Butterfield

Consolidated Financial Statements

Butterfield Bank (Cayman) Limited

For the years ended 31 December 2010 and 2009

Contents

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Report of Independent Auditors

To the Shareholder and Board of Directors
of Butterfield Bank (Cayman) Limited:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholder's equity, of comprehensive income and of cash flows present fairly, in all material respects, the financial position of Butterfield Bank (Cayman) Limited (the "Bank") and its subsidiaries at 31 December 2010 and 31 December 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers

22 February 2011

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Butterfield Bank (Cayman) Limited
Consolidated Balance Sheets
As at 31 December (Expressed in United States Dollars)

	2010	2009
Assets		
Cash and demand deposits with banks	126,825,640	322,750,508
Term deposits with banks	678,491,060	1,060,944,050
Total cash and deposits with banks (note 3 and note 8)	805,316,700	1,383,694,558
Investments		
Available for sale	540,486,431	504,963,735
Held to maturity	-	76,795,658
Total investments (note 4 and 12)	540,486,431	581,759,393
Loans, net of allowance for credit losses (note 5, 6 and 8)	616,125,689	564,757,494
Premises, equipment and computer software (note 7)	61,224,349	57,526,071
Accrued interest (note 8)	2,077,198	2,397,189
Intangible assets (note 9)	700,189	780,973
Other assets (note 8 and 15)	6,842,303	14,079,613
Total assets	2,032,772,859	2,604,995,291
Liabilities		
Deposits		
Non-interest bearing	260,049,170	277,364,165
Interest bearing		
Customers	1,520,739,346	2,058,090,492
Banks	36,663,020	76,292,697
Total deposits (note 8 and 10)	1,817,451,536	2,411,747,354
Accrued interest	451,273	497,461
Other liabilities (note 8 and 15)	60,106,779	34,138,469
Total other liabilities	60,558,052	34,635,930
Total liabilities	1,878,009,588	2,446,383,284
Shareholder's equity		
Share capital ($1.00 par: Authorised shares 16,450,000 (2009:16,450,000))	16,450,000	16,450,000
Retained earnings	147,331,115	153,116,393
Accumlated other comprehensive loss	(9,017,844)	(10,954,386)
Total shareholder's equity	154,763,271	158,612,007
Total liabilities and shareholder's equity	2,032,772,859	2,604,995,291

Signed on behalf of the Board by:

Conor J. O'Dea
Managing Director

James E. O'Neill
Director

The accompanying notes on pages 6 to 29 form an integral part of these consolidated financial statements. Report of Independent Auditors page 1

Butterfield Bank (Cayman) Limited
Consolidated Statements of Income

For the years ended 31 December (Expressed in United States Dollars)

	2010	2009
Non-interest income		
Asset management (note 8)	4,481,156	4,721,507
Banking services	9,694,540	9,005,558
Foreign exchange revenue	11,438,592	11,385,384
Trust and corporate services	5,263,271	5,174,775
Other non-interest income	180,606	644,876
Total non-interest income	31,058,165	30,932,100
Interest income		
Loans (note 8 and 13)	24,142,036	23,870,926
Investments	3,289,640	7,445,780
Deposits with banks (note 8)	3,827,787	9,528,750
Total interest income	31,259,463	40,845,456
Interest expense (note 8)	(2,550,316)	(6,209,265)
Net interest income before allowance for credit losses	28,709,147	34,636,191
Allowance for credit losses (note 5)	(3,808,338)	(7,786,858)
Net interest income after allowance for credit losses	24,900,809	26,849,333
Total revenue	55,958,974	57,781,433
Non-interest expense		
Salaries and other employee benefits	27,414,283	26,254,777
Technology and communications	11,165,013	9,777,606
Professional and outside services	716,795	704,471
Property	5,058,698	5,681,357
Non-income taxes	1,605,958	904,803
Amortisation of intangible assets (note 9)	80,784	80,784
Marketing	808,624	1,009,922
Other expenses (note 8 and 14)	3,287,618	5,000,361
Total non-interest expense	50,137,773	49,414,081
Net income before investment losses and gains	5,821,201	8,367,352
Net realised losses on available for sale investments (note 4)	(11,606,479)	-
Net realised gains on held to maturity investments (note 4)	-	261,300
Net (loss)/income	(5,785,278)	8,628,652

The accompanying notes on pages 6 to 29 form an integral part of these consolidated financial statements. Report of Independent Auditors page 1

Butterfield Bank (Cayman) Limited
Consolidated Statements of Changes in Shareholder's Equity
For the years ended 31 December (Expressed in United States Dollars)

	2010	2009
Share capital		
Authorised, issued and fully paid: 16,450,000 shares of $1.00 each	16,450,000	16,450,000
Retained earnings		
Appropriated - general reserve	35,000,000	35,000,000
Unappropriated at beginning of year	118,116,393	128,487,741
Net (loss)/income	(5,785,278)	8,628,652
	112,331,115	137,116,393
Dividends	-	(19,000,000)
Unappropriated at end of year	112,331,115	118,116,393
Retained earnings - balance at end of year	147,331,115	153,116,393
Accumulated other comprehensive income		
Balance at beginning of year	(10,954,386)	-
Unrecognised gains and losses on available for sale securities	1,936,542	(10,954,386)
Balance at end of year	(9,017,844)	(10,954,386)
Total shareholder's equity	154,763,271	158,612,007

Consolidated Statements of Comprehensive Income
For the year ended 31 December (Expressed in United States Dollars)

2010	2009	
Comprehensive income		
Net (loss)/income	(5,785,278)	8,628,652
Other comprehensive income/(loss)	1,936,542	(10,954,386)
Total comprehensive loss	(3,848,736)	(2,325,734)

Butterfield Bank (Cayman) Limited
Consolidated Statements of Cash Flows

For the years ended 31 December (Expressed in United States Dollars)

	2010	2009
Cash flows from operating activities		
Net (loss)/income	(5,785,278)	8,628,652
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortisation	3,960,966	4,154,207
Allowance for credit losses	3,808,338	7,786,858
Net realised losses on sale of available for sale investments	11,606,479	-
	13,590,505	20,569,717
Net change in other assets and liabilities	33,479,423	10,739,616
Cash provided by operating activities	47,069,928	31,309,333
Cash flows from investing activities		
Net decrease in term deposits with banks	382,452,990	467,698,720
Net additions to premises, equipment and computer software	(6,907,583)	(5,795,846)
Net increase in loans	(55,176,533)	(64,925,004)
Available for sale securities: proceeds from sales and maturities	303,942,017	456,123,219
Available for sale securities: purchases and transfers	(340,541,877)	(441,500,000)
Held to maturity securities: proceeds from sales, maturities and transfers	67,532,008	231,233,627
Held to maturity securities: purchases	-	(14,992,500)
Cash provided by investing activities	351,301,022	627,842,216)
Cash flows from financing activities		
Net decrease in customer deposits	(594,295,818)	(705,056,032)
Cash dividends paid	-	(19,000,000)
Cash used in financing activities	(594,295,818)	(724,056,032)
Net decrease in cash and demand deposits	(195,924,868)	(64,904,483)
Cash and demand deposits at beginning of year	322,750,508	387,654,991
Cash and demand deposits at end of year	126,825,640	322,750,508
Supplemental disclosure of cash flow information		
Cash interest paid in the year	2,596,504	7,849,447

The accompanying notes on pages 6 to 29 form an integral part of these consolidated financial statements. Report of Independent Auditors page 1

Note 1: Nature of Business

Butterfield Bank (Cayman) Limited (the "Bank") is a full service community bank and a provider of specialised international financial services. The Bank offers a full range of community banking services in the Cayman Islands, encompassing retail and corporate banking and treasury activities. In the wealth management area, the Bank provides private banking, asset management and personal trust services. The Bank also provides services to corporate and institutional customers, which include asset management and corporate trust services.

The Bank was incorporated on 22 November 1967 under the laws of the Cayman Islands and is a wholly-owned subsidiary of The Bank of N.T. Butterfield & Son Limited ("Butterfield"), a company incorporated in Bermuda. Butterfield is a publicly traded corporation with shares listed on the Bermuda and Cayman Islands stock exchanges. The Butterfield Group is regulated by the Bermuda Monetary Authority (BMA), while the Bank is regulated by the Cayman Islands Monetary Authority (CIMA). Both regulators operate in accordance with Basel principles.

The Bank holds a category 'A' banking licence and a trust licence under the Banks and Trust Companies Law of the Cayman Islands. In addition, the Bank is licenced under the Securities and Investment Business Law.

The Bank has the following subsidiaries:	Butterfield Asset Management (Cayman) Ltd.	Field Nominees (Cayman) Limited
	Field Directors (Cayman) Limited	Field Secretaries (Cayman) Limited

Butterfield Asset Management (Cayman) Ltd. was formed to offer investment services to customers of the Bank. It has not yet commenced trading. All other subsidiaries are used for nominee purposes.

The Bank has structured its operations in order that it will not be deemed to be engaged in trade or business within the U.S. for purposes of U.S. federal tax laws, or subject to taxation in any jurisdiction.

Note 2: Significant Accounting Policies

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

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

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

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

(b) Basis of Consolidation

The Consolidated Financial Statements include the accounts of the Bank and its majority-owned subsidiaries, and those variable interest entities (VIEs) where the Company is the primary beneficiary. The Bank has no interest in any VIEs which are required to be consolidated under ASC 810. Intercompany accounts and transactions have been eliminated. The Bank consolidates subsidiaries where it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. Entities where the Bank holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence, are accounted for under the equity method, and the pro rata share of their income (loss) is included in other non-interest income.

(c) Foreign Currency Translation

Assets and liabilities arising from other foreign currency transactions are translated into United States dollars at the rates of exchange prevailing at the balance sheet date while associated revenues and expenses are translated to United States dollars at the average rates of exchange prevailing throughout the period. The resulting gains or losses are included in foreign exchange revenue in the Consolidated Statements of Income.

(d) Assets Held in Trust or Custody

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

(e) Investments

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

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

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

Recognition of other-than-temporary impairments

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

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

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

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

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

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

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

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

Fair value of investments is determined in accordance with note 2 (n).

(f) Loans

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

Impaired loans

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

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

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

Non accrual

All Commercial, Commercial residential and Consumer loans are placed on non-accrual status immediately if:

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

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

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

Cash received on non accrual loans where there is no doubt regarding full repayment (no impairment recognised) is applied as repayment of the principal amount of the loan and only after the entire loan principal is recovered, is interest income recognised.

Where there is doubt regarding the ultimate full repayment of the non accrual loan (impairment recognised), all cash received is applied to reduce the principal amount of the loan.

Interest income on these loans is recognised only after the entire balance receivable is recovered and interest is actually received.

Interest income on non-accrual loans is recognised only to the extent it is received in cash. Interest income on these loans is recognised only after the entire balance receivable is recovered and interest is actually received.

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

Delinquencies

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

Charge offs

Commercial loans are 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 outstanding balance of Commercial real estate-secured loans that is in excess of the estimated property value, less cost to sell, is charged off no later than the end of the month in which the account becomes 180 days past due.

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

Unsecured consumer loans are charged off no later than the end of the month in which the account becomes 180 days past due.

Residential loans are fully or partially charge down to the net realizable value no later than the end of the month in which the account becomes 180 days past due.

(g) Allowance for Credit Losses

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

Specific Allowances

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

General Allowances

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

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

(h) Intangible Assets

Intangible assets (customer relationships) are accounted for using the purchase method. Acquired intangible assets with finite lives are amortised on a straight line basis over their estimated useful lives, not exceeding 15 years. Intangible assets' estimated useful lives are re-evaluated annually and an annual impairment test is carried out to determine if certain indicators of impairment exist.

(i) Premises, Equipment and Computer Software

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

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

(j) Derivatives

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

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

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

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

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

(k) Employee Future Benefits

The Bank maintains a trusteed defined contribution pension plan for substantially all employees.

The Bank provides a monthly contribution to the trust based on each participating employee's pensionable earnings.

The Bank also contributes to The Bank of N. T. Butterfield & Son Limited's (the Bank's parent company, herein after the "Parent Bank") non-contributory defined benefits pension plan for one (2009: three) eligible long serving employees. No unfunded liabilities are recorded in these financial statements as all relevant amounts are recorded and borne by the Parent Bank.

Amounts paid are expensed in the year.

(l) Share Based Compensation

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

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

(m) Revenue Recognition

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

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

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

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

Interest income on all securities, including amortisation of premiums and discounts on debt securities held for investment, are included in investment income in the Consolidated Statements of Income. Loans placed on non-accrual status and investments with uncertain cash flows are accounted for under the cost recovery method, whereby all principal, interest and coupon payments received are applied as a reduction of the amortised cost and carrying amount.

(n) Fair Value of Financial Instruments

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

The aggregate of the estimated fair value of amounts presented does not represent Management's estimate of the underlying value of the Bank.

Level 1, 2 and 3 valuation inputs

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

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

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

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

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

Cash and deposits with banks

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

Investments

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

Loans

The majority of loans are variable rate and re-price in response to changes in market rates and hence the fair value has been estimated as the carrying value. For fixed rate loans, the fair value is based on management's best estimates.

Accrued interest

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

Deposits

The fair value of fixed rate deposits, being short term in nature, is deemed to equate to the carrying value. The fair value of deposits with no stated maturity date is deemed to equate to the carrying value.

Derivatives

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

(o) Credit Related Arrangements

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

For the years ended 31 December 2010 and 2009 (Expressed in United States Dollars)

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

These credit arrangements are subject to the Bank's normal credit standards and collateral is obtained where appropriate. The contractual amounts for these commitments set out in the table in Note 12 represent the maximum payments the Bank would have to make should the contracts be fully drawn, the counterparty default, and any collateral held prove to be of no value. As many of these arrangements will expire or terminate without being drawn upon or are fully collateralised, the contractual amounts do not necessarily represent future cash requirements. The Bank does not carry any liability for these obligations.

(p) Consolidated Statement of Cash Flows

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

(q) Impairment or Disposal of Long-Lived Assets

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

Note 3: Cash and Deposits with Banks

31 December	2010	2009
Unrestricted		
Non-interest earning		
Cash deposits	13,678,480	12,005,550
Interest earning		
Deposits maturing within three months and on demand	791,638,220	1,061,689,008
Deposits maturing between three to six months	-	260,000,000
Deposits maturing between six to twelve months	-	50,000,000
Sub-total Interest earning	791,638,220	1,371,689,008
Total unrestricted cash and deposits	805,316,700	1,383,694,558
Total by currency		
US Dollars	622,796,602	1,012,388,246
Other currencies	182,520,098	371,306,312
Total unrestricted cash and deposits	805,316,700	1,383,694,558

The effective yield on interest earning deposits at 31 December 2010 was 0.25% (2009: 0.21%).

Note 4: Investments

Losses and gains on investments

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

For debt securities, management estimates cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist and to determine if any adverse changes in cash flows have occurred. Management's cash flow estimates take into account expectations of relevant market and economic data as of the end of the reporting period – including, for example, underlying loan-level data, and structural features of securitisation, such as subordination, excess spread, over collateralisation or other forms of credit enhancement. Management compares the losses projected for the underlying collateral ("pool losses") against the level of credit enhancement in the securitisation structure to determine whether these features are sufficient to absorb the pool losses, or whether a credit loss on the debt security exists. As at 31 December 2010, management's cash flow forecasts were created in conjunction with well-known third-party corporations specialising in analytical cash flow modelling. Management also performs other analyses to support its cash flow projections. For debt securities, management considers a decline in fair value to be other-than-temporary when it does not expect to recover the entire amortised cost basis of the security.

For the years ended 31 December 2010 and 2009 (Expressed in United States Dollars)

The following table presents the gains and losses on investments:

	2010			2009		
Year ended 31 December	Available for sale	Held to maturity	Total	Available for sale	Held to maturity	Total
(Losses)/gains recognised in net income	(11,606,479)	-	(11,606,479)	-	261,300	261,300
OTTI impairments recognised in net income	(11,606,479)	-	(11,606,479)	-	261,300	261,300
Net (losses)/gains recognised in net income	(11,606,479)	-	(11,606,479)	-	261,300	261,300
Net decrease/(increase) in non-credit related impairments recognised in other comprehensive income ("OCI")	1,936,542	-	1,936,542	(10,954,386)	-	(10,954,386)
Net change in losses recognised in accumulated other comprehensive income ("AOCI")	1,936,542	-	1,936,542	(10,954,386)	-	(10,954,386)
Total recognised (losses)/gains	(9,669,937)	-	(9,669,937)	(10,954,386)	261,300	(10,693,086)

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 Bank along with the Parent Bank no longer had the intent to hold these securities to maturity. The net carrying amount of the transferred securities was $76.8 million at the time of the transfer. Subsequent to the transfer, a net unrealised non-credit loss of $11.6 million was recognised in OCI.

Amortised cost, carrying amount and estimated fair value

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

31 December 2010	Amortised Cost	Gross Unrealised Gains	Gross Unrealised Losses	Carrying Amount/ Fair Value
Available for sale				
Certificates of deposit	43,650,000	130,772	-	43,780,772
US government and federal agencies	287,624,562	102,703	(2,750,979)	284,976,286
Debt securities issued by non-US governments	10,000,000	-	-	10,000,000
Corporate debt securities	94,987,841	892	(1,526,113)	93,462,620
Asset-backed securities - Student loans	113,241,872	-	(4,975,119)	108,266,753
Total available for sale	549,504,275	234,367	(9,252,211)	540,486,431

31 December 2009	Amortised Cost	Gross Unrealised Gains	Gross Unrealised Losses	Carrying Amount/ Fair Value
Available for sale				
Certificates of deposit	102,500,000	641,500	-	103,141,500
Corporate debt securities	258,547,584	10,592	(5,368,022)	253,190,154
Mortgage-backed securities - Subprime and Alt-A	654,642	26,552	(11,270)	669,924
Asset-backed securities - Student loans	114,681,068	-	(4,503,929)	110,177,139
Asset-backed securities - Automobile loans	20,021,064	-	(299,346)	19,721,718
Collateralised debt and loan obligations	19,513,763	-	(1,450,463)	18,063,300
Total available for sale	515,918,121	678,644	(11,633,030)	504,963,735

For the years ended 31 December 2010 and 2009 (Expressed in United States Dollars)

31 December 2009	Amortised Cost	OTTI Recognised in AOCI	Carrying Value	Gross Unrecognised Gains	Gross Recognised Losses	Fair Value
Held to maturity						
Debt securities issued by non-US governments	11,333,333	-	11,333,333	-	-	11,333,333
Mortgage-backed securities - Prime	2,310,141	-	2,310,141	-	(405,045)	1,905,096
Mortgage-backed securities - Subprime and Alt-A	41,120,346	-	41,120,346	-	(9,208,551)	31,911,795
Collateralised debt and loan obligations	22,031,838	-	22,031,838	-	(2,684,978)	19,346,860
Total held to maturity securities with unrealised losses	76,795,658	-	76,795,658	-	(12,298,574)	64,497,084

Investments in the above table with gross unrecognised losses as at 31 December 2010 were considered temporarily impaired on that date. The impairments recognised in AOCI represent the total loss that would have been recognised in net income if the investment securities had been sold at their estimated fair value on 31 December 2010. The impairments recognised in AOCI are the result of various factors other than deterioration in the creditworthiness of the issuer. As at 31 December 2010, management did not intend to sell these securities and believed it is not likely that the Bank would be required to sell these securities prior to recovery of their amortised cost basis.

Overall, unrecognised losses have decreased since 31 December 2009 due primarily to the disposal of securities resulting in a realised loss of $ 11.606 million and increased fair values across asset classes resulting from improved market spread and market liquidity.

Unrealised loss positions

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

		Less than 12 months		12 months or more			
31 December 2010	Number of Securities	Fair Value	Gross Unrealised Losses	Fair Value	Gross Unrealised Losses	Total Fair Value	Total Gross Unrealised Losses
Available for sale							
US government and federal agencies	13	254,874,934	(2,750,979)	-	-	254,874,934	(2,750,979)
Corporate debt securities	4	-	-	88,462,830	(1,526,113)	88,462,830	(1,526,113)
Asset-backed securities - Student loans	5	-	-	108,266,753	(4,975,119)	108,266,753	(4,975,119)
Total available for sale securities with unrealised losses	22	254,874,934	(2,750,979)	196,729,583	(6,501,232)	451,604,517	(9,252,211)
Total securities with unrealised losses	22	254,874,934	(2,750,979)	196,729,583	(6,501,232)	451,604,517	(9,252,211)

		Less than 12 months		12 months or more			
31 December 2009	Number of Securities	Fair Value	Gross Unrealised Losses	Fair Value	Gross Unrealised Losses	Total Fair Value	Total Gross Unrealised Losses
Available for sale							
Corporate debt securities	17	-	-	229,678,072	(5,368,022)	229,678,072	(5,368,022)
Mortgage-backed securities - Subprime and Alt-A	1	-	-	643,372	(11,270)	643,372	(11,270)
Asset-backed securities - Student loans	5	-	-	110,177,139	(4,503,929)	110,177,139	(4,503,929)
Asset-backed securities - Automobile loans	1	-	-	19,721,718	(299,346)	19,721,718	(299,346)
Collateralised debt and loan obligations	2	-	-	18,063,300	(1,450,463)	18,063,300	(1,450,463)
Total available for sale securities with unrealised losses	26	-	-	378,283,601	(11,633,030)	378,283,601	(11,633,030)
Held to maturity							
Mortgage-backed securities - Prime	1	-	-	1,905,096	(405,045)	1,905,096	(405,045)
Mortgage-backed securities - Subprime and Alt-A	5	-	-	31,911,795	(9,208,551)	31,911,795	(9,208,551)
Collateralised debt and loan obligations	2	-	-	19,346,860	(2,684,978)	19,346,860	(2,684,978)
Total held to maturity securities with unrealised losses	8	-	-	53,163,751	(12,298,574)	53,163,751	(12,298,574)
Total securities with unrealised losses	34	-	-	431,447,352	(23,931,604)	431,447,352	(23,931,604)

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

For the years ended 31 December 2010 and 2009 (Expressed in United States Dollars)

Certificates of deposit

As of 31 December 2010, there were no gross unrealised losses on the Bank's holdings of certificates of deposit (CDs). Management assesses the credit quality of the issuers, which includes assessments of credit ratings (the Bank only purchases CDs that are rated investment grade) and credit worthiness of the issuer and concluded that the CDs do not have any credit losses.

US government and federal agencies

As of 31 December 2010, gross unrealised losses on securities related to United States (US) government and federal agencies were $2.751 million, none of which related to investments that were in an unrealised loss position for longer than 12 months. 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 31 December 2010, there were no gross unrealised losses on debt securities issued by non-US governments. All securities in this category were issued by governments of Caribbean jurisdictions. These securities do not have any credit losses.

Corporate debt securities

As of 31 December 2010, gross unrealised losses related to corporate debt securities were $1.526 million, all of which related to investments that were in an unrealised loss position for longer than 12 months. The unrealised losses were due to widened credit spreads caused by illiquidity.

Asset-backed securities - Student loans

As of 31 December 2010, gross unrealised losses on student-loan asset backed securities were $4.975 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.

The following table presents securities by remaining contractual or expected maturity:

	Remaining term to maturity				
31 December 2010	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Carrying Value
Available for sale					
Certificates of deposit	36,155,334	7,625,438	-	-	43,780,772
US government and federal agencies	-	-	232,550,506	52,425,780	284,976,286
Debt securities issued by non-US governments	-	1,333,333	5,333,333	3,333,334	10,000,000
Corporate debt securities	9,973,180	4,999,790	78,489,650	-	93,462,620
Asset-backed securities - Student loans	-	-	3,044,426	105,222,327	108,266,753
Total available for sale	46,128,514	13,958,561	319,417,915	160,981,441	540,486,431
Total by currency					
US Dollars	46,128,514	13,958,561	319,417,915	160,981,441	540,486,431
Total investments	46,128,514	13,958,561	319,417,915	160,981,441	540,486,431

For the years ended 31 December 2010 and 2009 (Expressed in United States Dollars)

	Remaining term to maturity				
31 December 2009	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Carrying Value
Available for sale					
Certificates of deposit	-	95,557,500	7,584,000	-	103,141,500
Corporate debt securities	4,997,770	18,507,392	229,684,992	-	253,190,154
Mortgage-backed securities - Subprime and Alt-A	643,372	-	-	26,552	669,924
Asset-backed securities - Student loans	-	-	4,307,717	105,869,422	110,177,139
Asset-backed securities - Automobile loans	-	19,721,718	-	-	19,721,718
Collateralised debt and loan obligations	-	-	-	18,063,300	18,063,300
Total available for sale	5,641,142	133,786,610	241,576,709	123,959,274	504,963,735
Held to maturity					
Debt securities issued by non-US governments	-	1,333,333	5,333,333	4,666,667	11,333,333
Mortgage-backed securities - Prime	-	-	-	2,310,141	2,310,141
Mortgage-backed securities - Subprime and Alt-A	-	-	16,377,994	24,742,352	41,120,346
Collateralised debt and loan obligations	-	-	12,031,912	9,999,926	22,031,838
Total held to maturity	-	1,333,333	33,743,239	41,719,086	76,795,658
Total investments	5,641,142	135,119,943	275,319,948	165,678,360	581,759,393
Total by currency					
US Dollars	5,641,142	135,119,943	275,319,948	165,678,360	581,759,393
Total investments	5,641,142	135,119,943	275,319,948	165,678,360	581,759,393

Investments at carrying value includes $201.729 million (2009: $467.284 million) of floating-rate instruments and $338.757 million (2009: $114.475 million) of fixed-rate instruments. The approximate yield on floating-rate securities at 31 December 2010 was 0.41% (2009: 0.42%), while the approximate yield on fixed-rate securities was 2.66% (2009: 1.94%).

The average yield is based on amortised cost balances at year-end. Average yield is derived by dividing interest income (including the effect of amortisation of premiums and accretion of discounts) by the amortised cost.

The estimated duration, which reflects anticipated future prepayments is approximately 3.71 years (2009: 2.47 years).

Note 5: Loans

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

31 December	2010	2009
Commercial loans:		
Commercial and industrial	200,603,111	179,181,132
Commercial real estate	49,188,484	49,513,966
Overdrafts	10,204,790	5,620,345
Total commercial loans	259,996,385	234,315,443
Less allowance for credit losses on commercial loans	(3,262,625)	(8,972,173)
Total commercial loans after allowance for credit losses	256,733,760	225,343,270
Consumer loans:		
Automobile financing	6,052,737	6,075,824
Credit card	13,671,116	12,415,909
Mortgages	325,061,204	302,952,825
Overdrafts	1,315,294	3,026,339
Other consumer	16,040,504	17,668,158
Total consumer loans	362,140,855	342,139,055
Less allowance for credit losses on consumer loans	(2,748,926)	(2,724,831)
Total commercial loans after allowance for credit losses	359,391,929	339,414,224
Total loans	622,137,240	576,454,498
Less allowance for credit losses	(6,011,551)	(11,697,004)
Net loans	616,125,689	564,757,494

For the years ended 31 December 2010 and 2009 (Expressed in United States Dollars)

31 December 2010	Commercial	Commercial Real Estate	Consumer	Residential	Total
Total loans individually evaluated for impairment	2,150,956	1,396,891	41,386	6,391,462	9,980,695
Total loans collectively evaluated for impairment	208,656,945	47,791,593	37,038,265	318,669,742	612,156,545
Total loans	210,807,901	49,188,484	37,079,651	325,061,204	622,137,240

31 December 2009	Commercial	Commercial Real Estate	Consumer	Residential	Total
Total loans individually evaluated for impairment	5,419,494	19,091,852	-	1,949,918	26,461,264
Total loans collectively evaluated for impairment	179,381,983	30,422,114	39,186,230	301,002,907	549,993,234
Total loans	184,801,477	49,513,966	39,186,230	302,952,825	576,454,498

The principal means of securing residential mortgages, personal, credit card and business loans are charges over assets and guarantees. Mortgage loans are generally repayable over periods of up to thirty years and personal, credit card, business and government loans are generally repayable over terms not exceeding five years. The effective yield on total loans as at 31 December 2010 is 4.00% (2009: 4.01%).

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

31 December 2010	Commercial	Commercial Real Estate	Consumer	Residential	Total
General Allowances					
Allowance for general losses at beginning of year	1,454,549	467,624	461,499	2,263,332	4,647,004
Provision this year	362,622	68,530	332,456	34,730	798,338
Recoveries	22,963	-	177,484	-	200,447
Charge-offs	(113,663)	-	(520,575)	-	(634,238)
Allowance for general losses at end of year	1,726,471	536,154	450,864	2,298,062	5,011,551

31 December 2010	Commercial	Commercial Real Estate	Consumer	Residential	Total
Specific Allowances					
Allowance for specific losses at beginning of year	750,000	6,300,000	-	-	7,050,000
Provision this year	1,000,000	2,000,000	-	10,000	3,010,000
Recoveries	-	-	-	-	-
Charge-offs	(750,000)	(8,300,000)	-	(10,000)	(9,060,000)
Allowance for specific losses at end of year	1,000,000	-	-	-	1,000,000

31 December 2009	Commercial	Commercial Real Estate	Consumer	Residential	Total
General Allowances					
Allowance for general losses at beginning of year	1,042,189	463,640	439,658	1,886,644	3,832,131
Provision this year	408,165	3,984	248,021	376,688	1,036,858
Recoveries	10,411	-	297,046	-	307,457
Charge-offs	(6,216)	-	(523,226)	-	(529,442)
Allowance for general losses at end of year	1,454,549	467,624	461,499	2,263,332	4,647,004

31 December 2009	Commercial	Commercial Real Estate	Consumer	Residential	Total
Specific Allowances					
Allowance for specific losses at beginning of year	-	-	-	300,000	300,000
Provision this year	750,000	6,300,000	-	(300,000)	6,750,000
Recoveries	-	-	-	-	-
Charge-offs	-	-	-	-	-
Allowance for specific losses at end of year	750,000	-	-	-	7,050,000

For the years ended 31 December 2010 and 2009 (Expressed in United States Dollars)

For the year ended 31 December 2010, the amount of gross interest income that would have been recorded had impaired loans been current was $710,028 (2009: $543,749). For the year ended 31 December 2010 the Bank recovered overdue interest of $89,027 (2009: $94,866) on impaired loans that were repaid in the year. The average balance of impaired loans during the year ended 31 December 2010 was $20,089,583 (2009: $10,135,208).

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

	Non accrual Loans					
31 December 2010	Unpaid principal balance	Gross loan	Specific allowance	Total	Average recorded investment	Interest income recognised
Commercial loans						
Commercial and Industrial						
Loans	2,150,956	2,150,956	(1,000,000)	1,150,956	3,159,800	308,438
Total commercial loans	2,150,956	2,150,956	(1,000,000)	1,150,956	3,159,800	308,438
Commercial real estate loans						
Mortgage	-	-	-	-	9,331,493	-
Construction	1,396,891	1,396,891	-	1,396,891	680,080	-
Total commercial real estate loans	1,396,891	1,396,891	-	1,396,891	10,011,573	-
Consumer loans	41,386	41,386	-	41,386	35,440	-
Residential loans	6,391,462	6,391,462	-	6,391,462	4.012,317	-
Total	9,980,695	9,980,695	(1,000,000)	8,980,695	17,219,130	308,438

	Non accrual Loans					
31 December 2009	Unpaid principal balance	Gross loan	Specific allowance	Total	Average recorded investment	Interest income recognised
Commercial loans						
Commercial and Industrial						
Loans	5,419,494	5,419,494	(750,000)	4,669,494	4,865,955	-
Total commercial loans	5,419,494	5,419,494	(750,000)	4,669,494	4,865,955	-
Commercial real estate loans						
Mortgage	18,662,560	18,662,560	(6,300,000)	12,362,560	4,746,747	-
Construction	429,292	429,292	-	429,292	437,056	-
Total commercial real estate loans	19,091,852	19,091,852	(6,300,000)	12,791,852	5,183,803	-
Residential loans	1,949,918	1,949,918	-	1,949,918	3,172,042	-
Total	26,461,264	26,461,264	(7,050,000)	19,411,264	13,221,800	-

For the years ended 31 December 2010 and 2009 (Expressed in United States Dollars)

31 December	2010	2009
Non-delinquent loans placed on non-accrual status	-	-
Gross interest income would have been recorded had impaired loans been current	710,028	543,479

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

	Delinquent Loans				
31 December 2010	30 - 59 days	60 - 89 days	90 days or more	Total delinquent loans	Loans past due 90 days and still accruing interest
Commercial loans					
Commercial and Industrial					
Loans	-	-	2,150,956	2,150,956	-
Total commercial loans	-	-	2,150,956	2,150,956	-
Commercial real estate loans					
Construction	697,246	101,122	1,396,891	2,195,259	-
Total commercial real estate loans	697,246	101,122	1,396,891	2,195,259	-
Consumer loans					
Credit cards	76,748	42,125	-	118,873	-
Other	220,713	33,566	144,874	399,153	103,489
Total consumer loans	297,461	75,691	144,874	518,026	103,489
Residential loans	3,306,556	1,093,468	7,108,735	11,508,759	717,272
Total	4,301,263	1,270,281	10,801,456	16,373,000	820,761

	Delinquent Loans				
31 December 2009	30 - 59 days	60 - 89 days	90 days or more	Total delinquent loans	Loans past due 90 days and still accruing interest
Commercial loans					
Commercial and Industrial					
Loans	160,460	-	5,419,494	5,579,954	-
Total commercial loans	160,460	-	5,419,494	5,579,954	-
Commercial real estate loans					
Mortgage	-	-	18,662,560	18,662,560	-
Construction	-	-	429,292	429,292	-
Total commercial real estate loans	-	-	19,091,852	19,091,852	-
Consumer loans					
Credit cards	61,850	32,833	-	94,683	-
Other	-	-	-	-	-
Total consumer loans	61,850	32,833	-	94,683	-
Residential loans	2,415,019	987,108	2,129,991	5,532,118	180,072
Total	2,637,329	1,019,941	26,641,337	30,298,607	180,072

For the years ended 31 December 2010 and 2009 (Expressed in United States Dollars)

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

31 December 2010	Pass	Substandard	Non accrual	Total
Commercial loans				
Commercial and Industrial				
Loans	195,575,907	2,876,248	2,150,956	200,603,111
Overdrafts	10,204,790	-	-	10,204,790
Total commercial loans	205,780,697	2,876,248	2,150,956	210,807,901
Commercial real estate loans				
Construction	40,257,240	7,534,353	1,396,891	49,188,484
Total commercial real estate loans	40,257,240	7,534,353	1,396,891	49,188,484
Consumer loans				
Automobile financing	6,025,212	-	27,525	6,052,737
Credit cards	13,671,116	-	-	13,671,116
Overdraft	1,315,294	-	-	1,315,294
Other	16,023,900	2,743	13,861	16,040,504
Total consumer loans	37,035,522	2,743	41,386	37,079,651
Residential loans	318,669,742	-	6,391,462	325,061,204
Total	601,743,201	10,413,344	9,980,695	622,137,240

31 December 2009	Pass	Substandard	Non accrual	Total
Commercial loans				
Commercial and Industrial				
Loans	170,885,390	2,876,248	5,419,494	179,181,132
Overdrafts	5,620,345	-	-	5,620,345
Total commercial loans	176,505,735	2,876,248	5,419,494	184,801,477
Commercial real estate loans				
Construction	30,422,114	-	19,091,852	49,513,966
Total commercial real estate loans	30,422,114	-	19,091,852	49,513,966
Consumer loans				
Automobile financing	6,075,824	-	-	6,075,824
Credit cards	12,415,909	-	-	12,415,909
Overdraft	3,026,339	-	-	3,026,339
Other	17,668,158	-	-	17,668,158
Total consumer loans	39,186,230	-	-	39,186,230
Residential loans	296,221,209	4,781,698	1,949,918	302,952,825
Total	542,335,288	7,657,946	26,461,264	576,454,498

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

Quality classification definitions

Pass:
Exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss. Retail accounts operate within product parameters and only exceptionally show any period of delinquency.

Substandard:
Exposures require varying degrees of special attention and default risk is of greater concern. Retail portfolio segments show longer delinquency periods of generally up to 90 days past due and/or expected losses are higher due to a reduced ability to mitigate these through security realisation or other recovery processes.

Non Accrual:
Recoverability of the loans in the opinion of Management of full payment of principal or interest is in doubt or when principal or interest is 90 days past due and for residential loans are not fully secured and in the process of collection.

Note 6: Credit Risk Concentrations

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or 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 change 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. Collateral and property charges in respect of loans are situated primarily in the Cayman Islands, but also in Bermuda and the Bahamas.

The following table summarises the credit exposure by the Bank by business segment:

	2010			2009		
31 December (in $ thousands)	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Banks and financial services	94,254	146,408	240,662	33,702	119,385	153,087
Commercial and merchandising	83,449	-	83,449	101,194	-	101,194
Governments	9,600	-	9,600	-	-	-
Individuals	329,312	36,627	365,939	351,143	17,438	368,581
Primary industry and manufacturing	3,832	-	3,832	3,728	-	3,728
Real estate	70,398	-	70,398	54,636	-	54,636
Transport and communication	30,293	-	30,293	25,001	-	25,001
Sub-total	621,138	183,035	804,173	569,404	136,823	706,227
General allowance	(5,012)	-	(5,012)	(4,647)	-	(4,647)
Total	616,126	183,035	799,161	564,757	136,823	701,580

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

	2010			2009		
31 December (in $ thousands)	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Bermuda	65,000	-	65,000	35,000	-	35,000
Cayman	508,633	183,035	691,668	479,644	136,823	616,467
Guernsey	17,212	-	17,212	17,397	-	17,397
St. Lucia	30,293	-	30,293	25,000	-	25,000
The Bahamas	-	-	-	12,363	-	12,363
Sub-total	621,138	183,035	804,173	569,404	136,823	706,227
General allowance	(5,012)	-	(5,012)	(4,647)	-	(4,647)
Total	616,126	183,035	799,161	564,757	136,823	701,580

Note 7: Premises, Equipment and Computer Software

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

	2010			2009		
31 December	Cost	Accumulated depreciation	Net Carrying value	Cost	Accumulated depreciation	Net Carrying value
Land	5,082,878	-	5,082,878	5,082,878	-	5,082,878
Buildings	51,505,206	(9,210,705)	42,294,501	50,523,169	(8,000,298)	42,522,871
Equipment	12,182,330	(8,541,248)	3,641,082	12,011,806	(6,943,853)	5,067,953
Computer software	12,410,651	(2,204,763)	10,205,888	6,696,427	(1,844,058)	4,852,369
Total	81,181,065	(19,956,716)	61,224,349	74,314,280	(16,788,209)	57,526,071

For the years ended 31 December 2010 and 2009 (Expressed in United States Dollars)

31 December	2010	2009
Depreciation		
Buildings (included in property expense)	1,210,407	1,437,914
Equipment (included in property expense)	810,909	927,414
Computer hardware and software (included in technology and communications expenses)	1,187,988	1,708,095
Total depreciation charged to operating expenses	3,209,304	4,073,423

Note 8: Other Related Party Balances and Transactions

An analysis of other related party balances and transactions follows:

31 December	2010	2009
Consolidated Balance Sheets		
Assets		
Cash and deposits with banks	253,197,092	501,034,828
Loans (including staff loans)	64,456,210	64,601,315
Accrued interest	147,134	482,604
Other assets	129,400	206,875
Liabilities		
Customer deposits	5,701,970	11,413,105
Other liabilities	719,150	1,540,444
Consolidated Statements of Income		
Non-Interest Income		
Investment services revenue	227,204	489,346
Interest Income		
Interest Income - Deposits with banks	1,861,874	6,164,373
Interest Income - Loans (excluding staff loans)	258,197	610,523
Interest Expense	902	22,399
Non-Interest Expense		
Other expenses	187,962	2,157,057
Derivative Financial Instruments		
Foreign exchange contracts	-	2,522,756

The Bank provides, as a benefit to employees, loan facilities at preferred lending rates.

Significant balances due to and from affiliated entities other than the Parent Bank include, Loans and Customer deposits. In the ordinary course of business, the Bank receives from and provides to its affiliated and other related corporations, normal banking services on terms similar to those offered to non-related parties. The non interest expenses are comprised of management fee allocations from the Parent Bank, which are determined at the sole discretion of the Parent Bank.

During the year ended 31 December 2010, the Bank participated in loans of $30,000,000 with the Parent Bank at amortised cost at the purchase date. The Parent Bank purchased from the Bank a loan for $10,362,560 at its carrying value.

During the year ended 31 December 2009, as a result of specific credit issues on certain securities, the Bank transferred securities from its held to maturity investment portfolio with an amortised cost of $87,815,350 to its Parent Bank at their carrying value and purchased a security from its Parent Bank at amortised cost of $14,992,500 into its held to maturity portfolio.

Note 9: Intangible assets

The following table presents intangible assets by business segments:

31 December	2010			2009		
	Gross Carrying Amount	Accumulated Amortisation	Net Carrying value	Gross Carrying Amount	Accumulated Amortisation	Net Carrying value
Customer Relationships	1,211,821	(511,632)	700,189	1,211,821	(430,848)	780,973

There have been no impairment losses for the years ended 31 December 2010 and 2009. The estimated aggregate amortisation expense for each of the succeeding years until 31 December 2015 is $403,920.

Note 10: Customer Deposits

	2010			2009		
31 December	Customers	Banks	Total	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	260,049,170	-	260,049,170	277,364,165	-	277,364,165
Demand deposits - Interest bearing	1,088,599,438	14,276,066	1,102,875,504	1,487,215,022	27,490,468	1,514,705,490
Sub-total - demand deposits	1,348,648,608	14,276,066	1,362,924,674	1,764,579,187	27,490,468	1,792,069,655
Term deposits						
Term deposits maturing within six months	413,395,866	17,633,996	431,029,862	551,391,453	43,563,246	594,954,699
Term deposits maturing between six to twelve months	18,596,042	4,752,958	23,349,000	19,347,017	5,238,983	24,586,000
Term deposits maturing after twelve months	148,000	-	148,000	137,000	-	137,000
Sub-total - term deposits	432,139,908	22,386,954	454,526,862	570,875,470	48,802,229	619,677,699
Total	1,780,788,516	36,663,020	1,817,451,536	2,335,454,657	76,292,697	2,411,747,354

The effective yield on interest bearing deposits at 31 December 2010 was 0.16% (2009: 0.12%).

Note 11: Employee Future Benefits

31 December	2010	2009
Annual benefit expense		
Service cost	255,568	282,796
Defined benefit expense	255,568	282,796
Defined contribution expense	1,285,713	1,361,423
Total	1,541,281	1,644,219

Note 12: Commitments, Credit Related Arrangements and Contingencies

Commitments

The Bank was committed to expenditures under contract for long-term leases as of 31 December 2010 of $590,356 (2009: $579,496).

Year	(Expressed in United States Dollars)
2011	601,330
2012	612,853
2013	624,952
2014	637,656
2015	650,995
2016 & thereafter	1,483,551

Total rental expense was as follows:

31 December	2010	2009
Gross rental expense	704,474	704,361

Credit Related Arrangements

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

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

The following table presents the credit related arrangements with contractual amounts representing credit risk as follows:

	2010			2009		
31 December (in $ thousands)	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	184,408	184,408	-	145,104	145,104	-
Letters of guarantee	6,138	6,138	-	6,498	6,498	-
Total	190,546	190,546	-	151,602	151,602	-

Collateral is shown at estimated market value less selling cost. Where cash is the collateral given, collateral is shown at carrying value.

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 contractual terms of standby letters of credit vary but are generally under one year with multi-year agreements required to be renewed on an annual basis.

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

31 December (in $ thousands)	2010	2009
Commitments to extend credit	22,697	16,154
Documentary and commercial letters of credit	13,930	1,284
Total	36,627	17,438

A guarantee is a contract that contingently requires the guarantor to make payments to a third party based on (i) changes in an underlying interest rate, foreign exchange rate or other variable, including the occurrence or non-occurrence of an event, that is related to an asset, liability or equity security held by the guaranteed party, (ii) an indemnification provided to the third party with the characteristics listed above, (iii) another entity's failure to perform under an obligating agreement, or (iv) another entity's failure to perform related to its indebtedness. As at 31 December 2010 the guarantees that the Bank provides to its customers and other third parties are standby letters of credit and letters of guarantee with a maximum potential amount of future payments of $146,408,247 (2009: $119,384,569). The carrying value of these amounts on the 31 December 2010 Consolidated Balance Sheet are $ Nil (2009: $ Nil).

The Bank was provided with a facility by one of its custodians, whereby the Bank may offer up to $200.0 million of standby letter of credits to its customers on a fully secured basis. Under the standard terms of the facility, the custodian has the right of set-off against the Bank's investment securities held on a scaled market value basis. At 31 December 2010, $174.5 million (2009: $133.3 million) of standby letters of credit were issued under this facility.

On 31 December 2010 the Bank entered a credit line facility of up to $150.0 million with the same custodian. The custodian has the right of set-off against the scaled market value of the Bank's investment portfolio. There were no draws on this facility at 31 December 2010.

Legal Proceedings

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

For the years ended 31 December 2010 and 2009 (Expressed in United States Dollars)

Note 13: Interest Income

The following table presents the components of loan interest income:

31 December	2010	2009
Mortgages	10,847,090	10,369,723
Other loans	12,947,566	13,018,127
	23,794,656	23,387,850
Amortisation of loan origination fees (net of amortised costs)	347,380	483,076
Total loan interest income	24,142,036	23,870,926
Balance of unamortised loan fees	1,230,719	993,645

Note 14: Non-interest expense

Other expenses

Details of other expenses were as follows:

31 December	2010	2009
Insurance	558,882	466,324
Bank charges	598,001	695,872
All other (note 8)	2,130,735	3,838,165
Total	3,287,618	5,000,361

Note 15: Accounting for derivative instruments

The Bank uses derivatives to meet the needs of its customers with their risk management objectives. The Bank's derivative contracts principally involve over the counter foreign exchange contracts that are privately negotiated between the Bank and the counterparty.

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 exchange rates 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.

Cash flow hedges

As of 31 December 2010 and 2009 there were no cash flow hedges in place.

Client service derivatives

The Bank enters into foreign exchange contracts primarily to meet the foreign exchange needs of its customers for periods of less than one year. 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.

For the years ended 31 December 2010 and 2009 (Expressed in United States Dollars)

The following table shows the aggregate notional amounts of derivative contracts outstanding and their respective gross positive or negative fair values:

31 December 2010	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Client Services Derivatives	Spot and forward foreign exchange	588,361,042	3,524,386	(3,413,643)	110,743

31 December 2009	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Client Services Derivatives	Spot and forward foreign exchange	644,391,488	11,188,651	(11,082,785)	105,866

Note 16: 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:

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

31 December 2010

	Fair value determination			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total carrying value/ fair value
Financial assets				
Investments available for sale - Certificates of deposits (note 4)	-	43,780,772	-	43,780,772
Investments available for sale - US government and federal agencies	-	284,976,286	-	284,976,286
Investments available for sale - Debt securities issued by non-US governments		10,000,000	-	10,000,000
Investments available for sale - Corporate debt securities	-	93,462,620	-	93,462,620
Investments available for sale - Asset-backed securities - Student loans	-	97,088,053	11,178,700	108,266,753
Other Assets - Derivatives		3,524,386	-	3,524,386
Financial liabilities				
Other liabilities - Derivatives	-	3,413,643	-	3,413,643

31 December 2009

	Fair value determination			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total carrying value/ fair value
Financial assets				
Investments available for sale - Certificates of deposits (note 4)	-	103,141,500	-	103,141,500
Investments available for sale - Corporate debt securities	-	177,625,819	75,564,335	253,190,154
Investments available for sale - Mortgage-backed securities - Subprime and Alt-A		669,924	-	669,924
Investments available for sale - Asset-backed securities - Student loans	-	58,209,072	51,968,067	110,177,139
Investments available for sale - Asset-backed securities - Automobile loans	-	19,721,718	-	19,721,718
Investments available for sale - Collarteralised debt and loan obligations		-	18,063,300	18,063,300
Other Assets - Derivatives	-	11,188,651	-	11,188,651
Financial liabilities				
Other liabilities - Derivatives	-	11,082,785	-	11,082,785

For the years ended 31 December 2010 and 2009 (Expressed in United States Dollars)

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

31 December	2010 Available for sale investments	2009 Available for sale investments
Carrying amount at beginning of year	145,595,702	-
Transfers (out) and in of Level 3	(100,879,946)	145,595,702
Proceeds from Sales	(36,137,750)	-
Realised losses recoginised in net income	1,411,097	-
Unrealised gains and losses recognised in other comprehensive income	1,189,597	-
Carrying amount at end of year	11,178,700	145,595,702

Level 3 investments are valued primarily using non-binding bid quotes from brokers.

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

	2010			2009		
31 December	Carrying value	Fair value	Appreciation/ (depreciation)	Carrying value	Fair value	Appreciation/ (depreciation)
Financial assets						
Cash and deposits with banks	805,316,700	805,316,700	-	1,383,694,558	1,383,694,558	-
Investments held to maturity	-	-	-	76,795,658	64,497,084	(12,298,574)
Commercial loans, net of allowance for credit losses	256,733,760	256,733,760	-	279,176,388	279,176,388	-
Consumer loans, net of allowance for credit losses	359,391,929	359,391,929	-	285,581,106	285,581,106	-
Accrued interest	2,077,198	2,077,198	-	2,397,189	2,397,189	-
Total financial assets	1,423,519,587	1,423,519,587	-	2,027,644,899	2,015,346,325	(12,298,574)
Financial liabilities						
Customer deposits						
Demand deposits	1,348,648,608	1,348,648,608	-	1,764,579,374	1,764,579,374	-
Term deposits	432,139,908	432,139,908	-	570,874,940	570,874,940	-
Deposits from banks	36,663,020	36,663,020	-	76,293,394	76,293,394	-
Accrued interest	451,273	451,273	-	497,461	497,461	-
Total financial liabilities	1,817,902,809	1,817,902,809	-	2,412,245,169	2,412,245,169	-

Note 17: Assets Under Management and Assets Under Administration

31 December	2010	2009
Assets under management		
Butterfield funds	62,929,323	63,553,462
Other assets under management	836,702,502	793,684,999
Total assets under management	899,631,825	857,238,461
Assets under administration (including mutual funds)	4,587,643,449	4,959,972,121

Note 18: Risk Management & Control

The Bank's financial statements are comprised of financial instruments such as customer deposits, cash and deposits with banks, investments and various items such as loans and advances to customers which arise directly from the Bank's operations. Risk is inherent in virtually all of the Bank's daily activities. The main risks arising from the Bank's financial instruments are credit risk, market risk, liquidity risk, currency risk and interest rate risk.

The Parent Company approves policy and limits with respect to credit risk, market risk, liquidity risk, currency risk and interest rate risk and has delegated its monitoring and control responsibilities to the management of the Bank.

(a) Credit Risk

Credit risk arises primarily from financial instrument assets and contingencies generated through the Bank's operations such as loans and advances to customers and banks, investments and guarantees issued on behalf of customers.

The Parent Company's Credit Risk Management principles, policies and guidelines manual lays down the fundamental credit principles within which the Bank operates. Clear procedures for credit approvals are set out including the appropriate tiered authorities given to the Bank's management in Cayman.

A review of counterparty limits is regularly undertaken by the Parent Company's Credit Risk Management function, which limits are utilised in the management of the Bank's liquid assets.

(b) Market Risk

Market risk is the potential adverse change in the Bank's income or the value of the Bank's net worth resulting from movements in interest rates or other market prices. Market risk arises from the structure of the balance sheet. The Bank recognises that the effective management of market risk is essential to the maintenance of stable earnings, the preservation of shareholder value and achievement of the Bank's corporate objectives. The Bank's Asset and Liability Management Committee (ALCO) monitors exposure to market risk.

(c) Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in realising assets or otherwise raising funds to meet commitments. It is a Bank policy to ensure that resources are at all times available to meet the Bank's obligations arising from withdrawal of customer deposits and asset allocation. The development of this policy is the responsibility of the Parent Company's ALCO. Monitoring the policy is the responsibility of the Bank's ALCO. Daily cash needs are met by maturing inter-bank deposits, through general overdraft facilities and loans from approved counterparties if required.

(d) Currency Risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. All open currency positions are held within strict limits approved by the Parent Company and are reported to and monitored by senior management in Cayman.

(e) Interest Rate Risk

Interest rate risk is the exposure of the Bank's net interest income to interest rate movements. The following table sets out the assets, liabilities 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 contractual maturity or repricing date. Examples of this include fixed rate mortgages, which are shown at contractual maturity but which may pre-pay earlier, and certain term deposits, which are shown at contractual maturity but which may be withdrawn before their contractual maturity and certain investments which have call or pre-payment features.

31 December 2010 (in $ thousands)

Assets	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Cash and demand deposits with banks	791,638	-	-	-	-	13,678	805,317
Investments	237,884	667	8,292	237,884	55,759	-	540,486
Loans	566,717	35,418	638	4,372	-	8,981	616,126
Premises, equipment and computer software	-	-	-	-	-	61,224	61,224
Other assets	-	-	-	-	-	9,620	9,620
Total assets	1,596,240	36,085	8,930	242,256	55,759	93,503	2,032,773
Shareholder's equity	-	-	-	-	-	154,763	154,763
Deposit liabilities	1,457,578	76,328	23,349	148	-	260,049	1,817,452
Other liabilities	-	-	-	-	-	60,558	60,558
Total liabilities	1,457,578	76,326	23,349	148	-	475,370	2,032,773
Interest rate sensitivity gap	138,662	(40,243)	(14,419)	242,108	55,759	(381,867)	-
Cumulative interest rate sensitivity gap	138,662	98,419	84,000	326,108	381,867	-	-

31 December 2009 (in $ thousands)

Assets	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Cash and demand deposits with banks	1,061,689	260,000	50,000	-	-	12,006	1,383,695
Investments	467,284	667	96,224	12,917	4,667	-	581,759
Loans	503,506	35,327	894	5,619	-	19,411	564,757
Premises, equipment and computer software	-	-	-	-	-	57,526	57,526
Other assets	-	-	-	-	-	17,258	17,258
Total assets	2,032,480	295,994	147,118	18,536	4,667	106,201	2,604,995
Shareholder's equity	-	-	-	-	-	158,612	158,612
Deposit liabilities	2,022,529	87,131	24,586	137	-	277,364	2,411,747
Other liabilities	-	-	-	-	-	34,636	34,636
Total liabilities	2,022,529	87,131	24,586	137	-	470,612	2,604,995
Interest rate sensitivity gap	9,950	208,863	122,532	18,399	4,667	(364,411)	-
Cumulative interest rate sensitivity gap	9,950	218,813	341,345	359,744	364,411	-	-

Note 19: Regulatory Capital

The Bank is subject to regulatory capital requirements as defined by the Cayman Islands Monetary Authority (“CIMA”). The measure of capital strength established by CIMA for the Bank is the risk weighted total capital ratio with a minimum of 11% in 2010 (2009: 11%). At 31 December 2010 the risk weighted capital ratio was 16.12% (2009: 13.32%).

Note 20: Comparative Figures

Certain comparative figures have been reclassified to conform with current year presentation.

Note 21: Subsequent Events

Management has evaluated the impact of subsequent events on the Bank through 22 February 2011, the date the financial statements were available to be issued, and has determined that there were no subsequent events requiring recognition or disclosure in the financial statements.