



Butterfield

2010 Financial Results
The Bank of N.T. Butterfield & Son Limited

Audited financial results for the year ended 31 December 2010



February 22, 2011

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

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

PricewaterhouseCoopers
Chartered Accountants

The Bank of N.T. Butterfield & Son Limited

Consolidated Balance Sheet

As at 31 December (In thousands of Bermuda dollars)

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

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

The Bank of N.T. Butterfield & Son Limited

Consolidated Statement of Operations

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

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

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

The Bank of N.T. Butterfield & Son Limited

Consolidated Statement of Changes in Shareholders' Equity and Comprehensive Income (Loss)

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

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

The Bank of N.T. Butterfield & Son Limited

Consolidated Statement of Changes in Shareholders' Equity and Comprehensive Income (Loss) *(continued)*

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

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

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

The Bank of N.T. Butterfield & Son Limited

Consolidated Statement of Cash Flows

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

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

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

The Bank of N.T. Butterfield & Son Limited

Notes to the Consolidated Financial Statements

(In thousands of Bermuda dollars)

Note 1: Nature of business

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

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

Note 2: Significant Accounting Policies

a. Basis of Presentation and Use of Estimates and Assumptions

The accounting and financial reporting policies of the Bank and its subsidiaries conform to generally accepted accounting principles in the United States of America ("GAAP"). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period, and actual results could differ from those estimates.

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

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

b. Basis of Consolidation

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

c. Foreign Currency Translation

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

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

d. Assets Held in Trust or Custody

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

e. Investments

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

Investments are classified primarily as AFS when used to manage the Bank's exposure to interest rate and liquidity movements, as well as to make strategic longer-term investments. AFS investments are carried at fair value in the Consolidated Balance Sheet with unrealised gains and losses reported as net increase or decrease to accumulated other comprehensive income (loss). Debt and equity securities classified as trading investments are carried at fair value in the Consolidated Balance Sheet, with unrealised gains and losses included in the Consolidated Statement of Operations as net realised / unrealised gains (losses) on trading investments.

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

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

The Bank of N.T. Butterfield & Son Limited

Notes to the Consolidated Financial Statements *(continued)*

(In thousands of Bermuda dollars)

Note 2: Significant Accounting Policies *(continued)*

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

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

Recognition of other-than-temporary impairments

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

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

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

Investments in debt securities in unrealised loss positions are analysed as part of management's ongoing assessment of OTTI. When management intends to sell such securities or it is more likely than not that the Bank will be required to sell the securities before recovering the amortised cost, it recognises an impairment loss equal to the full difference between the amortised cost basis and the fair value of those securities. When management does not intend to sell or it is not more likely than not that the Bank will be required to sell such securities before recovering the amortised cost, management estimates cash flows over the remaining lives of the underlying security to assess whether credit losses exist. In determining whether credit losses exist, management considers a variety of factors, including the length of time and extent to which the fair value has been less than cost; adverse conditions specifically related to the industry, geographic area or financial condition of the issuer or underlying collateral of a security; payment structure of the security; changes to the rating of the security by a rating agency; the volatility of the fair value changes; and changes in fair value of the security after the balance sheet date. The degree of judgment involved in determining the recoverable value of an investment security is dependent upon the availability of observable market prices or observable market parameters. When observable market prices and parameters do not exist, judgment is necessary to estimate recoverable value which gives rise to added uncertainty in the valuation process. The valuation process takes into consideration factors such as interest rate changes, movements in credit spreads, default rate assumptions, prepayment assumptions, type and quality of collateral, and market sentiment.

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

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

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

f. Loans

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

Impaired loans

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

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

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

Non accrual

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

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

The Bank of N.T. Butterfield & Son Limited

Notes to the Consolidated Financial Statements *(continued)*

(In thousands of Bermuda dollars)

Note 2: Significant Accounting Policies *(continued)*

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

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

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

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

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

Delinquencies

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

Charge offs

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

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

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

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

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

g. Allowance for Credit Losses

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

Specific Allowances

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

General Allowance

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

Each portfolio of smaller balance, homogeneous loans, including consumer 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.

The Bank of N.T. Butterfield & Son Limited

Notes to the Consolidated Financial Statements *(continued)*

(In thousands of Bermuda dollars)

Note 2: Significant Accounting Policies *(continued)*

i. Premises, Equipment and Computer Software

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

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

j. Derivatives

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

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

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

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

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

k. Employee Future Benefits

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

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

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

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

l. Share-Based Compensation

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

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

The Bank of N.T. Butterfield & Son Limited

Notes to the Consolidated Financial Statements *(continued)*

(In thousands of Bermuda dollars)

Note 2: Significant Accounting Policies *(continued)*

m. Revenue Recognition

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

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

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

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

n. Fair Values

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

Level 1, 2 and 3 valuation inputs

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

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

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

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

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

Cash and deposits with banks

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

Investments and employee future benefits plans' assets

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

Loans

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

Accrued interest

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

Deposits

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

Subordinated capital

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

Derivatives

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

The Bank of N.T. Butterfield & Son Limited

Notes to the Consolidated Financial Statements *(continued)*

(In thousands of Bermuda dollars)

Note 2: Significant Accounting Policies *(continued)*

Reporting units

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

o. Credit Related Arrangements

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

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

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

p. Income Taxes

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

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

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

q. Consolidated Statement of Cash Flows

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

r. Earnings Per Share

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

s. Impairment or Disposal of Long-Lived Assets

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

t. Charitable Trust

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

u. New Accounting Pronouncements

Accounting for transfers of financial assets

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

Accounting for consolidation of variable interest entities

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

The Bank of N.T. Butterfield & Son Limited

Notes to the Consolidated Financial Statements *(continued)*

(In thousands of Bermuda dollars)

Note 2: Significant Accounting Policies *(continued)*

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

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

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

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

Financing receivables and the allowance for credit losses disclosures

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

Note 3: Cash and Deposits with Banks

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 4: Investments

Amortised cost, carrying amounts and estimated fair value

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

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

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

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

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

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 4: Investments (continued)

Unrealised loss positions

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

31 December 2010	Less than 12 months		12 months or more		Total fair value	Total gross unrealised losses
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses		
Available for sale						
Certificates of deposit	176,125	(14)	-	-	176,125	(14)
US government and federal agencies	775,157	(10,459)	23,337	(43)	798,494	(10,502)
Debt securities issued by non-US governments	3,239	(11)	-	-	3,239	(11)
Corporate debt securities guaranteed by non-US governments	108,611	(304)	-	-	108,611	(304)
Corporate debt securities	8,075	(46)	322,995	(5,458)	331,070	(5,504)
Asset-backed securities - Student loans	-	-	146,811	(5,623)	146,811	(5,623)
Structured investments vehicles	-	-	57,646	(5,116)	57,646	(5,116)
Total available for sale securities with unrealised losses	1,071,207	(10,834)	550,789	(16,240)	1,621,996	(27,074)

31 December 2009	Less than 12 months		12 months or more		Total fair value	Total gross unrealised losses
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses		
Available for sale						
Certificates of deposit	226,933	(946)	-	-	226,933	(946)
US government and federal agencies	-	-	62,404	(909)	62,404	(909)
Corporate debt securities	-	-	502,440	(9,154)	502,440	(9,154)
Mortgage-backed securities - Prime	-	-	29,648	(1,319)	29,648	(1,319)
Mortgage-backed securities - Subprime and Alt-A	-	-	26,345	(708)	26,345	(708)
Asset-backed securities - Student loans	-	-	150,716	(5,568)	150,716	(5,568)
Asset-backed securities - Automobile loans	-	-	112,880	(3,139)	112,880	(3,139)
Asset-backed securities - Credit cards	-	-	4,496	(322)	4,496	(322)
Collateralised debt and loan obligations	-	-	18,063	(1,450)	18,063	(1,450)
Structured investment vehicles	49,929	(36,579)	-	-	49,929	(36,579)
Equity securities	72	(53)	-	-	72	(53)
Total available for sale securities with unrealised losses	276,934	(37,578)	906,992	(22,569)	1,183,926	(60,147)

Held to maturity						
Debt securities issued by non-US governments	1,996	(19)	-	-	1,996	(19)
Corporate debt securities	12,961	(781)	183,782	(4,896)	196,743	(5,677)
Mortgage-backed securities - Prime	-	-	17,823	(674)	17,823	(674)
Mortgage-backed securities - Subprime and Alt-A	-	-	120,313	(61,583)	120,313	(61,583)
Mortgage-backed securities - Commercial	-	-	32,801	(7,194)	32,801	(7,194)
Asset-backed securities - Student loans	-	-	9,859	(995)	9,859	(995)
Asset-backed securities - Automobile loans	-	-	8,915	(1,085)	8,915	(1,085)
Asset-backed securities - Commercial	-	-	17,613	(4,295)	17,613	(4,295)
Asset-backed securities - Credit cards	-	-	9,395	(675)	9,395	(675)
Collateralised debt and loan obligations	-	-	101,700	(37,691)	101,700	(37,691)
Structured investment vehicles	63,362	(30,184)	-	-	63,362	(30,184)
Total held to maturity securities with unrecognised losses	78,319	(30,984)	502,201	(119,088)	580,520	(150,072)

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

Certificates of deposit

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

The Bank of N.T. Butterfield & Son Limited

Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 4: Investments (continued)

US government and federal agencies

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

Debt securities issued by non-US governments

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

Corporate debt securities guaranteed by non-US governments

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

Corporate debt securities

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

Asset-backed securities - Student loans

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

Structured investment vehicles

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

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

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

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

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 4: Investments (continued)

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					Carrying amount
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	
Trading						
Debt securities issued by non-US governments	-	910	3,297	3,458	-	7,665
Equity securities	-	-	-	-	13,358	13,358
Total trading	-	910	3,297	3,458	13,358	21,023
Available for sale						
Certificates of deposit	285,920	569,093	184,584	-	-	1,039,597
US government and federal agencies	1	-	27,466	38,628	-	66,095
Debt securities issued by non-US governments	9,956	-	-	2,500	-	12,456
Corporate debt securities	35,068	99,142	407,934	-	-	542,144
Mortgage-backed securities – Prime	-	-	8,140	21,508	-	29,648
Mortgage-backed securities – Subprime and Alt-A	1,287	15,227	14,941	3,291	-	34,746
Mortgage-backed securities – Commercial	6,320	-	-	-	-	6,320
Asset-backed securities - Student loans	-	-	9,342	141,375	-	150,717
Asset-backed securities - Automobile loans	-	84,070	28,809	-	-	112,879
Asset-backed securities - Credit cards	-	-	4,496	-	-	4,496
Collateralised debt and loan obligations	-	-	-	18,064	-	18,064
Structured 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	13,430	2,926,901
Total by currency						
Bermuda dollars	-	-	-	-	183	183
US dollars	102,852	449,925	935,521	411,944	8,000	1,908,242
Other	255,007	410,098	276,897	71,227	5,247	1,018,476
Total investments	357,859	860,023	1,212,418	483,171	13,430	2,926,901

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

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

Receivable from investments sold and payable from investments purchased

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

Disposals of investments

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 4: Investments (continued)

Gains and losses on investments

The following table presents gains and losses on investments:

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

Note 5: Loans

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

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 5: Loans (continued)

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

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

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

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

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

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

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

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 5: Loans (continued)

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

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

The table below presents information about the loan delinquencies:

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 5: Loans (continued)

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

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

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

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

Quality classification definitions

Pass:

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

Special Mention:

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 5: Loans (continued)

Substandard:

A sub-standard loan shall mean a loan whose evident unreliability makes repayment doubtful and there is a threat of loss to the bank unless the unreliability is averted.

Non Accrual:

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

Note 6: Credit Risk Concentrations

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

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

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

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

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 7: Premises, Equipment and Computer Software

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

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

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

Note 8: Goodwill and Other Intangible Assets

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

Goodwill

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

Customer relationship intangible assets

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

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

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 8: Goodwill and Other Intangible Assets (continued)

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

Note 9: Customer Deposits and Deposits from Banks

a) By Maturity

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

b) By Type and Location

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 10: Employee Future Benefits

The Bank maintains trustee pension plans including non-contributory defined benefit plans and a number of defined contribution plans, and provides post-retirement medical benefits to its qualifying retirees. The defined benefit provisions under the pension plans are generally based upon years of service and average salary during the final years of employment. The defined benefit plans are not open to new participants and are non-contributory and the funding required is provided by the Bank, based upon the advice of an independent actuary.

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

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

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

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 10: Employee Future Benefits (continued)

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

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

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

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

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 10: Employee Future Benefits (continued)

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

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

Investments policies and strategies

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

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

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

Fair value measurements of pension plans assets

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

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

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

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

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

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

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

The Bank of N.T. Butterfield & Son Limited

Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 11: Commitments and Credit Related Arrangements

Commitments

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

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

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

Credit Related Arrangements

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

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

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

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

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

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

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

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

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

Legal Proceedings

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 12: Interest Income

Loans

The following table presents the components of loan interest income:

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

Note 13: Operating Segments

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

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

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

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

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

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

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

The Switzerland segment provides fiduciary services.

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

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

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 13: Operating Segments (continued)

Total Assets by Segment

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

Segment Analysis

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

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

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

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 13: Operating Segments (continued)

For the year ended 31 December 2009	Net interest income		Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expense	Net income before gains and losses and central allocations	Gains and losses	Central allocations*	Net income
	Customer	Inter- segment								
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)
Overseas										
Barbados	12,188	11	(2,164)	3,232	13,267	12,920	347	679	(25)	1,001
Cayman	27,883	6,479	(7,787)	34,809	61,384	50,298	11,086	261	(1,845)	9,502
Guernsey	10,933	849	-	21,904	33,686	29,341	4,345	(298)	(590)	3,457
Hong Kong	10	-	-	2,633	2,643	2,483	160	(10,147)	-	(9,987)
Malta	13	-	-	1,526	1,539	1,553	(14)	(2,240)	-	(2,254)
Switzerland	4	-	-	306	310	3,075	(2,765)	(235)	-	(3,000)
The Bahamas	2,390	220	-	5,332	7,942	7,016	926	(885)	(160)	(119)
United Kingdom	18,728	(3,555)	(594)	10,847	25,426	19,280	6,146	(9,381)	(345)	(3,580)
Sub-total overseas	72,149	4,004	(10,545)	80,589	146,197	125,966	20,231	(22,246)	(2,965)	(4,980)
Total before eliminations	186,907	(378)	(104,879)	157,874	239,524	305,981	(66,457)	(146,956)	-	(213,413)
Less: inter-segment eliminations **	-	378	-	(6,169)	(5,791)	(5,791)	-	-	-	-
Total	186,907	-	(104,879)	151,705	233,733	300,190	(66,457)	(146,956)	-	(213,413)

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

** Principally rent and management fees.

Revenues by Products and Services

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

Note 14: Accounting for Derivative Instruments and Risk Management

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

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

Certain derivative contracts contain credit-risk-related contingent features in which the counterparty has the option to accelerate cash settlement of the Bank's net derivative liabilities with the counterparty in the event the Bank's credit rating falls below specified levels or the liabilities 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 2010 was \$17.4 million. The Bank has posted \$15.4 million collateral against these liabilities and therefore the maximum amount of termination payments that could have been required at 31 December 2010 was \$2 million. Accelerated settlement because of such events would not affect net income and would not have a material effect on the consolidated financial position or liquidity of the Bank.

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

Notional amounts

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

The Bank of N.T. Butterfield & Son Limited

Notes to the Consolidated Financial Statements *(continued)*

(In thousands of Bermuda dollars)

Note 14: Accounting for Derivative Instruments and Risk Management *(continued)*

Risk management derivatives

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

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

Fair value hedges

Derivatives are designated as fair value hedges to minimise the Bank's exposure to changes in the fair value of assets and liabilities due to movements in interest rates. The Bank enters into interest rate swaps to convert its fixed-rate long-term loans to floating-rate loans, and convert fixed-rate deposits to floating-rate deposits. Changes in fair value of these derivatives are recognised in income. For fair value hedges, the Bank applies the "shortcut" method of accounting, which assumes there is no ineffectiveness in a hedge. As a result, changes recorded in the fair value of the hedged item are equal to the offsetting gain or loss on the derivative and are reflected in the same line item. For the years ended 31 December 2010 and 2009, no gains or losses were realised from ineffective portions of fair value hedges.

Cash flow hedges

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

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

Derivatives not formally designated as hedges

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

Client service derivatives

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

Credit derivatives

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

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 14: Accounting for Derivative Instruments and Risk Management (continued)

31 December 2010	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk Management Derivatives					
Fair Value Hedges					
Fixed rate loans	Interest rate swaps	206,473	275	(16,971)	(16,696)
Customer deposits	Interest rate swaps	9,148	-	(206)	(206)
Subtotal fair value hedges		215,621	275	(17,177)	(16,902)
Not designated as hedging instruments					
	Interest rate swaps	360,000	1,481	(555)	926
	Currency swaps	264,843	4,028	(1)	4,027
Subtotal not designated as hedges		624,843	5,509	(556)	4,953
Subtotal risk management derivatives		840,464	5,784	(17,733)	(11,949)
Client Services Derivatives					
	Spot and forward foreign exchange	4,842,989	39,774	(39,755)	19
	Interest rate caps	37,435	389	(389)	-
Subtotal client services derivatives		4,880,424	40,163	(40,144)	19
Total derivative instruments		5,720,888	45,947	(57,877)	(11,930)
31 December 2009					
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					
	Interest rate swaps	380,714	705	(933)	(228)
	Currency swaps	167,516	327	(2,946)	(2,619)
Subtotal not designated as hedges		548,230	1,032	(3,879)	(2,847)
Subtotal risk management derivatives		747,416	1,043	(17,471)	(16,428)
Client Services Derivatives					
	Spot and forward foreign exchange	2,168,705	27,202	(25,050)	2,152
	Interest rate caps	38,808	752	(752)	-
Subtotal client services derivatives		2,207,513	27,954	(25,802)	2,152
Total derivative instruments		2,954,929	28,997	(43,273)	(14,276)

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

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 15: Fair Value of Financial Instruments

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

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

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

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

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

Items that are recognised at fair value on a recurring basis

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

Transfers of securities

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 15: Fair Value of Financial Instruments (continued)

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

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

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

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

Note 16: Interest Rate Risk

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

31 December 2010	Earlier of maturity or repricing date						Total
	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	
(in \$ millions)							
Assets							
Cash and deposits with banks	2,107	-	2	-	-	167	2,276
Investments	1,320	14	200	1,115	92	69	2,810
Loans	3,588	63	48	138	109	97	4,043
Premises, equipment and computer software	-	-	-	-	-	262	262
Other assets	-	-	-	-	-	232	232
Total assets	7,015	77	250	1,253	201	827	9,623
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	809	809
Demand deposits	4,569	-	-	-	-	977	5,546
Term deposits	2,042	376	137	126	1	-	2,682
Other liabilities	-	-	-	-	-	303	303
Subordinated capital	90	-	-	168	25	-	283
Total liabilities and shareholders' equity	6,701	376	137	294	26	2,089	9,623
Interest rate swaps	448	-	(339)	(48)	(61)	-	-
Interest rate sensitivity gap	762	(299)	(226)	911	114	(1,262)	-
Cumulative interest rate sensitivity gap	762	463	237	1,148	1,262	-	-

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 16: Interest Rate Risk (continued)

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

Note 17: Subordinated Capital

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

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

On 27 June 2005, the Bank issued US \$150 million of Subordinated Lower Tier II capital notes. The notes were issued at par in two tranches, namely US \$90 million in Series A notes due 2015 and US \$60 million in Series B notes due 2020. The issuance was by way of private placement with US institutional investors. The notes are listed on the BSX in the specialist debt securities category. The notes issued under Series A paid a fixed coupon of 4.81% until 2 July 2010 after which the coupon rate became floating and the principal became redeemable in whole at the Bank's option. At 31 December 2010 the Bank has not redeemed any of the Notes issued under Series A and effective 2 July 2010 the coupon rate became floating at 3 months US\$ LIBOR + 1.095%. The Series B notes pay 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 pay 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 pay a fixed coupon of 8.44% until 27 May 2018 when they also become redeemable in whole at the Bank's option. The Series A notes were priced at a spread of 4.34% over the 5-year US Treasury yield and the Series B notes were priced at a spread of 4.51% over the 10-year US Treasury yield.

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

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

Subordinated capital	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
Bermuda								
2003 issuance - Series B	27 May 2013	27 May 2018	5.15%	3 months US\$ LIBOR + 2.000%	47,000	2,421	6,341	2,704
2005 issuance - Series A	2 July 2010	2 July 2015	4.81%	3 months US\$ LIBOR + 1.095%	90,000	1,466	5,499	-
2005 issuance - Series B	2 July 2015	2 July 2020	5.11%	3 months US\$ LIBOR + 1.695%	60,000	3,066	12,566	5,698
2008 issuance - Series A	27 May 2013	27 May 2018	7.59%	3 months US\$ LIBOR + 4.185%	53,000	4,023	11,990	5,943
2008 issuance - Series B	27 May 2018	27 May 2023	8.44%	3 months US\$ LIBOR + 4.929%	25,000	2,110	8,440	11,818
Subsidiary	8 February 2012	8 February 2017	9.29%	10.29%	7,799	724	3,171	1,204
Total					282,799	13,810	48,007	27,367

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 18: Earnings per Share

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

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

Note 19: Share-Based Payments

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

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

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

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

Note 19: Share-Based Payments (continued)

2010 Stock Option Plan

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

- o Time Vesting Condition – 50% of each option award is granted in the form of Time Vested Options and vests 25% on the 2nd, 3rd, 4th and 5th anniversary of the effective grant date subject to employee's continued employment ; and
- o Performance Vesting Condition - 50% of each option award is granted in the form of Performance Options and vests on a "Valuation Event" date (date any of the 2 March 2010 Investors transfers at least 5% of total number of shares or the date that there is a change in control) and any of the New Investors achieve a Multiple of Invested Capital ("MOIC") based on predetermined MOICs. In the event of a Valuation Event and the MOIC reaching 200%, all options would vest.

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

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

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

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

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

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

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

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

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

The Bank of N.T. Butterfield & Son Limited

Notes to the Consolidated Financial Statements *(continued)*

(In thousands of Bermuda dollars)

Note 19: Share-Based Payments *(continued)*

Deferred incentive settlement plan

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

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

Directors' Compensation

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

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

Note 20: Share Buy-Back Plans

During the years 2009 and 2010, no common shares were purchased.

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 must be 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: Disposal of subsidiaries

Divestiture of Hong Kong and Malta

On 8 September 2010, the Bank completed the sale of its trust, wealth management and advisory businesses in Hong Kong and its trust operation in Malta to the founder from whom the businesses were acquired. Under the transaction Nic Bentley, founder and previously Chairman of the Bentley Reid Group, reacquired the Malta and Hong Kong businesses which will now operate under the Bentley Reid name. The sale resulted in a loss of \$7.4 million being recorded under realised loss on disposal of subsidiaries in the Statement of Operations.

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

Note 22: Capital Structure

Authorised capital

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

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

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

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

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

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

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

The Bank of N.T. Butterfield & Son Limited

Notes to the Consolidated Financial Statements *(continued)*

(In thousands of Bermuda dollars)

Note 22: Capital Structure *(continued)*

Preference shares

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

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

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

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

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

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

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

Note 23: Variable Interest Entities

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

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

Note 24: Income Taxes

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

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

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

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

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

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

The Bank of N.T. Butterfield & Son Limited

Notes to the Consolidated Financial Statements *(continued)*

(In thousands of Bermuda dollars)

Note 25: Related party transactions

Butterfield Fulcrum Group Limited

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

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

See Note 27: Subsequent events for additional disclosure.

Employee loan programme

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

Interested officers and director transactions

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

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

Charitable Trust

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

Capital transaction

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

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

Liquidity facility agreement

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

Balance sheet management advisory agreement

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

Cash held with related parties

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

Note 26: Comparative Information

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

Note 27: Subsequent Events

Disposal of investment in Butterfield Fulcrum Group Limited

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

The Bank of N.T. Butterfield & Son Limited
Notes to the Consolidated Financial Statements *(continued)*

(In thousands of Bermuda dollars)

Note 27: Subsequent Events *(continued)*

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

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

Disposal of investment in SIV

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

Settlement of non accrual loan

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

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