuda (which is further sub-divided based on products and services into Community Banking, Wealth Management and Real Estate), Barbados, Cayman, Guernsey, Switzerland, The Bahamas and United Kingdom. Accounting policies of the reportable segments are the same as those described in Note 2.

The Bermuda Community Banking segment provides a full range of community, commercial and private banking services. Retail services are offered to individuals and small to medium sized businesses through five branch locations and through telephone banking, Internet banking, Automated Teller Machines (ATMs) and debit cards. Retail services include deposit services, consumer and mortgage lending, credit cards and personal insurance products. Corporate services include commercial lending and mortgages, cash management, payroll services, remote banking, and letters of credit. Treasury services include money market and foreign exchange activities.

The Bermuda Wealth Management segment consists of Butterfield Asset Management Limited, which provides investment management, advisory and brokerage services, and Butterfield Trust (Bermuda) Limited which provides trust, estate, company management and custody services. During 2009, the Bermuda private banking operations were moved from the Bermuda Community Banking segment to the Bermuda Wealth Management segment. Figures for year ended 31 December 2008 were restated accordingly.

The Real Estate segment consists of the Bank's investments in real estate and all related costs. This segment also includes rental revenues from third parties.

The Barbados segment provides a range of community and commercial banking services through four branch locations, ATMs and debit cards. Services include deposit services, commercial banking, consumer and mortgage lending and credit cards.

The Cayman segment provides a comprehensive range of community and commercial banking services to private and corporate customers through five locations and through Internet banking, ATMs and debit cards. Wealth management and fiduciary services are also provided.

The Guernsey segment provides a broad range of services to private clients and financial institutions including, private banking and treasury services, Internet banking, administered bank services, wealth management and fiduciary services.

The Switzerland segment provides fiduciary services.

The Bahamas segment provides institutional, corporate and private clients with a range of wealth management & fiduciary services.

The United Kingdom segment provides a broad range of services including private banking and treasury services, Internet banking and wealth management and fiduciary services to high net worth individuals and privately owned businesses.

The Malta and Hong Kong segments were sold on 8 September 2010 as disclosed in Note 21: Disposal of subsidiaries.

Total Assets by Segment

31 December	2010	2009
Bermuda		
Community Banking	**4,780,465**	4,198,903
Wealth Management	**342,108**	351,336
Real Estate	**70,012**	72,671
Total Bermuda	**5,192,585**	4,622,910
Barbados	**273,797**	277,551
Cayman	**2,036,512**	2,607,542
Guernsey	**1,617,976**	1,534,520
Malta	**-**	10,166
Hong Kong	**-**	2,894
Switzerland	**1,191**	1,039
The Bahamas	**146,069**	166,455
United Kingdom	**1,104,946**	1,295,451
Total overseas	**5,180,491**	5,895,618
Less: inter-segment eliminations	**(750,016)**	(923,926)
Total	**9,623,060**	9,594,602

Segment Analysis

	Net interest income									
For year ended 31 December 2010	Customer	Inter-segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expense	Net income before gains and losses and central allocations	Gains and losses	Central allocations*	Net income
Bermuda										
Community Banking	**104,512**	**(2,740)**	**(38,023)**	**37,940**	**101,689**	**151,348**	**(49,659)**	**(149,941)**	**-**	**(199,600)**
Wealth Management	**8,747**	**3,716**	**12,373**	**30,149**	**54,985**	**29,445**	**25,540**	**1**	**-**	**25,541**
Real Estate	**-**	**(872)**	**-**	**3,236**	**2,364**	**11,381**	**(9,017)**	**-**	**-**	**(9,017)**
Sub-total Bermuda	**113,259**	**104**	**(25,650)**	**71,325**	**159,038**	**192,174**	**(33,136)**	**(149,940)**	**-**	**(183,076)**
Barbados	**12,921**	**(4)**	**(1,707)**	**2,948**	**14,158**	**13,863**	**295**	**(151)**	**-**	**144**
Cayman	**26,590**	**1,981**	**(3,808)**	**35,180**	**59,943**	**52,936**	**7,007**	**(11,600)**	**-**	**(4,593)**
Guernsey	**12,521**	**(137)**	**-**	**23,003**	**35,387**	**27,625**	**7,762**	**(1,433)**	**-**	**6,329**
Hong Kong **	**1**	**-**	**-**	**2,119**	**2,120**	**1,730**	**390**	**(3,639)**	**-**	**(3,249)**
Malta **	**5**	**-**	**-**	**886**	**891**	**861**	**30**	**(3,790)**	**-**	**(3,760)**
Switzerland	**2**	**-**	**-**	**489**	**491**	**2,159**	**(1,668)**	**-**	**-**	**(1,668)**
The Bahamas	**2,270**	**48**	**(3,669)**	**5,201**	**3,850**	**7,812**	**(3,962)**	**-**	**-**	**(3,962)**
United Kingdom	**11,373**	**(1,992)**	**(7,136)**	**10,027**	**12,272**	**16,088**	**(3,816)**	**(9,964)**	**-**	**(13,780)**
Sub-total overseas	**65,683**	**(104)**	**(16,320)**	**79,853**	**129,112**	**123,074**	**6,038**	**(30,577)**	**-**	**(24,539)**
Total before eliminations	**178,942**	**-**	**(41,970)**	**151,178**	**288,150**	**315,248**	**(27,098)**	**(180,517)**	**-**	**(207,615)**
Less: inter-segment eliminations	**-**	**-**	**-**	**(4,967)**	**(4,967)**	**(4,967)**	**-**	**-**	**-**	**-**
Total	**178,942**	**-**	**(41,970)**	**146,211**	**283,183**	**310,281**	**(27,098)**	**(180,517)**	**-**	**(207,615)**

* During the year ending 31 December 2010 there were no central allocation costs.

** Disposed of the subsidiaries on 8 September 2010 as disclosed in Note 21: Disposal of subsidiaries.

For the year ended 31 December 2010, included within other expenses are the following income tax expense (benefit) amounts: Barbados $0.8 million (2009: $0.2 million), Guernsey $0.6 million (2009: $0.1 million) and United Kingdom $(3.3) million (2009: $(0.9) million). Transactions between operating segments principally include interbank deposits and rent which are recorded based upon market rates, and management fees, which are recorded based on the cost of the services provided.

For the year ended 31 December 2009	Net interest income									
	Customer	Inter-segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expense	Net income before gains and losses and central allocations	Gains and losses	Central allocations*	Net income
Bermuda										
Community Banking	103,882	(4,705)	(73,934)	42,148	67,391	137,722	(70,331)	(124,710)	5,474	(189,567)
Wealth Management	10,876	1,209	(20,400)	31,816	23,501	31,461	(7,960)	-	(10,906)	(18,866)
Real Estate	-	(886)	-	3,321	2,435	10,832	(8,397)	-	8,397	-
Sub-total Bermuda	114,758	(4,382)	(94,334)	77,285	93,327	180,015	(86,688)	(124,710)	2,965	(208,433)
Barbados	12,188	11	(2,164)	3,232	13,267	12,920	347	679	(25)	1,001
Cayman	27,883	6,479	(7,787)	34,809	61,384	50,298	11,086	261	(1,845)	9,502
Guernsey	10,933	849	-	21,904	33,686	29,341	4,345	(298)	(590)	3,457
Hong Kong	10	-	-	2,633	2,643	2,483	160	(10,147)	-	(9,987)
Malta	13	-	-	1,526	1,539	1,553	(14)	(2,240)	-	(2,254)
Switzerland	4	-	-	306	310	3,075	(2,765)	(235)	-	(3,000)
The Bahamas	2,390	220	-	5,332	7,942	7,016	926	(885)	(160)	(119)
United Kingdom	18,728	(3,555)	(594)	10,847	25,426	19,280	6,146	(9,381)	(345)	(3,580)
Sub-total overseas	72,149	4,004	(10,545)	80,589	146,197	125,966	20,231	(22,246)	(2,965)	(4,980)
Total before eliminations	186,907	(378)	(104,879)	157,874	239,524	305,981	(66,457)	(146,956)	-	(213,413)
Less: inter-segment eliminations**	-	378	-	(6,169)	(5,791)	(5,791)	-	-	-	-
Total	186,907	-	(104,879)	151,705	233,733	300,190	(66,457)	(146,956)	-	(213,413)

* This includes the allocation of property costs to the Bermuda business lines. In addition, it includes the charge out of the central costs across the Group.

** Principally rent and management fees.

Revenues by Products and Services

The principal sources of revenues by products and services are disclosed separately in the Consolidated Statement of Income.

NOTE 14: ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

The Bank uses derivatives in the asset and liability management ("ALM") of positions and to meet the needs of its customers with their risk management objectives. The Bank's derivative contracts principally involve over the counter transactions that are privately negotiated between the Bank and the counterparty to the contract and include interest rate contracts and foreign exchange contracts.

The Bank pursues opportunities to reduce its exposure to credit losses on derivatives by entering into International Swaps and Derivatives Association Master Agreements ("ISDAs"). Depending on the nature of the derivative transaction, bilateral collateral arrangements may be used as well. When the Bank is engaged in more than one outstanding derivative transaction with the same counterparty, and also has a legally enforceable master netting agreement with that counterparty, the net marked to market exposure represents the netting of the positive and negative exposures with that counterparty. When there is a net negative exposure, the Bank regards its credit exposure to the counterparty as being zero. The net marked to market position with a particular counterparty represents a reasonable measure of credit risk when there is a legally enforceable master netting agreement between the Bank and that counterparty.

Certain derivative contracts contain credit-risk-related contingent features in which the counterparty has the option to accelerate cash settlement of the Bank's net derivative liabilities with the counterparty in the event the Bank's credit rating falls below specified levels or the liabilities reach certain levels. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on 31 December 2010 was $17.4 million. The Bank has posted $15.4 million collateral against these liabilities and therefore the maximum amount of termination payments that could have been required at 31 December 2010 was $2 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. The accounting for changes in the fair value of a derivative in the Consolidated Statement of Operations depends on whether the contract has been designated as a hedge and qualifies for hedge accounting.

Notional Amounts

The notional amounts are not recorded as assets or liabilities on the Consolidated Balance Sheet as they represent the face amount of the contract to which a rate or price is applied to determine the amount of cash flows to be exchanged. Notional amounts represent the volume of outstanding transactions and do not represent the potential gain or loss associated with market risk or credit risk of such instruments. Credit risk is limited to the positive fair value of the derivative instrument, which is significantly less than the notional amount.

Risk management derivatives

The Bank primarily enters into derivative contracts as part of its overall interest rate risk management strategy to minimise significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Bank's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain Consolidated Balance Sheet assets and liabilities so that movements in interest rates do not adversely affect the net interest margin. Derivative instruments that are used as part of the Bank's interest rate risk management strategy include interest rate swap contracts that have indices related to the pricing of specific Consolidated Balance Sheet assets and liabilities. Interest rate swaps generally involve the exchange of fixed and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date.

The Bank uses derivative instruments to hedge its exposure to interest rate risk. Certain hedging relationships are formally designated and qualify for hedge accounting as fair value or cash flow hedges. Other derivatives that are entered into for risk management purposes as economic hedges are not formally designated as hedges and, therefore, are accounted for as if they were trading instruments. In order to qualify for hedge accounting, a formal assessment is performed on a calendar quarter basis to verify that derivatives used in designated hedging transactions continue to be highly effective as offsets to changes in fair value or cash flows of the hedged item. If a derivative ceases to be highly effective, or if the hedged item matures, is sold, or is terminated, hedge accounting is terminated and the derivative is treated as if it were a trading instrument.

Fair value hedges

Derivatives are designated as fair value hedges to minimise the Bank's exposure to changes in the fair value of assets and liabilities due to movements in interest rates. The Bank enters into interest rate swaps to convert its fixed-rate long-term loans to floating-rate loans, and convert fixed-rate deposits to floating-rate deposits. Changes in fair value of these derivatives are recognised in income. For fair value hedges, the Bank applies the "shortcut" method of accounting, which assumes there is no ineffectiveness in a hedge. As a result, changes recorded in the fair value of the hedged item are equal to the offsetting gain or loss on the derivative and are reflected in the same line item. For the years ended 31 December 2010 and 2009, 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 shareholders' equity. When the hedged item impacts earnings, balances in other comprehensive income are reclassified to the same income or expense classification as the hedged item. The Bank applies the "shortcut" method of accounting for cash flow hedges of held to maturity investments, in assessing whether these hedging relationships are highly effective at inception and on an ongoing basis. Any ineffectiveness in cash flow hedge is recognised in earnings.

As of 31 December 2010 and 2009 there were no cash flow hedges in place and there were no deferred net gains or losses on derivative instruments accumulated in other comprehensive income in relation with cash flow hedges.

Derivatives not formally designated as hedges

Derivatives not formally designated as hedges are entered into to manage the interest rate risk of fixed rate deposits with banks. Changes in the fair value of derivative instruments not formally designated as hedges are recognised in income.

Client service derivatives

The Bank enters into foreign exchange contracts and interest rate caps primarily to meet the foreign exchange needs of its customers. Foreign exchange contracts are agreements to exchange specific amounts of currencies at a future date at a specified rate of exchange. Changes in the fair value of client services derivative instruments are recognised in income.

Credit derivatives

In 2009, the Bank provided credit enhancements to a related party, namely Butterfield Money Market Fund Limited ("BMMFL" or "the Fund"). Under the credit enhancement agreement (the "Agreement"), the Bank committed to compensate BMMFL, subject to specified maximum amount, should specified securities have a fair value less than BMMFL's carrying amount and BMMFL would have been 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 was outside the control of the Bank. All credit enhancements were expired as at 31 December 2009.

The following table shows the aggregate notional amounts of derivative contracts outstanding listed by type and respective gross positive or negative fair values and divided by those used for risk management (sub-classified as hedging and those that do not qualify for hedge accounting), client services and credit derivatives. Fair value of derivatives is recorded in the Consolidated Balance Sheet in Other assets and Other liabilities. Gross positive fair values are recorded in Other assets and gross negative fair values are recorded in Other liabilities, subject to netting when master netting agreements are in place.

31 December 2010	Derivative instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk management derivatives					
Fair Value Hedges					
Fixed rate loans	Interest rate swaps	**206,434**	**275**	**(16,971)**	**(16,696)**
Customer deposits	Interest rate swaps	**9,148**	**-**	**(206)**	**(206)**
Sub-total fair value hedges		**215,621**	**275**	**(17,177)**	**(16,902)**
Not designated as hedging instruments					
	Interest rate swaps	**360,000**	**1,481**	**(555)**	**926**
	Currency swaps	**264,843**	**4,028**	**(1)**	**4,027**
Sub-total not designated as hedges		**624,843**	**5,509**	**(556)**	**4,953**
Sub-total risk management derivatives		**840,464**	**5,784**	**(17,733)**	**(11,949)**
Client services derivatives					
	Spot and forward foreign exchange	**4,842,989**	**39,774**	**(39,755)**	**19**
	Interest rate caps	**37,435**	**389**	**(389)**	**-**
Sub-total client services derivatives		**4,880,424**	**40,163**	**(40,144)**	**19**
Total derivative instruments		**5,720,888**	**45,947**	**(57,877)**	**(11,930)**

31 December 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	188,689	-	(13,054)	(13,054)
Customer deposits	Interest rate swaps	10,497	11	(538)	(527)
Sub-total fair value hedges		199,186	11	(13,592)	(13,581)
Not designated as hedging instruments	Interest rate swaps	380,714	705	(933)	(228)
	Currency swaps	167,516	327	(2,946)	(2,619)
Sub-total not designated as hedges		548,230	1,032	(3,879)	(2,847)
Sub-total risk management derivatives		747,416	1,043	(17,471)	(16,428)
Client services derivatives					
	Spot and forward foreign exchange	2,168,705	27,202	(25,050)	2,152
	Interest rate caps	38,808	752	(752)	-
Sub-total client services derivatives		**2,207,513**	**27,954**	**(25,802)**	**2,152**
Total derivative instruments		**2,954,929**	**28,997**	**(43,273)**	**(14,276)**

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

Derivative instrument	Consolidated Statement of Operations line item	2010	2009
Non hedging interest rate swaps	Net other gains (losses)	**1,154**	(76)
Forward foreign exchange	Foreign exchange revenue	**1,076**	3,632
Credit derivative	Net other gains	**-**	3,304
Total net gains recognised in net loss		**2,230**	6,860

NOTE 15: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the financial assets and liabilities that are measured at fair value on a recurring basis and classifies such fair value based on the type of input used in the related valuations as described in Note 2.

Management classifies items that are recognised at fair value on a recurring basis based on the Level of Inputs used in their respective fair value determination as described in Note 2.

Financial instruments in Level 1 include equity shares actively traded and redeemable shares of mutual funds.

Financial instruments in Level 2 include equity securities not actively traded, certificate of deposits, corporate bonds, mortgage-backed securities and other asset-backed securities, interest rate swaps and caps and forward foreign exchange contracts.

Financial instruments in Level 3 include non-redeemable private equity shares, corporate bonds, mortgage-backed securities and other asset-backed securities for which the market is relatively illiquid and for which information about actual trading prices is not readily available.

Items that are recognised at fair value on a recurring basis

31 December	2010				2009			
	Fair value determination				Fair value determination			
	Level 1	Level 2	Level 3	Total carrying amount/ Fair value	Level 1	Level 2	Level 3	Total carrying amount/ Fair value
Financial assets								
Debt equity securities								
Trading								
Debt securities issued by non-US governments	-	6,511	-	6,511	-	7,665	-	7,665
Equity securities	10,021	1,556	-	11,577	11,674	1,389	295	13,358
Total trading	10,021	8,067	-	18,088	11,674	9,054	295	21,023
Available for sale								
Certificates of deposit	-	1,022,254	-	1,022,254	-	1,039,597	-	1,039,597
US government and federal agencies	-	917,494	-	917,494	-	66,095	-	66,095
Debt securities issued by non-US governments	-	150,129	-	150,129	-	12,456	-	12,456
Corporate debt securities guaranteed by non-US governments	-	149,720	-	149,720	-	-	-	-
Corporate debt securities	-	347,470	-	347,470	-	349,130	193,014	542,144
Mortgage-backed securities - Prime	-	-	-	-	-	6,506	23,142	29,648
Mortgage-backed securities - Subprime and Alt-A	-	-	-	-	-	32,849	1,897	34,746
Mortgage-backed securities - Commercial	-	-	-	-	-	6,320	-	6,320
Asset-backed securities - Student loans	-	135,632	11,179	146,811	-	58,210	92,507	150,717
Asset-backed securities - Automobile loans	-	-	-	-	-	108,980	3,899	112,879
Asset-backed securities - Credit cards	-	-	-	-	-	4,496	-	4,496
Collateralised debts and loans obligations	-	-	-	-	-	-	18,064	18,064
Structured investments vehicles	-	24,342	33,304	57,646	-	-	49,929	49,929
Equity securities	-	77	-	77	-	72	-	72
Total Available for sale	-	2,747,118	44,483	2,791,601	-	1,684,711	382,452	2,067,163
Other assets - Closed ended real estate fund	-	-	9,044	9,044	-	-	8,307	8,307
Other assets - Derivatives	-	45,947	-	45,947	-	28,997	-	28,997
Financial liabilities								
Other liabilities - Derivatives	-	57,877	-	57,877	-	43,273	-	43,273

Transfers of securities

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

Level 3 reconciliation	2010			2009		
	Trading investments	Available for sale investments	Closed ended property fund	Trading investments	Available for sale investments	Closed ended property fund
Carrying amount at beginning of year	296	382,452	8,307	-	-	12,599
Purchases	151	-	-	295	-	-
Proceeds from sale	(447)	(103,064)	-	-	-	-
Realised and unrealised losses recognised in net income	-	(3,245)	1,020	-	-	(4,096)
Realised and unrealised losses recognised in other comprehensive income	-	(137,093)	-	-	-	-
Transfers in and out of Level 3	-	(94,567)	-	-	382,452	-
Foreign exchange translation adjustment	-	-	(283)	-	-	(196)
Carrying amount at end of year	-	44,483	9,044	295	382,452	8,307

The transfer in to available for sale investments Level 2 classification is primarily due to the transfer of the HTM portfolio to the AFS portfolio. These securities were transferred into the AFS portfolio and the related Level 2 hierarchy at the fair value of the securities. The transfers out of Level 3 are due to enhanced interpretation of the required disclosure resulting in reclassifications in the fair value hierarchy.

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

31 December	2010			2009		
	Carying amount	Fair value	Appreciation/ (depreciation)	Carrying amount	Fair value	Appreciation/ (depreciation)
Financial assets						
Cash and deposits with banks	2,275,546	2,275,546	-	1,986,798	1,986,798	-
Investments held to maturity	-	-	-	838,715	691,193	(147,522)
Loans, net of allowance for credit losses	4,043,360	4,043,360	-	4,218,332	4,218,332	-
Financial liabilities						
Customer deposits						
Demand deposits	5,535,666	5,535,666	-	5,707,948	5,707,948	-
Term deposits	2,612,714	2,621,188	(8,474)	2,869,996	2,869,129	867
Deposits from banks	79,679	79,679	-	118,675	118,675	-
Subordinated capital	282,799	244,606	38,193	283,085	223,624	59,461

NOTE 16: INTEREST RATE RISK

The following table sets out the assets, liabilities and shareholders' equity and off-balance sheet instruments on the date of the earlier of contractual maturity or repricing date. Use of this table to derive information about the Bank's interest rate risk position is limited by the fact that customers may choose to terminate their financial instruments at a date earlier than the contractual maturity or repricing date. Examples of this include fixed-rate mortgages, which are shown at contractual maturity but which may pre-pay earlier, and certain term deposits, which are shown at contractual maturity but which may be withdrawn before their contractual maturity, and certain investments which have call or pre-payment features.

31 December 2010			Earlier of maturity or repricing date				
(in $ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash and deposits with banks	**2,017**	**-**	**2**	**-**	**-**	**167**	**2,276**
Investments	**1,320**	**14**	**200**	**1,115**	**92**	**69**	**2,810**
Loans	**3,588**	**63**	**48**	**138**	**109**	**97**	**4,043**
Premises, equipment and computer software	**-**	**-**	**-**	**-**	**-**	**262**	**262**
Other assets	**-**	**-**	**-**	**-**	**-**	**232**	**232**
Total assets	**7,015**	**77**	**250**	**1,253**	**201**	**827**	**9,623**
Liabilities and shareholders' equity							
Shareholders' equity	**-**	**-**	**-**	**-**	**-**	**809**	**809**
Demand deposits	**4,569**	**-**	**-**	**-**	**-**	**977**	**5,546**
Term deposits	**2,042**	**376**	**137**	**126**	**1**	**-**	**2,682**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**303**	**303**
Subordinated capital	**90**	**-**	**-**	**168**	**25**	**-**	**283**
Total liabilities and shareholders' equity	**6,701**	**376**	**137**	**294**	**26**	**2,089**	**9,623**
Interest rate swaps	**448**	**-**	**(339)**	**(48)**	**(61)**	**-**	**-**
Interest rate sensitivity gap	**762**	**(299)**	**(226)**	**911**	**114**	**(1,262)**	**-**
Cumulative interest rate sensitivity gap	**762**	**463**	**237**	**1,148**	**1,262**	**-**	**-**

31 December 2009			Earlier of maturity or repricing date				
(in $ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash and deposits with banks	1,891	2	2	-	-	92	1,987
Investments	1,908	146	488	164	25	204	2,935
Loans	3,706	44	59	206	60	143	4,218
Premises, equipment and computer software	-	-	-	-	-	244	244
Other assets	-	-	-	-	-	211	211
Total assets	7,505	192	549	370	85	894	9,595
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	355	355
Demand deposits	4,782	-	-	-	-	954	5,736
Term deposits	2,114	508	191	144	4	-	2,961
Other liabilities	-	-	-	-	-	260	260
Subordinated capital	-	90	-	108	85	-	283
Total liabilities and shareholders' equity	6,896	598	191	252	89	1,569	9,595
Interest rate swaps	99	19	67	(111)	(74)	-	-
Interest rate sensitivity gap	708	(387)	425	7	(78)	(675)	-
Cumulative interest rate sensitivity gap	708	321	746	753	675	-	-

NOTE 17: SUBORDINATED CAPITAL

On 28 May 2003, the Bank issued US $125 million of Subordinated Lower Tier II capital notes. The notes were issued at par and in two tranches, namely US $78 million in Series A notes due 2013 and US $47 million in Series B notes due 2018. The issuance was by way of private placement with US institutional investors. The notes are listed on the Bermuda Stock Exchange ("BSX") in the specialist debt securities category. Part proceeds of the issue were used to repay the entire amount of the US $75 million outstanding subordinated notes redeemed in July 2003. The notes issued under Series A paid a fixed coupon of 3.94% until 27 May 2008 when it was redeemed in whole by the Bank. The Series B notes pays a fixed coupon of 5.15% until 27 May 2013 when they become redeemable in whole at the Bank's option. The Series B notes were priced at a spread of 1.35% over the 10-year US Treasury yield.

On 2 April 2004, in conjunction with the acquisition of Leopold Joseph, the Bank assumed a subordinated debt of £5 million which is included in the Balance Sheet in the amount of $7.8 million. The issuance was by way of private placement in the United Kingdom and pays a fixed coupon of 9.29% until February 2012 when it becomes redeemable in whole at the option of the Bank and 10.29% thereafter until February 2017.

On 27 June 2005, the Bank issued US $150 million of Subordinated Lower Tier II capital notes. The notes were issued at par in two tranches, namely US $90 million in Series A notes due 2015 and US $60 million in Series B notes due 2020. The issuance was by way of private placement with US institutional investors. The notes are listed on the BSX in the specialist debt securities category. The notes issued under Series A paid a fixed coupon

of 4.81% until 2 July 2010 after which the coupon rate became floating and the principal became redeemable in whole at the Bank's option. At 31 December 2010 the Bank has not redeemed any of the Notes issues under Series A and effective 2 July 2010 the coupon rate became floating at 3 months US$ LIBOR + 1.095%. The Series B notes pays a fixed coupon of 5.11% until 2 July 2015 when they also become redeemable in whole at the Bank's option. The Series A notes were priced at a spread of 1.00% over the 5-year US Treasury yield and the Series B notes were priced at a spread of 1.10% over the 10-year US Treasury yield.

On 27 May 2008, the Bank issued US $78 million of Subordinated Lower Tier II capital notes. The notes were issued at par and in two tranches, namely US $53 million in Series A notes due 2018 and US $25 million in Series B notes due 2023. The issuance was by way of private placement with US institutional investors. The notes are listed on the BSX in the specialist debt securities category. The proceeds of the issue were used to repay the entire amount of the US $78 million outstanding subordinated notes redeemed in May 2008. The notes issued under Series A pays a fixed coupon of 7.59% until 27 May 2013 when they become redeemable in whole at the option of the Bank. The Series B notes pays a fixed coupon of 8.44% until 27 May 2018 when they also become redeemable in whole at the Bank's option. The Series A notes were priced at a spread of 4.34% over the 5-year US Treasury yield and the Series B notes were priced at a spread of 4.51% over the 10-year US Treasury yield.

Interest capitalised during the year amounted to $3 million (2009: $2.1 million) and is excluded from interest expense in the Consolidated Statement of Operations.

The following table presents the contractual maturity and interest payments for subordinated capital issued by the Bank as at 31 December 2010. The interest payments are calculated until contractual maturity using the current LIBOR rates

						Interest payments until contractual maturity		
Subordinated capital	**Earliest date redeemable**	**Contractual maturity date**	**Interest rate until date redeemable**	**Intersest rate from earliest date redeemable to contractual maturity**	**Principal Outstanding**	**Within 1 year**	**1 to 5 years**	**After 5 years**
Bermuda								
2003 issuance - Series B	27 May 2013	27 May 2018	5.15%	3 months US$ LIBOR + 2.000%	47,000	2,421	6,341	2,704
2005 issuance - Series A	2 July 2010	2 July 2015	4.81%	3 months US$ LIBOR + 1.095%	90,000	1,466	5,499	-
2005 issuance - Series B	2 July 2015	2 July 2020	5.11%	3 months US$ LIBOR + 1.695%	60,000	3,066	12,566	5,698
2008 issuance - Series A	27 May 2013	27 May 2018	7.59%	3 months US$ LIBOR + 4.185%	53,000	4,023	11,990	5,943
2008 issuance - Series B	27 May 2018	27 May 2023	8.44%	3 months US$ LIBOR + 4.929%	25,000	2,110	8,440	11,818
Subsidiary	8 February 2012	8 February 2017	9.29%	10.29%	7,799	724	3,171	1,204
Total					282,799	13,810	48,007	27,367

NOTE 18: EARNINGS PER SHARE

Earnings per share has been calculated using the weighted average number of common shares outstanding during the year after deduction of the shares held as treasury stock. The dilutive effect of share-based compensation plans was calculated using the treasury stock method, whereby the proceeds received from the exercise of share-based awards are assumed to be used to repurchase outstanding shares, using the average market price of the Bank's shares for the period. Diluted earnings per common share include the dilutive effect resulting from the conversion of treasury stock. Numbers of shares are expressed in thousands.

31 December	**2010**	2009
Basic loss per share		
Net loss for the year	**(207,615)**	(213,413)
Less: Preference dividends declared and guarantee fee	**(18,000)**	(9,450)
Net loss attributable for common shareholders	**(225,615)**	(222,863)
Weighted average number of common shares issued (in thousands)	**479,882**	100,266
Weighted average number of common shares held as treasury stock (in thousands)	**(2,657)**	(5,201)
Adjusted weighted average number of common shares (in thousands)	**477,225**	95,065
	(0.47)	(2.34)
Diluted loss per share		
Net loss attributable for common shareholders	**(225,615)**	(222,863)
Weighted average number of common shares issued (in thousands)	**479,882**	100,266
Weighted average number of common shares held as treasury stock (in thousands)	**(2,657)**	(5,201)
Adjusted weighted average number of diluted common shares (in thousands)	**477,225**	95,065
	(0.47)	(2.34)

NOTE 19: SHARE-BASED PAYMENTS

As a result of capital transaction announced on 2 March 2010, shares in the Bank's two share-based compensation plans being the Stock Option compensation plan and the Executive long-term incentive restricted shares compensation plan ("ELTIP") became fully vested. Consequently compensation expense was recognised on the Stock Option compensation plan and ELTIP of $2.6 million and $3.4 million respectively.

In conjunction with the Capital Raise, the Board of Directors approved the 2010 Stock Option Plan (the "2010 Plan") on 26 April 2010. Under the plan, five percent of the Company's fully diluted common shares, equal to approximately 29.3 million shares, were available for grant to certain officers. Such options have either time or performance vesting metrics and also required surrender of all prior vested options by certain executives.

The following table presents the share-based compensation cost that has been charged against net income and the value of share-based settlements. The 2010 Stock Option plan is described below.

For the year ended 31 December		2010			2009	
	Stock option plans	ELTIP outright and performance	Total	Stock option plans	ELTIP outright and performance	Total
Share-based compensation plans						
Awards granted in years 2009 and prior	2,655	3,381	6,036	2,248	994	3,242
Awards granted in year 2010	1,305	-	1,305	-	-	-
Total share-based compensation	3,960	3,381	7,341	2,248	994	3,242
Share-based settlement plans						
Directors shares and retainers settlement plan			271			256
Total share-based payments			7,612			3,498

2010 Stock Option Plan

Under the Bank's 2010 Plan, options are awarded to Bank employees and executive management, based on predetermined vesting conditions that entitle the holder to purchase one common share at a subscription price usually equal to last traded common share price when granted and have a term of 10 years. The Plan comprises 2 types of vesting conditions upon which the options will be awarded, i.e.,

- Time Vesting Condition – 50% of each option award is granted in the form of Time Vested Options and vests 25% on the 2nd, 3rd, 4th and 5th anniversary of the effective grant date subject to employee's continued employment ; and

- Performance Vesting Condition - 50% of each option award is granted in the form of Performance Options and vests on a "Valuation Event" date (date any of the 2 March 2010 Investors transfers at least 5% of total number of shares or the date that there is a change in control) and any of the New Investors achieve a Multiple of Invested Capital ("MOIC")based on predetermind MOICs. In the event of a Valuation Event and the MOIC reaching 200%, all options would vest.

For the year ending 31 December 2010, 28.1 million options were granted whereby approximately 2.7 million options remain available for grant under the approved plan.

The Bank has recognised $1.3 million compensation expense for the year ended 31 December 2010 related to the time vesting options granted. The unrecognised expense for the time vesting options amounts to $7.3 million. That cost is expected to be recognised over a weighted average period of 4.35 years.

Additionally the Bank determined the performance stock options granted have an aggregate fair value of $9.2 million. Such expense will only be recognised as and when the set performance criteria, primarily based on returns to New Investors, are achieved.

No options were exercised during the year ended 31 December 2010.

	Time Vested Options	Performance Options
Weighted average fair value of stock options granted in the year ended 31 December 2010	$0.62	$0.66

The weighted average fair value of stock options granted in the year ended 31 December 2010 was calculated using the Black-Scholes-Merton option-pricing model for the Time Vested Options and the Monte Carlo method for the Performance Options using the following weighted average assumptions.

	Time Vested Options	Performance Options
	0% for 2010-2012	0% for 2010-2012
	1.0% for 2013	1.0% for 2013
	2.0% for 2014	2.0% for 2014
Projected dividend yield	3.5% for 2015 and later years	3.5% for 2015 and later years
Risk-free interest rate	1.82% to 3.32%	0% to 4.06%
Projected volatility	35% to 37%	35% to 37%
Expected life (years)	6.75 years	8 to 10 years

The projected dividend yield are based on the Bank's estimate as the Bank has suspended dividend payments, but expects to start paying dividends in 2013. The projected volatilities are based on the historical trading prices of the Bank's common shares. The risk-free interest rate for periods within the expected life of the option is based on the US Treasuries yield curve in effect at the time of grant. As the time vested options granted are "plain vanilla" option, the Bank uses one-half of the time between the average vesting date and the full option term to estimate the expected option life; separate groups of employees that have similar historical exercise behaviour are considered separately for valuation purposes.

31 December		2010		
	Number of shares transferable upon exercise (thousands)	Weighted average exercise price ($)	Weighted average life remaining (years)	Aggregate intrinsic value ($ thousands)
Outstanding at beginning of year	**12,428**	**11.72**		
Granted	**28,137**	**1.21**		
Forfeited / cancelled	**(6,257)**	**11.04**		
Outstanding at end of year	**34,308**	**3.26**	**8.68**	**1,069**
Vested and exercisable at end of year	**6,275**	**12.38**	**5.61**	

Deferred incentive settlement plan

Under its Deferred Incentive Plan as approved by the Board of Directors, the Bank settles a portion of the annual bonus of selected members of the Management team by granting restricted common shares. Shares are granted fully vested and are affected by transfer restrictions which are lifted at a rate of 33 percent at the end of each year for three years.

The fair value of each restricted common share granted under the Deferred Incentive Plan was estimated based on the grant date market price of the Bank's common shares discounted by 25% for their transfer restrictions. The discount for transfer restrictions was based, among other factors, on published restricted stock studies. No Deferred Incentive Plan shares were granted during the years ended 31 December 2010 and 2009.

Directors' Compensation

The Bank's Non-Executive Directors record their annual retainer compensation in the form of cash or fully vested and unrestricted Bank shares or a combination of the two.

A Bank Non-Executive Director received additional compensation in the form of a one-time shares grant to vest over a 2-year period amounting to $0.25 million. The Bank has recognised $0.06 million compensation expense for the year ended 31 December 2010 related to the time vesting shares granted. The unrecognised expense for the time vesting shares amounts to $0.19 million. That cost is expected to be recognised over a vesting period of 1.34 years.

NOTE 20: SHARE BUY-BACK PLANS

From time to time the Bank's associates, insiders and insiders' associates as defined by the BSX regulations may sell shares which may result in such shares being repurchased pursuant to the programme, but under BSX regulations such trades must not be pre-arranged and all repurchases must be made in the open market. Prices paid by the Bank must not, according to BSX regulations, be higher than the last independent trade for a 'round lot', defined as 100 shares or more.

The BSX is advised monthly of shares repurchased and cancelled by the Bank and shares purchased by both the Bank's Stock Option Trust and the Bank's Charitable Trust. During the years 2009 and 2010, no common shares were purchased.

NOTE 21: DISPOSAL OF SUBSIDIARIES

Divestiture of Hong Kong and Malta

On 8 September 2010, the Bank completed the sale of its trust, wealth management and advisory businesses in Hong Kong and its trust operation in Malta to the founder from whom the businesses were acquired. Under the transaction Nic Bentley, founder and previously Chairman of the Bentley

Reid Group, reacquired the Malta and Hong Kong businesses which will now operate under the Bentley Reid name. The sale resulted in a loss of $7.4 million being recorded under realised loss on disposal of subsidiaries in the Statement of Operations.

The Hong Kong and Malta subsidiaries were previously reported under their respective geographical segment. Prior to disposal, Hong Kong and Malta had total assets of $5.5 million and $3.6 million (31 December 2009: $10.2 million and $2.9 million) and recorded year to date net loss of $3.3 million and $3.8 million (31 December 2009: $9.9 million and $2.3 million) respectively.

NOTE 22: CAPITAL STRUCTURE

Authorised capital

The Bank's total authorised share capital as of 31 December 2010 consisted of (i) 26 billion ordinary shares of par value BD$0.01, (ii) 100,200,001 preference shares of par value US$0.01 and (iii) 50 million preference shares of par value £0.01.

On 2 March 2010, the Bank issued 144.8 million common shares of par value $1 per share, for a consideration of $175 million.

Following the Bank's Annual General Meeting held on 8 April 2010, The Bank of N.T. Butterfield & Son Limited's shareholders approved an increase in the authorised share capital to 26,000,000,000 common shares of par value BD$0.01. Subsequent to the increase, conversion of 281,770 mandatorily convertible preference shares into 233,157,035 common shares and 93,230 contingent convertible preference shares into 77,144,993 common shares took place.

At the Special General Meeting of shareholders held on 14 April 2009, the Board of Directors were granted the authority to issue, allot or grant options, warrants or similar rights over or otherwise dispose of all the authorised but unissued share capital of the Bank.

On 11 May 2010 the rights were over subscribed with the maximum allowable number of rights of 107,438,016 were exercised and subsequently converted on the ratio of 0.92308 common shares for each right unit exercised amounting to 99,173,842 common shares issued.

Following the closing of the Rights Offering on 11 May 2010, the gross proceeds of $130 million were used to repurchase 107,571,361 shares from the 2 March 2010 investors at the same price at which the investors originally subscribed for the shares.

As part of the cost of the Capital Raise, the Bank's investment advisor was compensated $10 million in cash and $3.5 million in common shares at the same prices as the New Investors. On 12 May 2010 in settlement of the aforementioned, the Bank issued 2,896,152 common shares to the Bank's investment advisor.

Preference shares

On 22 June 2009, the Bank issued 200,000 Government guaranteed, 8.00% Non-Cumulative Perpetual Limited Voting Preference Shares (the "preference shares"). The issuance price was US$1,000 per share. The preference share principal and dividend payments are guaranteed by the Government of Bermuda.

Holders of preference shares will be entitled to receive, on each preference share only when, as and if declared by our Board of Directors, non-cumulative cash dividends at a rate per annum equal to 8.00% on the liquidation preference of $1,000 per preference share payable quarterly in arrears.

At any time after the expiry of the guarantee offered by the Government of Bermuda, and subject to the approval of the Bermuda Monetary Authority, the Bank may redeem, in whole or in part, any preference shares at the time issued and outstanding, at a redemption price equal to the liquidation preference plus any unpaid dividends at the time.

In exchange for the Government's commitment, the Bank issued to the Government 4,279,601 warrants to purchase common shares of the Bank at an exercise price of $7.01. The warrants expire on 22 June 2019.

On 2 March 2010, the Bank issued 281,770 mandatorily convertible preference shares of par value $0.01 per share and 93,230 contingent convertible preference shares of par value $0.01 per share, for a consideration of $281.8 million and $93.2 million respectively. Subsequent to the Bank's Annual General Meeting held on 8 April 2010 the 281,770 mandatorily convertible preference shares and 93,230 contingent convertible preference shares were converted into 233,157,035 and 77,144,993 common shares respectively.

As stated above, on 11 May 2010, 107,438,016 rights were exercised and subsequently converted on the ratio of 0.07692 contingent value convertible preference share for each right unit exercised amounting to 8,264,157 contingent value convertible preference shares ("CVCP") issued. The contingent value preference shares have specific rights and conditions attached which is explained in detail in the Prospectus of The Rights Offering.

Following the Capital Raise on 2 March 2010 the terms of the 4,279,601 warrants with an exercise price of $7.01 previously issued to the Bermuda Government in conjunction with the issuance of 200,000 Government guaranteed 8% non-cumulative perpetual limited voting preference shares in 2009 were adjusted in accordance with the terms of the guarantee. Subsequently, the Government of Bermuda now holds 4,150,774 warrants with an exercise price of $3.614.

NOTE 23: VARIABLE INTEREST ENTITIES

The Bank had no investments in variable interest entities for which it was deemed the primary beneficiary during the years 2010 and 2009.

The Bank has an equitable mortgage in a hospitality related company that has been placed under Receivership and as the Bank is an equity holder at risk, the hospitality related company was considered to be a variable interest entity. As the Bank did not have the legal power to direct the activities of the company that most significantly impact the company's economic performance it was considered not to be the primary beneficiary.

NOTE 24: INCOME TAXES

The Bank is incorporated in Bermuda, and pursuant to Bermuda law are not taxed on either income or capital gains. The Bank's subsidiaries in the Cayman Islands and The Bahamas are not subject to any taxes in their respective jurisdictions on either income or capital gains under current law applicable in the respective jurisdictions. The Bank's subsidiaries in the United Kingdom ("UK"), Guernsey, Barbados and Switzerland are subject to the tax laws of those jurisdictions and the jurisdictions in which they operate.

For the years ended 31 December 2010 and 2009, the Bank did not record any unrecognised tax benefits or expenses. The Bank has not recorded any interest or penalties during the years ended 31 December 2010 and 2009 and have no uncertain tax positions as at 31 December 2010 and 2009.

The Company records income taxes based on the enacted tax laws and rates applicable in the relevant jurisdictions for each of the years ended 31 December 2010 and 2009. Interest and penalties related to uncertain tax positions, of which there have been none, would be recognised in income tax expense.

The components of income taxes attributable to the Bank's subsidiaries' operations for the years ended 31 December 2010 and 2009 were as follows:

31 December	2010	2009
Income taxes in Consolidated Statement of Operations		
Current	**(3,676)**	(361)
Deferred	**1,701**	31
Total tax (benefit) expense	**(1,975)**	(330)
Deferred income tax asset		
Tax loss carried forward	**5,797**	660
Pension liability	**515**	1,259
Fixed assets	**676**	1,687
Allowance for compensated absence	**30**	29
Onerous leases	**115**	120
Other	**490**	36
Total asset	**7,623**	3,791
Deferred income tax liability		
Other	**-**	-
Net deferred income tax asset	**7,623**	3,791

Management believes it is more likely than not that the tax benefit of the remaining net deferred tax assets will be realised.

NOTE 25: RELATED PARTY TRANSACTIONS

Butterfield Fulcrum Group Limited

On 11 September 2008, the Bank completed the sale of its international fund administration services businesses to the Fulcrum Group. The sale was accomplished by a share purchase agreement ("SPA"), through which the Bank sold six subsidiaries that carried out its fund administration services operations. The Bank received, pursuant to the sale, an upfront cash payment of $133 million and a 40% equity ownership in the combined fund administration services business, Butterfield Fulcrum Group Limited. The Bank also has the right to nominate two directors to the Butterfield Fulcrum Group's seven-member board of directors. As at 31 December 2010, these positions were held by Bradford Kopp, the Bank's President & Chief Executive Officer, and Robert Mulderig, Butterfield's Chairman of the Board.

To facilitate the transaction, the Bank provided the Butterfield Fulcrum Group with $65.0 million in seven-year term debt financing and a $14.5 million three-year revolving credit facility on commercial market terms. The Bank also entered into a transition services agreement ("TSA") with the Butterfield Fulcrum Group. Under the TSA, the Bank agreed to provide certain transition services to the Butterfield Fulcrum Group, including use of certain office facilities, information technologies and personnel, during the transition period. The Bank's obligations under the TSA expired during the year ended 31 December 2009. As part of the SPA, the Bank and the Butterfield Fulcrum Group undertook to create an arms-length client referral arrangement through which both the Bank and the Butterfield Fulcrum Group have the option to refer clients in need of each others' services in return for a nominal fee. Since the sale, the Bank has substantially ceased all fund administration services operations. As at 31 December 2010, $74.4 million of the facilities were drawn.

See Note 27: Subsequent events for additional disclosure.

Employee loan programme
As of 17 May 2005, the Bank established a programme to offer loans with preferential rates to eligible Bank employees, subject to certain conditions set by the Bank and provided that such employees meet certain credit criteria. Loan payments are serviced by automatically debiting the employee's chequing or savings account with the Bank. Applications for loans are handled according to the same policies as those for the Bank's regular retail banking clients. The Bank's ability to offer preferential rates on loans depends upon a number of factors, including market conditions, regulations and the Bank's overall profitability. The Bank has the right to change our employee loan policy at any time after notifying participants. The staff loans outstanding at 31 December 2010 amount to $219 million (2009: $217.4 million) resulting in an interest rate benefit to employees of $6.2 million (2009: $6.2 million).

Interested Officers and Director transactions
In the ordinary course of business, the Bank provides loans and other banking services to the Bank's Directors, as well as their family members and companies with which they are affiliated. The Bank provides these services on terms no less favourable to the Bank than those with unaffiliated parties of comparable creditworthiness.

In connection with the capital transaction announced by the Bank on 2 March 2010, the Chief Executive Officer and the Senior Vice President General Counsel subscribed and paid for $1.5 million and $0.3 million of common and mandatorily convertible preference shares, respectively. The purchase price was the same as the other new investors. Additionally, the Bank created a Director and Executive Stock Purchase Plan as part of the capital raise whereby Directors and other members of management purchased an aggregate of 4,846,550 common shares at $1.21. The total consideration received amounted to $5.9 million of which $4.2 million was financed by loans to certain executives at normal staff rates.

Charitable Trust
The Bank historically has provided a loan facility to the Charitable Trust which it used to purchase shares in the Bank which amounted to $1.2 million at 31 December 2010 (2009: $2.7 million). As at 31 December 2010, the Charitable Trust held 772,971 Bank's common shares (2009: 729,088 shares) and 6,223 of the Bank's contingent value preference shares (2009: nil)

Capital transaction
The Carlyle Group and Canadian Imperial Bank of Commerce ("CIBC") each hold approximately 18% of the Bank's equity voting power, along with the right to each designate 2 members of the Bank's Board of Directors.

The Bank incurred $28.7 million in transaction fees and related expenses in respect of the capital raise and the Rights Offering (of which $8.5 million was paid to The Carlyle Group and $6.5 million paid to CIBC).

Liquidity facility agreement
The Bank entered into a commitment letter for a $500 million line of credit at market rates with CIBC. The fees incurred for the line of credit facility were $7.4 million. As at 31 December 2010 the credit facility had been reduced to $300 million and remains undrawn. The Bank incurs facility fees of $200,000 per month.

Balance sheet management advisory agreement
The Bank entered into an asset liability management agreement with Carlyle Investment Management LLC ("Carlyle"), an affiliated company of The Carlyle Group with an effective date of 1 October 2010. Per the agreement Carlyle has agreed to provide balance sheet management advisory services to the Bank for an annual fee of $4 million for a three year period.

Cash held with related parties
Included in cash and term deposits held with banks is $52.7 million cash deposited with CIBC at 31 December 2010.

NOTE 26: COMPARATIVE INFORMATION
Certain prior-period figures have been reclassified to conform to current period presentation.

NOTE 27: SUBSEQUENT EVENTS
Disposal of investment in Butterfield Fulcrum Group Limited
On 8 February 2011, the Bank entered into an agreement with an investor group (comprised of BV Investor Partners, Glen Henderson and Tim Calveley, ("BV Investor Group") to dispose of its 36% equity interest on a diluted basis in Butterfield Fulcrum Group Limited ("BFG"). It is anticipated that the sale will be completed in the first quarter of 2011. Additionally, under the terms of the agreement, BV Investor Group will pay down BFG's existing debt and revolving credit facility with the Bank and combine their overall funding requirements with another related entity, FORS Limited ("FORS"), whereby the total loan facilities post-disposition, on commercial market terms, will be $45.1 million. A Bank Non-Executive Director is a minority shareholder with approximately 3% of FORS.

The Bank has guaranteed to purchase services from BFG, on commercial market terms, for three years at minimum agreed revenue levels of $5.5 million, $5.0 million and $4.5 million per annum. It is anticipated, given anticipated levels of services provided to the Bank by BFG, that there will be no shortfalls to the minimum agreed revenue levels. In the event there is a shortfall, the Bank is required to pay 38% of the shortfall.

Upon closing, the sale is expected to result in a distribution equivalent to $3.3 million to be distributed to CVCP shareholders.

Disposal of investment in SIV

The Bank sold one of its SIV investments subsequent to year end resulting in proceeds of $26.5 million and a gain of $0.1 million. The Bank's remaining SIV had a carrying amount of $33.3 million at 31 December 2010.

Settlement of non-accrual loan

Subsequent to year the Bank reached a settlement on one of its troubled hospitality loans resulting in a decrease of non-accrual loans of $7.8 million.

The financial statements were available to be issued and subsequent events have been evaluated up to 22 February 2011.

SHAREHOLDER INFORMATION

Directors' and Executive Officers' Share Interests and Directors' Service Contracts

Pursuant to Regulation 6.8(3) of section IIA of the Bermuda Stock Exchange Listing Regulations, the total interests of all Directors and Executive Officers of the Bank in the shares of the Bank as at 31 December 2011 were 5,880,195 shares. Following the 2010 capital raise and rights offering transactions, a total of 18.4 million stock options were allocated to Executive Officers of the Bank pursuant to the 2010 Stock Option Plan to vest in accordance with timelines established by the Plan. In 2010 a Non-Executive Director received additional compensation in the form of a one time shares-grant of 172,413 shares to vest over a two year period. None of the Directors or Executive Officers had any interest in any debt securities issued by the Bank or its subsidiaries as at 31 December 2010.

There are no service contracts with Directors, except for that of Bradford Kopp, whose contract expires on 1 March 2013.

EXCHANGE LISTING

The Bank's shares are listed on the Bermuda Stock Exchange (BSX) and the Cayman Islands Stock Exchange (CSX), which are located at:

BERMUDA STOCK EXCHANGE
(Primary Listing)
3rd Floor, Washington Mall,
Church Street
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Tel: (441) 292 7212 or (441) 292 7213
Fax: (441) 292 7619
www.bsx.com

CAYMAN ISLANDS STOCK EXCHANGE
(Secondary Listing)
Elizabethan Square, 4th Floor
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SHARE PRICE

Published daily in *The Royal Gazette* in Bermuda and available on Bloomberg Financial Markets (symbol: NTB BH).

Also available on the BSX and CSX websites.

DIVIDEND REINVESTMENT PLAN (TERMINATED)

Details are available from Butterfield Fulcrum Group (Bermuda) Limited (Phone (441) 299 3882).

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WRITTEN NOTICE OF SHARE REPURCHASE PROGRAMME — BSX REGULATION 6.38

No shares were purchased under any share repurchase programme in 2010.

LARGE SHAREHOLDERS

The following, at 31 December 2010, were registered holders of 5% or more of the issued share capital:

Canadian Imperial Bank of Commerce, 18.84%
Carlyle Global Financial Services Partners LP, 17.36%
Wellcome Trust Investments, 6.78%
Ithan Creek Master Investor (Cayman) LP, 6.16%

PRINCIPAL OFFICES & SUBSIDIARIES

This list does not include all companies in the Group.

The Bank of N.T. Butterfield & Son Limited

Group Parent Company, Community Banking, Private Banking, Credit and Treasury Services

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NOTES

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