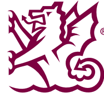


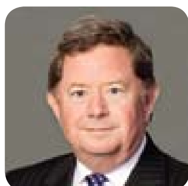
Butterfield

Annual Report 2009

The Bank of N.T. Butterfield & Son Limited

Butterfield is a diversified financial services company operating in nine jurisdictions. We have total assets of $9.6 billion and $60.7 billion of client assets under administration. We employ 1,606 people around the world. Butterfield is a publicly traded company with a primary share listing on the Bermuda Stock Exchange and a secondary listing on the Cayman Islands Stock Exchange.

CHAIRMAN'S LETTER TO THE SHAREHOLDERS



Butterfield is in the midst of the most important transition in its 152-year history. Over the past two years, we have realised significant losses on investments and felt the negative impact of the global financial crisis on our revenues. At year-end 2009, the Board decided that it was in the best interests of our shareholders for the Bank to take proactive steps to substantially de-risk the Balance Sheet. This action ended a protracted period of ongoing losses and the adverse effects this had on our share price and reputation in the market. Concurrently with this decision, the Board sought and secured new sources of capital to help offset the impact of the losses. Unfortunately, this capital raise was highly dilutive to shareholders.

My objective with this letter is to provide a summary of the circumstances that led the Board to its decision, along with more details of the capital raising transaction. Prior to taking the actions we did, your Board considered several alternatives for increasing capital, and although we are aware that many shareholders are disappointed with our decision, we are confident that it was the best alternative for preserving the long-term value of the Butterfield franchise.

2009 RESULTS

Following write downs of more than $210 million in 2008, we foresaw the possibility of further problems in our held-to-maturity portfolio in early 2009. To increase the Bank's capital as a means of offsetting these potential losses, Butterfield raised $200 million through a preference share offering in June.

In the fourth quarter, it became apparent that we would again have to take significant write downs on certain mortgage-backed securities and large loss provisions on several corporate loans in the hospitality sector by year end. With 2009 revenues down by more than $93 million year-on-year on a normalised basis, (a function of historically low interest rates and depressed asset values that impaired our ability to generate non-interest income), our operating profitability was also significantly diminished. Therefore, even with the successful $200 million preference share offering behind us, it became necessary for the Bank to raise additional capital to remain in compliance with regulatory requirements.

Upon this turn of events, and following two challenging years during which the Bank's performance had suffered from ongoing write downs associated with investments in structured assets made prior to mid-2007, your Board sought a solution that would generate enough capital to allow us to, once and for all, clear problematic assets from the Balance Sheet.

"Butterfield is in the midst of the most important transition in its 152-year history..."

OUR RESTRUCTURING AND RECAPITALISATION SOLUTION

Under a comprehensive restructuring plan, the Bank took losses of $91 million on impaired securities in the fourth quarter. We also increased our provision for credit losses to $105 million; a figure that we believe represents adequate provisioning for loans over the anticipated duration of the recession. In addition, the restructuring plan factors in anticipated investment losses in the range of $150 million to $175 million in the first quarter of 2010 associated with the sale of most of the Bank's remaining troubled assets. At the time of writing, I am pleased to report that the sale of these assets has been largely completed.

To offset the losses, the Board secured $550 million of new capital through the sale of new Butterfield common equity to a group of investors led by The Carlyle Group and Canadian Imperial Bank of Commerce ("CIBC"). As part of this transaction, the Board negotiated a $130 million rights offering that will enable existing shareholders to purchase shares at the same per-share price of $1.21 as the new investors, giving them the opportunity to maintain a meaningful proportional ownership position. The rights offering is backstopped by the new investors, meaning that the subscription rate of new shares under the upcoming rights offering notwithstanding, the Bank had the net proceeds of the capital raise of $520 million in place at the time the transaction closed on 2 March 2010.

Should the rights be fully subscribed, existing shareholders will own 37% of the Bank. None of the new investors will own more than 22.8%, and they cannot seek to increase their ownership positions in Butterfield for a period of four years without the prior approval of the Board.

The Board is aware that many of our shareholders are disappointed that they were not given the opportunity to approve the capital raising transaction through a vote. Given the magnitude of the Bank's fourth quarter 2009 loss and an anticipated Q1 2010 loss, and against a backdrop of speculation about the Bank among investors and the media, Butterfield's Board of Directors determined that having new capital in place at the time we announced the loss for 2009 was essential to ease market uncertainty about the Bank. Our view was that if we had waited for a vote, that uncertainty would have done more damage to the value of existing shareholders' interests than proceeding with the transaction did. We therefore sought an exemption from the requirement for a shareholder vote from the Bermuda Stock Exchange and it was granted.

With the transaction concluded, Butterfield is a well-capitalised bank. On a pro-forma basis, factoring in the new capital and the anticipated Q1 2010 losses, our total capital at 31 December 2009 would have been $1.1 billion, putting our Tier 1 capital ratio at 13.5%, and our total capital ratio at 18.7%, well in excess of regulatory requirements.

DIVIDENDS

It has long been the Bank's policy to pay out a portion of earnings in the form of common dividends. Consistent with that policy, and with the Bank having posted a significant net loss for the year, the Board did not declare a fourth quarter dividend on common shares and has suspended the payment of common dividends until Butterfield returns to a position of sustainable profitability. Dividend payments totalling $0.24 per common share ($0.12 in cash and $0.12 in shares) were made during the first three quarters of 2009. Butterfield paid dividends totalling $7.1 million on outstanding preference shares during 2009, meaning the Government of Bermuda was not called upon to pay any portion of the dividends on these Government-guaranteed securities.

GOVERNANCE

Reflective of their ownership interests in the Bank, each of Carlyle and CIBC will have two Directors join a 12-person Board. It is my opinion that the Board will benefit from the perspective and expertise of these seasoned, international bankers.

We announced on 2 March 2010 that the Board had appointed Bradford Kopp as Butterfield's new President & Chief Executive Officer and a Director of the Bank. Mr. Kopp, who joined Butterfield as Chief Financial Officer in November, replaces Alan Thompson who has retired. Mr. Kopp, a career banker with more than 33 years of experience, was instrumental in bringing our capital solution to fruition. The Board is impressed with Mr. Kopp's insight and business acumen, and we are confident that he is the right person to lead Butterfield.

At the Annual General Meeting of shareholders in September 2009, I advised the attendees that we had commissioned an independent, third-party review and assessment of the Bank's governance practices and management hierarchy. In late 2009, the Board received the evaluation and set about implementing a number of recommendations.

We reconstituted the Board Ad Hoc I.T. Committee as a vehicle through which the Board of Directors will oversee matters pertaining to technology changes. We authorised changes in the Bank's management structures that will draw a clearer distinction between Group and local management responsibilities and improve the level of head office oversight of jurisdictional operations. Finally, we adjusted the composition of the various functional committees—Group Asset and Liability Committee, Group Risk Committee, Group Investment Committee, Group Credit Committee and Group Financial Institutions Committee—to ensure that we have appropriate stakeholder representation by the correct mix of executives on each committee.

"...with new investor partnerships in place we are looking optimistically to the future..."

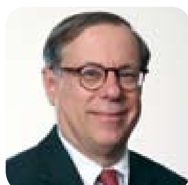
There have been several changes on the Board in recent months. Vince Ingham, a non-executive Director, retired from the Board in early March 2010. Upon his retirement from the Bank, Alan Thompson also retired from the Board of Directors. Patrick Tannock resigned as a Director in January 2010 for personal reasons. Graham Brooks, Butterfield's Executive Vice President, International, retired from the Bank and the Board at the end of June. Glenn Titterton retired in April 2009. This past February, we were saddened by the untimely death of Harry Wilken, who had served on the Board with distinction for 12 years.

With the difficulties of the last two years behind us and new investor partnerships in place, we are looking optimistically to the future. Butterfield is well capitalised. Our Balance Sheet will be substantially de-risked by the end of the first quarter of 2010. We now have world-class governance protocols and structures in place. The Board, Management and our new investors firmly believe the Bank is positioned for strong top-line and bottom-line growth as interest rates begin to rise. Although we view the dilutive effect that our capital raising transaction had on our current shareholders as unfortunate, we are pleased that we are able to offer them the opportunity to participate in the renewal and growth of the Butterfield franchise as we move forward.

On behalf of the Board of Directors, I thank you for your ongoing loyalty and support.

ROBERT A. MULDERIG | Chairman of the Board of Directors

PRESIDENT & CHIEF EXECUTIVE OFFICER'S REPORT



I am honoured that Butterfield's Board of Directors has appointed me to the position of President & Chief Executive Officer at a challenging, but exciting time in the history of the Bank.

The Bank had a record net loss of $213 million for the 12 months ended 31 December 2009, translating to a loss per share of $2.34. This loss comes at the conclusion of two very difficult years for the Bank. Historically low interest rates brought on by a severe global recession narrowed our interest margins. Non-interest revenues were reduced as valuations of clients' assets administered or managed by Butterfield continued to languish on slow-to-recover securities markets. For the first time in memory, Butterfield began to experience delinquencies of significant value within its loan portfolio; a function of the impact of the worldwide economic decline on the tourism industry and tourism-dependent sectors.

On top of those external economic factors, the legacy issues associated with past investments in mortgage-backed securities and other structured assets continued to impact the Bank. We had write downs of more than $130 million on impaired securities and loan losses of more than $104 million in 2009.

Our common share price trended downward throughout the year. We know that all of this has shaken the confidence of our shareholders and depositors. It is my goal to work with the Management team and the Board to return the Bank to a position of sustainable growth and restore confidence in the Butterfield brand.

WORKING TOGETHER

2009 was an exceedingly challenging year for Butterfield employees. On top of the daily demands of their jobs, they were called upon to help respond to customer and shareholder concerns. We sought their assistance with the smooth decoupling of the Fund Services businesses from the Bank following the sale of those subsidiaries to Fulcrum Group in late 2008. And we began to make changes to the systems and procedures they use to do their jobs under the One Butterfield programme, which is overhauling and updating the Bank's technology and operations infrastructure.

In an environment of tightly controlled compensation and benefits spending, the Butterfield team remained committed to providing clients with the finest in fiduciary, banking and investment services. I thank our employees for their hard work, patience and loyalty. As we move ahead, we are putting the pieces in place that will enable our employees to do their jobs more efficiently, have greater input on strategic decisions and provide value-added service to clients.

"This is the starting point in the story of recovery and growth that is yet to come."

CHANGES IN MANAGEMENT STRUCTURE

In late 2009, under direction from the Board, the Bank established a Group Executive Committee that has representation from and responsibility for our major business segments and organisational functions internationally. This year, we have begun to manage various business lines and key functions through cross-jurisdictional Councils, each headed by a member of the Group Executive Committee. In this way, we will be able to jointly establish and prioritise business goals, more efficiently execute our plans concurrently across countries and ensure we have broad oversight of all functions at the executive level. With the improved flow of lateral and vertical communications that this new structure will allow, we are hopeful that we will be able to be more proactive in addressing clients' needs and in leveraging learning and best practices from one market to the next.

During 2009, Butterfield introduced changes to the reporting structure of our offices outside Bermuda to create greater regional synergies. Conor O'Dea, Managing Director of Butterfield Bank (Cayman) Limited, was given overall management responsibility for Butterfield in The Bahamas, Barbados and the Cayman Islands. Robert Moore, Managing Director of Butterfield Bank (Guernsey) Limited, has overall management responsibility for Butterfield in Guernsey, Hong Kong, Malta and Switzerland. Messrs. O'Dea and Moore, along with George Bogucki, Managing Director of Butterfield Bank (UK) Limited, are members of the Group Executive Committee.

In addition, the Bank welcomed Michael Collins as EVP, Corporate Development in August, and promoted James Stewart to EVP & Chief Risk Officer, Bob Wilson to EVP, Bermuda Banking, Curtis Dickinson to EVP, Bermuda Wealth Management, and Dianne Brewer to SVP, Marketing & Corporate Communications during the year.

During my first four months at Butterfield, I have been most impressed with the members of the Group Executive team that is now in place and I am pleased to report that all of us, veterans and newcomers alike, are working together cohesively toward common goals.

ONE BUTTERFIELD

With its objective of replacing a multitude of disparate technologies with new, common Group applications, the One Butterfield programme will help facilitate the coordinated rollout of new and improved products and services in multiple jurisdictions. Upgrading to a common core banking system for key banking jurisdictions, for example, will make it possible to launch common banking products where market demand warrants it, without the need to incur systems development and testing costs multiple times. With client data stored in identical formats and applications, it also allows for the introduction of enhanced cross-border client services. The programme's initial focus is on the implementation of new technology in our largest jurisdictions, Bermuda and the Cayman Islands.

A key tenet of the One Butterfield programme is replacing outdated, paper-based processes with workflow technology that enables client data to be captured by front line employees and automatically routed to the appropriate parties within the Bank for review, approval and processing. This eliminates the need to re-key data multiple times, increasing efficiency, reducing errors and freeing up employees' time to focus on customer care and value added services.

The Bank completed the planning stages of the One Butterfield programme in 2009 and successfully implemented the first major transition—the outsourcing of Help Desk services to Hewlett Packard ("HP")—in the summer. In February this year, we transitioned the vast majority of Cayman's existing applications and server infrastructure to an HP facility in Canada with relatively few minor issues internally and zero impact to clients. Bermuda will similarly transition this Spring. Later in the year, we will begin the process of transforming our operating systems, migrating data to a new, robust and powerful core operating system.

The successful completion of the One Butterfield programme, with the benefits it will deliver in terms of operating efficiency and enhanced client services, is a key aspect of our strategy to return the Bank to a position of healthy growth.

BRAND REVITALISATION

In 2009, the Bank continued its Brand Revitalisation project, which aims to bring greater consistency to Butterfield's promotional materials and merchandising across jurisdictions. Similar to One Butterfield, common branding will permit us to increase sharing of materials across jurisdictions, saving on marketing development costs. In 2010, we will finalise the Brand Revitalisation with the change of building signs and Banking Centre merchandising, and updates to remaining marketing materials.

FOCUSED ON CUSTOMERS

Butterfield has a strong brand in three distinct business lines: retail banking in select markets, wealth management & fiduciary services, and custody & other administration services. We enjoy leadership positions among retail financial services providers in Bermuda and Cayman, and have a growing retail presence in Barbados. In Bermuda, The Bahamas, Cayman, Guernsey, Hong Kong, Malta, Switzerland and the UK, we provide an expert service in private wealth structures to international, high net worth clientele. We also provide custody and company administration services from Bermuda, The Bahamas, Cayman, Guernsey and the UK. We recently incorporated Butterfield Corporate Services in Malta to assist clients with the incorporation and administration of Malta companies used in the international context.

Having recapitalised the Bank and set a process in motion to substantially de-risk Butterfield's Balance Sheet by the end of the first quarter, we can now turn our focus to strengthening these core businesses. Our clients can take comfort in the knowledge that Butterfield is now well positioned for growth through continued innovation. We remain committed to building a strong presence in select services in each of our markets and increasing market share therein.

SUPPORTING OUR COMMUNITIES

Along with the goals of providing efficient, ethical delivery of financial services to our customers, consistent returns to our shareholders, and offering security and opportunities to our employees, enshrined in our Mission Statement is the pledge to make valuable contributions to the communities that Butterfield calls home. Despite the financial difficulties Butterfield faced in 2009, the Bank and its employees around the world honoured that pledge. A few highlights are noted below.

The Group donated over $1 million to community and charitable organisations in 2009. In Barbados, we partnered with the Barbados Youth Business Trust to assist and mentor young entrepreneurs. We again co-sponsored the annual St. Patrick's Day 5K 'Irish Jog' benefitting the Cayman Islands Cancer Society. Our Guernsey office sponsored a team of young fencers so they could attend the Commonwealth Junior Fencing Championship in Malaysia. Our Bermuda-based employees volunteered their time and energy, clearing trash from green spaces to assist Keep Bermuda Beautiful and planting endemic trees and clearing invasive plants with Buy Back Bermuda. Employees also organised two internal drives in 2009—the first provided 90 boxes of Easter food for needy families, and a second in September delivered needed school supplies to 230 Bermudian students.

As is described in the Chairman's letter, we have successfully completed a capital raising transaction that will enable us to continue to put the distractions of underperforming assets behind us and which has raised our capital ratios to strong levels. That is the starting point in the story of recovery and growth that is yet to come. We now have the means to invest in our core businesses and find better ways to serve our clients. Butterfield has a terrific team of professional, knowledgeable and experienced people. Our task is now to pull together under a common vision to make Butterfield an even better bank for our customers, shareholders, employees and communities.

BRADFORD B. KOPP | President & Chief Executive Officer

BOARD OF DIRECTORS AND PRINCIPAL BOARD COMMITTEES

COMMITTEES INDICATED BY NUMBERS

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

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

GRAHAM C. BROOKS *

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

A.L. VINCENT INGHAM, JP 3, 5, 6 †

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

SHEILA A. LINES 2, 6
Chief Executive Officer, Keytech Limited

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

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

PATRICK TANNOCK †

ALAN R. THOMPSON 1 †

GLENN M. TITTERTON *

HARRY WILKEN 2, 3 ‡

JOHN R. WRIGHT 3, 6
Retired Bank Chief Executive

PRINCIPAL BOARD COMMITTEES:

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

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

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

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

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

6. INFORMATION TECHNOLOGY COMMITTEE
Focuses on technology and systems development.

DIRECTORS' CODE OF PRACTICE AND GROUP CODE OF CONDUCT

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

* Retired prior to 31 December 2009
† Retired in 2010
‡ Deceased

MANAGEMENT

GROUP EXECUTIVE COMMITTEE

BRADFORD B. KOPP
President & Chief Executive Officer

GEORGE BOGUCKI
Managing Director, Butterfield Bank (UK) Limited

DIANNE M. BREWER
Senior Vice President, Marketing & Corporate Communications

MICHAEL COLLINS
Executive Vice President, Corporate Development

CURTIS DICKINSON
Executive Vice President, Bermuda Wealth Management

WILTON DOLLOFF
Executive Vice President, Chief Operating Officer

DONNA E. HARVEY MAYBURY
Senior Vice President, Human Resources

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

ROBERT S. MOORE
Managing Director, Butterfield Bank (Guernsey) Limited

CONOR O'DEA
Managing Director, Butterfield Bank (Cayman) Limited

JAMES R. STEWART
Executive Vice President, Chief Risk Officer

BOB W. WILSON
Executive Vice President, Bermuda Banking

SENIOR OFFICERS

CURTIS BALLANTYNE
Senior Vice President, Chief Credit Officer

MALCOLM BECKER
Managing Director, Butterfield Trust (Malta) Limited

NIC BENTLEY
Deputy Chairman, Butterfield Private Office (HK) Limited

KATIE BOOTH
Managing Director, Butterfield International Private Office Limited

SHEILA M. BROWN
Senior Vice President, Investment Services

DAVID G. CARRICK
Group Controller

CHARLES LAWRENCE
Senior Vice President, Treasury

ROBERT V. LOTMORE
Managing Director, Butterfield Bank (Bahamas) Limited

G. JOHN MARAGLIANO
Senior Vice President, Head of Finance

JIM PARKER
Managing Director, Butterfield Trust (Switzerland) Limited

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

DAVID STEWART
Senior Vice President, Chief Investment Officer

FRED H. TESCH
Senior Vice President, Group Internal Audit

LLOYD O. WIGGAN
Managing Director, Butterfield Bank (Barbados) Limited

The Year in Review

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

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

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

As at 31 December	2009	2008	2007	2006	2005
Cash and deposits with banks	**1,986,798**	2,221,390	2,517,012	3,151,191	2,849,920
Investments	**2,935,208**	3,824,079	4,744,989	3,786,793	2,916,399
Loans, net of allowance for credit losses	**4,218,332**	4,418,277	4,124,764	3,760,745	3,085,594
Premises, equipment and computer software	**244,242**	197,155	215,379	171,326	141,708
Total assets	**9,594,602**	10,911,844	11,910,920	11,132,802	9,197,566
Total deposits	**8,696,619**	9,801,269	10,747,971	10,042,932	8,240,109
Subordinated capital	**283,085**	282,296	284,191	280,168	278,679
Shareholders' equity					
Liquidation preference of preferred shares	**200,000**	-	-	-	-
Common equity	**155,460**	518,440	629,330	549,553	495,226
For the year ended					
Net interest income before provision for credit losses	**186,907**	254,481	252,600	218,218	185,346
Provision for credit losses	**(104,879)**	(3,045)	(1,983)	(2,997)	(3,172)
Fee and other income	**151,705**	212,941	219,682	193,654	172,099
Salaries and other employee benefits	**156,839**	183,152	184,751	162,504	144,331
Other non-interest expenses	**143,351**	167,335	139,217	118,465	101,447
Net income before gains and losses	**(66,457)**	113,890	146,331	127,906	108,495
Gains and losses	**(146,956)**	(109,051)	(336)	6,177	856
Net (loss) income	**(213,413)**	4,839	145,995	134,083	109,351
Dividends and guarantee fee of preferred shares	**9,450**	-	-	-	-
Net (loss) income available to common shareholders	**(222,863)**	4,839	145,995	134,083	109,351
Common dividends paid	**14,938**	57,733	54,366	46,496	38,504
Financial Ratios					
Return on assets	**(2.1%)**	0.0%	1.2%	1.3%	1.2%
Return on common shareholders' equity	**(47.0%)**	0.8%	25.2%	24.6%	23.6%
Tier 1 capital ratio	**7.2%**	7.5%	8.6%	8.9%	8.6%
Total capital ratio	**10.1%**	11.2%	13.0%	13.5%	13.1%
Tangible common equity ratio	**0.9%**	4.1%	4.4%	4.1%	4.4%
Net interest margin	**1.95%**	2.18%	2.20%	2.18%	2.09%
Efficiency ratio	**86.9%**	72.8%	65.7%	64.8%	66.4%
Per common share ($)					
Net income (diluted)	**(2.34)**	0.05	1.48	1.35	1.13
Cash dividends	**0.12**	0.52	0.64	0.6	0.56
Net book value	**1.64**	5.44	6.53	5.70	5.24
Number of employees					
Bermuda	**761**	803	843	845	789
Overseas	**845**	889	1,007	885	808
Total	**1,606**	1,692	1,850	1,730	1,597
Shareholder data					
Average number of common shares on a fully diluted basis	**95,065**	96,683	98,732	99,265	96,986
Risk weighted assets	**5,734,096**	6,199,963	6,345,754	5,468,668	4,681,349

All prior period per common share data and number of common shares, with the exception of dividends, have been restated to reflect the $0.04 stock dividend declared for March, May, August and November 2009 and the one for ten stock dividends in February 2008, August 2006 and 2005.

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

CONSOLIDATED RESULTS OF OPERATIONS AND DISCUSSION FOR FISCAL YEAR ENDED 31 DECEMBER 2009

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

Net (loss) income

The Bank reported a net loss for the year ended 31 December 2009 of $213.4 million compared to net income of $4.8 million in 2008, both years were adversely affected by various gains and losses as noted above. Diluted loss per share for 2009 was $2.34 compared to earnings of $0.05 per share in 2008. The net effect of normalisation adjustments recorded in gains and losses, other non-interest income, and provision for credit losses totalled a net loss of $234.4 million in 2009 (2008: $100.5 million), or a loss of $2.46 per diluted share (2008: $1.04) and includes gains and losses associated with investment and credit support agreements, goodwill impairments, the gain on sale of Butterfield Fund Services businesses in 2008, and certain specific provisions for loan losses primarily related to the hospitality industry. When adjusted, normalised earnings from banking and wealth management activities were $21.0 million in 2009 (2008: $105.3 million) or $0.12 (2008: $1.09) per diluted common share after deducting the $9.5 million of total dividends declared and related guarantee fees paid in respect of the preferred shares in 2009. The decline in normalised earnings is due primarily to the impact of the continuing historically low interest rate environment, and the decline in customer balances from the high levels seen in prior years. If interest rates increase as implied by long dated securities, we expect to benefit as margins return to normal levels.

The following table reconciles the Bank's US GAAP reported loss with normalised earnings for 2009 compared to 2008:

(in $ thousands)	2009	2008
Net (loss) / income	(213,413)	4,839
Items recognised in Other gains and losses		
Net realised gains on available for sale securities	(236)	-
Goodwill and intangibles impairment	13,266	5,220
Net realised / unrealised (losses) gains on trading securities	(983)	6,356
Net realised / unrealised (losses) gains on HTM securities	(2,298)	22,986
Other than temporary impairment on HTM securities	132,095	128,786
Gain on sale of subsidiaries	-	(115,479)
Net other gains	5,112	61,182
Sub-total: Items recognised in Other gains and losses	146,957	109,051
Items recognised in Other non-interest income		
Non interest income - investment in affiliates	1,688	2,223
Deferred gain on sale of subsidiary	(3,371)	(922)
Credit support fees	(4,168)	(2,038)
Gain on sale of land	(699)	-
Sub-total: Items recognised in Other non-interest income	(6,550)	(737)
Other items		
Net income from Butterfield Fund Services	-	(7,820)
Specific provision for loan losses	94,000	-
Sub-total: Other items	94,000	(7,820)
Total adjustments	234,407	100,494
Total normalised earnings	20,994	105,333
Dividends and guarantee fee of preferred shares	(9,450)	-
Total normalised earnings attributable to common shareholders	11,544	105,333

Items recognised in other gains and losses include:

- A $13.3 million goodwill and intangibles impairment charge was taken in respect of Butterfield's investment in its Malta ($2.2 million), Hong Kong ($10.1 million) and Bahamas ($0.9 million) subsidiaries as the carrying value of our investment exceeded the fair value. In 2008, the Bank incurred a goodwill impairment charge of $5.2 million in respect of its investment in the Barbados subsidiary.

- A net realised gain on trading securities of $1.0 million, represented the return on the Bank's investment in seed money in the Butterfield Funds.

- Realised gains on held to maturity investments of $2.3 million representing a recovery of unrealised losses on previously recorded OTTI in respect of two bank securities.

- A net loss of $132.1 million in other-than-temporary impairments was recorded in the Bank's held to maturity (HTM) investment portfolio consisting of:

  - $190.9 million in total unrealised losses on other-than-temporary impairment securities, representing the carrying value less the fair value of impaired HTM securities, offset by:

  - $58.8 million in non-credit related OTTI recognised in other comprehensive income "OCI". The OCI component will accrete back to the book value over the life of the security.

- Net other losses of $5.1 million were recorded in 2009 as a result of a $9.0 million write-down of a receivable due from the Bank's Charitable foundation and an additional write off of previously capitalised investment in technology related costs ($5.2 million). These losses were offset by an unrealised marked to market gain of $6.5 million from our equity holding in two credit card companies and a $3.3 million gain (2008 loss: $50.2 million) stemming from credit support agreements provided by the Bank to the Butterfield Money Market Fund. Credit support to the Money Market Fund is no longer required and ended in the third quarter of 2009.

In addition to other gains and losses, the following items were recorded in the 2009 net loss which impacted the Bank's normalised earnings:

Recognised in other non-interest income:

- Net losses of $1.7 million from our minority stake in several investments in affiliates. The Bank recorded its share of losses from a single affiliate of $3.8 million offset by gains on the remaining investments of $2.1 million

- $3.3 million of deferred revenue was recorded in 2009, which related to the sale of our Fund Services businesses in 2008. The amortisation of the deferred gain ended in September 2009 as the majority of the transitional services the Bank was obligated to deliver terminated after 12 months

- Credit support fees of $4.2 million

Other:

- Provision for credit losses of $94.0 million related to five large commercial mortgage facilities in the hospitality industry.

Revenue

Total revenue before gains and losses, revenues from pension fund administration, and provisions for credit losses for 2009 was $338.6 million, down $93.2 million (21.6%) from $431.8 million in the prior year. However, there were strong revenues from banking and trust services which were sustained despite the challenging economic environment with only marginal decreases from the prior year. Total non-interest income excluding revenues from investment and pension fund administration was down $25.7 million from $177.4 million in 2008 to $151.7 million in 2009; the decrease was primarily attributable to progressively lower foreign exchange volumes through 2009 from hedge fund clients as they saw unprecedented redemptions in response to the collapsing equity markets from September 2008 and from declining asset management fees as a result of historically low interest rates requiring management fee reductions combined with lower assets under management levels.

The Fed fund rates declined to an average of 0.16% in 2009 and ended the year at 0.05% from a high of 2.97% in October 2008 when credit spreads peaked in response to the market turmoil as a result of the failure of several large banking institutions. When interest rates are maintained at these low levels, our net interest margin is compressed, as the difference between the returns the Bank earns on employing client deposits and interest paid on client deposits is squeezed. The consequence of lower interest rates also leads to lower customer deposit volumes as they seek higher returns in other asset classes. In 2009, net interest income before provision for credit losses was down 26.6% from $254.5 million in 2008 to $186.9 million in 2009 as a result of declining interest rates to historically low levels. Our net interest margin was challenged and declined by 23 basis points from 2.18% to 1.95% on lower average interest earnings assets of $9.6 billion in 2009, down $2 billion compared to $11.6 billion in 2008; the volume variance accounting for approximately two thirds of the decline in net interest income.

Revenue before gains and losses was $233.7 million, compared to $464.4 million in 2008, which was adversely impacted by the increase in the provision for credit losses at $104.9 million, up $101.9 million from $3.0 million the year before, mainly due to the $196.9 million increase in non-accrual loans from $36.5 million in 2008 to $233.4 million in 2009; the increase relating to four corporate clients in Bermuda totalling $167.9 million and increased delinquencies in the residential mortgage book at $17.1 million in 2009 compared to $11.4 million in 2008.

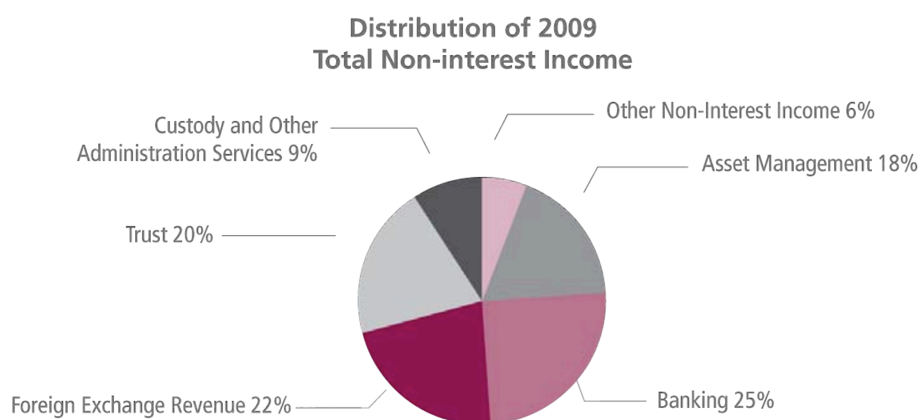
Non-interest income

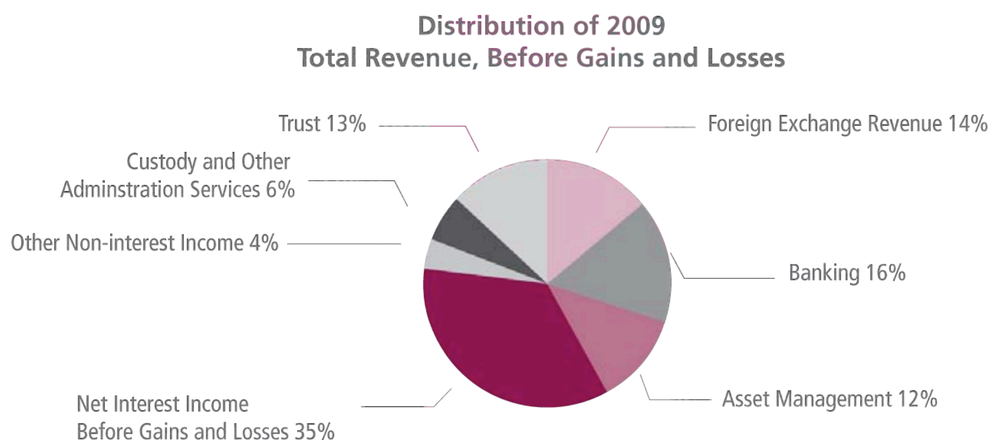
Non-interest income is the function of a number of factors including the composition and value of client assets under management and administration, the volume and nature of clients' transaction activities, and the types of products and services our clients use. Weaker equity markets depress non-interest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

Excluding revenues from investment and pension fund administration in 2008, total non-interest income was down $25.6 million from $177.4 million in 2008 to $151.7 million in 2009 and represents 64.9% of total revenues before gains and losses for 2009, compared to 38.2% in 2008. The increase in the percentage of non-interest income to total revenue from 2008 principally reflects the strength of non-interest income compared to the sensitivity of net interest income to the declining interest rate environment seen in 2009.

The following table presents the components of non-interest income for the years ended 31 December 2009 and 2008:

(in $ thousands)	2009	2008	2009/2008 $ change	2009/2008 % change
Asset management	27,211	41,308	(14,097)	(34.1%)
Banking	37,094	37,562	(468)	(1.2%)
Foreign exchange revenue	34,044	45,475	(11,431)	(25.1%)
Investment and pension fund administration	-	35,583	(35,583)	N/A
Trust	29,894	30,344	(450)	(1.5%)
Custody and other administration services	13,840	18,724	(4,884)	(26.1%)
Other non-interest income	9,622	3,945	5,677	143.9%
Total non-interest income	151,705	212,941	(61,236)	(28.8%)
Total non-interest income excluding fund administration services	151,705	177,358	(25,653)	(14.5%)





Asset management

Asset management revenues are generally based on the market value of assets managed and the volume of transactions and fees for other services rendered. We provide asset management services from our offices in The Bahamas, Bermuda, the Cayman Islands, Guernsey, Switzerland and the United Kingdom. Revenues from asset management were $27.2 million in 2009, down $14.1 million from $41.3 million in 2008; the decrease primarily due to declining asset values and the decision made by Management to approve a decrease in the investment management fee earned on the Butterfield Money Market Funds as a consequence of the sustained low interest rate environment. Fees generated from the Butterfield Money Market Fund ("BMMF") decreased $9.0 million from $15.3 million in 2008 to $6.3 million in 2009. Assets under management declined in total for the Group from $9.1 billion in 2008, to $8.0 billion in 2009, reflecting declines in net asset values mainly due to general global economic conditions and redemptions from the BMMF. The sustained low interest rate environment and stable and rising equity markets seen in the second half of 2009, led investors to seek higher returns in alternative asset classes. The table that follows shows the changes in the year-end values of assets under management ("AUM"), sub-divided between those managed for clients on a discretionary basis and those client funds invested in mutual funds that we manage:

(in $ billions)	2009	2008	2009/2008 $ change	2009/2008 % change
Butterfield Funds	4.21	5.07	(0.86)	(17.0%)
Discretionary	3.80	4.07	(0.27)	(6.6%)
Total assets under management	8.01	9.14	(1.13)	(12.4%)

Banking

Butterfield provides a full range of community, commercial and private banking services in select jurisdictions. Retail and community banking services are offered to individuals and small to medium sized businesses through branch locations and through telephone banking, Internet banking, automated teller machines and debit cards in Bermuda, the Cayman Islands and Barbados, whilst private banking services are offered in The Bahamas, Bermuda, the Cayman Islands, Guernsey and the United Kingdom. Banking fees reflect loan, transaction and processing, and other fees in Bermuda, The Bahamas, the Cayman Islands, Guernsey and the United Kingdom. Banking fees were relatively unchanged in 2009 at $37.1 million, compared to $37.6 million in 2008.

Foreign exchange

We provide foreign exchange services in the normal course of business as an integral part of our business lines out of our banking businesses in The Bahamas, Bermuda, the Cayman Islands, Guernsey and the United Kingdom. The major contributors to foreign exchange revenues are Bermuda and the Cayman Islands, accounting for 74% of the Group's foreign exchange revenue. Foreign exchange income totalling $34.0 million in 2009 is generated from client-driven international cash flows, compared with $45.5 million in 2008; 2008 being a record for the Bank. The $11.4 million decrease in 2009 compared to 2008 reflects declining client volumes and lower volatility in currency prices than seen in 2008. We saw significant declines in volumes from hedge fund clients, as record redemptions forced investment managers to liquidate fund assets to meet client demands for safer asset classes as fear and uncertainty gripped the markets in late 2008 through quarter one of 2009 in response to the global credit crisis. To a lesser extent, the volumes of retail transactions generated from the tourism industry was strained as Bermuda and the Cayman Islands experienced a considerable decrease in stay-over tourism and cruise ship arrivals, which impacted local merchant, hotel and restaurant volumes.

Investment and pension fund administration

This business line was exited in September 2008, following the sale of our fund administration services businesses to the Fulcrum Group. Prior to our sale of the fund administration services businesses, this activity was conducted at our operations in The Bahamas, Bermuda, Canada, the Cayman Islands and Guernsey. As a direct result of this sale,

revenues from this business activity fell from $35.6 million in 2008 to nil in 2009. We retain a 40% equity interest in the Butterfield Fulcrum Group, which we account for based on the equity method of accounting, with the equity in earnings or loss recorded in 'Other non-interest income.'

Trust

We provide both personal and corporate trust services from our operations in The Bahamas, Bermuda, the Cayman Islands, Guernsey, Malta and the United Kingdom. Trust fees are generally based on the market value of client assets under trust and from special assignments and projects at the request of our clients and are generated from the provision of a range of trust, estate, pension administration and employee benefit services. In 2009, trust services revenue, at $29.9 million, was down marginally from $30.3 million in 2008 and represents 19.7% of total non-interest income in 2009, up from 17.1% in 2008 (excluding investment and pension fund administration revenue).

Custody and other administration services

Custody fees are generally based on market values of assets custodied, and the volume of transactions and flat fees for other services rendered. We provide custody services and other administration services from our offices in Bermuda and Guernsey. In 2009, revenues were $13.8 million, compared to $18.7 million in 2008, down $4.9 million. The decrease relates to the decline in the net asset values of assets custodied in Guernsey and Bermuda resulting in fee reductions of $3.0 million and $1.0 million respectively.

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

(in $ billions)	2009	2008	2009/2008 $ change	2009/2008 % change
Custody and other administrative services	33.5	33.8	(0.3)	(0.9%)
Trust	27.2	23.7	3.5	14.8%
Total assets under administration	60.7	57.5	3.2	5.6%

Other non-interest income

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

	Year ended 31 December	
(in $ thousands)	2009	2008
Decrease in carrying value of investments in affiliates	(1,688)	(2,223)
Rental income	2,268	2,141
Fees earned on credit support agreement	4,168	2,038
Transitional service agreement with the Butterfield Fulcrum Group	3,371	922
Other	1,503	1,067
Total non-interest income	9,622	3,945

The $1.7 million reduction in the carrying value of investments in affiliates in 2009 and $2.2 million reduction in 2008 is in respect of our 40% equity interest in the Butterfield Fulcrum Group, as we recorded equity pickup losses of $3.8 million in 2009 and $2.6 million in 2008. As a result, the carrying value is $4.2 million as at 31 December 2009. These losses were offset by an increase of $2.1 million in 2009 (2008: $0.4 million) in the carrying value of our other investments in affiliates principally in Bermuda and the Cayman Islands. Rental income of $2.3 million in 2009, and $2.1 million in 2008, was received on various premises we own in Bermuda that are leased to tenants. Fees earned on the credit support agreement relate to the credit support agreement with the BMMF which ended in September 2009. The BMMF no longer requires credit support from the Bank. The $3.4 million transitional service agreement revenue relates to a $5.4 million deferred gain on the sale of our fund administration services businesses to the Fulcrum

Group in September 2008. The deferred gain was amortised over 12 months, which ended September 2009, in line with termination of the transitional services the Bank was providing to the Butterfield Fulcrum Group, such as information technology and human resource support. Included in the "other" category of $1.5 million in 2009 is a $0.7 million gain on sale of vacant land.

Net interest income before provision for loan losses

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

The following table represents the components of net interest income for the years ended 31 December 2009 and 2008:

	2009			2008		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets						
Cash and deposits with banks	2,163,459	12,660	0.59%	2,563,071	80,519	3.13%
Investments	3,090,202	46,215	1.50%	4,767,027	193,006	4.04%
Loans	4,340,034	211,694	4.88%	4,288,159	264,570	6.15%
Interest earning assets	9,593,695	270,569	2.82%	11,618,257	538,095	4.62%
Other assets	449,067	-	-	495,428	-	-
Total Assets	10,042,761	270,569	2.69%	12,113,685	538,095	4.43%
Liabilities						
Deposits	7,820,070	(68,471)	(0.88%)	9,768,780	(269,668)	(2.75%)
Securities sold under repurchase agreements	33,606	(258)	(0.77%)	-	-	-
Subordinated debt	282,814	(14,933)	(5.28%)	284,859	(13,946)	(4.88%)
Interest bearing liabilities	8,136,490	(83,662)	(1.03%)	10,053,639	(283,614)	(2.81%)
Non interest bearing current accounts	1,037,615	-	-	1,145,869	-	-
Other liabilities	290,630	-	-	285,289	-	-
Total Liabilities	9,464,735	(83,662)	(0.88%)	11,484,797	(283,614)	(2.46%)
Shareholders' Equity	578,026			628,888		
Total Liabilities and Shareholders' Equity	10,042,762			12,113,685		
Spread			1.79%			1.81%
Net Interest Margin		186,907	1.95%		254,481	2.18%

Net interest income before provisions for credit losses declined by 26.6% to $186.9 million in 2009 compared to $254.5 million in 2008, of which 59.0% (2008: 53.1%) was generated in Bermuda and 18.4% (2008: 19.5%) in the Cayman Islands for a combined total of 77.4% (2008: 72.6%). The decrease reflects the decline in average interest earning assets to $9.6 billion in 2009 from $11.6 billion in 2008 as a result of the decrease in average deposits of $2.0 billion. The net interest margin fell by 23 basis points to 1.95% in 2009 from 2.18% in the year before, reflecting the sustained low level of interest rates worldwide, particularly in Bermuda, the United Kingdom and the United States. As a result of the lower interest rate environment, interest earned on non-interest bearing funds of $1.5 billion, declined by an average of 2.5% reducing net interest income by some $38 million and was a major contributor to the decline in the net interest margin as the spread remained consistent with the prior year. Non-interest bearing funds include non-interest bearing current accounts of $1.0 billion and shareholders' equity

of $355 million net of other assets and other liabilities. The reduction in average interest earning assets accounts for $44.2 million of the decrease while the 23 basis point decrease in the net interest margin accounts for the remaining $23.2 million decline. The declining margin is due in part to the strategic decision of management in 2009 to only place excess liquidity on a short-term basis with other banks, primarily overnight, in response to the credit crisis and global economic environment, combined with the compression in the difference between the interest the Bank is able to earn in the market versus the interest paid to customers.

Provision for credit losses

The Bank experienced a significant increase in the level of non-accrual loans. Non-accrual loans totalled $233.4 million at 31 December 2009, up $196.9 million from $36.5 million at 31 December 2008 and represented 5.5% of the total loan portfolio at 31 December 2009, compared to 0.8% in 2008. The predominant increase in non-accrual loans was in Bermuda; the major contributors were five commercial mortgage facilities which accounted for $187.1 million of the $196.9 million increase year-on-year. The other main increase in non-accrual loans was in residential mortgages which increased from $11.4 million to $17.1 million year on year in Bermuda. As a result, provisions in respect of credit losses charged to income were $104.9 million in 2009, compared to $3.0 million in 2008, of which $93.9 million was in respect of four commercial mortgage facilities in Bermuda that encountered financial difficulty.

For many of the jurisdictions in which the Bank operates, tourism and the related hospitality industries are critical drivers to the success of the associated economies. There is a heavy reliance on the direct and indirect economic inflows from the related airline, cruise ships and taxi services as well as hotels, resorts, restaurants and retail sales.

As a result of the global economic recession, which included higher oil prices, international travel was severely curtailed and suffered a significant downturn beginning in June 2008. This declining trend was exacerbated by further economic deterioration in 2009 and the outbreak of the influenza AH1N1 virus. Tourism earnings have suffered as consumers either stayed at home or travelled for shorter periods of time. The outlook for 2010, according to the World Tourism Organisation, indicates an increase for the industry as a whole. However, the pace of such a recovery will be highly dependent on consumer confidence, which in turn is driven by unemployment, house prices and general cost of living considerations. The Bank has on and off-balance sheet credit exposures to the hospitality industry of $135 million and $15 million, respectively, net of $68.2 million specific provisions.

Charge-offs were $4.8 million in 2009 compared to $4.0 million in 2008. Total provisions were $130.3 million at 31 December 2009, up from $28.4 million at 31 December 2008. Of the total provisions, the general provision was $31.7 million and the specific provision was $98.6 million and represents a coverage ratio of 55.8% of non-accrual loans at 31 December 2009, compared to 77.8% at 31 December 2008, the decrease reflecting the five large mortgage facilities mentioned above.

Gains and losses

The following table represents the components of gains and losses for the years ended 31 December 2009 and 2008:

(in $ thousands)	2009	2008	2009/2008 $ change	2009/2008 % change
Net realised / unrealised gains (losses) on trading securities	983	(6,356)	7,339	(115.5%)
Net realised gains on available for sale securities	236	-	236	N/A
Net realised gains (losses) on held to maturity investments	2,298	(22,986)	25,284	(110.0%)
Total other-than-temporary impairments on held to maturity investments	(132,095)	(128,786)	(3,309)	2.6%
Goodwill and intangible assets impairment	(13,266)	(5,220)	(8,046)	154.1%
Gain on sale of subsidiaries	-	115,479	(115,479)	N/A
Net other losses	(5,112)	(61,182)	56,070	(91.6%)
Total gains and losses	(146,956)	(109,051)	(37,905)	34.8%

Gains and losses totalled a net loss of $147.0 million in 2009, compared to a net loss of $109.1 million in 2008. The primary components of gains and losses are as follows:

Gain on sale of subsidiaries and affiliate

In 2008, a gain of $115.5 million was recorded, reflecting the sale of our Fund Services businesses to the Fulcrum Group to form the Butterfield Fulcrum Group in September 2008. We received $133.0 million in cash proceeds from the transaction and a 40% ownership interest in the entity. Our carrying value is now $4.2 million as a result of recording our 40% share of losses during the year. To facilitate the transaction, the Bank provided the Butterfield Fulcrum Group with $65 million in seven-year term debt financing and a $14.5 million three-year revolving credit facility on commercial market terms. There were no sales of subsidiaries in 2009.

Goodwill and intangibles impairment

In 2009, we recognised a $13.3 million goodwill and intangibles impairment charge in respect of Butterfield's investment in its Malta ($2.2 million), Hong Kong ($10.1 million) and Bahamas ($0.9 million) subsidiaries as the carrying value of our investment exceeded the fair value.

We test annually, or as a result of a triggering event, for impairment and, as a result of lower earnings from those originally anticipated, and higher required discount rates in 2009, the fair value fell below our carrying value, resulting in a goodwill impairment charge. In 2008, we fully impaired and recorded a $5.2 million impairment charge on goodwill associated with the investment in our Barbados banking subsidiary.

Realised/unrealised gains (losses) on trading securities

In 2009, a $1.0 million unrealised gain was recorded with respect to trading securities compared to a loss of $6.4 million in 2008, which principally reflects in the carrying value of approximately $11.5 million of 'seed money' invested in various Butterfield mutual funds, such as the Butterfield Canadian Systematic Equity Fund, the Butterfield Select Alternative Fund and the Butterfield Select Investment Fund, resulting in positive performances of those funds as equity markets rebounded from their lows seen in March 2009, which was up 70.1% from March 2009 to the end of the year.

Realised/unrealised losses on held to maturity investments

In 2009, $2.3 million realised gains were recorded reflecting the sale of two securities previously written down to nil but which had recovered a portion of their market values. This compares to a realised loss of $23.0 million recognised in 2008 on one asset-backed security that defaulted and had no expected recovery.

Total other-than-temporary impairments on held to maturity investments

In accordance with, Accounting Standards Codification™ ("ASC") 320 Investments - Debt and Equity Securities - Subsequent Measurement, which became effective 30 June 2009, investments with fair values less than their carrying values are deemed to be impaired. If a security is other-than-temporarily impaired, the carrying value is written down to fair value. We test for other-than-temporary impairment ("OTTI") by calculating the net present value of the expected cash flows using the effective yield on the investment; the economic value. If the economic value is less than the carrying value, the investment is deemed to be other-than-temporarily impaired. The difference between the carrying value and the economic value is recognised through earnings ("credit loss"), while the portion of the marked to market losses attributable to all other factors such as liquidity, is recognised in other comprehensive income, a component of equity. In 2009, a net credit loss of $132.1 million was recorded in earnings on our held to maturity ("HTM") investment portfolio which included $190.9 million gross marked to market loss net of the non-credit loss of $58.8 million recognised in other comprehensive income. This reflects a $111.9 million write-down related to the US residential mortgage-backed market in 2009 compared to $76.4 million in 2008, $10.7 million write-down in respect of structured investment vehicles (2008: $ nil), $6.4 million write-down of collaterised debt obligations (2008: $19.8 million) and $3.1 million write-down of asset-backed securities (2008: $ nil). There were no write-downs of corporate bonds in 2009 (2008: $32.6 million). The asset-backed securities were AAA when purchased but have suffered OTTI, as reflected in subsequent downgrades to non-investment grade ratings, and have therefore been

written down to their economic value. These asset-backed securities remain current as to payments of principal and interest; however, our analysis leads us to believe that it is probable that they will not, at some point in the future, be able to meet their contractual commitments.

Net other gains (losses)

Net other losses of $5.1 million were recorded in 2009 as a result of a $9.0 million write-down of a receivable due from the Bank's charitable foundation and an additional write off of a previously capitalised investment in technology-related costs ($5.2 million). These losses were offset by an unrealised marked to market gain of $6.5 million from our equity holdings in two credit card companies and a $3.3 million gain stemming from a credit support agreement provided by the Bank to the Butterfield Money Market Fund ("BMMF") in order for it to maintain its AAAm (S&P) rating. Credit support to the BMMF is no longer required and ended in the third quarter of 2009. 2008 saw net other losses of $61.2 million principally made up of unrealised losses of $52.3 million stemming from two credit support agreements provided by us to BMMF, and a write-down of $29.2 million on previously capitalised investments in technology, offset by realised and unrealised gains of $12.9 million and $8.7 million, respectively, from investments in two credit card companies.

Non-interest expenses

Reported operating expenses were $300.5 million in 2009, and $347.4 million in the prior year, compared to $312.9 million excluding costs associated with the fund administration businesses ("BFS") in 2008.

Cost control continued to be a key focus of the Bank in 2009 as economic conditions and sustained low interest rate environment challenged the banking business model. Operating expenses decreased by $46.9 million (13.5%) to $300.5 million when compared $347.4 million in 2008 but when excluding the $34.5 million in expenses related to the Fund Services businesses in 2008, expenses were down $12.4 million.

The following table represents the components of non-interest expenses for the years ended 31 December 2009 and 2008 showing the effect of expenses in 2008 including and excluding the costs attributable to the Fund Services businesses which were sold in September 2008 for comparative purposes:

(in $ thousands)	2009	2008 (including BFS)	2008 BFS	2008 (excluding BFS)	2009/2008 $ change
Salaries and other employee benefits	156,839	183,152	20,963	162,189	(5,350)
Technology and communications	50,094	41,149	3,454	37,695	12,399
Property	28,833	32,140	1,569	30,571	(1,738)
Professional and outside services	17,490	34,529	1,372	33,157	(15,667)
Non-income taxes	13,197	15,132	1,302	13,830	(633)
Amortisation of intangible assets	6,258	7,316	-	7,316	(1,058)
Marketing	5,911	7,140	296	6,844	(933)
Other non-interest expenses	21,898	26,887	5,575	21,312	586
Total non-interest expense	300,520	347,445	34,531	312,914	(12,394)

Salaries and other employee benefits

These costs, which are the largest component of non-interest expense representing 52.2% of total operating costs (52.7% in 2008), were $156.8 million for 2009, representing a decline of $5.4 million (3.3%) compared to the $162.2 million recorded in 2008 when excluding Fund Services costs in 2008. The decline is a result of a decrease in the number of employees in 2009 which ended the year at 1,606 compared to 1,692 in 2008 resulting in a decrease of $1.7 million. In addition, a reduction of $3.1 million in performance-related compensation, a $1.2 million reduction in staff recruitment and relocation costs and employment services as management implemented a hiring freeze in 2009, and a $1.0 million reduction in training costs offset by an increase in staff benefits of $1.7 million.

Technology and communications

Technology and communication costs were $50.1 million in 2009, up $12.4 million on the $37.7 million recorded in 2008; the increase primarily as a result of contractual costs associated with our outsourcing agreement with Hewlett Packard (formerly EDS). During the planned two-year transitional phase of our outsourcing arrangement, which began in January 2009, duplicate costs are being incurred as a result of running legacy systems and transitioning to new systems and services, including duplicate software maintenance. We expect that these costs will taper off as we start to attain improvements in operating efficiency and retire legacy systems that are replaced with world class infrastructure and client delivery systems to meet our clients' needs. During 2009, the Bank paid approximately $3.5 million in technology costs associated with Butterfield Fund Services during the transitional period which ended September 2009.

Property

Property costs, which reflect occupancy expenses and building maintenance, decreased by $1.7 million to $28.9 million in 2009 over the $30.6 million recorded in 2008. This reflects a $0.7 million decrease as Bentley Reid Europe companies were merged with the UK operations and a $1.0 million decrease in the Cayman Islands property expenses due to leases being cancelled and a major lease being capitalised during the information technology transformation period.

Professional and outside services

Professional and outside services primarily include consulting, legal and other professional services. In 2009, the expense was $17.5 million, down $15.7 compared to $33.2 million in 2008. The significant decrease primarily reflects a reduction of $14.0 million in consulting and legal costs which were incurred in 2008 in association with our strategic decision to select an information technology partner and the assessment process related to selecting new software and hardware solutions.

Non-income taxes

These taxes reflect non-income related taxes levied on us in the various jurisdictions in which we operate, including those associated with employee-related costs, such as payroll tax, customs duties and business licenses. In 2009, we incurred costs of $13.2 million compared to $13.8 million the year before, with the decrease a result of lower head count and salary costs.

Amortisation of intangible assets

Intangible assets relate mostly to client relationships acquired from business acquisitions and are amortised on a straight-line basis over their estimated useful lives, not exceeding 15 years. Intangible assets estimated lives are re-evaluated annually. The amortisation expense associated with intangible assets was $6.3 million in 2009, compared to $7.3 million in 2008, the decrease principally reflecting the movement of exchange rates year over year ($0.7 million).

Marketing

Marketing costs reflect costs incurred in advertising and promoting our products and services and totalled $5.9 million in 2009, down $0.9 million from 2008 as part of management's focused effort to reduce operating expenses.

Other non-interest expenses

(in $ thousands)	2009	2008 (including BFS)	2008 BFS	2008 excluding BFS	2009/2008 $ change
Custodian & handling	1,967	2,366	-	2,366	(399)
Charitable donations	1,418	1,833	75	1,758	(340)
Insurance	2,895	2,713	204	2,509	386
Stationery & supplies	2,282	2,631	206	2,425	(143)
Other expenses					
Cheque processing	1,682	1,590	8	1,582	100
Credit card processing	2,721	2,359	-	2,359	362
Dues and subscriptions	1,441	735	11	724	717
Registrar and transfer agent fee	1,104	-	-	-	1,104
Agent commission fees	930	2,100	-	2,100	(1,170)
Foreign bank charges	861	801	2	799	62
Directors fees	487	1,452	6	1,446	(959)
Internal Audit cost	435	207	12	195	240
ATM fees	501	493	-	493	8
General expenses	1,423	1,736	48	1,688	(265)
Other	1,751	5,871	5,003	868	883
Total non-interest expenses	21,898	26,887	5,575	21,312	586

The $0.6 million increase in other expenses, from $21.3 million in 2008 to $21.9 million in 2009 was partly a reflection of Management's focus on cost control and also declining were custody and handling costs, as the custody business saw reduced transaction volumes. These decreases were offset by an increase of $1.1 million in other expenses.

Income taxes

In 2009, income tax expenses in our businesses in taxable jurisdictions, namely Barbados, Hong Kong, Guernsey, Malta, Switzerland and the United Kingdom, was a benefit of $0.3 million compared to an expense of $3.0 million in 2008; the decrease reflects a significant investment loss incurred in our UK operations in 2009 resulting in a tax benefit of $0.9 million. This was offset by income tax expenses of $0.1 million (2008: $0.9 million) in Guernsey, $0.2 million (2008 : $0.1 million) in Barbados and $0.1 million (2008: nil) in Malta.

JURISDICTION OVERVIEW

PERFORMANCE BY BUSINESS SEGMENT

Bermuda

Revenue before gains and losses and credit provisions decreased year over year by $64.4 million, or 25.5%, from $252.1 million for the year ended 31 December 2008 to $187.7 million for the year ended 31 December 2009. This reflects declining net interest margins in the community banking segment as a result of historically low interest rates, in conjunction with decreasing non-interest income from the wealth management and fiduciary services segment, partly due to the sale of our fund administration services business in September 2008 which contributed $13.7 million in revenues in 2008, and lower fee revenues as a result of declining assets under management. AUM were $5.5 billion at 31 December 2009, down from $6.8 billion at 31 December 2008, reflecting the net redemptions, while AUA for our trust and custody businesses at 31 December 2009 were $13.0 billion and $19.4 billion, respectively, compared to $11.9 billion and $18.6 billion at 31 December 2008. Credit provisions were $94.3 million in 2009 compared to $1.9 million in 2008 primarily related to specific provisions in respect of hospitality loans. As a result, net income before gains and losses was down $134.6 million to a loss of $86.7 million for the year ended 31 December 2009. Including gains and losses, our Bermuda segment recorded a net loss of $208.4 million. Total assets were $4.6 billion at 31 December 2009, down $845 million from 31 December 2008, reflecting lower levels of customer deposits by fund administration services clients and inter-segment balances.

(in $ thousands)	2009	2008	2009/2008 $ change	2009/2008 % change
Net interest income	**110,376**	135,195	(24,819)	(18.4%)
Provision for credit losses	**(94,334)**	(1,838)	(92,496)	(5032.4%)
Non interest income	**77,285**	116,932	(39,647)	(33.9%)
Revenue before gains and losses	**93,327**	250,289	(156,962)	(62.7%)
Total expenses	**180,015**	202,366	22,351	11.0%
Net income before gains and losses & central allocations	**(86,688)**	47,923	(134,611)	(280.9%)
Net gains and (losses)	**(124,710)**	(160,935)	36,225	(22.5%)
Net loss	**(208,433)**	(104,994)	(103,439)	98.5%
As at 31 December (in $ millions)				
Customer deposits	**3,390**	3,701	(311)	(8.4%)
Loans, net of allowance for credit losses	**2,577**	2,796	(219)	(7.8%)
Total assets	**4,623**	5,468	(845)	(15.5%)
Assets under administration				
Custody and other administration services	**19,400**	18,644	756	4.1%
Trust	**13,038**	11,850	1,188	10.0%
Total assets under administration	**32,438**	30,494	1,944	6.4%
Assets under management				
Butterfield Funds	**3,266**	4,052	(786)	(19.4%)
Other assets under management	**2,238**	2,705	(467)	(17.3%)
Total assets under management	**5,504**	6,757	(1,253)	(18.5%)
Number of employees	**761**	803	(42)	(5.2%)

Barbados

Total revenues before gains and losses were up 2.2% year-over-year, to $13.3 million, for the year ended 31 December 2009, on strong earnings from net interest income. Provision for credit losses increased by $1.9 million compared to 2008 due to the increase in the country risk premium included in the Bank's general provisioning model and are not related to specific loan loss reserves. Net income before gains and losses, and central allocations was $0.3 million, down from $1.5 million a year earlier on increasing expenses as the business invested in a new branch location and other premises upgrades. Total assets were $278 million, up $13 million from 31 December 2008.

(in $ thousands)	2009	2008	2009/2008 $ change	2009/2008 % change
Net interest income	**12,199**	9,644	2,555	26.5%
Provision for credit losses	**(2,164)**	(292)	(1,872)	(641.1%)
Non interest income	**3,232**	3,629	(397)	(10.9%)
Revenue before gains and losses	**13,267**	12,981	286	2.2%
Total expenses	**12,920**	11,522	(1,398)	(12.1%)
Net income before gains and losses & central allocations	**347**	1,459	(1,112)	(76.2%)
Net gains and (losses)	**679**	1,950	(1,271)	(65.2%)
Net income	**1,001**	3,193	(2,192)	(68.7%)

As at 31 December (in $ millions)				
Customer deposits	**245**	232	13	5.6%
Loans, net of allowance for credit losses	**193**	183	10	5.6%
Total assets	**278**	265	13	5.1%
Number of employees	**137**	142	(5)	(3.5%)

Cayman Islands

Net income was $9.5 million for the year ended 31 December 2009, compared to $77.5 million for the year ended 31 December 2008. Included in 2008 was a net gain of $47.6 million consisting of a $77.3 million gain on the sale of the Fund Services business offset by other-than-temporary impairments of held to maturity investments totalling $29.7 million. The remaining decline in net income is attributable to the sustained low US interest rates and credit provisions of $7.8 million primarily related to a hospitality loan. Net interest income was down 30.8%, year-over-year, to $34.4 million, while non-interest income was consistent with prior year, at $34.8 million, when excluding the impact of the sale of our Fund Services business. Total expenses were $50.3 million in 2009, down $11.6 million from $61.9 million in 2008, of which $11.0 million of the decrease relates to the sale of the Fund Services business. Total assets, at $2.6 billion, were down $721 million on a decline in customer deposits, primarily hedge fund client deposits. Client assets under administration, excluding fund administration in 2008, decreased by 6.7%, to $5.0 billion, primarily due to a decline in assets under custody.

(in $ thousands)	2009	2008	2009/2008 $ change	2009/2008 % change
Net interest income	**34,362**	49,626	(15,264)	(30.8%)
Provision for credit losses	**(7,787)**	(639)	(7,148)	(1118.6%)
Non interest income	**34,809**	47,172	(12,363)	(26.2%)
Revenue before gains and losses	**61,384**	96,159	(34,775)	(36.2%)
Total expenses	**50,298**	61,905	11,607	18.7%
Net income before gains and losses	**11,086**	34,254	(23,168)	(67.6%)
Net gains and (losses)	**261**	47,585	(47,324)	(99.5%)
Net income	**9,502**	77,535	(68,033)	(87.7%)
As at 31 December				
(in $ millions)				
Customer deposits	**2,335**	2,994	(659)	(22.0%)
Loans, net of allowance for credit losses	**554**	497	57	11.4%
Total assets	**2,608**	3,329	(721)	(21.7%)
Assets under administration				
Custody and other administration services	**1,221**	1,842	(621)	(33.7%)
Trust	**3,802**	3,542	260	7.3%
Total assets under administration	**5,023**	5,384	(361)	(6.7%)
Assets under management				
Butterfield Funds	**415**	579	(164)	(28.3%)
Other assets under management	**794**	687	107	15.6%
Total assets under management	**1,209**	1,266	(57)	(4.5%)
Number of employees	**326**	332	(6)	(1.8%)

Guernsey

Net income before gains and losses declined by $14.8 million to $4.3 million for the year ended 31 December 2009, of which $2.8 million of the decline related to the weakening US dollar against the Great Britain pound and $3.0 million related to the sale of our Fund Services business. Net interest income, at $11.8 million, was down $10.1 million, or 46.3%, due to a contraction in margins, which was the primary contributor to the decline in core earnings. Non interest income declined $7.6 million from $29.5 million (excluding fund administration revenues of $7.8 million in 2008) to $21.9 million, offset by a decline in total expenses of $10.7 million, of which $5.0 million related to the Fund Services business. Total assets at 31 December 2009 were $1.5 billion (£1.0 billion), up from $1.4 billion (£1.0 billion) at 31 December 2008. Client AUA, excluding investment and pension fund administration, were $18.8 billion at 31 December 2009, up from $17.1 billion. In GBP terms, client AUA was £11.6 billion as at 31 December 2009 down from £11.7 billion at 31 December 2008, reflecting declines in net asset values.

(in $ thousands)	2009	2008	2009/2008 $ change	2009/2008 % change
Net interest income	**11,782**	21,935	(10,153)	(46.3%)
Non interest income	**21,904**	37,270	(15,366)	(41.2%)
Revenue before gains and losses	**33,686**	59,205	(25,519)	(43.1%)
Total expenses	**29,341**	40,044	10,703	26.7%
Net income before gains and losses	**4,345**	19,161	(14,816)	(77.3%)
Net gains and (losses)	**(298)**	131	(429)	(327.5%)
Net income	**3,457**	17,214	(13,757)	(79.9%)
As at 31 December (in $ millions)				
Customer deposits	**1,357**	1,288	69	5.4%
Loans, net of allowance for credit losses	**354**	415	(61)	(14.7%)
Total assets	**1,535**	1,449	86	5.9%
Assets under administration				
Custody and other administration services	**11,680**	12,048	(368)	(3.1%)
Trust	**7,136**	5,069	2,067	40.8%
Total assets under administration	**18,816**	17,117	1,699	9.9%
Assets under management				
Butterfield Funds	**151**	188	(37)	(19.7%)
Other assets under management	**514**	450	64	14.2%
Total assets under management	**665**	638	27	4.2%
Number of employees	**185**	191	(6)	(3.1%)

Hong Kong

The major business lines in Hong Kong are private wealth management, advisory asset management and personal trust. Our Hong Kong segment recorded a net loss of $10.0 million on revenues of $2.6 million for the year ended 31 December 2009, reflecting the write down of goodwill and intangible assets totalling $10.1 million.

(in $ thousands)	2009	2008	2009/2008 $ change	2009/2008 % change
Net interest income	10	36	(26)	(72.2%)
Non interest income	2,633	3,903	(1,270)	(32.5%)
Revenue before gains and losses	2,643	3,939	(1,296)	(32.9%)
Total expenses	2,483	2,280	(203)	(8.9%)
Net income before gains and losses	160	1,659	(1,499)	(90.4%)
Net gains and (losses)	(10,147)	-	(10,147)	N/A
Net (loss) income	(9,987)	1,403	(11,390)	(811.8%)
As at 31 December (in $ millions)				
Total assets	10	9	2	17.8%
Assets under administration - Trust	45	34	11	32.4%
Number of employees	11	10	1	10.0%

Malta

The major business lines in Malta are personal trust and company administration. Butterfield Trust (Malta) Limited recorded a net loss of $2.3 million on revenues of $1.5 million for the year ended 31 December 2009. $2.2 million of the loss relates to the write-down of intangible assets. On a normalised basis, excluding gains and losses and amortisation of intangible assets, Malta recorded net income of $0.4 million compared to $0.6 million the year before. Client AUA were $733 million at 31 December 31 2009, up $20 million or 2.8% from the prior year.

(in $ thousands)	2009	2008	2009/2008 $ change	2009/2008 % change
Net interest income	13	34	(21)	(61.8%)
Non interest income	1,526	1,655	(129)	(7.8%)
Revenue before gains and losses	1,539	1,689	(150)	(8.9%)
Total expenses	1,553	1,355	(198)	(14.6%)
Net income before gains and losses	(14)	334	(348)	(104.2%)
Net gains and (losses)	(2,240)	-	(2,240)	N/A
Net income	(2,254)	218	(2,472)	(1133.9%)
As at 31 December (in $ millions)				
Total assets	3	3	-	(8.7%)
Assets under administration - Trust	733	713	20	2.8%
Number of employees	15	16	(1)	(6.3%)

Switzerland

The major business line in Switzerland is trust and company services established in 2007. Our Swiss trust business continues to build our wealth management offering with a highly specialised, expert service in private wealth structures for both Swiss and international clients. Our Switzerland segment recorded a net loss of $3.0 million on revenues of $0.3 million, consistent with the year ended 31 December 2008. AUA more than doubled from $25 million as at 31 December 2008 to $52 million by year end 2009. The asset management business in Switzerland was closed in 2009.

(in $ thousands)	2009	2008	2009/2008 $ change	2009/2008 % change
Net interest income	4	4	-	0.0%
Non interest income	306	270	36	13.3%
Revenue before gains and losses	310	274	36	13.1%
Total expenses	3,075	3,595	520	14.5%
Net income before gains and losses	(2,765)	(3,321)	556	(16.7%)
Gains and losses	(235)	-	(235)	N/A
Net loss	(3,000)	(3,321)	321	(9.7%)

As at 31 December (in $ millions)				
Total assets	1	1	-	-
Assets under administration - Trust	52	25	27	108.0%
Total assets under management	-	18	(18)	(100.0%)
Number of employees	6	8	(2)	(25.0%)

The Bahamas

A net loss of $0.1 million for the year ended 31 December 2009 was reported, down from a net income of $1.9 million a year ago. A goodwill write-down of $0.9 million was recorded in gains and losses as a result of our annual impairment testing. Net income before gains and losses was $1.0 million in 2009 compared to $2.4 million recorded in 2008. The decrease reflecting the sale of our Fund Services business and declining net interest margins. As a result of the sale of our fund services business and declining net interest margins, total revenues fell year-over-year by 28.7%, to $7.9 million from $11.1 million the year before. At 31 December 2009, total assets were $166 million, compared to $155 million at 31 December 2008, while client AUA were $2.4 billion, unchanged from last year, excluding fund administration.

(in $ thousands)	2009	2008	2009/2008 $ change	2009/2008 % change
Net interest income	**2,610**	3,600	(990)	(27.5%)
Non interest income	**5,332**	7,534	(2,202)	(29.2%)
Revenue before gains and losses	**7,942**	11,134	(3,192)	(28.7%)
Total expenses	**7,016**	8,779	1,763	20.1%
Net income before gains and losses	**926**	2,355	(1,429)	(60.7%)
Gains and losses	**(885)**	-	(885)	N/A
Net income	**(119)**	1,919	(2,038)	(106.2%)

As at 31 December (in $ millions)				
Customer deposits	**133**	117	16	13.7%
Loans, net of allowance for credit losses	**76**	71	5	6.8%
Total assets	**166**	155	11	7.2%
Assets under administration - Trust	**2,394**	2,349	45	1.9%
Assets under management	**86**	46	40	87.0%
Number of employees	**54**	60	(6)	(10.0%)

United Kingdom

A net loss of $3.6 million was recorded for the year ended 31 December 2009, compared to net income of $11.7 million for the year ended 31 December 2008. But when excluding gains and losses, net income was $6.1 million in 2009, down from $10.1 million the year before. Total revenues before gains and losses were $25.4 million (£16.2 million), down $13.7 million from $39.1 million (£21.2 million) principally reflecting the strengthening of the Great Britain pound against the US dollar and a $12.5 million (£5.3 million) decline in net interest income. At 31 December 2009, total assets were $1.3 billion (£0.8 billion), unchanged from prior year. AUM totalled $0.6 billion (£0.3 billion) at 31 December 2009, compared to $0.4 billion (£0.3 billion) at 31 December 2008, while client AUA were $1.2 billion (£0.7 billion) at 31 December 2009, compared to $1.2 billion (£0.8 billion) at 31 December 2008.

(in $ thousands)	2009	2008	2009/2008 $ change	2009/2008 % change
Net interest income	**15,173**	27,641	(12,468)	(45.1%)
Provision for credit losses	**(594)**	(276)	(318)	(115.2%)
Non interest income	**10,847**	11,768	(921)	(7.8%)
Revenue before gains and losses	**25,426**	39,133	(13,707)	(35.0%)
Total expenses	**19,280**	29,067	9,787	33.7%
Net income before gains and losses	**6,146**	10,066	(3,920)	(38.9%)
Gains and losses	**(9,381)**	2,218	(11,599)	(522.9%)
Net income	**(3,580)**	11,672	(15,252)	(130.7%)
As at 31 December (in $ millions)				
Customer deposits	**1,116**	1,075	41	3.8%
Loans, net of allowance for credit losses	**529**	511	18	3.5%
Total assets	**1,295**	1,322	(26)	(2.0%)
Assets under administration - Custody	**1,153**	1,237	(84)	(6.8%)
Assets under management				
Butterfield Funds	**289**	208	81	38.9%
Other assets under management	**265**	208	57	-
Total assets under management	**554**	416	138	33.2%
Number of employees	**112**	129	(17)	(13.2%)

CONSOLIDATED BALANCE SHEET AND DISCUSSION

The following table shows the Balance Sheet as reported as at 31 December 2008 and 31 December 2009. Also included is the 31 December 2009 pro-forma impact of the capital raise fully described in the "Capital Management" section following the Balance Sheet discussion:

(in $ thousands)	2008	2009	2009PF
Assets			
Cash and deposits with banks	2,221,390	1,986,798	**2,506,798**
Investments	3,824,079	2,935,208	**2,785,208**
Loans, net of allowance for credit losses	4,418,277	4,218,332	**4,218,332**
Premises, equipment and computer software	197,155	244,242	**244,242**
Other assets	250,943	210,022	**210,022**
Total assets	10,911,844	9,594,602	**9,964,602**
Liabilities			
Total deposits	9,801,269	8,696,619	**8,696,619**
Total other liabilities	309,839	259,438	**259,438**
Subordinated capital	282,296	283,085	**283,085**
Total liabilities	10,393,404	9,239,142	**9,239,142**
Preferred equity *	-	200,000	**200,000**
Common equity	518,440	155,460	**525,460**
Total shareholders' equity	518,440	355,460	**725,460**
Total liabilities and shareholders' equity	10,911,844	9,594,602	**9,964,602**
Capital Ratios			
Risk weighted assets	6,200.0	5,734.1	**5,858.9**
Tangible common equity (TCE)	446,826	88,619	**458,619**
Tangible assets (TA)	10,840,230	9,527,761	**9,897,761**
TCE/TA	4.1%	0.9%	**4.6%**
Tier 1 common ratio	7.5%	3.7%	**10.1%**
Tier 1 ratio	7.5%	7.2%	**13.5%**
Total capital ratio	11.2%	10.1%	**18.7%**

* Preferred shares shown at liquidation preference

The following are included in the pro-forma Balance Sheet:

- $550 million capital raise
- $30 million transaction costs
- $150 million potential investment losses

Total assets were $9.6 billion as at 31 December 2009, down from $10.9 billion as at 31 December 2008. Of this total, $4.1 billion was in cash and deposits with banks and high quality available for sale securities as at 31 December 2009, compared to $2.8 billion the year end before. Average interest earning assets were down from $11.6 billion in 2008 to $9.6 billion in 2009. This decrease reflects the decline in the customer deposit base from historically high levels, down year on year by $1.1 billion from 31 December 2008 to 31 December 2009. The decline in deposits is primarily linked to hedge fund clients who have seen record redemptions in response to the credit crisis.

Cash and deposits with banks

The Bank only places deposits with highly rated institutions and ensures there is appropriate geographic diversification to exposures. Limits are set for aggregate geographic exposures and for each institution approved by our Credit Risk division and are monitored for compliance with policy. As at 31 December 2009, cash and deposits with banks was $2.0 billion compared to $2.2 billion as at 31 December 2008.

Investments

Total investments decreased by $0.9 billion compared to 2008 ending the 2009 year at $2.9 billion compared to the prior year-end balance of $3.8 billion.

Our investment policies require management to maintain a portfolio of securities which will provide liquidity necessary to facilitate the funding of loans and to cover deposit fluctuations, and to mitigate our overall balance sheet exposure to interest rate risk, whilst at the same time achieving a satisfactory return on the funds invested. The securities in which we may invest are generally limited to securities that are considered investment grade. Securities in our investment portfolio are accounted for under US GAAP as either trading, available for sale or held to maturity. Investment decisions are governed by The Group Investment Committee which supports the functions and programmes that identify, assess, prioritise and manage investment risks that are assumed by Butterfield and all investment risks assumed by Butterfield Money Market Fund Limited.

Trading securities, consisting of holdings of non-US government securities, corporate equities and seed money invested in mutual funds managed by us, totalled $29.3 million at year-end 2009, compared to $48.3 million at year-end 2008. The $19.0 million decline primarily reflects redemptions by the Bank in Butterfield Funds as certain Funds no longer require seed money.

Available for sale ("AFS") securities totalled $2.1 billion at year-end 2009, compared to $580 million in 2008; the increase reflecting the transfer of $986 million of held to maturity ("HTM") securities to AFS securities and the employment of excess liquidity in this category. The transfer from HTM to AFS was effected in order to meet the Bermuda Monetary Authority's (BMA) requirement for banks to hold an additional capital and liquidity buffer to withstand a 1-in-100-year severe economic downturn as a proactive, precautionary measure. AFS securities principally consist of holdings of certificates of deposit issued by highly-rated banking institutions, which had a carrying value of $1.0 billion at year-end 2009 ($567 million in 2008). As a result of the transfer from HTM to AFS, also included are $66.1 million (nil in 2008) in US government and federal agency securities, $70.7 million (nil in 2008) in collateralised mortgage obligations, $542 million (nil in 2008) in corporate debt securities and $336 million (nil in 2008) in other, primarily asset-backed securities.

Held to maturity ("HTM") investments were $839 million as at 31 December 2009 compared to $3.2 billion the year before and represent 29% of our investment portfolio in 2009 compared to 84% in 2008. The decrease in the HTM portfolio reflects maturities of $909 million, the transfer of $986 million of investments from the HTM portfolio to the AFS portfolio, the transfer of $316 million of short-dated (less than 3 months to maturity) bank certificates of deposit from HTM to AFS for liquidity management, the write down of $190 million other-than-temporarily impaired securities, and an increase of $44 million related to foreign exchange fluctuations and amortisation.

As at 31 December 2009, investments in mortgage-backed securities had a carrying value of $329.9 million, down from $524.3 million the previous year, with a fair value of $260.4 million as at the year ended 2009, compared to $314.5 million in 2008. These assets represented 11.3% of total investments in 2009, down from 13.7% in 2008. Other asset-backed securities, CDOs, CLOs and SIVs had a carrying value of $680.8 million ($750.3 million in 2008), with a fair value of $605.9 million ($601.8 million in 2008), and represented 23.2% (19.6% in 2008) of investments. As at 31 December 2009, 92.6 % (95.3 % in 2008) of our total investments remained in investment grade securities (i.e., rated ' BBB ' or higher).

Continued instability (although somewhat improved during 2009) in the markets for mortgage-backed and asset-backed securities has adversely affected the liquidity of these markets and thereby made it difficult to obtain market quotations on many of these securities, thereby requiring significant management judgment

to determine appropriate fair values. Our review indicates that the expected cash flows of our remaining non-other-than-temporarily impaired (non-OTTI) holdings of residential mortgaged-backed securities continue to be in accordance with contractual terms.

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

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

Assumptions

The majority of the Bank's investments are originated from the US, while the remainder is principally originated from the UK. When estimating cash flows, Management expects recessionary levels for US and UK gross domestic product ("GDP") and unemployment during this economic cycle. In the US, Management expects that real GDP will grow (decline) by (2.5%) in 2009 and 2.3% in 2010, median home prices will experience peak-to-trough decline of 34%, with a turnaround in early 2011, the Federal Funds rate will end 2009 at 0.1% and 2010 at 0.9%, whilst unemployment will peak at 10.6% in late 2010. In the UK, Management expects that real GDP will grow (decline) by (4.8%) in 2009 and 1.3% in 2010, median home prices will experience peak-to-trough decline of 25%, with a turnaround after late 2010, the Funds rate will end 2009 at 0.5% and 2010 at 1.0%, whilst unemployment will peak at 8.8% in early 2010. Results, which are based on models using the above assumptions, will change as these assumptions become more or less pessimistic.

Loans

The loan portfolio stood at $4.2 billion at 31 December 2009, down $0.2 billion from $4.4 billion the year before, as loan demand tapered off with slower economic conditions in all the jurisdictions in which we operate. At 31 December 2009, the loan portfolio represented 44.0% of total assets, compared to 40.5% at 31 December 2008, whilst loans as a percentage of customer deposits was 49.2%, compared to 47.0% at 31 December 2008. During 2009, the Bank concluded a non-monetary loan restructuring transaction in which the Bank accepted real estate in settlement of a loan balance receivable from a non-related party by $21.1 million. The real estate has been added to Premises, Equipment and Computer Software as an operating long-term asset of the Bank.

Loans and other extensions of credit

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

Commercial and industrial

The commercial and industrial loan portfolio includes loans to businesses, other than financial institutions, that are not primarily collateralised by mortgages on commercial real estate. Loan repayment is expected to flow from the operation of the underlying businesses.

Commercial real estate

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

Construction loans provide financing for the initial phases of the acquisition or development of commercial real estate, with the intent that the borrower will refinance the loan or sell the project upon its completion. These interim loans are primarily in those markets where we have a strong presence and a thorough knowledge of the local economy, particularly in Bermuda. These loans totalled $16 million at 31 December 2009 compared to $203 million the prior year end, as construction projects have completed during 2009 and transferred to commercial mortgages.

Commercial mortgage financing, which totalled $1.0 billion at 31 December 2009, is provided for the acquisition or refinancing of income-producing properties. Cash flows from the properties, primarily from rental income, generally are sufficient to service the loan. These loans are primarily located in Bermuda and in the United Kingdom.

Residential real estate

The residential real estate loan portfolio is primarily composed of mortgages to clients with whom we are seeking to establish, or already have, a comprehensive financial services relationship. At 31 December 2009, residential real estate loans totalled $1.9 billion of which $1.2 billion, or 66.8%, were in Bermuda and the remainder distributed throughout our other banking operations. At 31 December 2008, residential real estate loans totalled $1.7 billion, or 39.3%, of total loans. All mortgages were underwritten utilising our stringent credit standards. Residential real estate loans consist of conventional home mortgages and equity credit lines.

Other loan portfolios

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

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

See "Note 5: Loans & Note 6: Credit Risk Concentration" in the 31 December 2009 audited financial statements for additional tables and information.

	Year ended 31 December 2009					
	Floating Rate		Fixed rate		Total	
	Net Carrying Value	Average maturity in years	Net Carrying Value	Average maturity in years	Net Carrying Value	Average maturity in years
Commercial loans						
Financial institutions	161	0.01			161	0.01
Government	40,823	3.27			40,823	3.27
Commercial real estate						
Commercial mortgage	795,066	4.24	159,643	9.35	954,709	5.09
Construction	16,101	5.82			16,101	5.82
Commercial and industrial						
Loans	775,562	3.73	41,463	0.78	817,025	3.58
Overdrafts	115,472	0.06			115,472	0.06
Total commercial loans	1,743,185	3.76	201,106	7.58	1,944,291	4.16
Consumer loans						
Automobile financing	15,813	4.10	42,043	3.39	57,856	3.58
Credit card	12,416	0.1	69,876	0.00	82,292	0.1
Mortgages	1,648,193	14.70	215,624	23.53	1,863,817	15.72
Overdrafts	8,781	0.22			8,781	0.22
Other consumer	223,172	2.67	69,858	5.12	293,030	3.26
Total consumer loans	1,908,375	13.25	397,401	14.02	2,305,776	13.38
Total gross loans	3,651,560	8.72	598,507	11.86	4,250,067	9.17
Less general provision for credit losses	(31,735)				(31,735)	
Total net loans	3,619,825	8.72	598,507	11.86	4,218,332	9.17

Deposits

Deposits are our principal funding source for use in lending, investments and liquidity. Total customer deposits were $8.6 billion as at 31 December 2009, an 8.8% decrease over the same period in 2008. Demand deposits, which include chequing accounts, both interest and non-interest bearing, savings and call accounts, totalled $5.7 billion, or 66.5% of total customer deposits at year-end 2009, compared to $6.0 billion, or 63.3%, at year-end 2008. Because of the declines in interest rates across the major world currencies, notably the US dollar and Great Britain pound, plus lower levels of interest rates in Bermuda, customers have preferred to place deposits on a demand basis rather than a term basis given limited yield opportunities in longer duration products in the low interest rate environment.

See "Note 9: Customer Deposits and Deposits from Banks" in the 31 December 2009 audited financial statements for additional tables and information.

Borrowings

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

We do not have committed funding lines from other banks but we are able to source funding on an uncommitted basis from a number of major banks, including our principal correspondent banks. We use funding from the inter-bank market as part of our interest rate and liquidity management. At 31 December 2009, deposits from banks totalled $118.7 million compared to $395.1 million at 31 December 2008.

Subordinated debt, interest payments and maturities

We have outstanding issuances of subordinated debt with a carrying value of $283.1 million as at 31 December 2009, of which $275 million is issued in US dollars and £5 million in Great Britain pounds. All outstanding subordinated debt is eligible for inclusion in our Tier II regulatory capital base and is limited to 50% of Tier I capital.

See "Note 17: Subordinated Capital" in the 31 December 2009 audited financial statements for additional tables and information.

Repurchase agreements

We also obtain funds from time to time from the sale of securities to institutional investors under repurchase agreements. In a repurchase agreement transaction, we will generally sell an investment security, agreeing to repurchase either the same or a substantially identical security on a specified later date, generally not more than 90 days, at a price slightly greater than the original sales price. The difference in the sale price and repurchase price is the cost of the use of the proceeds, or interest expense. The investment securities underlying these agreements may be delivered to securities dealers who arrange such transactions as collateral for the repurchase obligation. Repurchase agreements represent a cost competitive funding source for us. However, we are subject to the risk that the borrower of the securities may default at maturity and not return the collateral. In order to minimise this potential risk when entering into such transactions, we generally deal with large, established investment brokerage firms with whom we have 'Master Repurchase' agreements. Repurchase transactions are accounted for as financing arrangements rather than as sales of such securities, and the obligation to repurchase such securities is reflected as a liability in our Consolidated Financial Statements. No repurchase agreements had been entered into as at year-ends 2009 and 2008.

Capital management

One of Management's primary objectives is to maintain the confidence of our clients, the investing public, bank regulators and shareholders.

We are subject to the framework for risk-based capital adequacy, sometimes referred to as Basel II, which was developed by the Basel Committee on Banking Supervision (the "Basel Committee") and has been endorsed by the central bank governors and heads of bank supervision of the G10 countries. In December 2008, the Bermuda Monetary Authority (BMA) published final rules, effective 1 January 2009, with respect to the implementation of the Basel II framework, the latest agreed version of which was released by the Basel Committee in November 2005. Previously, we were subject to the Basel I framework for risk-based capital adequacy. On 6 March 2009, the BMA announced that it required all banks in Bermuda to maintain a capital buffer such that they would be able to withstand a severe economic downturn (a 1-in-100-year event) and still maintain a Tier 1 capital ratio of at least 6%. The Tier 1 capital ratio is calculated by dividing Tier 1 capital by total risk weighted assets, where risk weighted assets is calculated by assigning a risk weight to each asset and exposure. All of Bermuda's banks have now agreed with the BMA on the necessary levels of capital required to meet the stress test capital buffer and, where necessary, are executing plans to ensure that additional capital is provided.

We manage our capital both on a total group basis and, where appropriate, on a legal entity basis. The Finance department has the day-to-day responsibility for measuring and managing capital levels within guidelines and limits established by the Risk Policy & Compliance Committee of the Board. The management of capital will also involve regional management when appropriate. In establishing the guidelines and limits for capital, a variety of factors are taken into consideration, including the overall risk of the business, regulatory requirements, capital levels relative to our peers, and the impact on our credit ratings.

Capital raise and capital position

On 2 March 2010, the Bank announced the issuance to certain new investors (the "New Investors") of 144.8 million common shares of par value $1 per share, for a consideration of $175 million and the issuance of 375,000

mandatorily convertible preference shares of par value $0.01 per share, for a consideration of $375 million. The net proceeds to the Bank from both issuances, net of transaction costs, is expected to be approximately $520.0 million. On a pro-forma basis as at 31 December 2009, the issuance of the common and mandatorily convertible preference shares would increase Butterfield Group's Tier 1 regulatory capital ratio to 13.5% and its total regulatory capital ratio to 18.7%. Both these ratios exceed the minimum regulatory capital requirements as prescribed by the BMA.

Upon appropriate shareholders' approvals, the Bank intends to commence a Rights Offering (the "Offering") to existing common shareholders of the Bank, excluding individuals in the US and the New Investors and mandatorily convertible preference shares issued on 2 March 2010. Each right will entitle the holder thereof to subscribe for their pro rata portion of the total of common shares and mandatorily convertible preference shares. The maximum amount of the Offering will be $130 million. The use of the Offering net proceeds will be to repurchase shares from the New Investors at the same price at which the New Investors originally purchased the shares.

Following the share issuance, the Bank may restructure its investment portfolios in the quarter ending 31 March 2010. Consequently, the Bank may no longer be able to assert that it will retain the held to maturity investments until recovery of their amortised cost and the securities would be reclassified to available for sale. Should such a change occur, total losses, including previously unrecognised losses on the held to maturity investments, of approximately $150 to $175 million may be recognised in the quarter ending 31 March 2010. It is anticipated that the majority of such losses may be realised through earnings as securities are sold to restructure the portfolio.

As at 31 December 2009, the Bank's consolidated Tier 1 and total regulatory capital ratios were 7.2% and 10.1%, respectively. As at 31 December 2009, the Bank is in compliance with the BMA prescribed minimum Tier 1 regulatory capital ratio of 6% and is not in compliance with the Individual Capital Guidelines (ICG) prescribed by the BMA for Bank's total regulatory capital requirement. As described above, on a pro-forma basis as at 31 December 2009, the issuance of the common and mandatorily convertible preference shares would increase Butterfield Group's Tier 1 regulatory capital ratio to 13.5% and its total regulatory capital ratio to 18.7%. Both these ratios exceed the minimum regulatory capital requirements as prescribed by the BMA.

The following table sets forth our capital adequacy position for the year ended 2009 as reported and the pro-forma 31 December 2009 position in accordance with Basel II framework and the 2008 year end position as calculated in accordance with the Basel I framework:

(in $ thousands)	Year ended 31 December 2008*	2009	2009PF
Tier 1 capital	463,468	412,670	782,670
Tier 2 capital	256,673	238,069	314,819
Deductions	(26,465)	(73,532)	(16,932)
Total capital	693,676	577,207	1,080,557
Weighted Risk Assets			
(In $ thousands)			
Cash and inter-bank placements	429,371	397,263	501,263
Investments	1,587,976	1,289,537	1,242,837
Loans	3,415,452	2,744,306	2,744,306
Other assets	316,780	362,638	362,638
Off-balance sheet items	450,384	313,207	313,207
Operational risk charge	-	627,145	627,145
Total weighted risk assets	6,199,963	5,734,096	5,791,396
Capital Ratios (%)			
Tier 1 common	7.5%	3.7%	10.1%
Tier 1 total	7.5%	7.2%	13.5%
Total capital	11.2%	10.1%	18.7%

* Based on Basel I framework

Shareholders' equity

In 2009, our shareholders' equity decreased $162.9 million to $355.5 million at 31 December 2009, from $518.4 million at 31 December 2008; the decrease primarily reflecting net loss for the year of $213.4 million, cash dividends declared and guarantee fee of $20.6 million, net transfers of treasury Common Shares of $48.0 million and changes in other comprehensive income of $122.8 million representing

- changes in the translation of foreign operations mainly due to the decline of the Great Britain pound of $4.3 million,
- changes in unrealised gains and loss on available for sale securities of $54.5 million, which primarily reflects a $36.6 million loss from the SIV purchased from the BMMF and net unrealised loss of $20.1 million from the transfer of securities from the HTM to the AFS portfolios.
- net change in non-credit OTTI on held to maturity securities of $58.6 million which primarily includes $30.9 million related to a SIV and $11.8 million related to a commercial asset-backed security.
- changes in employee future benefits, due to changes in actuarial assumptions, of $14.1 million including $11.2 million actuarial loss on the post retirement medical benefit plan resulting mainly from the change in the medical cost trend rates.

Weighted risk assets declined year-on-year by 9.2% to $5.7 billion at 31 December 2009. The measurement of risk weighted assets differs significantly under Basel II and so the stated figures for 31 December 2009 are not directly comparable with those for 31 December 2008. For example, under Basel II retail mortgages that are considered to be secured and not past due are weighted at 35%; under Basel I the same mortgages are weighted at 50%.

The loan to the Stock Option Trust of $34.7 million is in respect of potential obligations under our Stock Option Plan and is deducted from our shareholders' equity as treasury shares. The decrease,

year-over-year, of $48.1 million principally reflects the use of treasury shares for $37.8 million of stock dividends declared and $9.0 million from the Dividend Reinvestment Programme.

We did not purchase common shares under the Share Repurchase Programme during the year ended 31 December 2009, compared to 2,562,997 common shares purchased and held as treasury shares at a cost of $38.3 million during the year ended 31 December 2008.

Preference shares

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

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

Regulatory capital

New capital adequacy rules came into force in Bermuda from the 1 January 2009 following the implementation of Basel II, which was developed by the Basel Committee on Banking Supervision (the "Basel Committee"). From this date the Bank adopted Pillar 1 standardised approach to credit and operational risk; it also became subject to Pillar 2 (Supervisory Review and Assessment) and Pillar 3 (Disclosure) from that date. Under the requirements of Pillar 2 of the Basel II framework, the Bank conducts an internal Capital Assessment and Risk Profile (CARP) at least annually. The CARP is used by the BMA to determine and set the Individual Capital Guidance (ICG) for each Bermuda bank.

As at 31 December 2009, the Bank's consolidated Tier 1 and total regulatory capital ratios are 7.2% and 10.1%, respectively. Including the successful capital raise noted above and the $150 million projected losses in the investment portfolio in the first quarter of 2010, on a pro-forma basis as at 31 December 2009, the issuance of the common and mandatorily convertible preference shares would increase Butterfield Group's Tier 1 regulatory capital ratio to 13.5% and its total regulatory capital ratio to 18.7%. Both these ratios bring the Bank's capital position back into compliance from year-end levels and indeed

provide a comfortable buffer between the minimum regulatory capital requirements as prescribed by the BMA.

Dividends

In 2009, dividends declared on common shares were $0.24 per share, comprising of $0.12 in cash and $0.12 in bonus common shares, down from $0.56 per share in 2008. The dividend paid to shareholders in 2009 was $14.9 million, down 74.1% from the previous year in order to conserve capital. The Board of Directors has determined that there will not be a common dividend declared in the fourth quarter of 2009. There were two preference share dividends paid in 2009 of $7.1 million in total. The Board of Directors has declared a quarterly preference share dividend based on the fixed rate of 8% per annum on the liquidation preference payable on 15 March 2010 to shareholders of record on 1 March 2010.

Cash flow

For the year ended 31 December 2009, net cash provided by operating activities totalled $58.0 million. Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income. Cash provided by operating activities decreased $191.6 million from 2008 to 2009 principally reflecting the lower earnings power in 2009, hindered by low interest rates and lower non-interest income.

Net cash provided by investing activities for the year ending 31 December 2009 totalled $1,073 million compared to $179.7 million at 31 December 2008. Our investing activities include capital expenditures, loan activities, investment activities, and divesture and acquisition activities. We do not own, directly or indirectly, any shares of stock or any other equity interest or long-term debt securities of any company, corporation, firm, partnership, joint venture, association or other entity, except pursuant to ordinary course investment activities or as a result of ordinary course loan work-outs. The $893.1 million increase in 2009 over 2008 in cash provided by (used in) investing activities was mainly due to a $908.7 million net cash provided from the maturities of held to maturity investments, $276.7 million decrease in term deposits with banks and $156.7 million decrease in loans offset by $209.4 million net increase in purchases of available for sale securities.

Net cash used in financing activities totalled $1,150 million in 2009 compared to $117.4 million in 2008. The $1,032 million increase was primarily due to the $1,317 million decrease in customer deposits offset by the $200 million issuance of preference shares.

OFF BALANCE SHEET ARRANGEMENTS

Assets under administration and assets under management

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

Credit-related arrangements

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

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

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

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

	Year ended 31 December 2009		
	Gross	Collateral	Net
Standby letters of credit	352,016	322,582	29,434
Letters of guarantee	19,601	15,135	4,466
Total	371,617	337,717	33,900

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

Contractual obligations (including subordinated debt)

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

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

We enter into other contractual obligations in the normal course of business. Certain of these

obligations, such as subordinated debt, are recorded as liabilities in our Consolidated Balance Sheet. Other items, such as sourcing agreements, operating leases and other purchase contracts, are not required to be recorded on the Balance Sheet. Expected cash payments associated with subordinated debt are based on principal payment dates. See “Note to Consolidated Financial Statements—Note 17: Subordinated Capital” for terms of subordinated debt arrangements and interest rates.

The $142.9 million contractual obligation in respect of sourcing—Bermuda and the Cayman Islands—relates to an agreement with global technology service provider Hewlett Packard (previously EDS) to supply technology infrastructure and application development management, information security and technical support for our locations in Bermuda and the Cayman Islands. With HP, we have commenced the process of transitioning all our business applications and legacy systems in these locations to a new, common platform that will be centrally managed. Under our agreement with HP, server management and maintenance, technology field support, application support and development and help desk functions will be managed by HP. In addition, HP will manage the installation of and conversion to a new, common core banking system in Bermuda and the Cayman Islands. The transition of functional responsibility for information technology management and support and the implementation of a new core banking system are expected to be largely completed in the Cayman Islands by the end of the second quarter of 2010, and in Bermuda by the end of the third quarter in 2010. Under the agreement, we have the option to expand HP’s service to our other locations, subject to agreement on an expansion plan and fees.

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

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

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

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

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

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

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

The Group Risk Committee consists of eleven executives and is chaired by the President and Chief Executive Officer who serves in an advisory capacity to the Risk Policy & Compliance Committee. The Group Risk Committee ensures that Butterfield develops and maintains Group-wide risk management strategies based on an integrated view of credit, market, liquidity, compliance, operational, interest rate, investment, capital and reputational risks. The Committee ensures that risk owners effectively and efficiently manage exposures across all product and support activities and assume risk exposures that are consistent with the Bank's risk appetite and tolerances. These Committees regularly review reports from the Head of Group Compliance related to the Anti-Money Laundering/Anti-Terrorist Financing activities of the Group. Additionally, the Committee develops and proposes to the President and Chief Executive Officer strategies for the effective management of risk-based capital under Basel II.

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

The Financial Institutions Committee, chaired by the Executive Vice President, Corporate Development, identifies, assesses, prioritises and manages our risks associated with counterparty exposure to other financial institutions, as well as country-specific exposures.

The Investment Committee is chaired by the Chief Risk Officer and supports the functions and programmes that identify, assess, prioritise and manage investment risks we assume. We also monitor our compliance with both risk-related regulatory requirements and with our internal risk management policies and standards.

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

Interest rate, foreign exchange rate and market risk

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

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

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

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

The principal objective of our interest rate risk management is to maintain the appropriate balance between profit potential and our vulnerability to changes in interest rates by means of managing the ratio of interest rate sensitive assets to interest rate sensitive liabilities within specified maturities or repricing dates. Our actions in this regard are taken under the guidance of the ALCO, which is comprised of members of senior management. The committee is actively involved in formulating the economic assumptions that we use in our financial planning and budgeting processes and establishes policies which control and monitor the sources, uses and pricing of funds. We may utilise hedging techniques to reduce interest rate risk. ALCO uses both interest rate "gap" sensitivity and

interest income simulation analysis to measure inherent risk in our balance sheets at specific points in time. See "Note to Consolidated Financial Statements—Note 16: Interest Rate Risk" for our interest rate sensitivity gap profile.

Liquidity

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

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

ALCO is responsible for establishing and monitoring liquidity targets as well as strategies to meet these targets. We maintain a balance sheet with loans representing only 44.0% of total assets as at 31 December 2009. Further, at 31 December 2009, there were significant sources of liquidity within our Balance Sheet in the form of cash, and cash equivalents and securities available-for-sale, which amounted to $4.1 billion, or 42.3%, of total assets as compared to $2.8 billion, or 25.7% of total assets at 31 December 2008.

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

There is no central bank in Bermuda and thus we have no 'lender of last resort' and neither do we have committed standby facilities in our favour. We do have access to funding from the inter-bank market on an uncommitted basis and also have put in place formalised 'Repo' facilities with counterparties which enable us to access funding on a secured basis. However, in a financial crisis, our access to these liquidity sources may be restricted or we may not be able to access these sources at all. Another source of liquidity for us is the ability to draw funding from capital markets globally. The availability and cost of these funds are influenced by our credit rating; as a result, a downgrade in our credit ratings could have an adverse impact on our liquidity. Similarly, a downgrade in Bermuda's sovereign credit rating could also adversely affect our ability to access liquidity because, historically, our ratings have been closely linked to those of Bermuda.

On 2 March 2010, Standard and Poors ('S&P') affirmed it's 'A-/A-2' counterparty credit ratings on the Bank and left the outlook as 'Negative". The negative outlook reflects S&P's concern that credit quality could experience further deterioration and operating performance could remain weak over the next couple of years given the difficult economic environment. However, they also stated that the ratings could be raised if financial performance improves. On 2 March 2010, Moody's affirmed Prime-1 short-term deposit rating but downgraded the long-term deposit and debt ratings of the Bank to A2 and A3 from A1 and A2 respectively. The outlook was changed from "Stable" to "Negative" reflecting the large investment and credit losses and new share ownership. On 2 March 2010 Fitch affirmed the Bank's long-term issuer default rating ('IDR') at 'A-'and short term IDR at F1 and the outlook was left at "Stable". Fitch also affirmed the Bank's long and short term deposits, subordinated debt and preferred stock ratings. Our credit ratings are provided in the table below:

	Credit ratings		
	Standard & Poor's	Moody's	Fitch
Short term deposits	A-2	P-1	F1
Long term deposits and debt	A-	A2	A-
Outlook	Negative	Negative	Stable
Last date confirmed	March 2010	March 2010	March 2010

Our A-2 short-term deposits rating from S&P is the second from the highest and indicates the Bank is susceptible to adverse economic conditions; however the Bank's capacity to meet its financial commitment on the obligation is satisfactory. Our A- long-term deposits and debt rating from S&P indicates that the economic situation can affect our financial position. Our P-1 short-term deposits rating from Moody's is the highest level and indicates a superior ability to repay short-term debt obligations; our A2 long-term deposits and debt rating from Moody's indicates that the obligation is of" upper-medium grade", subject to "low credit risk", but that have elements "present that suggest a susceptibility to impairment over the long term. Our short-term deposits rating from Fitch is the best quality grade, indicating strong capacity of the obligor to meet its financial commitment. Our A- long-term deposits and debt rating from Fitch indicates that the economic situation can affect our finance.

The Bank's asset funding strategies draw upon our ability to allocate funding among subsidiaries through inter-company loans. As of 31 December 2009, loans to and from Butterfield subsidiary companies were:

	Deposits and loans issued by							
	Bermuda	Barbados	Cayman	Guernsey	Malta	The Bahamas	United Kingdom	Total
Deposits and loans due to								
Bermuda	-	157	501,035	7,879	-	14,793	1,692	525,556
Cayman	-	-	-	-	-	11,382	-	11,382
Guernsey	19,794	-	17,397	-	809	16,069	-	54,069
Switzerland	7,964	-		-	-	-	-	7,964
The Bahamas	12,500	-	-	-		-	-	12,500
United Kingdom	37,164	-	-	3,565	22	-	-	40,751
	77,422	157	518,432	11,444	831	42,244	1,692	652,222

Credit risk

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

Credit Risk Management provides a system of checks and balances for our diverse credit-related activities by establishing and monitoring all credit-related policies and practices throughout our Bank and assuring their uniform application. These activities are designed to diversify credit exposure on an industry and client basis, thus lessening overall credit risk. These credit management activities also apply

to our use of derivative financial instruments, including foreign exchange contracts and interest rate management instruments, which are primarily used to facilitate client transactions. We also use derivatives in the asset and liability management of positions to minimise significant unplanned fluctuations in earnings that are caused by interest rate volatility. Our goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain Consolidated Balance Sheet assets and liabilities so that movements in interest rates do not adversely affect the net interest margin. Our derivative contracts principally involve over-the-counter transactions that are privately negotiated between ourselves and the counterparty to the contract. Derivative instruments that are used as part of our interest rate risk management strategy include interest rate swaps and option contracts that have indices related to the pricing of specific consolidated balance sheet assets and liabilities. Interest rate swaps generally involve the exchange of fixed and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date. Interest rate options represent contracts that allow the holder of the option to receive cash or purchase, sell, or enter into a financial instrument at a specified price within a specified period.

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

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

As part of our ongoing credit granting process, CRM assigns internal ratings only to commercial clients before credit is extended, based on an assessment of creditworthiness. CRM performs, at least annually, a review of selected significant credit exposures to identify, at an early stage, clients who might be facing financial difficulties. Internal credit ratings are also reviewed during this process. Credit ratings range from “1” for the strongest credits to “8” for the weakest credits; an “8” rated loan would normally represent a complete loss. Above average risk loans receive special attention by both lending officers and CRM. This approach allows management to take remedial action in an effort to deal with potential problems.

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

Another way in which credit risk is managed is by requiring collateral. Management’s assessment of the borrower’s creditworthiness determines whether collateral is obtained. The amount and type of collateral held varies but may include deposits held in financial institutions, US Treasury securities, other marketable securities, income-producing commercial properties, accounts receivable, residential real estate, property, plant and equipment, and inventory. Collateral values are monitored on a regular basis to ensure that they are maintained at an appropriate level.

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

Operational risk management

In providing our services, we are exposed to operational risk which is the risk of loss from inadequate or failed internal processes, people, and systems or from external events. Our success depends, in part,

upon maintaining our reputation as a well managed institution with shareholders, existing and prospective clients, creditors and regulators. In order to maintain this reputation, we seek to minimise the frequency and severity of operational losses associated with compliance and fiduciary matters, product, process, and technology failures, and business continuity.

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

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

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

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

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

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

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

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

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

Financials 2009

MANAGEMENT'S FINANCIAL REPORTING RESPONSIBILTY

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

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

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

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

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

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

BRADFORD B. KOPP
President & Chief Executive Officer
Chief Financial Officer
2 March 2010

PRICEWATERHOUSECOOPERS

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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 2009 and 2008 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers

Chartered Accountants

2 March 2010

A list of partners can be obtained from the above address.
"PricewaterhouseCoopers" refers to PricewaterhouseCoopers (a Bermuda partnership) or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

Consolidated Balance Sheet

As at 31 December (In thousands of Bermuda dollars)

	2009	2008
Assets		
Cash and demand deposits with banks	551,249	572,441
Term deposits with banks	1,435,549	1,648,949
Total cash and deposits with banks	1,986,798	2,221,390
Investments		
Trading	29,330	48,329
Available for sale	2,067,163	579,799
Held to maturity	838,715	3,195,951
Total investments	2,935,208	3,824,079
Loans, net of allowance for credit losses	4,218,332	4,418,277
Premises, equipment and computer software	244,242	197,155
Accrued interest	16,285	39,567
Goodwill	16,712	14,364
Intangible assets	50,129	57,250
Other assets	126,896	139,762
Total assets	9,594,602	10,911,844
Liabilities		
Deposits		
Non-interest bearing	954,191	920,866
Interest bearing		
Customers	7,623,753	8,485,309
Banks	118,675	395,094
Total deposits	8,696,619	9,801,269
Employee future benefits	141,741	120,038
Accrued interest	12,391	24,931
Dividend payable	1,337	3,819
Other liabilities	103,969	161,051
Total other liabilities	259,438	309,839
Subordinated capital	283,085	282,296
Total liabilities	9,239,142	10,393,404
Shareholders' equity		
Common share capital ($1.00 par; authorised shares 260,000,000 (2008: 260,000,000)) issued and outstanding: 99,060,111 (2008: 98,399,858)	99,060	98,400
Preferred share capital ($0.01 par; $1,000 liquidation preference) issued and outstanding: 200,000 (2008: nil)	2	-
Additional paid in capital	764,206	604,116
Accumulated deficit	(283,964)	(35,006)
Less: treasury common shares (3,426,106 shares; 2008: 6,473,180 shares)	(34,660)	(82,700)
Accumulated other comprehensive loss	(189,184)	(66,370)
Total shareholders' equity	355,460	518,440
Total liabilities and shareholders' equity	9,594,602	10,911,844

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

ROBERT A. MULDERIG
Chairman of the Board

ROBERT STEINHOFF
Vice Chairman

BRADFORD B. KOPP
President & Chief Executive Officer

Consolidated Statement of Income

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

	2009	2008
Non-interest income		
Asset management	27,211	41,308
Banking	37,094	37,562
Foreign exchange revenue	34,044	45,475
Investment and pension fund administration	-	35,583
Trust	29,894	30,344
Custody and other administration services	13,840	18,724
Other non-interest income	9,622	3,945
Total non-interest income	151,705	212,941
Interest income		
Loans	211,694	264,570
Investments	46,215	193,006
Deposits with banks	12,660	80,519
Total interest income	270,569	538,095
Interest expense		
Deposits	68,471	269,668
Subordinated capital	14,933	13,946
Securities sold under repurchase agreements	258	-
Total interest expense	83,662	283,614
Net interest income before provision for credit losses	186,907	254,481
Provision for credit losses	(104,879)	(3,045)
Net interest income after provision for credit losses	82,028	251,436
Net realised / unrealised gains (losses) on trading investments	983	(6,356)
Net realised gains on available for sale investments	236	-
Net realised gains (losses) on held to maturity investments	2,298	(22,986)
Other-than-temporary impairment losses on held to maturity investments	(132,095)	(128,786)
Goodwill and intangible assets impairment	(13,266)	(5,220)
Gain on sale of subsidiaries	-	115,479
Net other losses	(5,112)	(61,182)
Total revenue	86,777	355,326
Non-interest expense		
Salaries and other employee benefits	156,839	183,152
Technology and communications	50,094	41,149
Property	28,833	32,140
Professional and outside services	17,490	34,529
Non-income taxes	13,197	15,132
Amortisation of intangible assets	6,258	7,316
Marketing	5,911	7,140
Other expenses	21,898	26,887
Total non-interest expense	300,520	347,445
Net (loss) income before income taxes	(213,743)	7,881
Income taxes benefit (expense)	330	(3,042)
Net (loss) income	(213,413)	4,839
Cash dividends declared on preferred shares	(8,400)	-
Preferred shares guarantee fee	(1,050)	-
Net (loss) income attributable to common shareholders	(222,863)	4,839
(Loss) earnings per common share		
Basic	(2.34)	0.05
Diluted	(2.34)	0.05

(Loss) earnings per share comparative figures have been restated for the $0.04 stock dividend declared for March, May, August and November 2009.

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 of Bermuda dollars)

	2009	2008
Common share capital issued and outstanding		
Balance at beginning of year (2009: 98,399,858 shares; 2008: 89,456,019 shares)	98,400	89,456
Dividend reinvestment (2009: 572,246 shares; 2008: 791,232 shares)	572	791
of which issued from treasury common shares (2009: 572,246 shares; 2008: 791,232 shares)	(572)	(791)
Stock dividend (2009: 3,061,919 shares; 2008: 8,943,839 shares)	3,062	8,944
of which issued from treasury common shares (2009: 2,401,666 shares; 2008: nil shares)	(2,402)	-
Balance at end of year (2009: 99,060,111 shares; 2008: 98,399,858 shares)	**99,060**	**98,400**
Preferred shares		
Balance at beginning of year (2009: nil shares; 2008: nil shares)	-	-
Issuance (2009: 200,000 shares; 2008: nil)	2	-
Balance at end of year (2009: 200,000 shares; 2008: nil shares)	**2**	**-**
Additional paid in capital		
Balance at beginning of year	604,116	455,114
Dividend reinvestment	2,274	10,974
of which related to treasury common shares	(2,274)	(10,974)
Stock dividend	1,984	149,969
Issued under directors' and executive officers' and employees' stock option plans	2,248	3,561
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	(31,485)	(3,728)
Issuance of preferred shares	199,998	-
Cost of issuing preferred share capital	(12,655)	-
Balance at end of year	**764,206**	**604,116**
(Accumulated deficit) retained earnings		
Balance at beginning of year	(35,006)	167,607
Effect of changing employee future benefit plans' measurement date	-	(1,068)
Net (loss) income for year	(213,413)	4,839
Cash dividends declared on common shares	(11,124)	(47,471)
Cash dividends declared on preferred shares	(8,400)	-
Preferred shares guarantee fee	(1,050)	-
Stock dividend	(14,971)	(158,913)
Balance at end of year	**(283,964)**	**(35,006)**
Treasury common shares		
Balance at beginning of year (January 2009: 6,473,180 shares; January 2008: 4,903,324 shares)	(82,700)	(71,576)
Net purchases, sales and transfers of treasury shares	48,040	(11,124)
Balance at end of year (December 2009: 3,426,106 shares; December 2008: 6,473,180 shares)	**(34,660)**	**(82,700)**
Accumulated other comprehensive loss		
Balance at beginning of year	(66,370)	(11,271)
Net change in unrealised gains and losses on translation of net investment in foreign operations	4,289	(21,104)
Net change in unrealised gains and losses on available for sale investments	(54,480)	153
Net change in unrealised non-credit losses on held to maturity investments	(58,557)	-
Net change in employee future benefits liability	(14,066)	(34,148)
Balance at end of year	**(189,184)**	**(66,370)**
Total shareholders' equity	**355,460**	**518,440**
Comprehensive loss		
Net (loss) income	(213,413)	4,839
Other comprehensive loss	(122,814)	(55,099)
Total comprehensive loss	**(336,227)**	**(50,260)**
Components of accumulated other comprehensive loss		
Cumulative change in unrealised gains and losses on translation of investment in foreign operations	(7,650)	(11,939)
Cumulative change in unrealised gains and losses on available for sale investments	(56,991)	(2,511)
Cumulative change in unrealised non-credit losses on held to maturity investments	(58,557)	-
Cumulative change in employee future benefits liability	(65,986)	(51,920)
Balance at end of year	**(189,184)**	**(66,370)**

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

Consolidated Statement of Cash Flows

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

	2009	2008
Cash flows from operating activities		
Net (loss) income	(213,413)	4,839
Adjustments to reconcile net (loss) income to operating cash flows		
Depreciation and amortisation	27,859	28,985
Goodwill impairment	8,020	5,220
Intangible assets impairment	5,246	-
Write down of computer software in development	5,120	29,180
Decrease in carrying value of investments in affiliates	1,688	2,223
Share-based payments	3,498	6,139
Gain on sale of subsidiaries	-	(115,479)
Loss on sale of premises and equipment	200	937
Net realised and unrealised gains on private equity investments	(6,220)	(21,619)
Net (gains) losses on credit derivative instruments	(3,304)	52,275
Other-than-temporary impairments on held to maturity investments	132,095	151,772
Net realised gains on held to maturity investments	(2,298)	-
Net realised gains on sale of available for sale investments	(236)	-
Provision for credit losses	104,879	3,045
Changes in operating assets and liabilities		
Decrease in accrued interest receivable	24,422	23,017
Decrease (increase) in other assets	19,617	(20,991)
Decrease in accrued interest payable	(13,186)	(6,672)
(Decrease) increase in other liabilities	(57,048)	53,589
	36,939	196,460
Net change in trading investments	21,022	53,120
Cash provided by operating activities	57,961	249,580
Cash flows from investing activities		
Net decrease in term deposits with banks	276,722	372,342
Net additions to premises, equipment and computer software	(51,832)	(37,915)
Net decrease (increase) in loans	156,721	(592,358)
Held to maturity investments: proceeds from maturities	908,725	4,284,395
Held to maturity investments: purchases	(3,515)	(4,104,788)
Available for sale investments: proceeds from sale and maturities	2,053,818	5,834,046
Available for sale investments: purchases	(2,263,266)	(5,721,918)
Proceeds on sale of private equity investment	-	12,873
Proceeds on sale of subsidiaries	-	133,000
Payment of deferred consideration in relation with acquisition of subsidiaries	(4,618)	-
Cash provided by investing activities	1,072,755	179,677
Cash flows from financing activities		
Net decrease in demand and term deposit liabilities	(1,316,814)	(41,440)
Issuance of subordinated capital	-	78,000
Repayment of subordinated capital	-	(78,000)
Issuance of preferred share capital	200,000	-
Cost of issuing preferred share capital	(12,655)	-
Proceeds from dividend re-investment plan	2,846	11,765
Stamp duty paid to increase authorised share capital	-	(800)
Proceeds from sale of treasury shares	-	4,994
Common shares repurchased	-	(38,339)
Net other movements in treasury common shares	133	4,149
Cash dividends paid on common shares	(14,938)	(57,733)
Cash dividends paid on preferred shares	(7,067)	-
Preferred shares guarantee fee paid	(1,050)	-
Cash used in financing activities	(1,149,545)	(117,404)
Effect of exchange rates on cash and demand deposits with banks	(2,363)	(6,673)
Net (decrease) increase in cash and demand deposits with banks	(21,192)	305,180
Cash and demand deposits with banks: beginning of year	572,441	267,261
Cash and demand deposits with banks: end of year	551,249	572,441
Supplemental disclosure of cash flow information		
Cash interest paid	62,778	278,869
Cash income tax paid	899	3,808

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, and actual results could differ from those estimates.

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

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

(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.

The Bank consolidates variable interest entities (VIE) for which 1) it has the ability to exercise significant influence and 2) it will absorb a majority of the expected losses of the VIE, receive a majority of residual returns of the VIE, or both. The Bank is then considered the primary beneficiary of the VIE. The determination of whether the Bank meets the criteria to be considered the primary beneficiary of a VIE requires a periodic evaluation of all transactions (such as investments, loans and fee arrangements) with the entity.

Entities where the Bank holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence, other than investments in designated variable interest entities (VIEs), are accounted for under the equity method, and the pro rata share of their income (loss) is included in other non-interest income.

(c) Foreign Currency Translation

Assets, liabilities, revenues and expenses denominated in US dollars are translated to Bermuda dollars at par. Assets and liabilities arising from other foreign currency transactions are translated into Bermuda dollars at the rates of exchange prevailing at the balance sheet date. The resulting gains or losses are included in foreign exchange revenue in the Consolidated Statement of 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 (AOCI). 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 are classified as trading, available for sale (AFS) or held to maturity (HTM). Debt and equity securities classified as trading investments are carried at fair value in the Consolidated Balance Sheet, with the unrealised gains and losses included in the Consolidated Statement of Income as Net realised / unrealised gains (losses) on trading investments.

Investments are classified primarily as AFS when used to manage the Bank's exposure to interest rate and liquidity movements, as well as to make strategic longer-term investments. AFS investments are carried at fair value in the Consolidated Balance Sheet with unrealised gains and losses reported as net increases or decreases to Accumulated other comprehensive income (loss).

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

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

Recognition of other-than-temporary impairments

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

In situations where there is no credit loss, the unrealised loss on HTM investments is not recognised. In situations where there is a credit loss, only the amount of impairment relating to credit losses on AFS and HTM investments is recognised in net income and the decrease in fair value relating to factors other than credit losses are recognised in Other Comprehensive Income (loss) (OCI).

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

Determining whether the entire amoritsed cost basis is recoverable 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 recoverable value of the Bank's positions may frequently change. The degree of judgment involved in determining the recoverable value of an investment security is dependent upon the availability of observable market prices or observable market parameters. When observable market prices and parameters do not exist, judgment is necessary to estimate recoverable value which gives rise to added uncertainty in the valuation process. The valuation process takes into consideration factors such as interest rate changes, movements in credit spreads, default rate assumptions, prepayment assumptions, type and quality of collateral, and market sentiment.

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

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

For debt securities, Management estimates cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist and to determine if any adverse changes in cash flows have occurred. Management's cash flow estimates take into account expectations of relevant market and economic data as of the end of the reporting period – including, for example, underlying loan-level data, and structural features of securitisation, such as subordination, excess spread, over collateralisation or other forms of credit enhancement.

Management compares the losses projected for the underlying collateral ("pool losses") against the level of credit enhancement in the securitisation structure to determine whether these features are sufficient to absorb the pool losses, or whether a credit loss on the debt security exists. As at 31 December 2009, Management's cash flow forecasts were created in conjunction with well-known third-party corporations specialising in analytical cash flow modelling. Management also performs other analyses to support its cash flow projections. For debt securities, management considers a decline in fair value to be other-than-temporary when it does not expect to recover the entire amortised cost basis of the security.

(f) Loans

Loans are reported at the principal amount outstanding, net of allowance for credit losses, unearned income and net deferred loan fees. Interest income is recognised over the term of the loan using the effective interest method, or on a basis approximating a level rate of return over the term of the loan, except for loans classified as non-accrual. 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 Bank accounts for and discloses non-accrual loans as impaired loans. 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 full repayment of the loan principal, all cash thereafter received is applied to reduce the carrying amount of the loan. Interest income on these loans is recognised only after the entire balance receivable is recovered and interest is actually received. Loans are restored to accrual status only when interest and principal payments are brought current and future payments are reasonably assured.

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. 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 written off and reported as charge-offs.

(g) Allowance for Credit Losses

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

Specific Allowances

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

General Allowance

The allowance for credit losses attributed to the remaining portfolio is established through a process that estimates the incurred loss at the balance sheet date inherent in the lending and off-balance sheet credit related arrangements portfolios 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.

(h) Business Combinations, Goodwill and Intangible Assets

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

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

(i) Premises, Equipment and Computer Software

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

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

(j) Derivatives

All derivatives are recognised on the Consolidated Balance Sheet at their fair value. On the date that the Bank enters into a derivative contract, it designates the derivative as 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 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 recognised in net income.

(k) Employee Future Benefits

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

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

For each of the defined benefit pension plans and for the post-retirement medical benefits plan, the asset (liability) recognised for accounting purposes is reported in other assets and employee future benefits.

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

(l) Share-Based Compensation

The Bank has a number of share-based compensation plans for eligible employees. The grant date fair value of share-based compensation awards that eventually vest is amortised over the substantive vesting period of the award.

(m) Revenue Recognition

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

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

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

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

(n) Fair Values

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Bank determines the fair values of assets and liabilities based on the fair value hierarchy which requires an entity to maximise the use of observable inputs and minimise the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. Investments classified as trading and available for sale, and derivative assets and liabilities are recognised in the Consolidated Balance Sheet at fair value.

Level 1, 2 and 3 valuation inputs

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

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

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

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

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

Cash and deposits with banks

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

Investments and employee future benefits plans' assets

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

Loans

The majority of loans are variable rate and re-price in response to changes in market rates and hence management estimates that the fair value of loans is not significantly different than their carrying amount. The fair value of significant fixed-rate loan exposures have been hedged by entering into corresponding pay-fixed-receive-floating interest rate swaps. These swaps are considered effective hedges of the fair value of fixed-rate loans and are designated as such. Accordingly, the carrying amount of hedged fixed-rate loans is adjusted to reflect their fair value. In situations where the Bank carries significant non-hedged fixed-rate loans, the fair value is estimated by performing discounted cash flow calculations using interest rates for loans of similar risk and duration issued shortly before or on the balance sheet date.

Accrued interest

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

Deposits

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

Subordinated capital

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

Derivatives

Fair value of exchange traded derivatives is based on quoted market prices. Fair value of over the counter derivatives is calculated as the net present value of contractual cash flows using prevailing market rates.

Reporting units

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

(o) Credit Related Arrangements

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

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

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

(p) Income Taxes

The Bank uses the asset and liability method whereby income taxes reflect the expected future tax consequences of temporary differences between the financial statements' carrying amounts of assets and liabilities and their respective tax bases. Accordingly, a deferred income tax asset or liability is determined for each temporary difference based on the enacted tax rates to be in effect on the expected reversal date of the temporary difference. Income taxes on the Consolidated Statement of 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.

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

(q) Consolidated Statement of Cash Flows

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

(r) Earnings Per Share

Earnings per share 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 2009 and 2008 (see also Notes 18 and 23). Dividends declared on preferred shares and related guarantee fees are deducted from net income to obtain net income available to common shareholders. In periods when basic earnings per share is positive, the dilutive effect of share-based compensation plans is calculated using the treasury stock method, whereby the proceeds received from the exercise of share-based awards are assumed to be used to repurchase outstanding common shares, using the quarterly average market price of the Bank's shares for the period.

(s) Impairment or Disposal of Long-Lived Assets

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

(t) Charitable Trust

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

Note 2: Significant Acquisitions and Divestitures

Divestiture of fund services businesses

On 11 September 2008, the Bank completed the sale 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 in the Consolidated 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 segment. The equity ownership in Butterfield Fulcrum Group is also reported in the Wealth Management 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 from the sale date, the value of which was deducted from the gain.

Note 3: Cash and Deposits with Banks

31 December	2009			2008		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Non-interest earning						
Cash and demand deposits	30,030	33,649	63,679	119,737	23,651	143,388
Interest earning						
Deposits maturing within three months and on demand	247,589	1,628,336	1,875,925	18,964	1,998,496	2,017,460
Deposits maturing between three to six months	-	2,030	2,030	-	19,591	19,591
Deposits maturing between six to twelve months	-	2,239	2,239	-	3,303	3,303
Sub-total - Interest earning	247,589	1,632,605	1,880,194	18,964	2,021,390	2,040,354
Total unrestricted cash and deposits	277,619	1,666,254	1,943,873	138,701	2,045,041	2,183,742
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Non-interest earning						
Demand deposits	-	27,728	27,728	-	19,289	19,289
Interest earning						
Deposits maturing within three months	14,871	326	15,197	17,009	1,350	18,359
Total restricted deposits	14,871	28,054	42,925	17,009	20,639	37,648
Total cash and deposits with banks	292,490	1,694,308	1,986,798	155,710	2,065,680	2,221,390

Note 4: Investments

Gains and losses on investments

The following table presents the gains and losses on investments:

Year ended 31 December	2009				2008			
	Trading	Available for sale	Held to maturity	Total	Trading	Available for sale	Held to maturity	Total
Gains (losses) other than OTTI recognised in net income	983	236	2,298	3,517	(6,356)	-	(22,986)	(29,342)
Total impairment applied against carrying amount	-	-	(190,851)	(190,851)	-	-	(128,786)	(128,786)
Less: non-credit related impairments recognised in OCI	-	-	58,756	58,756	-	-	-	-
OTTI impairments recognised in net income	-	-	(132,095)	(132,095)	-	-	(128,786)	(128,786)
Net gains (losses) recognised in net income	983	236	(129,797)	(128,578)	(6,356)	-	(151,772)	(158,128)
Non-credit related impairments recognised in OCI	-	(54,281)	(58,756)	(113,037)	-	153	-	153
Effect of HTM to AFS transfer of investments		(199)	199	-	-	-	-	-
Net change in gains (losses) recognised in AOCI	-	(54,480)	(58,557)	(113,037)	-	153	-	153
Total recognised gains (losses)	983	(54,244)	(188,354)	(241,615)	(6,356)	306	(151,772)	(157,822)

Amortised cost, carrying amount and estimated fair value

Unrealised gains and losses that are not reflected in the carrying amount of investments are reported as unrecognised gains and losses on HTM investments. The amortised cost, carrying amounts and fair values, are as follows:

31 December	2009				2008			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value
Available for sale								
Certificates of deposit	1,036,190	4,353	(946)	1,039,597	565,321	2,017	(130)	567,208
US government and federal agencies	66,915	89	(909)	66,095	-	-	-	-
Debt securities issued by non-US governments	12,456	-	-	12,456	9,773	-	-	9,773
Corporate debt securities	550,227	1,071	(9,154)	542,144	-	-	-	-
Mortgage-backed securities – Prime	30,967	-	(1,319)	29,648	-	-	-	-
Mortgage-backed securities – Subprime and Alt-A	35,033	421	(708)	34,746	-	-	-	-
Mortgage-backed securities – Commercial	6,312	8	-	6,320	-	-	-	-
Asset-backed securities - Student loans	156,285	-	(5,568)	150,717	-	-	-	-
Asset-backed securities - Automobile loans	116,018	-	(3,139)	112,879	-	-	-	-
Asset-backed securities - Credit cards	4,818	-	(322)	4,496	-	-	-	-
Collateralised debt and loan obligations	19,514	-	(1,450)	18,064	-	-	-	-
Structured investments vehicles	86,508	-	(36,579)	49,929	-	-	-	-
Equity securities	125	-	(53)	72	2,818	-	-	2,818
Total available for sale	2,121,368	5,942	(60,147)	2,067,163	577,912	2,017	(130)	579,799

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

31 December 2008	Amortised cost	Non-credit impairments recognised in AOCI	Carrying amount	Gross unrecognised gains	Gross unrecognised losses	Fair value
Held to maturity						
Certificates of deposit	511,406	-	511,406	2,812	-	514,218
US government and federal agencies	123,748	-	123,748	28	(3,965)	119,811
Debt securities issued by non-US governments	31,651	-	31,651	551	(53)	32,149
Corporate debt securities	1,254,450	-	1,254,450	1,450	(79,763)	1,176,137
Mortgage-backed securities – Prime	82,248	-	82,248	-	(6,841)	75,407
Mortgage-backed securities – Subprime and Alt-A	388,158	-	388,158	993	(189,897)	199,254
Mortgage-backed securities – Commercial	53,954	-	53,954	20	(14,140)	39,834
Asset-backed securities - Student loans	177,683	-	177,683	-	(26,531)	151,152
Asset-backed securities - Automobile loans	126,043	-	126,043	-	(33,362)	92,681
Asset-backed securities - Commercial	50,708	-	50,708	-	(30,458)	20,250
Asset-backed securities - Credit cards	14,937	-	14,937	-	(5,347)	9,590
Collateralised debt and loan obligations	180,551	-	180,551	-	(52,826)	127,725
Structured investments vehicles	203,414	(3,000)	200,414	-	-	200,414
Total held to maturity	3,198,951	(3,000)	3,195,951	5,854	(443,183)	2,758,622

Investments in the above table with gross unrecognised losses as at 31 December 2009 were considered temporarily impaired on that date. The impairments recognised in AOCI, when added to gross unrecognised losses on HTM investments, represent the total loss that would have been recognised in net income if the investment securities had been sold at their estimated fair value on 31 December 2009. The impairments recognised in AOCI are the result of various factors other than deterioration in the creditworthiness of the issuer. As at 31 December 2009, management did not intend to sell these securities and believed it is not likely that the Bank would be required to sell these securities prior to recovery of their amortised cost (see Note 29 - Subsequent events).

Overall, unrecognised losses have decreased since 31 December 2008 due primarily to the effect of the recognition of $132.1 million of impairment during the year 2009 and increased fair values across asset classes resulting from improved market spread and market liquidity. As of 31 December 2009, Management does not intend to sell the securities with a loss position recognised in AOCI, and believes it is not likely that the Bank will be required to sell these securities before recovery of their amortised cost basis.

Unrealised loss positions

The following tables show the fair value and gross unrealised losses of the Bank's investments with unrealised losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealised loss position. Debt securities are categorised as being in a continuous loss position for "less than 12 months" or "12 months or more" based on the point in time that the fair value declined below the cost basis.

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

	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	16,065	(874)	99,946	(3,091)	116,011	(3,965)
Debt securities issued by non-US governments	2,964	(36)	983	(17)	3,947	(53)
Corporate debt securities	137,219	(3,563)	885,192	(76,200)	1,022,411	(79,763)
Mortgage-backed securities – Prime	-	-	75,407	(6,841)	75,407	(6,841)
Mortgage-backed securities – Subprime and Alt-A	16,083	(2,402)	172,497	(187,495)	188,580	(189,897)
Mortgage-backed securities – Commercial	-	-	33,417	(14,140)	33,417	(14,140)
Asset-backed securities - Student loans	29,473	(7,527)	121,679	(19,004)	151,152	(26,531)
Asset-backed securities - Automobile loans	-	-	92,682	(33,362)	92,682	(33,362)
Asset-backed securities - Commercial	-	-	20,251	(30,458)	20,251	(30,458)
Asset-backed securities - Credit cards	-	-	9,591	(5,347)	9,591	(5,347)
Collateralised debt and loan obligations	15,154	(3,606)	112,569	(49,220)	127,723	(52,826)
Total held to maturity securities with unrecognised losses	216,958	(18,008)	1,624,214	(425,175)	1,841,172	(443,183)

The following is a description of the Bank's main investments categories and the key assumptions used in estimating the present value of cash flows most likely to be collected from these investments.

Certificates of deposit

As of 31 December 2009, gross unrealised losses on the Bank's holdings of certificates of deposit (CDs) were $0.9 million, all of which related to CDs that have been in an unrealised loss position for less than 12 months. Management assesses the credit quality of the issuers, which includes assessments of credit ratings (the Bank only purchases CDs that are rated investment grade) and credit worthiness of the issuer and concluded that the CDs do not have any credit losses. The unrealised losses were due to increasing interest rates and widened credit spreads caused by illiquidity since the time of purchase.

US government and federal agencies

As of 31 December 2009, gross unrealised losses on securities related to United States (US) government and federal agencies were $0.9 million, all of which related to securities that have been in an unrealised loss position for longer than 12 months. Management believes these securities do not have any credit losses, given the explicit and implicit guarantees provided by the US federal government.

Debt securities issued by non-US governments

As of 31 December 2009, gross unrealised losses on debt securities issued by non-US governments were $0.02 million, none of which related to securities that have been in an unrealised loss position for longer than 12 months. All securities in this category were issued by governments of Caribbean jurisdictions. These securities do not have any credit losses, given the explicit and implicit guarantees provided by the non-US governments. The unrealised losses were due to widened credit spreads caused by illiquidity.

Corporate debt securities

As of 31 December 2009, gross unrealised losses related to corporate debt securities were $14.8 million, of which $14.1 million related to investments that were in an unrealised loss position for longer than 12 months. Overall losses have decreased since 31 December 2008, mainly as a result of an increase in high-yield markets, lower default forecasts and spread tightening across various asset classes. Projected cash flows for corporate securities (principally senior unsecured bonds) are driven primarily by assumptions regarding probability of default and also the timing and amount of recoveries associated with defaults. Management develops these estimates using information based on market observable data, issuer specific information, and credit ratings. Management believes these securities do not have any credit losses.

Mortgage-backed securities – Prime

As of 31 December 2009, gross unrealised losses related to prime residential mortgage-backed securities were $2.0 million, all of which related to securities that have been in an unrealised loss position for longer than 12 months. Overall unrealised losses have decreased since 31 December 2008, due primarily to increased market stabilisation, resulting from increased demand for higher-yielding asset classes and new US government programmes. As at 31 December 2009, all of the Bank's investments in prime mortgage-backed securities are investment grade and approximately 86% of these positions are rated "AAA". Despite the downgrades experienced, the portfolio continues to possess credit enhancement levels sufficient for the Bank not to have suffered a credit related loss.

The Bank has recognised no prime mortgage-backed securities OTTI losses in net income during the year ended 31 December 2009. In analysing prime residential mortgage-backed securities for potential credit losses, the key inputs to cash flow projections were estimated peak-to-trough home price declines of up to 34% and an unemployment rate of 10.6%. The cash flow projections assumed liquidation rates of 100% for non-performing loans (90 days or more in arrears) and loss severities in the range of 55% to 65%, depending on the underlying collateral type and seasoning.

Mortgage-backed securities – Subprime and Alt-A

As of 31 December 2009, gross unrealised losses related to subprime and Alt-A residential mortgage-backed securities were $62.3 million, all of which related to securities that have been in an unrealised loss position for longer than 12 months. Overall unrealised losses have decreased since 31 December 2008, due to the recognition of impairment losses and to increased market stabilisation, resulting from increased demand for higher-yielding asset classes and new US government programmes. As at 31 December 2009, approximately 57% of these positions are currently rated "AAA" and approximately 77% are investment grade.

Despite the downgrades experienced, the portfolio continues to possess credit enhancement levels sufficient to support the carrying amount. However, the Bank has recognised $111.9 million of OTTI losses in net income for subprime and Alt-A securities that have experienced increased delinquency rates associated with specific collateral types and origination dates. In analysing subprime and Alt-A residential mortgage-backed securities for potential credit losses, the key inputs to cash flow projections were estimated peak-to-trough home price declines of up to 34% and unemployment rate of 10.6%. The cash flow projections assumed liquidation rates of 100% for non-performing loans (90 days or more in arrears) and loss severities typically in the range of 65% to 70% with a maximum of 85%, depending on the underlying collateral type and seasoning.

Mortgage-backed securities – Commercial

As of 31 December 2009, gross unrealised losses related to commercial mortgage-backed securities were $7.2 million, all of which related to securities that have been in an unrealised loss position for longer than 12 months. The Bank's commercial mortgage-backed securities are all rated "AAA" and possess significant subordination (a form of credit enhancement for the benefit of senior securities, expressed here as the percentage of pool losses that can occur before a senior asset-backed security will incur its first dollar of principal loss). In considering whether potential credit-related losses would occur, property price declines and/or defaults were forecasted to be at least equal to the worst historical cohort (and in some cases, worse); estimated peak-to-trough property price declines of 45% were assumed. No credit losses were recognised on these securities.

Asset-backed securities - Student loans

As of 31 December 2009, gross unrealised losses on student-loan asset backed securities were $6.6 million, all of which related to securities that have been in an unrealised loss position for longer than 12 months. All of these securities are "AAA" rated and management believes these securities do not have any credit losses. There are explicit and implicit guarantees provided by the US government as well as the UK government (UK student loans constitute 6.5% of the amortised cost of the student loans asset-backed securities). The unrealised losses were due to widened credit spreads caused by illiquidity.

Asset-backed securities - Automobile loans

As of 31 December 2009, gross unrealised losses on automobile loan backed securities were $4.2 million, all of which related to securities that have been in an unrealised loss position for longer than 12 months. As at 31 December 2009, approximately 32% of these investments were rated "AAA" rated and 68% were "BB" rated. The unrealised losses were due to widened credit spreads caused by illiquidity. The factors considered in analysing potential credit losses were the security's position in the capital structure, lease rates, lessee defaults, loss severity, manufacturer defaults, depreciation rates, and residual values. Additional consideration was given to asset performance relative to the projected economic scenario and historical cohort performance. No credit losses were recognised on these securities.

Asset-backed securities - Commercial

As of 31 December 2009, gross unrealised losses related to Other asset-backed securities were $4.3 million, all of which related to securities that were in an unrealised loss position for longer than 12 months. Overall unrealised losses have decreased since 31 December 2008, mainly as a result of an increase in high-yield markets, lower default forecasts and spread tightening across relevant asset classes.

The key considerations in analysing potential credit losses were position in capital structure, underlying asset defaults and loss severity, lease rates, utilisation rates, useful life of assets, depreciation rates and salvage values. Additional consideration was given to asset performance relative to the projected economic scenario and historical cohort performance. In the year ended 31 December 2009, the Bank has recognised $3.1 million of OTTI losses in net income for a commercial asset backed security that has experienced industry stresses and decreased performance expectations relating to the underlying asset collateral.

Asset-backed securities - Credit cards

As of 31 December 2009, gross unrealised losses on credit card debt backed securities were $1.0 million, all of which related to securities that have been in an unrealised loss position for longer than 12 months. The credit card–related asset-backed securities are rated "A". One of the key metrics considered for credit card–related asset-backed securities is each trust's excess spread – which is the credit enhancement resulting from cash that remains each month after payments are made to investors for principal and interest and to servicers for servicing fees, and after credit losses are allocated. No credit losses were recognised on these securities.

Collateralised debt and loan obligations

As of 31 December 2009, gross unrealised losses on collateralised debt and loan obligations were $39.1 million, all of which related to securities that have been in an unrealised loss position for longer than 12 months. Unrealised losses have decreased since 31 December 2008, mainly as a result of an increase in high-yield markets, lower default forecasts and spread tightening across various asset classes. As at 31 December 2009, approximately 76% of these securities are investment grade.
Credit enhancement in collateralised loan obligations (CLOs) is composed of subordination, whereby the Bank's holdings have higher payment priority than other tranches, and benefit from over collateralisation (which is the excess of the par amount of collateral over the par amount of securities). The key factors considered in analysing potential credit losses were underlying loan credit quality, the corresponding probabilities of default and ultimate loss severities. Loss severities were generally assumed to be 50% with a low of 30% and a high of 100%. In the year ended 31 December 2009, the Bank has recognised $6.4 million of OTTI losses in earnings for one CDO security that has experienced increased delinquency rates associated with its underlying specific collateral.

Structured investment vehicles

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

As of 31 December 2009, gross unrealised losses related to SIVs were $66.8 million, all of which related to SIVs that were in an unrealised loss position for less than 12 months. Overall unrealised losses have increased since 31 December 2008 due to the purchase from the Butterfield Money Market Fund of a SIV as discussed below in the section titled Support for Butterfield Money Market Fund Limited. The Bank has recognised $10.7 million of OTTI losses in net income for a SIVs whose underlying collateral has experienced increased delinquency and loss rates. In analysing SIVs for potential credit losses, key inputs to cash flow projections were congruous with the key inputs noted above for each collateral class. Additionally for one SIV, inputs to cash flow projections included expected outcomes of certain litigation and negotiation actions affecting payout.

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

31 December 2009	Remaining term to earlier of expected or contractual maturity Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying amount
Trading						
Debt securities issued by non-US governments	-	910	3,297	3,458	-	7,665
Corporate securities and other	-	-	-	-	21,665	21,665
Total trading	-	910	3,297	3,458	21,665	29,330
Available for sale						
Certificates of deposit	285,920	569,093	184,584	-	-	1,039,597
US government and federal agencies	1	-	27,466	38,628	-	66,095
Debt securities issued by non-US governments	9,956	-	-	2,500	-	12,456
Corporate debt securities	35,068	99,142	407,934	-	-	542,144
Mortgage-backed securities – Prime	-	-	8,140	21,508	-	29,648
Mortgage-backed securities – Subprime and Alt-A	1,287	15,227	14,941	3,291	-	34,746
Mortgage-backed securities – Commercial	6,320	-	-	-	-	6,320
Asset-backed securities - Student loans	-	-	9,342	141,375	-	150,717
Asset-backed securities - Automobile loans	-	84,070	28,809	-	-	112,879
Asset-backed securities - Credit cards	-	-	4,496	-	-	4,496
Collateralised debt and loan obligations	-	-	-	18,064	-	18,064
Structured investments vehicles	-	-	49,929	-	-	49,929
Equity securities	-	-	-	-	72	72
Total available for sale	338,552	767,532	735,641	225,366	72	2,067,163
Held to maturity						
Debt securities issued by non-US governments	3	1,333	16,598	10,959	-	28,893
Corporate debt securities	19,304	32,587	148,525	5,522	-	205,938
Mortgage-backed securities – Prime	-	-	-	18,498	-	18,498
Mortgage-backed securities – Subprime and Alt-A	-	6,701	79,813	114,141	-	200,655
Mortgage-backed securities – Commercial	-	-	39,996	-	-	39,996
Asset-backed securities - Student loans	-	-	10,854	-	-	10,854
Asset-backed securities - Automobile loans	-	-	10,000	-	-	10,000
Asset-backed securities - Commercial	-	-	-	31,789	-	31,789
Asset-backed securities - Credit cards	-	-	10,070	-	-	10,070
Collateralised debt and loan obligations	-	50,960	17,009	73,438	-	141,407
Structured investments vehicles	-	-	140,615	-	-	140,615
Total held to maturity	19,307	91,581	473,480	254,347	-	838,715
Total investments	357,859	860,023	1,212,418	483,171	21,737	2,935,208
Total by currency						
Bermuda dollars	-	-	-	-	183	183
US dollars	102,852	449,925	935,521	411,944	16,307	1,916,549
Other	255,007	410,098	276,897	71,227	5,247	1,018,476
Total investments	357,859	860,023	1,212,418	483,171	21,737	2,935,208

	Remaining term to earlier of expected or contractual maturity					
31 December 2008	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying amount
Trading						
Debt securities issued by non-US governments	-	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						
Certificates of deposit	51,000	304,000	156,406	-	-	511,406
US government and federal agencies	-	-	38,129	85,619	-	123,748
Debt securities issued by non-US governments	-	6,275	12,083	13,293	-	31,651
Corporate debt securities	187,073	326,723	731,973	6,325	2,356	1,254,450
Mortgage-backed securities – Prime	-	27,620	33,562	21,066	-	82,248
Mortgage-backed securities – Subprime and Alt-A	3,675	20,031	98,796	265,656	-	388,158
Mortgage-backed securities – Commercial	-	13,961	39,993	-	-	53,954
Asset-backed securities - Student loans	-	13,459	18,173	146,051	-	177,683
Asset-backed securities - Automobile loans	-	-	126,043	-	-	126,043
Asset-backed securities - Commercial	15,416	-	-	35,292	-	50,708
Asset-backed securities - Credit cards	-	-	14,937	-	-	14,937
Collateralised debt and loan obligations	-	13,500	90,003	77,048	-	180,551
Structured investments vehicles	-	-	200,414	-	-	200,414
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

Transfer of investments from the HTM to the AFS portfolio

During 2009, the Bank's regulator, the Bermuda Monetary Authority, announced that as a precautionary measure it required all banks in Bermuda to maintain a capital buffer such that they would be able to withstand a severe economic downturn (a 1-in-100-year event) and still maintain Tier 1 capital of at least 6%.

In response to this significant and unforeseen increase in liquidity and capital requirements, the Bank transferred investments from the HTM to the AFS portfolio. Management believes that such transfer was necessary to meet the increased liquidity and capital requirements. On this basis, management believes that the transfer falls within the HTM investments tainting exemptions of ASC 320-10-25-6 e) and does not result in the tainting of the entire HTM portfolio. The net carrying amount of the transferred securities was $986.1 million at the time of the transfer. Subsequent to the transfer, a net unrealised loss of $21.0 million was recognised in OCI.

Support for Butterfield Money Market Fund Limited

In September 2009, under an existing credit enhancement agreement, the Bank purchased from a related party, namely the AAAm rated Butterfield Money Market Fund Limited, a SIV investment at a price of $131.9 million, reflecting the nominal value and accrued interest at the time, and placed this investment into the available for sale portfolio at its estimated fair value of $52.8 million, the difference reflecting $41.1 million of previously recognised credit losses from the credit enhancement agreement (recognised in the Consolidated Statement of Income under Other gains and losses) as well as the 30 September 2009 $38.0 million unrealised non-credit related fair value adjustment recognised in Other comprehensive income.

Note 5: Loans

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

31 December	2009			2008		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Commercial loans						
Banks	161	-	161	483	-	483
Government	36,323	4,500	40,823	94,751	8,000	102,751
Commercial real estate						
Commercial mortgage	654,022	374,379	1,028,401	423,454	296,248	719,702
Construction	13,098	3,003	16,101	191,905	11,136	203,041
Commercial and industrial						
Loans	446,943	392,855	839,798	570,899	413,918	984,817
Overdrafts	22,642	92,872	115,514	22,762	182,797	205,559
Total commercial loans	1,173,189	867,609	2,040,798	1,304,254	912,099	2,216,353
Less allowance for credit losses on commercial loans	(99,030)	(14,263)	(113,293)	(12,068)	(1,554)	(13,622)
Total commercial loans after allowance for credit losses	1,074,159	853,346	1,927,505	1,292,186	910,545	2,202,731
Consumer loans						
Automobile financing	51,780	6,076	57,856	60,333	5,093	65,426
Credit card	57,754	24,537	82,291	54,599	22,662	77,261
Mortgages	1,246,383	618,211	1,864,594	1,209,071	527,884	1,736,955
Overdrafts	5,582	3,198	8,780	6,352	4,416	10,768
Other consumer	111,427	182,903	294,330	147,044	192,866	339,910
Total consumer loans	1,472,926	834,925	2,307,851	1,477,399	752,921	2,230,320
Less allowance for credit losses on consumer loans	(12,119)	(4,905)	(17,024)	(9,888)	(4,886)	(14,774)
Total consumer loans after allowance for credit losses	1,460,807	830,020	2,290,827	1,467,511	748,035	2,215,546
Total loans	2,646,115	1,702,534	4,348,649	2,781,653	1,665,020	4,446,673
Less allowance for credit losses	(111,149)	(19,168)	(130,317)	(21,956)	(6,440)	(28,396)
Net loans	2,534,966	1,683,366	4,218,332	2,759,697	1,658,580	4,418,277

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 2009 is 4.75% (2008: 5.72%).

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

31 December	2009			2008		
	Gross	Specific allowance	Total	Gross	Specific allowance	Total
Commercial loans - Bermuda	38,204	(21,807)	16,397	3,224	(2,070)	1,154
Commercial loans - Non-Bermuda	4,671	(208)	4,463	5,053	(106)	4,947
Consumer loans - Bermuda	2,596	(530)	2,066	2,278	-	2,278
Consumer loans - Non-Bermuda	6,265	(768)	5,497	1,500	(598)	902
Commercial and residential mortgages - Bermuda	143,991	(66,565)	77,426	11,706	(165)	11,541
Commercial and residential mortgages - Non-Bermuda	37,647	(8,704)	28,943	12,739	(519)	12,220
	233,374	(98,582)	134,792	36,500	(3,458)	33,042

For the year ended 31 December 2009, the amount of gross interest income that would have been recorded had impaired loans been current was $1.8 million (2008: $3.4 million). For the year ended 31 December 2009, the Bank recovered overdue interest of $0.1 million (2008: $0.3 million) on impaired loans that were repaid in the year. The average balance of impaired loans, net of specific allowances, during the year ended 31 December 2009 was $99.6 million (2008: $32.3 million).

As at 31 December 2009, $191.4 million of non-delinquent loans were placed on non-accrual status since, in the opinion of Management, full payment of principal or interest was in doubt. As at 31 December 2009, $49.7 million of fully secured delinquent loans remained on accrual status since collection efforts are reasonably expected to result in repayment of all amounts due under the contractual term of the loans.

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

31 December	2009			2008		
	Specific allowances	General allowance	Total	Specific allowances	General allowance	Total
Allowance for credit losses at beginning of year	3,458	24,938	28,396	3,865	23,021	26,886
Provision taken during the year	99,338	5,541	104,879	3,220	(175)	3,045
Recoveries	-	1,784	1,784	-	2,539	2,539
Charge-offs	(4,318)	(528)	(4,846)	(3,542)	(447)	(3,989)
Other	104	-	104	(85)	-	(85)
Allowance for credit losses at end of year	98,582	31,735	130,317	3,458	24,938	28,396
						77.80%

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

31 December	2009			2008		
	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	4,449	525	2,077	3,817	370	1,696
Automobile financing	1,758	447	1,853	1,161	943	445
Residential mortgages and other consumer loans	38,879	15,714	916	38,411	22,403	1,743
Consumer loans	45,086	16,686	4,846	43,389	23,716	3,884
Commercial loans	46,519	45,370	-	27,004	15,215	105
Total loans reported	91,605	62,056	4,846	70,393	38,931	3,989

Note 6: Credit Risk Concentrations

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

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

31 December	2009			2008		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Banks and financial services	332,965	404,864	737,829	275,619	462,929	738,548
Commercial and merchandising	967,804	256,591	1,224,395	1,228,458	276,461	1,504,919
Governments	40,823	-	40,823	103,612	-	103,612
Individuals	2,242,599	68,616	2,311,215	2,268,165	162,880	2,431,045
Primary industry and manufacturing	69,367	77,334	146,701	41,496	66,542	108,038
Real estate	459,604	1,453	461,057	360,389	50,598	410,987
Hospitality industry	134,879	14,912	149,791	159,384	19,842	179,226
Transport and communication	2,026	2,002	4,028	6,092	1,700	7,792
Sub-total	4,250,067	825,772	5,075,839	4,443,215	1,040,952	5,484,167
General allowance	(31,735)	-	(31,735)	(24,938)	-	(24,938)
Total	4,218,332	825,772	5,044,104	4,418,277	1,040,952	5,459,229

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

31 December	2009			2008		
	On-balance sheet	**Off-balance sheet**	**Total credit exposure**	On-balance sheet	Off-balance sheet	Total credit exposure
Bermuda	**2,557,213**	**509,149**	**3,066,362**	2,779,419	644,398	3,423,817
Barbados	**194,480**	**13,472**	**207,952**	184,173	22,852	207,025
Cayman	**541,058**	**169,040**	**710,098**	483,934	150,229	634,163
Guernsey	**354,485**	**100,911**	**455,396**	414,536	162,661	577,197
The Bahamas	**76,377**	**5,310**	**81,687**	71,528	5,701	77,229
United Kingdom	**526,454**	**27,890**	**554,344**	509,625	55,111	564,736
Sub-total	**4,250,067**	**825,772**	**5,075,839**	4,443,215	1,040,952	5,484,167
General allowance	**(31,735)**	**-**	**(31,735)**	(24,938)	-	(24,938)
Total	**4,218,332**	**825,772**	**5,044,104**	4,418,277	1,040,952	5,459,229

Note 7: Premises, Equipment and Computer Software

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

31 December	2009			2008		
	Cost	**Accumulated depreciation**	**Net carrying value**	Cost	Accumulated depreciation	Net carrying value
Land	**13,371**	**-**	**13,371**	13,726	-	13,726
Buildings	**185,623**	**(41,670)**	**143,953**	163,186	(36,511)	126,675
Equipment	**54,901**	**(38,957)**	**15,944**	51,037	(35,151)	15,886
Computer software in use	**55,220**	**(39,978)**	**15,242**	55,797	(32,073)	23,724
Computer software in development	**55,732**	**-**	**55,732**	17,144	-	17,144
Total	**364,847**	**(120,605)**	**244,242**	300,890	(103,735)	197,155

During 2009, the Bank concluded a non-monetary commercial mortgage restructuring transaction in which the Bank acquired from a non-related party fractional apartment units valued at $21.1 million. The Bank settled the transaction by reducing the balance on the related commercial mortgage by $21.1 million. The fractional apartment units are included in Buildings in the above table.

31 December	2009	2008
Depreciation		
Buildings (included in property expense)	**5,223**	5,225
Equipment (included in property expense)	**3,547**	3,565
Computer hardware and software (included in technology & communication expense)	**11,388**	12,583
Total depreciation charged to operating expenses	**20,158**	21,373

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	Malta	Hong Kong	Total
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 losses	(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
Goodwill acquired during the year	**-**	**-**	**-**	**1,782**	**2,228**	**4,901**	**8,911**
Goodwill impairment	**-**	**-**	**(891)**	**-**	**(2,228)**	**(4,901)**	**(8,020)**
Foreign exchange translation adjustment	**-**	**690**	**-**	**767**	**-**	**-**	**1,457**
Balance as at 31 December 2009	**-**	**6,917**	**-**	**9,795**	**-**	**-**	**16,712**

During the 2009 annual review process, the carrying amount of goodwill relating to the Bahamas segment was considered fully impaired due to a recent decrease in profitability of the operation of the Bahamas segment and was fully written off.

In October 2009, a contingent payment of £2.9 million ($4.6 million at the time of payment) became due and was paid in relation to the 29 October 2007 acquisition of Bentley Reid Group Limited. Management has assessed that it is now probable that the Bank will have to pay, in October 2010, the second and last contingent payment to be made in relation with the acquisition of Bentley Reid Group Limited. Therefore the corresponding liability of £2.9 million ($4.3 million as at 31 December 2009) has been recognised and is included in the Balance Sheet under Other liabilities.

Both the 2009 and 2010 contingent payments are considered purchases of goodwill and have been allocated to the United Kingdom, Malta and Hong Kong segments based on Bentley Reid Group's purchase price allocation. The carrying amount of goodwill allocated to the Malta and Hong Kong segments was immediately considered fully impaired due to the profitability of these segments being significantly less than the expectations made on the acquisition date.

Customer relationship intangible assets

31 December	2009				2008		
	Cost	Accumulated impairment	Accumulated amortisation	Net carrying amount	Cost	Accumulated amortisation	Net carrying amount
Bermuda - Wealth Management	8,341	-	(2,922)	5,419	8,341	(2,367)	5,974
Barbados	6,681	-	(2,708)	3,973	6,681	(2,263)	4,418
Cayman	1,211	-	(430)	781	1,211	(349)	862
Guernsey	40,598	-	(20,806)	19,792	38,582	(18,127)	20,455
The Bahamas	5,090	-	(2,173)	2,917	5,090	(1,833)	3,257
United Kingdom	19,284	-	(6,721)	12,563	18,002	(5,407)	12,595
Malta	3,626	-	(524)	3,102	3,284	(255)	3,029
Hong Kong	7,978	(5,246)	(1,150)	1,582	7,224	(564)	6,660
Total	92,809	(5,246)	(37,434)	50,129	88,415	(31,165)	57,250

Customer relationships are initially valued based on the present value of net cash flows expected to be derived solely from the recurring customer base existing as at the date of acquisition. Customer relationship intangible assets may or may not arise from contracts. There have been no intangible asset impairment losses for the years ended 31 December 2009 and 2008, other than a $5.2 million impairment loss in the Hong Kong segment which is included in Other losses in the Consolidated Statement of Income.

The carrying amount of the Hong Kong segment's customer relationship intangible assets was impaired and recorded at its estimated fair value as at 31 December 2009 because the actual profitability derived from acquired customers is significantly less that the expectations made on the acquisition date. The 31 December 2009 fair value of customer relationship intangible assets is based on the present value of net cash flows expected to be derived solely from the recurring customer base existing as at 31 December 2009. The discount rate used for testing is the discount rate implied in the initial purchase price acquisition.

During 2009, the Bank did not acquire new customer relationship intangible assets and did not sell any. During 2008, the Bank did not acquire new customer relationship intangible assets and sold customer relationship intangible assets having a book value of $1.2 million. During 2009, the amortisation expense amounted to $6.2 million (2008: $7.3 million) and the foreign exchange translation adjustment increased the net carrying amount by $4.4 million (2008: decreased by $15.5 million). The estimated aggregate amortisation expense for each of the succeeding five years (until 31 December 2014) is $5.9 million.

Note 9: Customer Deposits and Deposits from Banks

(a) By Maturity

31 December	2009			2008		
	Customers	**Banks**	**Total**	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	**954,191**	**-**	**954,191**	920,866	-	920,866
Demand deposits - Interest bearing	**4,753,743**	**27,681**	**4,781,424**	5,031,372	71,423	5,102,795
Sub-total - demand deposits	**5,707,934**	**27,681**	**5,735,615**	5,952,238	71,423	6,023,661
Term deposits						
Term deposits maturing within six months	**2,536,812**	**85,755**	**2,622,567**	3,045,722	320,931	3,366,653
Term deposits maturing between six to twelve months	**185,651**	**5,239**	**190,890**	196,296	2,740	199,036
Term deposits maturing after twelve months	**147,547**	**-**	**147,547**	211,919	-	211,919
Sub-total - term deposits	**2,870,010**	**90,994**	**2,961,004**	3,453,937	323,671	3,777,608
Total	**8,577,944**	**118,675**	**8,696,619**	9,406,175	395,094	9,801,269

(b) By Type and Location

31 December	2009			2008		
	Payable on demand	**Payable on a fixed date**	**Total**	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	**2,195,304**	**1,195,124**	**3,390,428**	2,368,312	1,332,483	3,700,795
Banks	**-**	**41,545**	**41,545**	58,566	208,304	266,870
Barbados						
Customers	**163,538**	**81,930**	**245,468**	156,248	75,393	231,641
Banks	**-**	**-**	**-**	-	-	-
Cayman						
Customers	**1,764,566**	**570,875**	**2,335,441**	2,216,042	778,153	2,994,195
Banks	**16,090**	**48,802**	**64,892**	-	110,597	110,597
Guernsey						
Customers	**980,013**	**377,324**	**1,357,337**	613,989	673,832	1,287,821
Banks	**7,712**	**404**	**8,116**	7,676	-	7,676
The Bahamas						
Customers	**67,429**	**65,760**	**133,189**	46,907	69,666	116,573
Banks	**-**	**-**	**-**	-	-	-
United Kingdom						
Customers	**537,098**	**578,983**	**1,116,081**	550,740	524,410	1,075,150
Banks	**3,865**	**257**	**4,122**	5,181	4,770	9,951
Total Customers	**5,707,948**	**2,869,996**	**8,577,944**	5,952,238	3,453,937	9,406,175
Total Banks	**27,667**	**91,008**	**118,675**	71,423	323,671	395,094
Total	**5,735,615**	**2,961,004**	**8,696,619**	6,023,661	3,777,608	9,801,269

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 in Bermuda. 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 third-party actuaries.

The following table presents the financial position of the Bank's defined benefit pension plans and the Bank's post-retirement medical benefit plan, which is unfunded. The benefit obligations and plan assets are measured as at 31 December 2009 and 2008.

For the year ended 31 December	2009		2008	
	Pension plans	Post-retirement medical benefit plan	Pension plans	Post-retirement medical benefit plan
Accumulated benefit obligation at end of year	115,187	-	102,897	-
Change in projected benefit obligation				
Opening projected benefit obligation	107,990	119,952	120,212	98,152
Change in measurement date	-	-	176	764
Service cost	2,513	3,635	2,854	3,088
Employee contributions	259	-	310	-
Interest cost	6,746	7,318	7,233	6,811
Benefits paid	(4,586)	(1,960)	(4,918)	(1,663)
Settlement and curtailment of liability	-	(1,917)	(2,775)	-
Actuarial loss (gain)	7,819	14,617	(218)	12,800
Foreign exchange translation adjustment	4,729	-	(14,884)	-
Closing projected benefit obligation	125,470	141,645	107,990	119,952
Change in plan assets				
Opening fair value of plan assets	121,935	-	132,007	-
Change in measurement date	-	-	160	-
Actual return on plan assets	8,435	-	(17,058)	-
Employer contribution	4,695	1,960	27,999	1,663
Employee contributions	259	-	310	-
Benefits paid	(4,586)	(1,960)	(4,918)	(1,663)
Cost of settlement	-	-	(35)	-
Foreign exchange translation adjustment	5,248	-	(16,530)	-
Closing fair value of plan assets	135,986	-	121,935	-
Amounts recognised in the balance sheet consist of:				
Prepaid benefit cost included in other assets	10,612	-	14,031	-
Accrued pension benefit cost included in employee future benefits liability	(96)	(141,645)	(86)	(119,952)
Surplus (deficit) of plan assets over projected benefit obligation at measurement date	10,516	(141,645)	13,945	(119,952)
Amounts recognised in accumulated other comprehensive loss consist of:				
Net actuarial loss	(22,146)	(43,840)	(19,272)	(32,616)
Past service cost	-	-	(32)	-
Net amount recognised in accumulated other comprehensive loss	(22,146)	(43,840)	(19,304)	(32,616)

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

For the year ended 31 December	2009		2008	
	Pension plans	Post-retirement medical benefit plan	Pension plans	Post-retirement medical benefit plan
Annual benefit expense				
Service cost	2,513	3,635	2,854	3,088
Interest cost	6,746	7,318	7,233	6,811
Expected return on plan assets	(8,055)	N/A	(8,739)	N/A
Amortisation of past service cost	36	-	41	-
Amortisation of net actuarial loss	2,945	1,476	11	1,218
Loss on settlement	1,332	-	3	-
Defined benefit expense	5,517	12,429	1,403	11,117
Defined contribution expense	4,893	-	6,210	-
Total benefit expense	10,410	12,429	7,613	11,117
Other changes recognised in other comprehensive loss				
Net loss arising during the period	(5,819)	(12,700)	(22,680)	(12,693)
Amortisation of past service cost	32	-	29	-
Amortisation of net actuarial loss (gain)	2,945	1,476	(22)	1,218
Total changes recognised in other comprehensive loss	(2,842)	(11,224)	(22,673)	(11,475)

The estimated portion of the net actuarial loss for the pension plans that will be amortised from accumulated other comprehensive loss into benefit expense over the next fiscal year is $3.3 million. 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 $2.3 million.

31 December	2009		2008	
	Pension plans	Post-retirement medical benefit plan	Pension plans	Post-retirement medical benefit plan
Actuarial assumptions used to determine annual benefit expense				
Weighted average discount rate	6.15%	6.10%	6.25%	6.70%
Weighted average rate of compensation increases	3.70%	N/A	4.00%	N/A
Weighted average expected long-term rate of return on plan assets	6.50%	N/A	6.75%	N/A
Weighted average annual medical cost increase rate	N/A	8% to 5% in 2013	N/A	9% to 5% in 2013
Actuarial assumptions used to determine benefit obligations at end of year				
Weighted average discount rate	5.85%	6.10%	6.15%	6.10%
Weighted average rate of compensation increases	3.80%	N/A	3.70%	N/A
Weighted average annual medical cost increase rate	N/A	7.5% to 4.5% in 2027	N/A	8% to 5% in 2013

For 2009, 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 $2.7 million increase (2008: $2.3 million) and a $2.0 million decrease (2008: $1.8 million), respectively, and on the benefit obligation a $30.3 million increase (2008: $24.9 million) and a $23.8 million decrease (2008: $19.4 million), respectively.

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

The weighted average annual medical cost increase rate was changed from 8% to 5% in 2008 to 7.5% to 4.5% in 2009 to reflect the latest available statistics in Bermuda. This resulted in the year ultimate rate being reached changing from 2013 to 2027.

Investments policies and strategies

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

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

31 December	2009		2008	
	Actual allocation	Target allocation	Actual allocation	Target allocation
Asset category				
Debt securities (including debt mutual funds)	45%	46%	60%	53%
Equity securities (including equity mutual funds)	50%	52%	32%	46%
Other	5%	2%	8%	1%
Total	100%	100%	100%	100%

Fair value measurements of pension plans assets

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

31 December	2009				2008			
	Fair value determination				Fair value determination			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
US government and federal agencies	-	6,243	-	6,243	-	7,890	-	7,890
Corporate debt securities	2,651	45,039	-	47,690	18,747	33,809	-	52,556
Debt securities issued by non-US governments	7,975	-	-	7,975	5,391	-	-	5,391
Equity securities and mutual funds	55,338	12,042	-	67,380	44,959	7,781	-	52,740
Other	2,180	4,518	-	6,698	418	2,940	-	3,358
Total fair value of plans assets	68,144	67,842	-	135,986	69,515	52,420	-	121,935

At 31 December 2009, 29.5% (2008: 42.3%) 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 2009, 0.8% and 1.7% (2008: 2.2% and nil) of the plans' assets were invested in common and preferred shares of the Bank respectively.

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

Estimated 2010 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 2010	1,727	3,750
Estimated benefit payments by year:		
2010	4,600	3,750
2011	4,800	4,150
2012	5,100	4,540
2013	5,300	4,960
2014	5,700	5,430
2015 - 2019	31,400	35,960

The projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets were nil million and nil million as at 31 December 2009 ($24.2 million and $21.4 million as at 31 December 2008).

As at 31 December 2009 and 2008 there were no pension plans that had an excess of accumulated benefit obligations over the plan assets.

Note 11: Commitments and Credit Related Arrangements

Commitments

The Bank was committed to expenditures under contract for sourcing and leases of $142.9 million and $33.0 million respectively as at 31 December 2009 (2008: $163.0 million and $29.2 million respectively). Rental expense for premises leased on a long-term basis for the year ended 31 December 2009 amounted to $6.2 million (2008: $8.4 million).

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

Year	Sourcing	Leases	Total
2010	28,210	5,824	34,034
2011	18,691	5,321	24,012
2012	17,611	5,120	22,731
2013	17,090	5,053	22,143
2014	17,090	4,874	21,964
2015 & thereafter	44,251	6,805	51,056
Total commitments	142,943	32,997	175,940

Credit Related Arrangements

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

The Bank considers the fees collected in connection with the issuance of standby letters of credit and letters of guarantee to be representative of the fair value of its obligation undertaken in issuing the guarantee. In accordance with applicable accounting standards related to guarantees, the Bank defers fees collected in connection with the issuance of standby letters of credit and letters of guarantee. The fees are then recognised in income proportionately over the life of the credit agreements.
The following table presents the outstanding financial guarantees with contractual amounts representing credit risk as follows:

31 December	2009			2008		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	**352,016**	**322,582**	**29,434**	463,868	317,018	146,850
Letters of guarantee	**19,601**	**15,135**	**4,466**	14,230	3,311	10,919
Total	**371,617**	**337,717**	**33,900**	478,098	320,329	157,769

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

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

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

31 December	2009	2008
Commitments to extend credit	**451,016**	559,916
Documentary and commercial letters of credit	**3,140**	2,938
Total	**454,156**	562,854

The Bank has a facility by one of its custodians, whereby the Bank may offer up to US$200 million of standby letters of credit to its customers on a fully secured basis. Under the standard terms of the facility, the custodian has the right to set-off against securities held of 110% of the utilised facility. At 31 December 2009, $133.3 million (2008: $102.1 million) of standby letters of credit were issued under this facility.

Legal Proceedings

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

Note 12: Interest Income

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

Year ended 31 December	2009	2008
Mortgages	95,229	100,790
Other loans	109,744	157,765
	204,973	258,555
Amortisation of loan origination fees (net of amortised costs)	6,721	6,015
Total loan interest income	211,694	264,570
Balance of unamortised loan fees as at 31 December	10,829	11,021

Note 13: Segmented Information

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 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 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 in 2008 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. During 2009, the Bermuda private banking operations were moved from the Bermuda Community Banking segment to the Bermuda Wealth Management segment. Figures for year ended 31 December 2008 were restated accordingly.

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

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

The Cayman segment provides a comprehensive range of community and commercial banking services to private and corporate customers through five locations and through Internet banking, ATMs and debit cards. Wealth management and fiduciary services are also provided. Investment and pension fund administration services were offered until 11 September 2008 when this business line was divested as part of the sale to the Fulcrum Group.

The Guernsey segment provides a broad range of services to private clients and financial institutions including, private banking and treasury services, Internet banking, administered bank services, wealth management and fiduciary services. Investment and pension fund administration services were offered until 11 September 2008 when this business line was divested as part of the sale to the Fulcrum Group.

The Switzerland segment provides wealth management services.

The Bahamas segment provides institutional, corporate and private clients with a range of wealth management & fiduciary services. Investment and pension fund administration services were offered until 11 September 2008 when this business line was divested as part of the sale to the Fulcrum Group.

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.

Total Assets by Segment

31 December	2009	2008
Bermuda		
Community Banking	4,198,903	5,030,926
Wealth Management	351,336	350,525
Real Estate	72,671	86,662
Total Bermuda	4,622,910	5,468,113
Barbados	277,551	264,521
Cayman	2,607,542	3,328,712
Guernsey	1,534,520	1,448,609
Switzerland	1,039	984
The Bahamas	166,455	155,260
United Kingdom	1,295,451	1,321,678
Malta	2,894	3,169
Hong Kong	10,166	8,633
Total overseas	5,895,618	6,531,566
Less: inter-segment eliminations	(923,926)	(1,087,835)
Total	9,594,602	10,911,844

Segment Analysis

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

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

** Principally rent and management fees.

Year ended 31 December 2008	Net interest income: Customer	Net interest income: Inter-segment	Provision 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	143,847	(14,910)	(1,838)	44,381	171,480	142,667	28,813	(160,935)	22,335	(109,787)
Wealth Management	17,128	(9,823)	-	70,296	77,601	48,948	28,653	-	(23,860)	4,793
Real Estate	-	(1,047)	-	2,255	1,208	10,751	(9,543)	-	9,543	-
Sub-total Bermuda	160,975	(25,780)	(1,838)	116,932	250,289	202,366	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
Hong Kong	36	-	-	3,903	3,939	2,280	1,659	-	(256)	1,403
Malta	34	-	-	1,655	1,689	1,355	334	-	(116)	218
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
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)	230,133	474,803	360,913	113,890	(109,051)	-	4,839
Less: inter-segment eliminations**	-	6,766	-	(17,192)	(10,426)	(10,426)	-	-	-	-
Total	254,481	-	(3,045)	212,941	464,377	350,487	113,890	(109,051)	-	4,839

For the year ended 31 December 2009, included within other expenses are the following income tax expense (benefit) amounts: Barbados $0.2 million (2008: $0.1 million), Guernsey $0.1 million (2008: $0.9 million), United Kingdom ($0.9) million (2008: $2.0 million) and Malta $0.1 million (2008: nil). 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.

Revenues by Products and Services

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

Note 14: Accounting for Derivative Instruments and Risk Management

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

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

Certain of these agreements contain credit-risk-related contingent features in which the counterparty has the option to accelerate cash settlement of our net derivative liabilities with the counterparty in the event the Bank's credit rating falls below specified levels or the liabilities reaches certain levels. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on 31 December 2009, was $12.6 million. The Bank has posted $14.9 million collateral against these liabilities and therefore the maximum amount of termination payments that could have been required at 31 December 2009 was nil. Accelerated settlement because of such events would not affect net income and would not have a material effect on the consolidated financial position or liquidity of the Bank.

All derivative financial instruments, whether designated as hedges or not, are recorded on the consolidated balance sheet at fair value within other assets or other liabilities. These amounts include the effect of netting. The accounting for changes in the fair value of a derivative in the Consolidated Statement of Income depends on whether the contract has been designated as a hedge and qualifies for hedge accounting.

Notional amounts

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

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 fair value is defined as the profit or loss associated with replacing the derivative contracts at prevailing market prices.

Risk management derivatives

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

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

Fair value hedges

Derivatives are designated as fair value hedges to minimise the Bank's exposure to changes in the fair value of assets and liabilities due to movements in interest rates. The Bank enters into interest rate swaps to convert its fixed-rate long-term loans to floating-rate loans, and convert fixed-rate deposits to floating-rate deposits. Changes in fair value of these derivatives are recognised in income. For fair value hedges, the Bank applies the "shortcut" method of accounting, which assumes there is no ineffectiveness in a hedge. As a result, changes recorded in the fair value of the hedged item are equal to the offsetting gain or loss on the derivative and are reflected in the same line item. For the years ended 31 December 2009 and 2008, no gains or losses were realised from ineffective portions of fair value hedges.

Cash flow hedges

Derivatives are designated as cash flow hedges in order to minimise the variability in cash flows of interest earning assets caused by movements in interest rates. The effective portion of changes in the fair value of such derivatives is recognised in accumulated other comprehensive income, a component of shareholders' equity. When the hedged item impacts earnings, balances in other comprehensive income are reclassified to the same income or expense classification as the hedged item. The Bank applies the "shortcut" method of accounting for cash flow hedges of held to maturity investments, in assessing whether these hedging relationships are highly effective at inception and on an ongoing basis. Any ineffectiveness in cash flow hedge is recognised in earnings.

As of 31 December 2009 and 2008 there were no cash flow hedges in place and there were no deferred net gains or losses on derivative instruments accumulated in other comprehensive income in relation with cash flow hedges.

Derivatives not formally designated as hedges

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

Client service derivatives

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

Credit derivatives

In 2008 and 2009, the Bank provided credit enhancements to a related party, namely Butterfield Money Market Fund Limited (BMMFL or the Fund). Under the credit enhancement agreement (the Agreement), the Bank committed to compensate BMMFL, subject to specified maximum amount, should specified securities have a fair value less than BMMFL's carrying amount and BMMFL would have been required to draw down on the obligation in order to retain its credit rating from the rating agency. The decision by the rating agency with regard to the rating requirements was outside the control of the Bank. All credit enhancements were expired as at 31 December 2009.

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

31 December 2009	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk Management Derivatives					
Fair Value Hedges					
Fixed rate loans	Interest rate swaps	188,689	-	(13,054)	(13,054)
Customer deposits	Interest rate swaps	10,497	11	(538)	(527)
Subtotal fair value hedges		199,186	11	(13,592)	(13,581)
Not designated as hedging instruments					
Term deposits with banks	Interest rate swaps	380,714	705	(933)	(228)
Subtotal risk management derivatives		579,900	716	(14,525)	(13,809)
Client Services Derivatives					
	Spot and forward foreign exchange	2,336,222	27,529	(27,996)	(467)
	Interest rate caps	38,808	752	(752)	-
Subtotal client services derivatives		2,375,030	28,281	(28,748)	(467)
Total derivative instruments		2,954,930	28,997	(43,273)	(14,276)

31 December 2008	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk Management Derivatives					
Fair Value Hedges					
Fixed rate loans	Interest rate swaps	209,928	62	(26,775)	(26,713)
Customer deposits	Interest rate swaps	12,337	59	(351)	(291)
Subtotal fair value hedges		222,265	122	(27,126)	(27,004)
Not designated as hedging instruments					
Time deposits with banks	Interest rate swaps	102,143	-	(97)	(97)
Subtotal risk management derivatives		324,408	122	(27,223)	(27,101)
Client Services Derivatives					
	Spot and forward foreign exchange	3,597,529	68,440	(57,208)	11,232
	Interest rate caps	35,021	383	(383)	-
Subtotal client services derivatives		3,632,550	68,823	(57,591)	11,232
Other	Credit derivative	148,000	-	(44,400)	(44,400)
Total derivative instruments		4,104,958	68,945	(129,214)	(60,269)

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

For the year ended 31 December	Consolidated Statement of Income line item	2009	2008
Interest rate swaps	Net other gains (losses)	(76)	(6)
Forward foreign exchange	Foreign exchange revenue	3,632	2,365
Credit derivative	Net other gains (losses)	3,304	(56,775)
Total net gains (losses) recognised in net income (loss)		6,860	(54,416)

Note 15: Fair Value of Financial Instruments

The following table presents the financial assets and liabilities that are measured at fair value on a recurring basis and classifies such fair value based on the type of input used in the related valuations as described in Note 1.

Management classifies items that are recognised at fair value on a recurring basis based on the Level of Inputs used in their respective fair value determination as described in Note 1.

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

Financial instruments in Level 2 include equity securities not actively traded, certificate of deposits, corporate bonds, mortgage-backed securities and other asset-backed securities, interest rates swaps and caps, forward foreign exchange and, in 2008 only, a credit derivative contract.

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

Items that are recognised at fair value on a recurring basis

31 December	2009				2008			
	Fair value determination				Fair value determination			
	Level 1	Level 2	Level 3	Total carrying amount / Fair value	Level 1	Level 2	Level 3	Total carrying amount / Fair value
Financial assets								
Investments								
Trading								
Debt securities issued by non-US governments	-	7,665	-	7,665	-	7,862	-	7,862
Equity securities	11,674	1,389	8,602	21,665	27,868	-	12,599	40,467
Available for sale								
Certificates of deposit	-	1,039,597	-	1,039,597	-	567,208	-	567,208
US government and federal agencies	-	66,095	-	66,095	-	-	-	-
Debt securities issued by non-US governments	-	12,456	-	12,456	-	9,773	-	9,773
Corporate debt securities	-	349,130	193,014	542,144	-	-	-	-
Mortgage-backed securities – Prime	-	6,506	23,142	29,648	-	-	-	-
Mortgage-backed securities – Subprime and Alt-A	-	32,849	1,897	34,746	-	-	-	-
Mortgage-backed securities – Commercial	-	6,320	-	6,320	-	-	-	-
Asset-backed securities - Student loans	-	58,210	92,507	150,717	-	-	-	-
Asset-backed securities - Automobile loans	-	108,980	3,899	112,879	-	-	-	-
Asset-backed securities - Credit cards	-	4,496	-	4,496	-	-	-	-
Collateralised debts and loans obligations	-	-	18,064	18,064	-	-	-	-
Structured investments vehicles	-	-	49,929	49,929	-	-	-	-
Equity securities	-	72	-	72	-	2,818	-	2,818
Other assets - Derivatives	-	28,997	-	28,997	-	68,945	-	68,945
Financial liabilities								
Other liabilities - Derivatives	-	43,273	-	43,273	-	129,214	-	129,214

Items measured on a recurring basis using significant unobservable inputs

For the year ended 31 December	2009		2008	
	Trading investments	Available for sale investments	Trading investments	Available for sale investments
Carrying amount at beginning of year	12,599	-	12,510	-
Net purchases	296	-	-	-
Realised and unrealised gains recognised in net income	(4,096)	-	(455)	-
Transfers in and out of Level 3	-	382,452	-	-
Foreign exchange translation adjustment	(197)	-	544	-
Carrying amount at end of year	8,602	382,452	12,599	-

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

31 December	2009			2008		
	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
Financial assets						
Cash and deposits with banks	1,986,798	1,986,798	-	2,221,390	2,221,390	-
Investments held to maturity	838,715	691,193	(147,522)	3,195,951	2,758,622	(437,329)
Loans, net of allowance for credit losses						
Commercial	1,927,505	1,927,505	-	2,202,731	2,202,731	-
Consumer	2,290,827	2,290,827	-	2,215,546	2,215,546	-
Financial liabilities						
Customer deposits						
Demand deposits	5,707,948	5,707,948	-	5,952,238	5,952,238	-
Term deposits	2,869,996	2,869,129	867	3,453,937	3,464,756	(10,819)
Deposits from banks	118,675	118,675	-	395,094	395,094	-
Subordinated capital	283,085	223,624	59,461	282,296	256,751	25,545

Note 16: Interest Rate Risk

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

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

31 December 2008	Earlier of contractual maturity or repricing date						
(in $ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash and deposits with banks	2,036	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
Demand deposits	5,103	-	-	-	-	921	6,024
Term deposits	3,068	299	199	206	5	-	3,777
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	-	-

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 $8.1 million. The issuance was by way of private placement in the United Kingdom and pays a fixed coupon of 9.29% until February 2012 when it becomes redeemable in whole at the option of the Bank and 10.29% thereafter until February 2017.

On 27 June 2005, the Bank issued US $150 million of Subordinated Lower Tier II capital notes. The notes were issued at par in two tranches, namely US $90 million in Series A notes due 2015 and US $60 million in Series B notes due 2020. The issuance was by way of private placement with US institutional investors. The notes are listed on the BSX in the specialist debt securities category. The notes issued under Series A 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 during the year amounted to $2.1 million (2008: $1.9 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 2009. The interest payments are calculated until contractual maturity using the current LIBOR rates.

	Earliest date redeemable	Contractual maturity date	Interest rate until date redeemable	Interest rate from earliest date redeemable to contractual maturity	Principal outstanding	Interest payments until contractual maturity		
						Within 1 year	1 to 5 years	After 5 years
Subordinated capital								
Bermuda								
2003 issuance - Series B	27 May 2013	27 May 2018	5.15%	3 months US$ LIBOR + 2.000%	47,000	2,421	7,677	3,782
2005 issuance - Series A	2 July 2010	2 July 2015	4.81%	3 months US$ LIBOR + 1.095%	90,000	4,644	5,007	936
2005 issuance - Series B	2 July 2015	2 July 2020	5.11%	3 months US$ LIBOR + 1.695%	60,000	3,066	12,264	9,043
2008 issuance - Series A	27 May 2013	27 May 2018	7.59%	3 months US$ LIBOR + 4.185%	53,000	4,023	13,628	8,307
2008 issuance - Series B	27 May 2018	27 May 2023	8.44%	3 months US$ LIBOR + 4.929%	25,000	2,110	8,440	13,926
Subsidiary	8 February 2012	8 February 2017	9.29%	10.29%	8,085	751	3,206	2,080
Total					283,085	17,015	50,222	38,074

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 2009 and 2008 (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.

For the year ended 31 December	2009	2008
Basic earnings per share		
Net income for the year	**(213,413)**	4,839
Less: Preferred dividends declared and guarantee fee	**(9,450)**	-
Net (loss) income attributable for common shareholders	**(222,863)**	4,839
Weighted average number of common shares issued (in thousands)	**100,266**	101,616
Weighted average number of common shares held as treasury stock (in thousands)	**(5,201)**	(6,249)
Adjusted weighted average number of common shares (in thousands)	**95,065**	95,367
	(2.34)	0.05
Diluted earnings per share		
Net (loss) income attributable for common shareholders	**(222,863)**	4,839
Weighted average number of common shares issued (in thousands)	**100,266**	101,616
Weighted average number of common shares held as treasury stock (in thousands)	**(5,201)**	(6,249)
Stock options (in thousands)	**-**	1,316
Adjusted weighted average number of diluted common shares (in thousands)	**95,065**	96,683
	(2.34)	0.05

Note 19: Share-Based Payments

As at 31 December 2009, the Bank has two share-based compensation plans being the Stock Option compensation plan and the Executive long-term incentive restricted shares compensation plan (ELTIP). Under share-based compensation plans, unvested awards of options or shares are granted to participants. Awards vest only when employees have rendered the requisite service period.

As at 31 December 2009, the Bank has two share-based settlement plans being the Deferred incentive settlement plan (DIP) and the Directors' retainer settlement plan. Under share-based settlement plans, an amount of otherwise calculated vested compensation payable is settled by the issuance of fully vested shares having a fair value equal to such amount of compensation payable.

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

For the year ended 31 December	2009				2008			
	Stock option plans	ELTIP Outright	ELTIP Performance	Total	Stock option plans	ELTIP Outright	ELTIP Performance	Total
Share-based compensation plans								
Awards granted in year 2005	-	-	-	-	336	-	-	336
Awards granted in year 2006	334	-	-	334	674	-	-	674
Awards granted in year 2007	412	79	-	491	916	152	-	1,068
Awards granted in year 2008	368	51	-	419	1,634	525	-	2,159
Awards granted in year 2009	1,134	864	-	1,998	-	-	-	-
Total share-based compensation	2,248	994	-	3,242	3,560	677	-	4,237
Share-based settlement plans								
Deferred incentive settlement plan				-				1,668
Directors retainers settlement plan				256				234
Total share-based payments				3,498				6,139

Stock option compensation 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 15,000,000 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 2009, the Bank held as treasury stock 3,426,106 common shares (2008: 6,473,180) that can be used to satisfy the Bank's obligations with respect to the Stock Option Plan.

The total intrinsic value of options exercised during the year ended 31 December 2009 was $0.07 million (2008: $2.2 million). As at 31 December 2009, there was $2.4 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 2.51 years.

The weighted average fair value of stock options granted in the year ended 31 December 2009 was $0.60 per stock option (2008: $1.19), calculated using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions:

Year Ended 31 December	2009	2008
Projected dividend yield	3.40%	3.50%
Risk-free interest rate	1.90%	2.70%
Projected volatility	16%	12%
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 US 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.

Executive officers' stock option plan

31 December	2009				2008	
	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	1,889	12.48			1,399	12.91
Transferred in	472	14.86			-	-
Granted	1,322	5.27			320	15.76
Stock dividend granted	-	-			170	12.46
Outstanding at end of year	3,683	10.20	7.08	22	1,889	12.48
Vested and exercisable at end of year	1,702	11.69	5.00	22	1,126	10.34

Employees' stock option plan

31 December	2009				2008	
	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	7,510	14.27			5,175	14.78
Transferred out	(472)	14.86			-	-
Granted	2,181	6.40			2,181	15.73
Stock dividend granted	-	-			722	14.15
Exercised	(22)	5.56			(318)	8.90
Forfeited / cancelled	(452)	13.02			(250)	-
Outstanding at end of year	8,745	12.37	7.05	27	7,510	14.27
Vested and exercisable at end of year	4,393	13.10	5.77	27	3,334	12.27

Executive long-term incentive restricted shares compensation plan

The purpose of the Executive Long-Term Incentive Restricted Share Compensation 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 granted under the ELTIP-Outright plan are granted unvested and vest at a rate of 25 percent at the end of each year for four years. Shares granted under the ELTIP-Performance plan are granted unvested and at the end of each of the following four years, 25 percent either vest (if annual performance targets are met) or forfeit (if annual performance targets are not met).

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 2009, 191,950 shares were granted under the ELTIP-Outright plan (2008: 29,372 shares) and 383,902 shares were granted under the ELTIP-Performance plan (2008: 57,234 shares). The fair value of common shares granted during the year ended 31 December 2009 was $3.7 million (2008: $1.4 million).

As at 31 December 2009, there was $2.8 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 3.0 years.

Deferred incentive settlement plan

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

The fair value of each restricted common share granted under the Deferred Incentive Plan was estimated based on the grant date market price of the Bank's common shares discounted by 25% for their transfer restrictions. The discount for transfer restrictions was based, among other factors, on published restricted stock studies. During the year ended 31 December 2009, no restricted shares were granted (2008: 127,812). The fair value of common shares granted during the year ended 31 December 2009 was nil (2008: $1.7 million).

Directors retainers settlement plan

The Bank's Non-Executive Directors received their annual retainer compensation in the form of fully vested and unrestricted Bank's shares.

Note 20: Share Buy-Back Plans

During the years 2008 and 2009, no common shares were purchased and cancelled. During 2009 nil common shares were purchased to be held as treasury stock at a cost of nil (2008: 2,562,997 shares at a cost of $38.3 million).

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

The BSX is advised monthly of shares repurchased and cancelled by the Bank and shares purchased by both the Bank's Stock Option Trust and the Bank's Charitable Trust.

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

Authorised capital

The Bank's total authorised share capital consists of (i) 260 million ordinary shares of par value BD$1.00, (ii) 100,200,001 preference shares of par value US$0.01and (iii) 50 million preference shares of par value £0.01.

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

Preferred shares

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

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

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

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

Regulatory capital

New capital adequacy rules came into force in Bermuda from 1 January 2009 following the implementation of Basel II, which was developed by the Basel Committee on Banking Supervision (the "Basel Committee"). From this date the Bank adopted Pillar 1 standardised approach to credit and operational risk; it also became subject to Pillar 2 (Supervisory Review and Assessment) and Pillar 3 (Disclosure) from that date. Under the requirements of Pillar 2 of the Basel II framework, the Bank conducts an internal Capital Assessment and Risk Profile (CARP) at least annually. The CARP is used by the BMA to determine and set the Individual Capital Guidance (ICG) for each Bermuda bank.

As at 31 December 2009, the Bank's consolidated Tier 1 and total regulatory capital ratios are 7.2% and 10.1%, respectively. As at 31 December 2009, the Bank is in compliance with the BMA prescribed minimum Tier 1 regulatory capital ratio of 6% and is not in compliance with the ICG prescribed by the BMA for the Bank's total regulatory capital requirement. As described in Note 29: Subsequent events, on a pro-forma basis as at 31 December 2009, the issuance of the common and mandatorily convertible preference shares would increase Butterfield Group's Tier 1 regulatory capital ratio to 13.5% and its total regulatory capital ratio to 18.7%. Both these ratios exceed the minimum regulatory capital requirements as prescribed by the BMA.

Note 23: Stock Split and Stock Dividend

In 2009 the Bank distributed a $0.04 stock dividend to shareholders of record on 16 March 2009, 15 May 2009, 7 August 2009 and 4 November 2009. All prior period per share data have been restated to reflect the 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.

Note 24: Variable Interest Entities

The Bank had no investments in variable interest entities for which it was deemed the primary beneficiary during the years 2008 and 2009.

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	2009	2008
Income taxes in Consolidated Statement of Income		
Current	(361)	3,168
Deferred	31	(126)
Total tax (benefit) expense	(330)	3,042
Deferred income tax asset		
Tax loss carried forward	660	557
Pension liability	1,259	797
Fixed assets	1,687	-
Allowance for compensated absence	29	19
Onerous leases	120	-
Other	36	1,185
Total asset	3,791	2,558
Deferred income tax liability		
Other	-	756
Net deferred income tax asset	3,791	1,802

For the years ended 31 December 2009 and 2008, there were no unrecognised tax benefits and the tax-related interest and penalties recognised in net income were nil.

Note 26: Future Accounting Developments

Consolidation of variable interest entities

In June 2009, the FASB issued FASB Statement No. 167, Amendments to FASB Interpretation No.46(R) (FAS No. 167) (referenced by ASC 105-10-65-1(d)), which addresses which entities shall be considered as variable interest entities and whether such entities shall be consolidated. FAS No. 167 is designed to improve financial reporting by enterprises involved with variable interest entities. FAS No. 167 will be effective for annual and interim periods beginning after 15 November 2009, and therefore, effective from the Bank's first quarter in 2010. Management is currently evaluating the effect of adoption.

Fair Value Measurements and Disclosures

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures which requires additional disclosures about fair value measurements. The new requirements are effective for interim and annual reporting periods beginning after 15 December 2009, and therefore, effective from the Bank's first quarter in 2010. Management is currently evaluating the effect of adoption.

Note 27: Related parties transactions

Butterfield Fulcrum Group Limited

On 11 September 2008, the Bank completed the sale of its international fund administration services businesses to the Fulcrum Group. The sale was accomplished by a share purchase agreement (SPA), through which the Bank sold six subsidiaries that carried out its fund administration services operations. The Bank received, pursuant to the sale, an upfront cash payment of $133 million and a 40% equity ownership in the combined fund administration services business, Butterfield Fulcrum Group Limited. The Bank also has the right to nominate two directors to the Butterfield Fulcrum Group's seven-member board of directors. As at 31 December 2009, these positions were held by Alan R. Thompson, the Bank's President and Chief Executive Officer at the time, and Robert A. Mulderig, Butterfield's Chairman of the Board. Mr. Thompson resigned effective 28 February 2010. A new DIrector will be nominated by the Bank forthwith.

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

As a result of the Butterfield Fulcrum Group transaction, the Bank recognised a gain of $115.5 million in the year ended 31 December 2008, which is included in the Consolidated Statement of Income under Gain on sale of subsidiaries. The Bank accounts for its ongoing 40% equity interest in the Butterfield Fulcrum Group under equity accounting principles.

Employee loan programme

As of 17 May 2005, the Bank established a programme to offer loans with preferential rates to eligible bank employees, subject to certain conditions set by the Bank and provided that such employees meet certain credit criteria. Loan payments are serviced by automatically debiting the employee's chequing or savings account with the Bank. Applications for loans are handled according to the same policies as those for the Bank's regular retail banking clients. The Bank's ability to offer preferential rates on loans depends upon a number of factors, including market conditions, regulations and the Bank's overall profitability. The Bank has the right to change our employee loan policy at any time after notifying participants.

Interested officers and director transactions

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

Charitable Trust

The Bank historically has provided a loan facility to the Charitable Trust which it used to purchase shares in the Bank which amounted to $2.7 million at 31 December 2009 (2008: $11.7 million). As at 31 December 2009, the Charitable Trust held 729,088 Bank's common shares (2008: 706,018 shares).

Note 28: Comparative Information

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

Note 29: Subsequent Events

On 2 March 2010, the Bank announced the issuance of 144.8 million common shares of par value $1 per share, for a consideration of $175 million and the issuance of 375,000 mandatorily convertible preference shares of par value $0.01 per share, for a consideration of $375 million. The net proceeds to the Bank from both issuances, net of transaction costs, is expected to be approximately $520.0 million. On a pro-forma basis as at 31 December 2009, the issuance of the common and mandatorily convertible preference shares would increase Butterfield Group's Tier 1 regulatory capital ratio to 13.5% and its total regulatory capital ratio to 18.7%. Both these ratios exceed the minimum regulatory capital requirements as prescribed by the BMA.

Upon appropriate shareholders' approvals, the Bank intends to conduct a Rights Offering (the "Offering") to existing common shareholders of the Bank, except to individuals in the US and the New Investors. Each right will entitle the holder thereof to subscribe for their pro rata portion of the total of common shares and mandatorily convertible preference shares. The maximum amount of the Offering will be $130 million. The use of the Offering net proceeds will be to repurchase shares from the 2 March 2010 investors at the same price at which the investors originally subscribed the shares.

Following the share issuance, the Bank may restructure its investment portfolios in the quarter ending 31 March 2010. Consequently, the Bank may no longer be able to assert that it will retain the held to maturity investments until recovery of their amortised cost and the securities would be reclassified to available for sale. Should such a change occur, total losses, including previously unrecognised losses on the held to maturity investments, of approximately $150 to $175 million may be recognised in the quarter ending 31 March 2010. It is anticipated that the majority of such losses may be realised through earnings as securities are sold to restructure the portfolio.

SHAREHOLDER INFORMATION

DIRECTORS' AND EXECUTIVE OFFICERS' SHARE INTERESTS AND DIRECTORS' SERVICE CONTRACTS

Pursuant to Regulation 6.8(3) of section IIA of the Bermuda Stock Exchange Listing Regulations, the total interests of all Directors and Executive Officers of the Bank in the shares of the Bank as at 31 December 2009 were 424,315 shares. With the exception of those participating in the Shareholders' Dividend Reinvestment Plan or the Stock Option Plan, no rights to subscribe for shares in the Bank have been granted to or exercised by any Director or Officer. None of the Directors or Executive Officers had any interest in any debt securities issued by the Bank or its subsidiaries.

There are no service contracts with Directors, except for those of Bradford Kopp, President & Chief Executive Officer, whose contract expires on 1 March 2013.

EXCHANGE LISTING

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

BERMUDA STOCK EXCHANGE

(Primary Listing)
Phase 1 – 3rd Floor, Washington Mall,
Church Street
Hamilton HM 11
Bermuda
Tel: (441) 292 7212 or (441) 292 7213
Fax: (441) 292 7619
www.bsx.com

CAYMAN ISLANDS STOCK EXCHANGE

(Secondary Listing)
Elizabethan Square, 4th Floor
P.O. Box 2408
GT, Grand Cayman
Cayman Islands
Tel: (345) 945 6060
Fax: (345) 945 6061
www.csx.com.ky

SHARE DEALING SERVICE

Butterfield Securities (Bermuda) Limited
65 Front Street
Hamilton, HM 12
Bermuda
Tel: (441) 299 3972
Fax: (441) 296 8867
E-mail: info@butterfieldgroup.com

SHARE PRICE

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

Also available on the BSX and CSX websites.

DIVIDEND REINVESTMENT PLAN

Details are available from Butterfield Fulcrum Group (Bermuda) Limited (Phone (441) 299 3882) and on our website, www.butterfieldgroup.com, under "About Us | Investor Relations."

Certain restrictions apply.

REGISTRAR AND TRANSFER AGENT

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WRITTEN NOTICE OF SHARE REPURCHASE PROGRAMME — BSX REGULATION 6.38

The Board of Directors of the Bank announced that there is no intention to repurchase shares over the 12-month period commencing 1 January 2010 pursuant to its share repurchase programme authorised by shareholders on 29 October 1997 and 18 April 2007.

No shares were repurchased in the 12 months to 31 December 2009.

From time to time the Bank's associates, insiders, and insiders' associates as defined in the BSX Regulations may sell shares which may result in being repurchased pursuant to the programme, but under BSX Regulations such trades must not be prearranged 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. The Bank will continue to advise the BSX monthly of shares repurchased and cancelled.

In addition and separate to the above, the Bank's Stock Option Trust may from time to time purchase shares of the Bank through the BSX to satisfy the Bank's obligations with respect to the Stock Option Plan, and such

purchases will likewise be advised to the BSX monthly. No shares were purchased in this way in the 12 months to 31 December 2009.

LARGE SHAREHOLDERS

The following professional nominees at 31 December 2009 were registered holders of 5% or more of the issued share capital:
Harcourt & Co. 13.96%*
Palmar Limited 6.31%
Murdoch & Co. 5.95%
Wilson & Co. 5.24%

*Harcourt & Co. Ltd. is wholly owned by Butterfield Trust (Bermuda) Limited, which is wholly owned by The Bank of N.T. Butterfield & Son Limited.

Known beneficial holdings of 5% or more of issued share capital at that date were:

Bermuda Life Insurance Company Limited 7.30%

PRINCIPAL OFFICES & SUBSIDIARIES

This list does not include all companies in the Group.

The Bank of N.T. Butterfield & Son Limited

Holding Company, Community Banking, Private Banking,
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S.W.I.F.T. BNTB BM HM
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Mailing Address:
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BERMUDA

Butterfield Asset Management Limited

Asset Management and Brokerage Services
65 Front Street
Hamilton, HM 12
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Tel: (441) 299 3817
Fax: (441) 292 9947
E-mail: info@butterfieldgroup.com

Butterfield Asset Management Limited is wholly owned by The Bank of N.T. Butterfield & Son Limited.

Butterfield Trust (Bermuda) Limited

Grosvenor Trust Company Limited

Personal Trust, Corporate Trust and Custody Services
65 Front Street
Hamilton, HM 12
Bermuda
Tel: (441) 299 3980
Fax: (441) 292 1258
E-mail: info@butterfieldgroup.com

Grosvenor Trust Company Limited is wholly owned by Butterfield Trust (Bermuda) Limited.

Butterfield Trust (Bermuda) Limited is wholly owned by The Bank of N.T. Butterfield & Son Limited.

Field Real Estate Holdings Limited

Real Estate Holding
65 Front Street,
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Bermuda
Tel: (441) 295 1111
Fax: (441) 292 4365

THE BAHAMAS

Butterfield Bank (Bahamas) Limited

Private Banking, Personal Trust and Corporate Trust
Managing Director: Robert Lotmore
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Butterfield Bank (Barbados) Limited

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CAYMAN ISLANDS

Butterfield Bank (Cayman) Limited
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Personal Trust and Corporate Trust
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E-mail: cayman@butterfieldgroup.com

GUERNSEY

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Private Banking, Asset Management, Custody and Custodian Trustee
Services, Personal Trust, Coporate Trust and Administered Banking
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Tel: (44) 1481 711 521
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Butterfield Trust (Guernsey) Limited
Fiduciary Services
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HONG KONG

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Personal Trust

Butterfield Capital (HK) Limited
Asset Management

Butterfield Private Office (HK) Limited
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Personal Trust

Butterfield Corporate Services (Malta) Limited
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Butterfield

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