



Butterfield

*Third Quarter 2010*

The Bank of N.T. Butterfield & Son Limited

Report to shareholders and financial results for the nine months ended 30 September 2010

# The Bank of N.T. Butterfield & Son Limited

## Unaudited Consolidated Balance Sheet

(In thousands of Bermuda dollars)

	As at	
	30 September 2010	31 December 2009
<b>Assets</b>		
Cash and demand deposits with banks	316,863	551,249
Term deposits with banks	1,750,496	1,435,549
<b>Total cash and deposits with banks</b>	<b>2,067,359</b>	<b>1,986,798</b>
<b>Investments</b>		
Trading	27,795	29,330
Available for sale	2,711,216	2,067,163
Held to maturity	-	838,715
<b>Total investments</b>	<b>2,739,011</b>	<b>2,935,208</b>
Loans, net of allowance for credit losses	4,109,023	4,218,332
Premises, equipment and computer software	264,214	244,242
Accrued interest	21,715	16,285
Goodwill	16,120	16,712
Intangible assets	40,519	50,129
Investments in affiliates	34,340	38,518
Other assets	86,753	88,378
<b>Total assets</b>	<b>9,379,054</b>	<b>9,594,602</b>
<b>Liabilities</b>		
<b>Deposits</b>		
Non-interest bearing	976,445	954,191
Interest bearing		
Customers	7,010,598	7,623,753
Banks	81,803	118,675
<b>Total deposits</b>	<b>8,068,846</b>	<b>8,696,619</b>
Employee future benefits	79,068	141,741
Accrued interest	9,818	12,391
Preference shares dividend payable	715	1,337
Other liabilities	95,039	103,969
<b>Total other liabilities</b>	<b>184,640</b>	<b>259,438</b>
Subordinated capital	282,856	283,085
<b>Total liabilities</b>	<b>8,536,342</b>	<b>9,239,142</b>
<b>Shareholders' equity</b>		
Common share capital (\$0.01 par; authorised shares 26,000,000,000 (2009: \$1 par; authorised shares 260,000,000) issued and outstanding: 549,137,166 (2009: 99,060,111)	5,492	99,060
Preferred share capital (\$0.01 par; \$1,000 liquidation preference) issued and outstanding: 200,000 (2009: 200,000)	2	2
Contingent convertible preferred share capital (\$0.01 par) issued and outstanding: 7,795,369 (2009: nil)	78	-
Additional paid-in capital	1,381,784	764,206
Accumulated deficit	(492,273)	(283,964)
Less: treasury common shares (2,401,593 shares; 2009: 3,426,106 shares)	(31,116)	(34,660)
Accumulated other comprehensive loss	(21,255)	(189,184)
<b>Total shareholders' equity</b>	<b>842,712</b>	<b>355,460</b>
<b>Total liabilities and shareholders' equity</b>	<b>9,379,054</b>	<b>9,594,602</b>

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

**The Bank of N.T. Butterfield & Son Limited**  
**Unaudited Consolidated Statements of Operations**

(In thousands of Bermuda dollars, except per share data)

	For the three month period ended		For the nine month period ended	
	30 September 2010	30 September 2009	30 September 2010	30 September 2009
<b>Non-interest income</b>				
Asset management	6,187	6,591	18,791	20,715
Banking	8,657	8,797	27,361	27,509
Foreign exchange revenue	7,314	7,551	24,811	25,414
Trust	7,905	7,347	22,778	21,012
Custody and other administration services	3,353	3,321	10,558	10,305
Other non-interest income (loss)	602	(848)	7,898	8,614
<b>Total non-interest income</b>	<b>34,018</b>	<b>32,759</b>	<b>112,197</b>	<b>113,569</b>
<b>Interest income</b>				
Loans	50,555	53,921	148,261	159,890
Investments	6,699	9,058	19,809	38,393
Deposits with banks	2,992	2,069	8,312	10,643
<b>Total interest income</b>	<b>60,246</b>	<b>65,048</b>	<b>176,382</b>	<b>208,926</b>
<b>Interest expense</b>				
Deposits	11,355	14,428	35,149	55,050
Subordinated capital	2,665	3,705	9,463	11,411
Securities sold under repurchase agreements	-	-	-	258
<b>Total interest expense</b>	<b>14,020</b>	<b>18,133</b>	<b>44,612</b>	<b>66,719</b>
<b>Net interest income before provision for credit losses</b>	<b>46,226</b>	<b>46,915</b>	<b>131,770</b>	<b>142,207</b>
Provision for credit losses	(16,114)	(1,877)	(24,777)	(3,987)
<b>Net interest income after provision for credit losses</b>	<b>30,112</b>	<b>45,038</b>	<b>106,993</b>	<b>138,220</b>
Net trading gains	489	594	459	1,164
Net realised (losses) gains on available for sale investments	(406)	571	(107,289)	240
Other-than-temporary impairment losses on available for sale investments	-	-	(60,522)	-
Net realised gains on held to maturity investments	-	322	-	2,391
Other-than-temporary impairment losses on held to maturity investments	-	-	-	(40,949)
Realised loss on disposal of subsidiaries	(7,425)	-	(7,425)	-
Net other (losses) gains	(273)	1,481	(2,781)	6,354
<b>Total revenue</b>	<b>56,515</b>	<b>80,765</b>	<b>41,632</b>	<b>220,989</b>
<b>Non-interest expense</b>				
Salaries and other employee benefits	37,387	36,644	124,593	119,302
Technology and communications	13,995	12,986	39,812	36,950
Property	6,831	7,140	20,528	20,971
Professional and outside services	3,798	4,675	9,627	13,218
Non-income taxes	4,202	3,548	11,585	10,058
Amortisation of intangible assets	1,439	1,609	4,330	4,645
Marketing	1,013	1,297	3,172	4,051
Other expenses	6,699	5,254	25,159	15,968
<b>Total non-interest expense</b>	<b>75,364</b>	<b>73,153</b>	<b>238,806</b>	<b>225,163</b>
<b>Net (loss) income before income taxes</b>	<b>(18,849)</b>	<b>7,612</b>	<b>(197,174)</b>	<b>(4,174)</b>
Income taxes benefit (expense)	211	(601)	2,365	737
<b>Net (loss) income</b>	<b>(18,638)</b>	<b>7,011</b>	<b>(194,809)</b>	<b>(3,437)</b>
Cash dividends declared on preferred shares	(4,000)	(4,400)	(12,000)	(4,400)
Preferred shares guarantee fee	(500)	(550)	(1,500)	(550)
<b>Net (loss) income attributable to common shareholders</b>	<b>(23,138)</b>	<b>2,061</b>	<b>(208,309)</b>	<b>(8,387)</b>
<b>(Loss) Gain per common share</b>				
Basic	(0.04)	0.02	(0.47)	(0.09)
Diluted	(0.04)	0.02	(0.47)	(0.09)

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

**The Bank of N.T. Butterfield & Son Limited**  
**Unaudited Consolidated Statements of Changes in Shareholders' Equity**

(In thousands of Bermuda dollars)

	For the nine month period ended	
	30 September 2010	30 September 2009
<b>Common share capital issued and outstanding</b>		
Balance at beginning of period (2010: 99,060,111 shares; 2009: 98,399,858 shares)	99,060	98,400
Issuance (2010: 147,703,758 shares; 2009: nil shares)	144,837	-
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 mandatory and contingent preference shares (2010: 310,302,028 shares; 2009: nil shares)	3,103	-
Conversion of contingent value preference shares (2010: 468,788 shares; 2009: nil shares)	5	-
<b>Balance at end of period (2010: 549,137,166 shares; 2009: 98,399,858 shares)</b>	<b>5,492</b>	<b>98,400</b>
<b>Preferred shares</b>		
Balance at beginning of period (2010: 200,000 shares; 2009: nil shares)	2	-
Issuance (2010: nil; 2009: 200,000 shares)	-	2
<b>Balance at end of period (2010: 200,000 shares; 2009: 200,000 shares)</b>	<b>2</b>	<b>2</b>
<b>Mandatorily convertible preferred shares</b>		
Balance at beginning of period (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)	-
<b>Balance at end of period (2010: nil shares; 2009: nil shares)</b>	<b>-</b>	<b>-</b>
<b>Contingent convertible preferred shares</b>		
Balance at beginning of period (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)	-
<b>Balance at end of period (2010: nil shares; 2009: nil shares)</b>	<b>-</b>	<b>-</b>
<b>Contingent value convertible preferred shares</b>		
Balance at beginning of period (2010: nil shares; 2009: nil shares)	-	-
Rights conversion (2010: 8,264,157 shares; 2009: nil shares)	83	-
Conversion to common shares (2010: 468,788 shares; 2009: nil shares)	(5)	-
<b>Balance at end of period (2010: 7,795,369 shares; 2009: nil shares)</b>	<b>78</b>	<b>-</b>
<b>Additional paid in capital</b>		
Balance at beginning of period	764,206	604,116
Stock dividends	-	(25,684)
Stock option plan expense	3,309	1,675
Issuance of common shares	30,192	-
Issuance of preferred shares	-	199,998
Issuance of mandatorily convertible preferred shares	281,767	-
Issuance of contingent convertible preferred shares	93,229	-
Reduction of par value of common shares	241,429	-
Conversion of mandatorily and contingent convertible preferred shares	(3,103)	-
Cost of capital raise and rights offering	(29,245)	(11,783)
<b>Balance at end of period</b>	<b>1,381,784</b>	<b>768,322</b>
<b>Accumulated deficit</b>		
Balance at beginning of period	(283,964)	(35,006)
Net loss for period	(194,809)	(3,437)
Cash dividends declared on common shares	-	(11,282)
Cash dividends declared on preferred shares	(12,000)	(4,400)
Stock dividend	-	(11,700)
Preferred shares guarantee fee	(1,500)	(550)
<b>Balance at end of period</b>	<b>(492,273)</b>	<b>(66,375)</b>
<b>Treasury common shares</b>		
Balance at beginning of period (2010: 3,426,106 shares; 2009: 6,473,180 shares)	(34,660)	(82,700)
Net purchases, sales and transfers of treasury shares	3,544	40,477
<b>Balance at end of period (2010: 2,401,593 shares; 2009: 3,920,412 shares)</b>	<b>(31,116)</b>	<b>(42,223)</b>

# The Bank of N.T. Butterfield & Son Limited

## Unaudited Consolidated Statements of Changes in Shareholders' Equity (continued)

(In thousands of Bermuda dollars)

	For the nine month period ended	
	30 September 2010	30 September 2009
<b>Accumulated other comprehensive loss</b>		
Balance at beginning of period	(189,184)	(66,370)
Net change in unrealised gains (losses) on translation of net investment in foreign operations	(3,292)	470
Net change in unrealised gains (losses) on available for sale investments	42,073	(36,474)
Net change in unrealised non-credit losses on held to maturity investments	58,557	-
Net change in employee future benefits liability	70,591	3,401
<b>Balance at end of period</b>	<b>(21,255)</b>	<b>(98,973)</b>
<b>Total shareholders' equity</b>	<b>842,712</b>	<b>659,153</b>
<b>Comprehensive loss</b>		
Net loss	(194,809)	(3,437)
Other comprehensive income (loss)	167,929	(32,603)
<b>Total comprehensive loss</b>	<b>(26,880)</b>	<b>(36,040)</b>
<b>Components of accumulated other comprehensive loss</b>		
Cumulative unrealised gains and losses on translation of investment in foreign operations	(10,942)	(11,469)
Cumulative unrealised gains and losses on available for sale investments	(14,918)	(38,985)
Cumulative change in employee future benefits liability	4,605	(48,519)
<b>Balance at end of period</b>	<b>(21,255)</b>	<b>(98,973)</b>

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

**The Bank of N.T. Butterfield & Son Limited**  
**Unaudited Consolidated Statements of Cash Flows**

(In thousands of Bermuda dollars)

	For the nine month period ended	
	30 September 2010	30 September 2009
<b>Cash flows from operating activities</b>		
Net loss	(194,809)	(3,437)
Adjustments to reconcile net loss to operating cash flows:		
Depreciation and amortization	16,906	21,225
Decrease in carrying value of investments in affiliates	4,178	1,586
Share-based payments	6,853	2,476
(Gain) loss on sale of premises and equipment	(8)	9
Net gains on credit derivative instruments	-	(3,304)
Net realised gains and unrealised gains on private equity investments	-	(2,987)
Net realised losses and other-than-temporary impairment on held to maturity investments	-	38,558
Net realised losses (gains) and other-than-temporary impairment on sale of available for sale investments	167,811	(240)
Realised loss on disposal of subsidiaries	7,425	-
Provision for credit losses	24,777	3,987
Changes in operating assets and liabilities:		
(Increase) Decrease in accrued interest receivable	(5,481)	21,650
(Increase) Decrease in other assets	(17,269)	1,090
Decrease in accrued interest payable	(2,553)	(5,313)
Decrease in other liabilities	(3,405)	(21,807)
	4,425	53,493
Net change in trading investments	19,554	20,746
<b>Cash provided by operating activities</b>	<b>23,979</b>	<b>74,239</b>
<b>Cash flows from investing activities</b>		
Net (decrease) increase in term deposits with banks	(326,927)	320,345
Net additions to premises, equipment and computer software	(34,092)	(42,638)
Net decrease in loans	68,928	105,322
Held to maturity investments: proceeds from maturities	18,787	787,148
Held to maturity investments: purchases	-	(2,056)
Available for sale investments: proceeds from sale and maturities	5,072,141	1,450,666
Available for sale investments: purchases	(4,998,626)	(1,467,064)
Cash and demand deposits held by subsidiaries at time of sale	(4,543)	-
Purchase of subsidiary	(114)	-
<b>Cash (used in) provided by investing activities</b>	<b>(204,446)</b>	<b>1,151,723</b>
<b>Cash flows from financing activities</b>		
Net decrease in demand and term deposit liabilities	(560,844)	(1,602,863)
Issuance of common share capital	295,000	-
Issuance of preferred share capital	385,001	200,000
Cost of issuing share capital and rights	(29,222)	(11,783)
Common shares repurchased	(130,000)	-
Proceeds from dividend re-investment	-	2,160
Treasury stock	-	133
Cash dividends paid on common shares	-	(11,181)
Cash dividends paid on preferred shares	(12,622)	(3,067)
Preferred shares guarantee fee paid	(1,500)	(550)
<b>Cash used in financing activities</b>	<b>(54,187)</b>	<b>(1,427,151)</b>
Net effect of exchange rates on cash and demand deposits with banks	268	(1,851)
<b>Net decrease in cash and demand deposits with banks</b>	<b>(234,386)</b>	<b>(203,040)</b>
<b>Cash and demand deposits with banks at beginning of period</b>	<b>551,249</b>	<b>572,441</b>
<b>Cash and demand deposits with banks at end of period</b>	<b>316,863</b>	<b>369,401</b>

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

# The Bank of N.T. Butterfield & Son Limited

## Notes to the Unaudited Consolidated Financial Statements

(In thousands of Bermuda dollars)

### Note 1: Significant Accounting Policies

The accompanying unaudited interim consolidated financial statements of The Bank of N.T. Butterfield & Son Limited (the "Bank" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and should be read in conjunction with the Bank's audited financial statements for the year ending 31 December 2009. To facilitate comparison of information across periods, certain reclassifications have been made to prior year amounts to conform to the current period's presentation.

In the opinion of Management, these unaudited interim consolidated financial statements reflect all adjustments (consisting principally of normal recurring accruals) considered necessary for a fair presentation of the Bank's financial position and results of operations as at the end of and for the periods presented. Consequently, the Bank's results for interim periods are not necessarily indicative of results for the full year.

The preparation of financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While Management believes that the amounts included in the unaudited interim consolidated financial statements reflect its best estimates and assumptions, actual results could differ from those estimates. The Bank's principal estimates include:

- 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

The following accounting developments were issued during the nine months ended 30 September 2010. These developments did not have a material impact on the Bank's financial position or results of operations.

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

In January 2010, the Financial Accounting Standards Board ("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 purchases, sales, issuances and settlements which will become effective for fiscal years beginning after 15 December 2010 and for interim periods within those fiscal years.

#### Accounting for transfers of financial assets

In June 2009, the 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.

#### Accounting for consolidation of variable interest entities

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

The new guidance also amended previous guidance to require enhanced disclosures that provide users of financial statements with more transparent information about an enterprise's involvement with a variable interest entity. The enhanced disclosures are required for any enterprise that holds a variable interest in a variable interest entity. The guidance was effective for all interim and annual periods beginning after 15 November 2009. Earlier application was prohibited.

#### 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 will significantly expand the existing requirements and is a clear reflection that the board is responding to a demand for greater transparency into a company's exposure to credit losses from "lending" type arrangements. The extensive new disclosures of information will become 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 will be required for periods beginning after 15 December 2010. The Bank is currently evaluating the required disclosures for subsequent periods.

#### Adoption of modification to Bank's charge off policy

During the quarter ended 30 September 2010, the Bank expanded its charge off policy to include commercial loans. The revised policy now requires commercial loans to be either fully or partially charged down to fair value of collateral securing the loans when:

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

# The Bank of N.T. Butterfield & Son Limited

## Notes to the Unaudited Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

### Note 2: Cash and Deposits with Banks

	30 September 2010			31 December 2009		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
<b>Unrestricted</b>						
<b>Non-interest earning</b>						
Cash and demand deposits	122,133	32,149	154,282	30,030	52,914	82,944
<b>Interest earning</b>						
Deposits maturing within three months and on demand	208,092	1,662,893	1,870,985	247,589	1,628,336	1,875,925
Deposits maturing between three to six months	-	7,436	7,436	-	2,030	2,030
Deposits maturing between six to twelve months	-	1,582	1,582	-	2,239	2,239
Sub-total - Interest earning	208,092	1,671,911	1,880,003	247,589	1,632,605	1,880,194
<b>Total unrestricted cash and deposits</b>	<b>330,225</b>	<b>1,704,060</b>	<b>2,034,285</b>	<b>277,619</b>	<b>1,685,519</b>	<b>1,963,138</b>
<b>Affected by drawing restrictions related to minimum reserve and derivative margin requirements</b>						
<b>Non-interest earning</b>						
Demand deposits	-	11,355	11,355	-	8,463	8,463
<b>Interest earning</b>						
Deposits maturing within three months	21,166	553	21,719	14,871	326	15,197
<b>Total restricted deposits</b>	<b>21,166</b>	<b>11,908</b>	<b>33,074</b>	<b>14,871</b>	<b>8,789</b>	<b>23,660</b>
<b>Total cash and deposits with banks</b>	<b>351,391</b>	<b>1,715,968</b>	<b>2,067,359</b>	<b>292,490</b>	<b>1,694,308</b>	<b>1,986,798</b>



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

(In thousands of Bermuda dollars)

**Note 3: Investments**

**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.

**Amortised cost, carrying amounts and estimated fair value**

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

	30 September 2010				31 December 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
<b>Available for sale</b>								
Certificates of deposit	1,378,635	4,989	(29)	1,383,595	1,036,190	4,353	(946)	1,039,597
US government and federal agencies	394,076	395	(917)	393,554	66,915	89	(909)	66,095
Debt securities issued by non-US governments	111,489	2,274	(6)	113,757	12,456	-	-	12,456
Corporate debt securities guaranteed by non-US governments	175,757	142	(166)	175,733	-	-	-	-
Corporate debt securities	394,947	51	(5,478)	389,520	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	153,150	-	(5,020)	148,130	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	122,054	-	(15,198)	106,856	86,508	-	(36,579)	49,929
Equity securities	75	-	(4)	71	125	-	(53)	72
<b>Total available for sale</b>	<b>2,730,183</b>	<b>7,851</b>	<b>(26,818)</b>	<b>2,711,216</b>	<b>2,121,368</b>	<b>5,942</b>	<b>(60,147)</b>	<b>2,067,163</b>

There were no held to maturity investments as at 30 September 2010.

	Amortised cost	Non-credit impairments recognised in AOCI	Carrying amount	Gross unrecognised gains	Gross unrecognised losses	Fair value
<b>31 December 2009</b>						
<b>Held to maturity</b>						
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
<b>Total held to maturity</b>	<b>900,273</b>	<b>(61,558)</b>	<b>838,715</b>	<b>2,550</b>	<b>(150,072)</b>	<b>691,193</b>

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

(In thousands of Bermuda dollars)

**Note 3: Investments (continued)**

**Unrealised loss positions**

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

	Less than 12 months		12 months or more		Total fair value	Total gross unrealised losses
	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses		
<b>30 September 2010</b>						
<b>Available for sale</b>						
Certificates of deposit	210,376	(29)	-	-	210,376	(29)
US government and federal agencies	176,114	(777)	31,607	(140)	207,721	(917)
Debt securities issued by non-US governments	17,736	(6)	-	-	17,736	(6)
Corporate debt securities guaranteed by non-US governments	105,141	(166)	-	-	105,141	(166)
Corporate debt securities	1,124	(33)	371,347	(5,445)	372,471	(5,478)
Asset-backed securities - Student loans	-	-	148,130	(5,020)	148,130	(5,020)
Structured investments vehicles	-	-	122,054	(15,198)	122,054	(15,198)
Equity securities	71	(4)	-	-	71	(4)
<b>Total available for sale securities with unrealised losses</b>	<b>510,562</b>	<b>(1,015)</b>	<b>673,138</b>	<b>(25,803)</b>	<b>1,183,700</b>	<b>(26,818)</b>

	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		
<b>31 December 2009</b>						
<b>Available for sale</b>						
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)
<b>Total available for sale securities with unrealised losses</b>	<b>276,934</b>	<b>(37,578)</b>	<b>906,992</b>	<b>(22,569)</b>	<b>1,183,926</b>	<b>(60,147)</b>

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

(In thousands of Bermuda dollars)

**Note 3: Investments (continued)**

	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		
<b>31 December 2009</b>						
<b>Held to maturity</b>						
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)
<b>Total held to maturity securities</b>	<b>78,319</b>	<b>(30,984)</b>	<b>502,201</b>	<b>(119,088)</b>	<b>580,520</b>	<b>(150,072)</b>

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

**Certificates of deposit**

As of 30 September 2010, gross unrealised losses on the Bank's holdings of certificates of deposit (CDs) were \$0.03 million, all of which related to CDs that have been in an unrealised loss position for less than 12 months. Management assesses the credit quality of the issuers, which includes assessments of credit ratings (the Bank only purchases CDs that are rated investment grade) and credit worthiness of the issuer and concluded that the CDs do not have any credit losses.

**US government and federal agencies**

As of 30 September 2010, gross unrealised losses on securities related to United States (US) government and federal agencies were \$0.9 million, \$0.1 million of which related to investments that were in an unrealised loss position for longer than 12 months. During the three months ended 30 September 2010, the Bank acquired Freddie Mac and Fannie Mae securities amounting to \$368 million. The securities acquired are implicitly guaranteed by the US federal government. Overall, 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 30 September 2010, gross unrealised losses on debt securities issued by non-US governments were \$0.06 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 and implicit guarantees provided by the non-US governments. The unrealised losses were due to widened credit spreads caused by illiquidity.

**Corporate debt securities guaranteed by non-US governments**

As of 30 September 2010, gross unrealised losses related to corporate debt securities guaranteed by non-US governments were \$0.2 million, all of which related to investments that were in an unrealised loss position for less than 12 months. During the three months ended 30 September 2010, the Bank acquired bonds issued by banks amounting to \$175 million. All the bank issued securities acquired are explicitly guaranteed by the following governments: Bermuda, 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 30 September 2010, gross unrealised losses related to corporate debt securities were \$5.5 million, of which \$5.4 million related to investments that were in an unrealised loss position for longer than 12 months.

**Asset-backed securities - Student loans**

As of 30 September 2010, gross unrealised losses on student-loan asset backed securities were \$5 million, all of which related to securities that have been in an unrealised loss position for longer than 12 months. All of these securities are "AAA" rated and management believes these securities do not have any credit losses. There are explicit and implicit guarantees provided by the US government. The unrealised losses were due to widened credit spreads caused by illiquidity.

**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 30 September 2010, gross unrealised losses related to SIVs were \$15.2 million, all of which related to SIVs that were in an unrealised loss position for greater than 12 months. Overall unrealised losses have decreased since 31 December 2009 as a result of the OTTI recognised which was off-set by the increase in fair value. The Bank has recognised \$60.5 million of OTTI losses in net income for SIVs whose underlying cash flow assumptions have 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 previous quarter the, Bank disposed of its investment in one SIV and realised a gain of \$4.6 million on disposal. At 30 September 2010, the Bank is exposed to 3 remaining SIVs.

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

(In thousands of Bermuda dollars)

**Note 3: Investments (continued)**

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

30 September 2010	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	
<b>Trading</b>						
Debt securities issued by non-US governments	849	748	2,437	3,609	-	7,643
Corporate securities and other	71	-	-	-	20,081	20,152
<b>Total trading</b>	<b>920</b>	<b>748</b>	<b>2,437</b>	<b>3,609</b>	<b>20,081</b>	<b>27,795</b>
<b>Available for sale</b>						
Certificates of deposit	1,137,309	157,177	87,033	-	2,076	1,383,595
US government and federal agencies	-	3,190	388,287	2,077	-	393,554
Debt securities issued by non-US governments	18,311	17,407	57,271	20,769	-	113,758
Corporate debt securities guaranteed by non-US governments	-	-	175,733	-	-	175,733
Corporate debt securities	40,562	94,748	249,119	5,090	-	389,519
Asset-backed securities - Student loans	-	-	6,697	141,433	-	148,130
Structured investments vehicles	-	-	106,856	-	-	106,856
Equity securities	-	-	-	-	71	71
<b>Total available for sale</b>	<b>1,196,182</b>	<b>272,522</b>	<b>1,070,996</b>	<b>169,369</b>	<b>2,147</b>	<b>2,711,216</b>
<b>Total investments</b>	<b>1,197,102</b>	<b>273,270</b>	<b>1,073,433</b>	<b>172,978</b>	<b>22,228</b>	<b>2,739,011</b>
<b>Total by currency</b>						
Bermuda dollars	-	-	-	-	163	163
US dollars	628,701	146,344	904,167	156,698	14,388	1,850,298
Other	568,401	126,926	169,266	16,280	7,677	888,550
<b>Total investments</b>	<b>1,197,102</b>	<b>273,270</b>	<b>1,073,433</b>	<b>172,978</b>	<b>22,228</b>	<b>2,739,011</b>

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	
<b>Trading</b>						
Debt securities issued by non-US governments	-	910	3,297	3,458	-	7,665
Corporate securities and other	-	-	-	-	21,665	21,665
<b>Total trading</b>	<b>-</b>	<b>910</b>	<b>3,297</b>	<b>3,458</b>	<b>21,665</b>	<b>29,330</b>
<b>Available for sale</b>						
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
<b>Total available for sale</b>	<b>338,552</b>	<b>767,532</b>	<b>735,641</b>	<b>225,366</b>	<b>72</b>	<b>2,067,163</b>

# The Bank of N.T. Butterfield & Son Limited

## Notes to the Unaudited Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

### Note 3: Investments (continued)

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	
<b>Held to maturity</b>						
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
<b>Total held to maturity</b>	<b>19,307</b>	<b>91,581</b>	<b>473,480</b>	<b>254,347</b>	<b>-</b>	<b>838,715</b>
<b>Total investments</b>	<b>357,859</b>	<b>860,023</b>	<b>1,212,418</b>	<b>483,171</b>	<b>21,737</b>	<b>2,935,208</b>
<b>Total by currency</b>						
Bermuda dollars	-	-	-	-	183	183
US dollars	102,852	449,925	935,521	411,944	16,307	1,916,549
Other	255,007	410,098	276,897	71,227	5,247	1,018,476
<b>Total investments</b>	<b>357,859</b>	<b>860,023</b>	<b>1,212,418</b>	<b>483,171</b>	<b>21,737</b>	<b>2,935,208</b>

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

(In thousands of Bermuda dollars)

**Note 4: Loans**

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

	30 September 2010			31 December 2009		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
<b>Commercial loans</b>						
Banks	-	-	-	161	-	161
Government	27,871	4,399	32,270	36,323	4,500	40,823
Commercial real estate						
Commercial mortgage	585,705	287,853	873,558	651,239	361,006	1,012,245
Construction	23,738	15,069	38,807	15,744	16,377	32,121
Commercial and industrial						
Loans	325,409	387,264	712,673	367,794	392,855	760,649
Overdrafts	45,657	54,046	99,703	22,642	92,871	115,513
<b>Total commercial loans</b>	<b>1,008,380</b>	<b>748,631</b>	<b>1,757,011</b>	<b>1,093,903</b>	<b>867,609</b>	<b>1,961,512</b>
Less allowance for credit losses on commercial loans	(44,736)	(5,797)	(50,533)	(79,160)	(14,263)	(93,423)
<b>Total commercial loans after allowance for credit losses</b>	<b>963,644</b>	<b>742,834</b>	<b>1,706,478</b>	<b>1,014,743</b>	<b>853,346</b>	<b>1,868,089</b>
<b>Consumer loans</b>						
Automobile financing	42,140	-	42,140	51,780	6,076	57,856
Credit card	57,807	24,138	81,945	57,754	24,537	82,291
Mortgages	1,262,137	681,059	1,943,196	1,256,437	618,211	1,874,648
Overdrafts	6,098	6,434	12,532	5,582	3,198	8,780
Other consumer	176,288	190,844	367,132	180,660	182,902	363,562
<b>Total consumer loans</b>	<b>1,544,470</b>	<b>902,475</b>	<b>2,446,945</b>	<b>1,552,213</b>	<b>834,924</b>	<b>2,387,137</b>
Less allowance for credit losses on consumer loans	(36,122)	(8,278)	(44,400)	(31,989)	(4,905)	(36,894)
<b>Total consumer loans after allowance for credit losses</b>	<b>1,508,348</b>	<b>894,197</b>	<b>2,402,545</b>	<b>1,520,224</b>	<b>830,019</b>	<b>2,350,243</b>
<b>Total loans</b>	<b>2,552,850</b>	<b>1,651,106</b>	<b>4,203,956</b>	<b>2,646,116</b>	<b>1,702,533</b>	<b>4,348,649</b>
Less allowance for credit losses	(80,858)	(14,075)	(94,933)	(111,149)	(19,168)	(130,317)
<b>Net loans</b>	<b>2,471,992</b>	<b>1,637,031</b>	<b>4,109,023</b>	<b>2,534,967</b>	<b>1,683,365</b>	<b>4,218,332</b>

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

	30 September 2010			31 December 2009		
	Specific allowances	General allowance	Total	Specific allowances	General allowance	Total
Allowance for credit losses at beginning of period	98,582	31,735	130,317	3,458	24,938	28,396
Provision taken during the period	24,830	(53)	24,777	99,338	5,541	104,879
Recoveries	-	1,874	1,874	-	1,784	1,784
Charge-offs	(62,123)	(176)	(62,299)	(4,318)	(528)	(4,846)
Other	118	146	264	104	-	104
<b>Allowance for credit losses at end of period</b>	<b>61,407</b>	<b>33,526</b>	<b>94,933</b>	<b>98,582</b>	<b>31,735</b>	<b>130,317</b>

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

(In thousands of Bermuda dollars)

**Note 4: Loans (continued)**

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

	30 September 2010			31 December 2009		
	Gross	Specific allowance	Total	Gross	Specific allowance	Total
Commercial loans – Bermuda	10,295	(266)	10,029	3,704	(1,937)	1,767
Commercial loans - Non-Bermuda	2,466	(469)	1,997	4,671	(208)	4,463
Consumer loans – Bermuda	21,391	(17,840)	3,551	5,701	(3,635)	2,066
Consumer loans - Non-Bermuda	2,855	(785)	2,070	6,265	(768)	5,497
Commercial and residential mortgages - Bermuda	150,204	(37,770)	112,434	175,386	(83,330)	92,056
Commercial and residential mortgages - Non-Bermuda	26,382	(4,277)	22,105	37,647	(8,704)	28,943
	<b>213,593</b>	<b>(61,407)</b>	<b>152,186</b>	<b>233,374</b>	<b>(98,582)</b>	<b>134,792</b>

	30 September 2010	31 December 2009
Average balance of non accruals net of specific allowances	143,489	83,900
Non-delinquent loans placed on non-accrual status	8,438	191,400
Loans 90 days or more past due still accruing interest	3,234	25,783
Gross interest income would have been recorded had impaired loans been current	8,864	1,800
Overdue interest recovered on impaired loans	-	100

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

	30 September 2010			31 December 2009		
	Total delinquent loans	Loans 90 days or more past due	Charge-offs	Total delinquent loans	Loans 90 days or more past due	Charge-offs
Credit card	5,438	683	1,099	4,449	525	2,077
Automobile financing	2,357	694	869	1,758	447	1,853
Residential mortgages and other consumer loans	91,031	64,324	973	38,879	15,714	916
Consumer loans	98,826	65,701	2,941	45,086	16,686	4,846
Commercial loans	139,371	128,268	59,358	46,519	45,370	-
<b>Total loans reported</b>	<b>238,197</b>	<b>193,969</b>	<b>62,299</b>	<b>91,605</b>	<b>62,056</b>	<b>4,846</b>

Total delinquent loans and loans 90 days or more past due are shown gross of specific provision. The Bank is carrying specific provisions of \$61.3 million against loans 90 days or more past due.

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

(In thousands of Bermuda dollars)

**Note 5: 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:

	30 September 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	361,547	399,567	761,114	332,965	404,864	737,829
Commercial and merchandising	464,306	200,455	664,761	967,804	256,591	1,224,395
Governments	31,541	-	31,541	40,823	-	40,823
Individuals	2,231,806	114,784	2,346,590	2,242,599	68,616	2,311,215
Primary industry and manufacturing	120,211	46,577	166,788	69,367	77,334	146,701
Real estate	751,252	-	751,252	459,604	1,453	461,057
Hospitality industry	159,017	4,957	163,974	134,879	14,912	149,791
Transport and communication	22,869	-	22,869	2,026	2,002	4,028
Sub-total	4,142,549	766,340	4,908,889	4,250,067	825,772	5,075,839
General allowance	(33,526)	-	(33,526)	(31,735)	-	(31,735)
<b>Total</b>	<b>4,109,023</b>	<b>766,340</b>	<b>4,875,363</b>	<b>4,218,332</b>	<b>825,772</b>	<b>5,044,104</b>

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

	30 September 2010			31 December 2009		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Bermuda	2,496,980	396,111	2,893,091	2,557,213	509,149	3,066,362
Barbados	192,465	9,508	201,973	194,480	13,472	207,952
Cayman	582,249	214,029	796,278	541,058	169,040	710,098
Guernsey	338,929	126,787	465,716	354,485	100,911	455,396
The Bahamas	72,390	4,058	76,448	76,377	5,310	81,687
United Kingdom	459,536	15,847	475,383	526,454	27,890	554,344
Sub-total	4,142,549	766,340	4,908,889	4,250,067	825,772	5,075,839
General allowance	(33,526)	-	(33,526)	(31,735)	-	(31,735)
<b>Total</b>	<b>4,109,023</b>	<b>766,340</b>	<b>4,875,363</b>	<b>4,218,332</b>	<b>825,772</b>	<b>5,044,104</b>

**Note 6: Customer Deposits and Deposits from Banks**

a) By Maturity

	30 September 2010			31 December 2009		
	Customers	Banks	Total	Customers	Banks	Total
<b>Demand deposits</b>						
Demand deposits - Non-interest bearing	976,445	-	976,445	954,191	-	954,191
Demand deposits - Interest bearing	4,333,097	13,457	4,346,554	4,753,743	27,681	4,781,424
<b>Sub-total - demand deposits</b>	<b>5,309,542</b>	<b>13,457</b>	<b>5,322,999</b>	<b>5,707,934</b>	<b>27,681</b>	<b>5,735,615</b>
<b>Term deposits</b>						
Term deposits maturing within six months	2,363,664	64,163	2,427,827	2,536,812	85,755	2,622,567
Term deposits maturing between six to twelve months	164,073	4,183	168,256	185,651	5,239	190,890
Term deposits maturing after twelve months	149,764	-	149,764	147,547	-	147,547
<b>Sub-total - term deposits</b>	<b>2,677,501</b>	<b>68,346</b>	<b>2,745,847</b>	<b>2,870,010</b>	<b>90,994</b>	<b>2,961,004</b>
<b>Total</b>	<b>7,987,043</b>	<b>81,803</b>	<b>8,068,846</b>	<b>8,577,944</b>	<b>118,675</b>	<b>8,696,619</b>



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

(In thousands of Bermuda dollars)

**Note 6: Customer Deposits and Deposits from Banks (continued)**

b) By Type and Location

	30 September 2010			31 December 2009		
	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
<b>Bermuda</b>						
Customers	2,207,145	1,121,385	3,328,530	2,195,304	1,195,124	3,390,428
Banks	-	50,606	50,606	-	41,545	41,545
<b>Barbados</b>						
Customers	157,525	80,642	238,167	163,538	81,930	245,468
Banks	-	-	-	-	-	-
<b>Cayman</b>						
Customers	1,281,560	446,655	1,728,215	1,764,566	570,875	2,335,441
Banks	9,992	17,741	27,733	16,090	48,802	64,892
<b>Guernsey</b>						
Customers	1,080,577	470,412	1,550,989	980,013	377,324	1,357,337
Banks	3,447	-	3,447	7,712	404	8,116
<b>The Bahamas</b>						
Customers	99,832	37,051	136,883	67,429	65,760	133,189
Banks	-	-	-	-	-	-
<b>United Kingdom</b>						
Customers	482,904	521,355	1,004,259	537,098	578,983	1,116,081
Banks	17	-	17	3,865	257	4,122
<b>Total Customers</b>	<b>5,309,543</b>	<b>2,677,501</b>	<b>7,987,043</b>	<b>5,707,948</b>	<b>2,869,996</b>	<b>8,577,944</b>
<b>Total Banks</b>	<b>13,456</b>	<b>68,346</b>	<b>81,803</b>	<b>27,667</b>	<b>91,008</b>	<b>118,675</b>
<b>Total</b>	<b>5,322,999</b>	<b>2,745,847</b>	<b>8,068,846</b>	<b>5,735,615</b>	<b>2,961,004</b>	<b>8,696,619</b>

**Note 7: 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 three month period ended		For the nine month period ended	
	30 September 2010	30 September 2009	30 September 2010	30 September 2009
<b>Defined benefit pension expense</b>				
Service cost	574	646	1,802	1,878
Interest cost	2,185	1,713	5,726	5,038
Expected return on plan assets	(2,392)	(2,044)	(6,635)	(6,019)
Amortisation of past service cost	-	10	-	27
Amortisation of net actuarial loss	1,104	735	2,670	2,209
<b>Total defined benefit pension expense</b>	<b>1,471</b>	<b>1,060</b>	<b>3,563</b>	<b>3,133</b>
<b>Post-retirement medical benefit expense</b>				
Service cost	366	857	2,504	2,779
Interest cost	2,226	1,797	6,620	5,521
Amortisation of net actuarial loss	(2,668)	337	(1,509)	1,140
<b>Total post-retirement medical benefit expense</b>	<b>(76)</b>	<b>2,991</b>	<b>7,615</b>	<b>9,440</b>

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 approximately \$27 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 approximately \$41 million as at 30 September 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. Benefits paid in the nine month period ended 30 September 2010 amounted to \$2 million.

As at 30 September 2010, the Bank's remaining liability for the Bank's post retirement medical benefit plan is \$79.1 million.

## The Bank of N.T. Butterfield & Son Limited

### Notes to the Unaudited Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

#### Note 8: Credit Related Arrangements and Commitments

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:

	30 September 2010			31 December 2009		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	363,075	333,023	30,052	352,016	322,582	29,434
Letters of guarantee	17,945	9,031	8,914	23,101	15,135	7,966
<b>Total</b>	<b>381,020</b>	<b>342,054</b>	<b>38,966</b>	<b>375,117</b>	<b>337,717</b>	<b>37,400</b>

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:

	30 September 2010	31 December 2009
Commitments to extend credit	383,022	451,016
Documentary and commercial letters of credit	2,299	3,140
<b>Total</b>	<b>385,321</b>	<b>454,156</b>

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 30 September 2010, \$166.5 million (2009: \$133.3 million) of standby letters of credit were issued under this facility.

#### Legal Proceedings

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

#### Note 9: Segmented Information

##### Total Assets by Segment

	30 September 2010	31 December 2009
<b>Bermuda</b>		
Community Banking	4,413,808	4,198,903
Wealth Management	382,008	351,336
Real Estate	70,705	72,671
<b>Total Bermuda</b>	<b>4,866,521</b>	<b>4,622,910</b>
Barbados	272,839	277,551
Cayman	1,942,278	2,607,542
Guernsey	1,707,585	1,534,520
Hong Kong	-	10,166
Malta	-	2,894
Switzerland	691	1,039
The Bahamas	165,096	166,455
United Kingdom	1,172,006	1,295,451
<b>Total overseas</b>	<b>5,260,495</b>	<b>5,895,618</b>
Less: inter-segment eliminations	(747,962)	(923,926)
<b>Total</b>	<b>9,379,054</b>	<b>9,594,602</b>

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

(In thousands of Bermuda dollars)

**Note 9: Segmented Information (continued)**

**Segment Analysis**

For the three month period ended 30 September 2010	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								
<b>Bermuda</b>										
Community Banking	26,765	(682)	(13,364)	7,470	20,189	35,787	(15,598)	(197)	-	(15,795)
Wealth Management	2,388	896	-	7,861	11,145	7,298	3,847	1	-	3,848
Real Estate	-	(219)	-	933	714	2,874	(2,160)	-	-	(2,160)
<b>Sub-total Bermuda</b>	<b>29,153</b>	<b>(5)</b>	<b>(13,364)</b>	<b>16,264</b>	<b>32,048</b>	<b>45,959</b>	<b>(13,911)</b>	<b>(196)</b>	<b>-</b>	<b>(14,107)</b>
Barbados	3,459	-	(330)	708	3,837	3,287	550	19	-	569
Cayman	6,843	528	(139)	8,455	15,687	12,962	2,725	4	-	2,729
Guernsey	3,216	(35)	-	5,737	8,918	7,471	1,447	(17)	-	1,430
Hong Kong **	-	-	-	201	201	196	5	(3,636)	-	(3,631)
Malta **	1	-	-	123	124	145	(21)	(3,789)	-	(3,810)
Switzerland	-	-	-	92	92	509	(417)	-	-	(417)
The Bahamas	606	15	-	1,242	1,863	1,728	135	-	-	135
United Kingdom	2,948	(503)	(2,281)	2,204	2,368	3,904	(1,536)	-	-	(1,536)
<b>Sub-total overseas</b>	<b>17,073</b>	<b>5</b>	<b>(2,750)</b>	<b>18,762</b>	<b>33,090</b>	<b>30,202</b>	<b>2,888</b>	<b>(7,419)</b>	<b>-</b>	<b>(4,531)</b>
<b>Total before eliminations</b>	<b>46,226</b>	<b>-</b>	<b>(16,114)</b>	<b>35,026</b>	<b>65,138</b>	<b>76,161</b>	<b>(11,023)</b>	<b>(7,615)</b>	<b>-</b>	<b>(18,638)</b>
Less: inter-segment eliminations	-	-	-	(1,008)	(1,008)	(1,008)	-	-	-	-
<b>Total</b>	<b>46,226</b>	<b>-</b>	<b>(16,114)</b>	<b>34,018</b>	<b>64,130</b>	<b>75,153</b>	<b>(11,023)</b>	<b>(7,615)</b>	<b>-</b>	<b>(18,638)</b>

\* During the period ending 30 September 2010 there were no central allocation costs.

\*\* Disposed of the subsidiaries on 8 September 2010 disclosed in Note 14: Disposal of subsidiaries.

For the three month period ended 30 September 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								
<b>Bermuda</b>										
Community Banking	25,525	(452)	(1,223)	8,907	32,757	31,537	1,220	2,545	(1,959)	1,806
Wealth Management	3,243	355	-	5,689	9,287	7,953	1,334	-	(553)	781
Real Estate	-	(223)	-	473	250	2,762	(2,512)	-	2,512	-
<b>Sub-total Bermuda</b>	<b>28,768</b>	<b>(320)</b>	<b>(1,223)</b>	<b>15,069</b>	<b>42,294</b>	<b>42,252</b>	<b>42</b>	<b>2,545</b>	<b>-</b>	<b>2,587</b>
Barbados	3,149	4	(396)	747	3,504	3,601	(97)	170	-	73
Cayman	7,020	891	(258)	8,184	15,837	12,594	3,243	300	-	3,543
Guernsey	2,871	133	-	5,450	8,454	7,675	779	(8)	-	771
Hong Kong	2	-	-	273	275	389	(114)	-	-	(114)
Malta	1	-	-	378	379	409	(30)	-	-	(30)
Switzerland	1	-	-	74	75	619	(544)	(39)	-	(583)
The Bahamas	645	24	-	1,342	2,011	1,739	272	-	-	272
United Kingdom	4,458	(732)	-	2,334	6,060	5,568	492	-	-	492
<b>Sub-total overseas</b>	<b>18,147</b>	<b>320</b>	<b>(654)</b>	<b>18,782</b>	<b>36,595</b>	<b>32,594</b>	<b>4,001</b>	<b>423</b>	<b>-</b>	<b>4,424</b>
<b>Total before eliminations</b>	<b>46,915</b>	<b>-</b>	<b>(1,877)</b>	<b>33,851</b>	<b>78,889</b>	<b>74,846</b>	<b>4,043</b>	<b>2,968</b>	<b>-</b>	<b>7,011</b>
Less: inter-segment eliminations	-	-	-	(1,092)	(1,092)	(1,092)	-	-	-	-
<b>Total</b>	<b>46,915</b>	<b>-</b>	<b>(1,877)</b>	<b>32,759</b>	<b>77,797</b>	<b>73,754</b>	<b>4,043</b>	<b>2,968</b>	<b>-</b>	<b>7,011</b>

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

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

(In thousands of Bermuda dollars)

**Note 9: Segmented Information (continued)**

For the nine month period ended 30 September 2010	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								
<b>Bermuda</b>										
Community Banking	76,167	(2,389)	(17,464)	30,165	86,479	117,769	(31,290)	(146,841)	-	(178,131)
Wealth Management	6,483	2,884	-	22,552	31,919	22,764	9,155	1	-	9,156
Real Estate	-	(653)	-	2,391	1,738	8,533	(6,795)	-	-	(6,795)
<b>Sub-total Bermuda</b>	<b>82,650</b>	<b>(158)</b>	<b>(17,464)</b>	<b>55,108</b>	<b>120,136</b>	<b>149,066</b>	<b>(28,930)</b>	<b>(146,840)</b>	<b>-</b>	<b>(175,770)</b>
Barbados	9,922	(4)	(1,388)	2,140	10,670	10,002	668	(149)	-	519
Cayman	19,492	1,701	(3,186)	26,296	44,303	39,452	4,851	(11,602)	-	(6,751)
Guernsey	9,365	(91)	-	17,594	26,868	20,875	5,993	(1,467)	-	4,526
Hong Kong **	1	-	-	2,106	2,107	1,720	387	(3,636)	-	(3,249)
Malta **	5	-	-	880	885	856	29	(3,789)	-	(3,760)
Switzerland	1	-	-	280	281	1,580	(1,299)	-	-	(1,299)
The Bahamas	1,717	38	-	3,899	5,654	5,407	247	-	-	247
United Kingdom	8,617	(1,486)	(2,739)	7,567	11,959	11,156	803	(10,075)	-	(9,272)
<b>Sub-total overseas</b>	<b>49,120</b>	<b>158</b>	<b>(7,313)</b>	<b>60,762</b>	<b>102,727</b>	<b>91,048</b>	<b>11,679</b>	<b>(30,718)</b>	<b>-</b>	<b>(19,039)</b>
<b>Total before eliminations</b>	<b>131,770</b>	<b>-</b>	<b>(24,777)</b>	<b>115,870</b>	<b>222,863</b>	<b>240,114</b>	<b>(17,251)</b>	<b>(177,558)</b>	<b>-</b>	<b>(194,809)</b>
Less: inter-segment eliminations	-	-	-	(3,673)	(3,673)	(3,673)	-	-	-	-
<b>Total</b>	<b>131,770</b>	<b>-</b>	<b>(24,777)</b>	<b>112,197</b>	<b>219,190</b>	<b>236,441</b>	<b>(17,251)</b>	<b>(177,558)</b>	<b>-</b>	<b>(194,809)</b>

\* During the period ending 30 September 2010 there were no central allocation costs.

\*\* Disposed of the subsidiaries on 8 September 2010 disclosed in Note 14: Disposal of subsidiaries.

For the nine month period ended 30 September 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								
<b>Bermuda</b>										
Community Banking	79,060	(4,199)	(2,531)	31,491	103,821	102,228	1,593	(21,702)	6,802	(13,307)
Wealth Management	8,040	905	-	25,187	34,132	24,081	10,051	-	(10,086)	(35)
Real Estate	-	(665)	-	2,267	1,602	7,851	(6,249)	-	6,249	-
<b>Sub-total Bermuda</b>	<b>87,100</b>	<b>(3,959)</b>	<b>(2,531)</b>	<b>58,945</b>	<b>139,555</b>	<b>134,160</b>	<b>5,395</b>	<b>(21,702)</b>	<b>2,965</b>	<b>(13,342)</b>
Barbados	9,056	11	(686)	2,445	10,826	9,559	1,267	355	(25)	1,597
Cayman	21,551	5,895	(770)	25,544	52,220	38,043	14,177	261	(1,845)	12,593
Guernsey	7,695	861	-	15,906	24,462	21,919	2,543	(294)	(590)	1,659
Hong Kong	11	-	-	1,708	1,719	2,228	(509)	-	-	(509)
Malta	4	-	-	973	977	732	245	-	-	245
Switzerland	4	-	-	237	241	2,169	(1,928)	(39)	-	(1,967)
The Bahamas	1,751	220	-	3,906	5,877	5,245	632	-	(160)	472
United Kingdom	15,035	(3,028)	-	8,177	20,184	14,643	5,541	(9,381)	(345)	(4,185)
<b>Sub-total overseas</b>	<b>55,107</b>	<b>3,959</b>	<b>(1,456)</b>	<b>58,896</b>	<b>116,506</b>	<b>94,538</b>	<b>21,968</b>	<b>(9,098)</b>	<b>(2,965)</b>	<b>9,905</b>
<b>Total before eliminations</b>	<b>142,207</b>	<b>-</b>	<b>(3,987)</b>	<b>117,841</b>	<b>256,061</b>	<b>228,698</b>	<b>27,363</b>	<b>(30,800)</b>	<b>-</b>	<b>(3,437)</b>
Less: inter-segment eliminations	-	-	-	(4,272)	(4,272)	(4,272)	-	-	-	-
<b>Total</b>	<b>142,207</b>	<b>-</b>	<b>(3,987)</b>	<b>113,569</b>	<b>251,789</b>	<b>224,426</b>	<b>27,363</b>	<b>(30,800)</b>	<b>-</b>	<b>(3,437)</b>

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

# The Bank of N.T. Butterfield & Son Limited

## Notes to the Unaudited Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

### Note 10: Accounting for Derivative Instruments and Risk Management

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

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

Certain of these agreements contain credit-risk-related contingent features in which the counterparty has the option to accelerate cash settlement of 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 30 September 2010, was \$24.6 million. The Bank has posted \$15.8 million collateral against these liabilities and therefore the maximum amount of termination payments that could have been required at 30 September 2010 was \$8.8 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.

#### Fair value

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

#### Risk management derivatives

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

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

#### Fair value hedges

Derivatives are designated as fair value hedges to minimise the Bank's exposure to changes in the fair value of assets and liabilities due to movements in interest rates. The Bank enters into interest rate swaps to convert its fixed-rate long-term loans to floating-rate loans, and convert fixed-rate deposits to floating-rate deposits. Changes in fair value of these derivatives are recognised in income. For fair value hedges, the Bank applies the "shortcut" method of accounting, which assumes there is no ineffectiveness in a hedge. As a result, changes recorded in the fair value of the hedged item are equal to the offsetting gain or loss on the derivative and are reflected in the same line item. For the periods ended 30 September 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 30 September 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.

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

(In thousands of Bermuda dollars)

**Note 10: Accounting for Derivative Instruments and Risk Management (continued)**

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.

30 September 2010	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
<b>Risk Management Derivatives</b>					
Fair Value Hedges					
Fixed rate loans	Interest rate swaps	219,940	265	(23,686)	(23,421)
Customer deposits	Interest rate swaps	9,186	-	(239)	(239)
Subtotal fair value hedges		229,126	265	(23,925)	(23,660)
Not designated as hedging instruments					
Term deposits with banks	Interest rate swaps	360,000	1,852	(1,034)	818
Subtotal risk management derivatives		589,126	2,117	(24,959)	(22,842)
<b>Client Services Derivatives</b>					
	Spot and forward foreign exchange	4,244,467	27,675	(26,530)	1,145
	Interest rate caps	37,814	466	(466)	-
Subtotal client services derivatives		4,282,281	28,141	(26,997)	1,145
Total derivative instruments		4,871,407	30,258	(51,955)	(21,697)

31 December 2009	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
<b>Risk Management Derivatives</b>					
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					
Time deposits with banks	Interest rate swaps	380,714	705	(933)	(228)
Subtotal risk management derivatives		579,900	716	(14,525)	(13,809)
<b>Client Services Derivatives</b>					
	Spot and forward foreign exchange	2,336,222	27,529	(27,996)	(467)
	Interest rate caps	38,808	752	(752)	-
Subtotal client services derivatives		2,375,030	28,281	(28,748)	(467)
Total derivative instruments		2,954,930	28,997	(43,273)	(14,276)

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	For the three month period ended	
		30 September 2010	30 September 2009
Interest rate swaps	Net other gains (losses)	(65)	686
Forward foreign exchange	Foreign exchange revenue	595	768
Credit derivative	Net other gains (losses)	-	-
Total net gains recognised in net loss		530	1,454

Derivative Instrument	Consolidated Statement of Operations line item	For the nine month period ended	
		30 September 2010	30 September 2009
Interest rate swaps	Net other gains (losses)	1,045	799
Forward foreign exchange	Foreign exchange revenue	1,138	3,038
Credit derivative	Net other gains (losses)	-	3,304
Total net gains recognised in net loss		2,183	7,141

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

(In thousands of Bermuda dollars)

**Note 11: Fair Value of Financial Instruments**

The following table presents the financial assets and liabilities that are measured at fair value on a recurring basis and classifies such fair value based on the type of input used in the related valuations as described in Note 1 of the Bank's audited financial statements for the year ending 31 December 2009.

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, forward foreign exchange and, in 2008 only, a credit derivative contract.

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

**Items that are recognised at fair value on a recurring basis**

	30 September 2010				31 December 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	
<b>Financial assets</b>								
Investments								
Trading								
Debt securities issued by non-US governments	-	7,643	-	7,643	-	7,665	-	7,665
Equity securities	9,434	1,563	9,155	20,152	11,674	1,389	8,602	21,665
Available for sale								
Certificates of deposit	-	1,383,595	-	1,383,595	-	1,039,597	-	1,039,597
US government and federal agencies	-	393,555	-	393,555	-	66,095	-	66,095
Debt securities issued by non-US governments	-	113,757	-	113,757	-	12,456	-	12,456
Corporate debt securities guaranteed by non-US governments	-	175,733	-	175,733	-	-	-	-
Corporate debt securities	-	142,027	247,492	389,519	-	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	-	61,613	86,517	148,130	-	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	-	106,856	-	106,856	-	-	49,929	49,929
Equity securities	-	71	-	71	-	72	-	72
Other assets – Derivatives	-	30,258	-	30,258	-	28,997	-	28,997
<b>Financial liabilities</b>								
Other liabilities – Derivatives	-	51,955	-	51,955	-	43,273	-	43,273

**Transfers of securities**

For the nine month period ended  
**30 September 2010**

	Trading investments	Available for sale investments
Transfers in and (out) of Level 1	-	-
Transfers in and (out) of Level 2	-	676,354

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

(In thousands of Bermuda dollars)

**Note 11: Fair Value of Financial Instruments (continued)**

**Level 3 reconciliation**

For the nine month period ended

	30 September 2010		30 September 2009	
	Trading investments	Available for sale investments	Trading investments	Available for sale investments
Carrying amount at beginning of period	8,602	382,452	12,599	-
Purchases	989	-	-	-
Proceeds from sale	-	(94,287)	-	-
Realised and unrealised losses recognised in net income	-	(375)	(4,159)	-
Realised and unrealised losses recognised in other comprehensive income	(59)	(138,050)	-	-
Transfers in and out of Level 3	-	187,101	-	-
Foreign exchange translation adjustment	(377)	(2,832)	(233)	-
Carrying amount at end of period	9,155	334,009	8,207	-

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

	30 September 2010			31 December 2009		
	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
<b>Financial assets</b>						
Cash and deposits with banks	2,067,359	2,067,359	-	1,986,798	1,986,798	-
Investments held to maturity	-	-	-	838,715	691,193	(147,522)
Loans, net of allowance for credit losses						
Commercial	1,706,479	1,706,479	-	1,927,505	1,927,505	-
Consumer	2,402,544	2,402,544	-	2,290,827	2,290,827	-
<b>Financial liabilities</b>						
Customer deposits						
Demand deposits	5,309,542	5,309,542	-	5,707,948	5,707,948	-
Term deposits	2,677,501	2,689,236	(11,735)	2,869,996	2,874,019	(4,023)
Deposits from banks	81,803	81,803	-	118,675	118,675	-
Subordinated capital	282,856	252,063	30,793	283,085	223,624	59,461



# The Bank of N.T. Butterfield & Son Limited

## Notes to the Unaudited Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

### Note 12: 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.

(in \$ millions)	Earlier of contractual 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		
<b>30 September 2010</b>							
<b>Assets</b>							
Cash and deposits with banks	1,893	7	2	-	-	165	2,067
Investments	1,782	83	32	684	29	129	2,739
Loans	3,246	44	155	334	204	126	4,109
Premises, equipment and computer software	-	-	-	-	-	264	264
Other assets	-	-	-	-	-	200	200
<b>Total assets</b>	<b>6,921</b>	<b>134</b>	<b>189</b>	<b>1,018</b>	<b>233</b>	<b>884</b>	<b>9,379</b>
<b>Liabilities and shareholders' equity</b>							
Shareholders' equity	-	-	-	-	-	843	843
Demand deposits	4,347	-	-	-	-	976	5,323
Term deposits	1,836	592	168	148	2	-	2,746
Other liabilities	-	-	-	-	-	184	184
Subordinated capital	90	-	-	168	25	-	283
<b>Total liabilities and shareholders' equity</b>	<b>6,273</b>	<b>592</b>	<b>168</b>	<b>316</b>	<b>27</b>	<b>2,003</b>	<b>9,379</b>
<b>Interest rate swaps</b>	<b>106</b>	<b>(6)</b>	<b>(35)</b>	<b>(27)</b>	<b>(38)</b>	<b>-</b>	<b>-</b>
<b>Interest rate sensitivity gap</b>	<b>753</b>	<b>(464)</b>	<b>(14)</b>	<b>675</b>	<b>168</b>	<b>(1,118)</b>	<b>-</b>
<b>Cumulative interest rate sensitivity gap</b>	<b>753</b>	<b>289</b>	<b>275</b>	<b>950</b>	<b>1,118</b>	<b>-</b>	<b>-</b>
<b>31 December 2009</b>							
(in \$ millions)	Earlier of contractual 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		
<b>Assets</b>							
Cash and deposits with banks	1,891	2	2	-	-	92	1,987
Investments	1,908	146	488	164	25	223	2,954
Loans	3,706	44	59	206	60	143	4,218
Premises, equipment and computer software	-	-	-	-	-	244	244
Other assets	-	-	-	-	-	192	192
<b>Total assets</b>	<b>7,505</b>	<b>192</b>	<b>549</b>	<b>370</b>	<b>85</b>	<b>894</b>	<b>9,595</b>
<b>Liabilities and shareholders' equity</b>							
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
<b>Total liabilities and shareholders' equity</b>	<b>6,896</b>	<b>598</b>	<b>191</b>	<b>252</b>	<b>89</b>	<b>1,569</b>	<b>9,595</b>
<b>Interest rate swaps</b>	<b>99</b>	<b>19</b>	<b>67</b>	<b>(111)</b>	<b>(74)</b>	<b>-</b>	<b>-</b>
<b>Interest rate sensitivity gap</b>	<b>708</b>	<b>(387)</b>	<b>425</b>	<b>7</b>	<b>(78)</b>	<b>(675)</b>	<b>-</b>
<b>Cumulative interest rate sensitivity gap</b>	<b>708</b>	<b>321</b>	<b>746</b>	<b>753</b>	<b>675</b>	<b>-</b>	<b>-</b>

# The Bank of N.T. Butterfield & Son Limited

## Notes to the Unaudited Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

### Note 13: 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.

	For the three month period ended		For the nine month period ended	
	30 September 2010	30 September 2009	30 September 2010	30 September 2009
<b>Basic earnings per share</b>				
Net loss for the period	(18,638)	7,011	(194,809)	(3,437)
Less: Preferred dividends declared and guarantee fee	(4,500)	(4,950)	(13,500)	(4,950)
Net loss attributable for common shareholders	(23,138)	2,061	(208,309)	(8,387)
Weighted average number of common shares issued	549,095	98,789	449,761	99,600
Weighted average number of common shares held as treasury stock	(2,556)	(4,388)	(2,751)	(5,624)
Adjusted weighted average number of common shares	546,539	94,401	447,010	93,976
	(0.04)	0.02	(0.47)	(0.09)
<b>Diluted earnings per share</b>				
Net loss income attributable for common shareholders	(23,138)	2,061	(208,309)	(8,387)
Weighted average number of common shares issued	549,095	94,401	449,761	93,976
Weighted average number of common shares held as treasury stock	(2,556)	-	(2,751)	-
Dilutive stock options	-	23	-	153
Adjusted weighted average number of diluted common shares	546,539	94,424	447,010	94,129
	(0.04)	0.02	(0.47)	(0.09)

The contingent value convertible preference shares are classified as participating securities as they are entitled to dividends declared to Common Shareholders on a 1:1 basis and is therefore normally included in the basic earnings per share calculation. As the Bank have losses attributable to common shareholders for the three and nine month periods ending 30 September 2010, the contingent value convertible preference shares are excluded from the basic earnings per share calculation as they are not obligated to share in the Bank's losses.

The contingent value convertible preference shares are excluded from the dilutive earnings per share calculation as they are anti dilutive.

### Note 14: 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 "Plan") on 26 April 2010. Under the plan, five per cent of the Company's fully diluted common shares, equal to approximately 29.5 million shares, were available for grant to certain officers. Such options have time and performance vesting metrics and also require surrender of all prior vested options by certain executives. For the three months ending 30 September 2010, 1 million options were granted whereby approximately 2.6 million options remain available for grant under the approved plan. The Bank has recognized \$0.45 million compensation expense in the three months ended September 30, 2010, related to the time vesting options granted. The unrecognized expense for the time vesting options amounts to \$7.3 million. Additionally the Bank determined the performance stock options granted have an aggregate fair value of \$8.4 million. Such expense will only be recognized as and when the set performance criteria, primarily based on returns to shareholders, are achieved.

### Note 15: 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, currently Deputy Chairman, Butterfield Private Office (HK) Limited and 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. For the period ended 30 June 2010 Hong Kong and Malta had total assets of \$5.5 million and \$3.6 million and recorded net income of \$0.4 million and \$0.05 million respectively.

# The Bank of N.T. Butterfield & Son Limited

## Notes to the Unaudited Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

### Note 16: Capital Structure

#### Authorised capital

The Bank's total authorised share capital as of 31 December 2009 consisted of (i) 260 million ordinary shares of par value BD\$1.00, (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 2,892,562 common shares to the Bank's investment advisor.

#### Preferred shares

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

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

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

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

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 a 107,438,016 rights were exercised and subsequently converted on the ratio of 0.07692 contingent value preference share for each right unit exercised amounting to 8,264,157 common shares issued. The contingent value preference shares have specific rights and conditions attached which is explained in detail in the Prospectus of The Rights Offering.

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

### Note 17: 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 30 September 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 30 September 2010, \$72.8 million of the facilities were drawn.

# The Bank of N.T. Butterfield & Son Limited

## Notes to the Unaudited Consolidated Financial Statements (continued)

(In thousands of Bermuda dollars)

### Note 17: Related party transactions (continued)

#### Employee loan programme

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

#### Interested officers and director transactions

In the ordinary course of business, the Bank provides loans and other banking services to the Bank's directors, as well as their family members and companies with which they are affiliated. The Bank provides these services on terms which management believe are 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 30 September 2010 (2009: \$2.7 million). As at 30 September 2010, the Charitable Trust held 729,088 Bank's common shares (2009: 729,088 shares).

#### 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 \$29.2 million in transaction fees and related expenses in respect of the Capital Raise (of which \$8.5 million was paid to The Carlyle Group and \$6.5 million paid to CIBC) and the Rights Offering.

#### 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 30 September 2010 the credit facility had been reduced to \$300 million remains undrawn and 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, an affiliated company of the Carlyle Group with an effective date of 1 October 2010. Per the agreement the Carlyle Group has agreed to provide balance sheet management advisory services to the Bank for an annual fee of \$4 million for a three year period.

### Note 18: Comparative Information

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

### Note 19: Subsequent Events

The financial statements were available to be issued and subsequent events have been evaluated up to 2 November 2010.