ANNUAL REPORT | 2004

BERMUDA | BAHAMAS | BARBADOS | CAYMAN ISLANDS | GUERNSEY | UNITED KINGDOM

Butterfield Bank

Performance Highlights

For the year ended 31 December 2004

Net income $90.5 million
Up from $70.8 million in 2003

Return on Equity 21.2%
Up from 17.9% in 2003

Diluted Earnings Per Share $3.86
Up from $3.07 in 2003

Acquisitions:

The Bahamas
Deerfield Fund Services Limited
February 2004

Bermuda
Grosvenor Trust Company Limited
October 2004

UK & Guernsey
Leopold Joseph Holdings plc
April 2004

Awards:

Bank of the Year 2004

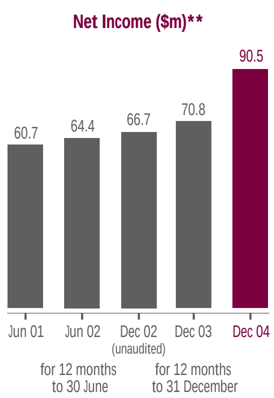
The Banker
Bank of the Year 2004

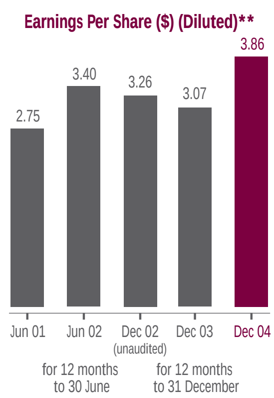
Awarded by *The Banker* magazine
to Butterfield Bank in Bermuda
and the Cayman Islands, September 2004

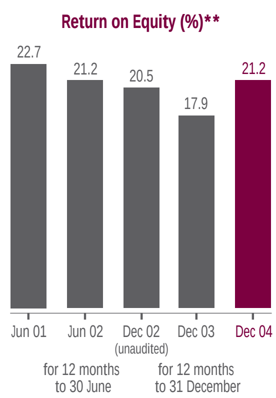
Contents

(In $ thousands except share data)	**Year ended** 31 December 2004	31 December 2003	Year ended 31 December 2002 (unaudited)	30 June 2002
Net income from continuing operations	**90,466**	70,838	83,743	81,416
Profit (Loss) from discontinued operations	**-**	-	184	873
Net income	**90,466**	70,838	83,927	82,289
Net income per share (Diluted)				
Including discontinued operations	**$3.86**	$3.07	$3.26	$3.44
Excluding discontinued operations	**$3.86**	$3.07	$3.26	$3.40
At Year End				
Total assets	**8,630,383**	7,733,806	6,007,874	5,738,044
Cash and deposits with banks	**2,396,724**	2,912,383	1,989,159	2,027,225
Investments	**3,266,400**	2,638,253	2,073,112	1,831,142
Loans	**2,645,331**	1,954,716	1,767,088	1,696,775
Deposits from customers	**7,404,855**	6,612,303	5,156,111	4,787,228
Deposits from banks	**502,595**	510,274	360,105	429,138
Subordinated capital and senior debt	**142,333**	122,871	75,000	75,000
Shareholders' equity	**428,030**	382,095	338,799	335,167
Net book value per share	**$18.84**	$16.83	$15.05	$14.39
Market value per share	**$40.50**	$40.00	$27.73	$30.00
Number of shares (in thousands)*	**22,714**	20,643	18,603	19,247
Number of shareholders	**3,778**	3,581	3,322	3,364
Number of employees	**1,552**	1,381	1,200	1,229
Financial Ratios				
Return on assets**	**1.1%**	1.0%	1.2%	1.2%
Return on equity**	**21.2%**	17.9%	20.5%	21.2%
Total capital funds to total assets ratio	**6.6%**	6.5%	6.9%	7.0%

* Excludes shares purchased by the Bank for the Stock Option Trust.
** Excludes discontinued operations and gain on sale of subsidiaries.
Comparative per share data has been restated to reflect the 1 for 10 stock dividends in August 2004, 2003 and 2001.
Data for 2004 and 2003 is shown under US GAAP and for 2002 under Canadian GAAP.
All percentages here and in the report that follows are based on actual rather than rounded numbers.







The Butterfield Bank Group is a full service community bank and a provider of specialised offshore financial services. Our headquarters and largest operations 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 $9.5 billion of assets under management and over $80 billion of client assets under management and administration.

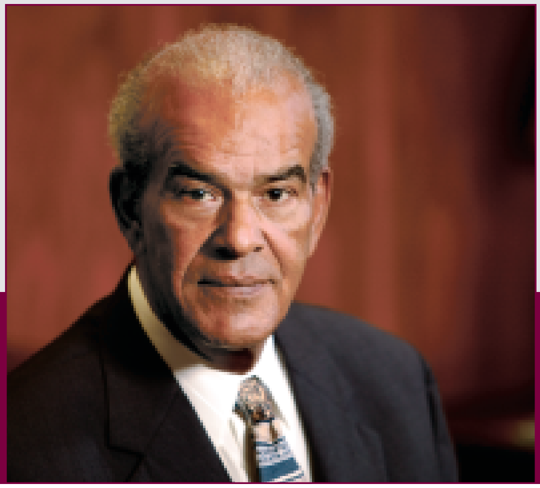
We provide a full range of community banking services for institutional and individual customers in Barbados, Bermuda and the Cayman Islands, encompassing retail and corporate banking and treasury activities. As a specialist offshore financial services group, we also provide private banking, wealth management and fiduciary services, and institutional and pension fund administration in The Bahamas, Bermuda, the Cayman Islands, Guernsey and the United Kingdom. Our success is built on a set of fundamental strengths: sound corporate values, a stable customer base, strong liquidity position 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. Our common stock is listed on The Bermuda Stock Exchange and the Cayman Islands Stock Exchange. We have over 3,700 shareholders with 24.3 million shares outstanding.

Our performance is a direct result of the efforts of our dedicated employees who work together to deliver quality financial services, build business and enhance shareholder value. At 31 December 2004 we had a total of 1,552 employees, 786 in Bermuda and 766 overseas. We believe that a positive work environment, with effective employee training, development and communication, benefits our customers through quality service and our shareholders through long-term improvements in results.

Involvement in the communities in which we operate is important to the Butterfield Bank Group. We support a variety of projects and organisations that invest in areas such as youth development, healthcare, social causes, sports, heritage and the arts. Our educational scholarships and bursaries help young people fulfil their potential and achieve their dreams. We take an active role in community events and encourage the efforts of the many 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.

Chairman's Letter to the Shareholders



On behalf of the Board of Directors, it is my pleasure to report that the Butterfield Bank Group has again performed well under economic conditions that continue to challenge the global market. The year ended 31 December 2004 was a period of growth and accomplishment, both strategically and financially.

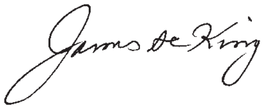
The Group has maintained its course with a clearly defined strategy across all our business lines. This strategy, developed by executive management, has produced consistently strong financial results and continues to enhance shareholder value. The current business model is proven to be sound, as these results attest.

We have expanded our geographic diversification with key acquisitions in Bermuda, Guernsey, the United Kingdom and The Bahamas. This growth speaks to our increasing strength and stability, as well as our commitment to continue building and expanding core businesses.

Reflecting our ongoing strong earnings performance and our commitment to enhancing shareholder value, in July 2004 the Board approved a one-for-ten bonus share issue, as it had the prior year. This bonus equates to a 10% stock dividend and, combined with the 12-month cash dividend of $1.55 per share, gave shareholders an impressive return on their investment.

This year we bade farewell to a valued and respected colleague. Geoffrey Bell retired from the Board in January 2005, following his appointment as a Puisne judge of the Bermuda Supreme Court. Mr. Bell was elected to the Board in 1987 and made a number of significant contributions, most recently as Chair of the Corporate Governance Committee. On behalf of the Board, I would like to thank him for his 17 years of service and wish him well on his move to the Bench.

I would like to express sincere thanks to the Group's dedicated management team and employees whose expertise and dedication has made it possible for us to continue to achieve strong results. I also thank our shareholders and customers for their steadfast support, amid a climate of change within our industry. You are essential to our success and we will work to continue to earn your loyalty as we move forward.



James A.C. King, JP
Chairman of the Board

President & Chief Executive Officer's Report

The year 2004 was one of growth and change for the Butterfield Bank Group, as our tested strategy has again delivered solid financial results in a highly competitive environment. Our net income for 2004 was $90.5 million, increasing by 27.7% from last year and we experienced a good return on shareholders' equity at 21.2%. This performance can be attributed to the overall strength of our core businesses and the commitment and skill of our employees.

We made significant acquisitions in 2004, acquiring Leopold Joseph Holdings plc, with operations in Guernsey and the United Kingdom, Deerfield Fund Services Limited in The Bahamas, and Grosvenor Trust Company Limited in Bermuda. The transition of these acquisitions into the Butterfield Bank Group is progressing well with promising growth potential.

In 2004 the Group re-branded across all jurisdictions. This re-branding to the name Butterfield Bank is a positive initiative for the Group and will contribute to a consistent, group-wide identity as we continue to expand internationally.

A cornerstone of our business is value added customer service. In Bermuda we entered into a partnership with MasterCard and American Airlines and launched the Butterfield / AAdvantage® MasterCard®, a popular credit card. We will continue to seek other innovative products and services that meet the needs of our customers.

Our resiliency and strength was underscored after Hurricane Ivan severely damaged the infrastructure of our Cayman operations. Other offices in the Group immediately went to the aid of colleagues, assisting them in re-establishing their operations within several days. Additionally, we made a substantial contribution to the entire community to help with their recovery efforts.

2004 also saw the launch of a Service Initiative training programme in Bermuda for all Bank employees, which will enable them to better serve each other and our customers. We see this internal training as a key element to achieving our overall goals.

Our community activities remain a priority as we recognise our responsibility to give back to the jurisdictions in which we operate. In 2004 we supported a wide variety of causes in our communities, with the active involvement of our employees.

On behalf of management, I would like to express appreciation to the Board of Directors for their support, advice and oversight. I also thank our employees, shareholders, customers and partners, all of whom contribute to the Butterfield Bank Group's reputation as a respected business and strong community partner.

Alan R. Thompson
President & Chief Executive Officer

Management's Discussion and Analysis of Results of Operations and Financial Condition

From left to right:

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

All references to the Butterfield Bank Group or "the Group" refer to The Bank of N.T. Butterfield & Son Limited and its subsidiaries on a consolidated basis.

Management's discussion and analysis of results of operations and financial condition should be read in conjunction with the Group's Consolidated Financial Statements, beginning on page 26, and the notes to those financial statements, which begin on page 30. These statements and notes have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP). The Group changed its accounting convention from Canadian GAAP in 2004; as a result, 2003 comparatives have been restated under US GAAP.

During 2004, three acquisitions were made which impacted results. Leopold Joseph Holdings plc was acquired in April 2004 and integrated with the Group's United Kingdom and Guernsey operations; Deerfield Fund Services Limited was acquired in The Bahamas in February 2004 and Grosvenor Trust Company Limited was acquired in Bermuda in October 2004. These businesses performed in line with expectations during the period of time that they have been part of the Butterfield Bank Group.

Results of operations for the year ended 31 December 2004 compared with the year ended 31 December 2003.

The Butterfield Bank Group achieved net income of $90.5 million for the year ended 31 December 2004, representing a 27.7% increase in net income over the same period last year.

From left to right:

Michael A. McWatt Senior Vice President, Credit Risk Management
Sheila M. Brown Senior Vice President, Investment Services
Lloyd O. Wiggan Senior Vice President, Retail Banking

Net interest income, before credit related provisions, at $151.0 million, was a record and is up year on year by $32.9 million, or 27.9%, reflecting balance sheet growth, an increase in the loan portfolio and a benefit from the rise in US and UK interest rates. The period under review saw increases in both US and UK interest rates, with five increases in US interest rates and four increases in UK interest rates, all of 0.25%.

Also significant was the growth in non-interest income, which increased year on year by $33.5 million, or 27.3%, to $156.5 million. This reflects strong growth across all revenue lines, notably from our fund administration businesses (+52.7%), asset management (+38.4%), trust and investment services (+29.8%) and banking services (+16.0%).

The Group's balance sheet remains highly liquid. Deposits with banks and investments increased year on year by 2.1% to $5.7 billion and represents 65.6% of total assets, compared to 71.8% a year earlier. The loan to assets ratio at year end 2004 stood at 30.7%, up from 25.3% a year earlier. Loans increased by $690.6 million, or 35.3%, year on year. This increase reflects the ability across the Group to meet new demand for lending products, particularly in the community banking business in Bermuda, which produced loan growth of $252.6 million, up 17.4%, and in the Cayman Islands, where growth was $38.2 million, up 14.2%. The acquisition of Leopold Joseph's businesses was the primary reason for the growth in the loan portfolios in Guernsey and the UK, which increased by $72.6 million, or 64.1% and $328.7 million, or 575.0% respectively.

Asset quality remained a strength across the Group. Non performing loans totalled $20.5 million at year-end 2004, representing 0.8% of total loans, down from 0.9% a year ago. As at 31 December 2004 the General Provision for loan losses of $21.9 million was equivalent to 0.8% of total loans. In addition, there is a specific provision of $1.9 million held for possible shortfalls in the security held for non-performing loans. In total, therefore, loan provisions were $23.8 million, or 0.9% of the loan portfolio. Delinquency and charge-off ratios continued to be well below industry average.

From left to right:

Bob W. Wilson Senior Vice President, Corporate Banking
Fred H. Tesch Senior Vice President, Group Internal Audit
Graham M. Jack Managing Director, Butterfield Trust (Bermuda) Limited
Ian M. Coulman Managing Director, Butterfield Asset Management Limited

The year saw a significant increase in customer deposits, which were up $0.8 billion, or 12.0%, year on year to $7.4 billion, again primarily due to the acquisition of Leopold Joseph. Substantial inflows of short-term customer deposits continued over the year from clients whose third party investment funds are administered by the Group in Cayman.

During the year 459,232 shares were repurchased and cancelled, at an average cost of $42.19 per share. The total dividend for the period was $1.55 per share, an increase of 12 cents or 8.4% over the same period last year, and represents a 37.2% payout on net income for the period. In addition, for the second consecutive year, a one-for-ten bonus share issue was made in August 2004, which equates to a 10% share dividend, and for the fourth quarter the Board approved a dividend increase of 3 cents.

Performance Indicators

The Group's overall strength and performance are indicated by certain key measures. Return on shareholders' equity was 21.2% for the period, up from 17.9% in 2003. Diluted earnings per share were $3.86, up 79 cents, or 25.7%, compared with $3.07 last year.

The net interest margin and interest rate spread both remained unchanged year on year at 1.9% and 1.6% respectively. Average interest-earning assets increased year on year by 30.6% to $7.9 billion. The increase in the return on assets, up 0.1% on 2003 to 1.1%, reflected the strong earnings growth achieved in 2004.
The Group's net book value per share increased year on year by 11.9% to $18.84.

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). For the year ended 31 December 2004, the Group's efficiency ratio was 69.1%, up from 67.7% a year ago. The increase was due to a higher year on year growth rate for non interest expense, up 36.6%, than for total revenue, which grew by 32.9%. This reflects the acquisition and integration costs associated with the purchase of Leopold Joseph, together with increased expenses in Cayman relating to Hurricane Ivan.

From left to right:

Donna E. Harvey Maybury Senior Vice President, Human Resources
James R. Stewart Senior Vice President, Enterprise Risk Management
Michael O'Mahoney Senior Vice President, Treasury

Outlook

The Group re-branding, which was launched in 2004, has made 'Butterfield' an increasingly recognised brand wherever the Group operates, particularly in the markets entered over the past two years. Whilst 2005 is expected to present the continued challenge of increased competition, the Group's business model is expected to continue effectively to generate enhanced shareholder value as long as the economies in which the Group operates remain robust. Recently-acquired companies are anticipated to perform in line with expectations in 2005. The Group will therefore continue with the strategy that has returned a strong performance over the past several years, namely to maintain a conservative approach and continue to focus on core business lines.

From left to right:

W. Aaron M. Spencer Senior Vice President, Operations
D. John Charlick Senior Vice President, Strategic Projects
Andrew R. Collins Managing Director, Butterfield Fund Services (Bermuda) Limited

The Butterfield Bank Group has its headquarters and largest operation in Bermuda. Home to over half the Group's employees, Bermuda-based businesses provide community banking, wealth management, fiduciary services and investment and pension fund administration services. These are offered through The Bank of N.T. Butterfield & Son Limited, under the brand name of Butterfield Bank, and its wholly-owned subsidiaries: Butterfield Asset Management Limited, Butterfield Trust (Bermuda) Limited, Butterfield Fund Services (Bermuda) Limited and Promisant (Technology) Limited.

In 2004, the Group's Bermuda operations thrived in a fast-paced, changing market. For the third consecutive year, Butterfield Bank was named 'Bank of the Year' in Bermuda by *The Banker* magazine, recognising its impressive performance in the jurisdiction. While the competitive environment in Bermuda intensified with the acquisition of a local competitor by a global bank, the continued focus on the Group's core strategy successfully attracted and retained customers, producing impressive results for all businesses on the island. With quality customer service a cornerstone of the Group's strategy, Bermuda operations focused on operational efficiency, product innovation and enhancing the all-round customer experience, through continued investment in premises, people, IT infrastructure, data and systems.

During the period under review in Bermuda, total income increased year on year by 24.2% to $192.0 million, reflecting record levels of both net interest and non-interest income. Included in non-interest income was a $5.8 million realised gain from the sale of a venture capital investment. Assets under administration in Bermuda were up 26.1% to $33.3 billion.

Butterfield Bank

Corporate, private and retail banking and treasury businesses in Bermuda comprise Butterfield Bank's Community Banking operations and all have maintained strong performances in 2004. Demonstrating the Bank's strength in retaining and attracting business in an increasingly competitive market, a 48.1% year on year increase in net income was achieved, up from $31.8 million in 2003 to $47.1 million in 2004, reflecting increased net interest income as a result of strong loan growth and a 12 basis point increase in the net interest margin. Average interest earning assets were $3.8 billion in 2004 compared with $3.5 billion last year.

Corporate Lending experienced significant growth, as its quality products and effective relationship management proved an ideal fit for both local and international customers. The corporate loan portfolio increased year on year by 26.0% to $0.8 billion, reflecting strength in the local economy. Corporate Lending continues to remain vigilant in its approach to loan quality. Letters of Credit income was ahead of expectations although volume grew at a slower rate than in previous years.

Private Banking expanded during 2004, by dedicating quality resources to acquiring new business and continuing to build strong relationships with high net worth private clients. This area is viewed as a growth opportunity.

Retail Banking experienced another year of growth and cemented its position as Bermuda's premier provider of community banking services in July 2004 with the launch of the only credit card in Bermuda offering access to the internationally recognised AAdvantage® miles programme. A significant number of new customers have been attracted to the Group by the Butterfield / AAdvantage® MasterCard® and, following its launch, 88% of new credit card applications in 2004 were for this particular card.

Consumer Credit yet again recorded strong growth in 2004, with mortgage and consumer loan balances increasing by 10.0% to $0.9 billion. A focused and pro-active marketing strategy attracted significant new business, strengthened existing relationships and expanded referral arrangements. Specialised Consumer Credit training, meanwhile, ensured a continued focus on technical skills, quality customer service and cross-selling capabilities.

Improvements to products, delivery channels and fraud protection technology kept the Group in line with global standards. With a focus on electronic services, in the fourth quarter of 2004 the Group began upgrading the ATM network in Bermuda, offering newer technology and greater security. Having exceeded 1 million transactions since its launch in 2001, in 2004 Butterfield Direct Internet Banking continued to show strong growth in both numbers of users and transactions. The Group is committed to ongoing technology investments in this delivery channel to provide enhanced functionality and security.

Work continued on the physical infrastructure in Bermuda with renovations on-going in the Rosebank building in Hamilton. Additionally, an extensive refurbishment of the St. George's branch was completed and work will begin on the Somerset branch in 2005.

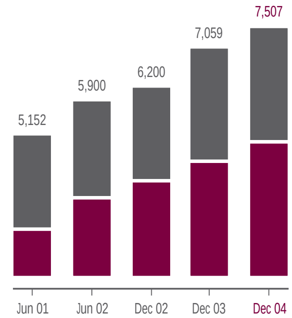
Butterfield Asset Management

Providing investment management, advisory and brokerage services to institutional and private clients, Butterfield Asset Management Limited (BAM) manages the family of eight Butterfield Funds, as well as Butterfield Bank Group's own investment portfolios.

BAM reported 2004 net income of $13.5 million, an increase of 20.8% over 2003. Client assets invested in Butterfield Funds managed in Bermuda rose 9.3% year on year to $5.0 billion at 31 December 2004, while total client assets under management grew from $7.1 billion at the end of 2003, to $7.5 billion at year end, an increase of 6.3%.

Considerable growth was achieved in BAM's Fund of Funds product, Butterfield Select, which grew by 61.5%. Also displaying strong growth were the Butterfield US Dollar Bond, which grew by 32.1%, and the Butterfield Money Market Funds which, in dollar terms, attracted well over half of all BAM's new client assets.

BAM's strong performance was powered by consistent marketing to prospective and existing clients. It actively marketed wealth management services, implementing a pro-active strategy to attract trust companies and intermediaries. BAM also continued to develop its relationship with the insurance industry by attending the major insurance conferences in Bermuda and abroad, including RIMS. Additionally, BAM conducted a series of presentations during the year, which successfully attracted new investors to the funds.



Assets Under Management by Butterfield Asset Management ($m)

Butterfield Funds	3,061	3,749	4,123	4,551	4,976
Discretionary	2,091	2,151	2,077,	2,508	2,531
Total	5,152	5,900	6,200	7,059	7,507

Butterfield Trust (Bermuda)

Providing a comprehensive range of trust, estate, company management and custody services, Butterfield Trust (Bermuda) Limited (BTB) focuses on local and international clients, both corporate and individual.

During the year under review client assets under custody increased by $0.7 billion to $17.5 billion, up 4.2% from 2003. BTB experienced significant growth in hedge fund business and attracted new business from existing clients. Personal trust business continued to expand, as wealthy families recognised the importance of the flexibility and independence BTB provides when managing their international financial affairs in an increasingly more regulated environment. The net income for BTB, at $6.8 million, increased by 53.2% from 2003.

In the last quarter of the year, Grosvenor Trust Company Limited, a specialist trust company in Bermuda, was acquired and now operates as a wholly-owned subsidiary of BTB. With a well-established and select group of clients, Grosvenor Trust is complementary to BTB's existing trust business. Its acquisition is consistent with the Group's ongoing strategy of growth in core products and services.

Positioned well for further growth, BTB continued in 2004 to strengthen its senior management team, improve customer service and cost efficiencies and enhance operational effectiveness.

Butterfield Fund Services (Bermuda)

Providing valuation, accounting, corporate and shareholder services to offshore hedge funds and mutual funds, Butterfield Fund Services (Bermuda) Limited (BFS) also offers corporate pension administration services to insurance companies and international pension funds.

For the year ended 31 December 2004 net income was $7.2 million, up 78.6% compared with $4.0 million the previous year. Net assets under administration, excluding the Butterfield Funds, increased by 74.0% from $9.6 billion in 2003 to $16.7 billion as at 31 December 2004. Yet again this year, BFS significantly increased its client base and continued to provide personalised, professional service to a variety of investment and pension funds.

In 2004 customers of BFS again provided substantial business to other areas of the Group in Bermuda, including Treasury, Credit and Butterfield Asset Management.

The Bahamas

Robert V. Lotmore
Managing Director,
Butterfield Bank
(Bahamas) Limited

Butterfield Bank (Bahamas) Limited was established in 2003 through the acquisition of Thorand Bank & Trust and Leopold Joseph (Bahamas) Limited and provides private banking, wealth management and fiduciary services. Butterfield Fund Services (Bahamas) Limited was established in February 2004 through the acquisition of Deerfield Fund Services Limited and provides fund administration services.

At 31 December 2004 the Group's total assets in The Bahamas were $63.4 million, up from $18.4 million the previous year, and net income was $0.7 million. Client assets under administration were $4.4 billion, up 248.9% from $1.3 billion in 2003, reflecting the acquisition.

Butterfield Bank (Bahamas)

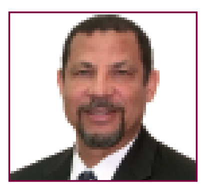
Butterfield Bank (Bahamas) Limited focuses on providing a premier service, creating tailored solutions for international, high net worth clients with wealth management needs. Areas of expertise include private banking, trust administration and custody.

With The Bahamas attracting high net worth individuals looking to buy real estate, Butterfield Bank (Bahamas) launched a new US Dollar mortgage programme in October 2004 aimed to service this niche market and create opportunities to cross-sell other products and services. Already receiving strong interest, this product is expected to be an area of growth in 2005. By 31 December 2004, the total lending portfolio in The Bahamas was $2.9 million, compared to $26,000 the previous year.

Butterfield Fund Services (Bahamas)

The acquisition of Deerfield Fund Services Limited, a Bahamas-based fund administrator, was consistent with the Group's strategy of growth in its core businesses and complemented existing operations in The Bahamas. Re-named Butterfield Fund Services (Bahamas) Limited, the business provides fund administration services for offshore hedge funds, mutual funds and pension funds, and grew overall assets under administration for the year to $2.9 billion.

Barbados



Mariano R. Browne
Managing Director,
Butterfield Bank
(Barbados) Limited

The Group's principal business in Barbados is a comprehensive banking service to the local community offered through Butterfield Bank (Barbados) Limited, which was formed in December 2003 through the acquisition of The Mutual Bank of The Caribbean Inc. A separate entity, Butterfield Asset Management (Barbados) Limited, acts as a representative office for investment business. The priority in

Barbados for 2004 was to complete a re-branding process, which was successfully achieved by the end of the first quarter of 2004. At 31 December 2004, total assets were $173.3 million, up 11.6% from the previous year. Net income for 2004 was $0.3 million.

Butterfield Bank (Barbados)
Headquartered in Bridgetown with three additional branches, Butterfield Bank (Barbados) Limited's range of community banking services includes personal and commercial loans and overdrafts; savings, chequing and fixed deposit accounts; 24-hour ATM facilities; credit cards; and foreign exchange.

Ensuring existing customers received a consistent level of service with the newly-branded bank was key in establishing a solid performance in 2004. Butterfield Bank (Barbados) moved swiftly to build its reputation as a dedicated community banker with the launch of the "Butterfieldninetyfive" mortgage in the second quarter of 2004.

"Butterfieldninetyfive" provides 95% financing and has the lowest fixed rate for mortgages in Barbados. This product spear-headed an encouraging first year for the mortgage portfolio in 2004.

Butterfield Asset Management (Barbados)
A separate operation from the community bank, Butterfield Asset Management (Barbados) Limited acts as a representative office for the services of Butterfield Asset Management Limited, meeting the corporate investment needs of organisations such as captive insurance companies, international businesses and trusts.

CAYMAN ISLANDS

Conor J. O'Dea
Managing Director,
Butterfield Bank
(Cayman) Limited

A comprehensive range of services is offered in Cayman to the local and international market. Services are offered through Butterfield Bank (Cayman) Limited, Butterfield Asset Management (Cayman) Ltd. and Butterfield Fund Services (Cayman) Limited. They provide community and commercial banking services, investment management, custody, trust and company administration and investment and pension fund administration services.

In 2004, Butterfield Bank (Cayman) was named 'Bank of the Year' in Cayman by *The Banker* magazine, in recognition of the strength of its service and its position as the premier community bank in the jurisdiction. Customer service remained a key focus, resulting in another year of strong growth in all business areas.

Success was achieved despite the impact of Hurricane Ivan, the Category 5 storm which devastated the Cayman Islands on 12 September 2004 and affected all businesses in the jurisdiction. With solid business continuity plans in place, however, disruption to clients was minimised with the Butterfield Bank Group supporting its Cayman Islands operations from other locations for a short period of time. Open within four days for limited services, the Cayman Islands operations were able to offer a full service to customers on and off island within a week of the storm's passing. Butterfield Bank (Cayman) took on a lead role in helping to rebuild the community, and made the first donation to the Cayman Islands National Recovery Fund with US$1 million. To support employees whose commitment saw them back at work within days of the hurricane, various initiatives were offered, ranging from counselling to clothing and day-care for their children.

Net income for the Cayman Islands in 2004 was $24.7 million, representing an increase of 6.4% over 2003. A loss of $1.9 million was recorded for the year in respect of a minority shareholding in Island Heritage Insurance Company Limited. Nevertheless, total income increased year on year by 14.7% to $56.3 million and the Return on Equity for the year was 22.2%. Total assets increased year on year by 17.7% to $2.3 billion, reflecting continued growth in customer deposits.

Butterfield Bank (Cayman)
Butterfield Bank (Cayman) Limited's community banking business experienced another strong year of growth in the Cayman Islands,

increasing market share and further reinforcing its position as a leading provider of banking services to individuals and businesses in the jurisdiction. With five locations, seven ATMs including a drive-through, a web site, online banking and debit and credit cards allied to a wide range of credit facilities, the Bank's comprehensive delivery channels are supported by a strong reputation for excellent customer service.

Strong demand for credit continued during the year, with the lending portfolio growing by $38.1 million, from $268.4 million the previous year to $306.5 million, an increase of 14.2%. Following Hurricane Ivan, Butterfield Bank (Cayman) has been actively managing its loan portfolio and remains confident that the quality of lending decisions, allied to good administration of the portfolio, will minimise losses. In common with other banks in Cayman, a repayment moratorium was granted on residential mortgages and personal loans until January 2005, but continued to accrue interest payable in appropriate cases. Following a review of the loan portfolio post-Hurricane Ivan, credit provisions were increased by $3 million.

Focusing on increasing convenience for customers and improving efficiency for the Bank, a firm commitment to investment in technology has been maintained. Cayman's highly successful internet banking service, Butterfield Online, was enhanced both in terms of functionality and network infrastructure with security features upgraded to ensure the integrity of the system.

Butterfield Asset Management (Cayman)

Butterfield Asset Management (Cayman) Limited's wealth management team experienced a successful year, reporting steady growth of institutional and private client assets under management. Total client assets under management at 31 December 2004, increased 3.7% to $726 million.

Butterfield Fund Services (Cayman)

Providing full administration services to hedge funds, mutual funds and pension funds, Butterfield Fund Services (Cayman) Limited experienced strong growth during 2004, driven by effective business development allied to a strong commitment to client servicing. Assets under administration in the Cayman Islands increased by 44.3% to $25.0 billion.

GUERNSEY

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

Services offered in Guernsey comprise private banking, wealth management and fiduciary services, administered banking services, and investment and pension fund administration services. They are offered through Butterfield Bank (Guernsey) Limited, Butterfield Trust (Guernsey) Limited and Butterfield Fund Services (Guernsey) Limited.

In October 2004 the operations of Leopold Joseph & Sons (Guernsey) Limited were amalgamated with the Group's existing private banking business, following Leopold Joseph's acquisition, in April 2004. Both as a result of this acquisition and growth in existing business, total client deposits at 31 December 2004 increased by 47.1% to $1.3 billion, up from $0.9 billion the previous year.

Overall in 2004, post tax net income of $2.6 million was achieved, up 11.1% compared to 2003. Revenue growth of 20.3%, to $35.0 million, was off-set by a rise in expenses of 21.1% from $26.8 million to $32.5 million, which included a $1.1 million provision in respect of leasehold premises vacated following a move to new premises in St. Peter Port. A tax credit of $0.4 million was recognised, primarily reflecting the amalgamation of the Guernsey-based businesses of Leopold Joseph. The Guernsey operations have $17 billion in assets under administration, of which $0.6 billion are also administered elsewhere in the Group.

Butterfield Bank (Guernsey)

During the year under review Butterfield Bank (Guernsey) Limited continued to cultivate quality client relationships, offering a full range of multi-currency deposits, loans and foreign exchange dealing. Enhancements to Butterfield Online, the Group's internet banking service offered in Guernsey, were introduced to provide additional flexibility for professional financial intermediaries.

Butterfield Bank (Guernsey) provides discretionary portfolio management to a range of corporate and high net worth individuals and families. Assets under management for Guernsey clients increased to $854 million at 31 December 2004, up 23.8% from $690 million the previous year.

Serving institutions from the UK, North America and Europe, the Group is also Guernsey's market leader for administered banking services, providing customer services, operation, accounting, compliance and corporate secretarial services for leading financial institutions seeking outsourced solutions. This business experienced an 8% year on year increase in assets under administration.

Butterfield Trust (Guernsey)

Fiduciary services offered by Butterfield Trust (Guernsey) Limited include tailored and sophisticated trust and company administration services for wealthy families and institutions.

Butterfield Fund Services (Guernsey)

Butterfield Fund Services (Guernsey) Limited provides a full range of administration services to offshore funds of hedge funds, property funds and other specialist investment funds. As the jurisdiction's largest specialist in administration of Cayman and other non-Guernsey funds, Butterfield Fund Services (Guernsey) has $6.3 billion assets under administration, of which $1.1 billion represent assets held as custodian by Butterfield Bank (Guernsey).

The Group in Guernsey also provides custodian services for institutional clients which are not administered by Butterfield Fund Services (Guernsey) and provides custodian services to corporate and high net worth individuals, resulting in total assets held as custodian of $2.5 billion.

UNITED KINGDOM

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

A private banking service is offered from London by Butterfield Bank (UK) Limited, under the brand of Butterfield Private Bank.

Butterfield Private Bank

In April 2004 the purchase of Leopold Joseph Holdings plc, a company first established in London in 1919, was concluded and by the year-end full integration had been successfully completed of its operations in London and Guernsey with those of the Group. The acquisition of Leopold Joseph supports the Group's strategy of growth in its core private banking business in the UK. The acquisition also enables the Group to expand its service offering through Leopold Joseph's comprehensive investment management service, a service not previously offered in London.

The combined businesses in the UK operate from 99 Gresham Street in the City, adjacent to the Bank of England, with over 100 employees. The efforts of the management team enabled the two banks to operate as one entity within six months of the acquisition. All clients have been retained and there have also been healthy increases in deposit and lending balances during 2004, as new client relationships have been won. The loan portfolio in the UK has increased year on year by $328.7 million to $385.9 million, reflecting the acquisition, and similarly customer deposits increased year on year by $413.9 million to $803.1 million.

The year saw a $14.9 million increase in total income, to $19.3 million, though a post tax loss of $7.2 million was recorded in 2004, reflecting exceptional charge-offs of $5.0 million taken in respect of a lease on premises vacated at the year-end and redundancy costs. Butterfield Private Bank is well placed to execute its strategic plan to focus on the provision of private banking and wealth management services to high net worth clients. Total assets at 2004 year-end were $1.1 billion compared to $0.5 billion at the same stage a year earlier. Client assets under management in the UK now total $738 million, directly as a result of the acquisition.

Well-positioned to meet the financial service requirements of high net worth individuals and their families, Butterfield Private Bank provides a Family Office Banking service. The Bank is also a provider of self-invested pension plans. Legislation due to take effect from April 2006 should encourage high earners to make greater contributions to their pensions and to self manage their investments. Butterfield Private Bank has therefore entered into a number of joint venture arrangements with pension practitioners, providing deposit banking, investment management services and lending to permit gearing within the pension to purchase certain classes of property.

Butterfield Private Bank's strategy remains unchanged, essentially to focus on the provision of private banking services to high net worth individuals in the UK. These services are primarily distributed through financial intermediaries who advise high net worth individuals, and efforts have continued this year to build the brand awareness of Butterfield Private Bank. Outstanding customer service remains a critical part of Butterfield Private Bank's service offering in the UK and which differentiates it from competitors.

Mission Statement

Butterfield Bank

Butterfield Bank 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 focused, efficient and ethical delivery of banking and other selected financial services.

Income

Total income for the Group after provisions was $311.2 million for the year ended 31 December 2004, up $77.1 million, or 32.9% from $234.1 million for the same period a year ago. Net interest income before provisions for credit losses increased by 27.9% to $151.0 million. The increase reflects growth in average interest earning assets and successful asset/liability management strategies.

We continue to be appropriately reserved with total provisions of $23.8 million. Non-accrual loans totalled $20.5 million as at 31 December 2004 up from $17.4 million a year ago reflecting loan growth, and represent 0.8% of the total loan portfolio, compared to 0.9% a year ago. Provisions in respect of credit losses charged to income were $2.9 million, compared to $3.0 million last year.

Non-interest income grew by 27.3% to $156.5 million, reflecting growth across all revenue lines, notably from Investment & Pension Fund Administration (+52.7%), Asset Management (+38.4%), Foreign Exchange (+34.6%), Trust & Investment Services (+29.8%) and Banking Services (+16.0%).

Changes in Net Interest Income

For the year ended 31 December (In $ thousands)

	2004			2003		
	Average Balance	**Interest**	**Rate**	Average Balance	Interest	Rate
Assets						
Cash and deposits with banks	**2,654,554**	**46,275**	**1.7%**	2,020,828	36,165	1.8%
Investments	**2,952,326**	**89,553**	**3.0%**	2,238,746	60,791	2.7%
Loans	**2,300,024**	**130,743**	**5.7%**	1,794,253	101,598	5.7%
Earning assets	**7,906,904**	**266,571**	**3.4%**	6,053,827	198,554	3.3%
Other assets	**275,191**	**-**	**-**	183,395	-	-
Total Assets	**8,182,095**	**266,571**	**3.3%**	6,237,222	198,554	3.2%
Liabilities						
Deposits	**6,444,827**	**115,249**	**1.8%**	4,753,899	80,965	1.7%
Subordinated capital and senior debt	**132,602**	**3,247**	**2.4%**	117,308	2,523	2.2%
Interest bearing liabilities	**6,577,429**	**118,496**	**1.8%**	4,871,207	83,488	1.7%
Non interest bearing current accounts	**1,070,187**	**-**	**-**	921,321	-	-
Other liabilities	**129,247**	**-**	**-**	79,209	-	-
Total Liabilities	**7,776,863**	**118,496**	**1.5%**	5,871,737	83,488	1.4%
Shareholders' Equity	**405,232**	**-**	**-**	365,485	-	-
Total Liabilities and Shareholders' Equity	**8,182,095**	**-**	**-**	6,237,222	-	-
Spread			1.6%			1.6%
Net Interest Margin			1.9%			1.9%

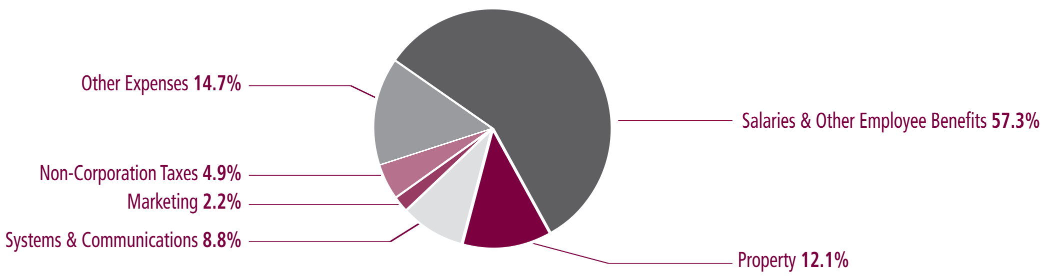
Note: Underlying assets and liabilities are comprised of various currencies.

Expenses

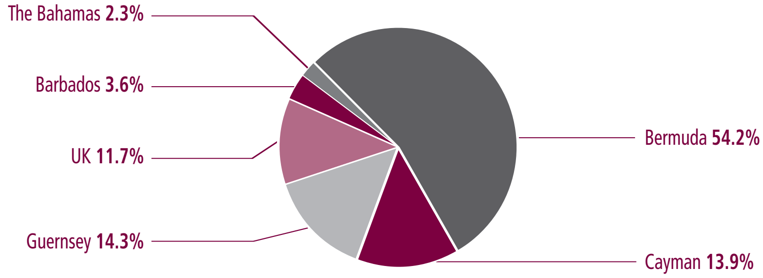
Operating expenses were $222.4 million during the period under review, up 36.6% from $162.8 million last year, compared to a 32.9% growth in operating revenues. The increase primarily reflects the expanding size of the Group through acquisitions with salaries and employee benefits up 27.3% to $127.5 million. In addition, an increase of 60.1% was seen in property and systems costs, reflecting continued spending on infrastructure development as we build and improve our businesses.

At 31 December 2004 we had 786 employees in Bermuda, up from 734 a year ago, reflecting business growth, particularly in our Wealth Management & Investment Services and Investment & Pension Fund Administration businesses, where the headcount increased year on year by 21 and 19 respectively. Overseas, the total headcount increased by 119 to 766 primarily due to the acquisition in the UK (78) and growth in our Cayman business (16).

We remain committed to the prudent management of the expense base and continually seek opportunities to improve our efficiency. Whilst the efficiency ratio of 69.1% in 2004 was up from 67.7% in 2003, the increase was primarily due to costs associated with the Leopold Joseph acquisition and 'one-off' expenses in Cayman as a result of Hurricane Ivan.



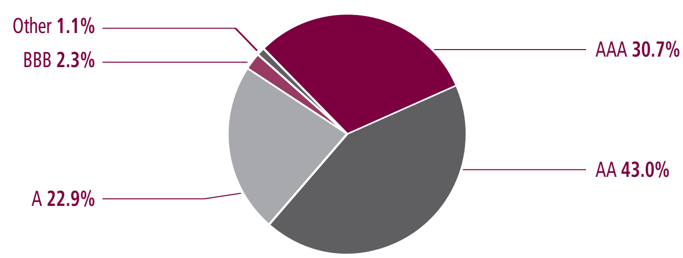
Distribution of 2004 Total Expenses



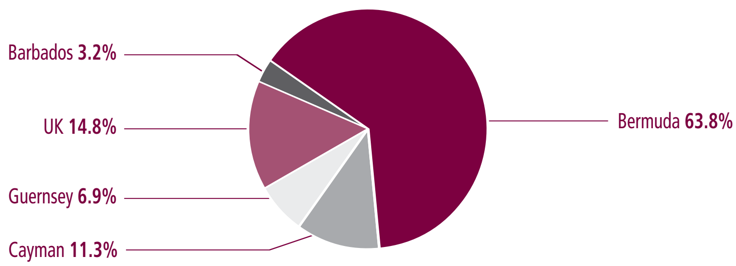
Distribution of 2004 Expenses by Location

Balance Sheet

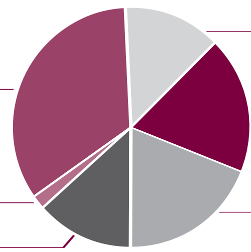
Total assets increased by 11.6% to $8.6 billion, up from $7.7 billion a year ago. This increase reflects the substantial rise in the customer deposit base, up year on year by $0.8 billion, or 12.0%, to $7.4 billion, primarily due to the acquisition of Leopold Joseph. The increase in the customer deposit base was primarily employed in our investment and loan portfolios, up year on year by 23.8% and 35.3% respectively to $3.3 billion and $2.6 billion. The balance sheet remains highly liquid with a loans to customer deposits ratio of 35.7%. and loans to total assets ratio of 30.7%.



Investment Portfolio by Long-Term Debt Rating



Lending by Location



Bermuda Loans by Type

Taxes

For the period under review the net corporation tax of the Group was a credit of $1.7 million compared to an expense of $0.4 million for the same period a year ago. Tax credits of $1.6 million in the UK and $0.4 million in Guernsey were offset by a corporation tax expense of $0.2 million in Barbados. We also paid $10.8 million in non profits taxes across the Group, up from $8.6 million the previous year reflecting increased employee and 'value added' taxes in the UK due to the acquisition.

Capital

The Group's strategy is to maintain a strong capital base that ensures stability and allows us to take advantage of opportunities for growth. At 31 December 2004 the risk weighted total capital ratio was 10.7%, compared to the 10.0% minimum requirement of the Bermuda Monetary Authority. Of the total, the Tier 1 ratio was 7.2%, compared to a 5% minimum requirement. Shareholders' equity increased by $45.9 million, or 12.0%, over a year ago, reflecting the increase in retained earnings less share buy-backs.

Weighted risk assets rose year on year by 18.2% to $4.4 billion, primarily due to growth in the loan, investments and letters of credit portfolios. The loan to the Stock Option Trust (reflected as Treasury Stock in the financial statements) is in respect of potential obligations under the Group's Stock Option Plan and is deducted from shareholders' equity. The loan declined by $5.6 million, or 18.0%, to $25.5 million, reflecting repayment from cash received on the exercise of stock options by directors and employees.

The acquisition of Leopold Joseph increased the amount of lower tier 2 subordinated capital notes in issuance by $9.6 million (£5 million). The notes issued by Leopold Joseph are redeemable in 2012.

During the period under review, the Group issued 207,109 shares under the Dividend Re-investment Programme, which represents a cash savings of $8.9 million, or 26.6% of the total dividend declared. As a result of the one-for-ten stock dividend in August 2004 2,217,927 new shares were also issued. Under the Share Buy-Back Plan, the Group purchased and cancelled 459,232 shares, at a cost of $19.4 million, as part of our strategy to enhance shareholder value.

Managing Risk

Risk is inherent in virtually all of the Group'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 Group 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 via the Audit and Compliance Committee and the Group's Chief Executive Officer.

Financial Summary

(In $ thousands except share data)

	Year ended			Year ended	
	31 December 2004	31 December 2003	31 December 2002	30 June 2002	30 June 2001
At Year End					
Cash and deposits with banks	2,396,724	2,912,383	1,989,159	2,027,225	1,691,423
Investments	3,266,400	2,638,253	2,073,112	1,831,142	1,882,479
Loans, less allowance for credit losses	2,645,331	1,954,716	1,767,088	1,696,775	1,451,773
Premises, equipment and computer software	126,031	99,979	96,419	98,536	97,690
Total assets	8,630,383	7,733,806	6,007,874	5,738,044	5,197,804
Total deposits	7,907,450	7,122,577	5,516,216	5,216,366	4,700,723
Subordinated capital and senior debt	142,333	122,871	75,000	75,000	75,000
Shareholders' equity	428,030	382,095	338,799	335,167	286,525
For the Year			**(unaudited)**		
Net interest income, after provision for credit losses	148,075	115,066	97,503	97,237	100,213
Non-interest income	156,487	122,950	114,832	109,322	91,775
Gain on sale of subsidiaries	-	-	17,013	17,013	-
Salaries and other employee benefits	127,459	100,104	88,612	88,623	72,024
Other non-interest expenses	94,962	62,729	56,993	53,533	53,232
Net income from continuing operations	90,466	70,838	83,743	81,416	66,732
Net income	90,466	70,838	83,927	82,289	60,742
Dividends declared	33,635	27,471	25,769	24,681	20,525
Financial Ratios					
Return on assets**	1.1%	1.0%	1.2%	1.2%	1.2%
Return on shareholders' equity**	21.2%	17.9%	20.5%	21.2%	22.7%
Dividend payout ratio	37.2%	38.8%	30.7%	30.0%	33.8%
Total capital funds to total assets ratio	6.6%	6.5%	6.9%	7.0%	7.2%
Risk weighted capital ratio	10.7%	13.0%	13.1%	13.8%	14.8%
Efficiency ratio	69.1%	67.7%	66.4%	61.9%	61.8%
Per share ($)#					
Net income from continuing operations (Diluted)	3.86	3.07	3.26	3.40	2.75
Net income (Diluted)	3.86	3.07	3.26	3.44	2.51
Dividends	1.55	1.43	1.37	1.31	1.05
Net book value	18.84	16.83	15.05	14.39	12.27
Number of Employees					
Bermuda	786	734	724	749	744
Overseas	766	647	476	480	418
Total	1,552	1,381	1,200	1,229	1,162
Shareholder Data					
Number of shareholders	3,778	3,581	3,322	3,364	3,619
Number of shares (000)*	22,714	20,643	18,603	19,247	17,571

* 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 2004, 2003 and 2001.
The number of shares in 2004 increased primarily due to the issue of the stock dividend.

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

\# Inclusive of gain on sale of subsidiaries.
Data for 2004 and 2003 is shown under US GAAP and for 2002 and 2001 under Canadian GAAP.

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 the United States of America and, where appropriate, are based on the best estimates and judgement of management.

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

The system of internal controls is further supported by a professional staff of internal auditors who conduct periodic inspections of all aspects of the Bank's operations. In addition, the Bank's Head of Group Internal Audit 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. The Committee meets and consults regularly with Management, the internal auditors and the independent accountants to review the scope and results of their work.

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

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

Alan R. Thompson
President & Chief Executive Officer
4 March 2005

Richard J. Ferrett
Executive Vice President & Chief Financial Officer
4 March 2005

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholders' equity and comprehensive income, and of cash flows present fairly, in all material respects, the financial position of The Bank of N.T. Butterfield & Son Limited at December 31, 2004 and December 31, 2003, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers

Chartered Accountants
March 1, 2005

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

Consolidated Balance Sheet

As at 31 December (In $ thousands)

	2004	2003
Assets		
Cash and demand deposits with banks	**164,431**	111,702
Term deposits with banks	**2,232,293**	2,800,681
Total cash and deposits with banks	**2,396,724**	2,912,383
Investments		
Held to maturity	**2,592,824**	2,450,887
Available for sale	**29,681**	27,815
Trading	**643,895**	159,551
Total investments	**3,266,400**	2,638,253
Loans, less allowance for credit losses	**2,645,331**	1,954,716
Premises, equipment and computer software	**126,031**	99,979
Accrued interest	**30,843**	22,828
Goodwill and other intangible assets	**106,043**	48,154
Other assets	**59,011**	57,493
Total assets	**8,630,383**	7,733,806
Liabilities		
Deposits		
Non-interest bearing	**999,826**	1,140,548
Interest bearing		
Customers	**6,405,029**	5,471,755
Banks	**502,595**	510,274
Total deposits	**7,907,450**	7,122,577
Accrued interest	**9,120**	7,632
Dividend payable	**9,235**	7,817
Other liabilities	**134,215**	90,814
Total other liabilities	**152,570**	106,263
Subordinated capital and senior debt	**142,333**	122,871
Total liabilities	**8,202,353**	7,351,711
Shareholders' equity		
Share capital ($1.00 par: Authorised shares 70,000,000)	**24,301**	22,335
Additional paid in capital	**229,495**	149,454
Retained earnings	**188,674**	224,002
Less: treasury stock	**(25,471)**	(31,058)
Accumulated other comprehensive income	**11,031**	17,362
Total shareholders' equity	**428,030**	382,095
Total liabilities and shareholders' equity	**8,630,383**	7,733,806

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

James A.C. King, JP
Chairman of the Board

Robert J. Stewart, JP
Vice Chairman

Alan R. Thompson
President & Chief Executive Officer

Consolidated Statement of Income

For the year ended 31 December (In $ thousands, except per share data)

	2004	2003
Non-interest income		
Trust and investment services	**28,690**	22,109
Asset management	**28,706**	20,741
Investment and pension fund administration	**34,339**	22,570
Banking services	**36,396**	31,385
Foreign exchange revenue	**25,488**	18,943
Other non-interest income	**2,868**	7,202
Total non-interest income	**156,487**	122,950
Interest income		
Deposits with banks	**46,275**	36,165
Loans	**133,637**	104,584
Investments	**89,553**	60,791
Total interest income	**269,465**	201,540
Interest expense		
Deposits and other	**115,249**	80,965
Subordinated capital and senior debt	**3,247**	2,523
Total interest expense	**118,496**	83,488
Net interest income before provision for credit losses	**150,969**	118,052
Provision for credit losses	**(2,894)**	(2,986)
Net interest income, after provision for credit losses	**148,075**	115,066
Other income (loss)	**(156)**	(4,254)
Gain on sale of affiliate	**5,750**	-
Realised / unrealized gains on trading securities	**647**	233
Realised gains on available for sale securities	**362**	56
Total revenue	**311,165**	234,051
Non-interest expense		
Salaries and other employee benefits	**127,459**	100,104
Property	**26,970**	16,843
Systems and communications	**19,589**	17,275
Marketing	**4,836**	2,709
Other expenses	**43,567**	25,902
Total non-interest expense	**222,421**	162,833
Income before taxes	**88,744**	71,218
Income taxes	**1,722**	(380)
Income after taxes	**90,466**	70,838
Net income	**90,466**	70,838
Earnings per share		
Basic	**3.98**	3.14
Diluted	**3.86**	3.07

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 2004.

Consolidated Statement of Changes in Shareholders' Equity and Comprehensive Income

For the year ended 31 December (In $ thousands)

	2004	2003
Share capital		
Authorised: 70,000,000 shares (2003: 70,000,000 shares) of par value $1.00 each		
Issued		
Issued and outstanding at beginning of year	**22,335**	20,443
(January 2004: 22,335,533 shares; January 2003: 20,443,030 shares)		
Dividend reinvestment	**207**	234
(December 2004: 207,109 shares; December 2003: 234,027 shares)		
Stock dividend	**2,218**	2,037
(December 2004: 2,217,927 shares; December 2003: 2,037,470 shares)		
Shares repurchased and cancelled	**(459)**	(379)
(December 2004: 459,232 shares; December 2003: 378,994 shares)		
Issued and outstanding at end of year	**24,301**	22,335
(December 2004: 24,301,337 shares; December 2003: 22,335,533 shares)		
Additional paid in capital		
Balance at beginning of year	**149,454**	84,692
Dividend reinvestment	**8,659**	7,854
Stock dividend	**89,941**	68,500
Issued under executive and employee share plans	**413**	1,219
Shares repurchased and cancelled	**(18,972)**	(12,811)
Balance at end of year	**229,495**	149,454
Retained earnings		
Balance at beginning of year	**124,002**	151,172
Net income for year	**90,466**	70,838
	214,468	222,010
Cash divided on common shares	**(33,635)**	(27,471)
Stock dividend	**(92,159)**	(70,537)
Balance at end of year	**88,674**	124,002
Appropriate retained earnings – general reserve	**100,000**	100,000
Accumulated other comprehensive income	**17,362**	11,432
Net unrealised gains on translation of net investment in foreign operations	**4,455**	8,915
Net unrealised gains on available for sale securities	**201**	63
Net unrealised losses on cash flow hedges	**(10,987)**	(3,048)
Balance at end of year	**11,031**	17,362
Treasury stock		
Balance at beginning of year		
(January 2004:1,692,698 shares; January 2003: 1,839,743 shares)	**(31,058)**	(36,449)
Purchases and forfeitures	**5,587**	5,391
Balance at end of year	**(25,471)**	(31,058)
(December 2004: 1,556,476 shares; December 2003: 1,692,698 shares)		
Total shareholders' equity	**428,030**	382,095
Comprehensive income		
Net income	**90,466**	70,838
Other comprehensive income (loss)	**(6,331)**	5,930
Total comprehensive income	**84,135**	76,768

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

Consolidated Statement of Cash Flows

For the year ended 31 December (In $thousands)

	2004	2003
Cash Flows From Operating Activities		
Net income for the year	**90,466**	70,838
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortisation	**18,390**	14,880
Change in carrying value of investment in affiliate	**1,543**	2,032
Gain on sale of affiliate	**(5,750)**	-
Provision for loan losses	**2,894**	2,986
Increase in accrued interest receivable	**(8,015)**	(1,515)
Increase in other assets	**(6,549)**	(11,777)
Decrease (increase) in accrued interest payable	**1,488**	(366)
Increase in other liabilities	**23,473**	14,475
	117,940	91,553
Net change in trading account securities	**13,561**	(61,407)
Cash provided by operating activities	**131,501**	30,146
Cash Flows From Investing Activities		
Term deposits with banks	**647,946**	(823,913)
Additions to premises, equipment and computer software	**(34,732)**	(13,100)
Net change in loans	**(432,538)**	(131,092)
Held to maturity securities: proceeds from maturities	**623,860**	400,593
Purchases	**(765,797)**	(863,215)
Available for sale securities: purchases	**(2,008)**	(6,414)
Net proceeds on sale of affiliate	**8,250**	-
Net purchase of subsidiaries	**(116,626)**	(31,063)
Cash used in investing activities	**(71,645)**	(1,468,204)
Cash Flow From Financing Activities		
Increase in demand and term deposit liabilities	**19,718**	1,463,003
Issuance of subordinated capital and senior debt	**10,000**	50,000
Proceeds from dividend re-investment plan	**8,866**	8,088
Redemption of shares	**(19,431)**	(13,190)
Treasury stock	**5,587**	5,391
Cash dividends	**(32,217)**	(26,809)
Cash (used in) / from financing activities	**(7,477)**	1,486,483
Effect of exchange rates on cash and from demand deposits with banks	**350**	174
Net increase in cash and demand deposits with banks	**52,729**	48,599
Cash and demand deposits with banks: beginning of year	**111,702**	63,103
Cash and demand deposits with banks: end of year	**164,431**	111,702
Supplemental disclosure of cash flow information		
Amount of interest paid in the year	**117,008**	83,854
Amount of income tax paid in the year	**1,649**	1,078

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

Notes to Consolidated Financial Statements

For the year ended 31 December 2004 (All amounts are expressed in thousands of Bermuda dollars unless otherwise stated)

NOTE 1: Significant Accounting Policies

(a) Basis of Presentation

The accounting and financial reporting policies of The Bank of N.T. Butterfield & Son Limited (The Bank) and its subsidiaries conform to Generally Accepted Accounting Principles in the United States of America (GAAP). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are subject to change in the future as additional information becomes available or previously existing circumstances are modified.

(b) Basis of Consolidation

The Bank consolidates subsidiaries where it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. Entities where the Bank holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence, other than investments of designated venture interest entities (VIEs), are accounted for under the equity method, and the pro rata share of their income (loss) is included in other income. The Bank consolidates entities deemed to be variable interest entities when the Bank is determined to be the primary beneficiary under SFAS Interpretation No. 46 Consolidation of Variable Interest Entities (FIN 46).

(c) Foreign Currency Translation

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

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

(d) Assets Held in Trust or Custody

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

(e) Investments

Investments include debt and equity securities. Debt securities include bonds, notes, redeemable preferred stock, as well as certain loan or asset backed and structured securities subject to prepayment risk. Equity securities include common and non-redeemable preferred stocks. Debt securities classified as "held to maturity" represent securities that the Bank has both the ability and the intent to hold until maturity and are carried at amortised cost adjusted to recognise other than temporary impairment, except for money market mutual funds which are carried at market value, which approximates cost plus accrued and reinvested interest since acquisition. Debt securities and marketable equity securities classified as "available for sale" are carried at fair value, with unrealised gains and losses reported in Other Comprehensive Income. Debt and equity securities classified as "trading" securities are carried at fair value, with the unrealised gains and losses included in the Consolidated Statement of Income as gains and losses on trading.

Fair value is determined based on the quoted market price when available or, if quoted market prices are not available, discounted expected cash flows using market rates commensurate with the credit quality and maturity of the investment. In respect of held to maturity or available for sale securities, declines in fair value that are determined to be other than temporary are charged to earnings. Accrual of income is suspended in respect of debt securities that are in default, or on which it is unlikely that future interest payments will be made as scheduled. Realised gains and losses on sales of investments are included in earnings on a specific identified cost basis.

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 materially from the values that would be determined by negotiations held between parties in a sales transaction.

(f) Loans

Loans are reported at the principal amount outstanding, net of allowance for credit losses, unearned income and net deferred loan fees. Interest income is recognised over the term of the loan using the interest method, or on a basis approximating a level rate of return over the term of the loan, except for loans classified as non-accrual. Non-accrual loans are those on which the accrual of interest is discontinued. Loans are placed on non-accrual status immediately if, in the opinion of management, full payment of principal or interest is in doubt or when principal or interest is 90 days past due, unless the loan is fully secured and any collection efforts are reasonably expected to result in repayment of all amounts due under the contractual terms of the loan. Interest accrued but not collected at the date a loan is placed on non-accrual status is reversed against interest income. In addition, the amortisation of net deferred loan fees is suspended. Interest income on non-accrual loans is recognised only to the extent it is received in cash. However, where there is doubt regarding the ultimate collectivity of the loan principal, all cash thereafter received is applied to reduce the carrying value of the loan. Loans are restored to accrual status only when interest and principal payments are brought current and future payments are reasonably assured.

Credit card loans that are contractually 180 days past due and consumer loans with an outstanding balance under $100,000 that are contractually 180 days past due are automatically written off.

The Bank accounts for and discloses non-accrual commercial loans as impaired loans, and recognises their interest income as previously discussed for non-accrual loans. Accordingly, interest income on these loans is recognised after the entire recorded investment is recovered, and interest is actually received. In addition, the amortisation of net deferred loan fees is suspended.

(g) Allowance for Credit Losses

The Bank maintains an allowance for credit losses, which in management's opinion is adequate to absorb all incurred credit related losses in its 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.

(h) Specific Provisions

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

(i) General Provisions

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

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

(j) Business Combinations, Goodwill and Intangible Assets

All business combinations are accounted for using the purchase method. Identifiable intangible assets (mostly customer relationships) are recognised separately from goodwill and are initially valued using discounted cash flow calculations and other recognised valuation techniques. Goodwill represents the excess of the price paid for the acquisition of a business over the fair value of the net assets acquired. Goodwill is not amortised but is tested at least annually for impairment at the reporting unit level, if events or circumstances such as adverse changes in the business climate indicate there may be impairment. If the carrying amount of a reporting unit, including the allocated goodwill, exceeds its fair value, goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill. Other acquired intangible assets with finite lives are amortised on a straight line basis over their estimated useful lives, not exceeding 15 years. An impairment test is carried out if certain indicators of impairment exist.

(k) Premises, Equipment and Computer Software

Premises, equipment and software, including leasehold improvements, are carried at cost less accumulated depreciation. The Bank generally computes depreciation using the straight-line method over the estimated useful life of an asset, which is 50 years for premises, and 3 to 10 years for other equipment. For leasehold improvements the Bank uses the straight-line method over the lesser of the remaining term of the leased facility or the estimated economic life of the improvement. The Bank capitalises certain costs associated with the acquisition or development of internal use software. Once the software is ready for its intended use, these costs are amortised on a straight-line basis over the software's expected useful life, which is 5 years. If deemed significant the Bank will capitalise interest cost in accordance with SFAS No. 34 Capitalisation of Interest Cost.

(l) Derivatives

In accordance with SFAS No. 133, all derivatives are recognised on the Consolidated Balance Sheet at their fair value. SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138 and No. 149, establishes accounting and reporting standards for financial derivatives, including certain financial derivatives embedded in other contracts and hedging activities. On the date that the Bank enters into a derivative contract, it designates the derivative as either: a hedge of the fair value of a recognised asset or liability (a fair value hedge); a hedge of a forecasted transaction or the variability of cash flows that are to be received or paid in connection with a recognised asset or liability (a cash flow hedge), or an instrument that is held for trading or non-hedging purposes (a trading or non-hedging instrument).

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

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

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

(m) Employee Future Benefits

The Bank maintains trusteed pension plans for substantially all employees including non-contributory defined benefit plans 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.

The Bank’s defined benefit pension plans are accounted for with SFAS 87 and SFAS 88. It’s postretirement medical and life insurance plans are accounted for in accordance with SFAS 106. 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.

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 an annual contribution based on each participating employee's pensionable earnings. Amounts paid are expensed in the period.

(n) 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.

(o) Revenue Recognition

Trust and investment services fees include fees for private and institutional trust, executorship, and custody services. These fees are recognised as revenue when the Bank has rendered all services to the clients and is entitled to collect the fee from the client, as long as there are no other contingencies associated with the fee.

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

Investment and pension fund administration fees include fees for pension fund administration, institutional fund administration, registration and transfer agent and corporate services. Pension and institutional fund administration fees are recognised as revenue when the Bank has rendered all services to the clients and is entitled to collect the fee from the client, as long as there are no other contingencies associated with the fee. All other fees are recognised as revenue over the period of the relationship.

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

Loan interest income includes the amortisation of non-refundable loan origination and commitment fees. These fees are deferred (except for certain retrospectively determined fees meeting specified criteria) and recognised as an adjustment of yield over the life of the related loan. In accordance with SFAS No. 91 Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, these loan origination and commitment fees are offset by their related direct cost and only the net amounts are deferred and amortised into interest income.

Dividend and interest income 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.

(p) Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The accounting for an asset or liability may differ based on the type of instrument and / or its use in a trading or investing strategy. Generally, the measurement framework recorded in financial statements is based on of the following:

– At fair value on the Consolidated Balance Sheet, with changes in fair value recorded each period in the Consolidated Statement of Income.
– At fair value on the Consolidated Balance Sheet, with changes in fair value recorded each period as a separate component of shareholders' equity and as part of other comprehensive income.
– At cost (less other than temporary impairments), with changes in fair value not recorded in the financial statements but disclosed in the notes.
– At the lower of cost or fair value.

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:

i) 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.

ii) Investments: The fair values of investments is based upon quoted market prices where available.

iii) Loans: The majority of loans are variable rate and re-priced 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.

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

v) 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.

vi) Subordinated capital: The fair value of the subordinated capital is based on current market pricing.

vii) 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.

(q) Credit Related Arrangements

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

i) Commitments to extend credit which represent undertakings to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions.

ii) Standby letters of credit, which represent irrevocable obligations to make payments to third parties in the event that the customer is unable to meet its financial obligations.

iii) Documentary and commercial letters of credit, primarily related to the import of goods into Bermuda by customers, which represent agreements to honor drafts presented by third parties upon completion of specific activities.

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

(r) Income Taxes

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

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

(s) Consolidated Statement of Cash Flows

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

(t) Earnings Per Share

Earnings per share has been calculated using the weighted average number of shares outstanding during the year and adjusted for the stock dividends declared during the year ended 31 December 2004 and 2003 (see also Note 18). The dilutive effect of stock options was calculated using the treasury stock method, whereby the proceeds received from the exercise of stock options are assumed to be used to repurchase outstanding shares, using the quarterly average market price of the Bank's shares for the period.

(u) Consolidation of Variable Interest Entities

In December 2003 the FASB issued interpretation No. 46(R), Consolidation of Variable Interest Entities. This interpretation addresses consolidation by a business enterprise of a VIE. FIN 46(R) requires a variable interest holder to consolidate the VIE if that party will absorb a majority of the expected losses of the VIE, receive a majority of residual returns of the VIE, or both. This party is considered the primary beneficiary of the entity. The determination of whether a firm meets the criteria to be considered the primary beneficiary of a VIE requires an evaluation of all transaction (such as investments, loans and fee arrangements) with the entity. The foundation of this evaluation is an expected-loss calculation prescribed by FIN 46(R) (note 23).

(v) Impairment or Disposal of Long-Lived Assets

An impairment loss is 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 is measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets that are to be disposed of other than by sale are classified and accounted for as held for use until the date of disposal or abandonment. Assets that meet certain criteria are classified as held for sale and are measured at the lower of their carrying amounts or fair value, less costs of sale.

NOTE 2: Significant Acquisitions

On 2 February 2004, the Bank acquired all the outstanding shares of Deerfield Fund Services Limited, a fund administration services provider based in The Bahamas for $4.3 million paid in cash. The company was renamed Butterfield Fund Services (Bahamas) Limited in 2004.

On 5 February 2004, the Bank announced that Bank of Butterfield (UK) Limited had made a cash offer for the entire and to be issued share capital of Leopold Joseph Holdings plc. (Leopold Joseph) subject to Leopold Joseph shareholder and appropriate regulatory approvals. The cash offer was £9.50 in cash per Leopold Joseph share, valuing the existing issued share capital of Leopold Joseph at approximately £55.1 million ($103.6 million). The offer price, which had the unanimous recommendation of the directors of Leopold Joseph, represented 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. On 2 April 2004, the Bank announced that it had acquired all the outstanding common shares of Leopold Joseph and that all the conditions of the Bank's offer had been satisfied unconditionally. The principal activities of Leopold Joseph were private banking, treasury, investment management, offshore company administration and trust services to companies and high net worth individuals and families. The company was renamed Butterfield Bank (UK) Limited in 2004.

On 8 October 2004, the Bank acquired all outstanding shares of Grosvenor Trust Company Limited (Grosvenor) a specialist trust business based in Bermuda for $8.7 million. The total consideration in respect of this acquisition was paid in cash.

On 4 March 2003, the Bank acquired Promisant (Technology) Limited (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. During 2003 PHL was wound down and the Bank wrote-off its remaining investment of $4.6 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.

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 $11.9 million and was paid in cash. Subsequent to the acquisitions, the Bank merged the operations of the two companies into Butterfield Bank (Bahamas) Limited and these results are included in the Consolidated Statement of Income from the dates of their acquisition. 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 $18.1 million and was paid in cash. The company was renamed Butterfield Bank (Barbados) Limited in 2004.

The following table summarises the total consideration in respect of significant acquisitions.

		2004			2003
	Deerfield	**Leopold Joseph**	**Grosvenor**	**Total**	Total
Fair value of assets acquired					
Cash and deposits with banks	205	78,957	396	**79,558**	50,712
Investments	-	497,258	-	**497,258**	42,901
Loans	-	260,971	-	**260,971**	61,517
Premises, equipment and computer software	173	4,126	41	**4,340**	3,486
Intangible assets – Customer relationships	2,700	32,439	8,337	**43,476**	11,446
Intangible assets – Goodwill	1,031	13,695	-	**14,726**	6,112
Other assets	290	13,466	988	**14,744**	5,029
Total assets	**4,399**	**900,912**	**9,762**	**915,073**	181,203
Fair value of liabilities assumed					
Deposits	-	765,155	-	**765,155**	139,513
Other liabilities	149	23,229	1,022	**24,400**	10,627
Subordinated capital	-	8,892	-	**8,892**	-
Total liabilities	149	797,276	1,022	**798,447**	150,140
Fair value of identifiable net assets acquired	4,250	103,636	8,740	**116,626**	31,063
Total purchase consideration	**4,250**	**103,636**	**8,740**	**116,626**	31,063

NOTE 3: Cash and Deposits with Banks

31 December	2004 Bermuda	2004 Other currencies	2004 Total	2003 Bermuda	2003 Other currencies	2003 Total
Unrestricted						
Non-interest earning						
Cash and demand deposits	**118,975**	**25,651**	**144,626**	69,468	24,201	93,669
Interest earning						
Cash and demand deposits	**124,688**	**160,042**	**284,730**	-	92,079	92,079
Term deposits maturing within six months	**10,000**	**1,898,352**	**1,908,352**	-	2,570,321	2,570,321
Term deposits maturing within six to twelve months	**-**	**39,211**	**39,211**	-	138,281	138,281
Sub-total – Interest earnings	**134,688**	**2,097,605**	**2,232,293**	-	2,800,681	2,800,681
Total unrestricted cash and deposits	**253,663**	**2,123,256**	**2,376,919**	69,468	2,824,882	2,894,350
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Non-interest earning						
Cash and demand deposits	**1,535**	**18,270**	**19,805**	-	18,033	18,033
Total cash and deposits with Banks	**255,198**	**2,141,526**	**2,396,724**	69,468	2,842,915	2,912,383

NOTE 4: Investments

Trading

Trading assets include debt and equity securities held for trading purposes that the Bank owns ("long" positions). Included in trading assets are the reported receivables (unrealised gains) and payables (unrealised losses) related to derivatives. These amounts include the effect of netting as permitted under FASB Interpretation No. 39 Offsetting Amounts Related to Certain Contracts (FIN 39). Trading positions are carried at fair value on the Consolidated Balance Sheet.

31 December	2004	2003
Trading revenue		
Equities (a)	**307**	147
Fixed income and other (b)	**340**	86
Total	**647**	233

(a) Includes equity securities and equity derivatives.

(b) Includes bonds and commercial paper, and interest rate and foreign exchange derivatives.

Trading assets

The following table presents the fair value of trading assets and liabilities for the dates indicated:

31 December	2004	2003
Debt and equity instruments		
Certificates of deposit, bankers acceptances and commercial paper	**628,147**	153,943
Debt securities issued by non-US governments	**12,475**	-
Corporate securities and other	**3,273**	5,608
Total net trading	**643,895**	159,551

The following table presents realised gains and losses from available for sale securities:

31 December	2004	2003
Realised gains	**362**	56
Realised losses	**-**	-
Net realised gains	**362**	56

Available for Sale

The amortised cost and estimated fair value of available for sale and held to maturity securities were as follows for the dates indicated:

31 December	2004 Amortised cost	2004 Gross unrealised gains	2004 Gross unrealised (losses)	2004 Fair value	2003 Amortised cost	2003 Gross unrealised gains	2003 Gross unrealised (losses)	2003 Fair value
Available for sale								
Corporate debt securities	**26,304**	**-**	**-**	**26,304**	23,966	-	-	23,966
Equity securities	**2,890**	**264**	**-**	**3,154**	3,563	63	-	3,626
Other, primarily asset-backed securities	**223**	**-**	**-**	**223**	223	-	-	223
Total available for sale	**29,417**	**264**	**-**	**29,681**	27,752	63	-	27,815
Held to maturity								
US government and federal agencies/corporations	**85,421**	**364**	**(36)**	**85,749**	40,480	1,343	-	41,823
Collateralised mortgage obligations	**242,249**	**111**	**(378)**	**241,982**	414,867	1,519	(226)	416,160
Debt securities issued by non-US governments	**57,246**	**228**	**(4)**	**57,470**	179,618	1,719	(99)	181,238
Corporate debt securities	**2,023,810**	**3,560**	**(1,363)**	**2,026,007**	1,739,847	4,956	(676)	1,744,127
Other, primarily asset-backed securities	**184,098**	**335**	**(8,452)**	**175,981**	76,075	468	(6,822)	69,721
Total held to maturity	**2,592,824**	**4,598**	**(10,233)**	**2,587,189**	2,450,887	10,005	(7,823)	2,453,069

Investments include $707,165 (2003: $538,457) of fixed-rate instruments and $2,521,170 (2003: $1,921,973) of floating-rate instruments. The approximate yield on floating rate securities at 31 December 2004 was 2.69% (2003: 1.79%), while the approximate yield on fixed rate securities was 5.31% (2003: 4.53%).

The following table presents the maturity of securities by remaining term to maturity:

31 December 2004	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying value
	Remaining term to maturity					
Available for sale						
Corporate debt securities	**24,934**	**-**	**-**	**1,370**	**-**	**26,304**
Equity securities	**-**	**-**	**-**	**-**	**3,154**	**3,154**
Other, primarily asset backed securities	**-**	**-**	**-**	**-**	**223**	**223**
Total available for sale	**24,934**	**-**	**-**	**1,370**	**3,377**	**29,681**
Held to maturity						
US government and federal agencies/corporations	**19,983**	**20,191**	**-**	**45,248**	**-**	**85,422**
Collateralised mortgage obligations	**-**	**-**	**32,168**	**210,081**	**-**	**242,249**
Debt securities issued by non-US governments	**5,755**	**7,935**	**35,048**	**18,723**	**4,667**	**72,128**
Corporate debt securities	**379,834**	**318,226**	**1,300,871**	**9,984**	**-**	**2,008,915**
Other, primarily asset-backed securities	**-**	**-**	**37,617**	**120,523**	**25,970**	**184,110**
Total held to maturity	**405,572**	**346,352**	**1,405,704**	**404,559**	**30,637**	**2,592,824**

31 December 2004	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying value
			Remaining term to maturity			
Trading						
Debt and equity instruments						
Certificates of deposit, bankers acceptances and commercial paper	**513,966**	**114,181**	**-**	**-**	**-**	**628,147**
Debt securities issued by non-US governments	**-**	**747**	**3,376**	**8,353**	**-**	**12,476**
Corporate securities and other	**-**	**-**	**-**	**-**	**3,272**	**3,272**
Total debt and equity instruments	**513,966**	**114,928**	**3,376**	**8,353**	**3,272**	**643,895**
Total investments	**944,472**	**461,280**	**1,409,080**	**414,282**	**37,286**	**3,266,400**
Total by currency (in US dollars equivalent)						
Bermuda dollars	**-**	**-**	**-**	**-**	**3,154**	**3,154**
US dollars	**339,861**	**289,273**	**1,326,445**	**379,236**	**32,448**	**2,367,263**
Other	**604,611**	**172,007**	**82,635**	**35,046**	**1,684**	**895,983**
Total Investments	**944,472**	**461,280**	**1,409,080**	**414,282**	**37,286**	**3,266,400**

31 December 2003	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying value
			Remaining term to maturity			
Available for sale						
Corporate debt securities	23,966	-	-	-	-	23,966
Equity securities	-	-	-	-	3,626	3,626
Other, primarily asset-backed securities	-	-	-	-	223	223
Total available for sale	23,966	-	-	-	3,849	27,815
Held to maturity						
US government and federal agencies/corporations	-	-	40,479	-	-	40,479
Collateralised mortgage obligations	47	15,004	17,029	382,787	-	414,867
Debt securities issued by non-US governments	-	8,491	162,295	26,176	-	196,962
Corporate debt securities	371,671	285,632	1,065,198	-	-	1,722,501
Other, primarily asset-backed securities	-	-	5,587	53,670	16,821	76,078
Total held to maturity	371,718	309,127	1,290,588	462,633	16,821	2,450,887
Trading						
Debt and equity instruments						
Certificates of deposit, bankers acceptances and commercial paper	153,943	-	-	-	-	153,943
Corporate securities and other	-	-	-	-	5,608	5,608
Total debt and equity instruments	153,943	-	-	-	5,608	159,551
Total investments	549,627	309,127	1,290,588	462,633	26,278	2,638,253
Total by currency (in US dollars equivalent)						
Bermuda dollars	-	-	-	-	3,626	3,626
US dollars	373,375	285,562	1,118,268	420,732	21,030	2,218,967
Other	176,252	23,565	172,320	41,901	1,622	415,660
Total investments	549,627	309,127	1,290,588	462,633	26,278	2,638,253

NOTE 5: Loans

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

	2004			2003		
31 December	**Bermuda**	**Non-Bermuda**	**Total**	Bermuda	Non-Bermuda	Total
Commercial loans						
Commercial and industrial	**375,390**	**121,765**	**497,155**	314,547	97,845	412,392
Commercial real estate:						
Commercial mortgages	**61,500**	**306,186**	**367,686**	60,964	90,104	151,068
Construction	**134,839**	**5,164**	**140,003**	38,384	2,389	40,773
Financial institutions	**249,520**	**63,217**	**312,737**	245,980	36,324	282,304
Government	**24,853**	**13,983**	**38,836**	11,500	23,703	35,203
Total commercial loans	**846,102**	**510,315**	**1,356,417**	671,375	250,365	921,740
Less allowance for credit losses on commercial loans	**(10,588)**	**(3,051)**	**(13,639)**	(11,010)	(2,676)	(13,686)
Total commercial loans after allowance for credit losses	**835,514**	**507,264**	**1,342,778**	660,365	247,689	908,054
Consumer loans						
Credit card	**34,814**	**16,618**	**51,432**	31,596	13,701	45,297
Automobile financing	**47,099**	**8,102**	**55,201**	45,421	7,250	52,671
Mortgages	**702,200**	**207,562**	**909,762**	631,946	171,244	803,190
Other consumer	**73,881**	**222,459**	**296,340**	71,125	82,579	153,704
Total consumer loans	**857,994**	**454,741**	**1,312,735**	780,088	274,774	1,054,862
Less allowance for credit losses on consumer loans	**(5,578)**	**(4,604)**	**(10,182)**	(5,929)	(2,271)	(8,200)
Total consumer loans after allowance for credit losses	**852,416**	**450,137**	**1,302,553**	774,159	272,503	1,046,662
Total loans	**1,704,096**	**965,056**	**2,669,152**	1,451,463	525,139	1,976,602
Less allowance for credit losses	**(16,166)**	**(7,655)**	**(23,821)**	(16,939)	(4,947)	(21,886)
Net loans	**1,687,930**	**957,401**	**2,645,331**	1,434,524	520,192	1,954,716

The principal means of securing residential mortgages, personal, credit card and business loans are charges over assets and guarantees. Mortgage loans are generally repayable over periods of up to thirty years and personal, credit card, business and government loans are generally repayable over terms not exceeding five years. The effective yield on total loans as at 31 December 2004 is 6.32% (2003: 5.88%). During the year loans of $35 million were purchased from other parties at fair value. The premium or discount over book value is amortised over the life of the loan.

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

	2004			2003		
31 December	**Gross**	**Allowance**	**Total**	Gross	Allowance	Total
Commercial loans – Bermuda	**2,557**	**(716)**	**1,841**	4,802	(2,197)	2,605
Commercial loans – Non-Bermuda	**9,019**	**(484)**	**8,535**	4,585	(1,030)	3,555
Consumer loans and credit cards – Bermuda	**1,072**	**(237)**	**835**	1,393	(233)	1,160
Consumer loans and credit cards – Non-Bermuda	**726**	**(374)**	**352**	1,044	(308)	736
Mortgages – Bermuda	**1,203**	**-**	**1,203**	1,831	-	1,831
Mortgages – Non-Bermuda	**5,895**	**(107)**	**5,788**	3,711	(181)	3,530
Total	**20,472**	**(1,918)**	**18,554**	17,366	(3,949)	13,417

For the year ended 31 December 2004, the amount of gross interest income that would have been recorded had impaired loans been current was $2,666 (2003: $2,933). For the year ended 31 December 2004, the Bank recovered overdue interest of $172 (2003: $59) on impaired loans that were repaid in the year. The average balance of impaired loans during the year ended 31 December 2004 was $18,429 (2003: $20,572).

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

	2004			2003		
31 December	**Specific Provisions**	**General Provisions**	**Total**	Specific Provisions	General Provisions	Total
Allowance for loan losses at beginning of year	**3,949**	**17,937**	**21,886**	7,624	17,686	25,310
Allowance this year	**723**	**2,171**	**2,894**	(345)	3,331	2,986
Recoveries	**2,215**	**3,204**	**5,419**	5,163	(2,968)	2,195
Charge-off	**(5,330)**	**(1,053)**	**(6,383)**	(9,095)	(48)	(9,143)
Other	**361**	**(356)**	**5**	602	(64)	538
Allowance for loan losses at end of year	**1,918**	**21,903**	**23,821**	3,949	17,937	21,886

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

	2004			2003		
31 December	**Total delinquent loans**	**Loans 90 days or more past due**	**Net charge-offs**	Total delinquent loans	Loans 90 days or more past due	Net charge-offs
Credit card	**3,812**	**587**	**763**	2,775	927	1,336
Automobile financing	**872**	**569**	**554**	665	167	161
Other consumer	**25,882**	**12,969**	**1,286**	21,150	11,973	704
Consumer loans	**30,566**	**14,125**	**2,603**	24,590	13,067	2,201
Commercial loans	**12,563**	**11,168**	**3,780**	13,448	9,559	6,942
Total loans reported	**43,129**	**25,293**	**6,383**	38,038	22,626	9,143

NOTE 6: Credit Risk Concentrations

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

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

31 December	**2004**	2003
Primary industry and manufacturing	**95,155**	59,609
Commercial and merchandising	**572,940**	570,035
Real estate	**1,340,454**	825,864
Transport and communication	**56,322**	32,047
Bank and financial services	**938,413**	1,018,962
Governments	**38,474**	35,203
Individuals	**944,747**	519,944
Sub-total	**3,986,505**	3,061,664
General provisions	**(21,903)**	(17,937)
Total	**3,964,602**	3,043,727

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

31 December	**2004**	2003
Bermuda	**2,752,005**	2,364,581
Barbados	**84,148**	61,446
Cayman	**428,962**	408,257
Guernsey	**225,902**	134,348
The Bahamas	**2,904**	-
UK	**492,584**	93,032
Sub-total	**3,986,505**	3,061,664
General provision	**(21,903)**	(17,937)
Total	**3,964,602**	3,043,727

NOTE 7: Premises, Equipment and Computer Software

The following table summarises premises, equipment and computer software:

	2004			2003		
31 December	**Cost**	**Accumulated Depreciation**	**Net carrying value**	Cost	Accumulated Depreciation	Net carrying value
Land	**12,345**	**-**	**12,345**	12,345	-	12,345
Buildings	**105,907**	**30,633**	**75,274**	90,183	28,683	61,500
Equipment	**62,162**	**47,281**	**14,881**	57,699	45,676	12,023
Computer software	**62,610**	**39,079**	**23,531**	45,728	31,617	14,111
Total	**243,024**	**116,993**	**126,031**	205,955	105,976	99,979

31 December	**2004**	2003
Depreciation		
Buildings and equipment (included in property expense)	**6,686**	5,815
Software (included in systems and communication expense)	**6,334**	6,707
Total depreciation charged to operating expenses	**13,020**	12,522

The Bank has outstanding capital commitments of approximately $25 million as at 31 December 2004 in respect of building refurbishments and system improvements. During the year the Bank capitalised certain cost associated with the development of software amounting to $16.9 million. These costs are included in computer software costs above.

Note 8: Goodwill and Other Intangible Assets

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

Goodwill

Business segment	Barbados	Guernsey	The Bahamas	United Kingdom	Total
Balance as at 31 December 2002	-	2,720	-	-	2,720
Goodwill acquired during the year	5,220	-	892	-	6,112
Foreign exchange translation adjustment	-	294	-	-	294
Balance as at 31 December 2003	5,220	3,014	892	-	9,126
Goodwill acquired during the year	**-**	**4,758**	**1,031**	**8,937**	**14,726**
Foreign exchange translation adjustment	**-**	**419**	**-**	**367**	**786**
Balance as at 31 December 2004	**5,220**	**8,191**	**1,923**	**9,304**	**24,638**

Other Intangibles	**2004**			2003		
31 December	**Gross carrying amount**	**Accumulated amortisation**	**Net carrying amount**	Gross carrying amount	Accumulated amortisation	Net carrying amount
Bermuda	**8,337**	**(139)**	**8,198**	-	-	-
Barbados	**6,681**	**(482)**	**6,199**	6,488	-	6,488
Cayman	**1,211**	**(27)**	**1,184**	-	-	-
Guernsey	**50,740**	**(10,202)**	**40,538**	35,265	(7,675)	27,590
The Bahamas	**7,790**	**(1,067)**	**6,723**	5,090	(140)	4,950
UK	**19,831**	**(1,268)**	**18,563**	-	-	-
Customer relationships	**94,590**	**(13,185)**	**81,405**	46,843	(7,815)	39,028

There have been no impairment losses for the years ended 31 December 2004 and 2003.

The estimated aggregate amortisation expense for each of the succeeding years until 31 December 2008 is $6.6 million.

Customer relationships are valued based on the present value of net cash flows expected to be derived solely from the recurring customer base existing as at the date of acquisition. Customer relationship intangible assets may or may not arise from contracts. During 2004, the Bank acquired new customer relationships for $44.9 million, the amortisation expenses amounted to $5.4 million.

NOTE 9: Customer Deposits and Deposits from Banks

(a) By maturity

31 December	2004	2003
Customer and bank demand deposits		
Customer deposits – Current accounts – Non-Interest Bearing	**999,826**	1,140,547
Customer deposits – Current accounts – Interest Bearing	**3,878,707**	3,048,157
Sub-total – demand deposits	**4,878,533**	4,188,704
Customer and bank term deposits		
Term deposits maturing within six months	**2,690,114**	2,576,235
Term deposits maturing within six to twelve months	**105,695**	110,615
Term deposits maturing after twelve months	**233,108**	247,023
Sub-total – term deposits	**3,028,917**	2,933,873
Total	**7,907,450**	7,122,577

(b) By Type and Location

	2004			2003		
31 December	**Payable On Demand**	**Payable on a fixed date**	**Total**	Payable On Demand	Payable on a fixed date	Total
Bermuda						
Customers	**2,098,322**	**1,069,535**	**3,167,857**	2,087,514	1,461,037	3,548,551
Banks	**223,951**	**-**	**223,951**	241,768	-	241,768
Cayman						
Customers	**1,528,645**	**438,140**	**1,966,785**	1,308,029	387,237	1,695,266
Banks	**-**	**184,943**	**184,943**	-	151,767	151,767
Guernsey						
Customers	**524,102**	**756,042**	**1,280,144**	379,574	474,067	853,641
Banks	**5,711**	**488**	**6,199**	4,938	19,891	24,829
Other International						
Customers	**497,802**	**492,267**	**990,069**	166,881	347,963	514,844
Banks	**-**	**87,502**	**87,502**	-	91,911	91,911
Total	**4,878,533**	**3,028,917**	**7,907,450**	4,188,704	2,933,873	7,122,577

The effective yield on deposits at 31 December 2004 was 2.2% (2003: 1.5%).

NOTE 10: Employee Future Benefits

The Bank maintains trusteed pension plans including non-contributory defined benefit plans and a number of defined contribution plans, and provides post-retirement medical benefits to its qualifying retirees. 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. The benefit obligations and plan assets are measured as at 31 December.

	2004		2003	
	Pension Plans	**Post-Retirement Medical Benefit Plan**	Pension Plans	Post-Retirement Medical Benefit Plan
Accumulated benefit obligation at end of year	**98,084**	**-**	71,188	-
Change in projected benefit obligation				
Projected benefit obligation at beginning of year	**77,093**	**75,821**	64,166	50,551
New acquisitions	**21,610**	**-**	1,237	-
Service cost	**4,443**	**1,472**	3,288	1,252
Employee contributions	**180**	**-**	4	-
Interest cost	**5,278**	**4,755**	4,060	3,305
Benefits paid	**(3,496)**	**(560)**	(3,268)	(1,919)
Past service cost	**221**	**-**	-	-
Actuarial losses	**(2,002)**	**1,036**	6,114	22,632
Foreign currency exchange rate changes	**2,188**	**-**	1,492	-
Projected benefit obligation at end of year	**105,515**	**82,524**	77,093	75,821
Change in plan assets				
Fair value of plan assets at beginning of year	**66,352**	**-**	58,203	-
New acquisitions	**15,524**	**-**	982	-
Actual return on plan assets	**3,427**	**-**	7,767	-
Employer contributions	**2,830**	**560**	1,656	1,919
Employee contributions	**180**	**-**	4	-
Benefits paid	**(3,496)**	**(560)**	(3,268)	(1,919)
Foreign currency exchange rate changes	**1,631**	**-**	1,008	-
Fair value of plan assets at end of year	**86,448**	**-**	66,352	-
Funded status				
Excess (deficit) of plan assets over projected benefit obligation at end of year	**(19,067)**	**(82,524)**	(10,741)	(75,821)
Employer contributions during the period from measurement date to fiscal year end	**255**	**-**	-	-
Unamortised net actuarial loss	**2,138**	**36,874**	2,544	39,013
Unamortised past service cost	**201**	**-**	-	-
Net amount recognised	**(16,473)**	**(45,650)**	(8,197)	(36,808)

	2004		2003	
	Pension Plans	**Post-Retirement Medical Benefit Plan**	Pension Plans	Post-Retirement Medical Benefit Plan
Amounts recognised in balance sheet consist of:				
Accrued benefit asset included in other assets				
Accrued benefit (liability) included in other liabilities	**(16,473)**	**(45,650)**	(9,013)	(36,808)
Accumulated other comprehensive (income)	**-**	**-**	816	-
Net amount recognised	**(16,473)**	**(45,650)**	(8,197)	(36,808)
Annual benefit expense				
Service cost	**4,443**	**1,472**	3,287	1,252
Interest cost	**5,278**	**4,755**	4,060	3,305
Expected return on plan assets	**(5,046)**	**-**	(3,937)	-
Amortisation of past service cost	**28**	**-**	**-**	-
Amortisation of actuarial loss	**21**	**3,175**	-	1,272
Defined benefit expense	**4,724**	**9,402**	3,410	5,829
Defined contribution expense	**3,121**	**-**	2,508	-
Total benefit expense	**7,845**	**9,402**	5,918	5,829

	2004		2003	
31 December	**Pension Plans**	**Post-Retirement Medical Benefit Plan**	Pension Plans	Post-Retirement Medical Benefit Plan
Actuarial assumptions used to determine annual benefit expense				
Weighted average discount rate	**5.75%**	**6.25%**	6.35%	6.50%
Weighted average rate of compensation increases	**4.15%**	**N/A**	3.90%	N/A
Weighted average expected long-term rate of return on plan assets	**6.55%**	**N/A**	6.85%	N/A
Weighted average annual medical cost increase rate	**N/A**	**12% to 5% in 2011**	N/A	6% to 5% in 2004
Actuarial assumptions used to determine benefit obligations at end of year				
Weighted average discount rate	**5.60%**	**6.00%**	5.85%	6.25%
Weighted average rate of compensation increases	**3.70%**	**N/A**	3.85%	N/A
Weighted average annual medical cost increase rate	**N/A**	**11% to 5% in 2011**	N/A	12% to 5% in 2011

For 2004, the effect of one percentage point increase or decrease in the assumed medical cost increase rate on the aggregate of service and interest costs is a $1.3 million increase and a $0.9 million decrease, respectively, and on the benefit obligation a $14 million increase and a $13 million decrease, respectively.

To develop the expected long-term rate of return on assets assumption for each plan, the Bank considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocations of the funds.

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

	2004		2003	
31 December	**Actual Allocation**	**Target Allocation**	Actual Allocation	Target Allocation
Asset category				
Equity securities (including equity mutual funds)	**46%**	**51%**	39%	45%
Equity/debt balanced mutual funds	**17%**	**-**	19%	-
Debt securities (including debt mutual funds)	**31%**	**49%**	35%	55%
Other	**6%**	**-**	7%	-
Total	**100%**	**100%**	100%	100%

At 31 December 2004, 50.8% (2003: 49.9) of the assets of the pension plans were mutual funds and alternative investments managed or administered by wholly-owned subsidiaries of the Bank. On 31 December 1.8% (2003: 1.9%) of these mutual funds assets were invested in common shares of the Bank.

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

Estimated 2005 Bank contribution to, and estimated benefit payments for the next 10 years under, the pension and medical benefit plan are as follows:

	Year	Pension Plans	Post-Retirement Medical Benefit Plan
Estimated Bank contributions	2005	6,700	2,700
Estimated benefit payments	2005	3,400	2,700
Estimated benefit payments	2006	3,600	3,000
Estimated benefit payments	2007	3,700	3,300
Estimated benefit payments	2008	3,900	3,700
Estimated benefit payments	2009	4,200	3,900
Estimated benefit payments	2010-2014	25,900	24,200

The projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets were $103 million and $84 million respectively, as at 31 December 2004 ($77 million and $66 million respectively, as at 31 December 2003).

NOTE 11: Commitments, Credit Related Arrangements and Contingencies

Commitments

The Bank was committed to expenditures under contract for software development and construction of $8.7 million and $25 million respectively, as at 31 December 2004. Rental expense for premises leased on a long-term basis for the year ended 31 December 2004 amounted to $8.2 million (2003: $3.3 million).

The following table summarises the Bank's commitments for construction, computer software development and long-term leases:

Year	
2005	**8,159**
2006	**9,192**
2007	**5,305**
2008	**4,612**
2009	**4,515**
2010 & thereafter	**10,127**

Total rental expense was as follows:

Year ended 31 December	**2004**	2003
Gross rentals	**4,896**	2,134
Sub-lease rentals	**-**	(198)
Net rental expense	**4,896**	1,936

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

		2004			2003	
31 December	**Gross**	**Collateral**	**Net**	Gross	Collateral	Net
Commitments to extend credit	**650,973**	**156,106**	**494,867**	34,221	34,221	-
Commitments to invest	**2,464**	**2,464**	**-**	4,521	4,521	-
Letters of Credit						
Standby	**544,587**	**515,432**	**29,155**	514,997	493,544	21,453
Documentary and commercial	**3,025**	**2,599**	**426**	4,036	3,689	347
Guarantees	**15,296**	**11,074**	**4,222**	10,821	3,276	7,545
Securities lending	**-**	**-**	**-**	-	-	-
Forward guarantees	**2,151**	**2,151**	**-**	1,504	1,154	350
Total	**1,218,496**	**689,826**	**528,670**	570,100	540,405	29,695

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

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 note 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.

Legal Proceedings
There are a number of actions and legal proceedings pending against the Bank and its subsidiaries which arose in the normal course of its business. Management, after reviewing all actions 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: Interest Income

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

Year ended 31 December	**2004**	2003
Mortgages	**68,212**	57,025
Other loans	**63,203**	45,699
	131,415	102,724
Amortisation of loan origination fees (net of amortised costs)	**2,222**	1,860
Total loan interest income	**133,637**	104,584
Balance of unamortised loan fees as at 31 December	**9,195**	7,430

NOTE 13: 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 and Fiduciary Services and Investment and Pension Fund Administration, and Real Estate), Barbados, Cayman, Guernsey, The Bahamas, 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 treasury operations and Promisant (Technology) Limited.

The Bermuda Wealth Management and Fiduciary Services and Investment and Pension Fund Administration segment consists of Butterfield Asset Management Limited, which provides investment management, advisory and brokerage services, Butterfield Trust (Bermuda) Limited which provides trust, estate, company management and custody services, and Butterfield Fund Services (Bermuda) Limited, which provides valuation, accounting, corporate and shareholder services.

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

The Barbados segment provides a range of community and commercial banking services through three branch locations, ATMs 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, ATMs and debit cards. Wealth management and fiduciary services and investment and pension fund administration services are also provided.

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

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

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

The Hong Kong segment provides investment and pension fund administration and custody services and represents the Bank's 20% investment in Dexia Holdings (Hong Kong) Limited. The restricted branch license in Hong Kong was taken over by Dexia in April 2003.

Operating segment information follows:

31 December	2004	2003
Total Assets		
Bermuda		
Community Banking	**3,435,708**	3,991,190
Wealth Management & Fiduciary Services and Investment & Pension Fund Administration	**28,952**	28,889
Real Estate	**65,082**	52,137
Total Bermuda	**3,529,742**	4,072,216
Barbados	**173,324**	155,372
Cayman	**2,322,657**	1,973,977
Guernsey	**1,442,522**	974,428
The Bahamas	**63,433**	18,429
United Kingdom	**1,096,629**	537,404
Hong Kong	**2,076**	1,980
Total	**8,630,383**	7,733,806

Business Area Analysis

31 December 2004	Net Interest Income Customer	Net Interest Income Intersegment	Provisions for Loan Losses	Fees and Other Income	Total Income	Other Expenses	Depreciation & Amortisation	Total Expenses	Net Income
Community Banking	94,275	363	1,437	38,941	135,016	82,479	5,388	87,867	47,149
Wealth Management & Fiduciary Services and Investment & Pension Fund Administration	-	249	-	55,357	55,606	27,531	706	28,237	27,369
Real Estate	-	(1,114)	-	2,515	1,401	5,632	1,581	7,213	(5,812)
Sub-total Bermuda	94,275	(502)	1,437	96,813	192,023	115,642	7,675	123,317	68,706
Barbados	5,608	(6)	(721)	3,576	8,457	6,572	1,561	8,133	324
Cayman	29,037	1,835	(3,582)	28,972	56,262	28,767	2,775	31,542	24,720
Guernsey	7,378	1,649	-	26,015	35,042	29,273	3,193	32,466	2,576
The Bahamas	131	389	(28)	5,369	5,861	4,454	739	5,193	668
United Kingdom	14,540	(3,365)	-	8,137	19,312	24,081	2,447	26,528	(7,216)
Hong Kong	-	-	-	688	688	-	-	-	688
Sub-total Overseas	56,694	502	(4,331)	72,757	125,622	93,147	10,715	103,862	21,760
Total Income	150,969	-	(2,894)	169,570	317,645	208,789	18,390	227,179	90,466
less: Inter-segment eliminations (principally rent and management fees)				(6,480)	(6,480)	(6,480)	-	(6,480)	-
Total	150,969	-	(2,894)	163,090	311,165	202,309	18,390	220,699	90,466

31 December 2003	Net Interest Income Customer	Net Interest Income Intersegment	Provisions for Loan Losses	Fees and Other Income	Total Income	Other Expenses	Depreciation & Amortisation	Total Expenses	Net Income
Community Banking	83,952	(338)	(1,731)	28,884	110,767	73,823	5,107	78,930	31,837
Wealth Management & Fiduciary Services and Investment & Pension Fund Administration	-	331	-	42,195	42,526	22,257	575	22,832	19,694
Real Estate	-	(1,157)	-	2,444	1,287	4,771	1,547	6,318	(5,031)
Sub-total Bermuda	83,952	(1,164)	(1,731)	73,523	154,580	100,851	7,229	108,080	46,500
Barbados	408	-	(741)	355	22	480	121	601	(579)
Cayman	24,022	294	(858)	25,593	49,051	23,457	2,366	25,823	23,228
Guernsey	5,528	1,580	325	21,697	29,130	22,513	4,298	26,811	2,319
The Bahamas	90	-	-	1,298	1,388	968	181	1,149	239
United Kingdom	4,028	(709)	12	1,056	4,387	4,811	684	5,495	(1,108)
Hong Kong	24	(1)	7	582	612	372	1	373	239
Sub-total Overseas	34,100	1,164	(1,255)	50,581	84,590	52,601	7,651	60,252	24,338
					-				
Total Income	118,052	-	(2,986)	124,104	239,170	153,452	14,880	168,332	70,838
less: Inter-segment eliminations (principally rent and management fees)	-	-	-	(5,630)	(5,630)	(5,630)	-	(5,630)	-
Total	118,052	-	(2,986)	118,474	233,540	147,822	14,880	162,702	70,838

For the year ended 31 December 2004, included within other expenses are the following income tax expense/(refund) amounts: Guernsey ($376) (2003: $908), UK ($1,551), (2003: $(435)) and Barbados $192 (2003: $22). 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 14: Accounting for Derivative Instruments and Risk Management

The Bank uses derivatives in the asset and liability management (ALM) of positions and to assist customers with their risk management objectives. The Bank primarily enters into derivative contracts as part of its overall interest rate risk management strategy to minimise significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Bank's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain consolidated balance sheet assets and liabilities so that movements in interest rates do not adversely affect the net interest margin.

The Bank's derivative contracts principally involve over the counter transactions that are privately negotiated between the Bank and the counterparty to the contract. Derivative instruments that are used as part of the Bank's interest rate risk management strategy include interest rate swaps and option contracts that have indices related to the pricing of specific consolidated balance sheet assets and liabilities. Interest rate swaps generally involve the exchange of fixed and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date. Interest rate options represent contracts that allow the holder of the option to receive cash or purchase, sell, or enter into a financial instrument at a specified price within a specified period.

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

(a) Fair Value Hedges

The Bank enters into interest rate swaps to convert its fixed rate long term debt to floating rate debt, and convert fixed rate deposits to floating rate deposits.

For the year ended 31 December 2004 the Bank recognised a net loss of $0.2 million (2003: $0.1 million) reported as other income in the Consolidated Statement of Income, which represented the ineffective portion of all fair-value hedges. As of 31 December 2004 the Bank has recorded the fair value of derivative instrument assets of $0.4 million (2003: $0.6 million) in other assets and derivative instrument liabilities of $3.2 million (2003: $3.5 million) other liabilities.

(b) Cash Flow Hedges

The Bank uses interest rate swaps to convert floating-rate notes to fixed-rate instruments. These swaps, which qualify for hedge accounting, have the pay rate indexed to the rates received on the Bank's variable-rate assets and the receive rate indexed to rates paid on the Bank's various deposit liabilities.

For cash flow hedges, gains and losses on derivative contracts that are reclassified from accumulated other comprehensive income to current-period earnings are included in the line item in which the hedged item is recorded in the same period the forecasted transaction affects earnings. As at 31 December 2004 and 2003, there was no hedge ineffectiveness related to cash flow hedges. As of 31 December 2004, $1.9 million (2003: $9.0 million) of the deferred net gains on derivative instruments accumulated in other comprehensive income are expected to be reclassified as earnings during the next twelve months. The maximum term over which the Bank is hedging its exposure to the variability of future cash flows is 3 years. As of 31 December 2004, the Bank has recorded the fair value of derivative instrument assets of $2.9 million (2003: $12.5 million) in other assets and $1.4 million (2003: nil) in other liabilities.

Notional Amounts: The following table provides the aggregate notional amounts of derivative contracts outstanding listed by type and divided between those used for trading (non-hedging) and those used in hedging activities. 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.

		2004			2003	
31 December	**Trading**	**ALM**	**Total Value**	Trading	ALM	Total Value
Interest rate contracts						
Interest rate swaps	**59,593**	**595,320**	**654,913**	171,000	637,307	808,307
Interest rate caps	**66,000**	**-**	**66,000**	66,000	-	66,000
Total	**125,593**	**595,320**	**720,913**	237,000	637,307	874,307
Foreign exchange contracts						
Spot and forwards	**2,415,658**	**-**	**2,415,658**	1,199,397	12,599	1,211,996
Currency options	**5,130**	**-**	**5,130**	-	-	-
Total	**2,420,788**	**-**	**2,420,788**	1,199,397	12,599	1,211,996
Total notional amount of financial derivatives outstanding	**2,546,381**	**595,320**	**3,141,701**	1,436,397	649,906	2,086,303

Included in the notional amounts for cash flow hedges using interest rate swaps for 31 December 2004, are $372.8 million (2003: $444.9 million), pertaining to specific floating rate notes included in the investment portfolio which were classified as held to maturity. Included in the notional amounts for fair value hedges using interest rate swaps for 2004, are $29.8 million (2003: $23.7 million), pertaining to specific loans, $125 million (2003: $125 million), pertaining to subordinated debt, and $24.5 million (2003: $24.5 million), pertaining to deposits.

(c) Fair Value

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

		2004			2003	
31 December	**Positive**	**Negative**	**Net**	Positive	Negative	Net
Derivative financial instruments						
Interest rate swaps	**3,690**	**4,271**	**(581)**	13,471	3,897	9,574
Spot and forward foreign exchange	**26,555**	**23,734**	**2,821**	18,270	17,846	424
Interest rate caps and currency options	**506**	**477**	**29**	592	479	113
Total	**30,751**	**28,482**	**2,269**	32,333	22,222	10,111

(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 2004	**Within 6 months**	**6 to 12 months**	**1 to 3 years**	**3 to 5 years**	**After 5 years**	**Total**
Interest rate contracts						
Interest rate swaps	**97,373**	**111,511**	**275,797**	**100,659**	**69,573**	**654,913**
Interest rate caps	**-**	**-**	**66,000**	**-**	**-**	**66,000**
Sub-total	**97,373**	**111,511**	**341,797**	**100,659**	**69,573**	**720,913**
Foreign exchange contracts						
Spot and forwards	**2,280,033**	**124,496**	**11,129**	**-**	**-**	**2,415,658**
Currency options	**-**	**5,130**	**-**	**-**	**-**	**5,130**
Sub-total	**2,280,033**	**129,626**	**11,129**	**-**	**-**	**2,420,788**
Total by remaining maturity	**2,377,406**	**241,137**	**352,926**	**100,659**	**69,573**	**3,141,701**

31 December 2003	Within 6 months	6 to 12 months	1 to 3 years	3 to 5 years	After 5 years	Total
Interest Rate Contracts						
Interest rate swaps	150,118	112,757	371,156	154,667	19,609	808,307
Interest rate caps	-	-	-	66,000	-	66,000
Sub-total	150,118	112,757	371,156	220,667	19,609	874,307
Foreign exchange contracts						
Spot and forwards	1,146,079	55,688	10,229	-	-	1,211,996
Total by remaining maturity	1,296,197	168,445	381,385	220,667	19,609	2,086,303

(e) Replacement Cost

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 that 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.

		2004			2003	
31 December	**Trading**	**ALM**	**Total Value**	Trading	ALM	Total Value
Interest rate contracts						
Interest rate swaps	**-**	**3,690**	**3,690**	-	13,367	13,367
Interest rate caps	**305**	**-**	**305**	592	-	592
Sub-total	**305**	**3,690**	**3,995**	592	13,367	13,959
Foreign exchange contracts						
Spot and forwards	**26,555**	**-**	**26,555**	16,351	-	16,351
Currency options	**201**	**-**	**201**	1,919	104	2,023
Total replacement cost	**26,756**	**-**	**26,756**	18,270	104	18,374

NOTE 15: Fair Value of Financial Instruments

The following table presents the carrying value and fair value of financial assets and liabilities value under SFAS NO. 107 Disclosures about Fair Value of Financial Instruments. Accordingly, certain amounts which are not considered financial instruments are excluded from the table. For investments with an indicator of impairment management have considered the available evidence, including discussions with rating agencies. Based on this and because the Bank has the ability and the intent to hold such securities to maturity, the Bank believes it will recover the full carrying value of the security. Should specific circumstances dictate that the Bank may not be able to hold such securities to maturity, such as a significant deterioration of credit worthiness of the issuer, the Bank may reassess whether a market value below carrying value represents an other than temporary impairment.

		2004			2003	
31 December	**Carrying value**	**Fair value**	**Appreciation / (depreciation)**	Carrying value	Fair value	Appreciation / (depreciation)
Financial assets						
Cash and deposits with banks	**2,396,724**	**2,396,724**	**-**	2,912,383	2,912,383	-
Investments:						
Held-to-maturity	**2,592,824**	**2,587,189**	**(5,635)**	2,450,887	2,453,068	2,181
Available-for-sale	**29,681**	**29,681**	**-**	27,815	27,815	-
Trading	**643,895**	**643,895**	**-**	159,551	159,551	-
Loans:						
Commercial, net of allowance for credit losses	**1,342,778**	**1,343,503**	**725**	908,054	908,543	489
Consumer, net of allowance for credit losses	**1,302,553**	**1,304,684**	**2,131**	1,046,662	1,048,834	2,172
Other assets	**321,928**	**321,928**	**-**	228,454	228,454	-
Total financial assets	**8,630,383**	**8,627,604**	**(2,779)**	7,733,806	7,738,648	4,842
Financial liabilities						
Customer deposits:						
Demand deposits	**4,663,654**	**4,633,654**	**-**	3,917,244	3,917,244	-
Term deposits	**2,771,201**	**2,762,101**	**9,100**	2,695,059	2,685,005	10,054
Deposits, Financial institution	**502,595**	**502,595**	**-**	510,274	510,274	-
Other liabilities	**152,570**	**152,570**	**-**	106,263	106,263	-
Subordinated capital and senior debt	**142,333**	**142,333**	**-**	122,871	122,871	-
Total financial liabilities	**8,202,353**	**8,193,253**	**9,100**	7,351,711	7,341,657	10,054

NOTE 16: 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 the contractual maturity or repricing date. Examples of this include fixed-rate mortgages, which are shown at contractual maturity but which may pre-pay earlier, and certain term deposits, which are shown at contractual maturity but which may be withdrawn before their contractual maturity, and certain investments which have call or pre-payment features.

31 December 2004 (in $millions)	**Within 3 months**	**3 months but within 6 months**	**6 months but within 1 year**	**1 year but within 5 years**	**After 5 years**	**Non-interest bearing funds**	**Total**
Assets							
Cash and deposits with banks	**2,131**	**64**	**38**	**-**	**-**	**164**	**2,397**
Investments	**945**	**461**	**1,404**	**408**	**43**	**5**	**3,266**
Loans	**2,427**	**12**	**11**	**99**	**87**	**9**	**2,645**
Premises, equipment and computer software	**-**	**-**	**-**	**-**	**-**	**126**	**126**
Other assets	**-**	**-**	**-**	**-**	**-**	**196**	**196**
Total Assets	**5,503**	**537**	**1,453**	**507**	**130**	**500**	**8,630**
Liabilities							
Shareholders' equity	**-**	**-**	**-**	**-**	**-**	**428**	**428**
Deposits	**6,464**	**138**	**94**	**210**	**-**	**1,001**	**7,907**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**153**	**153**
Subordinated capital and senior debt (a)	**(2)**	**-**	**-**	**-**	**144**	**-**	**142**
Total Liabilities	**6,462**	**138**	**94**	**210**	**144**	**1,582**	**8,630**
Interest rate sensitivity gap	**(959)**	**399**	**1,359**	**297**	**(14)**	**(1,082)**	**-**
Cumulative interest rate sensitivity gap	**(959)**	**(560)**	**799**	**1,096**	**1,082**	**-**	**-**

31 December 2003 (in $millions)	Within 3 months	3 months but within 6 months	6 months but within 1 year	1 year but within 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash and deposits with banks	2,647	78	75	-	-	112	2,912
Investments	550	309	1,290	463	26	-	2,638
Loans	1,765	6	35	88	48	13	1,955
Premises, equipment and computer software	-	-	-	-	-	100	100
Other assets	-	-	-	-	-	129	129
Total Assets	4,962	393	1,400	551	74	354	7,734
Liabilities							
Shareholders' equity	-	-	-	-	-	382	382
Deposits	5,452	167	109	254	-	1,141	7,123
Other liabilities	-	-	-	-	-	106	106
Subordinated capital (a)	(2)	-	-	-	125	-	123
Total Liabilities	5,450	167	109	254	125	1,629	7,734
Interest rate sensitivity gap	(488)	226	1,291	297	(51)	(1,275)	-
Cumulative interest rate sensitivity gap	(488)	(262)	1,029	1,326	1,275	-	-

(a) Includes interest rate swaps with fair value of ($2 million), that are highly effective, designated and quality as fair valve hedges.

NOTE 17: Subordinated Capital and Senior Debt

On 28 May 2003, the Bank issued US $125 million of Subordinated Lower Tier II capital notes. The notes were issued at par and in two tranches, namely US $78 million in Series A notes due 2013 and US $47 million in Series B notes due 2018. The issuance was by way of private placement with US institutional investors. The notes are listed on The Bermuda Stock Exchange in the specialist debt securities category. Part proceeds of the issue were used to repay the entire amount of the US $75 million outstanding subordinated notes redeemed in July 2003.

The notes issued under Series A will pay a fixed coupon until 27 May 2008 when they become redeemable in whole at the option of the Bank. The Series B notes will pay a fixed coupon 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.

On 2 April 2004, in conjunction with the acquisition of Leopold Joseph, the Bank assumed a subordinated debt of £5 million which is included in the balance sheet in the amount of $9 million. The issuance was by way of private placement in the UK and pays a fixed coupon of 9.29% until April 2012 when it becomes redeemable in whole at the option of the Bank and 10.29% thereafter until August 2017.

On 5 April 2004, as part of the consideration to the shareholders of Leopold Joseph, the Bank of Butterfield (UK) Limited issued a Senior debt of £5.2 million which is included in the Consolidated Balance Sheet in the amount of $10 million. The issue was exclusively to the shareholders of Leopold Joseph and pays a variable rate of interest of 3 months LIBOR plus 30 basis points until April 2009 when it becomes redeemable in whole at the option of the Bank.

The following table presents the contractual maturity and interest payments for subordinated debt issued by the Bank as at 31 December 2004 ($ millions)

		With in 1 Year	1 to 5 Years	After 5 Years	Carrying Value 2004
Subordinated debt					
Parent Company					
Series A	Fixed rate	3	12	89	78
Series B	Fixed rate	2	10	68	47
Subsidiaries	Fixed rate	1	4	17	9
Senior debt					
Subsidiaries	Variable rate	1	2	-	10
Other (a)		-	-	-	(2)
Total		7	28	174	142

(a) Other includes interest rate swaps with notional amount of $125 million, that are highly effective, designated and qualify as fair value hedges.

NOTE 18: Earnings per Share

Earnings per share has been calculated using the weighted average number of shares outstanding during the year after deduction of the shares held as Treasury Stock and adjusted for the stock dividends declared during the year ended 31 December 2004 and 2003 (see also Note 24). The dilutive effect of stock options was calculated using the treasury stock method, whereby the proceeds received from the exercise of stock options are assumed to be used to repurchase outstanding shares, using the average market price of the Bank's shares for the period.

31 December	**2004**	2003
Basic earnings per share		
Net Income for the year	**90,466**	70,838
Weighted average number of common shares issued (in thousands)	**24,428**	24,647
Weighted average number of common shares held as Treasury Stock (in thousands)	**(1,679)**	(2,061)
Adjusted weighted average number of common shares (in thousands)	**22,749**	22,586
	3.98	3.14

Diluted earnings per share	2004	2003
Net Income for the year	**90,466**	70,838
Average number of common shares issued (in thousands)	**24,428**	24,647
Average number of common shares held as Treasury stock (in thousands)	**(1,679)**	(2,060)
Stock options (Note 1 (q))	**668**	508
Adjusted weighted average number of diluted common shares (in thousands)	**23,417**	23,095
	3.86	3.07

NOTE 19: 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 in 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 current maximum number of common shares reserved for issuance by the Board of Directors of the Company under the 1997 Plan is 2,662,000.

At 31 December 2004, the Bank held as Treasury Stock 1,556,476 shares (2003: 1,692,698) that will be used to satisfy the Bank's obligations with respect to the Stock Option Plan.

Directors' and Officers' Stock Option Plan

31 December	Number of Stock Options (2004)	Weighted Average Exercise Price ($) (2004)	Number of Stock Options (2003)	Weighted Average Exercise Price ($) (2003)
Outstanding at beginning of year	**385,471**	**20.87**	323,689	18.75
Granted	**117,211**	**40.18**	69,443	26.53
Stock dividend granted	**45,616**	**24.92**	35,800	20.32
Exercised	**(28,069)**	**22.94**	(43,461)	13.67
Forfeited / cancelled	**-**	**-**	-	-
Outstanding at end of year	**520,229**	**25.47**	385,471	20.87
Vested and exercisable at end of year	**290,888**	**18.66**	217,931	17.24

Characteristics of Options Granted to Directors and Executive Officers as at 31 December 2004

	Outstanding			Exercisable	
Exercise Price Range	Number of Shares	Weighted Average Life Remaining	Weighted Average Exercise Price ($)	Number of Shares	Weighted Average Exercise Price ($)
12.03 – 21.68	**151,443**	**4**	**12.56**	**151,443**	**12.56**
21.69 – 26.51	**131,610**	**6**	**24.20**	**88,681**	**23.90**
26.52 – 31.34	**106,844**	**6**	**27.55**	**49,486**	**27.51**
31.35 – 36.17	**2,067**	**4**	**32.59**	**734**	**32.50**
36.18 – 41.00	**128,265**	**8**	**40.15**	**544**	**37.87**
Total	**520,229**	**6**	**25.47**	**290,888**	**18.66**

Employees Stock Option Plan

	2004		2003	
	Weighted Number of Stock Options	**Average Exercise Price ($)**	Weighted Number of Stock Options	Average Exercise Price ($)
Outstanding at beginning of year	**984,639**	**22.08**	1,061,111	20.08
Granted	**424,240**	**40.23**	159,305	25.29
Stock dividend granted	**120,965**	**28.26**	110,396	21.28
Exercised	**(231,393)**	**19.84**	(274,143)	15.39
Forfeited/cancelled	**(80,985)**	**32.88**	(72,030)	24.03
Outstanding at end of year	**1,217,466**	**28.72**	984,639	22.07
Vested and exercisable at end of year	**521,134**	**21.06**	421,316	19.05

Characteristics of Options Granted to Employees as at 31 December 2004

	Outstanding			Exercisable	
Exercise Price Range	**Number of Shares**	**Weighted Average Life Remaining**	**Weighted Average Exercise Price ($)**	**Number of Shares**	**Weighted Average Exercise Price ($)**
12.03 – 21.68	**178,551**	**5**	**12.42**	**178,551**	**12.42**
21.69 – 26.51	**345,483**	**7**	**24.12**	**206,315**	**23.94**
26.52 – 31.34	**271,818**	**7**	**27.44**	**130,108**	**27.44**
31.35 – 36.17	-	-	-	-	-
36.18 – 41.00	**421,614**	**9**	**40.23**	**6,160**	**40.23**
Total	**1,217,466**	**8**	**28.72**	**521,134**	**21.06**

The weighted average fair value of stock options granted in the year ended 31 December 2004, was $6.80 per share (2003: $3.70), using the Black-Scholes option-pricing model with the following weighted average assumptions:

31 December	**2004**	2003
Dividend yield	**3.14%**	4.58%
Risk free interest rate	**3.17%**	3.09%
Historical volatility	**20%**	20%
Expected lives	**5.0**	5.0

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:

31 December	**2004**	2003
Net income as reported	**90,466**	70,838
Net income – pro-forma	**89,122**	70,156
Earnings per share – as reported (basic)	**3.98**	3.14
Earnings per share – pro-forma (basic)	**3.92**	3.11

NOTE 20: Share Buy-Back Plan

During the year under review, 459,232 shares (31 December 2003: 378,994) were purchased and cancelled at a cost of $19,431 (31 December 2003: $13,190).

The Board of Directors of the Bank has present intention to repurchase over the twelve month period commencing 1 January 2005 up to 2 million of its ordinary shares of par value $1 each, pursuant to its share repurchase programme authorised by the shareholders on 29 October 1997. The Directors consider that share repurchase is an excellent means of enhancing shareholders value, while increasing earnings per share. This intention is subject to appropriate market conditions and repurchases will only be made in the best interest of the Bank.

From time to time the Bank's associates, insiders and insiders' associates as defined by the Bermuda Stock Exchange (BSX) regulations may sell shares which may result in such shares being repurchased pursuant to the programme, but under BSX Regulation 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 Dividend

In August 2004 and August 2003 the Bank distributed a 10% stock dividend to shareholders of record on 5 August 2004 and 5 August 2003 respectively. All prior period per share amounts have been restated to reflect the stock dividend.

NOTE 23: Variable Interest Entities

Effective 1 January 2004 the Bank implemented FIN 46(R). The effect of the adoption of FIN 46(R) was a decrease in the Bank's assets of approximately $0.5 million as at 31 December 2004. The decrease primarily relates to the Bank's venture capital investment (Butterfield Vencap Limited). Butterfield Vencap Limited holds investments in private and listed companies where the nature of the investment relationship is such that the Bank, through Butterfield Vencap Limited may absorb a majority of the expected losses of these companies or receive a majority of the residual returns of these companies.

Upon adoption of FIN 46, the assets, liabilities and noncontrolling interest of VIE’s were generally measured at the amounts at which such interest would have been carried had FIN 46(R) been effective when the Bank first met the conditions to be considered the primary beneficiary. In cases where historical information was limited the valuation of VIE’s was based on the fair value. The difference between the net amount added to the balance sheet and the amount of any previously recognised interest in any newly consolidated entity was recognised as cumulative effect of accounting change at December 2003 which resulted in a $0.4 million after tax adjustment to the Bank's consolidated earnings. As at 31 December 2004 the total assets of VIE’s consolidated in the balance sheet is $10.7 million.

NOTE 24: Income Taxes

The Bank is not subject to any taxes in Bermuda on either income or capital gains under current Bermuda law. The Bank's income tax expense or benefit for all period presented relates to income from continuing operations and is attributable to subsidiaries and offices in various other jurisdictions that are subject to the relevant taxes in those jurisdictions.

31 December	2004	2003
Income taxes in consolidated statement of income		
Current	**(422)**	1,187
Deferred	**(1,300)**	(807)
Total (credit) /debit	**(1,722)**	380
Deferred income tax asset		
Tax loss carried forward	**8,168**	4,549
General loan provision	**-**	158
General bad debt provision	**39**	36
Pension liability provision	**1,186**	1,109
Provision for compensated absence	**40**	39
Onerous leases	**225**	-
Other (non significant)	**214**	60
Total assets	**9,872**	5,951
Deferred income tax liability		
Depreciation	**2,367**	2,944
Net unrealised gain on derivatives	**16**	-
Total liability	**2,383**	2,944
Net deferred income tax asset	**7,489**	3,007

NOTE 25: Future Accounting Developments

a) Share-based payments

In December 2004, the Financial Accounting Standards Board issued a revised version (FAS123R) of the previously issued FAS123 Accounting for Stock-Based Compensation. Under FAS123R, share-based payments classified as equity, such as the Bank's stock option plan, are measured and recognised in the statement of income at their fair value for all periods beginning after 15 June 2005. Under the original FAS123, the Bank chose the option to present such compensation costs are measured at their fair value as a pro-forma impact which is presented in note 21 to financial statements but not in the income statement. FAS123R is effective for the Bank's third quarter of fiscal 2005 and management is currently evaluating the effect of adoption which may be material.

b) EITF 03-1 The meaning of other-than-temporary impairment and its application to certain investments

The Emerging Issues Task Force (EITF) has issued pronouncement EITF 03-1. The meaning of other-than-temporary impairment and its applications to certain investments. As originally proposed, EITF 03-1 would require an investor to treat securities (in the available for sale category and certain other cost-basis investments) whose fair value is below cost as impaired securities. If the entity can establish its intent and ability to hold that security until its value has recovered to cost, then this impairment is considered as temporary. In the absence of such declared intent and/or ability, any reduction in fair value should be treated as "other than temporary" impairment, with reduction in fair value adjusted in the income statement. Further, sale of securities which are declared to be held for a reasonable period of time (until the value has recovered to cost) may be used as a basis for establishing a pattern of non-compliance with the declared intent. The FASB has delayed the original effective date of 30 September 2004, and an extended commencement period is in effect.

It is not expected that this pronouncement will have a significant impact on the financial statements of the Bank.

BOARD OF DIRECTORS & PRINCIPAL BOARD COMMITTEES

2
James A. C. King, JP, Chairman
Chairman, KeyTech Ltd.
Chairman, Argus Insurance Co. Ltd.

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

3
Geoffrey R. Bell, QC
Formerly Senior Counsel,
Appleby, Spurling & Hunter
Retired from the Board 4 January 2005

2, 4
Arlene Brock
Lawyer / Mediator

2, 5
Brian Duperreault
Chairman, ACE Limited
Director, Tyco International Ltd.

1, 5
Roderick A. Ferguson III, JP
Chairman, Gorham's Ltd.
Chairman, Purvis Ltd.
Director, KeyTech Ltd.

5
A.L. Vincent Ingham, JP
Executive Vice President & Chief Operating Officer, BELCO Holdings Limited
Director, BELCO Holdings Limited

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

1, 2
Robert A. Mulderig
Retired Chairman & Chief Executive Officer,
Mutual Risk Management Ltd.
Chairman, Woodmont Trust Co. Ltd.

1
Robert Steinhoff
Retired Senior Partner, KPMG
Chairman, Insurance Advisory Committee

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

4,5
Glenn M. Titterton
Chairman, BF&M Insurance Group
Retired President & Chief Executive Officer,
BF&M Insurance Group

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

John R. Wright*
Retired Bank Chief Executive

*Non Bermudian

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

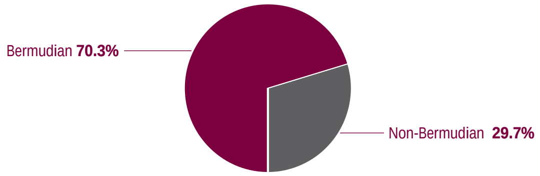
Directors' Code of Practice and Group Code of Conduct

The Directors have adopted a Code of Best Practice based upon recommended principles of corporate governance. In implementing the Code, the Board meets regularly, retains full effective control over the Bank, and monitors executive management. A Group Code of Conduct applies to directors and employees and imposes the Bank's principles of business, including ethics and conflicts of interest. Copies of the Codes can be accessed on www.butterfieldbank.bm/web2000/about/shareholder_info.asp

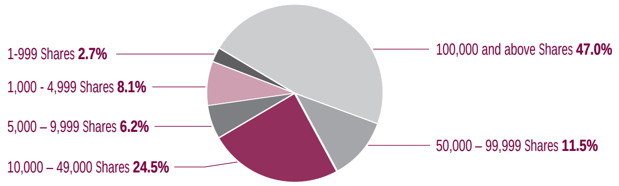
Directors' and Executive Officers' Share Interests and Directors' Service Contracts

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 2004 were 732,028 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

MANAGEMENT

Alan R. Thompson
President & Chief Executive Officer

Graham C. Brooks
Executive Vice President,
International

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

Richard J. Ferrett
Executive Vice President,
Chief Financial Officer

Mariano R. Browne
Managing Director,
Butterfield Bank (Barbados) Limited

Sheila M. Brown
Senior Vice President,
Investment Services

D. John Charlick
Senior Vice President,
Strategic Projects

Andrew R. Collins
Managing Director,
Butterfield Fund Services (Bermuda) Limited

Ian M. Coulman
Managing Director,
Butterfield Asset Management Limited

Donna E. Harvey Maybury
Senior Vice President,
Human Resources

Graham M. Jack
Managing Director,
Butterfield Trust (Bermuda) Limited

Robert V. Lotmore
Managing Director,
Butterfield Bank (Bahamas) Limited

Michael A. McWatt
Senior Vice President,
Credit Risk Management

Conor O'Dea
Managing Director,
Butterfield Bank (Cayman) Limited

Michael O'Mahoney
Senior Vice President,
Treasury

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

Michael J. Preuss
Managing Director,
Promisant (Technology) Limited

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

W. Aaron M. Spencer
Senior Vice President,
Operations

James R. Stewart
Senior Vice President,
Enterprise Risk Management

Fred H. Tesch
Senior Vice President,
Group Internal Audit

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

Lloyd O. Wiggan
Senior Vice President,
Retail Banking

Bob W. Wilson
Senior Vice President,
Corporate Banking

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 and pension
fund administration services

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

Grosvenor Trust Company Limited
Bermuda
Trust and private banking services

Field Real Estate Holdings Limited
Bermuda
Real estate holding

Promisant (Technology) Limited
Bermuda
Multi-currency payment processing

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

Butterfield Bank (Barbados) Limited
Barbados
Banking, credit and treasury services

Butterfield Bank (Cayman) Limited
Cayman Islands
Banking, credit, treasury, wealth
management and fiduciary services,
and investment and pension fund
administration services

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

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

Butterfield Trust (Guernsey) Limited
Guernsey
Fiduciary services

Butterfield Bank (UK) Limited
United Kingdom
Private banking, credit, treasury and
investment management services

SHAREHOLDER INFORMATION

Dividend Payment
Payment of dividends is quarterly, normally occurring in November, March, 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:

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

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

Share Dealing Service
Butterfield Securities (Bermuda) Limited
65 Front Street, Hamilton, Bermuda
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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.

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

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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 January 2005, 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, 2004, 2,000,000 shares represented 8.2% 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 2004 totalled 459,232 at an average price of $42.19 and aggregate cost of $19.4 million.

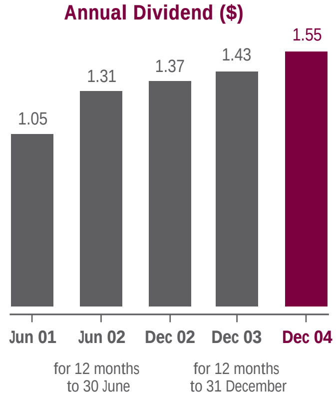
From time to time the Bank's associates, insiders, and insiders' associates as defined in the BSX Regulations may sell shares which may result in being repurchased pursuant to the programme, but under BSX Regulations such trades must not be pre-arranged and all repurchases must be made in the open market.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

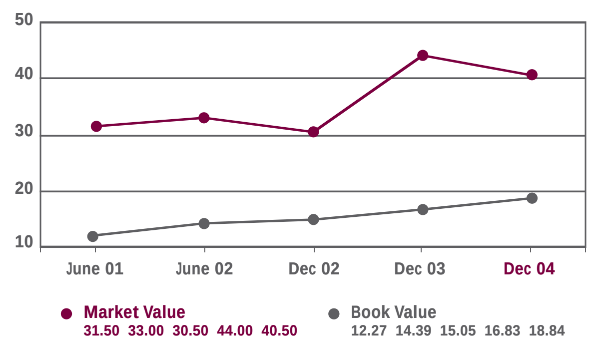
Large Shareholders
The following professional nominees at 31 December 2004 were registered holders of 5% or more of the issued share capital: Harcourt & Co. (16.4%) and Murdoch & Co. (5.2%).

Known beneficial holdings of 5% or more of issued share capital, at that date, were: Bermuda Life Insurance Company Limited (6.6%); Jardine Strategic Holdings Limited (6.5%); and the Bank's Stock Option Trust (6.4%).

Annual Dividend ($)



Market Value & Net Book Value per Share ($)



2001-2003 Book Values Restated for Stock Dividends

PRINCIPAL BERMUDA OFFICES & SUBSIDIARIES

HEAD OFFICE
The Bank of N.T. Butterfield & Son Limited
President & CEO: Alan R. Thompson
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BERMUDA SUBSIDIARIES
Butterfield Asset Management Limited
Managing Director: Ian M. Coulman
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Butterfield Fund Services (Bermuda) Limited
Managing Director: Andrew R. Collins
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Butterfield Trust (Bermuda) Limited
Managing Director: Graham M. Jack
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Promisant (Technology) Ltd.
Managing Director: Michael J. Preuss
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PRINCIPAL OVERSEAS OFFICES & SUBSIDIARIES

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Butterfield Asset Management (Barbados) Limited
Vice President: Caroline J. Prow
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GUERNSEY
Butterfield Bank (Guernsey) Limited
Managing Director: Robert S. Moore

Butterfield Fund Services (Guernsey) Limited
Managing Director: Patrick A.S. Firth

Butterfield Trust (Guernsey) Limited
Managing Director: Paul D.H. Hodgson

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