Butterfield

The Bank of N.T. Butterfield & Son Limited

Audited Financial Statements for the Fiscal Year Ended 31 December 2008

PRICEWATERHOUSECOOPERS

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Independent Auditors' Report

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 income, of changes in shareholders' equity and comprehensive income 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 2008 and 2007, and the results of its operations and its 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 statements presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers

Chartered Accountants

5 March 2009

Consolidated Balance Sheet

As at 31 December (In $ thousands)

	2008	2007
Assets		
Cash and demand deposits with banks	**572,441**	267,261
Term deposits with banks	**1,648,949**	2,249,751
Total cash and deposits with banks	**2,221,390**	2,517,012
Investments		
Trading	**48,329**	58,534
Available for sale	**579,799**	932,238
Held to maturity	**3,195,951**	3,754,217
Total investments	**3,824,079**	4,744,989
Loans, net of allowance for credit losses	**4,418,277**	4,124,764
Premises, equipment and computer software	**197,155**	215,379
Accrued interest	**39,567**	68,597
Goodwill	**14,364**	25,260
Intangible assets	**57,250**	81,230
Other assets	**139,762**	133,689
Total assets	**10,911,844**	11,910,920
Liabilities		
Deposits		
Non-interest bearing	**920,866**	1,042,062
Interest bearing		
Customers	**8,485,309**	9,399,517
Banks	**395,094**	306,392
Total deposits	**9,801,269**	10,747,971
Employee future benefits	**120,038**	98,063
Accrued interest	**24,931**	34,774
Dividend payable	**3,819**	14,081
Other liabilities	**161,051**	102,510
Total other liabilities	**309,839**	249,428
Subordinated capital	**282,296**	284,191
Total liabilities	**10,393,404**	11,281,590
Shareholders' equity		
Common share capital ($1.00 par: Authorised shares 260,000,000 (31 December 2007 100,000,000))	**98,400**	89,456
Additional paid in capital	**604,116**	455,114
Retained earnings (accumulated deficit)	**(35,006)**	167,607
Less: treasury common stock	**(82,700)**	(71,576)
Accumulated other comprehensive loss	**(66,370)**	(11,271)
Total shareholders' equity	**518,440**	629,330
Total liabilities and shareholders' equity	**10,911,844**	11,910,920

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

Robert A. Mulderig
Chairman of the Board

Alan R. Thompson
President & Chief Executive Officer

Consolidated Statement of Income

For the year ended 31 December (In $ thousands, except per share data)

	2008	2007
Non-interest income		
Asset management	41,308	38,260
Banking	37,562	37,119
Foreign exchange revenue	45,475	38,717
Investment and pension fund administration	35,583	49,256
Trust	23,578	22,988
Custody and other administration services	25,490	24,316
Other non-interest income	3,945	9,026
Total non-interest income	212,941	219,682
Interest income		
Loans	264,570	284,695
Investments	193,006	253,831
Deposits with banks	80,519	124,608
Total interest income	538,095	663,134
Interest expense		
Deposits	269,668	395,681
Subordinated capital	13,946	14,853
Total interest expense	283,614	410,534
Net interest income before provision for credit losses	254,481	252,600
Provision for credit losses	(3,045)	(1,983)
Net interest income after provision for credit losses	251,436	250,617
Revenue before gains and losses	464,377	470,299
Gain on sale of subsidiaries and affiliate	115,479	170
Goodwill impairment	(5,220)	-
Realised / unrealised (losses) gains on trading securities	(6,356)	3,221
Realised / unrealised losses on held to maturity investments	(151,772)	-
Net other losses	(61,182)	(3,727)
Total revenue	355,326	469,963
Non-interest expense		
Salaries and other employee benefits	183,152	184,751
Technology and communications	41,149	28,741
Professional and outside services	34,529	22,304
Property	32,140	30,856
Non-income taxes	15,132	14,152
Amortisation of intangible assets	7,316	6,916
Marketing	7,140	7,131
Other expenses	26,887	22,140
Total non-interest expense	347,445	316,991
Net income before income taxes	7,881	152,972
Income taxes	(3,042)	(6,977)
Net income	4,839	145,995
Earnings per share		
Basic	0.05	1.56
Diluted	0.05	1.53

Earnings per share comparative figures have been restated for the one for ten stock dividend in February 2008.

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

Consolidated Statement of Changes in Shareholders' Equity and Comprehensive Income

For the year ended 31 December (In $ thousands)

	2008	2007
Common share capital		
Authorised: 260,000,000 shares (2007: 100,000,000) of par value $1 each		
Issued		
Issued and outstanding at beginning of year	**89,456**	29,870
(January 2008: 89,456,019 shares; January 2007: 29,869,754 shares)		
Dividend reinvestment	**791**	307
(December 2008: 791,232 shares; December 2007: 306,914 shares)		
of which issued from treasury common stock	**(791)**	(232)
(December 2008: 791,232 shares; December 2007: 232,392 shares)		
Stock dividend	**8,944**	-
(December 2008: 8,943,839 shares; December 2007: nil shares)		
Stock split	**-**	59,637
(December 2008: nil shares; December 2007: 59,637,346 shares)		
Shares repurchased and cancelled	**-**	(126)
(December 2008: nil shares; December 2007: 125,603 shares)		
Issued and outstanding at end of year	**98,400**	89,456
(December 2008: 98,399,858 shares; December 2007: 89,456,019 shares)		
Additional paid in capital		
Balance at beginning of year	**455,114**	514,872
Dividend reinvestment	**12,845**	12,403
of which related to treasury common stock	**(12,845)**	(8,197)
Stock split	**-**	(59,637)
Stock dividend	**149,969**	-
Issued under directors' and executive officers' and employees' stock option plans	**3,561**	2,959
Stamp duty paid in order to increase authorised common share capital	**(800)**	-
Reduction of additional paid in capital on transfer and sale of treasury shares	**(3,728)**	-
Common shares repurchased and cancelled	**-**	(7,286)
Balance at end of year	**604,116**	455,114
Retained earnings (accumulated deficit)		
Appropriated - general reserve	**100,000**	100,000
Unappropriated at beginning of year	**67,607**	(23,119)
Effect of changing employee future benefit plans' measurement date	**(1,068)**	-
Net income for year	**4,839**	145,995
Cash dividends declared	**(47,471)**	(55,269)
Stock dividend	**(158,913)**	-
Balance at end of year	**(35,006)**	167,607
Treasury common stock		
Balance at beginning of year (January 2008: 4,903,324 shares; January 2007: 1,494,584 shares)	**(71,576)**	(37,039)
Net purchases	**(11,124)**	(34,537)
Balance at end of year	**(82,700)**	(71,576)
(December 2008: 6,473,180 shares; December 2007: 4,903,324 shares)		
Accumulated other comprehensive loss		
Balance at beginning of year	**(11,271)**	(35,031)
Net change in unrealised gains and losses on translation of net investment in foreign operations	**(21,104)**	542
Net change in unrealised gains and losses on available for sale securities	**153**	(398)
Net change in unrealised gains and losses on cash flow hedges	**-**	38
Net change in employee future benefits	**(34,148)**	23,578
Balance at end of year	**(66,370)**	(11,271)
Total shareholders' equity	**518,440**	629,330
Comprehensive (loss) income		
Net income	**4,839**	145,995
Other comprehensive (loss) income	**(55,099)**	23,760
Total comprehensive (loss) income	**(50,260)**	169,755

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)

	2008	2007
Cash flows from operating activities		
Net income	4,839	145,995
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortisation	28,985	27,536
Goodwill impairment	5,220	-
Write down of computer software	29,180	-
Decrease (increase) in carrying value of investments in affiliates	2,223	(1,051)
Share-based compensation	6,139	5,670
Gain on sale of subsidiaries and affiliate	(115,479)	(170)
Loss (gain) on sale of premises and equipment	937	(569)
Realised and unrealised net gains on private equity investments	(21,619)	(4,388)
Loss on credit derivative instruments	52,275	6,250
Realised and unrealised losses on held to maturity investments	151,772	-
Provision for credit losses (recoveries)	3,045	1,983
Decrease (increase) in accrued interest receivable	23,017	(4,069)
Increase in other assets	(20,991)	(15,608)
(Decrease) increase in accrued interest payable	(6,672)	1,114
Increase (decrease) in other liabilities	53,589	(2,977)
	196,460	159,716
Net change in trading account securities	53,120	(1,872)
Cash used in operating activities	249,580	157,844
Cash flows from investing activities		
Net decrease in term deposits with banks	372,342	573,681
Net additions to premises, equipment and computer software	(37,915)	(59,152)
Net increase in loans	(592,358)	(348,491)
Held to maturity securities: proceeds from maturities	4,284,395	1,980,152
Held to maturity securities: purchases	(4,104,788)	(2,981,357)
Available for sale securities: proceeds from sale and maturities	5,834,046	4,019,843
Available for sale securities: purchases	(5,721,918)	(3,964,763)
Proceeds on sale of private equity investment	12,873	4,388
Proceeds on sale of subsidiaries	133,000	2,344
Purchase of subsidiary	-	(28,353)
Cash provided by (used in) investing activities	179,677	(801,708)
Cash flows from financing activities		
Net (decrease) increase in demand and term deposit liabilities	(41,440)	664,323
Issuance of subordinated capital	78,000	-
Repayment of subordinated capital	(78,000)	-
Proceeds from dividend re-investment plan	11,765	12,478
Stamp duty paid to increase authorised share capital	(800)	-
Proceeds from sale of treasury shares	4,994	-
Shares repurchased	(38,339)	(45,564)
Treasury stock	4,149	(7,293)
Cash dividend paid	(57,733)	(54,366)
Cash (used in) provided by financing activities	(117,404)	569,578
Effect of exchange rates on cash and demand deposits with banks	(6,673)	(35)
Net increase (decrease) in cash and demand deposits with banks	305,180	(74,321)
Cash and demand deposits with banks: beginning of period	267,261	341,582
Cash and demand deposits with banks: end of period	572,441	267,261
Supplemental disclosure of cash flow information		
Cash interest paid	278,869	411,082
Cash income tax paid	3,808	5,428

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

Note 1: Significant Accounting Policies

(a) Basis of Presentation and Use of Estimates and Assumptions

The accounting and financial reporting policies of The Bank of N.T. Butterfield & Son Limited (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. Such estimates, including the provision for credit losses, the fair value of financial instruments, the fair value of investments, litigation provisions, variable interest entities, pensions and post-retirement medical benefit plan benefits, the carrying value of goodwill and intangible assets require management to make subjective or complex judgments and are subject to change in the future as additional information becomes available or previously existing circumstances are modified.

(b) Basis of Consolidation

The Bank consolidates subsidiaries where it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. 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 variable interest entities (VIEs), are accounted for under the equity method, and the pro rata share of their income (loss) is included in other income. The Bank consolidates entities deemed to be VIEs when the Bank is determined to be the primary beneficiary under the Financial Accounting Standards Board (FASB) interpretation No. 46 (Revised 2003) Consolidation of Variable Interest Entities (FIN 46R).

(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 Income.

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. Such gains and losses are recorded in the Consolidated Statement of Income 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 include debt and equity securities. Debt securities include bonds, notes, certificates of deposit, redeemable preferred stock, as well as certain loan or asset backed and structured securities subject to prepayment, credit and default risk. Equity securities include common and non-redeemable preferred stocks. Debt securities classified as "held to maturity" represent securities that the Bank has both the ability and the intent to hold until maturity and are carried at amortised cost adjusted to recognise other-than-temporary impairment. Debt securities and marketable equity securities classified as "available for sale" are carried at fair value, with unrealised gains and losses reported in other comprehensive income, with the exception of other than temporary impairments which are included in net income. Debt and equity securities classified as “trading” securities are carried at fair value, with the unrealised gains and losses included in the Consolidated Statement of Income as gains and losses on trading.

Fair value of investments is determined in accordance with note 1 p).

In respect of held to maturity or available for sale securities, declines in fair value that are determined to be other than temporary are charged to earnings. 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. Realised gains and losses on sales of investments are included in earnings on a specific identified cost basis.

(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 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. Non-accrual loans are those on which the accrual of interest is discontinued. Loans 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 fully secured and any collection efforts are reasonably expected to result in repayment of all amounts due under the contractual terms of the loan. 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.

Interest accrued but not collected at the date a loan is placed on non-accrual status is reversed against interest income. In addition, the amortisation of net deferred loan fees is suspended. Interest income on non-accrual loans is recognised only to the extent it is received in cash. However, where there is doubt regarding the ultimate collectivity of the loan principal, all cash thereafter received is applied to reduce the carrying value of the loan. Loans are restored to accrual status only when interest and principal payments are brought current and future payments are reasonably assured.

Credit card loans that are contractually 180 days past due and consumer loans with an outstanding balance under $100,000 that are contractually 180 days past due are automatically written off.

The Bank accounts for and discloses non-accrual loans as impaired loans, and recognises their interest income as previously discussed for non-accrual loans. Accordingly, interest income on these loans is recognised after the entire recorded investment is recovered, and interest is actually received. In addition, the amortisation of net deferred loan fees is suspended.

(g) Allowance for Credit Losses

The Bank maintains an allowance for credit losses, which in management's opinion is adequate to absorb all incurred credit related losses in its portfolio relating to on and off balance sheet lending portfolio. The allowance for credit losses consists of specific allowances and a general allowance, each of which is reviewed on a regular basis. The allowance for credit losses is included as a reduction of the related asset category.

(h) Specific Allowances

Specific allowances are determined on an item by item 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 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 a valuation allowance with a corresponding charge to provision for credit losses.

(i) General Allowance

The allowance for credit losses attributed to the remaining portfolio is established through a process that estimates the probable loss inherent in the portfolio based upon various analyses. 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 mortgage, instalment, 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.

(j) 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.

(k) 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 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 7 years. If deemed significant the Bank will capitalise interest cost in accordance with Statement of Financial Accounting Standard (SFAS) No. 34 Capitalisation of Interest Cost (SFAS 34).

(l) Derivatives

In accordance with SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities (SFAS 133), all derivatives are recognised on the Consolidated Balance Sheet at their fair value. SFAS 133, as amended by SFAS No. 138 Accounting for Certain Derivative Instruments and Certain Hedging Activities (SFAS 138) and SFAS No. 149 Amendment of Statement 133 on Derivative Instruments and Hedging Activities (SFAS 149), establishes accounting and reporting standards for financial derivatives, including certain financial derivatives embedded in other contracts and hedging activities. On the date that the Bank enters into a derivative contract, it designates the derivative as either: 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).

Changes in the fair value of a derivative that is highly effective, and 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. Changes in the fair value of a derivative that is highly effective and 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.

Changes in the fair value of a derivative that is highly effective as and 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 hedge. 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 immediately reflected in other income.

(m) Employee Future Benefits

The Bank maintains trusteed pension plans for substantially all employees including non-contributory defined benefit plans and a number of 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 substantially all retired Bermuda-based employees.

The Bank's defined benefit pension plans are accounted for in accordance with SFAS No. 87 Employers' Accounting for Pensions (SFAS 87) and SFAS No. 88 Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits (SFAS 88). Its post-retirement medical and life insurance plans are accounted for in accordance with SFAS No. 106 Employers' Accounting for Post-retirement Benefits Other Than Pensions (SFAS 106). Both plans are also accounted for in accordance with SFAS No. 158 (SFAS 158), Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R).

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 market 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.

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.

(n) Share-Based Compensation

The Bank has a number of share-based compensation plans for eligible employees. In accordance with SFAS No. 123(R) Share-Based Payment (SFAS 123(R)), the Bank follows the fair value method of accounting for share-based compensation plans. The fair value of share-based awards that eventually vest is amortised over the vesting period of the award.

(o) Revenue Recognition

Trust and investment services fees include fees for private and institutional trust, executorship, and custody services. These fees are recognised as revenue 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 other contingencies associated with the fee.

Asset management fees include fees for investment management, investment advice and brokerage services. Investment management fees are recognised over the period in which the related service is provided, on a net asset value basis. Investment advice and brokerage services fees are recognised in the period in which the related service is provided.

Investment and pension fund administration fees include fees for pension fund administration, institutional fund administration, registration and transfer agent and corporate services. Pension and institutional fund administration fees are recognised as revenue 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 other contingencies associated with the fee. All other fees are recognised as revenue over the period of the relationship.

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. In accordance with SFAS No. 91 Accounting for Non-refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases (SFAS 91), 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 on all securities, including amortisation of premiums and discounts on debt securities held for investment, are included in investment income in the Consolidated Statement of Income.

(p) Fair Value of Financial Instruments

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

Level 1, 2 and 3 valuation inputs

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

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

Cash and deposits with banks

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

Investments

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

Loans

The majority of loans are variable rate and re-price in response to changes in market rates and hence the fair value has been estimated as the carrying value. For fixed-rate loans, the fair value has been estimated by performing a discounted cash flow calculation using market rates for similar loans made at the balance sheet date.

Accrued interest

The carrying values 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 fair value of deposits with no stated maturity date is deemed to equate to the carrying value.

Subordinated capital

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

Derivatives

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

Business units

The fair value of business 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 business unit.

(q) 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 fully collateralised, the contractual amounts do not necessarily represent future cash requirements. The Bank does not carry any liability for these obligations.

(r) 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 Income 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.

On 1 January 2007, the Bank adopted the provisions of FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48). Accordingly, 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 adoption of FIN 48 did not result in the derecognition of tax positions for accounting purposes. The Bank recognises interest accrued and penalties related to unrecognised tax benefits in operating expenses.

(s) 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.

(t) Earnings Per Share

Earnings per share has been calculated using the weighted average number of common shares outstanding during the year and adjusted for the stock split and the stock dividend declared during the years ended 31 December 2008 and 2007 (see also Notes 18 and 23). 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 common shares, using the quarterly average market price of the Bank's shares for the period.

(u) Consolidation of Variable Interest Entities

FIN 46(R) requires beneficiaries of variable interests to consolidate the VIE if that party will absorb a majority of the expected losses of the VIE, receive a majority of residual returns of the VIE, or both. This party is considered the primary beneficiary of the entity. The determination of whether an entity 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.

(v) Impairment or Disposal of Long-Lived Assets

An impairment loss is recognised when the carrying amount of a long-lived asset to be held and used 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.

Note 2: Significant Acquisitions and Divestitures

Divestiture of Fund Services businesses

On 11 September 2008, the Bank completed the sale and merger of its Bermuda-based and international Fund Services businesses with those of Fulcrum Group to form the new company, Butterfield Fulcrum Group. In relation with this transaction, the Bank has recognised a gain of $115.5 million which is included in Gain on sale of subsidiaries and affiliate in the Statement of Income.

The Bank received a 40% ownership interest in Butterfield Fulcrum Group (on a fully diluted basis) and an upfront cash payment of $133 million. The Bank loaned Fulcrum Group $65 million on commercial market terms to finance a portion of the cash proceeds. The Bank's Fund Services businesses sold were previously reported under the Wealth Management & Fiduciary Services and Investment & Pension Fund Administration segment. The equity ownership in Butterfield Fulcrum Group is also reported in the Wealth Management & Fiduciary Services and Investment & Pension Fund Administration segment. A transitional services agreement provides for certain key services such as information technology support, human resources support and premises to continue over an 18-month period, the value of which was deducted from the gain.

Acquisition of Bentley Reid Group Limited

On 29 October 2007, the Bank acquired all outstanding shares of Bentley Reid Group Limited (Bentley Reid), a privately-held, international wealth management company with offices in Hong Kong, London and Malta for consideration of £13.8 million ($28.4 million) paid in cash. The purchase agreement provides for contingent payments in years 2009 and 2010 of up to £5.3 million ($7.73 million). Management has assessed that the contingency amounts are not probable and therefore have not been accounted for at this time. The payments will be accounted for as and when they are probable and will be recorded as additional goodwill at that time.

The following table summarises the total consideration in respect of the acquisition of Bentley Reid:

	Bentley Reid
Fair value of assets acquired	
Cash and deposits with banks	9,154
Premises, equipment and computer software	2,069
Intangible assets - customer relationships	17,705
Other assets	2,206
Total assets	31,134
Fair value of liabilities assumed	
Other liabilities	2,781
Fair value of identifiable net assets acquired	28,353
Total purchase consideration	28,353

Note 3: Cash and Deposits with Banks

	2008			2007		
31 December	**Bermuda**	**Non-Bermuda**	**Total**	Bermuda	Non-Bermuda	Total
Unrestricted						
Non-interest earning						
Cash and demand deposits	**119,737**	**23,651**	**143,388**	56,667	41,622	98,289
Interest earning						
Deposits maturing within three months and on demand	**18,964**	**1,998,496**	**2,017,460**	255,443	2,010,071	2,265,514
Deposits maturing between three to six months	**-**	**19,591**	**19,591**	-	43,117	43,117
Deposits maturing between six to twelve months	**-**	**3,303**	**3,303**	-	64,123	64,123
Sub-total - Interest earning	**18,964**	**2,021,390**	**2,040,354**	255,443	2,117,311	2,372,754
Total unrestricted cash and deposits	**138,701**	**2,045,041**	**2,183,742**	312,110	2,158,933	2,471,043
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Non-interest earning						
Demand deposits	**-**	**19,289**	**19,289**	-	27,876	27,876
						-
Interest earning						-
Deposits maturing within three months	**17,009**	**1,350**	**18,359**	5,032	13,061	18,093
Total restricted deposits	**17,009**	**20,639**	**37,648**	5,032	40,937	45,969
Total cash and deposits with banks	**155,710**	**2,065,680**	**2,221,390**	317,142	2,199,870	2,517,012

Note 4: Investments

The following table presents securities by remaining term to maturity:

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

31 December 2007	Remaining term to maturity Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying value
Trading						
Debt securities issued by non-US governments	-	731	4,304	5,572	-	10,607
Corporate securities and other	-	-	-	-	47,927	47,927
Total trading	-	731	4,304	5,572	47,927	58,534
Available for sale						
Certificates of deposit	669,729	248,344	-	-	-	918,073
Debt securities issued by non-US governments	11,996	-	-	-	-	11,996
Corporate debt securities	-	-	-	1,838	-	1,838
Equity securities	-	-	-	-	331	331
Total available for sale	681,725	248,344	-	1,838	331	932,238
Held to maturity						
US government and federal agencies / corporations	-	59,987	4,496	136,248	-	200,731
Certificates of deposit	81,152	149,260	-	-	-	230,412
Collateralised mortgage obligations	-	-	87,699	740,781	-	828,480
Debt securities issued by non-US governments	19,997	22,205	14,395	17,827	1,887	76,311
Corporate debt securities	186,419	206,082	1,346,894	45,981	-	1,785,376
Other, primarily asset-backed securities	90,831	18,335	49,986	473,755	-	632,907
Total held to maturity	378,399	455,869	1,503,470	1,414,592	1,887	3,754,217
Total investments	1,060,124	704,944	1,507,774	1,422,002	50,145	4,744,989
Total by currency						
Bermuda dollars	-	-	-	-	492	492
US dollars	270,411	352,388	1,160,218	1,249,561	45,323	3,077,901
Other	789,713	352,556	347,556	172,441	4,330	1,666,596
Total investments	1,060,124	704,944	1,507,774	1,422,002	50,145	4,744,989

Investments at carrying value includes $2,536 million (2007: $3,062 million) of floating-rate instruments and $1,248 million (2007: $1,634 million) of fixed-rate instruments. The approximate yield on floating-rate securities at 31 December 2008 was 2.25% (2007: 5.22%), while the approximate yield on fixed-rate securities was 4.10% (2007: 5.67%).

Certificates of deposit with a carrying value of $44.4 million included in the held to maturity category are restricted from sale in accordance with a credit enhancement agreement.

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

	2008				2007			
31 December	**Cost**	**Gross unrealised gains**	**Gross unrealised losses**	**Fair value**	Cost	Gross unrealised gains	Gross unrealised losses	Fair value
Available for sale								
Certificates of deposit	**565,321**	**2,017**	**(130)**	**567,208**	916,187	2,004	(118)	918,073
Debt securities issued by non-US governments	**9,773**	**-**	**-**	**9,773**	11,996	-	-	11,996
Corporate debt securities	**-**	**-**	**-**	**-**	1,838	-	-	1,838
Equity securities	**2,818**	**-**	**-**	**2,818**	192	139	-	331
Total available for sale	**577,912**	**2,017**	**(130)**	**579,799**	930,213	2,143	(118)	932,238

	2008				2007			
31 December	**Amortised cost**	**Gross unrealised gains**	**Gross unrealised losses**	**Fair value**	Amortised cost	Gross unrealised gains	Gross unrealised losses	Fair value
Held to maturity								
US government and federal agencies / corporations	**113,687**	**28**	**(3,784)**	**109,931**	200,731	113	(821)	200,023
Certificates of deposit	**511,406**	**2,812**	**-**	**514,218**	230,412	133	(48)	230,497
Collateralised mortgage obligations	**526,481**	**372**	**(211,060)**	**315,793**	828,480	719	(115,976)	713,223
Debt securities issued by non-US governments	**31,651**	**551**	**(53)**	**32,149**	76,311	809	(36)	77,084
Corporate debt securities	**1,262,389**	**2,091**	**(79,763)**	**1,184,717**	1,785,376	853	(14,317)	1,771,912
Other, primarily asset-backed securities	**750,337**	**-**	**(148,523)**	**601,814**	632,907	25	(33,691)	599,241
Total held to maturity	**3,195,951**	**5,854**	**(443,183)**	**2,758,622**	3,754,217	2,652	(164,889)	3,591,980

The following table shows the fair value and gross unrealised losses of the Bank's investments with unrealised losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealised loss position:

	Less than 12 months		**12 months or more**			
31 December 2008	**Fair value**	**Gross unrealised losses**	**Fair value**	**Gross unrealised losses**	**Total fair value**	**Total gross unrealised losses**
Available for sale						
Certificates of deposit	**125,310**	**(130)**	**-**	**-**	**125,310**	**(130)**
Held to maturity						
US government and federal agencies / corporations	**16,065**	**(874)**	**90,065**	**(2,910)**	**106,130**	**(3,784)**
Collateralised mortgage obligations	**16,083**	**(2,402)**	**291,202**	**(208,657)**	**307,285**	**(211,059)**
Debt securities issued by non-US governments	**2,964**	**(36)**	**983**	**(17)**	**3,947**	**(53)**
Corporate debt securities	**136,722**	**(3,524)**	**885,738**	**(76,239)**	**1,022,460**	**(79,763)**
Other, primarily asset-backed securities	**44,627**	**(11,133)**	**356,771**	**(137,392)**	**401,398**	**(148,525)**
Total held to maturity securities with unrealised losses	**216,461**	**(17,969)**	**1,624,759**	**(425,215)**	**1,841,220**	**(443,184)**
Total securities with unrealised losses	**341,771**	**(18,099)**	**1,624,759**	**(425,215)**	**1,966,530**	**(443,314)**

31 December 2007	Less than 12 months Fair value	 Gross unrealised losses	12 months or more Fair value	 Gross unrealised losses	Total fair value	Total gross unrealised losses
Available for sale						
Certificates of deposit	221,248	(118)	-	-	221,248	(118)
Held to maturity						
US government and federal agencies / corporations	95,228	(553)	47,287	(268)	142,515	(821)
Certificates of deposit	115,108	(48)	-	-	115,108	(48)
Collateralised mortgage obligations	509,804	(113,931)	134,776	(2,045)	644,580	(115,976)
Debt securities issued by non-US governments	-	-	40,958	(36)	40,958	(36)
Corporate debt securities	1,116,584	(12,775)	205,356	(1,542)	1,321,940	(14,317)
Other, primarily asset-backed securities	507,628	(24,900)	48,498	(8,791)	556,126	(33,691)
Total held to maturity securities with unrealised losses	2,344,352	(152,207)	476,875	(12,682)	2,821,227	(164,889)
Total securities with unrealised losses	2,565,600	(152,325)	476,875	(12,682)	3,042,475	(165,007)

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

To assess whether an other-than-temporary impairment has occurred, management must make certain judgments and estimates and in determining whether a loss is temporary factors considered include the extent of the unrealised loss, current ratings from ratings agencies, the length of time that the security has been in an unrealised loss position, the financial condition of the issuer and prospects for recovery of contractual payments (principal and interest), and the Bank's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. If the decline is considered to be other-than-temporary, a write-down is recorded in the Consolidated Statement of Income.

Unrealised losses for US Government and federal agencies / corporations, Collateralised mortgage obligations, Debt securities issued by non-US governments, Corporate debt securities and Other, primarily asset-backed securities, were due to widening credit spreads caused by illiquidity and credit concerns resulting from the disruption in the financial markets, the weakening of the US housing market, and credit rating downgrades of certain securities in the marketplace. However, given that a substantial portion of these securities are investment grade securities, and the unrealised losses are primarily in higher rated securities, management believe these losses are a result of technical spread widening rather than fundamental deterioration. The Bank has the ability and intent to hold these investments until there is a recovery of carrying value, which may be at maturity, and accordingly management does not believe these investments to be other-than-temporarily impaired.

The fair value of the Bank's collateralised mortgage obligations related exposure depends on market conditions and assumptions that are subject to change over time. The Bank expects that market conditions will continue to evolve, and that the fair value of the Bank's positions will frequently change. The degree of judgement involved in determining the fair value of an investment security is dependent upon the availability of observable market prices or observable market parameters. When observable market prices and parameters do not exist as was the case in a number of circumstances at 31 December 2008, judgement is necessary to estimate fair value which gives rise to added uncertainty in the valuation process. The valuation process takes into consideration factors such as interest rate changes, movements in credit spreads, default rate assumptions, prepayment assumptions, type and quality of collateral, and market sentiment.

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

Investments in collateralised mortgage-backed securities with fair values significantly lower than amortised cost were stress tested using pipeline default and cumulative lifetime loss severities from published independent third party sources. Specific risk factors of the underlying collateral were considered in other-than-temporary impairment assessments, specifically, the vintage of the underlying loans, the percentage of first lien loan mortgages, home owner / owner occupied properties, geographic location and diversification, loan to value ratios and FICO scores, and seniority of tranche. Stress tests also considered expected prepayment rates and speeds, expected annual default rates, expected loss on existing balances, timing of losses, projected (forward) Libor rates, expected cumulative lifetime loss rates and recovery rates between 40% - 45% on default.

During its assessment of other-than-temporary impairment Management determined that it did not have sufficient certainty that the issuers of certain securities could service all of the contractually obligated principal and interest payments. Therefore other-than-temporary impairment has taken place and these investments were written down to their fair value based on bid price. Other-than-temporary impairments of $76.392 million and $19.783 million were recorded on the Bank's investments in collateralised mortgage obligations and a CDO of residential mortgages held in the other, primarily asset-backed securities category respectively. Realised losses of $23.032 million and $32.6 million were recorded on a CDO of residential mortgages held in the other, primarily asset-backed securities category and on corporate debt securities respectively.

In respect of the following categories, except as note in the previous paragraph, the Bank does not consider those investments to be other-than-temporarily impaired at 31 December 2008:

Certificates of deposit

The unrealised losses on the Bank's certificates of deposit were due to widening credit spreads caused by illiquidity and credit concerns resulting from the disruption in the financial markets. However, given that all of these securities are investment grade securities, and the Bank has the ability and intent to hold these investments until there is a recovery of carrying value, which may be at maturity, management believes that it will collect all amounts due according to the contractual terms of the investments.

US Government and federal agencies / corporations

The unrealised losses on the Bank's investments in US Treasury obligations and direct obligations of US government agencies were due to widening credit spreads caused by illiquidity and credit concerns resulting from the disruption in the financial markets, and the weakening of the US housing market. However, given that all of these securities are investment grade securities, and the Bank has the ability and intent to hold these investments until there is a recovery of carrying value, which may be at maturity, management believes that it will collect all amounts due according to the contractual terms of the investments.

Collateralised mortgage obligations

The unrealised losses on the Bank's investments in collateralised mortgage obligations were due to widening credit spreads caused by illiquidity and credit concerns resulting from the disruption in the financial markets, the weakening of the US housing market, and credit rating downgrades of certain securities in the marketplace. However, given that a substantial portion of these securities are investment grade securities, management assesses each security individually for impairment, and the Bank has the ability and intent to hold these investments until there is a recovery of carrying value, which may be at maturity, management does not believe these investments to be other-than-temporarily impaired.

Debt securities issued by non-US governments

The unrealised losses on the Bank's investments in non-US government debt securities obligations and direct obligations of non-US government agencies were due to widening credit spreads caused by illiquidity and credit concerns resulting from the disruption in the financial markets. Given that these securities are investment grade, and the Bank has the ability and intent to hold these investments until there is a recovery of carrying value, which may be at maturity, management does not believe these investments to be other-than-temporarily impaired.

Corporate debt securities

The unrealised losses on the Bank's investments in corporate bonds were due to widening credit spreads caused by illiquidity and credit concerns resulting from the disruption in the financial markets, and the weakening of the US housing market. However, given that these securities are predominantly investment grade, and the Bank has the ability and intent to hold these investments until there is a recovery of carrying value, which may be at maturity, management does not believe these investments to be other-than-temporarily impaired.

Other, primarily asset-backed securities

The unrealised losses on the Bank's other investments, primarily asset-backed securities were due to widening credit spreads caused by illiquidity and credit concerns resulting from the disruption in the financial markets, the weakening of the US housing market, and credit rating downgrades of certain securities in the marketplace. However, given that a substantial portion of these securities are investment grade securities, management assesses each security individually for impairment, and the Bank has the ability and intent to hold these investments until there is a recovery of carrying value, which may be at maturity, management does not believe these investments to be other-than-temporarily impaired.

In February 2008 the Bank purchased from a related party, namely the AAAm rated Butterfield Money Market Fund Ltd. (BMMFL) $75.0 million of asset backed security for fair value of $73.565 million, and placed these securities into the held to maturity portfolio. The holdings of the asset backed security are high quality with no direct exposure to sub-prime, mid-prime, or second lien mortgages. In July 2008 the Bank purchased from BMMFL $81.7 million of primarily collateralised mortgage obligations at fair value at the time. The Bank holds the purchased securities in its held to maturity portfolio.

Exclusive of US residential mortgage backed securities, total investments were $3.5 billion, with a market value of $3.3 billion on 31 December 2008. 92% of the Bank's investments remained in securities rated 'A' or higher as at 31 December 2008.

Significant risk and uncertainty

In it's held to maturity portfolio, the Bank holds collateralised mortgage obligations (the CMO Investments) at amortised cost of $53.4 million. Although realisation of the CMO Investments' amortised cost is not assured, management does not believe the CMO Investments to be other-than-temporarily impaired. The amount of the CMO Investments, however, could be reduced if estimates of cumulative lifetime loss rates, losses on existing balances, loss severity, delinquency default rates or certain other factors increase in the future, and it is possible that the rate of increase could be rapid. If these factors increase and management then determines that it is not probable that contractual interest and principal payments will be received, an other-than-temporary impairment equal to the difference between carrying value and fair market value of the CMO Investments shall be recorded in income. Management's best estimate of this amount is $44.0 million.

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

The following table presents realised and unrealised gains and losses on trading securities that were recognised during the year:

Year ended 31 December	**2008**	2007
Realised / unrealised gains (losses) on trading securities		
Equities (a)	**(6,356)**	3,252
Fixed income and other (b)	**-**	(31)
Total	**(6,356)**	3,221

(a) Includes equity securities and equity derivatives.

(b) Includes bonds, commercial paper, interest rate and foreign exchange derivatives.

Note 5: Loans

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

	2008			2007		
31 December	**Bermuda**	**Non-Bermuda**	**Total**	Bermuda	Non-Bermuda	Total
Commercial loans						
Commercial and industrial	**655,970**	**176,316**	**832,286**	620,973	156,245	777,218
Commercial real estate				-		
Commercial mortgage	**173,356**	**493,216**	**666,572**	194,911	588,065	782,976
Construction	**205,101**	**11,136**	**216,237**	194,130	11,351	205,481
Financial institutions	**154,359**	**40,440**	**194,799**	211,596	35,880	247,476
Government	**36,721**	**8,168**	**44,889**	15,600	3,017	18,617
Overdrafts	**81,692**	**182,822**	**264,514**	42,758	167,701	210,459
Total commercial loans	**1,307,199**	**912,098**	**2,219,297**	1,279,968	962,259	2,242,227
Less allowance for credit losses on commercial loans	**(11,953)**	**(1,554)**	**(13,507)**	(12,206)	(1,757)	(13,963)
Total commercial loans after allowance for credit losses	**1,295,246**	**910,544**	**2,205,790**	1,267,762	960,502	2,228,264
Consumer loans						
Automobile financing	**62,991**	**5,092**	**68,083**	59,301	6,106	65,407
Credit card	**54,599**	**22,663**	**77,262**	51,185	22,109	73,294
Mortgages	**1,224,148**	**477,378**	**1,701,526**	1,053,387	333,795	1,387,182
Overdrafts	**9,075**	**4,495**	**13,570**	7,734	6,447	14,181
Other consumer	**123,641**	**243,294**	**366,935**	80,580	288,778	369,359
Total consumer loans	**1,474,454**	**752,922**	**2,227,376**	1,252,187	657,235	1,909,423
Less allowance for credit losses on consumer loans	**(10,003)**	**(4,886)**	**(14,889)**	(8,965)	(3,958)	(12,923)
Total consumer loans after allowance for credit losses	**1,464,451**	**748,036**	**2,212,487**	1,243,222	653,277	1,896,500
Total loans	**2,781,653**	**1,665,020**	**4,446,673**	2,532,155	1,619,494	4,151,650
Less allowance for credit losses	**(21,956)**	**(6,440)**	**(28,396)**	(21,171)	(5,715)	(26,886)
Net loans	**2,759,697**	**1,658,580**	**4,418,277**	2,510,984	1,613,779	4,124,764

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 2008 is 5.72% (2007: 7.21%).

The table below sets forth information about the Bank's non-accrual loans:

	2008			2007		
31 December	**Gross**	**Specific allowance**	**Total**	Gross	Specific allowance	Total
Commercial loans - Bermuda	**2,942**	**(1,955)**	**987**	3,354	(2,272)	1,082
Commercial loans - Non-Bermuda	**5,053**	**(106)**	**4,947**	8,746	(201)	8,545
Consumer loans - Bermuda	**2,561**	**(115)**	**2,446**	1,416	(179)	1,237
Consumer loans - Non-Bermuda	**1,500**	**(598)**	**902**	1,381	(747)	634
Commercial and residential mortgages - Bermuda	**11,706**	**(165)**	**11,541**	11,321	(165)	11,156
Commercial and residential mortgages - Non-Bermuda	**12,738**	**(519)**	**12,219**	10,532	(300)	10,232
	36,500	**(3,458)**	**33,042**	36,750	(3,864)	32,886

For the year ended 31 December 2008, the amount of gross interest income that would have been recorded had impaired loans been current was $3.4 million (2007: $3.1 million). For the year ended 31 December 2008, the Bank recovered overdue interest of $0.3 million (2007: $0.4 million) on impaired loans that were repaid in the year. The average balance of impaired loans during the year ended 31 December 2008 was $32.3 million (2007: $34.7 million).

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

	2008			2007		
31 December	**Specific allowances**	**General allowance**	**Total**	Specific allowances	General allowance	Total
Allowance for credit losses at beginning of year	**3,865**	**23,021**	**26,886**	3,615	22,118	25,733
Provision this year	**3,220**	**(175)**	**3,045**	2,794	(811)	1,983
Recoveries	**-**	**2,539**	**2,539**	316	2,380	2,696
Charge-offs	**(3,542)**	**(447)**	**(3,989)**	(2,860)	(666)	(3,526)
Other	**(85)**	**-**	**(85)**	-	-	-
Allowance for credit losses at end of year	**3,458**	**24,938**	**28,396**	3,865	23,021	26,886

The table below presents information about the loan delinquencies, and charge-offs:

	2008			2007		
31 December	**Total delinquent loans**	**Loans 90 days or more past due**	**Charge-offs**	Total delinquent loans	Loans 90 days or more past due	Charge-offs
Credit card	**3,817**	**370**	**1,696**	6,001	788	1,534
Automobile financing	**1,264**	**1,046**	**445**	2,563	1,524	238
Other consumer and mortgages	**38,678**	**22,585**	**1,743**	51,854	19,668	1,126
Consumer loans	**43,759**	**24,001**	**3,884**	60,418	21,980	2,898
Commercial loans	**26,634**	**14,930**	**105**	35,694	16,293	628
Total loans reported	**70,393**	**38,931**	**3,989**	96,112	38,273	3,526

Note 6: Credit Risk Concentrations

Concentrations of credit risk 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.

The following table summarises the credit exposure of the Bank by business sector:

	2008			2007		
31 December	**On-balance sheet**	**Off-balance sheet**	**Total credit exposure**	On-balance sheet	Off-balance sheet	Total credit exposure
Banks and financial services	**409,692**	**524,655**	**934,347**	482,765	610,577	1,093,342
Commercial and merchandising	**971,055**	**474,782**	**1,445,837**	899,653	323,130	1,222,783
Governments	**93,480**	**-**	**93,480**	29,049	-	29,049
Individuals	**2,226,198**	**166,725**	**2,392,923**	1,824,497	179,814	2,004,311
Primary industry and manufacturing	**32,142**	**4,815**	**36,957**	57,787	37,370	95,157
Real estate	**682,148**	**50,598**	**732,746**	828,180	93,307	921,487
Transport and communication	**28,500**	**5,855**	**34,355**	25,855	2,803	28,658
Sub-total	**4,443,215**	**1,227,430**	**5,670,645**	4,147,786	1,247,001	5,394,787
General allowance	**(24,938)**	**-**	**(24,938)**	(23,022)	-	(23,022)
Total	**4,418,277**	**1,227,430**	**5,645,707**	4,124,764	1,247,001	5,371,765

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

	2008			2007		
31 December	**On-balance sheet**	**Off-balance sheet**	**Total credit exposure**	On-balance sheet	Off-balance sheet	Total credit exposure
Bermuda	**2,779,417**	**766,292**	**3,545,709**	2,529,540	661,089	3,190,629
Barbados	**184,173**	**50,991**	**235,164**	148,447	4,091	152,538
Cayman	**483,934**	**186,676**	**670,610**	351,776	137,227	489,003
Guernsey	**414,536**	**162,661**	**577,197**	465,663	333,850	799,513
The Bahamas	**71,528**	**5,701**	**77,229**	41,368	-	41,368
United Kingdom	**509,627**	**55,109**	**564,736**	610,992	110,744	721,736
Sub-total	**4,443,215**	**1,227,430**	**5,670,645**	4,147,786	1,247,001	5,394,787
General allowance	**(24,938)**	**-**	**(24,938)**	(23,022)	-	(23,022)
Total	**4,418,277**	**1,227,430**	**5,645,707**	4,124,764	1,247,001	5,371,765

Note 7: Premises, Equipment and Computer Software

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

	2008			2007		
31 December	**Cost**	**Accumulated depreciation**	**Net carrying value**	Cost	Accumulated depreciation	Net carrying value
Land	**13,726**	**-**	**13,726**	13,726	-	13,726
Buildings	**163,186**	**(36,511)**	**126,675**	154,737	(34,537)	120,200
Equipment	**51,037**	**(35,151)**	**15,886**	60,332	(39,033)	21,299
Computer software	**72,941**	**(32,073)**	**40,868**	86,254	(26,100)	60,154
Total	**300,890**	**(103,735)**	**197,155**	315,049	(99,670)	215,379

31 December	**2008**	2007
Depreciation		
Buildings (included in property expense)	**5,225**	4,755
Equipment (included in property expense)	**3,565**	3,407
Computer hardware and software (included in technology & communication expense)	**12,583**	7,742
Total depreciation charged to operating expenses	**21,373**	15,904

Note 8: Goodwill and Other Intangible Assets

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

Goodwill

Business segment	**Barbados**	**Guernsey**	**The Bahamas**	**United Kingdom**	**Total**
Balance as at 31 December 2006	5,220	8,363	1,923	9,512	25,018
Foreign exchange translation adjustment	-	114	-	128	242
Balance as at 31 December 2007	5,220	8,477	1,923	9,640	25,260
Goodwill sold during the year	**-**	**-**	**(1,032)**	**-**	**(1,032)**
Goodwill impairment	**(5,220)**	**-**	**-**	**-**	**(5,220)**
Foreign exchange translation adjustment	**-**	**(2,250)**	**-**	**(2,394)**	**(4,644)**
Balance as at 31 December 2008	**-**	**6,227**	**891**	**7,246**	**14,364**

Customer relationship intangible assets

	2008			2007		
31December	**Gross carrying amount**	**Accumulated amortisation**	**Net carrying amount**	Gross carrying amount	Accumulated amortisation	Net carrying amount
Bermuda	**8,341**	**(2,367)**	**5,974**	26,063	(2,003)	24,060
Barbados	**6,681**	**(2,263)**	**4,418**	6,681	(1,816)	4,865
Cayman	**1,211**	**(349)**	**862**	1,211	(268)	943
Guernsey	**38,582**	**(18,127)**	**20,455**	52,504	(21,147)	31,357
The Bahamas	**5,090**	**(1,833)**	**3,257**	7,790	(2,819)	4,971
United Kingdom	**18,002**	**(5,407)**	**12,595**	20,477	(5,443)	15,034
Malta	**3,284**	**(255)**	**3,029**	-	-	-
Hong Kong	**7,224**	**(564)**	**6,660**	-	-	-
Total	**88,415**	**(31,165)**	**57,250**	114,726	(33,496)	81,230

There have been no impairment losses for the years ended 31 December 2008 and 2007, other than as noted above in the Barbados segment. The estimated aggregate amortisation expense for each of the succeeding years until 31 December 2013 is $7.1 million. 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. During 2008, the Bank acquired new customer relationships for nil (2007: $17.7 million) and sold customer relationship having a book value of $1.2 million. The amortisation expense amounted to $7.3 million (2007: $6.9 million) and the foreign exchange translation adjustment decreased the net carrying amount by $15.5 million (2007: increased by $0.7 million). During the year, customer relationship intangible assets related to the acquisition of Bentley Reid business units located in Malta and Hong Kong were reclassified out of the Bermuda segment into their respective geographical segments.

Note 9: Customer Deposits and Deposits from Banks

(a) By Maturity

	2008			2007		
31 December	**Customers**	**Banks**	**Total**	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	**920,866**	**-**	**920,866**	1,042,062	-	1,042,062
Demand deposits - Interest bearing	**5,031,372**	**71,423**	**5,102,795**	4,869,122	154,769	5,023,891
Sub-total - demand deposits	**5,952,238**	**71,423**	**6,023,661**	5,911,184	154,769	6,065,953
Term deposits						
Term deposits maturing within six months	**3,045,722**	**320,931**	**3,366,653**	4,153,351	147,080	4,300,431
Term deposits maturing between six to twelve months	**196,296**	**2,740**	**199,036**	178,814	4,543	183,357
Term deposits maturing after twelve months	**211,919**	**-**	**211,919**	198,230	-	198,230
Sub-total - term deposits	**3,453,937**	**323,671**	**3,777,608**	4,530,395	151,623	4,682,018
Total	**9,406,175**	**395,094**	**9,801,269**	10,441,579	306,392	10,747,971

(b) By Type and Location

31 December	2008 Payable on demand	2008 Payable on a fixed date	2008 Total	2007 Payable on demand	2007 Payable on a fixed date	2007 Total
Bermuda						
Customers	**2,368,312**	**1,332,483**	**3,700,795**	2,229,386	1,626,180	3,855,566
Banks	**58,566**	**208,304**	**266,870**	86,562	27,078	113,640
Barbados						
Customers	**156,248**	**75,393**	**231,641**	165,532	60,609	226,141
Banks	**-**	**-**	**-**	2,566	20,549	23,115
Cayman						
Customers	**2,216,042**	**778,153**	**2,994,195**	1,518,295	839,220	2,357,515
Banks	**-**	**110,597**	**110,597**	12,848	98,709	111,557
Guernsey (a)						
Customers	**613,989**	**673,832**	**1,287,821**	962,832	1,143,182	2,106,014
Banks	**7,676**	**-**	**7,676**	44,649	506	45,155
The Bahamas						
Customers	**46,907**	**69,666**	**116,573**	72,393	81,967	154,360
Banks	**-**	**-**	**-**	-	-	-
United Kingdom (a)						
Customers	**550,740**	**524,410**	**1,075,150**	962,746	779,237	1,741,983
Banks	**5,181**	**4,770**	**9,951**	8,144	4,781	12,925
Total Customers	**5,952,238**	**3,453,937**	**9,406,175**	5,911,184	4,530,395	10,441,579
Total Banks	**71,423**	**323,671**	**395,094**	154,769	151,623	306,392
Total	**6,023,661**	**3,777,608**	**9,801,269**	6,065,953	4,682,018	10,747,971

a) The decrease in the reported amounts of customer deposits and deposits from banks in the Guernsey and United Kingdom segments is partly due to movements in foreign exchange translation.

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 non-contributory and the funding required is provided by the Bank, based upon the advice of an independent actuary.
Substantially all of the pension assets are invested in equity, fixed income and other marketable securities.

The following table presents the financial position of the Bank's defined benefit pension plans and the Bank's post-retirement medical benefit plan. The benefit obligations and plan assets are measured as at 31 December 2008 and 30 November 2007.

	2008		2007	
	Pension plans	**Post-retirement medical benefit plan**	Pension plans	Post-retirement medical benefit plan
Accumulated benefit obligation at end of year	**102,897**	**-**	109,978	-
Change in projected benefit obligation				
Opening projected benefit obligation	**120,212**	**98,152**	122,378	106,656
Acquisitions/Change in measurement date	**176**	**764**	-	-
Service cost	**2,854**	**3,088**	3,529	2,612
Employee contributions	**310**	**-**	332	-
Interest cost	**7,233**	**6,811**	6,632	6,192
Benefits paid	**(4,918)**	**(1,663)**	(4,450)	(1,240)
Settlement of liability	**(2,775)**	**-**	(2,969)	-
Actuarial (gain) loss	**(218)**	**12,800**	(5,982)	(16,068)
Foreign exchange translation adjustment	**(14,884)**	**-**	742	-
Closing projected benefit obligation	**107,990**	**119,952**	120,212	98,152
Change in plan assets				
Opening fair value of plan assets	**132,007**	**-**	122,729	-
New acquisitions/Change in measurement date	**160**	**-**	-	-
Actual return on plan assets	**(17,058)**	**-**	6,682	-
Employer contribution	**27,999**	**1,663**	8,541	1,240
Employee contributions	**310**	**-**	400	-
Benefits paid	**(4,918)**	**(1,663)**	(4,450)	(1,240)
Cost of settlement	**(35)**	**-**	(2,603)	-
Foreign exchange translation adjustment	**(16,530)**	**-**	708	-
Closing fair value of plan assets	**121,935**	**-**	132,007	-

Funded status				
Surplus (deficit) of plan assets over projected benefit obligation at measurement date	**13,945**	**(119,952)**	11,795	(98,152)
Employer contribution during the period from measurement date to fiscal year end	**-**	**-**	167	89
Net asset (liability) recognised	**13,945**	**(119,952)**	11,962	(98,063)
Amounts recognised in the balance sheet consist of:				
Prepaid benefit cost included in other assets	**14,031**	**-**	11,962	-
Accrued pension benefit cost included in employee future benefits liability	**(86)**	**(119,952)**	-	(98,063)
Net asset (liability) recognised in the balance sheet	**13,945**	**(119,952)**	11,962	(98,063)
Amounts recognised in accumulated other comprehensive loss consist of:				
Net actuarial (loss) gain	**(19,272)**	**(32,616)**	3,542	(21,141)
Past service cost	**(32)**	**-**	(89)	-
Net amount recognised in accumulated other comprehensive loss	**(19,304)**	**(32,616)**	3,453	(21,141)

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

	2008		2007	
	Pension plans	**Post-retirement medical benefit plan**	Pension plans	Post-retirement medical benefit plan
Annual benefit expense				
Service cost	**2,854**	**3,088**	3,529	2,612
Interest cost	**7,233**	**6,811**	6,632	6,192
Expected return on plan assets	**(8,739)**	**N/A**	(8,191)	N/A
Amortisation of past service cost	**41**	**-**	40	-
Amortisation of net actuarial loss	**11**	**1,218**	578	3,200
Loss (gain) on settlement	**3**	**-**	(366)	-
Defined benefit expense	**1,403**	**11,117**	2,222	12,004
Defined contribution expense	**6,210**	**-**	5,281	-
Total benefit expense	**7,613**	**11,117**	7,503	12,004
Other changes recognised in other comprehensive loss				
Net loss arising during the period	**(22,680)**	**(12,693)**	3,692	16,068
Amortisation of past service cost	**29**	**-**	40	-
Amortisation of net actuarial (gain) loss	**(22)**	**1,218**	578	3,200
Total changes recognised in other comprehensive loss	**(22,673)**	**(11,475)**	4,310	19,268

The estimated portions of the net actuarial loss and past service cost for the pension plans that will be amortised from accumulated other comprehensive loss into benefit expense over the next fiscal year are $3.0 million and nil respectively. The estimated portion of the net actuarial loss 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 $1.6 million.

31 December	2008 Pension plans	2008 Post-retirement medical benefit plan	2007 Pension plans	2007 Post-retirement medical benefit plan
Actuarial assumptions used to determine annual benefit expense				
Weighted average discount rate	**6.25%**	**6.70%**	5.35%	5.75%
Weighted average rate of compensation increases	**4.00%**	**N/A**	3.65%	N/A
Weighted average expected long-term rate of return on plan assets	**6.75%**	**N/A**	6.55%	N/A
Weighted average annual medical cost increase rate	**N/A**	**9% to 5% in 2013**	N/A	10% to 5% in 2013
Actuarial assumptions used to determine benefit obligations at end of year				
Weighted average discount rate	**6.15%**	**6.10%**	6.25%	6.70%
Weighted average rate of compensation increases	**3.70%**	**N/A**	4.00%	N/A
Weighted average annual medical cost increase rate	**N/A**	**8% to 5% in 2013**	N/A	9% to 5% in 2013

For 2008, 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 $2.3 million increase (2007: $1.9 million) and a $1.8 million decrease (2007: $1.5 million), respectively, and on the benefit obligation a $24.9 million increase (2007: $17.6 million) and a $19.4 million decrease (2007: $14.3 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 actual and target asset allocations of the pension plans by asset category, are as follows:

31 December	2008 Actual allocation	2008 Target allocation	2007 Actual allocation	2007 Target allocation
Asset category				
Equity securities (including equity mutual funds)	**32%**	**46%**	46%	46%
Debt securities (including debt mutual funds)	**60%**	**53%**	44%	52%
Other	**8%**	**1%**	10%	2%
Total	**100%**	**100%**	100%	100%

At 31 December 2008, 42.3% (2007: 38.1%) 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 2008, 2.2% (2007: 3.1%) of the plans' assets were invested in common shares of the Bank.

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 2009 Bank contribution to, and estimated benefit payments for the next ten years under, the pension and post-retirement medical benefit plans are as follows:

	Pension plans	Post-retirement medical benefit plan
Estimated Bank contributions for 2009	2,700	3,400
Estimated benefit payments by year:		
2009	3,900	3,400
2010	4,600	3,800
2011	4,800	4,200
2012	5,000	4,500
2013	5,200	4,800
2014 - 2018	29,700	30,000

The projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets were $24.2 million and $21.4 million as at 31 December 2008 (nil as at 31 December 2007).

As at 31 December 2008 and 2007 there were no pension plans that had an excess of accumulated benefit obligations over the plan assets.

Note 11: Commitments, Credit Related Arrangements and Contingencies

Commitments

The Bank was committed to expenditures under contract for software development, sourcing and long-term leases of nil, $163.0 million and $29.2 million respectively, as at 31 December 2008 (2007: $12.6 million, nil and $36.0 million respectively). Rental expense for premises leased on a long-term basis for the year ended 31 December 2008 amounted to $6.4 million (2007: $7.9 million).

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

Year	
2009	**41,961**
2010	**29,196**
2011	**23,558**
2012	**22,310**
2013	**21,355**
2014 & thereafter	**53,846**

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:

	2008			2007		
31 December	**Gross**	**Collateral**	**Net**	Gross	Collateral	Net
Standby letters of credit	**463,868**	**317,018**	**146,850**	407,656	350,983	56,673
Letters of guarantee	**14,230**	**3,311**	**10,919**	18,271	11,810	6,461
Total	**478,098**	**320,329**	**157,769**	425,927	362,793	63,134

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 extent credit with contractual amounts representing credit risk as follows:

31 December	**2008**	2007
Commitments to extend credit	**559,916**	1,245,604
Documentary and commercial letters of credit	**2,938**	2,381
Total	**562,854**	1,247,985

The Bank has a facility by one of its custodians, whereby the Bank may offer up to US$150 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 2008, $102.1 million (2007: $97.5 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, with the following exception: the Bank has an interest in interpleader proceedings in New York Southern Federal District Court concerning the priority of payments relating to an investment security in which the Bank has an interest in an amount of $13.5 million, which is the carrying value. Given the significant uncertainty surrounding this matter, it is reasonably possible that a loss will arise. However due to the significant uncertainty surrounding this matter an estimate of the potential loss in carrying value cannot be determined and no provision has been made.

Note 12: Interest Income

Loans

The following table presents the components of loan interest income:

Year ended 31 December	**2008**	2007
Mortgages	**100,790**	144,240
Other loans	**157,765**	134,190
	258,555	278,430
Amortisation of loan origination fees (net of amortised costs)	**6,015**	6,265
Total loan interest income	**264,570**	284,695
Balance of unamortised loan fees as at 31 December	**11,021**	13,723

Note 13: Segmented Information

(a) Operating Segments

For management reporting purposes, the operations of the Bank are grouped into the following 11 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 & Fiduciary Services and Investment & Pension Fund Administration, and Real Estate), Barbados, Cayman, Guernsey, Switzerland, The Bahamas, United Kingdom, Malta and Hong Kong. Accounting policies of the reportable segments are the same as those described in Note 1.

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 & Fiduciary Services and Investment & Pension Fund Administration segment consists of Butterfield Asset Management Limited, which provides investment management, advisory and brokerage services, Butterfield Fund Services Limited (now Butterfield Fulcrum Group) which was sold during the year and wherein the Bank retains a 40% interest (on a fully diluted basis), which provides valuation, accounting, corporate and shareholder services, and Butterfield Trust (Bermuda) Limited which provides trust, estate, company management and custody services.

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, 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 and investment and pension fund administration 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, investment and pension fund administration services and wealth management and fiduciary services.

The Switzerland segment provides wealth management and fiduciary services.

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

Operating segment information follows:

31 December	**2008**	2007
Total Assets		
Bermuda		
Community Banking	**5,355,488**	5,414,903
Wealth Management & Fiduciary Services and Investment & Pension Fund Administration	**25,963**	38,680
Real Estate	**86,662**	101,913
Total Bermuda	**5,468,113**	5,555,496
Barbados	**264,521**	277,297
Cayman	**3,328,712**	2,729,334
Guernsey	**1,448,609**	2,368,565
Switzerland	**984**	537
The Bahamas	**155,260**	181,671
United Kingdom	**1,321,678**	1,999,093
Malta	**3,169**	-
Hong Kong	**8,633**	4,271
Total overseas	**6,531,566**	7,560,768
Less: inter-segment eliminations	**(1,087,835)**	(1,205,344)
Total	**10,911,844**	11,910,920

Business Area Analysis

Year ended 31 December 2008	Net interest income: Customer	Net interest income: Intersegment	Allowance for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses and central allocations	Gains and losses	Central allocations*	Net income
Bermuda										
Community Banking	160,975	(24,819)	(1,838)	45,081	179,399	147,870	31,529	(160,935)	22,335	(107,071)
Wealth Management & Fiduciary Services and Investment & Pension Fund Administration	-	86	-	72,678	72,764	46,827	25,937	-	(23,860)	2,077
Real Estate	-	(1,047)	-	2,255	1,208	10,751	(9,543)	-	9,543	-
Sub-total Bermuda	160,975	(25,780)	(1,838)	120,014	253,371	205,448	47,923	(160,935)	8,018	(104,994)
Barbados	9,111	533	(292)	3,629	12,981	11,522	1,459	1,950	(216)	3,193
Cayman **	32,014	17,612	(639)	47,172	96,159	61,905	34,254	47,585	(4,304)	77,535
Guernsey	16,999	4,936	-	37,270	59,205	40,044	19,161	131	(2,078)	17,214
Switzerland	4	-	-	270	274	3,595	(3,321)	-	-	(3,321)
The Bahamas	1,894	1,706	-	7,534	11,134	8,779	2,355	-	(436)	1,919
United Kingdom	33,414	(5,773)	(276)	11,768	39,133	29,067	10,066	2,218	(612)	11,672
Malta	34	-	-	1,655	1,689	1,355	334	-	(116)	218
Hong Kong	36	-	-	3,903	3,939	2,280	1,659	-	(256)	1,403
Sub-total overseas	93,506	19,014	(1,207)	113,201	224,514	158,547	65,967	51,884	(8,018)	109,833
Total before eliminations	254,481	(6,766)	(3,045)	233,215	477,885	363,995	113,890	(109,051)	-	4,839
Less: inter-segment eliminations (principally rent and management fees)	-	6,766	-	(20,274)	(13,508)	(13,508)	-	-	-	-
Total	254,481	-	(3,045)	212,941	464,377	350,487	113,890	(109,051)	-	4,839

* 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.

** The net gain of $47.6 million relates to the gain on sale of Butterfield Fund Services (Cayman) Limited offset by other-than-temporary impairment of a collateralised mortgage obligation and a realised loss related to a corporate debt security.

Year ended 31 December 2007	Net interest income		Allowance for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses and central allocations	Gains and losses	Central allocations	Net income
	Customer	Intersegment								
Bermuda										
Community Banking	146,817	(22,048)	(2,332)	39,017	161,454	120,908	40,546	(1,172)	18,246	57,620
Wealth Management & Fiduciary Services and Investment & Pension Fund Administration	-	526	-	82,942	83,468	47,563	35,905	(20)	(18,587)	17,298
Real Estate	-	(1,268)	-	2,387	1,119	10,221	(9,102)	-	9,102	-
Sub-total Bermuda	146,817	(22,790)	(2,332)	124,346	246,041	178,692	67,349	(1,192)	8,761	74,918
Barbados	7,323	1,039	42	3,517	11,921	11,983	(62)	233	(30)	141
Cayman	48,603	13,808	352	51,793	114,556	57,981	56,575	654	(6,549)	50,680
Guernsey	18,589	4,514	-	41,498	64,601	48,380	16,221	(3)	(1,640)	14,578
Switzerland	-	(35)	-	241	206	1,296	(1,090)	-	-	(1,090)
The Bahamas	418	2,981	-	8,654	12,053	8,987	3,066	-	(292)	2,774
United Kingdom	30,850	(5,248)	(45)	6,835	32,392	29,288	3,104	(28)	(250)	2,826
Hong Kong	-	-	-	1,168	1,168	-	1,168	-	-	1,168
Sub-total overseas	105,783	17,059	349	113,706	236,897	157,915	78,982	856	(8,761)	71,077
Total before eliminations	252,600	(5,731)	(1,983)	238,052	482,938	336,607	146,331	(336)	-	145,995
Less: inter-segment eliminations (principally rent and management fees)	-	5,731	-	(18,370)	(12,639)	(12,639)	-	-	-	-
Total	252,600	-	(1,983)	219,682	470,299	323,968	146,331	(336)	-	145,995

For the year ended 31 December 2008, included within other expenses are the following income tax expense amounts: Guernsey $0.9 million (2007: $4.9 million), United Kingdom $2.0 million (2007: $2.0 million) and Barbados $0.1 million (2007: $0.1 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.

(b) 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 assist customers with their risk management objectives. 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.

The Bank's derivative contracts principally involve over the counter transactions that are privately negotiated between the Bank and the counterparty to the contract. Derivative instruments that are used as part of the Bank's 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.

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.

The Bank provides credit enhancement to a related party, namely BMMFL. Under the credit enhancement agreement (the Agreement), the Bank is committed to compensate BMMFL subject to a maximum of 30% of BMMFL's holding of a specific identified investment should that security have a fair value less than BMMFL's carrying value and BMMFL is required to draw down on the obligation in order to retain its credit rating from the rating agency. The decision by the rating agency with regard to the rating requirements is outside the control of the Bank. In consideration, the Bank charged a fee of $4.5 million during the six month period covered by the Agreement ending 15 January 2009. As at 31 December 2008 the Bank has recognised a derivative liability for the maximum value of the credit derivative which is $44.4 million. The Agreement may be terminated without being drawn down before its term expires in certain circumstances, including if the underlying asset backed commercial paper is sold or restructured into securities. On 16 January 2009 the Agreement was extended for three months.

Included in other assets (other liabilities) are the reported receivables and unrealised gains (payables and unrealised losses) related to derivatives. These amounts include the effect of netting as permitted under FASB Interpretation No. 39 Offsetting Amounts Related to Certain Contracts (FIN 39).

(a) Fair Value Hedges

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. For the years ended 31 December 2007 and 2008, no gain or loses were realised from ineffective portion of fair value hedges. As of 31 December 2008 the Bank has recorded the fair value of derivative instrument assets of negative $26.7 million (2007: positive $0.1 million) in other assets and derivative instrument liabilities of negative $0.3 million (2007: positive $5.1 million) in other liabilities.

(b) Cash Flow Hedges

The Bank uses interest rate swaps to convert floating-rate notes to fixed-rate instruments. These swaps, which qualify for hedge accounting, have the pay rate indexed to the rates received on the Bank's variable-rate assets and the receive rate indexed to rates paid on the Bank's various deposit liabilities.

For cash flow hedges, gains and losses on derivative contracts that are reclassified from accumulated other comprehensive loss to current period earnings are included in the line item in which the hedged item is recorded in the same period the forecasted transaction affects earnings. As at 31 December 2008 and 2007, there was no hedge ineffectiveness related to cash flow hedges. As of 31 December 2008 and 2007 there was no deferred net gains or losses on derivative instruments accumulated in other comprehensive income that are expected to be reclassified as earnings during the next twelve months. The maximum term over which the Bank is hedging its exposure to the variability of future cash flows is nil (2007: nil months). As of 31 December 2008, the Bank has recorded the fair value of derivative instrument of nil (2007: $0.1 million) in other liabilities.

(c) Notional Amounts

The following table provides the aggregate notional amounts of derivative contracts outstanding listed by type and divided between those used for trading (non-hedging) and those used in hedging activities. 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.

	2008			2007		
31 December	**Trading**	**ALM**	**Total**	Trading	ALM	Total
Interest rate contracts						
Interest rate swaps	**102,143**	**222,265**	**324,408**	40,000	407,676	447,676
Interest rate caps and currency options	**35,021**	**-**	**35,021**	38,686	-	38,686
Sub-total	**137,164**	**222,265**	**359,429**	78,686	407,676	486,362
Other derivatives						
Spot and forward foreign exchange	**3,597,529**	**-**	**3,597,529**	6,626,278	-	6,626,278
Credit derivative	**44,400**	**-**	**44,400**	50,000	-	50,000
Currency options	**-**	**-**	**-**	-	-	-
Sub-total	**3,641,929**	**-**	**3,641,929**	6,676,278	-	6,676,278
Total notional amount of financial derivatives outstanding	**3,779,093**	**222,265**	**4,001,358**	6,754,964	407,676	7,162,640

Included in the notional amounts for fair value hedges using interest rate swaps for 2008, are $210.0 million (2007: $116.0 million) pertaining to specific loans, nil (2007: $125.0 million) pertaining to subordinated debt, and $12.3 million (2007: 166.6 million) pertaining to fixed-rate deposits.

(d) Fair Value

Derivative instruments, in the absence of any compensating up-front cash payments, generally have no market value at inception. They obtain value, positive or negative, as relevant interest rates, exchange rates, equity or commodity prices or indices change, such that previously contracted derivative transactions have become more or less favourable than what can be negotiated under current market conditions for contracts with the same remaining period to maturity. The potential for derivatives to increase or decrease in value as a result of the foregoing factors is generally referred to as market risk. Market risk is managed within clearly defined parameters as prescribed by senior management of the Bank. The following table shows the marked to market fair value of all derivative contracts outstanding. This is defined as the profit (loss) associated with replacing the derivative contracts at prevailing market prices.

	2008			2007		
31 December	**Positive**	**Negative**	**Net**	Positive	Negative	Net
Derivative financial instruments						
Interest rate swaps	**122**	**27,223**	**(27,101)**	1,085	5,884	(4,799)
Interest rate caps and currency options	**383**	**383**	**-**	1,039	1,039	-
Spot and forward foreign exchange	**68,440**	**57,208**	**11,232**	71,692	77,475	(5,783)
Credit derivative	**-**	**44,400**	**(44,400)**	-	6,250	(6,250)
Total fair value	**68,945**	**129,214**	**(60,269)**	73,816	90,648	(16,832)

(e) Remaining Maturity

The following table summarises the remaining term to maturity of the notional amounts of the Bank's derivative instruments by type:

31 December 2008	**Within 6 months**	**6 to 12 months**	**1 to 3 years**	**3 to 5 years**	**After 5 years**	**Total**
Interest rate contracts						
Interest rate swaps	**110,183**	**1,800**	**56,573**	**50,875**	**104,977**	**324,408**
Interest rate caps and currency options	**-**	**-**	**-**	**35,021**	**-**	**35,021**
Sub-total	**110,183**	**1,800**	**56,573**	**85,896**	**104,977**	**359,429**
Other derivatives						
Spot and forward foreign exchange	**3,541,235**	**50,749**	**5,545**			**3,597,529**
Credit derivative	**44,400**	**-**	**-**	**-**	**-**	**44,400**
Sub-total	**3,585,635**	**50,749**	**5,545**	**-**	**-**	**3,641,929**
Total notional amount by remaining maturity	**3,695,818**	**52,549**	**62,118**	**85,896**	**104,977**	**4,001,358**

31 December 2007	Within 6 months	6 to 12 months	1 to 3 years	3 to 5 years	After 5 years	Total
Interest rate contracts						
Interest rate swaps	254,582	18,333	84,597	17,073	73,090	447,675
Interest rate caps and currency options	3,970	-	-	34,716	-	38,686
Sub-total	258,552	18,333	84,597	51,789	73,090	486,361
Other derivatives						
Spot and forward foreign exchange	6,531,123	84,210	10,946	-	-	6,626,279
Credit derivative	50,000	-	-	-	-	50,000
Sub-total	6,581,123	84,210	10,946	-	-	6,676,279
Total notional amount by remaining maturity	6,839,675	102,543	95,543	51,789	73,090	7,162,640

(f) Replacement Cost

The following table reflects the replacement cost of all derivative contracts outstanding. This is defined as the cost of replacing, at current market rates, all contracts that have a positive fair value before factoring in the impact of master netting agreements. The replacement cost of an instrument is dependent upon its terms relative to prevailing market prices and will fluctuate as market prices change and as the derivative approaches its scheduled maturity.

	2008			2007		
31 December	**Trading**	**ALM**	**Total value**	Trading	ALM	Total value
Interest rate contracts						
Interest rate swaps	**-**	**122**	**122**	-	1,085	1,085
Interest rate caps and currency options	**383**	**-**	**383**	1,039	-	1,039
Sub-total	**383**	**122**	**505**	1,039	1,085	2,124
Other derivatives						
Spot and forward foreign exchange	**68,440**	**-**	**68,440**	71,692	-	71,692
Credit derivative	**-**	**-**		-	-	
Currency options	**-**	**-**	**-**	-	-	-
Sub-total	**68,440**	**-**	**68,440**	71,692	-	71,692
Total replacement cost	**68,823**	**122**	**68,945**	72,731	1,085	73,816

Note 15: Fair Value of Financial Instruments

The following table presents the carrying value and fair value of financial assets and liabilities under SFAS No. 107 Disclosures About Fair Value of Financial Instruments (SFAS 107) and SFAS No. 157 Fair Value Measurements (SFAS 157). Accordingly, certain amounts which are not considered financial instruments are excluded from the table. For investments with an indicator of impairment, management has considered the available evidence, including discussions with rating agencies. Based on this and because the Bank has the ability and the intent to hold such securities to maturity, management believes it will recover the full carrying value of the securities. Should specific circumstances dictate that the Bank may not be able to hold such securities to maturity, such as a significant deterioration of credit worthiness of the issuer, management may reassess whether a market value below carrying value represents an other-than-temporary impairment.

During 2008, management determined that investments with a carrying value of $103.8 million were other-than-temporarily impaired and consequently re-measured those investments at their fair value of $7.6 million. The determination of fair value was based on an unadjusted bid price determined to be Level 2 in the pricing hierarchy (significant other observable inputs).

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

	2008				2007			
31December	**Fair value determination**				Fair value determination			
	Quoted prices in active markets for identical assets	**Significant other observable inputs**	**Significant unobservable inputs**	**Total carrying value / fair value**	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	Total carrying value / fair value
Financial assets								
Investments								
Trading	**27,868**	**7,862**	**12,599**	**48,329**	35,416	10,608	12,510	58,534
Available for sale	**-**	**579,799**	**-**	**579,799**	-	932,238	-	932,238
Other assets - Derivatives	**-**	**68,945**	**-**	**68,945**	-	73,816	-	73,816
Financial liabilities								
Other liabilities - Derivatives	**-**	**129,214**	**-**	**129,214**	-	90,648	-	90,648

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

	2008	2007
31 December	**Trading investment**	Trading investment
Carrying value at beginning of year	**12,510**	7,395
Realised and unrealised gains recognised in net income	**89**	5,115
Carrying value at end of year	**12,599**	12,510

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

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

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

31 December 2008	**2008** Carrying value	**2008** Fair value	**2008** Appreciation / (depreciation)	2007 Carrying value	2007 Fair value	2007 Appreciation / (depreciation)
Financial assets						
Cash and deposits with banks	**2,221,390**	**2,221,390**	**-**	2,517,012	2,517,012	-
Investments held to maturity	**3,195,951**	**2,758,622**	**(437,329)**	3,754,217	3,591,980	(162,237)
Loans						
Commercial, net of allowance for credit losses	**2,205,790**	**2,200,051**	**(5,739)**	2,228,264	2,225,280	(2,984)
Consumer, net of allowance for credit losses	**2,212,487**	**2,212,591**	**104**	1,896,500	1,896,965	465
Financial liabilities						
Customer deposits						
Demand deposits	**5,952,238**	**5,952,238**	**-**	5,911,184	5,911,184	-
Term deposits	**3,453,937**	**3,464,756**	**(10,819)**	4,530,395	4,526,335	4,060
Deposits from banks	**395,094**	**395,094**	**-**	306,392	306,392	-
Subordinated capital	**282,296**	**256,751**	**25,545**	284,191	290,993	(6,802)

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.

	Earlier of contractual maturity or repricing date						
31 December 2008 (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	**2,036**	**20**	**3**			**162**	**2,221**
Investments	**3,209**	**181**	**73**	**135**	**38**	**188**	**3,824**
Loans	**3,373**	**165**	**115**	**408**	**333**	**24**	**4,418**
Premises, equipment and computer software	**-**	**-**	**-**	**-**	**-**	**197**	**197**
Other assets	**-**	**-**	**-**	**-**	**-**	**252**	**252**
Total assets	**8,618**	**366**	**191**	**543**	**371**	**823**	**10,912**
Liabilities and shareholders' equity							
Shareholders' equity	**-**	**-**	**-**	**-**	**-**	**518**	**518**
Deposits	**8,171**	**299**	**199**	**206**	**5**	**921**	**9,801**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**311**	**311**
Subordinated capital	**-**	**-**	**-**	**197**	**85**	**-**	**282**
Total liabilities and shareholders' equity	**8,171**	**299**	**199**	**403**	**90**	**1,750**	**10,912**
Interest rate swaps	**212**	**(9)**	**9**	**(107)**	**(105)**	**-**	**-**
Interest rate sensitivity gap	**659**	**58**	**1**	**33**	**176**	**(927)**	**-**
Cumulative interest rate sensitivity gap	**659**	**717**	**718**	**751**	**927**	**-**	**-**

31 December 2007 (in $ millions)	Earlier of contractual maturity or repricing date: 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	2,284	43	64	-	-	126	2,517
Investments	3,987	301	236	126	47	48	4,745
Loans (a)	3,478	215	52	175	209	(4)	4,125
Premises, equipment and computer software	-	-	-	-	-	215	215
Other assets	-	-	-	-	-	309	309
Total assets	9,749	559	352	301	256	694	11,911
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	629	629
Deposits (a)	7,807	1,517	183	186	13	1,042	10,748
Other liabilities	-	-	-	-	-	250	250
Subordinated capital (a)	125	-	-	100	60	(1)	284
Total liabilities and shareholders' equity	7,932	1,517	183	286	73	1,920	11,911
Interest rate sensitivity gap	1,817	(958)	169	15	183	(1,226)	-
Cumulative interest rate sensitivity gap	1,817	859	1,028	1,043	1,226	-	-

(a) Principal amounts of interest rate swaps are included within the lines items to which they relate.

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 $9.9 million. The issuance was by way of private placement in the United Kingdom and pays a fixed coupon of 9.29% until April 2012 when it becomes redeemable in whole at the option of the Bank and 10.29% thereafter until August 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 pays a fixed coupon of 4.81% until 2 July 2010, when they will become redeemable in whole at the Bank's option. 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 Bermuda Stock Exchange (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 in accordance with SFAS 34 during the year amounted to $1.9 million (2007: $1.7 million) and is excluded from interest expense in the Consolidated Statement of Income.

The following table presents the contractual maturity and interest payments for subordinated capital issued by the Bank as at 31 December 2008:

		Within 1 year	1 to 5 years	After 5 years	Carrying value
Subordinated capital					
Bermuda					
2003 issuance - Series B	Fixed-rate	2,421	9,284	54,252	47,000
2005 issuance - Series A	Fixed-rate	4,329	11,711	93,964	90,000
2005 issuance - Series B	Fixed-rate	3,066	12,264	75,502	60,000
2008 issuance - Series A	Fixed-rate	4,023	14,462	56,410	53,000
2008 issuance - Series B	Fixed-rate	2,210	8,840	36,733	25,000
Subsidiary	Fixed-rate	678	2,821	10,111	7,296
Total		16,727	59,382	326,972	282,296

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 and adjusted for the stock dividend and the stock split declared during the years ended 31 December 2008 and 2007 (see also Note 23). 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.

31 December	**2008**	2007
Basic earnings per share		
Net income for the year	**4,839**	145,995
Weighted average number of common shares issued (in thousands)	**98,400**	98,465
Weighted average number of common shares held as treasury stock (in thousands)	**(6,051)**	(5,207)
Adjusted weighted average number of common shares (in thousands)	**92,349**	93,258
	0.05	1.56

31 December	**2008**	2007
Diluted earnings per share		
Net income for the year	**4,839**	145,995
Weighted average number of common shares issued (in thousands)	**98,400**	98,465
Weighted average number of common shares held as treasury stock (in thousands)	**(6,051)**	(5,207)
Stock options (in thousands)	**1,274**	2,351
Adjusted weighted average number of diluted common shares (in thousands)	**93,623**	95,609
	0.05	1.53

Note 19: Share-Based Payment

As at 31 December 2008, the Bank has three share-based compensation plans, which are described below. The compensation cost that has been charged against net income for those plans for the year ended 31 December 2008 was $6.0 million (2007: $5.4 million). The total income tax benefit recognised in the income statement for share-based compensation arrangements for the year ended 31 December 2008 was $0.2 million (2007: $0.1 million).

Stock Option Plan

At the Annual General Meeting of Shareholders held on 29 October 1997, the Directors were granted authority to implement a Stock Option Plan for executive officers and employees.

Under the Bank's 1997 Stock Option Plan (the 1997 Plan), options to purchase common shares of the Bank may be granted to employees and directors of the Bank that entitle the holder to purchase one common share at a subscription price equal to the market price on the effective date of the grant. Option exercise prices are stated and payable in Bermuda dollars. Generally, grants vest 25 percent at the end of each year for four years. The committee that administers the 1997 Plan has the discretion to vary the period during which the holder has the right to exercise options and, in certain circumstances, may accelerate the right of the holder to exercise options, but in no case shall the exercise period exceed ten years.

The Board of Directors of the Bank has established at 9,000,000 the current maximum number of common shares which may be issued or transferred by the Stock Option Trust pursuant to exercise of options.

At 31 December 2008, the Bank held as treasury stock 6,473,180 common shares (2007: 4,903,324) that can be used to satisfy the Bank's obligations with respect to the Stock Option Plan.

Directors' and Executive Officers' Stock Option Plan		**2008**			2007	
31 December	**Number of shares transferable upon exercise (thousands)**	**Weighted average exercise price ($)**	**Weighted average life remaining (years)**	**Aggregate intrinsic value ($)**	Number of shares transferable upon exercise (thousands)	Weighted average exercise price ($)
Outstanding at beginning of year	**1,399**	**12.91**			542	30.96
Granted (prior to 2007 stock split)	**-**	**-**			80	58.25
Exercised (prior to 2007 stock split)	**-**	**-**			(75)	19.89
Stock split	**-**	**-**			1,093	12.16
Stock dividend granted	**170**	**12.46**			-	-
Granted (after 2007 stock split)	**320**	**15.76**			-	-
Exercised (after 2007 stock split)	**-**	**-**			(241)	7.80
Outstanding at end of year	**1,889**	**12.48**	**6.48**	**1,630**	1,399	12.91
Vested and exercisable at end of year	**1,126**	**10.34**	**5.30**	**1,622**	769	10.32

Employees' Stock Option Plan		**2008**			2007	
31 December	**Number of shares transferable upon exercise (thousands)**	**Weighted average exercise price ($)**	**Weighted average life remaining (years)**	**Aggregate intrinsic value ($)**	Number of shares transferable upon exercise (thousands)	Weighted average exercise price ($)
Outstanding at beginning of year	**5,175**	**14.78**			1,706	34.87
Granted (prior to 2007 stock split)	**-**	**-**			564	58.25
Exercised (prior to 2007 stock split)	**-**	**-**			(291)	27.03
Forfeited / cancelled (prior to 2007 stock split)	**-**	**-**			(34)	15.56
Stock split	**-**	**-**			3,888	14.24
Stock dividend granted	**722**	**14.15**			-	-
Granted (after 2007 stock split)	**2,181**	**15.73**			6	20.50
Exercised (after 2007 stock split)	**(318)**	**8.90**			(576)	9.08
Forfeited / cancelled (after 2007 stock split)	**(250)**	**-**			(88)	16.59
Outstanding at end of year	**7,510**	**14.27**	**7.41**	**2,613**	5,175	14.78
Vested and exercisable at end of year	**3,334**	**12.27**	**6.21**	**2,479**	1,836	11.05

The weighted average fair value of stock options granted in the year ended 31 December 2008 was $1.19 per stock option (2007: $6.54), calculated using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions:

Year Ended 31 December	**2008**	2007
Projected dividend yield	**3.50%**	3.70%
Risk-free interest rate	**2.70%**	4.80%
Projected volatility	**12%**	14%
Expected life (years)	**5.0**	5.0

The projected dividend yield and volatility are based on the historical dividends paid and 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 U.S. Treasuries yield curve in effect at the time of grant. The Bank uses historical data to estimate expected option life and employee termination rates; separate groups of employees that have similar historical exercise behaviour are considered separately for valuation purposes.

The compensation cost related to the Plan that has been charged against the income for the year ended 31 December 2008 was $3.6 million (2007: $2.9 million). The total intrinsic value of options exercised during the year ended 31 December 2008 was $2.2 million (2007: $24.2 million).

As at 31 December 2008, there was $2.5 million of total unrecognised compensation cost related to non-vested options granted under the Plan. That cost is expected to be recognised over a weighted average period of 2.3 years.

Deferred Incentive Plan

Under its Deferred Incentive Plan as approved by the Board of Directors, the Bank grants restricted common shares to selected members of the management team. 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. During the year ended 31 December 2008, 127,812 restricted shares were granted (2007: 35,442). The fair value of common shares granted during the year ended 31 December 2008 was $1.7 million (2007: $1.5 million).

Executive Long-Term Incentive Restricted Shares Plan

The purpose of the Executive Long-Term Incentive Restricted Share Plan is to provide to selected executives of the Bank and certain subsidiaries of the Bank compensation opportunities that are compatible with shareholder interests that will encourage share ownership and that will enhance the Bank's ability to retain key executives. Under its Executive Long-Term Incentive Restricted Share Plan, the Bank grants restricted shares to selected members of the management team. Shares are granted unvested and vest at a rate of 25 percent at the end of each year for four years. In certain circumstances, including retirement, shares vest on an accelerated basis and vesting may depend on the Bank's performance. The fair value of each common share granted under the Executive Long-Term Incentive Restricted Share Plan was based on the grant date market price of the Bank's common shares. During the year ended 31 December 2008, 88,112 shares were granted (2007: 23,532 shares). The fair value of common shares granted during the year ended 31 December 2008 was $1.4 million (2007: $1.4 million).

As at 31 December 2008, there was $1.0 million of total unrecognised compensation cost related to non-vested shares granted under the Plan. That cost is expected to be recognised over a weighted average period of 2.6 years.

Note 20: Share Buy-Back Plans

During the year, nil common shares (2007: 125,603) were purchased and cancelled at a cost of nil (2007: $7.4 million) and 2,562,997 common shares were purchased to be held as treasury stock at a cost of $38.3 million (2007: 967,119 shares at a cost of $38.1 million).

During the same period, the Bank's Stock Option Trust bought nil common shares at a cost of nil (2007: 597,818 common shares at a cost of $22.7 million).

The Board of Directors of the Bank authorised the repurchase over the twelve month period commencing 1 January 2009, up to 3,000,000 of its common shares of par value $1 each, pursuant to its share repurchase programme authorised by shareholders on 29 October 1997. This intention is subject to appropriate market conditions and repurchases will only be made in the best interest of the Bank.

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 Stock Option Trust and the Charitable Foundation.

Note 21: Dividend Re-Investment and Employee Common Stock Purchase Plans

The Bank's dividend re-investment and employee common stock direct purchase plans permit participants to purchase, at market value, shares of the Bank's common stock by re-investment of dividends and / or optional cash payments, subject to the terms of each plan.

Note 22: Capital Structure

The Bank's authorised common share capital is $260 million (par value: $1.00).

At the Annual General Meeting of Shareholders held on 18 April 2007, the Directors were granted authority to issue redeemable preference share capital of US $1,000,000 (par value US $0.01) and £500,000 (par value of £0.01) which equates to a maximum amount of redeemable preference share capital of US $100 million and £50 million respectively. The redeemable preference share capital is issuable with such powers, preferences and other rights, limitations and restrictions as may be determined appropriate by the Directors.

Note 23: Stock Split and Stock Dividend

In February 2008, the Bank distributed a 10% stock dividend to shareholders of record on 20 February 2008. All prior period per share data have been restated to reflect the stock dividend.

Shareholders of record at the close of business on 17 August 2007 were issued two additional shares of Butterfield Bank common stock on 31 August 2007 for each one share held as of the record date. All prior period per share data have been restated to reflect the three for one stock split.

Note 24: Variable Interest Entities

During the first quarter of 2008, management conducted an economic analysis of its investments in variable interest entities and determined that the Bank had ceased to be the primary beneficiary of expected gains or losses in these entities. The Bank has not made new investments in variable interest entities during the year. As a result, there was no effect of FIN 46R on the Bank's net assets for the year ended 31 December 2008 (2007: decrease of $1.9 million). As at 31 December 2008 the total assets of variable interest entities consolidated in the balance sheet is nil (2007: $31.4 million).

Note 25: Income Taxes

The Bank is not subject to any taxes in Bermuda, The Bahamas and Cayman on either income or capital gains under current laws in those jurisdictions. The Bank's income tax expense for all periods presented relates to income from operations and is attributable to subsidiaries and offices in various other jurisdictions that are subject to the relevant taxes in those jurisdictions.

31 December	2008	2007
Income taxes in Consolidated Statement of Income		
Current	**3,168**	6,977
Deferred	**(126)**	-
Total tax expense	**3,042**	6,977
Deferred income tax asset		
Tax loss carried forward	**557**	444
Pension liability	**797**	707
Allowance for compensated absence	**19**	31
Onerous leases	**-**	147
Other	**1,185**	2,831
Total asset	**2,558**	4,160
Deferred income tax liability		
Other	**756**	1,338
Net deferred income tax asset	**1,802**	2,822

For the years ended 31 December 2008 and 2007, there were no unrecognised tax benefits and the tax related interest and penalties recognised in net income were nil. The Bank is no longer subject to federal, state and local income tax examinations by tax authorities for years before 1999.

Note 26: Future Accounting Developments

(a) Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities

In June 2008, the Financial Accounting Standards Board (FASB) issued the FASB Staff Position (FSP) No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP No. EITF 03-6-1), which specifies that unvested share-based payment awards that contain non forfeitable rights to dividends or dividend equivalents are "participating securities" and therefore should be included in computing earnings per share. FSP No. EITF 03-6-1 will be effective for fiscal years beginning after 15 December 2008 and therefore effective from the Bank's first quarter in 2009. There will be no effect on adoption as the Bank is already in compliance.

(b) Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlements)

In May 2008, the Financial Accounting Standards Board (FASB) issued the FASB Staff Position (FSP) No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial cash Settlements) (FSP No. APB 14-1), which specifies that issuers of this type of convertible debt account for the liability and equity components separately. The initial measurement of the liability component is to be consistent with similar non-convertible debt as of the issuance date. The convertible debt proceeds less the fair value of the liability component is recorded as additional paid-in capital. FSP No. APB 14-1 will be effective for fiscal years beginning after 15 December 2008 and therefore, effective from the Bank's first quarter in 2009. Currently, the bank is not an issuer of debt instruments considered by this FSP, therefore management does not expect any effect of adoption.

(c) Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133

In March 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS 161), which addresses how companies should disclose information about derivative instruments and hedging activities. SFAS 161 is designed to improve the relevance, comparability, and transparency of financial information relating to derivative instruments and hedging activities. SFAS 161 will be effective for fiscal years beginning after 15 December 2008 and therefore, effective from the Bank's first quarter in 2009. Management is currently evaluating the effect of adoption.

(d) Disclosure about Assets of Employee Future Benefits Plans

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

(e) Non-controlling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interest in Consolidated Financial Statements (SFAS 160), which addresses how companies should measure and present non-controlling interests. SFAS 160 is designed to improve the relevance, comparability, and transparency of financial information relating to non-controlling interests. SFAS 160 will be effective for fiscal years beginning after 15 December 2008 and therefore, effective from the Bank's first quarter in 2009. Management is currently evaluating the effect of adoption.

(f) Business Combinations

In December 2007, the FASB issued SFAS No. 141 (Revised), Business Combinations (SFAS 141R), which addresses how companies should recognise and measure assets and liabilities acquired through business combinations. SFAS 141R is designed to improve the relevance and comparability of financial information relating to business combinations. SFAS 141R will be effective for fiscal years beginning after 15 December 2008 and therefore, effective from the Bank's first quarter in 2009. Management is currently evaluating the effect of adoption.

Note 27: Comparative Information

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

Note 28: Subsequent Event

Butterfield announced on 5 March 2009, that subject to shareholder approval, it will issue of $200 million of perpetual non-cumulative preference shares (the Issuance), which qualify as Tier 1 capital, and which will be underwritten and guaranteed by the Government of Bermuda, with a closing date of 30 June 2009.

The Government has agreed to support the Issuance by guaranteeing the principal of, and dividend payments on, the preference shares. In addition, the Government has committed to purchase any preference shares from this offering that are not subscribed by private investors. In exchange for the Government's commitment, the Bank has agreed to issue to the Government 10-year warrants to purchase common shares of the Bank, representing some 4% of the issued shares of the Bank as at 31 December 2008, at an exercise price of $7.01 and to pay the Government a guarantee fee of 1% per annum with respect to any preference shares issued to private investors.

On a proforma basis, as at 31 December 2008, the issuance of these preference shares would increase Butterfield Group's tier 1 capital ratio to 10.6% and its total capital ratio to 15.1%.