Bank of Butterfield

ANNUAL REPORT | 2003

Performance Highlights

For the year ending 31 December 2003*

Net Income $76.5 million
up from $66.7 million in 2002

Return on Equity 20.9%
up from 20.5% in 2002

Earnings Per Share $3.73
up from $3.19 in 2002

Increase in Shareholder Value 65.2%#

*compared with the same (unaudited) 12-month period in 2002, excluding discontinued operations and gain on sale of subsidiaries in 2002.

#measured in terms of stock price appreciation and reinvestment of dividends.

Acquisitions:

The Bahamas
Thorand Bank & Trust Limited
August 2003
Leopold Joseph (Bahamas) Limited
September 2003

Barbados
The Mutual Bank of the Caribbean Inc.
December 2003

Awards:

Standard & Poor's Performance Awards 2003

- ***Overall Group of Butterfield Funds:*** First place in the world for the five-year performance of the Butterfield Funds (Offshore Funds, Smaller Groups Category)
- ***Butterfield Capital Appreciation Bond Fund:*** First place in the world for five-year performance (Offshore Funds, Fixed Income, Global Sector)

Contents

The Banker
Bank of the Year 2003
Bermuda

Bank of the Year 2003
Awarded by The Banker magazine to The Bank of N.T. Butterfield & Son Limited in Bermuda, September 2003.

(In $ thousands except share data)	Year ended 31 December 2003	31 December 2002 (unaudited)	Year ended 30 June 2002	30 June 2001
Net income from continuing operations	**76,494**	83,743	81,416	66,732
Profit (loss) from discontinued operations	**-**	184	873	(5,990)
Net income	**76,494**	83,927	82,289	60,742
Net income per share				
Including discontinued operations	**$3.73**	$4.01	$3.88	$2.85
Excluding discontinued operations	**$3.73**	$4.00	$3.85	$3.13

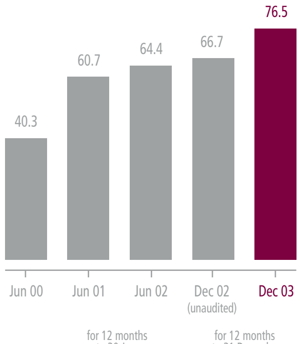
At Year End

Total assets	**7,679,872**	6,007,874	5,738,044	5,197,804
Cash and deposits with banks	**3,035,944**	1,989,159	2,027,225	1,691,423
Investments	**2,503,337**	2,073,112	1,831,142	1,882,479
Loans	**1,935,764**	1,767,088	1,696,775	1,451,773
Deposits from customers	**6,583,271**	5,156,111	4,787,228	4,464,379
Deposits from banks	**481,837**	360,105	429,138	236,344
Repurchase agreements	**-**	-	30,179	55,360
Subordinated debt capital	**125,000**	75,000	75,000	75,000
Shareholders' equity	**394,929**	338,799	335,167	286,525
Net book value per share	**$19.13**	$16.56	$15.83	$13.50
Market value per share	**$44.00**	$30.50	$33.00	$31.50
Number of shares (in thousands)*	**20,643**	18,603	19,247	17,571
Number of shareholders	**3,581**	3,322	3,364	3,619
Number of employees	**1,381**	1,200	1,229	1,162

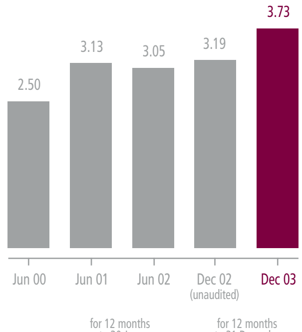
Financial Ratios

Return on assets**	**1.2%**	1.2%	1.2%	1.2%
Return on equity**	**20.9%**	20.5%	21.2%	22.7%
Total capital funds to total assets ratio	**7.5%**	6.9%	7.0%	7.2%
Risk weighted capital ratio	**13.0%**	13.1%	13.8%	14.8%

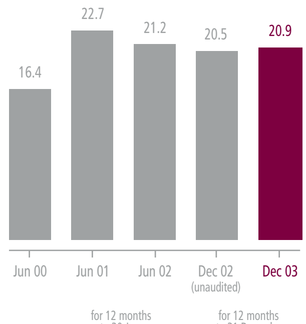
* Excludes shares purchased by the Bank for the Stock Option Trust.
** Excludes discontinued operations and gain on sale of subsidiaries.
Comparative share data has been restated to reflect the 1 for 10 stock dividends in August 2003 and August 2001.
All percentages here and in the report that follows are based on actual rather than rounded numbers.



Net Income ($m)**



Earnings per Share ($m)**



Return on Equity (%)**

Bank of Butterfield is a full service community bank and a provider of specialised offshore financial services. Our headquarters and largest operation are in Bermuda, where we were established in 1858 as the island's first bank and continue to play an important role in the local economy.

With additional operations located in The Bahamas, Barbados, the Cayman Islands, Guernsey and the United Kingdom, we have $7.7 billion in assets and $60 billion of client assets under management and administration.

We provide institutional and individual customers with a full range of Community Banking services in Bermuda, Barbados and the Cayman Islands, encompassing retail and corporate banking and treasury activities. As a specialist offshore financial services group, we also provide Private Banking, Wealth Management & Fiduciary Services and Investment & Pension Fund Administration from Bermuda and our offices in the Cayman Islands, Guernsey, The Bahamas and the United Kingdom. Our success is built on a set of fundamental strengths: sound corporate values, a stable customer base, strong capital and liquidity positions and solid core businesses.

Our home country regulator is the Bermuda Monetary Authority, which operates in accordance with Basel principles and maintains close contacts with regulators in the other jurisdictions where we have offices. Bank of Butterfield common stock is listed on The Bermuda Stock Exchange and the Cayman Islands Stock Exchange. We have over 3,500 shareholders with 22.3 million shares outstanding.

Our performance is the direct result of the efforts of a dedicated team of employees who work together to deliver quality financial services, build business and enhance shareholder value. At 31 December 2003 we had a total of 1,381 employees, 742 in Bermuda and 639 overseas. We are committed to effective employee training, development and communication to benefit our team through increased job satisfaction, our customers through improved service, and our shareholder value through long-term improvements in results.

Involvement in the community is a key priority for the Bank. We support a variety of projects and organisations that invest in and support areas such as youth development, healthcare, social causes, sports, heritage and the arts. Our educational scholarships and bursaries help young people fulfill their potential and achieve their dreams. We take an active role in community events and salute the efforts of the many Bank employees who give their own time and energy to a multitude of charitable causes. Collectively and individually, we take action to make our communities better.

From the development of a corporate strategy to our daily interactions with customers, we are guided by a set of inherent values. Throughout our operations, as teams and individuals, we seek to exemplify these principles each day. Here are just a few examples of our values in action across the Group.

Shareholder Value

We believe in providing value to our shareholders by achieving sustainable profitability and building on our existing strengths.

With a return on equity above 20% for the past three years, we have proven that our business strategy meets the expectations of our shareholders. In 2003 the Bank granted a one-for-ten dividend to shareholders and increased the fourth quarter dividend by 3 cents per share. The increase in shareholder value in 2003, measured in terms of appreciation in the Bank's stock price and dividends reinvested, was 65.2%.

Customer Focus

We value and respect our external and internal customers and aim to meet and exceed their expectations.

To add value to our services, we offer opportunities for customers to learn more about financial topics. In Bermuda, for example, a series of student seminars offered eligible participants valuable advice and their first pre-approved credit cards; ongoing in-branch demonstrations explained the basics of Internet banking and a special community presentation answered parents' questions on the financial aspects of sending a child to study overseas.

Pursuit of Excellence

We strive to maintain the highest standards of quality when dealing with customers, employees, shareholders and communities.

In Guernsey this year, our investment management team demonstrated an ability to construct innovative, market-leading investment solutions with the development of a Gold Linked Note. This three-year note offered capital protection of 95% of clients' initial investment and allowed clients to participate in 92% of the rise in the price of gold over the three years. The product is proving to be a successful yet well protected investment opportunity.

Integrity

We commit that our actions are honest, ethical and fair. We comply with the laws and regulations that govern our activities in jurisdictions where we do business. Both individually and as an organisation, we are accountable for our decisions and conduct.

Integrity is what drives the Know Your Customer principle that is implemented throughout our businesses. In 2003, as the regulatory environment evolved worldwide and corporate governance practices continued to undergo scrutiny, we maintained our focus on ethical and effective structures and procedures that are consistent with international best practice.

Rewarding and Developing Employees

Our success would not be possible without dedicated, skilled employees who are rewarded for achieving their potential.

In one of several new initiatives last year, we identified an opportunity for formal credit training, researched available options and offered 70 employees in Bermuda an intensive credit certificate course from a respected international training firm. This programme helped us raise our standards for corporate and consumer lending, in terms of both service quality and risk management. By developing our employees we aim to improve job satisfaction and enhance individual, departmental and Bank performance.

Community Involvement

We recognise our responsibility to participate fully in the communities in which we operate. This means making carefully considered financial donations as well as contributing our time, expertise and energy to benefit the overall health of our communities.

With our donations and active community involvement in the Cayman Islands, for example, we have established ourselves in the rewarding role of corporate citizen. We sponsor charity sporting events, support educational and artistic pursuits and offer scholarships. In 2003, we 'adopted' a public space in Grand Cayman (Quincentennial Roundabout) to help beautify the environment and we received considerable local recognition for our initiative.

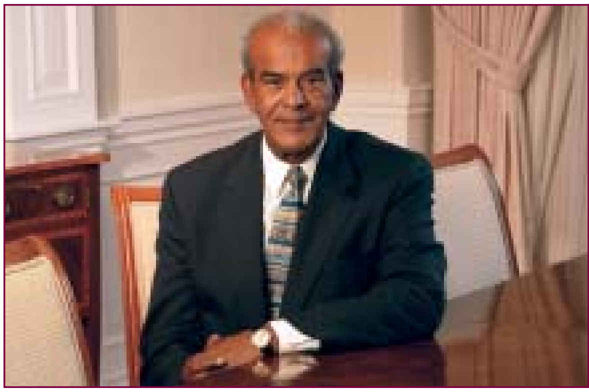
Teamwork

We work together to achieve our common goals. We know that every team member contributes to our performance.

In our UK office, the introduction of a new pension product required effective teamwork among all departments: marketing and sales identified the opportunity and came up with a competitive design; finance developed the pricing; compliance and operations established streamlined processes; risk management ensured the Bank's position was protected and the lending department delivered the service. The collective efforts of the entire team contributed to the effectiveness of the launch and built a foundation for the product's continued success.

Our success would not be possible without dedicated, skilled employees who are rewarded for achieving their potential.

Chairman's Letter to the Shareholders



As we navigate this dynamic and competitive environment, the Bank maintains a clearly defined strategy and direction across all our business lines.

On behalf of the Board of Directors, I am pleased to report that Bank of Butterfield has again performed well under economic conditions that continue to challenge corporations worldwide. The year ended 31 December 2003 was a period of accomplishment, both strategic and financial.

As we navigate this dynamic and competitive environment, the Bank maintains a clearly defined strategy and direction across all our business lines. This strategy, developed by senior management and confirmed in regular reviews by the Board, has produced consistently strong financial results and continues to enhance shareholder value. Taking into account the current challenges and opportunities, along with our strengths, priorities and potential growth areas, we are confident that the current business model is sound.

Reflecting the Bank's ongoing strong earnings performance and our commitment to enhancing shareholder value, in June 2003 the Board approved a one-for-ten bonus share issue. This bonus equates to a 10% stock dividend and, combined with the 12-month cash dividend of $1.43 per share, gives shareholders an impressive return on their investment.

This year we bid farewell to a valued and respected colleague. Christopher (Kit) Astwood retired from the Board of Directors in January 2004, having reached the mandatory retirement age. Mr. Astwood was elected to the Board in 1969 and contributed significantly to the progress of the Bank for more than three decades. On behalf of the Board I would like to thank him for his dedication and vision over the years.

I am also pleased to welcome two new Directors. We are fortunate to have the opportunity to work with Bob Steinhoff, elected in January 2004 and Vince Ingham, elected in April 2003.

I would like to thank Bank of Butterfield's dedicated management team and employees, whose expertise and hard work make it possible for us to achieve strong results. To our shareholders and customers, I express sincere gratitude for your support. You are essential to our success and we aim to continue to earn your loyalty as we move forward.

James de King

James A.C. King, MD, FRCS(C), FACS, JP
Chairman of the Board

Bank of Butterfield achieved a number of strategic milestones in 2003.

As we continue to implement a well proven strategy, Bank of Butterfield has once again delivered solid financial results in a demanding and ever-changing environment.

Our net income for 2003 was $76.5 million. Excluding discontinued operations and a one-time gain on the sale of our Hong Kong subsidiary in 2002, income for the year increased by $9.8 million or 14.6% from last year. Once again the return on shareholders' equity exceeded 20%, at 20.9%. This performance can be attributed to the underlying strength of our core businesses and the commitment and skill of our employees.

Bank of Butterfield achieved a number of strategic milestones in 2003. Internationally, we acquired two Bahamas-based financial companies and a community bank in Barbados. We are pleased with the quality of these operations and have made excellent progress as we integrate them into Bank of Butterfield. We also purchased 25% of Island Heritage Insurance Company, Ltd., a growing and regionally diversified property insurance company based in the Cayman Islands. These acquisitions are consistent with our overall goal to expand into selected markets where we can deliver our core products and services effectively.

I am confident that our businesses are well positioned and that we are investing in the infrastructure needed for future growth. We are focusing on training and developing our employees to help them meet customers' evolving needs. During 2003 we conducted an extensive review of our information technology resources and have embarked on a programme to reinforce and improve the systems, data and IT infrastructure that enable us to deliver innovative, efficient products and services. We are also investing in premises to help us maintain our high level of customer service.

Our community activities remain a priority as we recognise our responsibility to give back to the jurisdictions in which we operate. In 2003 we supported a wide range of causes with the active involvement of our employees. In Bermuda, for example, the Butterfield Employee Shared Trust (BEST) invested in community projects as directed by employees, whose donations in BEST are matched by the Bank.

On behalf of management, I would like to express appreciation to the Board of Directors for their vision, advice and leadership. I also thank our employees, shareholders, customers and partners, all of whom help to make Bank of Butterfield a strong and respected business.

Alan R. Thompson
President & Chief Executive Officer

From left to right:

Graham C. Brooks Executive Vice President, International & Trust
Peter J.M. Rodger Senior Vice President & Group Legal Adviser, Secretary to the Board
C. Wendell Emery Executive Vice President, Operations & Information Technology
Richard J. Ferrett Executive Vice President & Chief Financial Officer

Results of operations for the 12-month period ended 31 December 2003 compared with the (unaudited) 12-month period ended 31 December 2002

With effect from 1 January 2003, we adopted calendar year reporting in place of our previous fiscal year ended 30 June. As a result we produced audited financial statements for the six-month period ending 31 December 2002.

In order to present a meaningful comparison with the 2003 calendar year results, management has presented results for the calendar year 2002 in the following analysis and review. The restatement of the Bank's results for the calendar year 2002 has not been audited and, accordingly, the 2002 results discussed in this report are marked 'unaudited'.

The Bank of N. T. Butterfield & Son Limited achieved net income of $76.5 million for the 12-month period ending 31 December 2003. This represents a 14.6% increase in net income over the same period last year when excluding discontinued operations and the $17.0 million gain on the sale of our subsidiaries in Hong Kong in 2002. Our strong core business results remain pleasing given the challenges of sustained low interest rates.

The period under review saw a further 0.25% cut in US interest rates in June 2003 and cuts in UK interest rates of 0.25% in February and July respectively, offset by a 0.25% increase in November 2003, and relatively flat yield curves for both currencies. Nevertheless net interest income before provisions was up 13.8% year on year to $114.6 million, reflecting strong increases in customer deposits in our Community Banking businesses in Bermuda and Cayman. Also very significant was the growth in non-interest income, which increased year on year by 9.7% to $126.0 million, when excluding the $17.0 million gain on the sale of subsidiaries in 2002.

Against a continued challenging economic background, we achieved financial success in many of our core businesses. We experienced an increase of $3.5 million, or 11.1% to $35.1 million in the profitability of our Community Banking business in Bermuda, reflecting an 11.1% increase in interest-earning assets. In the Cayman Islands, despite the impact of a further US interest rate cut, net income increased by 26.2% or $5.0 million, to $24.3 million compared with last year. Of particular note, our Cayman businesses experienced an 18.4% increase in operating revenues compared with only a 6.7% increase in operating expenses. In our Guernsey operations, net income was down $0.5 million, or 16.0%, to $2.8 million primarily due to interest rate declines and the weakness of the US dollar. We recorded a 12.7% increase in operating revenues in Guernsey, while operating

From left to right:

Michael A. McWatt Senior Vice President, Credit Risk Management
William P. Aston Senior Vice President & Chief Information Officer
Donna E. Harvey Maybury Senior Vice President, Human Resources

expenses increased by 18.3%, in part due to expenses incurred relating to a move to new premises in 2004. A loss of $0.9 million was recorded by our United Kingdom operations, in line with expectations. Our presence in the UK is of long-term strategic importance and we look to grow this business substantially in the coming year.

The Group made three acquisitions in 2003, two in The Bahamas in August and September and one in Barbados in December. These businesses performed in line with expectations during the short time they have been part of the Group. Bank of Butterfield (Bahamas) Limited reported net income of $0.3 million on revenues of $1.4 million and The Mutual Bank of the Caribbean Inc. made net income of $0.2 million on revenues of $0.8 million.

The solid performance of the Group reflects our strategy of concentrating on core businesses and strengths and delivering improved value for our shareholders through strong growth in net income, and thereby earnings per share. We look to achieve balanced growth and will continue to seek further diversification of revenue streams across our chosen markets. At the same time, we focus on improving efficiencies in our operations, particularly through investment in technology. In 2003 we expanded our Internet banking delivery platforms to Guernsey and the United Kingdom.

Our asset quality improved significantly in 2003. Non performing loans reduced $7.6 million, or 30.3%, to $17.4 million, representing 0.9% of total loans, down from 1.4% a year ago. The Bermuda and Cayman tourism markets continue to be adversely affected by economic conditions. However, of the three hotel loans mentioned in the last report, we received full payment of both principal and interest of two loans in 2003 and have had substantial recovery of the other. As at 31 December 2003 the General Provision for loan losses of $19.5 million was equivalent to 1.0% of total loans. In addition, there is a specific provision of $4.0 million held for possible shortfalls in the security held for non-performing loans. In total, therefore, loan provisions were $23.5 million, or 1.2% of the loan portfolio.

Approximately one third of our assets are held in investments, predominantly high quality investment grade securities, the purpose of which is to enhance both the Bank's liquidity and the yield over that available in the inter-bank deposit market. Standard & Poor's, the world renowned credit agency, has been engaged to monitor and rate the Bank's own securities portfolios, which constitute some 79.6% of total investments. All of these portfolios continue to receive investment grade ratings.

From left to right:

Michael O'Mahoney Senior Vice President, Treasury
Ronald E. Simmons Senior Vice President & Chief Accountant
James R. Stewart Senior Vice President, Enterprise Risk Management

The year end saw a significant increase in customer deposits, which were up $1.4 billion year on year to $6.6 billion. The acquisition of The Mutual Bank of the Caribbean Inc. increased customer deposits by $127 million. In addition both Bermuda and Cayman saw substantial inflows of short-term customer deposits over the year end, particularly from collective investment funds which are administered by the Bank.

Performance Indicators

The Bank's overall strength and performance are indicated by certain key measures. Our return on shareholders' equity remains in excess of 20%, at 20.9% for the period, and reached a high of 22.4% in the second quarter. Earnings per share were $3.73, up 54 cents, or 16.9% compared with $3.19 last year when excluding the $0.81 gain on the sale of subsidiaries in 2002.

The net interest margin and interest rate spread both increased by 0.1% year on year to 1.9% and 1.6% respectively, reflecting both our asset/liability management strategies and an 11.2% increase in average interest-earning assets to $6.1 billion. The return on assets, at 1.2%, was in line with that in 2002 when excluding the gain on sale of subsidiaries. The Bank's net book value per share increased year on year by 15.5% to $19.13.

Loan portfolio growth reflects our ability to meet new demand for lending products, particularly in our Community Banking business in Bermuda, where loans grew by $88.4 million or 6.5%, and in the Cayman Islands, where growth was $12.7 million or 5.0%. An important productivity indicator is the efficiency ratio, which is operating expenses (excluding corporation tax and amortisation of intangible assets) expressed as a percentage of operating income (excluding credit provisions and gain on sale of subsidiaries). For the year ended 31 December 2003, Bank of Butterfield achieved an efficiency ratio of 64.8%, an improvement compared with 66.4% a year ago.

During the year 378,994 shares were repurchased and cancelled, at an average cost of $34.77 per share. The total dividend for the year was $1.43 per share, an increase of 6 cents or 4.4% over the same period last year, and represents a 39.0% payout on net income for the period. In addition, a one for ten bonus share issue was made in August 2003, which equates to a 10% share dividend.

From left to right:

Lloyd O. Wiggan Senior Vice President, Retail Banking
Fred H. Tesch Senior Vice President, Group Internal Audit
Bob W. Wilson Senior Vice President, Corporate Banking

Outlook

We expect 2004 to present continued challenges with increased competition in the Bermuda banking market and lingering geo-political tensions. We will maintain a low-risk conservative approach and continue to focus on our core business lines. This strategy has served us well over the past several years.

Summary of Group's Debt Securities Monitored and Rated by Standard & Poor's as at 31 December 2003

Portfolio	Location	Carrying Value ($m)	% of Total Investments Rated by S&P	S&P Credit Rating	S&P Volatility Rating
Fixed Income	Bermuda	243.0	12.2	AAf	S1
Floating Rate Notes	Bermuda	1138.2	57.1	Af	S1
Floating Rate Notes	Cayman	344.3	17.3	Af	S1
Floating Rate Notes	Guernsey	267.6	13.4	Af	S1

From left to right:

Sheila M. Brown Managing Director, Butterfield Trust (Bermuda) Limited
Andrew R. Collins Managing Director, Butterfield Fund Services (Bermuda) Limited
Ian M. Coulman Managing Director, Butterfield Asset Management Limited

Bermuda

Bermuda is home to Bank of Butterfield's headquarters and largest operation. As the leading community bank, we have a long history of meeting the financial needs of businesses and individuals in Bermuda and offshore. Our services include Community & Private Banking, Wealth Management & Fiduciary Services and Investment & Pension Fund Administration.

In 2003 Bank of Butterfield's performance was again recognised by The Banker magazine, which presented us with the annual 'Bank of the Year' award for Bermuda for the second consecutive year. During the year under review we initiated several projects to help us continue to grow and succeed. An extensive upgrade of our IT infrastructure, data and core banking system will support effective operations, product innovation and customer service; and an investment in premises will help maintain our level of security, efficiency and service. Keeping up with international Know Your Customer standards, we also embarked on a project to confirm and document existing customer information.

In Bermuda our total income increased by 3.3% over 2002 to $157.1 million, reflecting record levels of net interest income, up 14.5% to $78.1 million and non-interest income, up 16.2% to $79.0 million.

Community Banking

Our Corporate Banking, Retail Banking, Private Banking and Treasury businesses in Bermuda continue to perform well. Demonstrating an ability to retain and attract business in a competitive market, our Community Banking business in Bermuda achieved an 11.1% year on year increase in net income, from $31.6 million in 2002 to $35.1 million in 2003. Total assets in Community Banking were $3.9 billion on 31 December 2003 compared with $3.2 billion last year.

The corporate lending and Letter of Credit portfolios both experienced considerable growth, as the Bank's quality products and effective relationship management again proved to be an ideal fit for both local and international clients. While increasing the lending portfolio we remain vigilant in our approach to loan quality.

We also expanded our Private Banking business in Bermuda during 2003, dedicating quality resources to acquiring new business and building strong relationships with our high net worth private clients. Management plans to further develop Private Banking in Bermuda during 2004.

Our Consumer Credit business in Bermuda recorded strong results in 2003, with both mortgage lending and consumer loans increasing in volume. During the year we strengthened existing business relationships to facilitate referrals and invested in training to improve customer service and cross selling, while ensuring that our products remained profitable.

Part of our commitment to customer service is the continuous improvement of products and delivery channels. In 2003 we became the first lending institution in Bermuda to offer Creditor Life and Disability Insurance on residential mortgages and consumer loans. We also enhanced our Internet Banking product, Butterfield Direct, to provide even more convenience and value. Several offices began renovation projects that will result in improved efficiencies and a better banking experience for our customers.

As a community bank, we provide service to our customers in both good times and bad. When Bermuda was hit by the powerful Hurricane Fabian in September 2003, we offered special credit terms to customers who needed funds to repair the resulting damages.

Wealth Management & Fiduciary Services

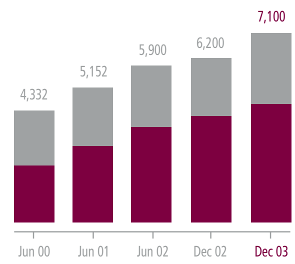
Wealth Management & Fiduciary Services in Bermuda comprise the businesses of Butterfield Asset Management Limited and Butterfield Trust (Bermuda) Limited. These businesses produced net income of $15.6 million in 2003, up $3.3 million or 27.2% year on year.

Providing portfolio management, advisory and brokerage services to institutional and private clients, Butterfield Asset Management Limited manages six of the award-winning family of eight Butterfield Funds (two of which are managed in the Cayman Islands), as well as the Bank's own investment portfolios.

Butterfield Asset Management reported 2003 net income of $11.1 million, an increase of 24.4% over 2002. Client assets invested in Butterfield Funds managed in Bermuda rose 13.3% year on year to $4.6 billion at 31 December 2003. The total client assets under management by Butterfield Asset Management grew from $6.2 billion at the end of 2002, to $7.1 billion at 31 December 2003, an increase of 14.4%.

In 2003 the Butterfield Funds won performance awards from Standard & Poor's for the sixth consecutive year. The overall group of Butterfield Funds earned first place for five-year performance in the Offshore Funds, Smaller Groups Category. Butterfield Capital Appreciation Bond Fund received first place in the world for five-year performance in the Offshore Funds, Fixed Income, Global Sector Category.

Butterfield Select Fund of Funds recorded growth of 72.0% in 2003. Butterfield Select invests in a wide range of quality mutual funds in three classes: the traditional investments of equity and fixed income as well as alternative investments. In 2003 International Asset Management (IAM), a specialist in alternative investment management, was appointed as the sub-adviser to the Butterfield Select Fund, Alternative Class.



Assets Under Management by Butterfield Asset Management ($m)

	Jun 00	Jun 01	Jun 02	Dec 02	Dec 03
Butterfield Funds	2,369	3,061	3,749	4,123	4,561
Discretionary	1,963	2,091	2,151	2,077	2,539
Total	4,332	5,152	5,900	6,200	7,100

Butterfield Trust (Bermuda) Limited provides a comprehensive range of trust, estate, company management and custody services to local and international clients, both corporate and individual. During the year under review, client assets under custody increased by $3.7 billion to $16.8 billion, up 28.2% from 2002.

Robert Lotmore Managing Director, Bank of Butterfield (Bahamas) Limited

Assets under custody for hedge funds grew strongly as a result of new business from existing clients and new clients. Our personal trust business continues to expand, as wealthy families recognise the importance of the flexibility and independence we provide when managing their international financial affairs in this heightened regulatory environment. Net income for Butterfield Trust, at $4.4 million, increased by 34.8% from 2002.

Positioning ourselves for growth, we strengthened our senior management team and improved customer service.

Investment & Pension Fund Administration

Butterfield Fund Services (Bermuda) Limited offers accounting, corporate and shareholder services to offshore hedge funds and mutual funds, as well as corporate pension administration services to insurance companies and international pension funds. For the year ended 31 December 2003, net income was $4.0 million compared with $2.9 million for the previous year. Net assets under administration, excluding the Butterfield Funds, increased by 22.6% from $7.8 billion in 2002 to $9.6 billion as at 31 December 2003. We significantly increased our client base and continued to provide personalised, professional service to a variety of investment and pension funds.

In 2003 customers of Butterfield Fund Services again provided substantial business to other areas of the group, including treasury, credit and Butterfield Asset Management.

The Bahamas

Bank of Butterfield (Bahamas) Limited was established in 2003 by the acquisition of two highly regarded financial institutions, Thorand Bank & Trust and Leopold Joseph (Bahamas) Limited. This business is strategically important for Bank of Butterfield, as we can now provide several core products and services from an additional reputable and well regulated international financial centre. In The Bahamas we offer Private Banking, Wealth Management & Fiduciary Services and Investment Fund Administration.

At 31 December 2003 the Bank's total assets in The Bahamas were $19.2 million and during its first four months as a subsidiary of Bank of Butterfield, the business achieved net income of $0.3 million.

Private Banking

Bank of Butterfield is well positioned for growth in this area of the business in The Bahamas with the addition of lending products and an anticipated increase in customer deposits.

Wealth Management & Fiduciary Services

The core activities of Wealth Management & Fiduciary Services generate a significant portion of The Bahamas total income. At 31 December 2003 client assets under management were $1.3 billion. In 2003 we expanded our services to offer Butterfield Funds.

Clenell H. Goodman General Manager & Director, The Mutual Bank of the Caribbean Inc.

Conor J. O'Dea Managing Director, Bank of Butterfield International (Cayman) Ltd.

Investment Fund Administration

In The Bahamas we provide full administration services to offshore hedge funds and mutual funds. We anticipate growth and development in this area, with an increase in management focus in 2004.

Barbados

In December 2003 Bank of Butterfield acquired The Mutual Bank of the Caribbean Inc., a Barbados community bank. This acquisition is consistent with the strategy to expand into markets where we can successfully deliver our core products and services. Barbados is a location known for its solid infrastructure and good business environment.

The Mutual Bank, to be renamed Bank of Butterfield (Barbados) Limited in the first quarter of 2004, was established in March 1993 as the first indigenous private sector bank in Barbados. At 31 December 2003 The Mutual Bank had assets of $156.1 million and, in its first month as part of the Group, the bank achieved net income of $0.2 million.

Community Banking

Headquartered in Bridgetown with three additional branches, the bank offers a range of retail services including personal and commercial lending, savings and chequing accounts, overdraft facilities, fixed deposits, 24-hour ATM facilities, credit cards and foreign exchange. We look forward to continuing to integrate this business and enhance its services with the resources of Bank of Butterfield. It is a well run operation with potential for a growing contribution to the Group.

Wealth Management

A separate operation, Butterfield (Barbados) Limited continues to act as a representative for the services of Butterfield Asset Management Limited, meeting the offshore corporate investment needs of organisations such as captive insurance companies, international businesses and trusts.

Cayman Islands

A leading financial institution in the Cayman Islands, Bank of Butterfield International (Cayman) Ltd. provides a comprehensive range of services to the local and international markets. We offer community and commercial banking services to private and corporate customers and provide Wealth Management & Fiduciary Services and Investment & Pension Fund Administration Services.

In 2003 we accomplished a strategic goal with a 25% investment in Island Heritage Insurance Company, Ltd., a growing and regionally diversified property insurance company. Additionally, the Bank obtained an insurance agent's license to provide property insurance to mortgage customers.

We acted as adviser to the Cayman Islands Government in respect of its first bond offering of US $163.2 million. We also invested in facilities and employee development with the opening of an Operations Centre and Learning Facility. During the year we completed a retrospective customer due diligence review, bringing our customer information into compliance with the new, higher regulatory standards in the Cayman Islands, as well as international best practice.

Robert S. Moore Managing Director, Bank of Butterfield International (Guernsey) Limited

Cayman net income for 2003, at $24.3 million, is an increase of 26.2% from 2002. Our total assets continue to increase, at $2.0 billion compared with $1.3 billion the previous year, as a result of ongoing growth in customer deposits.

Community & Private Banking

With five locations, seven ATMs including a drive-through, a web site, online banking and debit and credit cards allied to a comprehensive range of credit facilities, we are a leader in Community Banking operations in the Cayman Islands. Our personal and corporate banking business is aided by our strong reputation for good customer service and innovative delivery channels.

As a result of continued strong demand for credit, we increased our lending portfolio, while maintaining a prudent approach to loan quality. Corporate Banking in particular experienced good growth, primarily resulting from captive insurance clients.

Technology continues to benefit customers through increased convenience and the Bank through efficiency and accuracy. Electronic delivery of service now accounts for over 38% of all transactions processed for customers in the Cayman Islands, with corporate customers using Butterfield Online extensively.

Wealth Management & Fiduciary Services

Wealth Management & Fiduciary Services offered in the Cayman Islands include investment management, custody, trust and company administration, as well as related banking services. During 2003 we continued to attract new business as client assets under management increased to $325 million at 31 December 2003 compared with $282 million a year ago, an increase of 15.4%.

Investment & Pension Fund Administration

Operating under the banner of Butterfield Fund Services, we provide third party administration services to offshore hedge funds, mutual funds and pension funds. This business experienced strong growth rates during the year under review, resulting in assets under administration increasing by 29.6% to $17.4 billion.

Guernsey

Bank of Butterfield International (Guernsey) Limited provides services in two core business activities: Private Client Services, comprising Wealth Management & Fiduciary Services and Related Banking Services; and Institutional Administration, comprising Investment & Pension Fund Administration and Administered Banking Services.

In 2003 the Bank recorded net income of $2.8 million in Guernsey, a 16.0% decrease compared with $3.3 million in 2002, due mainly to the ongoing low interest rate environment. However, revenues were stable and assets under management for Guernsey clients rose to $690 million at 31 December 2003, up 62.0% from $426 million the previous year.

During the year, we introduced an online banking facility, Butterfield Online, and implemented new systems in our fund services operation. We achieved the internationally recognised Investors in People accreditation, which demonstrates our commitment to the development of employees through training opportunities linked to the Bank's business goals.

Paul A. Turtle Managing Director, Bank of Butterfield (UK) plc

Private Banking

During the year under review we continued to cultivate quality client relationships, offering a full range of multi-currency deposits, loans and foreign exchange dealing. Butterfield Online, launched in September 2003, provides added value and convenience for both private clients and their professional advisers.

Wealth Management & Fiduciary Services

We provide discretionary portfolio management to a range of corporate and high net worth individuals and families. During 2003 we continued to offer innovative and effective wealth management solutions, including a three-year gold linked note. The Guernsey team is also responsible for the management of the Butterfield International Balanced Fund, Sterling Class. Fiduciary services offered by Butterfield Trust (Guernsey) Limited include tailored and sophisticated trust and company administration services for wealthy families and institutions.

Investment & Pension Fund Administration

In 2003 we achieved sizeable growth in Investment & Pension Fund Administration, providing full administration services to offshore hedge funds, mutual funds and pension funds. With $6.2 billion in assets under administration, of which $1.6 billion are in assets held as custodian trustee by the Bank, Butterfield Fund Managers (Guernsey) Limited is now ranked as Guernsey's fourth largest fund administrator and is the jurisdiction's largest specialist in administration of Cayman and other non-Guernsey funds. Additionally, the Bank provides custodian services for funds that are not administered by Butterfield Fund Managers. These assets under administration totalled $0.5 billion at 31 December 2003.

Administered Banking Services

We are the market leader for the provision of Administered Banking Services in Guernsey. We provide customer services, operations, accounting, compliance and corporate secretarial services for leading financial institutions from the UK, North America and Europe.

United Kingdom

In 2003 Bank of Butterfield (UK) plc, branded Butterfield Private Bank, concentrated on the adoption and implementation of a strategic plan to focus on the provision of private banking services to high net worth individuals in the UK. The Bank's team of marketing and sales professionals researched and developed proposition and distribution strategies to expand the business.

During the year under review we recorded a loss of $0.9 million, reflecting the cost of implementing our strategic plan, which required initial investments in operations, marketing and the development of products and services.

Private Banking

During 2003 we formulated the market positioning and brand proposition of Butterfield Private Bank and launched the new brand, together with a suite of deposit and lending services for high net worth individuals, their pension plans and corporate structures. Distribution began primarily via financial intermediaries such as independent financial advisers, accountants, solicitors, stockbrokers and pension advisers.

We enhanced the convenience of our products and services with the introduction of an Internet banking platform.

We also introduced a Self Invested Personal Pension Plan, which combines cash deposits and commercial property financing services provided by Butterfield Private Bank together with investment services, which can be managed by the Butterfield Group or other investment houses. The announcement of proposed regulatory changes for UK financial advisers will give greater impetus to our plans to provide a full range of private banking services. Having built a robust infrastructure and viable business proposition during 2003, Butterfield Private Bank is increasing the sales team in order to enhance revenues and asset growth.

Mission Statement

Bank of Butterfield will provide consistent and superior returns to our shareholders, offer security and opportunities to our employees, and be recognised as making a valuable contribution to the communities in which we operate by a customer focused, efficient and ethical delivery of banking and other selected financial services.

Financial Report

Income

Total income for the group after provisions was $238.2 million for the 12-month period ended 31 December 2003, up $25.9 million, or 12.2% from $212.3 million for the same period a year ago, when excluding a $17.0 million gain on the sale of subsidiaries in 2002. Net interest income before provisions for credit losses increased by 13.8% to $114.6 million, despite the challenge of declining US and UK interest rates during the year under review. The increase reflects growth in average interest earning assets and successful asset/liability management strategies. As a result we were able to increase the net interest margin by 0.1% to 1.9%.

We continue to be appropriately reserved with total provisions of $23.5 million. Non-accrual loans totalled $17.4 million as at 31 December 2003, down from $24.9 million a year ago, and represent 0.9% of the total loan portfolio. Provisions in respect of credit losses charged to income were $2.4 million, compared to $3.2 million last year. In addition, the Bank wrote down its venture capital investment in Promisant Holdings Ltd. (PHL) by $4.6 million in the first quarter on acquisition of Promisant (Technology) Ltd. for $2.0 million. This write-down was charged to investment income. In addition, a $0.7 million working capital loan to PHL was charged off against general provisions.

Non-interest income grew by 9.7% to $126.0 million when excluding the gain on sale of subsidiaries in 2002, reflecting growth in asset management, up 15.3%, investment and pension fund administration, up 10.7%, banking services, up 6.9%, and foreign exchange, up 5.4%.

Changes in Net Interest Income

For the year ended 31 December (In $ thousands)

	2003			2002 (unaudited)		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate
Assets						
Cash and deposits with banks	**2,020,828**	**41,049**	**2.0%**	1,869,567	47,201	2.5%
Investments	**2,238,746**	**51,438**	**2.3%**	1,871,916	48,476	2.6%
Loans	**1,794,253**	**102,749**	**5.7%**	1,699,501	99,250	5.8%
Earning assets	**6,053,827**	**195,236**	**3.3%**	5,440,984	194,927	3.6%
Other assets	**183,395**	**-**	**-**	175,365	-	-
Total Assets	**6,237,222**	**195,236**	**3.1%**	5,616,349	194,927	3.5%
Liabilities						
Deposits	**4,753,899**	**80,490**	**1.7%**	4,518,230	95,078	2.1%
Repurchase agreements	**-**	**-**	**-**	12,671	232	1.8%
Subordinated debt	**117,308**	**2,523**	**2.2%**	75,000	2,115	2.8%
Interest bearing liabilities	**4,871,207**	**83,013**	**1.7%**	4,605,901	97,425	2.1%
Non interest bearing current accounts	**921,321**	**-**	**-**	607,450	-	-
Other liabilities	**79,209**	**-**	**-**	76,869	-	-
Total Liabilities	**5,871,737**	**83,013**	**1.4%**	5,290,220	97,425	1.8%
Shareholders' Equity	**365,485**			326,129		
Total Liabilities and Shareholders' Equity	**6,237,222**			5,616,349		
Spread			**1.6%**			1.5%
Net Interest Margin			**1.9%**			1.8%

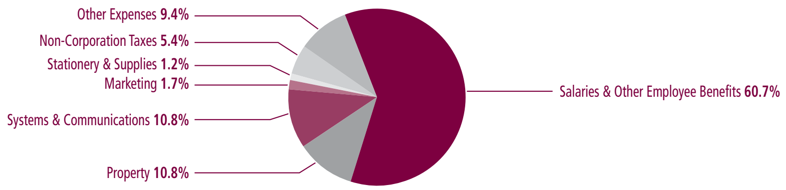
Note: Underlying assets and liabilities are comprised of various currencies.

Expenses

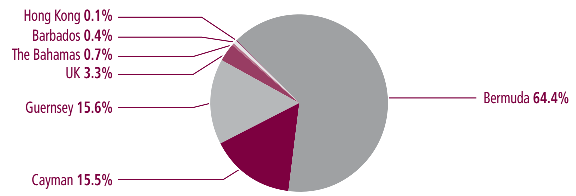
Operating expenses were $161.2 million during the year under review, up 10.0% from $146.5 million last year, compared with a 12.2% growth in operating revenues. The increase primarily reflects the expanding size of the Group with salaries and employee benefits up 10.4% to $97.8 million, accounting for 60.7% of total Group expenses compared with 60.5% last year. In addition increases of 12.6% and 23.6% respectively were seen in property and systems and communications costs, reflecting continued spending on infrastructure development as we build and improve our businesses further.

At 31 December 2003 we had 742 employees in Bermuda, up from 724 a year ago, reflecting business growth. Overseas, the total headcount increased by 163 to 639 primarily due to the acquisitions in The Bahamas (37) and Barbados (115).

We remain committed to the prudent management of the expense base and continually seek opportunities to improve our efficiency. The efficiency ratio improved from 66.4% in 2002 to 64.8% for the year under review.



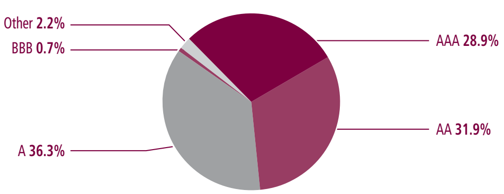
Distribution of 2003 Total Expenses



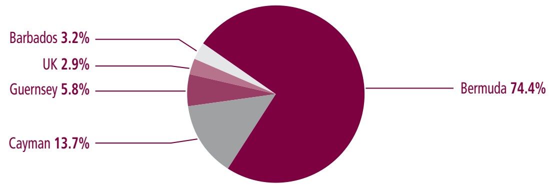
Distribution of 2003 Expenses by Location

Balance Sheet

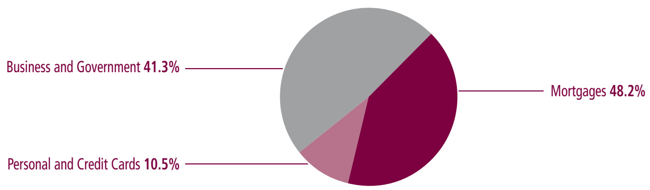
Total assets increased by 27.8% to $7.7 billion, up from $6.0 billion a year ago. This increase reflects the substantial rise in the customer deposit base, up year on year by $1.4 billion, or 27.7%, to $6.6 billion. This was largely due to a significant level of short-term customer deposits in Bermuda and Cayman over year-end from insurance and mutual fund clients. The increased liquidity was primarily employed in our investment and short-term bank deposit portfolios, up year on year by 20.8% and 55.5% respectively to $2.5 billion and $3.0 billion. The balance sheet remains highly liquid with a loans to customer deposits ratio of 29.4%.



Investment Portfolio by Long-Term Debt Rating



Lending by Location



Bermuda Loans by Type

Taxes

For the year under review corporation tax totalled $0.5 million, compared to a $0.9 million credit for the same period a year ago, which was due to the effect of the change in the financial year end on our Guernsey operations' tax computation. We also paid $8.6 million in non profits taxes across the Group, up from $7.4 million in the previous year reflecting increased banking licence fees in Bermuda and the Cayman Islands.

Capital and Liquidity

The Group continues to maintain a strong capital base that ensures stability and allows us to take advantage of opportunities for growth. At 31 December 2003 the risk weighted total capital ratio was 13.0%, well in excess of the 10.0% minimum requirement of the Bermuda Monetary Authority. Of the total, the Tier 1 ratio was 9.1%. Shareholders' equity increased by $56.1 million, or 16.6% over a year ago, reflecting the increase in retained earnings less share buy-backs.

Weighted risk assets rose year on year by 21.1% to $3.7 billion, primarily due to growth in the loan and letters of credit portfolios and deposits with banks. The loan to the Stock Option Trust is in respect of potential obligations under the Bank's Stock Option Plan and is deducted from shareholders' equity. The loan declined by $5.4 million, or 14.8%, to $31.1 million, reflecting repayment from cash received on the exercise of stock options by directors and employees.

In May 2003 the Bank successfully issued US $125 million of subordinated lower tier II capital notes by way of a private placement with US institutional investors, our first such transaction in the US private placement market. The US $75 million issue of subordinated notes issued in June 1998 was repaid in July 2003.

During the period under review, the Bank issued 234,027 shares under the Dividend Re-investment Programme, which represents a cash savings of $8.1 million, or 29.4% of the total dividend declared. As a result of the one-for-ten stock dividend in August 2003 2,037,470 new shares were also issued. Under the Share Buy-Back Plan, the Bank purchased 378,994 shares, at a cost of $13.2 million, as part of our strategy to enhance shareholder value.

Capital Composition

(In $ thousands)

For the year ended	**31 December 2003**	31 December 2002
Tier 1 Capital	**341,247**	309,706
Tier 2 Capital	**144,504**	94,985
Total Capital	**485,751**	404,691

Weighted Risk Assets

(In $ thousands)

Cash and inter-bank placements	**618,535**	391,368
Investments	**1,025,146**	816,273
Loans	**1,394,310**	1,265,705
Other assets	**155,047**	145,571
Off-balance sheet items	**548,298**	469,633
Total Weighted Risk Assets	**3,741,336**	3,088,550

Capital Ratios

Tier 1	**9.1%**	10.0%
Tier 2	**3.9%**	3.1%
Total	**13.0%**	13.1%

Managing Risk

Risk is inherent in virtually all of the Bank’s daily activities. In fact, managing risk is a cornerstone of our business. We have established risk management structures, policies and procedures to identify, prioritise and manage risks across the Group in order to develop our businesses with an appropriate balance between risk and reward.

Credit risk, market risk and liquidity risk are managed through appropriate controls and reporting systems. The Asset and Liability Management Committee (ALCO) and the Risk Policy Committee of the Board of Directors play an integral role in identifying, reviewing and managing financial and operational risk.

Operational risk refers to the risk of loss caused by internal or external events such as procedural failures, errors or fraud. We mitigate this risk through the application of properly risk-adjusted internal controls, sound business processes, good decision-making, effective project execution and risk transfer techniques.

The Bank has established an Enterprise Risk Management (ERM) function to identify, report and manage all types of risk by business line or process. Through ERM, we identify and assign ownership for market, credit and operational risks, develop risk priorities, approve appropriate mitigation strategies, and examine the cause-and-effect relationships between individual product risks. We also ensure that adequate and comprehensive risk data are available to support decision-making and that risk reporting is effective, reliable and timely.

The Risk Review Committee, chaired by the Chief Financial Officer, also reviews and monitors business/event risks, insurance coverage, transactions and operational controls, operating losses and frauds, business continuity, potential regulatory changes, legal risks and compliance with financial and business conduct regulations. The Board’s Audit and Compliance Committee reviews internal audit, compliance and litigation reports.

The Group Internal Audit function is independent from the Group's day-to-day operations, and has access to all activities conducted by the Group, including those of its branches and subsidiaries. Group Internal Audit is accountable only to the Board and the Group's Chief Executive Officer.

Selected Quarterly Results of Operations

(Unaudited, in $ thousands except share data and ratios)

	2003			
Quarter ending	**31/12/03**	**30/9/03**	**30/6/03**	**31/3/03**
Net interest income after provision for credit losses	**31,263**	**28,803**	**28,164**	**23,993**
Total fees and other income	**33,811**	**31,435**	**30,946**	**29,822**
Total income	**65,074**	**60,238**	**59,110**	**53,815**
Total expenses	**45,084**	**40,009**	**39,231**	**37,419**
Net income for the quarter	**19,990**	**20,229**	**19,879**	**16,396**
Earnings per share ($) *	**0.97**	**0.99**	**0.97**	**0.80**
Return on shareholders' equity (%)	**20.5**	**21.6**	**22.4**	**19.3**

	2002			
Quarter ending	31/12/02	30/9/02	30/6/02	31/3/02
Net interest income after provision for credit losses	27,944	23,702	23,337	22,520
Total fees and other income	29,656	29,698	27,936	27,542
Gain on sale of subsidiaries	-	-	17,013	-
Total income	57,600	53,400	68,286	50,062
Total expenses	37,239	35,949	37,926	34,491
Net income from continuing operations	20,361	17,451	30,360	15,571
Profit (loss) from discontinued operations	(380)	-	531	33
Net income for the quarter	19,981	17,451	30,891	15,604
Earnings per share ($) *				
Including discontinued operations	0.98	0.83	1.46	0.74
Excluding discontinued operations	1.00	0.83	1.43	0.74
Return on shareholders' equity (%)#	23.6	20.6	17.4	20.8

* Earnings per share data has been restated to reflect the 1 for 10 stock dividend in August 2003.
# Excludes gain on sale of subsidiaries and discontinued operations.

Financial Summary

(In $ thousands except share data)

	Year ended 31 December			Year ended 30 June	
	2003	2002	2002	2001	2000
At Year End					
Cash and deposits with banks	**3,035,944**	1,989,159	2,027,225	1,691,423	1,514,813
Investments	**2,503,337**	2,073,112	1,831,142	1,882,479	1,831,303
Loans	**1,935,764**	1,767,088	1,696,775	1,451,773	1,284,223
Land, buildings and equipment	**100,486**	96,419	98,536	97,690	96,557
Total assets	**7,679,872**	6,007,874	5,738,044	5,197,804	4,794,012
Total deposits	**7,065,108**	5,516,216	5,216,366	4,700,723	4,337,782
Subordinated debt capital	**125,000**	75,000	75,000	75,000	75,000
Shareholders' equity	**394,929**	338,799	335,167	286,525	250,197
For the Year		**(unaudited)**			
Net interest income after provision for credit losses	**112,223**	97,503	97,237	100,213	97,487
Fee and other income	**126,014**	114,832	109,322	91,775	83,368
Gain on sale of subsidiaries	**-**	17,013	17,013	-	-
Salaries and other employee benefits	**97,840**	88,612	88,623	72,024	75,520
Other non-interest expenses	**63,903**	56,993	53,533	53,232	50,448
Net income from continuing operations	**76,494**	83,743	81,416	66,732	54,887
Net income	**76,494**	83,927	82,289	60,742	40,347
Dividends declared	**27,471**	25,769	24,681	20,525	13,730
Financial Ratios					
Return on assets **	**1.2%**	1.2%	1.2%	1.2%	0.9%
Return on shareholders' equity **	**20.9%**	20.5%	21.2%	22.7%	16.4%
Dividend payout ratio	**35.9%**	30.7%	30.0%	33.8%	34.0%
Total capital funds to total assets ratio	**7.5%**	6.9%	7.0%	7.2%	7.0%
Risk weighted capital ratio	**13.0%**	13.1%	13.8%	14.8%	13.2%
Efficiency ratio	**64.8%**	66.4%	61.9%	61.8%	67.1%
Per share ($) #					
Net income from continuing operations	**3.73**	4.00	3.85	3.13	2.50
Net income	**3.73**	4.01	3.88	2.85	1.83
Dividends	**1.43**	1.37	1.31	1.05	0.68
Net book value	**19.13**	16.56	15.83	13.50	11.68
Number of Employees					
Bermuda	**742**	724	749	744	762
Overseas	**639**	476	480	418	351
Total	**1,381**	1,200	1,229	1,162	1,113
Shareholder Data					
Number of shareholders	**3,581**	3,322	3,364	3,619	3,602
Number of shares (000)*	**20,643**	18,603	19,247	17,571	17,705

* The number of shares excludes shares purchased by the Bank for the Stock Option Trust.
Per share data, with the exception of dividends, has been restated to reflect the 1 for 10 stock dividends in August 2003 and August 2001.
The number of shares in 2003 and 2002 increased primarily due to the issue of stock dividends.

** Exclusive of discontinued operations and gain on sale of subsidiaries.

\# Inclusive of gain on sale of subsidiaries.

Management's Financial Reporting Responsibility

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

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

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

The Audit & Compliance Committee, composed entirely of directors who are not employees of the Bank, reviews the financial statements before such statements are approved by the Board of Directors and submitted to the Bank's shareholders.

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

PricewaterhouseCoopers, the shareholders' independent auditors, have examined the consolidated financial statements of the Bank in accordance with auditing standards generally accepted in Bermuda and Canada and have expressed their opinion in their report to the shareholders. The auditors have unrestricted access to, and meet periodically with, the Audit & Compliance Committee to review their findings regarding internal controls over the financial reporting process, auditing matters and financial reporting issues.

Alan R. Thompson
President & Chief Executive Officer
13 February 2004

Richard J. Ferrett
Executive Vice President & Chief Financial Officer
13 February 2004

Auditors' Report to the Shareholders

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Chartered Accountants
Dorchester House
7 Church Street
Hamilton
Bermuda HM 11
Telephone +1 441 295 2000
Facsimile +1 441 295 1242

Auditors' Report to the Shareholders of The Bank of N.T. Butterfield & Son Limited

We have audited the consolidated balance sheet of **The Bank of N.T. Butterfield & Son Limited** as at 31 December 2003 and the consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2003 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

PricewaterhouseCoopers

Chartered Accountants
11 February 2004

MAILING ADDRESS: PO BOX HM 1171, Hamilton, Bermuda HM EX

A list of partners can be obtained from the above address

Consolidated Balance Sheet

As at 31 December 2003 (In $ thousands)

	2003	2002
Assets		
Cash and demand deposits with banks	**40,896**	63,103
Term deposits with banks	**2,995,048**	1,926,056
Total cash and deposits with banks (note 2)	**3,035,944**	1,989,159
Investments (notes 1(d) and 4)	**2,503,337**	2,073,112
Loans (notes 1(e) and 5)	**1,935,764**	1,767,088
Land, buildings and equipment (notes 1(g) and 6)	**100,486**	96,419
Accrued interest	**22,915**	21,313
Intangible assets (notes 1(b) and 7)	**42,860**	27,322
Other assets	**38,566**	33,461
Total Assets	**7,679,872**	6,007,874
Liabilities		
Deposits		
Customers	**6,583,271**	5,156,111
Banks	**481,837**	360,105
Total deposits (note 8)	**7,065,108**	5,516,216
Dividend payable	**7,817**	7,155
Accrued interest	**7,218**	7,998
Other liabilities	**79,800**	62,706
Total other liabilities	**94,835**	77,859
Subordinated debt capital (note 17)	**125,000**	75,000
Total Liabilities	**7,284,943**	5,669,075
Shareholders' Equity		
Share capital	**22,335**	20,443
Share premium	**120,086**	56,543
General reserve	**100,000**	100,000
Retained earnings	**183,566**	198,262
Less: loan to stock option trust (notes 1(j) and 18)	**(31,058)**	(36,449)
Total Shareholders' Equity	**394,929**	338,799
Total Liabilities and Shareholders' Equity	**7,679,872**	6,007,874

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

James A.C. King,
MD, FRCS(C), FACS, JP
Chairman of the Board

Robert J. Stewart,
FCIS, LL.B
Vice Chairman

Alan R. Thompson
President & Chief Executive Officer

Consolidated Statement of Income

(In $ thousands, except per share data)

	Year Ended 31 December 2003	Six Months Ended 31 December 2002	Year Ended 30 June 2002
Interest Income			
Loans	**105,162**	52,589	103,327
Investments	**51,438**	26,299	57,925
Deposits with banks	**41,049**	23,812	55,350
Interest income	**197,649**	102,700	216,602
Interest Expense			
Deposits and other	**80,490**	48,081	114,568
Subordinated debt capital	**2,523**	1,041	2,638
Interest expense	**83,013**	49,122	117,206
Net interest income	**114,636**	53,578	99,396
Provision for credit losses	**(2,413)**	(1,932)	(2,159)
Net Interest Income after Provision for Credit Losses	**112,223**	51,646	97,237
Trust and investment services	**20,388**	9,456	21,590
Asset management	**21,859**	10,175	19,301
Investment and pension fund administration	**22,937**	9,614	16,884
Banking services	**33,646**	16,771	31,521
Foreign exchange revenue	**18,908**	9,447	16,273
Other income	**8,276**	3,891	3,753
Gain on sale of subsidiaries	**-**	-	17,013
Total Fees and Other Income	**126,014**	59,354	126,335
Total Income	**238,237**	111,000	223,572
Expenses			
Salaries and other employee benefits	**97,840**	44,028	88,623
Property	**17,400**	7,836	15,229
Systems and communications	**17,480**	7,294	12,947
Marketing	**2,749**	1,394	2,463
Stationery and supplies	**1,888**	977	1,971
Non-corporation taxes	**8,652**	3,741	6,942
Other expenses	**15,220**	7,848	13,999
Total Expenses	**161,229**	73,118	142,174
Net Income from Continuing Operations before Corporation Tax	**77,008**	37,882	81,398
Corporation Tax	**(514)**	(70)	18
Net Income from Continuing Operations after Corporation Tax	**76,494**	37,812	81,416
Profit (loss) from discontinued operations (note 19)	**-**	(380)	873
Net Income for the Year	**76,494**	37,432	82,289
Earnings per Share (note 1(l))			
Including discontinued operations	**$3.73**	$1.81	$3.88
Excluding discontinued operations	**$3.73**	$1.83	$3.85

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

Earnings per share comparative figures have been restated for the 1 for 10 stock dividend in August 2003.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2003 (In $ thousands)

	Year Ended 31 December 2003	Six Months Ended 31 December 2002	Year Ended 30 June 2002
Share Capital			
Authorised: 70,000,000 shares (2002: 70,000,000 shares) of par value $1.00 each	**70,000**	70,000	70,000
Issued:			
Balance at Beginning of Year (January 2003: 20,443,030 shares; July 2002: 21,309,750 shares; July 2001: 19,435,655 shares)	**20,443**	21,310	19,436
Dividend re-investment plan (December 2003: 234,027 shares; December 2002: 123,580 shares; June 2002: 219,431 shares)	**234**	124	219
Stock dividend (December 2003: 2,037,470 shares; December 2002: Nil; June 2002: 1,942,185 shares) - (note 22)	**2,037**	-	1,942
Share redemptions (December 2003: 378,994 shares; December 2002: 990,300 shares; June 2002: 287,521 shares) - (note 20)	**(379)**	(991)	(287)
Balance at End of Year (December 2003: 22,335,533 shares; December 2002: 20,443,030 shares; June 2002: 21,309,750 shares)	**22,335**	20,443	21,310
Share Premium			
Balance at Beginning of Year	**56,543**	83,045	22,186
Dividend re-investment plan	**7,854**	3,761	6,824
Stock dividend - (note 22)	**68,500**	-	62,878
Share redemptions - (note 20)	**(12,811)**	(30,263)	(8,843)
Balance at End of Year	**120,086**	56,543	83,045
General Reserve			
Balance at Beginning of Year	**100,000**	100,000	100,000
Balance at End of Year	**100,000**	100,000	100,000
Retained Earnings			
Balance at Beginning of Year	**198,262**	170,828	176,273
Net income for the year	**76,494**	37,432	82,289
	274,756	208,260	258,562
Dividends declared	**(27,471)**	(13,486)	(24,681)
Stock dividend	**(70,537)**	-	(64,820)
Unrealised gain on translation of investment in foreign operations	**6,818**	3,488	1,767
Balance at End of Year	**183,566**	198,262	170,828
Loan to Stock Option Trust - (notes 1(j) and 18)			
Balance at Beginning of Year (January 2003: 1,839,743 shares; July 2002: 2,062,745 shares; July 2001: 1,864,547 shares)	**(36,449)**	(40,016)	(31,370)
Loan repaid (advanced) during year	**5,391**	3,567	(8,646)
Balance at End of Year (December 2003: 1,692,698 shares; December 2002: 1,839,743 shares; June 2002: 2,062,745 shares)	**(31,058)**	(36,449)	(40,016)
Total Shareholders' Equity	**394,929**	338,799	335,167

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2003 (In $ thousands)

	Year Ended 31 December 2003	Six Months Ended 31 December 2002	Year Ended 30 June 2002
Cash Flows From Operating Activities			
Net income for the year	**76,494**	37,432	82,289
Adjustments for:			
Depreciation and amortisation	**15,226**	6,612	12,667
Provision for credit losses	**2,413**	1,932	2,159
Writedown of investments (net)	**4,145**	2,124	2,616
Gain on disposal of subsidiaries	**-**	-	(17,013)
Decrease (increase) in accrued interest receivable	**(1,126)**	(311)	10,533
Decrease (increase) in other assets	**(1,547)**	1,501	(957)
Decrease in accrued interest payable	**(1,426)**	(1,519)	(2,863)
Increase in other liabilities	**13,757**	1,350	179
Cash flows from operations	**107,936**	49,121	89,610
Cash Flows From Investing Activities			
Term deposits with banks	**(1,018,280)**	58,913	(9,021)
Net sale (purchase) of investments	**(393,469)**	(244,094)	51,860
Net increase in loans	**(108,864)**	(72,245)	(208,260)
Purchase of subsidiaries	**(31,063)**	-	(36,069)
Net proceeds on disposal of subsidiaries	**-**	-	17,116
Purchase of land, buildings and equipment	**(11,501)**	(3,415)	(11,100)
Cash flows used in investing activities	**(1,563,177)**	(260,841)	(195,474)
Cash Flows From Financing Activities			
Net increase in demand and term deposits	**1,409,379**	299,850	119,403
Securities sold under agreements to repurchase	**-**	(30,179)	(25,181)
Issuance of subordinated debt capital (note 17)	**50,000**	-	-
Dividends paid	**(26,808)**	(13,150)	(24,081)
Proceeds from dividend re-investment plan	**8,088**	3,885	7,043
Stock option trust loan	**5,391**	3,567	(8,646)
Redemption of shares	**(13,190)**	(31,253)	(9,130)
Cash flows from financing activities	**1,432,860**	232,720	59,408
Effect of exchange rates on cash and demand deposits with banks	**174**	(153)	1,020
Increase (decrease) in cash and demand deposits with banks	**(22,207)**	20,847	(45,436)
Cash and demand deposits with banks:			
- Beginning of Year	**63,103**	42,256	87,692
- End of Year	**40,896**	63,103	42,256
Interest Paid	**83,793**	50,641	120,069
Corporation Taxes Paid (Received)	**1,078**	(1,180)	(372)

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

Notes to Consolidated Financial Statements

For the year ended 31 December 2003 (All amounts are expressed in thousands of Bermuda dollars unless otherwise stated.)

NOTE 1: Significant Accounting Policies

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Bermuda and Canada. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements. Estimates also affect the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates. The significant accounting policies followed in the preparation of these consolidated financial statements are summarised below:

(a) Basis of Consolidation: The consolidated financial statements include the assets, liabilities and results of operations of the Bank and all of its subsidiaries. Subsidiaries are companies which the Bank controls and are normally those in which the Bank owns directly or indirectly more than 50% of the voting shares. Effective 1 July 2001 the Bank adopted the revised recommendations of the Canadian Institute of Chartered Accountants (CICA) on accounting for business combinations. The standard requires the use of the purchase method to account for all business combinations and requires the recognition of certain other intangible assets acquired in a business combination apart from goodwill. On transition, for business combinations completed before 1 July 2001, where the carrying amount of acquired intangible assets does not meet the criteria for separate recognition, the assets were reclassified to goodwill while items which met the definition of intangibles but were originally recorded as goodwill were reclassified and accounted for as intangible assets. The difference between the acquisition cost of an investment and the fair value of the net assets (including certain intangible assets) acquired represents goodwill. The Bank's interest in joint ventures is recognised using the proportionate consolidation method. Under this approach the Bank's share of the joint venture's assets, liabilities, revenues and expenses is reported on a line-by-line basis.

(b) Goodwill and Other Intangible Assets: Effective 1 July 2001 the Bank adopted the revised recommendations of the CICA on accounting for goodwill and other intangible assets. Under the standard, goodwill is no longer amortised but is subject to a revised annual impairment test to identify any potential goodwill impairment. A goodwill impairment loss will be recognised if the fair value of the goodwill of a reporting unit is less than its carrying amount. The Bank continues to amortise to income intangible assets other than goodwill with a definite life over their estimated useful lives on a straight-line method, not to exceed 20 years, as provided for in the standard. An impairment test is carried out if certain indicators are identified.

(c) Translation of Foreign Currencies: Assets, liabilities, revenues and expenses denominated in US dollars are translated into Bermuda dollars at par. Assets and liabilities arising from other foreign currency transactions are translated into Bermuda dollars at the rates of exchange prevailing at the balance sheet date while associated revenues and expenses are translated into Bermuda dollars at the average rates of exchange prevailing throughout the period.

Resulting gains or losses are included as foreign exchange income in the Consolidated Statement of Income. Assets and liabilities of the Bank's foreign operations are translated into Bermuda dollars at the rates of exchange prevailing at the balance sheet date while associated revenues and expenses are translated into Bermuda dollars at the average rates of exchange prevailing throughout the period. Exchange gains and losses arising from the translation of net investment positions and from the results of hedging these positions are reported in retained earnings.

(d) Investments: Investment portfolio securities are debt securities where the Bank's original intention is to hold to maturity and equity securities where the Bank's original intention is to hold for the long term. They are carried at cost or amortised cost, adjusted to recognise other than temporary impairment in the underlying value, except for money market mutual funds which are carried at market value, which approximates cost plus accrued and reinvested interest since acquisition. Investments held in the trading portfolio are intended to be held for a short period of time and are carried at market value and any adjustments to market value of these investments are included in the Consolidated Statement of Income. Venture capital investments are equity or debt investments whereby the Bank's original intention is to dispose of the investment in the medium term. Venture capital investments are recorded at fair value with adjustments to fair value being recognised in investment income. In assessing fair value, management reviews meaningful third party transactions in the private market and the results of applying acceptable valuation methodologies to current and projected cash flows. In the absence of persuasive evidence to the contrary, management generally considers cost to be the best indicator of fair value. Due to the dynamic nature of assumptions used in establishing fair values, the values reflected in the consolidated financial statements may differ significantly from the values that would be determined by negotiations held between parties in a sales transaction and those differences could be material.

Dividend and interest income on all securities, including amortisation of premiums and discounts on debt securities held for investment, are included in investment income in the Consolidated Statement of Income.

(e) Loans: Loans are stated net of any unearned income and of an allowance for credit losses. Interest income is accounted for on the accrual basis for all loans other than impaired loans.

A loan is classified as non-accrual when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of all amounts due under the contractual terms of the loan. If an interest payment on a loan becomes contractually 90 days in arrears, the loan will be classified as non-accrual, if not already classified as such, unless the loan is fully secured, and any collection efforts are reasonably expected to result in repayment of all amounts due under the contractual terms of the loan. All non-accrual loans are considered impaired loans. When a loan is classified as non-accrual, recognition of interest ceases. Interest received on non-accrual loans is credited to the carrying value of the loan. Loans are generally returned to accrual status when the collection of all amounts due under the contractual terms of the loan is reasonably assured and all delinquent principal and interest payments are brought current.

Credit card loans that are contractually 180 days in arrears and personal loans with an outstanding balance under $100,000 that are contractually 180 days in arrears are automatically written off.

(f) Allowance for Credit Losses: The Bank maintains an allowance for credit losses, which in management's opinion is adequate to absorb all credit-related losses in its portfolio relating to on and off balance sheet financial instruments. The allowance for credit losses consists of specific provisions and a general provision, each of which is reviewed on a regular basis. The allowance for credit losses is included as a reduction of the related asset category.

Specific provisions are determined on an item-by-item basis and reflect the associated estimated credit loss. In the case of loans, the specific provision is the amount that is required to reduce the carrying value of an impaired loan to its estimated realisable amount. Generally, the estimated realisable amount is measured by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of non-accrual. The change in the present value attributable to the passage of time on the expected future cash flows is reported as a reduction of the provision for credit losses in the Consolidated Statement of Income. When the amounts and timing of future cash flows cannot be measured with reasonable reliability, either the fair value of any security underlying the loan, net of expected costs of realisation and any amounts legally required to be paid to the borrower, or the observable market price for the loan is used to measure the estimated realisable amount.

A general provision is established in respect of the Bank's core business lines where a prudent assessment by the Bank of past experience and existing economic and portfolio conditions indicate that losses have occurred, but where such losses cannot be determined on an item-by-item basis. The general provision is determined by using historical trends in loss experience, weighted to emphasise recent periods, and the current portfolio profile together with management's evaluation of other conditions existing at the balance sheet date which are not reflected in historical trends. As the general provision principally relates to loans it is deducted from loans in the Consolidated Balance Sheet.

(g) Land, Buildings and Equipment: Land is carried at cost. Buildings, equipment and leasehold improvements are carried at cost less accumulated depreciation and/or amortisation. Depreciation and amortisation are calculated using the straight-line method over the estimated useful lives of the related assets, which are up to 50 years for buildings, up to 10 years for furniture, up to 5 years for computers and equipment and, in the case of leasehold improvements, the term of the lease.

Gains and losses on disposal are reported in other income in the Consolidated Statement of Income.

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

Effective 1 July 2000, the Bank adopted the revised recommendations of the CICA on accounting for pension benefits and on accounting for employees' future benefits. This standard requires the use of current market interest rates to estimate the present value of the liability and the use of current market prices for valuing defined benefit pension plan assets, whereas in previous years, an estimated long-term interest rate was used to determine the present value of the defined benefit pension and medical benefits obligation. The change in accounting policy for employees' future benefits has been adopted prospectively such that the change in the net pension asset and the medical benefits liability at 1 July 2000, arising from adoption of the standard are being amortised over the relevant remaining service life of the employees covered by the defined benefit pension plans and the post-retirement medical benefits plan.

Expense for the defined benefit pension plans and the post-retirement medical benefits plan is comprised of (a) the actuarially determined benefits for the current year's service, (b) imputed interest on the actuarially determined liability of the plan, (c) in the case of the defined benefit pension plan, the expected investment return on the market value of plan assets and (d) amortisation of certain items over the expected average remaining service life of employees, in the case of the defined benefit pension plans, and the expected average remaining service life to full eligibility age of employees covered by the plan, in the case of the post-retirement medical benefits plan. The items amortised are amounts arising as a result of experience gains and losses, changes in assumptions, plan amendments and the change in the net pension asset or post-retirement medical benefits liability arising on adoption of the revised accounting standard on 1 July 2000.

For the defined benefit pension plans the cumulative difference between the funding contributions and the expense is reported in other assets. For the post-retirement medical benefits plan, the liability recognised for accounting purposes is reported in other liabilities.

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

(i) Derivatives: Derivatives are used for asset/liability management and proprietary trading purposes and also to provide clients with the ability to manage their own market risk exposures. The most frequently used derivative products are foreign exchange contracts and interest rate swaps.

Asset/liability management derivatives are used to hedge the Bank's own exposure to interest rate and foreign exchange risks which arise from the Bank's balance sheet positions. Income and expense on these derivatives are recognised over the life of the related position primarily as an adjustment to net interest income. Gains or losses on effective hedges are deferred and amortised over the remaining life of the related positions. Accrued income and expense and deferred gains and losses are included in other assets and other liabilities, as appropriate in the Consolidated Balance Sheet. Unrealised gains and losses are not recognised. Proprietary trading derivatives are marked to market and realised and unrealised gains and losses are included in other income.

Effective 1 July 2002, the Bank early adopted Accounting Guideline 13 (AcG13), "Hedging Relationships" which requires the Bank to identify, document and demonstrate the effectiveness of all hedging relationships for which derivative instruments are used as cash flow or fair value hedges. Positions hedged with derivative instruments meeting AcG13 requirements will continue to be accounted for using accrual accounting provided they are effective hedges. If designated hedges are no longer effective the derivative investment is reclassified as trading and subsequently marked to market with realised and unrealised gains and losses being included in other income.

(j) Loan to Stock Option Trust: The loan made to finance the acquisition of shares by the Stock Option Trust is shown as a deduction from shareholders' equity. Dividends paid on the acquired shares are deducted in arriving at dividends paid reflected in the Statements of Changes in Shareholders' Equity and Cash Flows. The weighted average number of shares outstanding used in the calculation of earnings per share is calculated after deducting the shares held by the Stock Option Trust during the period.

(k) Stock-based Compensation: The Bank has a Stock Option Plan for all eligible employees. The Bank follows the intrinsic value method of accounting for stock options. Since the exercise price is set at an amount equal to the closing price on the day prior to the grant of the stock options, no compensation expense is recognised on the day of the grant. When options are exercised the proceeds received are credited to the loan to Stock Option Trust.

Effective 1 July 2002, the Bank adopted CICA handbook section 3870, "Stock-based Compensation" which requires the use of a fair value based method to account for certain stock-based compensation arrangements. Options granted by the Bank to employees and directors are not required under the new standard to be accounted for using a fair value based method. However, pro-forma fair value based income and earnings per share disclosures are required under the new standard.

(l) Earnings Per Share: Earnings per share has been calculated using the weighted average number of shares outstanding during the year adjusted as described in 1(j) above and adjusted for the stock dividends declared during the year ended 31 December 2003 and 30 June 2002 (see also Note 22). Fully diluted earnings per share, calculated after giving effect to the potential dilution arising from the existence of stock options, is not materially different from the earnings per share disclosed in the Consolidated Statement of Income. Effective 1 July 2001 the Bank adopted the revised recommendations of the CICA on accounting for earnings per share. The standard requires the use of the treasury stock method, whereby the proceeds received from the exercise of stock options are assumed to be used to repurchase shares.

(m) Future Accounting Policies:

Impairment or Disposal of Long-lived Assets

The CICA has issued a new accounting standard for the impairment and disposal of non-monetary long-lived assets. This standard requires an impairment loss to be recognised when the carrying amount of a long-lived asset to be held and used exceeds the sum of the undiscounted cash flows expected from its use and disposal. The impairment recognised should be 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 should be 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 to sell.

In addition, under this standard, the definition of discontinued operations has been broadened to include any disposals of a component of an entity, which comprises operations and cash flows that can be clearly distinguished.

This standard is effective for the Bank for fiscal 2004, except for the change in presentation of discontinued operations which is effective for disposals committed to on or after 1 April 2003. These new accounting requirements could require the Bank to consolidate certain Venture Capital Investments.

Consolidation of Variable Interest Entities (VIE'S)

In June 2003, the CICA issued a new accounting guideline which requires the consolidation of VIE's by the primary beneficiary. A VIE is an entity where (a) its equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others and/or (b) where certain essential characteristics of a controlling financial interest are not met. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIE's expected losses, expected residual returns, or both. The guideline is effective for the Bank's interim financial statements commencing 1 January 2005. The Bank is currently performing an assessment of the existence of VIE's and the potential impact on the financial position and results of operations.

(n) Certain prior year comparative amounts have been reclassified to conform to the current year presentation.

NOTE 2: Cash and Deposits with Banks

Summary of cash and deposits with banks as at:

	31 December 2003	31 December 2002
Cash and demand deposits	**40,896**	63,103
Term deposits maturing within six months	**2,839,945**	1,847,746
Term deposits maturing within six to twelve months	**130,678**	78,310
Term deposits maturing after twelve months	**24,425**	-
Total	**3,035,944**	1,989,159

NOTE 3: Significant Acquisitions and Significant Disposals

On 26 July 2001, the Bank's Guernsey subsidiaries, Bank of Butterfield International (Guernsey) Limited and Butterfield Fund Managers (Guernsey) Limited, acquired all of the outstanding common shares of CIBC Bank and Trust Company (Channel Islands) Limited, Canadian Imperial Bank of Commerce Trust Company (Channel Islands) Limited and CIBC Fund Managers (Guernsey) Limited (collectively referred to as CIBC's Guernsey operations). The total consideration in respect of this purchase was paid in cash. The acquisition was accounted for by the purchase method and the results of CIBC's Guernsey operations have been included in the Consolidated Statement of Income from the date of acquisition. The principal activities of the CIBC Guernsey operations include: (a) private client business comprising the administration of private companies and trusts, the provision of multi-currency deposits, foreign exchange, credit facilities, securities trading and portfolio management services for high net worth individuals, and (b) institutional business comprising administered banking, managed trust companies, institutional custody and fund administration services.

On 6 June 2002, the Bank sold its controlling interest in its Hong Kong subsidiaries to Dexia Banque Internationale à Luxembourg (Dexia BIL) for cash and realised a gain of $17.0 million. Net income up to the date of sale totalled $1.4 million and is included in the Consolidated Income Statement. The Bank’s Hong Kong subsidiaries, established in 1986, consisted of Butterfield Trust (Hong Kong) Limited and Butterfield Corporate Services (Hong Kong) Limited. Dexia BIL acquired a majority interest in the Trust and Corporate Services operations and took over the business of the Bank’s restricted licence branch after regulatory approval was received in April 2003.

On 4 March 2003, the Bank acquired Promisant (Technology) Ltd (PTL) and certain tangible fixed assets of Promisant Holdings Ltd (PHL) for $2 million. PTL is a Bermuda based provider of multi-currency payment processing services to Bermudian and international merchants and was a wholly-owned subsidiary of PHL, a company in which the Bank had a venture capital equity investment. PHL was wound down and the Bank wrote-off its remaining investment of $4.63 million which was a charge to investment income. In addition the Bank charged off a $0.7 million working capital loan to PHL against general provisions in 2003. PTL has been consolidated as a wholly owned subsidiary of the Bank with $2 million of tangible assets included in land, buildings and equipment in the Consolidated Balance Sheet at year-end.

On 22 August 2003, the Bank acquired all the outstanding common shares of Thorand Bank and Trust Limited, and on 3 September 2003, the Bank acquired all the outstanding common shares of Leopold Joseph (Bahamas) Limited. The total consideration in respect of these acquisitions was paid in cash and have been accounted for by the purchase method. Subsequent to the acquisitions, the Bank has merged the operations of the two companies into Bank of Butterfield (Bahamas) Limited and these results are included in the Consolidated Statement of Income from the date of acquisitions. The principal activities of the acquired companies is private client business comprising primarily trust and related services to high net worth individuals.

On 4 December 2003, the Bank acquired all the outstanding common shares of The Mutual Bank of the Caribbean Inc., a Barbados community bank, from its majority shareholder, Sagicor Financial Corporation, and its minority shareholders. The total consideration in respect of this acquisition was paid in cash and has been accounted for by the purchase method. The bank will be renamed Bank of Butterfield (Barbados) Limited in 2004.

	31 December 2003	31 December 2002	30 June 2002
Fair value of assets acquired			
Total cash and deposits with banks	**50,712**	-	372,217
Investments	**42,901**	-	3,139
Loans	**62,225**	-	38,901
Land, buildings and equipment	**3,486**	-	515
Intangible assets - customer list	**11,446**	-	21,401
Intangible assets - goodwill	**5,404**	-	-
Other assets	**5,029**	-	-
Total	**181,203**	-	436,173
Fair value of liabilities assumed			
Deposits	**139,513**	-	396,240
Other liabilities	**10,627**	-	3,864
Total	**150,140**	-	400,104
Fair value of identifiable net assets acquired	**31,063**	-	36,069
Total purchase consideration	**31,063**	-	36,069

NOTE 4: Investments

(a) Maturity: Summary of investments

31 December 2003	**Within 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**5 to 10 Years**	**Over 10 Years**	**Total**
Marketable Securities						
US Government and agencies	**25**	**40,479**	**157**	**7,976**	**5,714**	**54,351**
Other OECD Governments	**5,899**	**10,251**	**-**	**-**	**-**	**16,150**
Financial institution debt	**580,095**	**650,020**	**388,140**	**1,104**	**45,337**	**1,664,696**
Corporate and asset backed debt	**74,562**	**107,252**	**134,686**	**83,760**	**244,199**	**644,459**
Non OECD Governments	**26,559**	**18,243**	**10,895**	**19,077**	**6,000**	**80,774**
Mutual fund/equity investments*	**-**	**-**	**-**	**-**	**42,907**	**42,907**
Total	**687,140**	**826,245**	**533,878**	**111,917**	**344,157**	**2,503,337**

31 December 2002	Within 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total
Marketable Securities						
US Government and agencies	2,800	40,783	10,001	61,400	9,000	123,984
Other OECD Governments	-	5,963	10,374	5,188	-	21,525
Financial institution debt	323,802	668,940	360,004	3,224	-	1,355,970
Corporate and asset backed debt	34,866	149,351	159,117	9,266	158,315	510,915
Non OECD Governments	237	1,833	3,267	10,766	212	16,315
Mutual fund/equity investments*	-	-	-	-	44,403	44,403
Total	361,705	866,870	542,763	89,844	211,930	2,073,112

* Mutual funds and equity investments have no specific maturity date and are listed as Over 10 Years.

All of the above amounts are held in the investment portfolio and are carried at amortised cost with the exception of the trading portfolio which amounts to $15,419 ($15,771 at 31 December 2002), venture capital investments which amount to $5,079 ($18,956 at 31 December 2002), and certain other equity investments aggregating $22,409 ($8,547 at 31 December 2002). Actual maturities may differ from the stated maturities reflected above because certain investments may have call or prepayment features and asset backed securities are shown at their legal final maturity and not their weighted average life, which will normally be under five years.

(b) Fair Value Summary

31 December 2003	**Carrying Value**	**Unrealised Gain**	**Unrealised (Loss)**	**Fair Value**
Marketable Securities				
US Government and agencies	**54,351**	**1,366**	**-**	**55,717**
Other OECD Governments	**16,150**	**690**	**-**	**16,840**
Financial institution debt	**1,664,696**	**3,381**	**(427)**	**1,667,650**
Corporate and asset backed debt	**644,459**	**4,505**	**(7,386)**	**641,578**
Non OECD Governments	**80,774**	**533**	**-**	**81,307**
Mutual fund/equity investments	**42,907**	**160**	**-**	**43,067**
Total	**2,503,337**	**10,635**	**(7,813)**	**2,506,159**

31 December 2002	Carrying Value	Unrealised Gain	Unrealised (Loss)	Fair Value
Marketable Securities				
US Government and agencies	123,984	2,271	-	126,255
Other OECD Governments	21,525	1,376	-	22,901
Financial institution debt	1,355,970	3,622	(1,250)	1,358,342
Corporate and asset backed debt	510,915	3,828	(3,935)	510,808
Non OECD Governments	16,315	261	-	16,576
Mutual fund/equity investments	44,403	-	-	44,403
Total	2,073,112	11,358	(5,185)	2,079,285

Marketable Securities, excluding mutual funds and equity investments include $538,457 ($243,953 at 31 December 2002) of fixed rate instruments and $1,921,973 ($1,784,871 at 31 December 2002) of floating rate instruments. The approximate yield on the floating rate securities at 31 December 2003 was 1.79% (2.14% at 31 December 2002), while the approximate yield on the fixed rate securities was 4.53% (4.55% at 31 December 2002). During the year ended 31 December 2003 the Bank reduced the carrying value of certain venture capital investments by $4,627 ($966 for the six months ended 31 December 2002; $726 for the year ended 30 June 2002) and corporate and asset backed investments by $Nil ($1,158 for the six months ended 31 December 2002; $1,890 for the year ended 30 June 2002).

NOTE 5: Loans

(a) Loans outstanding

The Bank's loans net of unearned income and the allowance for credit losses in respect of loans are as follows:

	31 December 2003	31 December 2002
Residential mortgages	**832,656**	710,463
Personal and credit cards	**262,105**	292,213
Business and government	**864,460**	788,699
Sub-total loans	**1,959,221**	1,791,375
Allowance for credit losses	**(23,457)**	(24,287)
Net loans	**1,935,764**	1,767,088

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 twenty 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 2003 is 5.88% (5.9% at 31 December 2002).

(b) Impaired Loans

	Gross	Specific Provisions	General Provisions	31 December 2003 Net	31 December 2002 Net
By loan type:					
Residential mortgages	**5,287**	**(175)**	**-**	**5,112**	6,255
Personal and credit cards	**3,327**	**(583)**	**-**	**2,744**	1,409
Business	**8,752**	**(3,194)**	**-**	**5,558**	12,954
Sub-total before general provisions	**17,366**	**(3,952)**	**-**	**13,414**	20,618
General provisions	**-**	**-**	**(19,505)**	**(19,505)**	(19,985)
Total impaired loans	**17,366**	**(3,952)**	**(19,505)**	**(6,091)**	633
By geography:					
Bermuda	**8,235**	**(2,436)**	**-**	**5,799**	12,701
Cayman	**4,751**	**(445)**	**-**	**4,306**	7,912
Barbados	**3,900**	**(1,009)**	**-**	**2,891**	-
Guernsey	**480**	**(62)**	**-**	**418**	5
Sub-total before general provisions	**17,366**	**(3,952)**	**-**	**13,414**	20,618
General provisions	**-**	**-**	**(19,505)**	**(19,505)**	(19,985)
Total impaired loans	**17,366**	**(3,952)**	**(19,505)**	**(6,091)**	633

(c) Allowance for Credit Losses

	Specific Provisions	General Provisions	31 December 2003 Net	31 December 2002 Net
Beginning of year	**4,302**	**19,985**	**24,287**	24,455
New acquisitions	**1,009**	**123**	**1,132**	-
Write-offs	**(5,180)**	**(48)**	**(5,228)**	(2,271)
Recoveries/transfers	**3,821**	**(2,968)**	**853**	62
Provisions this year	**-**	**2,413**	**2,413**	1,932
Other, including exchange movement	**-**	**-**	**-**	109
Carried forward	**3,952**	**19,505**	**23,457**	24,287

(d) Credit Exposure

The following table summarises the credit exposure* of the Bank:

	31 December 2003	31 December 2002
Primary industry and manufacturing	**59,148**	30,241
Commercial and merchandising	**574,868**	553,672
Real estate	**832,656**	710,463
Transport and communication	**34,218**	53,715
Banks and financial services	**1,027,401**	826,772
Governments	**11,525**	30,907
Individuals	**530,885**	459,844
Sub-total	**3,070,701**	2,665,614
General provisions	**(19,505)**	(19,985)
Total	**3,051,196**	2,645,629

* Credit exposures include loans, guarantees and acceptances, letters of credit and commitments for undrawn lines of credit.

NOTE 6: Land, Buildings and Equipment

Summary of land, buildings and equipment

	Cost	**Accumulated Depreciation**	**Net Book Value 31 December 2003**	Net Book Value 31 December 2002
Land	**12,345**	**-**	**12,345**	12,989
Buildings	**89,415**	**(28,284)**	**61,131**	59,841
Equipment	**103,977**	**(76,967)**	**27,010**	23,589
Total	**205,737**	**(105,251)**	**100,486**	96,419

Depreciation charged to operating expenses for the year ended 31 December 2003 was $12,920 ($5,532 for the six months ended 31 December 2002; $10,769 for the year ended 30 June 2002). The Bank has outstanding capital commitments of approximately $32 million as at 31 December 2003 ($ Nil at December 2002) in respect of building refurbishments and systems improvements.

NOTE 7: Intangible Assets

	Cost	**Accumulated Amortisation**	**Net Book Value 31 December 2003**	Net Book Value 31 December 2002
Intangible assets				
Customer list	**43,271**	**(5,815)**	**37,456**	27,322
Goodwill	**5,404**	**-**	**5,404**	-
Total	**48,675**	**(5,815)**	**42,860**	27,322

The aggregate amortisation expense for the year ended 31 December 2003 was $2,306 ($1,080 for the six months ended 31 December 2002; $1,898 for the year ended 30 June 2002). These intangible assets are amortised over their defined useful lives of 15 years as determined by the Bank using the straight-line method.

NOTE 8: Deposits

An analysis of deposits

(a) By Maturity	31 December 2003	31 December 2002
Demand deposits	4,212,898	2,402,601
Term deposits maturing within six months	2,501,691	2,784,129
Term deposits maturing within six to twelve months	101,311	134,478
Term deposits maturing after twelve months	249,208	195,008
Total	7,065,108	5,516,216

(b) By Type and Location	Payable On Demand	Payable on A Fixed Date	31 December 2003	31 December 2002
Bermuda:				
Customers	2,095,137	1,450,585	3,545,722	2,949,390
Banks	186,411	-	186,411	152,260
Cayman:				
Customers	1,308,133	362,405	1,670,538	995,236
Banks	66,213	85,555	151,768	144,578
Guernsey:				
Customers	380,847	497,464	878,311	842,888
Banks	-	-	-	2,041
Other International:				
Customers	167,519	321,181	488,700	368,597
Banks	8,638	135,020	143,658	61,226
Total	4,212,898	2,852,210	7,065,108	5,516,216

The effective yield on deposits at 31 December 2003 was 1.5% (1.7% at 31 December 2002).

NOTE 9: Employee Future Benefits

The Bank maintains trusteed pension plans including non-contributory defined benefit plans and a number of defined contribution plans, and provides post-retirement medical benefits to its qualifying retirees. The defined benefit provisions under the pension plans are generally based upon years of service and average salary during the final years of employment. The defined benefit plans are non-contributory and the funding required is provided by the Bank, based upon the advice of an independent actuary.

Effective 1 September 2000, the Bank implemented a defined contribution pension plan for its Bermuda based employees. Funding of the plan is determined based upon the provisions of the plan and is shared with the employees. All employees under age 45 were transferred into this plan. All Bermuda based employees joining the Bank after this date will automatically join this defined contribution plan.

Substantially all of the pension assets are invested in equity, fixed income and other marketable securities.

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

	Pension Plans		Post-Retirement Medical Benefit Plan	
	31 December 2003	31 December 2002	**31 December 2003**	31 December 2002
Change in benefit obligation				
Benefit obligation at beginning of year	**67,187**	61,549	**30,551**	27,363
New acquisitions	**1,249**	-	**-**	-
Effect of change in accounting policy	**17**	-	**-**	-
Benefit obligation at beginning of year as adjusted	**68,453**	61,549	**30,551**	27,363
Service cost	**3,900**	1,407	**900**	385
Interest cost	**4,241**	2,119	**1,973**	965
Benefits paid	**(3,098)**	(1,774)	**(1,919)**	(978)
Actuarial losses	**1,893**	3,886	**44,316**	2,816
Benefit obligation at end of year	**75,389**	67,187	**75,821**	30,551
Change in plan assets				
Fair value of plan assets at beginning of year	**58,204**	59,847	**-**	**-**
New acquisitions	**994**	-	**-**	-
Actual return on plan assets	**9,193**	(1,407)	**-**	-
Employer contribution	**1,521**	2,675	**-**	-
Benefits paid	**(3,098)**	(1,774)	**-**	-
Fair value of plan assets at end of year	**66,814**	59,341	**-**	-
Funded status				
Deficit of plan assets over benefit obligation at end of year	**(8,575)**	(7,846)	**(75,821)**	(30,551)
Unamortised transitional asset	**(8,724)**	(9,750)	**(8,566)**	(9,119)
Unamortised net actuarial loss	**23,221**	21,759	**50,713**	6,772
Unamortised past service cost	**963**	1,076	**-**	-
Accrued benefit asset (liability), included in other assets (liabilities)	**6,885**	5,239	**(33,674)**	(32,898)
Annual benefit expense				
Service cost	**3,900**	1,407	**900**	385
Interest cost	**4,241**	2,119	**1,973**	965
Expected return on plan assets	**(4,650)**	(2,257)	**-**	-
Amortisation of past service cost	**113**	57	**-**	-
Amortisation of actuarial loss	**1,838**	608	**375**	33
Amortisation of transitional asset	**(1,026)**	(513)	**(553)**	(276)
Defined benefit expense	**4,416**	1,421	**2,695**	1,107
Defined contribution expense	**2,508**	1,258	**-**	-
Total benefit expense	**6,924**	2,679	**2,695**	1,107

	Pension Plans		Post-Retirement Medical Benefit Plan	
	31 December 2003	31 December 2002	**31 December 2003**	31 December 2002
Actuarial assumptions				
Year-end discount rate for benefit obligation	**6.00%**	6.50%	**6.25%**	6.50%
Expense discount rate	**6.50%**	7.00%	**6.50%**	7.00%
Long-term rate of return on plan assets	**7.00%**	7.75%	**-**	-
Rate of compensation increases, excluding merit increases	**4.00%**	4.50%	**4.00%**	4.50%
Annual increase in the per capita cost of post-retirement benefits	**-**	-	**12% to 5% over 7 years**	7% to 5% over 2 years

NOTE 10: Assets Under Administration

Securities and properties (other than cash deposits directly with the Bank and its subsidiaries) held in a trust, agency or fiduciary capacity for customers, including mutual funds, are not included in the Consolidated Balance Sheet as they are not the property of the Bank or its subsidiaries. The value of assets under administration at 31 December 2003 was estimated to be $59.8 billion ($46.3 billion at 31 December 2002).

NOTE 11: Guarantees, Commitments and Contingent Liabilities

In February 2003, the CICA issued an accounting guideline on the disclosure of guarantees, which broadens the definition of guarantees and requires substantially expanded disclosure. This new guideline was effective for the Bank this year. As this guideline requires disclosure only, there was no impact on the Consolidated Statement of Income and Consolidated Balance Sheet.

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 2003, the Bank was contingently liable for letters of credit, guarantees and other contracts amounting to $639,971 ($537,789 at 31 December 2002) of which $637,545 was fully collateralised ($527,494 at 31 December 2002). The Bank's commitment for undrawn lines of credit amounted to $475,461 at 31 December 2003 ($340,752 at 31 December 2002). The carrying value of these amounts on the 31 December, 2003 Consolidated Balance Sheet are $Nil.

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 guarantees does not exceed four years. The types and amounts of collateral security held by the Bank for these standby letters of credit and guarantees is generally the same as for loans, which is a charge over assets.

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

NOTE 12: Segmented Information

(a) Operating Segments: For management reporting purposes, the operations of the Bank are grouped into the following nine business segments based upon the geographic location of the Bank's operations: Bermuda (which is further sub-divided based on products and services into Community Banking, Wealth Management & Fiduciary Services and Investment & Pension Fund Administration and Real Estate), Barbados, Cayman, Guernsey, The Bahamas, the United Kingdom, and Hong Kong. Accounting policies of the reportable segments are the same as those described in Note 1.

The Bermuda Community Banking segment provides a full range of retail and corporate services. Retail services are offered to individuals and small to medium sized businesses through five branch locations and through telephone banking, Internet banking, Automated Teller Machines (ATMs) and debit cards. Retail services include deposit services, consumer and mortgage lending, credit cards and personal insurance products. Corporate services include commercial lending and mortgages, cash management, payroll services, remote banking, and letters of credit. Community Banking also includes private banking, treasury operations, Promisant (Technology) Ltd. and the Bank's proportionate share of the assets, liabilities, income and expenses of its joint venture, ProServe Bermuda Limited.

The Bermuda Wealth Management & Fiduciary Services and Investment & Pension Fund Administration segment consists of two main business lines. They are: - Wealth Management & Fiduciary Services which includes Investment Management, Custody, Trust, and Company Administration and related Banking services. Investment & Pension Fund Administration which includes provision of third party administration and accounting services to collective investment and pension schemes.

The Barbados segment provides a range of community and commercial banking services through four branch locations, Automated Teller Machines and debit cards. Services include deposit services, consumer and mortgage lending, credit cards and personal insurance products.

The Cayman segment provides a comprehensive range of community and commercial banking services to private and corporate customers through four branches and through telephone banking, internet banking, Automated Teller Machines and debit cards. They also provide Wealth Management & Fiduciary Services and Investment & Pension Fund Administration Services.

The Guernsey segment provides a broad range of services to private clients and financial institutions including, general banking and treasury services, internet banking, administered bank services, Wealth Management & Fiduciary Services and Investment & Pension Fund Administration Services.

The Bahamas segment provides institutional, corporate and private clients with a wide range of Wealth Management & Fiduciary Services and Investment Fund Administration Services.

The United Kingdom segment provides personalised banking services and internet banking to high net worth individuals and privately owned businesses.

The Hong Kong segment provided Investment & Pension Fund Administration and custody services and includes a 20% share in the net income of Dexia Holding (Hong Kong) Limited. The restricted branch license in Hong Kong was taken over by Dexia in April 2003.

Operating segment information follows:

Total Assets	**31 December 2003**	31 December 2002	30 June 2002
Community Banking	**3,943,163**	3,208,530	2,997,077
Wealth Management & Fiduciary Services and Investment & Pension Fund Administration	**28,889**	20,496	20,140
Real Estate	**52,137**	57,517	57,500
Total Bermuda	**4,024,189**	3,286,543	3,074,717
Barbados	**156,171**	-	-
Cayman	**1,966,954**	1,260,027	1,204,894
Guernsey	**975,095**	934,916	952,586
The Bahamas	**19,202**	-	-
United Kingdom	**536,281**	389,761	357,000
Hong Kong	**1,980**	136,627	148,847
Total	**7,679,872**	6,007,874	5,738,044

Business Area Analysis	Net Interest Income		Provisions for	Fees and	Total	Other	Depreciation &	Total	Net
for the year ended 31 December 2003	Customer	Intersegment	Loan Losses	Other Income	Income	Expenses	Amortisation	Expenses	Income
Community Banking	82,887	(2,251)	(1,730)	34,485	113,391	72,067	6,188	78,255	35,136
Wealth Management & Fiduciary Services and Investment & Pension Fund Administration	-	331	-	42,055	42,386	22,257	574	22,831	19,555
Real Estate	-	(1,157)	-	2,444	1,287	4,770	1,548	6,318	(5,031)
Total Bermuda	82,887	(3,077)	(1,730)	78,984	157,064	99,094	8,310	107,404	49,660
Barbados	408	-	6	366	780	500	85	585	195
Cayman	21,646	2,218	(982)	27,199	50,081	23,459	2,366	25,825	24,256
Guernsey	5,590	1,569	137	21,503	28,799	21,713	4,307	26,020	2,779
The Bahamas	90	-	-	1,329	1,419	1,064	69	1,133	286
United Kingdom	3,991	(709)	149	1,170	4,601	5,434	88	5,522	(921)
Hong Kong	24	(1)	7	582	612	372	1	373	239
Total Overseas	31,749	3,077	(683)	52,149	86,292	52,542	6,916	59,458	26,834
Total Income	114,636	-	(2,413)	131,133	243,356	151,636	15,226	166,862	76,494
less: Inter-segment eliminations (principally rent and management fees)	-	-	-	(5,119)	(5,119)	(5,119)	-	(5,119)	-
Total	114,636	-	(2,413)	126,014	238,237	146,517	15,226	161,743	76,494

Business Area Analysis	Net Interest Income		Provisions for	Fees and	Total	Other	Depreciation &	Total	Net
for the six months ended 31 December 2002	Customer	Intersegment	Loan Losses	Other Income	Income	Expenses	Amortisation	Expenses	Income
Community Banking	39,600	(1,869)	(1,382)	17,904	54,253	31,107	2,659	33,766	20,487
Wealth Management & Fiduciary Services and Investment & Pension Fund Administration	-	117	-	18,663	18,780	12,179	278	12,457	6,323
Real Estate	-	(602)	-	2,517	1,915	2,507	768	3,275	(1,360)
Total Bermuda	39,600	(2,354)	(1,382)	39,084	74,948	45,793	3,705	49,498	25,450
Cayman	9,613	1,050	(450)	11,910	22,123	10,166	1,136	11,302	10,821
Guernsey	2,305	1,470	(94)	9,717	13,398	10,115	1,751	11,866	1,532
United Kingdom	1,770	(181)	(6)	461	2,044	2,104	16	2,120	(76)
Hong Kong	290	15	-	204	509	420	4	424	85
Total Overseas	13,978	2,354	(550)	22,292	38,074	22,805	2,907	25,712	12,362
Sale of subsidiaries	-	-	-	-	-	-	-	-	-
Total Income	53,578	-	(1,932)	61,376	113,022	68,598	6,612	75,210	37,812
less: Inter-segment eliminations (principally rent and management fees)	-	-	-	(2,022)	(2,022)	(2,022)	-	(2,022)	-
Sub-total	53,578	-	(1,932)	59,354	111,000	66,576	6,612	73,188	37,812
Discontinued Operations	118	-	-	-	118	498	-	498	(380)
Total	53,696	-	(1,932)	59,354	111,118	67,074	6,612	73,686	37,432

Business Area Analysis for the year ended 30 June 2002	Net Interest Income Customer	Intersegment	Provisions for Loan Losses	Fees and Other Income	Total Income	Other Expenses	Depreciation & Amortisation	Total Expenses	Net Income
Community Banking	72,939	(2,531)	(1,784)	31,119	99,743	65,414	5,241	70,655	29,088
Wealth Management & Fiduciary Services and Investment & Pension Fund Administration	-	185	-	37,308	37,493	26,596	510	27,106	10,387
Real Estate	-	(1,231)	-	8,656	7,425	4,829	1,627	6,456	969
Total Bermuda	72,939	(3,577)	(1,784)	77,083	144,661	96,839	7,378	104,217	40,444
Cayman	17,932	1,204	(200)	21,193	40,129	19,953	2,236	22,189	17,940
Guernsey	4,331	2,951	(174)	18,124	25,232	17,994	2,820	20,814	4,418
United Kingdom	3,556	(608)	-	834	3,782	3,599	29	3,628	154
Hong Kong	638	30	(1)	6,223	6,890	5,239	204	5,443	1,447
Total Overseas	26,457	3,577	(375)	46,374	76,033	46,785	5,289	52,074	23,959
Sale of subsidiaries	-	-	-	17,013	17,013	-	-	-	17,013
Total Income	99,396	-	(2,159)	140,470	237,707	143,624	12,667	156,291	81,416
less: Inter-segment eliminations (principally rent and management fees)	-	-	-	(14,135)	(14,135)	(14,135)	-	(14,135)	-
Sub-total	99,396	-	(2,159)	126,335	223,572	129,489	12,667	142,156	81,416
Discontinued Operations	422	-	-	1,155	1,577	704	-	704	873
Total	99,818	-	(2,159)	127,490	225,149	130,193	12,667	142,860	82,289

For the year ended 31 December 2003, included within other expenses are the following income tax expense/(refund) amounts: Guernsey, $908, UK $(435) and Barbados $22. The respective amounts for the six months ended 31 December 2002 were: Guernsey $(1,183) and UK $3. Transactions between operating segments principally include interbank deposits and rent which are recorded based upon market rates, and management fees, which are recorded based on the cost of the services provided.

(b) Revenues by Products and Services: The principal sources of revenues by products and services are disclosed separately in the Consolidated Statement of Income.

NOTE 13: Derivative Financial Instruments

(a) Derivative Products used by the Bank: The Bank's derivative contracts principally involve over-the-counter transactions that are privately negotiated between the Bank and the counterparty to the contract.

The Bank uses various off-balance sheet derivative contracts in the management of its asset and liability positions, for trading purposes and as a market maker for its clients' needs. The Bank enters into foreign exchange contracts for both asset/liability management and as a market maker for its clients' needs. Interest rate contracts are used for trading and asset/liability management purposes. Purchased option contracts on interest rates are used for asset/liability management purposes. These contracts are financial instruments, the value of which is derived from underlying assets or interest and exchange rates. Such financial instruments used by the Bank include:

Interest Rate Swaps

Interest rate swaps are financial transactions in which two counterparties exchange fixed or floating interest cash flows over a period of time based on rates applied to defined notional principal amounts.

Foreign Exchange Contracts

Foreign exchange forward contracts are transactions in which an amount of one currency is purchased or sold in exchange for the delivery of another amount of a second currency, at a specified future date or range of dates. Spot transactions are similar to forward contracts except that settlement takes place within two business days.

Forward Rate Agreements

A forward rate agreement is a contract under which two counterparties agree on the interest to be paid on a notional deposit of a specified maturity at a specific future settlement date. There is no exchange of principal.

(b) Notional Amounts: The following table provides the aggregate notional amounts of derivative contracts outstanding listed by type and divided between those used for trading and those used in managing the exposure to risk inherent in the Bank's asset/liability risk management (ALM) positions. Trading involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. ALM activities may include the use of interest rate swaps and forward rate agreements to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of existing assets and liabilities. 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.

			31 December 2003			31 December 2002
	Trading	**ALM**	**Total Value**	Trading	ALM	Total Value
Interest Rate Contracts						
Over-the-Counter Traded						
Interest rate swaps	**171,000**	**635,982**	**806,982**	-	381,503	381,503
Forward rate agreements	**-**	**-**	**-**	-	150,000	150,000
Purchased options	**33,000**	**-**	**33,000**	-	-	-
Total	**204,000**	**635,982**	**839,982**	-	531,503	531,503
Foreign Exchange Contracts						
Spot and forwards	**1,241,367**	**1,770**	**1,243,137**	656,387	29,831	686,218
Total	**1,241,367**	**1,770**	**1,243,137**	656,387	29,831	686,218
Total Notional Amount of Financial Derivatives Outstanding	**1,445,367**	**637,752**	**2,083,119**	656,387	561,334	1,217,721

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

The following table shows the marked to market fair value of all derivative contracts outstanding. This is defined as the profit (loss) associated with replacing the derivative contracts at prevailing market prices.

			31 December 2003			31 December 2002
	Positive	**Negative**	**Net**	Positive	Negative	Net
Derivative Financial Instruments						
Interest rate swaps	**13,376**	**3,898**	**9,478**	19,261	2,365	16,896
Purchased options	**592**	**479**	**113**	-	-	-
Spot and forward foreign exchange	**19,694**	**19,153**	**541**	-	93	(93)
Forward rate agreements	**-**	**-**	**-**	10,673	10,759	(86)
Total	**33,662**	**23,530**	**10,132**	29,934	13,217	16,717

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

31 December 2003	**0-6 mths**	**6-12 mths**	**1-3 years**	**3-5 years**	**5-10 years**	**Total**
Interest Rate Contracts						
Interest rate swaps	**167,980**	**93,571**	**371,156**	**154,667**	**19,608**	**806,982**
Purchased options	**-**	**-**	**-**	**33,000**	**-**	**33,000**
Sub-total	**167,980**	**93,571**	**371,156**	**187,667**	**19,608**	**839,982**
Foreign Exchange Contracts						
Spot and forwards	**1,140,298**	**92,610**	**10,229**	**-**	**-**	**1,243,137**
Sub-total	**1,140,298**	**92,610**	**10,229**	**-**	**-**	**1,243,137**
Total by Remaining Maturity	**1,308,278**	**186,181**	**381,385**	**187,667**	**19,608**	**2,083,119**

31 December 2002	0-6 mths	6-12 mths	1-3 years	3-5 years	5-10 years	Total
Interest Rate Contracts						
Interest rate swaps	18,473	28,900	233,502	89,222	11,406	381,503
Forward rate agreements	150,000	-	-	-	-	150,000
Sub-total	168,473	28,900	233,502	89,222	11,406	531,503
Foreign Exchange Contracts						
Spot and forwards	641,571	44,616	31	-	-	686,218
Sub-total	641,571	44,616	31	-	-	686,218
Total by Remaining Maturity	810,044	73,516	233,533	89,222	11,406	1,217,721

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

			31 December 2003			31 December 2002
	Trading	**ALM**	**Total Value**	Trading	ALM	Total Value
Interest Rate Contracts						
Interest rate swaps	**-**	**13,376**	**13,376**	-	19,261	19,261
Purchased options	**592**	**-**	**592**	-	-	-
Sub-total	**592**	**13,376**	**13,968**	-	19,261	19,261
Foreign Exchange Contracts						
Spot and forwards	**19,694**	**-**	**19,694**	10,667	6	10,673
Total Replacement Cost	**20,286**	**13,376**	**33,662**	10,667	19,267	29,934

(f) Credit Risk: As with on-balance sheet assets, derivative instruments are subject to credit risk. Credit risk arises from the possibility that counterparties may default on their obligations to the Bank. However, whereas the credit risk of on-balance sheet assets is represented by the principal amount net of any applicable allowance for credit losses, the credit risk associated with derivatives is normally a small fraction of the notional amount of the derivative instrument. Derivative contracts expose the Bank to credit loss only if changes in market rates affect a counterparty's position unfavourably and the counterparty defaults on payment. Accordingly, credit risk of derivatives is represented by the replacement value of the instrument.

Negotiated over-the-counter derivatives often present greater credit exposure than exchange-traded contracts. The net change in value of the exchange-traded contracts is normally settled daily in cash with the exchange. Holders of these contracts look to the exchange for performance under the contract. The Bank strives to limit credit risk by dealing with counterparties that it believes are creditworthy, and manages its credit risk for derivatives through the same credit risk process applied to on-balance sheet assets.

The Bank pursues opportunities to reduce its exposure to credit losses on derivative instruments. These opportunities include entering into master netting arrangements with counterparties. The Bank negotiates master netting arrangements with counterparties with which it has significant credit risk through derivatives activities. Such agreements provide for the simultaneous close out and netting of all transactions with a counterparty in an event of default. An increasing number of these agreements also provide for the exchange of collateral between parties in the event that the marked to market value of outstanding transactions between the parties exceeds an agreed threshold. Such agreements are used to accommodate business with less creditworthy counterparties, as well as to help contain the build up of credit exposure resulting from multiple deals with more active counterparties.

NOTE 14: Fair Value of Financial Instruments

The following table shows the fair value of the Bank's financial instruments:

			31 December 2003			31 December 2002
	Book Value	**Fair Value**	**Favourable (Unfavourable)**	Book Value	Fair Value	Favourable (Unfavourable)
Assets						
Cash and deposits with banks	**3,035,944**	**3,035,944**	**-**	1,989,159	1,989,159	-
Investments	**2,503,337**	**2,506,159**	**2,822**	2,073,112	2,079,285	6,173
Loans	**1,935,764**	**1,938,592**	**2,828**	1,767,088	1,772,578	5,490
Accrued interest	**22,352**	**22,352**	**-**	21,313	21,313	-
Liabilities						
Deposits	**7,065,108**	**7,075,159**	**(10,051)**	5,516,216	5,526,625	(10,409)
Accrued interest	**7,218**	**7,218**	**-**	7,998	7,998	-
Subordinated debt capital	**125,000**	**121,750**	**3,250**	75,000	74,777	223
Derivative Financial Instruments						
Interest rate swaps	**1,410**	**9,478**	**8,068**	2,133	16,896	14,763
Options	**113**	**113**	**-**	-	-	-
Forward rate agreements	**-**	**-**	**-**	-	(93)	(93)
Spot and forwards	**541**	**541**	**-**	(86)	(86)	-

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Some of the Bank's financial instruments lack an available trading market. Therefore, these instruments have been valued using present value or other valuation techniques and may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The book value of financial assets and financial liabilities held for purposes other than trading may exceed their fair value due primarily to changes in interest rates. In such instances, the Bank does not reduce the book value of these financial assets and financial liabilities to their fair values as it is the Bank's intention to hold them until maturity. The fair values disclosed exclude premises and equipment and certain other assets and liabilities as these are not financial instruments.

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 based upon quoted market prices where available.

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

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

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

Securities Sold Under Agreements to Repurchase: The fair value of obligations relating to securities sold under repurchase agreements is considered to be equal to the carrying value given their short-term nature.

Subordinated Debt Capital: The fair value of the subordinated debt capital is based on current market pricing.

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

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

NOTE 15: Interest Rate Risk

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.

At 31 December 2003 (In $ millions)	Within 3 mths	After 3 mths but within 6 mths	After 6 mths but within 1 year	After 1 year but within 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash and deposits with banks	2,585	271	131	24	-	25	3,036
Investments	2,129	31	42	210	74	17	2,503
Loans	1,806	6	19	74	17	14	1,936
Land, buildings and equipment	-	-	-	-	-	101	101
Other assets	-	-	-	-	-	104	104
Total Assets	6,520	308	192	308	91	261	7,680
Liabilities							
Shareholders' equity	-	-	-	-	-	395	395
Deposits	5,393	251	101	249	-	1,071	7,065
Other liabilities	-	-	-	-	-	95	95
Subordinated debt capital	-	-	-	-	125	-	125
Total Liabilities	5,393	251	101	249	125	1,561	7,680
Off-balance sheet items	(545)	(5)	54	516	(20)	-	-
Interest rate sensitivity gap	582	52	145	575	(54)	(1,300)	-
Cumulative interest rate sensitivity gap	582	634	779	1,354	1,300	-	-

NOTE 16: Concentrations of Credit Risk

Concentrations of credit risk exist where clients are engaged in similar activities, are located in the same geographic region or have some other form of commonality such that their ability to meet their contractual obligations would be similarly affected by changes in economic, political or other conditions.

Of the total interest earning assets of $7.48 billion at 31 December 2003 ($5.79 billion at 31 December 2002, 14% (16.6% at 31 December 2002) relates to the Bermuda market, 3.8% (3.1% at 31 December 2002) relates to the Canadian market, 4.7% relates to the Australian market, 16.1% (21.3% at 31 December 2002) relates to the United Kingdom market and 46.9% (40.0% at 31 December 2002) relates to the United States market. No other country accounts for more than 5% of interest earning assets.

Of the total loan book which amounted to $1.94 billion at 31 December 2003 ($1.77 billion at 31 December 2002) 74.4% (76.5% at 31 December 2002) of the lending was from Bermuda, 8.7% (9.2% at 31 December 2002) from Europe, and 13.7% (14.3% at 31 December 2002) from Cayman.

NOTE 17: Subordinated Debt Capital

On 27 May 2003 the Bank issued US$125 million of Subordinated Lower Tier II capital notes. The notes were issued in two tranches, namely US$78 million in Series A notes due 2013 and US$47 million in Series B notes due 2018. The issuance was by way of private placement with US institutional investors. The Notes are listed on The Bermuda Stock Exchange in the specialist debt securities category. Part proceeds of the issue was used to repay the entire amount of the US$75 million outstanding subordinated notes which were redeemed in July 2003.

The notes issued under Series A pay a fixed coupon of 3.94%, payable semi-annually in arrears, until 27 May 2008 when they become redeemable in whole at the option of the Bank. The Series B notes pay a fixed coupon of 5.15%, payable semi-annually in arrears, until 27 May 2013 when they also become redeemable in whole at the Bank's option. The Series A notes were priced at a spread of 1.25% over the 5-year US Treasury yield and the Series B notes were priced at a spread of 1.35% over the 10-year US Treasury yield.

NOTE 18: Stock Option Plan

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

Under the Bank's 1997 Stock Option Plan (the 1997 Plan), options to purchase common shares of the Bank may be granted to employees and directors of the Bank that entitle the holder to purchase one common share at a subscription price related to the market value prior to the effective date of the grant. Subscription prices are stated and payable at a price related to the market value prior to the effective date of the grant. Subscription prices are stated and payable in Bermuda dollars for the options. Generally, grants vest 25 percent at the end of each year for four years. The committee that administers the 1997 Plan has the discretion to vary the period during which the holder has the right to exercise options and, in certain circumstances, may accelerate the right of the holder to exercise options, but in no case shall the exercise period exceed ten years. The Bank has established a Stock Option Trust to meet its potential obligations under the 1997 Plan by the purchase on the open market of common shares. The Stock Option Trust is funded by a loan from the Bank. As at 31 December 2003 the Stock Option Trust held 1,692,698 shares (at 31 December 2002: 1,839,743 shares) that will be used to satisfy the Bank's obligations with respect to the Stock Option Plan.

The current maximum number of common shares reserved for issuance by the Board of Directors of the Company under the 1997 Plan is 2,200,000.

Directors' and Executive Officers' Stock Option Plan

	Number of Stock Options	**31 December 2003 Weighted Average Exercise Price ($)**	Number of Stock Options	31 December 2002 Weighted Average Exercise Price ($)	Number of Stock Options	30 June 2002 Weighted Average Exercise Price ($)
Outstanding at beginning of year	**323,689**	**20.63**	306,390	16.73	236,846	14.91
Granted	**69,443**	**29.18**	88,345	29.35	91,841	24.10
Stock dividend granted	**35,800**	**22.35**	-	-	24,840	-
Exercised	**43,461**	**15.04**	71,046	14.67	47,137	13.49
Outstanding at end of year	**385,471**	**22.96**	323,689	20.63	306,390	16.73
Vested and exercisable at end of year	**217,931**	**18.96**	194,369	17.15	218,890	15.85

Characteristics of Options Granted to Directors and Executive Officers as at 31 December 2003

	Outstanding			**Exercisable**	
Exercise Price Range	**Number of shares**	**Weighted Average Life Remaining**	**Weighted Average Exercise Price ($)**	**Number of shares**	**Weighted Average Exercise Price ($)**
9.80 - 14.54	**103,482**	**5.8**	**13.47**	**94,407**	**13.47**
14.55 - 19.29	**36,300**	**4.5**	**14.79**	**36,300**	**14.79**
24.05 - 28.78	**142,193**	**9.0**	**26.48**	**68,507**	**25.69**
28.79 - 33.50	**99,113**	**7.3**	**30.21**	**18,717**	**30.17**
33.51 - 38.25	**3,300**	**4.8**	**35.05**	**-**	**-**
38.26 - 43.00	**1,083**	**5.0**	**40.55**	**-**	**-**
Total	**385,471**	**7.2**	**22.96**	**217,931**	**18.96**

Employees Stock Option Plan

	Number of Stock Options	31 December 2003 Weighted Average Exercise Price ($)	Number of Stock Options	31 December 2002 Weighted Average Exercise Price ($)	Number of Stock Options	30 June 2002 Weighted Average Exercise Price ($)
Outstanding at beginning of year	**1,061,111**	**22.09**	900,737	17.85	1,001,513	14.94
Granted	**159,305**	**27.82**	336,368	30.17	366,674	25.66
Stock dividend granted	**110,396**	**23.41**	-	-	96,774	-
Exercised	**274,143**	**16.93**	151,988	14.68	440,148	13.51
Forfeited/Cancelled	**72,030**	**26.43**	24,006	23.55	124,076	18.22
Outstanding at end of year	**984,639**	**24.28**	1,061,111	22.09	900,737	17.85
Vested and exercisable at end of year	**421,316**	**20.96**	378,644	16.94	300,020	14.51

Characteristics of Options Granted to Employees as at 31 December 2003

	Outstanding			Exercisable	
Exercise Price Range	**Number of shares**	**Weighted Average Life Remaining**	**Weighted Average Exercise Price ($)**	**Number of shares**	**Weighted Average Exercise Price ($)**
9.80 - 14.54	**224,728**	**6.2**	**13.52**	**167,361**	**13.53**
14.55 - 19.29	**35,292**	**4.5**	**14.79**	**35,292**	**14.79**
24.05 - 28.78	**410,723**	**8.7**	**26.48**	**121,112**	**25.62**
28.79 - 33.50	**313,897**	**4.0**	**30.18**	**97,551**	**30.18**
33.51 - 38.25	**-**	**-**	**-**	**-**	**-**
38.26 - 43.00	**-**	**-**	**-**	**-**	**-**
Total	**984,640**	**6.5**	**24.28**	**421,316**	**20.96**

The weighted average fair value of stock options granted in the year ended 31 December 2003 was $3.91 per share, using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year Ended 31 December 2003
Dividend yield	**4.57%**
Risk free interest rate	**3.71%**
Historical volatility	**21%**
Expected lives	**9.43 years**

Had compensation cost been determined based on the fair value of the stock option awards at the date of grant, net income and earnings per share would have been reduced to the pro-forma amounts shown below:

(In BD$ thousands, except per share data)

	Year Ended 31 December 2003
Net income as reported	**76,494**
Net income – pro-forma	**74,139**
Earnings per share – as reported (basic)	**3.73**
Earnings per share – pro-forma (basic)	**3.61**

The amount credited to the loan to the Stock Option Trust for the period is $5,391.

NOTE 19: Discontinued Operations

In 1997 the Bank adopted a formal plan to cease operations at its London Branch, and to exit the trade finance business in the United Kingdom. The negative earnings for the six months ended 31 December 2002 reflects an increase in the provision in respect of the Bank's leasehold obligations, which expire in September 2005, net of recoveries of loans previously written off.

NOTE 20: Share Buy-Back Plan

In 2000 the Bank recommenced its initiative under the Share Buy-Back Plan. During the year under review, 378,994 shares (990,300 shares for the six months ended 31 December 2002; 287,521 shares for the year ended 30 June 2002) were purchased and cancelled at a cost of $13,190 ($31,254 for the six months ended 31 December 2002; $9,130 for the year ended 30 June 2002).

The Board of Directors of the Bank has the present intention to repurchase over the twelve month period commencing 1 July 2003 up to 2 million of its ordinary shares of par value $1 each pursuant to its share repurchase programme authorised by shareholders on 29 October 1997. As at 31 December 2003, 1,785,879 shares could be repurchased under the current intention, representing 8% of the total issued shares of the Bank. The Directors consider that share repurchase is an excellent means of enhancing shareholder value while increasing earnings per share. This intention is subject to appropriate market conditions and repurchases will only be made in the best interests of the Bank.

From time to time the Bank's associates, insiders, and insiders' associates as defined in The Bermuda Stock Exchange (BSX) Regulations may sell shares which may result in such shares being repurchased pursuant to the programme, but under BSX Regulations such trades must not be pre-arranged and all repurchases must be made in the open market. Prices paid by the Bank must not, according to BSX Regulations, be higher than the last independent trade.

The Bank advises the BSX monthly of shares repurchased and cancelled.

NOTE 21: Dividend Re-investment and Common Stock Purchase Plans

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

NOTE 22: Stock Dividends

In August 2003 and August 2001 the Bank distributed 10% stock dividends to shareholders of record on 5 August 2003 and 14 August 2001 respectively. All prior period per share amounts have been restated to reflect those stock dividends.

NOTE 23: Subsequent Events

On 30 January 2004, the Bank acquired the entire issued share capital of Deerfield Fund Services Limited of The Bahamas. The company provides a full range of valuation, accounting, corporate and shareholder services to offshore hedge funds and mutual funds. The acquisition was accounted for using the purchase method and total consideration was paid in cash. The name of the company is to be changed to Butterfield Fund Services (Bahamas) Limited in 2004.

On 5 February 2004, the Bank announced that Bank of Butterfield (UK) plc has made a cash offer for the entire and to be issued share capital of Leopold Joseph Holdings plc. subject to Leopold Joseph shareholder and appropriate regulatory approvals. The cash offer is £9.50 in cash per Leopold Joseph share, valuing the existing issued share capital of Leopold Joseph at approximately £51.5 million ($94.5 million). The offer price, which has the unanimous recommendation of the directors of Leopold Joseph Holdings plc, represents a premium of 11.1% to the closing price of £8.55 per share on 4 February 2004, being the last business day prior to the announcement of the offer. As an alternative to some or all of the cash consideration under the offer Leopold Joseph shareholders, other than restricted non-United Kingdom persons, who accept the offer may elect to receive loan notes to be issued by Bank of Butterfield (UK) plc and guaranteed by the Bank on the basis of £1.00 nominal per loan note for every £1.00 of cash consideration. The loan notes have a maximum term of five years, pay interest at 3 month LIBOR less 0.5% on a quarterly basis and may be redeemed at par together with accrued interest on 30 June 2005 and on any subsequent interest payment date thereafter. Leopold Joseph was founded in 1919 and is headquartered in London with wholly owned subsidiary operations based in the United Kingdom and Guernsey. Leopold Joseph offers banking, treasury, investment management, offshore company administration and trust services to companies and high net worth individuals and families. At 31 August 2003, the company had 121 full time equivalent employees and at its last financial year-end, 31 March 2003, it had £503 million in total assets ($923 million).

PRINCIPAL GROUP COMPANIES

This list does not include all companies in the Group. It includes all companies that materially contribute to the profit or loss or assets of the Group.

The Bank of N.T. Butterfield & Son Limited
Bermuda
Holding company, banking, credit and treasury services

Butterfield Asset Management Limited
Bermuda
Investment management and capital market services

Butterfield Fund Services (Bermuda) Limited
Bermuda
Investment & pension fund administration services

Butterfield Trust (Bermuda) Limited
Bermuda
Trust & private banking services

Butterfield Vencap Limited
Bermuda
Investment holding

Field Real Estate Holdings Limited
Bermuda
Real estate holding

Promisant (Technology) Ltd.
Bermuda
Multi-currency payment processing

Bank of Butterfield (Bahamas) Limited
The Bahamas
Private banking, treasury, wealth management & fiduciary services and investment fund administration services

The Mutual Bank of the Caribbean Inc.
to be renamed Bank of Butterfield (Barbados) Limited
Barbados
Banking, credit and treasury services

Bank of Butterfield International (Cayman) Ltd.
Cayman Islands
Banking, credit, treasury, wealth management & fiduciary services and investment & pension fund administration services

Bank of Butterfield International (Guernsey) Limited
Guernsey
Private banking, treasury and wealth management

Butterfield Fund Managers (Guernsey) Limited
Guernsey
Investment & pension fund administration services

Butterfield Trust (Guernsey) Limited
Guernsey
Fiduciary services

Bank of Butterfield (UK) plc
United Kingdom
Banking, credit and treasury services

MANAGEMENT

Alan R. Thompson
President & Chief Executive Officer

Graham C. Brooks, ACIB
Executive Vice President, International & Trust

C. Wendell Emery, MBE, JP
Executive Vice President, Operations & Information Technology

Richard J. Ferrett, ACIB, MCT
Executive Vice President & Chief Financial Officer

William P. Aston
Senior Vice President & Chief Information Officer

Donna E. Harvey Maybury
Senior Vice President, Human Resources

Michael A. McWatt
Senior Vice President, Credit Risk Management

Michael O'Mahoney
Senior Vice President, Treasury

Peter J. M. Rodger
Senior Vice President & Group Legal Adviser, Secretary to the Board

Ronald E. Simmons, CPA
Senior Vice President & Chief Accountant

James R. Stewart, CPA
Senior Vice President, Enterprise Risk Management

Fred H. Tesch, CPA, CFE, CCP, CFSA
Senior Vice President, Group Internal Audit

Lloyd O. Wiggan
Senior Vice President, Retail Banking

Bob W. Wilson, ACIB
Senior Vice President, Corporate Banking

BOARD OF DIRECTORS & PRINCIPAL BOARD COMMITTEES

2
James A. C. King, MD, FRCS(C), FACS, JP, Chairman
Chairman, KeyTech Ltd.
Chairman, Argus Insurance Co. Ltd.

1, 3
Robert J. Stewart, FCIS, LL.B, Vice Chairman
Chairman, Island Circle Limited, Bermuda
Director, Shell Trust (Bermuda) Limited

J. Christopher Astwood, OBE, JP
Chairman, J.B. Astwood & Son Ltd.
Deputy Chairman, Argus Insurance Co. Ltd.
Retired from the Board 15 January 2004

3
Geoffrey R. Bell, QC, FCIArb.
Senior Counsel, Appleby, Spurling & Kempe

2, 4
Arlene Brock, LL.B, LL.M
Lawyer / Mediator
Director, BELCO Holdings Limited
Director, Bermuda Electric Light Co. Ltd.

2, 5
Brian Duperreault
Chairman & Chief Executive Officer,
ACE Limited

1, 2
Roderick A. Ferguson III, JP
Chairman, Gorham's Ltd.
Chairman, Purvis Ltd.
Director, KeyTech Ltd.

5
A.L. Vincent Ingham, JP, P.Eng.
Executive Vice President & Chief Operating Officer, BELCO Holdings Limited
Director, BELCO Holdings Limited
Elected to the Board 8 April 2003

3, 5
Sheila G. Manderson
Chief Executive Officer, KeyTech Ltd.

1, 2
Robert A. Mulderig
Chairman, Woodmont Management Ltd.
Chairman, Woodmont Trust Company Ltd.

1
Robert Steinhoff, FCA
Retired Senior Partner,
KPMG, Chartered Accountants
Chairman, Insurance Advisory Committee
Elected to the Board 16 January 2004

3,4
Alan R. Thompson*
President & Chief Executive Officer,
The Bank of N. T. Butterfield & Son Limited

4,5
Glenn M. Titterton, ACII
Chartered Insurer
President & Chief Executive Officer
BF&M Insurance Group

1,4
Harry Wilken, CA*
President, Jardine Matheson
International Services Limited

John R. Wright, FIB, FCIOBS*
Retired Bank Chief Executive

* Directors are Bermudian except where marked

Principal Board Committees
1 Audit & Compliance Committee
2 Risk Policy Committee
3 Corporate Governance Committee
4 Scholarship Committee
5 Human Resources Committee

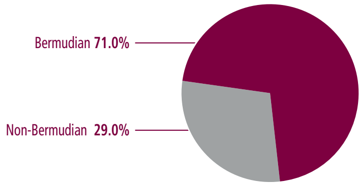
Directors' Code of Practice

The Directors have adopted a Code of Best Practice based upon United Kingdom recommended principles of corporate governance. In implementing the code, the Board meets regularly, retains full effective control over the Bank, and monitors executive management.

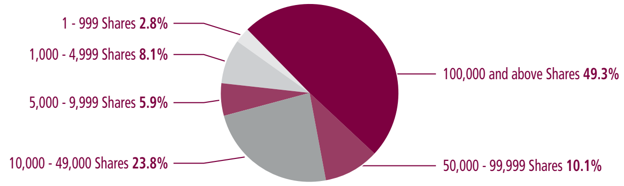
Directors' and Executive Officers' Share Interests and Directors' Service Contracts

Pursuant to Regulation 6.8(3) of section IIA of the Bermuda Stock Exchange Listing Regulations, the total interests of all Directors and Executive Officers of the Bank in the shares of the Bank as at 31 December 2003 were 632,604 shares. With the exception of those participating in the Shareholders' Dividend Reinvestment Plan or the Stock Option Plan, no rights to subscribe for shares in the Bank have been granted to or exercised by any Director or Officer. None of the Directors or Executive Officers had any interest in any debt securities issued by the Bank or its subsidiaries.

There are no service contracts with Directors, except for Alan R. Thompson, President & Chief Executive Officer, whose contract expires on 28 January 2006.



Split of Share Ownership Bermudian/Non-Bermudian



Distribution of Shares by Number Held

SHAREHOLDER INFORMATION

Dividend Payment
Payment of dividends is quarterly, occurring in November, February, May and August.

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

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

Cayman Islands (Secondary Listing)
Elizabethan Square, 4th Floor,
P.O. Box 2408 GT, Grand Cayman,
Cayman Islands
Telephone: (345) 945-6060
Fax: (345) 945-6061

Share Dealing Service
Butterfield Securities
(Bermuda) Limited
65 Front Street
Hamilton, Bermuda
Telephone: (441) 299-3972
Fax: (441) 296-8867

Share Price
Published daily in The Royal Gazette in Bermuda and available on Bloomberg Financial Markets (symbol: NTB BH). Also available on the BSX web site (www.bsx.com).

Dividend Reinvestment Plan
Details are available from Butterfield Fund Services (Bermuda) Limited.
Certain restrictions apply.

Registrar and Transfer Agent
Butterfield Fund Services
(Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, Bermuda
Telephone: (441) 298-6464
Fax: (441) 295-6759
E-mail: contact@bntb.bm

Head Office
The Bank of N. T. Butterfield
& Son Limited
65 Front Street
Hamilton, Bermuda
Telephone: (441) 295-1111
Fax: (441) 292-4365
E-mail: contact@bntb.bm

Mailing Address
P. O. Box HM 195
Hamilton HM AX, Bermuda
www.bankofbutterfield.com

Media Relations/
Publication Requests
Marketing & Communications
Telephone: (441) 299-3886
E-mail: contact@bntb.bm

Investor Relations
Chief Financial Officer
Telephone: (441) 299-1643
E-mail: richardferrett@bntb.bm

Written Notice of Share Repurchase Programme BSX Regulation 6.38

The Board of Directors of the Bank announced the intention to repurchase over the 12 month period commencing 1 July 2003, up to 2,000,000 of its ordinary shares of par value $1 each pursuant to its share repurchase programme authorised by shareholders on 29 October, 1997.

As at 31 December, 2003, 1,785,879 shares could be repurchased under this intention, which represents 8.0% of total issued shares of the Bank. This intention is subject to appropriate market conditions and repurchases will only be made in the best interests of the Bank. The Directors consider that share repurchase is an excellent means of enhancing shareholder value while increasing earnings per share.

Shares repurchased and cancelled in the 12 months to 31 December 2003 totalled 378,994 at an average price of $34.77 and aggregate cost of $13.2 million.

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

The Bank will continue to advise the BSX monthly of shares repurchased and cancelled.

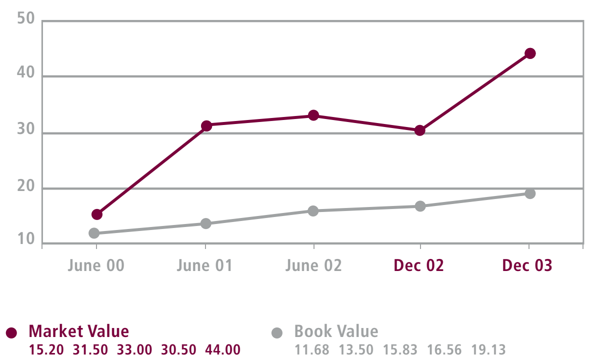
Large Shareholders

The following professional nominees at 31 December 2003 were registered holders of 5% or more of the issued share capital: Harcourt & Co. (16.2%) and Murdoch & Co. (5.3%).

Known beneficial holdings of 5% or more of issued share capital, at that date, were: the Bank's Stock Option Trust (7.6%); Jardine Strategic Holdings Limited (6.3%); and Bermuda Life Insurance Company Limited (6.3%).

Market Price per Share 1 January 2003 to 31 December 2003 ($)

Market Value & Net Book Value per Share ($)



2000-2002 Values Restated for Stock Dividends

PRINCIPAL BERMUDA OFFICES & SUBSIDIARIES

HEAD OFFICE
The Bank of N.T. Butterfield & Son Limited
President & CEO: Alan R. Thompson
65 Front Street, Hamilton HM 12, Bermuda
Tel: (441) 295-1111
Fax: (441) 292-4365
S.W.I.F.T.: BNTB BM HM
E-mail: contact@bntb.bm
www.bankofbutterfield.com

MAILING ADDRESS
P.O. Box HM 195
Hamilton HM AX
Bermuda

DOMESTIC SUBSIDIARIES

Butterfield Asset Management Limited
Managing Director: Ian M. Coulman
65 Front Street, Hamilton HM 12, Bermuda
Tel: (441) 299-3817
Fax: (441) 292-9947
E-mail: contact@bntb.bm
www.bam.bm

Butterfield Fund Services (Bermuda) Limited
Managing Director: Andrew R. Collins
Rosebank Centre
11 Bermudiana Road, Pembroke, Bermuda
Tel: (441) 298-6464
Fax: (441) 295-6759
E-mail: contact@bntb.bm

Butterfield Trust (Bermuda) Limited
Managing Director: Sheila M. Brown
65 Front Street, Hamilton HM 12, Bermuda
Tel: (441) 299-3980
Fax: (441) 292-1258
E-mail: contact@bntb.bm

Promisant (Technology) Ltd.
Managing Director: Michael J. Preuss
Park Place, 55 Par-La-Ville Rd.
Hamilton HM 11, Bermuda
Tel: (441) 299-1341
Fax: (441) 296-6562
E-mail: corporate@promisant.com
www.promisant.com

PRINCIPAL OVERSEAS OFFICES & SUBSIDIARIES

THE BAHAMAS
Bank of Butterfield (Bahamas) Limited
Managing Director: Robert V. Lotmore
Montague Sterling Centre
East Bay Street
P.O. Box N-3242
Nassau, Bahamas
Tel: (242) 393-8622
Fax: (242) 393-3772
E-mail: info@bankofbutterfield.bs

BARBADOS
The Mutual Bank of the Caribbean Inc.*
General Manager & Director: Clenell H. Goodman
The Mutual Building
1 Beckwith Place, Lower Broad Street
Bridgetown, Barbados
Tel: (246) 431-4500
Fax: (246) 430-0222
E-mail: contact@bankofbutterfield.bb
*to be renamed Bank of Butterfield (Barbados) Limited

Butterfield (Barbados) Limited
Vice President: Caroline J. Prow
Belleville Corporate Centre
38 Pine Road, Belleville
St. Michael, Barbados
Tel: (246) 430-1650
Fax: (246) 436-7999
E-mail: carolineprow@butterfield.bb

CAYMAN ISLANDS
Bank of Butterfield International (Cayman) Ltd.
Managing Director: Conor J. O'Dea
Butterfield House, 68 Fort Street
P.O. Box 705 GT
George Town, Grand Cayman
Cayman Islands
Tel: (345) 949-7055
Fax: (345) 949-7004
E-mail: info@bankofbutterfield.ky
www.bankofbutterfield.ky

GUERNSEY
Bank of Butterfield International (Guernsey) Limited
Managing Director: Robert S. Moore
P. O. Box 25 Roseneath
The Grange, St. Peter Port
Guernsey GY1 3AP
Channel Islands
Tel: (01481) 711521
Fax: (01481) 714533
E-mail: info@butterfield.gg
www.bankofbutterfield.gg

Butterfield Fund Managers (Guernsey) Limited
Managing Director: Patrick A.S. Firth
P. O. Box 211
La Tonnelle House, Les Banques
Stv Sampsons
Guernsey GY2 4BF
Channel Islands
Tel: (01481) 720321
Fax: (01481) 716117
E-mail: info@butterfield.gg
www.bankofbutterfield.gg

Butterfield Trust (Guernsey) Limited
Managing Director: Paul D.H. Hodgson
P. O. Box 25 Roseneath
The Grange, St. Peter Port
Guernsey GY1 3AP
Channel Islands
Tel: (01481) 711521
Fax: (01481) 714533
E-mail: info@butterfield.gg
www.bankofbutterfield.gg

UNITED KINGDOM
Bank of Butterfield (UK) plc
Managing Director: Paul A. Turtle
St Helen's
1 Undershaft, London EC3A 8JX
United Kingdom
Tel: 020 7816 8300
Fax: 020 7816 8306
E-mail: info@bankofbutterfield.co.uk
www.bankofbutterfield.co.uk