One hundred and fifty — 00/100

Butterfield Bank

ANNUAL REPORT
2007

Who we are.

Butterfield Bank Group is a diversified, international financial services company. We were established in Bermuda in 1858, where today we are the largest independent bank. In addition to Bermuda, we operate in nine international financial centres. We have total assets of $11.9 billion, client assets under management of approximately $12 billion and over $145.7 billion of client assets under administration. We employ 1,850 people around the world. Butterfield Bank is a publicly traded corporation with a primary share listing on the Bermuda Stock Exchange and a secondary listing on the Cayman Islands Stock Exchange.

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...e unde[illegible] ...holders in the Bank of N T But...
...n assembled in General Meeting do hereby agree that...
...going bye-laws shall be , and they are hereby const...
...bye-laws of the Bank of N T Buttrefield & Son and w...
...e to become bound by them in all respects and to ho...
...es in the said Bank as shall be allotted to us subj...
...laws- passed this 29th day of June 190...

What we do.

We offer a full range of community banking services in Bermuda, Barbados and the Cayman Islands, encompassing retail and corporate banking and treasury activities. In the wealth management area, we provide private banking, asset management and personal trust services from Bermuda, The Bahamas, the Cayman Islands, Guernsey, Hong Kong, Malta, Switzerland and the United Kingdom. We also provide services to corporate and institutional clients from Bermuda, The Bahamas, Canada, the Cayman Islands and Guernsey, which include investment and pension fund administration, asset management, custody and corporate trust services.

1960

Chairman's Letter to the Shareholders

This year's Annual Report commemorates the Sesquicentennial of Butterfield Bank Group in 2008.

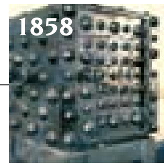
Robert A. Mulderig
Chairman of the Board

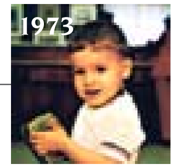
Alan R. Thompson
President & Chief Executive Officer

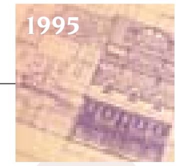
Butterfield Bank is, of course, a vastly different organisation today than it was 150 (or even 15) years ago. In size and scope of operations, it bears little resemblance to the private banking house established by Nathaniel Butterfield in 1858. The values and priorities under which the company conducts business, however, have not changed with the passage of time. The Bank has always been and remains committed to serving customers well, providing security and opportunities to employees, being a driver of progress within our communities and creating value for our shareholders.

For generations, Butterfield Bank Group companies have played an important part in the financial lives of our many stakeholders – as an employer, bank, financial adviser and investment. Respecting that reality, the Board feels it is important that the Bank's shares should remain accessible to a wide cross section of investors. To that end, we split our stock on a three for one basis in August 2007, giving shareholders two additional shares for each share held.

Butterfield Bank Group enjoyed strong profitability in 2007 with a net income of $146.0 million, an increase of 8.9% over 2006. Shareholders received a cash dividend of $0.16 per share for the







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fourth quarter, bringing the 12-month dividend to $0.64 per share (adjusted for the split). This equates to a year over year increase of 6.7%. Return on shareholders' equity was 25.2%.

Strong Group performance was generated by results that were in line with or better than expectations across virtually all of our jurisdictions and lines of business. Several international subsidiaries delivered successive quarters of record revenues and net income during the year. The Group's expense ratio (which compares non-interest expenses against revenue) was 65.7% this year.

Turning to Board matters, 2007 saw the retirement of two long-serving Directors: Dr. James King and Roderick Ferguson. We will miss the presence and wise counsel of Dr. King, our former Chairman, and Mr. Ferguson and we thank them for their many contributions to the Group. The vacancies were filled by Shaun Morris and Julian Francis.

Recently the Board received the resignation of Brian Duperreault, who succeeded Dr. King as Chairman in 2007, and learned that Robert J. Stewart, Vice Chairman, intends to retire after the upcoming Annual General Meeting. I am honoured that the Board decided to appoint me to replace Brian as Chairman and I look forward to serving the Bank in this important Sesquicentennial year. Robert Steinhoff has been appointed Vice Chairman upon Mr. Stewart's retirement. We thank Messrs. Stewart and Duperreault for their many years of service and contributions to the Board and congratulate Mr. Steinhoff on his new appointment.

As the Bank celebrates 150 years of success in 2008, we express our gratitude to our shareholders. With your ongoing support, we look forward to a future of continued growth for Butterfield Bank Group.

All of which is respectfully submitted on behalf of the Board of Directors of The Bank of N.T. Butterfield & Son Limited.

Robert A. Mulderig
Chairman of the Board

President & Chief Executive Officer's Report

It is my pleasure to report that Butterfield Bank Group enjoyed another year of growth and profitability in 2007, our 149th year in business. This was particularly pleasing given the backdrop of uncertainty in global financial markets.

Overall, Butterfield Bank's conservative approach to lending and investing, and the geographic and functional diversity that we have built into our operations served us well. As has been widely reported, the financial performance of many banks around the world was adversely impacted in 2007 by the credit crisis that stemmed from problems experienced by certain sub-prime mortgage lenders. Consequently, we have and will continue to monitor market conditions and all exposures in our held-to-maturity investment portfolio, including any exposure to the US residential mortgage-backed securities market. To date we do not foresee any significant impact on our investment portfolio.

Our financial results validate the effectiveness of our strategy of growth through investment in areas of core competence: community banking in selected jurisdictions, wealth management and fund administration. In 2007, we expanded our wealth management operations with the acquisition of Bentley Reid Group and the establishment of Butterfield Trust (Switzerland) Limited in Geneva. We invested significantly in our community banking franchises in Bermuda, the Cayman Islands and Barbados, delivering new products, opening new branches and enhancing our online services. In fund administration, we continued to add business capacity with significant hiring in Halifax, Canada.

Once again, the success of our efforts was recognised with several prestigious awards conferred upon us by international financial publications. These included Deal of the Year (Bermuda) from *The Banker*, Best Developed Market Bank (Bermuda) from *Global Finance*, and Best Bank (Bermuda) from *Euromoney*. In January 2008, *Euromoney* also presented us with the awards for Best Local Private Bank in both Bermuda and the Caribbean Region.

On behalf of management, I would like to thank our Board of Directors for their continuing support, advice and oversight. I would also like to thank our loyal customers, shareholders and business partners, many of whom have been part of the Butterfield Bank family for decades.

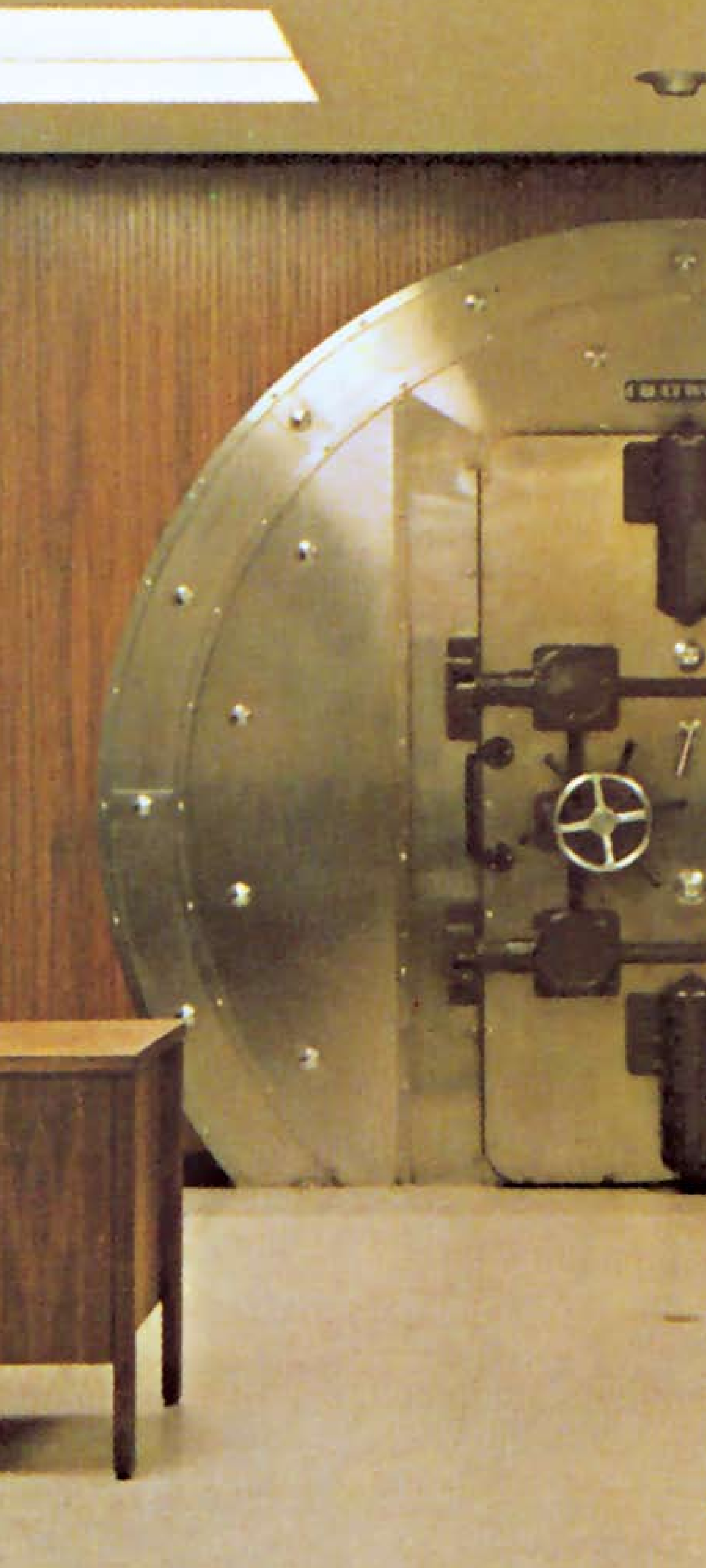
Finally, during this Sesquicentennial year, I acknowledge and express sincere gratitude to all of the employees of Butterfield Bank Group, past and present. Were it not for the creativity, care and dedication of generations of staff members, Butterfield Bank would not be the strong and successful organisation it is today.

Alan R. Thompson
President & Chief Executive Officer

For Shareholders.

...provide consistent and superior returns to our shareholders...

1968



Circular Board Room,
Head Office, Bermuda.

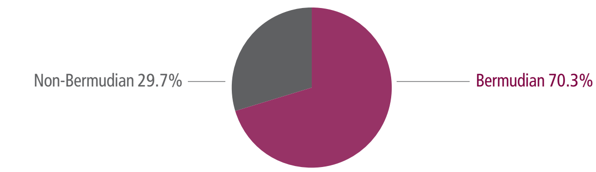
For Shareholders.

Creating sustainable value for our owners is Butterfield Bank's highest priority. All of our efforts with respect to employee development, community involvement, introducing new products and improving customer service ultimately work to make Butterfield Bank a stronger organisation. In turn, this creates value for our shareholders.

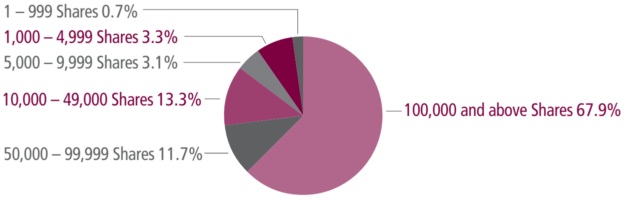
In 2007, we further developed the Butterfield Bank franchise in an environment of intensifying competition in many markets.

Expanding Ownership

To help ensure that ownership of Butterfield Bank shares is more easily achievable for different types of investors, we split Butterfield Bank stock on a three for one basis in August (meaning shareholders received two additional shares for each share held). This brought the price of individual shares to a more accessible level from their summertime market high of $65.



Share Ownership: Bermudian / Non-Bermudian



Distribution of Shares by Number Held

Generating Value

We declared dividends totalling $0.64 per share over the four fiscal quarters of 2007. On a split-adjusted basis, this represented an increase of $0.04 per share over 2006.

Our stated goal is to provide shareholders with a Return on Equity (ROE) that exceeds 20%. To us, delivering returns at that level means we're using our shareholders' funds efficiently in generating income. We're pleased that we've been able to provide ROE of at least 20% for four consecutive years. ROE this year was 25.2%, the highest return in over a decade. Diluted Earnings Per Share were $1.68, an increase of 9.8% year on year.

Operating efficiently means keeping our expenses as low as reasonably possible. This year our Efficiency Ratio declined modestly to 65.7%, owing to significant investment in our core businesses. While this ratio is acceptable, we are working hard to improve it.

Financial and Statistical Summary

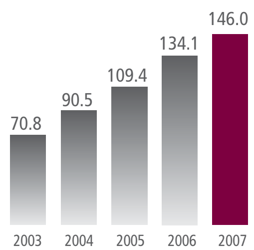
(In $ thousands except per share data)	**2007**	2006	2005	2004	2003
			Year ended		
Net income	**145,995**	134,083	109,351	90,466	70,838
Diluted earnings per share	**1.68**	1.53	1.28	1.06	0.85
At year end					
Total assets	**11,910,920**	11,132,802	9,197,566	8,630,383	7,733,806
Cash and deposits with banks	**2,517,012**	3,151,191	2,849,920	2,396,724	2,912,383
Investments	**4,744,989**	3,786,793	2,916,399	3,266,400	2,638,253
Loans	**4,124,764**	3,760,745	3,085,594	2,645,331	1,954,716
Deposits from customers	**10,441,579**	9,755,659	7,948,966	7,404,855	6,612,303
Deposits from banks	**306,392**	287,173	291,143	502,595	510,274
Subordinated capital and senior debt	**284,191**	280,168	278,679	142,333	122,871
Shareholders' equity	**629,330**	549,553	495,226	428,030	382,095
Net book value per common share	**7.44**	6.46	5.90	5.19	4.64
Market value per common share	**18.25**	18.75	14.12	11.16	11.02
Number of common shares (in thousands)*	**84,553**	28,375	25,429	22,745	20,643
Number of shareholders	**4,201**	3,915	3,878	3,778	3,581
Number of employees	**1,850**	1,730	1,597	1,552	1,381
Financial ratios					
Return on assets	**1.2%**	1.3%	1.2%	1.1%	1.0%
Return on shareholders' equity	**25.2%**	24.6%	23.6%	21.2%	17.9%
Total capital ratio	**13.0%**	13.5%	13.1%	10.7%	13.0%

In tables and graphs on pages 12 and 13 all prior period per share data have been restated to reflect the three for one stock split in August 2007 and the one for ten stock dividends in August 2006, 2005, 2004 and 2003.

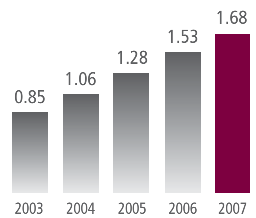
All percentages here and in the report that follows are based on actual rather than rounded numbers.

* Actual outstanding; excludes common shares held as treasury stock and common shares held by the Bank's Stock Option Trust.

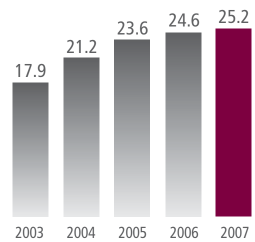
Net Income ($ millions)



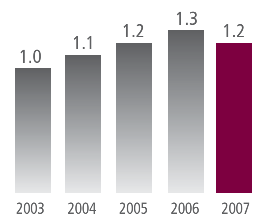
Earnings Per Share ($) Diluted



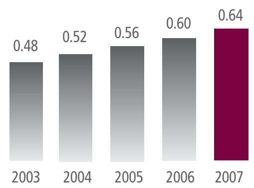
Return on Equity (%)



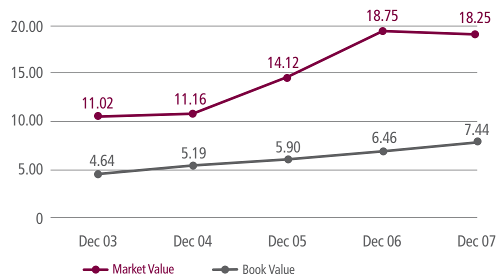
Return on Assets (%)



Annual Dividend Declared ($)



Market Value & Net Book Value per Share ($)



Priorities for 2008

Deliver a Return on Equity that exceeds 20%

Improve our Efficiency Ratio

Improve our information technology infrastructure

Continue to invest in our core businesses: community banking; wealth management/private banking; and fund administration

Strengthen our brand internationally

Attain more geographic balance in our financial results

Maintain leading market positions in Bermuda and the Cayman Islands

Build on 150 years of success

Good Governance

As the regulatory environment in which we operate becomes more complex, the Group's governance practices – the structures and methodology we use to run the Bank – continue to be of key strategic significance. With the exception of the President & Chief Executive Officer, the Board is comprised entirely of independent Directors who are not employees of Butterfield Bank. It is the Board that ensures the Group's governance keeps abreast of best practices.

There are four principal Board Committees on which the independent Directors sit:

- The Audit & Compliance Committee, which oversees the Bank's financial reports, internal financial controls, internal audit processes and compliance.
- The Risk Policy Committee, which focuses on credit, market and operational risk.
- The Corporate Governance Committee, which focuses on Directors' and Board Committee governance, performance and Directors' nominations.
- The Human Resources Committee, which focuses on compensation and benefits, employee development and succession.

The composition of the Board changed during 2007 with two retirements and two new Directors joining. Dr. James A.C. King retired following 29 years on the Board, the last ten of which he was Chairman.

Mr. Shaun Morris joined the Board in April to fill the vacancy created by Dr. King's retirement. Mr. Morris is the Managing Partner of law firm Appleby's Bermuda office. He holds B.A. and M.A. degrees in Economics from Dalhousie University and received his law degree from the London School of Economics.

Mr. Roderick A. Ferguson III, who had been a Member of the Board of Directors for 19 years, also announced his retirement, effective 16 April.

Mr. Julian W. Francis, a former Governor of The Central Bank of The Bahamas, replaced Mr. Ferguson on the Board. Mr. Francis holds a B.Sc. and an M.B.A. in Finance from New York University.

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.com.

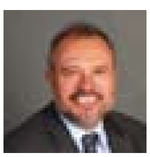
Board of Directors and Principal Board Committees

Committees indicated by numbers

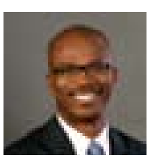
1, 2, 3
Chairman Robert A. Mulderig
Retired Chairman & Chief Executive Officer,
Mutual Risk Management Ltd.
Chairman, Woodmont Trust Co. Ltd.

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

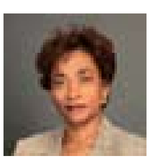
2, 3
Julian W. Francis
Former Governor, Central Bank of The Bahamas



4
A. L. Vincent Ingham
President & Chief Executive Officer,
BELCO Holdings Limited and Bermuda Electric Light Company Limited



3
Shaun Morris
Managing Partner of the Appleby
Bermuda law firm



1, 4
Pauline Richards
Director, Wyndham Worldwide Inc.
Former Director and Audit Committee Chair,
Cendant Corporation

1, 2
Robert Steinhoff
Retired Partner, KPMG
Director, Argus Insurance Co. Ltd.

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

3, 4
Glenn M. Titterton
Chairman, BF&M Insurance Group
Retired President & Chief Executive Officer,
BF&M Insurance Group
Retired Chairman, Insurance Corporation
of Barbados Limited

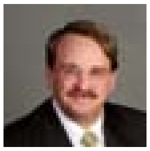
1, 2
Harry Wilken
President, Jardine Matheson International
Services Limited

4
John R. Wright
Retired Bank Chief Executive

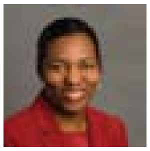
Principal Board Committees:

1 Audit & Compliance Committee
2 Risk Policy Committee
3 Corporate Governance Committee
4 Human Resources Committee

Management



Alan R. Thompson
President & Chief Executive Officer



Sheila M. Brown
Senior Vice President
Investment Services

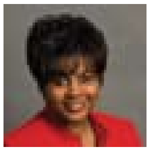
Graham C. Brooks
Executive Vice President
International

Ian M. Coulman
Managing Director
Butterfield Asset Management Limited

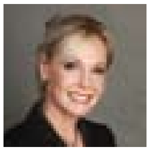
Richard J. Ferrett
Executive Vice President
Chief Financial Officer

Curtis L. Dickinson
Senior Vice President
Wealth Management

Bruce Albrecht
Senior Vice President
Group Asset Management

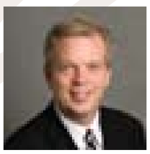


Donna E. Harvey Maybury
Senior Vice President
Human Resources

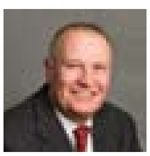


Dianne M. Brewer
Vice President
Marketing & Communications

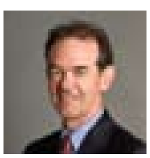
Graham M. Jack
Senior Vice President
Strategic Development



Douglas Lang
Managing Director
Butterfield Fund Services (Bermuda) Limited

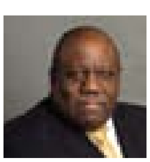


Charles Lawrence
Senior Vice President
Treasury



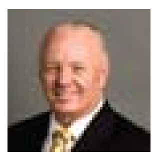
Peter D. Ramsdale
Senior Vice President
Chief Information Officer

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

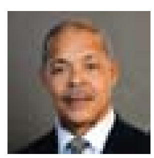


W. Aaron M. Spencer
Senior Vice President
Operations

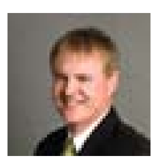
James R. Stewart
Senior Vice President
Enterprise Risk Management



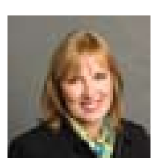
Fred H. Tesch
Senior Vice President
Group Internal Audit



Lloyd O. Wiggan
Senior Vice President
Retail Banking



Bob W. Wilson
Senior Vice President
Corporate Banking



Michelle Wolfe
Managing Director
Butterfield Trust (Bermuda) Limited

Risk Management

Prudent management of the Bank's risks is integral to our objective of creating and maintaining shareholder value. The Bank has established a number of committees to manage risks within the Group.

The Risk Policy Committee of the Board has responsibility for establishing and periodically updating the policies that are to be consistently applied across the Group to manage market, liquidity, credit, interest rate, operational, legal, reputational, fiduciary and strategic risks.

Market, interest rate and liquidity risks are managed by the Bank's Treasurer and monitored by the Market Risk Management team within Enterprise Risk Management. Various market risk strategies are reviewed by the Asset and Liability Management Committee (ALCO), chaired by the Chief Financial Officer.

Overall responsibility for managing the Bank's credit portfolios is delegated to the Chief Credit Officer. The Credit Committee, chaired by the President & Chief Executive Officer, reviews large credit exposures, establishes and reviews credit strategy and policy, and approves selected credit transactions.

The Head of Enterprise Risk Management has overall responsibility for assessing process risks that impact the Bank's businesses. He chairs the Risk Review Committee, which reviews and monitors business/event risks, transactional and operational controls, operating losses and business continuity matters.

We manage operational risk — the chance of experiencing a favourable or unfavourable outcome (i.e., financial gain or loss) resulting from planned or unplanned changes in business processes and procedures, controls, infrastructures, and our operating environment — through policies, procedures and controls that are developed with a view to the following principles:

- Assessing risks is a normal business activity that is the concern of every employee.
- Decisions are based on an assessment of all relevant operational risks.
- Risk decisions shall be made at the appropriate level based on delegated authority.
- Unnecessary risks shall be avoided.

The Bank's Control Framework establishes objectives with regard to the processes and resources that should be brought to bear in the design, implementation and application of internal controls. Through periodic risk assessments, the Board and executive management are able to obtain a complete and quantifiable view of key operational risks and a transparent evaluation of the effectiveness of controls. Risk assessments are based on scenarios drawn directly from the Basel II framework, which introduces a new international standard for banking regulators regarding minimum capital requirements relating to credit, market and operational risks of financial institutions. Most of Butterfield Bank Group's regulators will formally adopt the principles established by Basel II during 2008 and 2009.

The Bank has exposures to the US residential asset-backed mortgage market emanating from investments in its held-to-maturity portfolio. During the first half of 2007 the Bank ceased further market purchases of asset-backed securities. In addition, ALCO developed specific guidelines for investing in securitised assets and determined a programme for the monitoring and testing of specific mortgage-backed and asset-backed securities. For further discussion regarding exposures to the US residential asset-backed mortgage market see page 44.

Bank logo in use from 1950s to 1980.

For Employees.

...offer security and opportunities to our employees...

1981

Employees of Butterfield Bank (Cayman) Limited.

For Employees.

Harry D. Butterfield, the great grandson of our founder and chief executive of the Bank from 1936 to 1953, noted in the 1952 Annual Report that "A bank is its personnel, nothing more." Today, as financial services become increasingly competitive and differences in product lineups and pricing between companies are less significant, Mr. Butterfield's sentiments continue to ring true. For Butterfield Bank, our strongest competitive advantage has always been and continues to be our people.

Perpetuating a tradition of superior client service means attracting and keeping the right kind of people in our organisation; friendly, experienced people who understand things from a customer's perspective. To achieve that, Butterfield Bank strives to be an employer of choice.

Employer of Choice

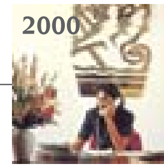
We compete for talent with some of the largest global financial services companies in key markets, so maintaining our status as a sought after employer requires diligent stewardship of the employee experience. We are, therefore, committed to providing employees with learning and development opportunities, competitive compensation and benefits in a collegial culture.

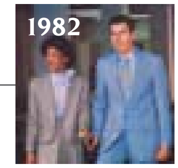
Almost every employee in Butterfield Bank Group attended training in 2007. In most cases, this was mandatory and covered topics including compliance, customer service, technology and health and safety. In certain areas, we provided financial incentives to staff members who are working toward new professional qualifications that will serve to expand the Bank's capabilities. To make training more convenient and impactful, we invested in new training facilities in Bermuda, the Cayman Islands and the United Kingdom.

Office space, too, was upgraded and expanded with the completion of building renovations in several jurisdictions, making the work environment more pleasant for employees.

Formal recognition programmes are in place across the Group to help us acknowledge the efforts of those employees who go "above and beyond" to assist customers and colleagues. Long-service awards are also presented annually in Bermuda, the Cayman Islands and Guernsey.

To help employees direct their efforts in a manner that supports our strategy and that is consistent with our goals, they are kept informed of corporate events, strategic progress and sponsored





programmes (such as wellness and "green" initiatives) through daily bulletins, internal newsletters and communication sessions with executives.

To show our appreciation and celebrate our successes, the Bank also holds several employee events during the year – from holiday parties, to family fun days, to annual pensioners' luncheons.

INVESTOR IN PEOPLE

In 2007, Butterfield Bank (Guernsey) Limited retained an "Investor in People" award from the UK-based organisation of the same name. The award, based on an assessment conducted under a new "profile" process, recognises our continuing commitment to our employees and their development. It confirms that the Bank uses leading practices in the areas of recruitment & selection, training & development, management development and inspirational leadership.

For Communities.

...making a valuable contribution to the communities in which we operate...

1966

Employees participate in a Bermuda National Trust campaign, planting trees donated by the Bank.

For Communities.

In any business, and particularly in banking, success depends on meeting the evolving needs of the people in the communities in which you operate. Much of the success that Butterfield Bank Group enjoys comes from understanding that, as a socially responsible company, our role is to provide more than financial services.

Butterfield Bank provides support and funding to many local organisations that are encouraging progress, enriching lives and protecting the natural environment. That means the Butterfield Bank name appears not only on office buildings and customer statements, but also in museum catalogues, at student career fairs and on little league baseball jerseys. This kind of community involvement does more than build goodwill, it also makes good business sense.

Fostering Progress

Our various lines of business – from lending to wealth management – both facilitate and benefit from increased prosperity in the communities we call home. Therefore, we have a responsibility to our shareholders to invest in causes that support the development of a healthy, well-educated and inclusive society.

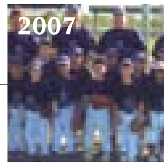
In 2007, we provided financial support to charities giving care to those in need and sponsored events and organisations promoting health and fitness. Our efforts included donations to organisations that provide assistance to seniors, medical care and research, family counselling and disaster preparedness services. We also sponsored teams and sporting events in many of the jurisdictions in which we operate.

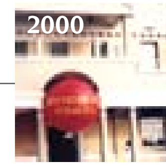
Across the Group, we present four scholarships and seven educational bursaries/awards annually. These include awards presented on the basis of both scholastic merit and financial need, and awards designed to support recipients' educational pursuits in specific fields of study, such as medicine and fine arts.

Celebrating Culture

A society's progress is measured not only in terms of statistics like literacy rates or per capita GDP, but also in terms of more intangible quality of life measures. For Butterfield Bank Group, "making a difference" also means lending our support to events that enrich the lives of people in our communities. This year, we helped celebrate culture and worked to showcase the talent of local artists and performers at several signature events.

In Barbados, we were the official bank of the 14th Barbados Jazz Festival, one of the Caribbean's largest and most well attended music festivals. In the UK, Bentley Reid Group co-sponsored the Grange Park Opera in Hampshire during the year. We donated funds in support of the construction of new art gallery facilities in both Bermuda and the Cayman Islands, and sponsored various art exhibitions in Bermuda, Cayman and Canada. We were the





title sponsor of Bermuda's largest public art festival, held in cooperation with the Masterworks Museum of Bermuda Art. In Guernsey, we were again part of a consortium of sponsors of the annual Royal Air Force Association Air Display over St. Peter Port harbour.

Caring for the Environment

As Butterfield Bank Group continues to grow, the potential impact of our operations on the urban centres in which we operate, as well as the wider natural environment, increases. We take our responsibility for managing the Bank's environmental footprint seriously and we have stepped up our efforts to promote environmental protection within the Bank.

In July, we became one of the founding partners of Recycle Bermuda, a joint public and private sector initiative that introduced tin, aluminium and glass recycling on the Island. Recycling bins are now in place at our branches and office buildings across Bermuda. Through internal communications, we regularly provide our employees with tips about the small things they can do, at work and at home, to be more environmentally friendly.

The greening of public spaces is a cause to which we have committed resources. From landscaping traffic islands with native plants and flowers in the Cayman Islands, to providing funding to maintain a city park in The Bahamas, the Butterfield Bank name is increasingly associated with urban beautification. These efforts complement our ongoing focus on maintaining and restoring the historic buildings our businesses occupy in various jurisdictions.

Where we completed renovations or constructed new facilities in 2007, we have used environmentally-friendly materials and installed efficient mechanical systems that decrease our energy usage and, by extension, our greenhouse gas emissions.

Also worthy of note is the fact that this year's Annual Report was printed on 100% recycled paper, which preserved 162 trees for the future, saved 68,952 gallons of wastewater flow and conserved 114,981,472 BTUs of energy.

Dr. James A.C. King presents Bermudian medical student Sarah Winstanley with the medical scholarship named in his honour.

Promoting Care for Our Community

In 2007, Butterfield Bank made the inaugural presentation of a $40,000 medical scholarship named in honour of past Chairman, Dr. James A.C. King. Offered in cooperation with Bermuda Hospitals Board, it is the first private sector medical scholarship to be offered in Bermuda.

For Customers.

…customer-focused, efficient and ethical delivery of banking and other selected financial services…

1983

Mobile Bank serving customers
at Bermuda's international airport.

For Customers.

At Butterfield Bank Group, we define our business not only in terms of the products and services we offer, but also in terms of why and how we deliver them. We are in the business of financially enabling our customers to realise their dreams. Across our personal, corporate and institutional lines and in all of the jurisdictions in which we operate, we go about delivering on that promise with a highly personal touch.

We seek out opportunities to speak with customers about their plans and goals. We engineer solutions – from savings and investments, to lending, to fund services – that help turn customers' objectives into reality. Those solutions are crafted with a level of discipline that reflects our Bank's inherent conservatism and the fact that we truly care about our customers' financial affairs. It is a way of doing business that has served Butterfield Bank and our customers well for 150 years.

In 2007, we upgraded our premises and our product offerings, and made changes in the organisation of certain departments to ensure that we are positioned to continue to add value to our existing customer relationships and attract new clientele.

Improving the Customer Experience

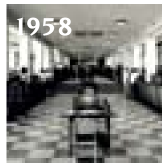
Construction of Butterfield Place, the new headquarters for our Cayman banking businesses in George Town, is nearing completion. Incorporating a community banking branch on the ground floor, with several key departments occupying the remaining six floors, this landmark building will provide a modern, comfortable space for our customers. During 2007, we also replaced our West Shore branch in Cayman with a new, larger branch at Governors Square, featuring easier access, additional ATMs and convenient parking. In Bermuda, upgrades to our Head Office continued with the opening of refurbished Asset Management and Trust offices.

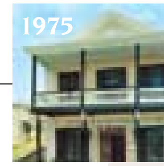
New Products and Enhanced Services

Butterfield Bank has been the first to introduce innovative banking and investment products in many of our markets. In 2007, that tradition continued with the launch of several new products and services designed to help customers achieve the things that matter to them.

Community Banking

Further enhancing what was already the leading line-up of personal credit cards in Bermuda, we introduced MasterCard Black, the Island's first "above Platinum" credit card, featuring American





Airlines AAdvantage rewards, and the British Airways Visa Platinum card, which rewards cardholders with BA Miles on purchases. Butterfield Miles, our loyalty programme with Cayman Airways, reached a milestone of 33 million miles earned by customers since the programme was launched in 2004.

To help our customers make their dreams of home ownership a reality, we introduced special mortgage financing for qualifying first-time home buyers in Bermuda and highly competitive mortgage rates.

To make banking more convenient for customers, we launched Butterfield Online Internet Banking services in Barbados, modelled on similar, popular services already offered in Bermuda and the Cayman Islands.

Our small business customers in Bermuda benefited from the introduction of web-based risk management tools and transaction information to help them run their businesses more efficiently and protect themselves from fraud. We also introduced new wireless payment processing terminals, enabling business owners to remotely process credit and debit card payments in real time.

Private Banking & Wealth Management

Our Bermuda-based wealth management businesses gained strength in 2007, with Asset Management, Personal Trust and Private Banking lines being grouped under a single reporting line. With this new organisational structure, we can effectively leverage the strengths of our highly experienced team and better serve the increasingly complex wealth management needs of our customers.

To provide those customers with additional investment choices, we launched the Butterfield Systematic Equity Fund, which invests in Canadian securities, and in Cayman, Macro ETF Portfolios that offer customers access to international markets through a managed portfolio of exchange-traded funds. The latter is an example of the kind of innovative products we are able to offer in local markets using knowledge and resources from across our international network. The managers of the Macro ETF Portfolios draw on the expertise of Butterfield Asset Management's investment professionals in five international locations.

In addition, Butterfield Asset Management introduced BAM Private Equity Partners I, Limited Partnership in 2007. This unique investment opportunity provides investors with the opportunity to participate in a portfolio of private equity funds managed by The Carlyle Group, with a lower minimum commitment than is normally required for private equity investments.

Butterfield Private Bank in the UK continued to focus on strengthening customer relationships by creating distinct, interlinked teams of Relationship Managers dedicated to three separate groups of clients: Family Office, Entrepreneurs and Professional & Executive. To assist those Relationship Managers, we introduced technology designed to help manage client information in support of efficient, proactive service. We also introduced a number of new products and services in the UK, including a service focused on Inheritance Tax and a discretionary management service for pensions.

In October, we announced the acquisition of Bentley Reid Group, a wealth management company with offices in Hong Kong, Malta and the United Kingdom. This acquisition allows us to introduce our relationship-based wealth management approach to a new group of clients in Asia. In the UK, Bentley Reid's financial and tax advisory services will be valuable to our Private Bank customers, and our private banking capabilities will similarly enhance the range of services available to Bentley Reid clients.

Malta-based Bentley Trust adds another jurisdiction from which we can administer trusts for our customers. Adding further to our trust capabilities in Europe, we established Butterfield Trust (Switzerland) Limited, based in Geneva. For our international clientele, the office should prove to be a beneficial complement to the wealth management services we offer from Zurich.

Butterfield Bank (Guernsey) expanded the services offered to UK non-domiciled residents and expatriates with the introduction of the Guernsey International Retirement Plan and a revamped Deferred Variable Annuity product. Guernsey also launched a French Property Loan Service in July, offering tailored loans (of between €750,000 and €10 million) for clients who are purchasing or refinancing high quality residential property in France.

Fund Services

Focusing on the evolving needs of our customers in the investment fund industry, Fund Services undertook several enhancements to systems and processes during the year. Ensuring that our information, technology and process controls are compliant with the standards required to meet the *American Institute of Certified Public Accountants Statement on Auditing Standards No. 70*, was a priority. Fund managers are increasingly relying on SAS 70 audit reports as criteria for selecting their fund administrators. We are, therefore, pleased to report that Butterfield Fund Services (Cayman) Limited received a clean SAS 70 Type One audit report at the end of June 2007. We also received a clean SAS 70 Type One audit report for select processes in our Bermuda and Canada-based Fund Services operations.

Butterfield Fund Services (Canada) Limited, based in Halifax, opened in March to serve primarily as a back office for our full-service Fund Services offices in the Cayman Islands and Bermuda. With a staff contingent of over 30 people, Halifax has already enhanced our fund administration capacity, helping ensure that we will be able to maintain the highly responsive, flexible service model that has driven our rapid growth in this field.

Administered Banking

We continue to be a leading provider of Administered Banking services in Guernsey. Administered Bank clients are fully licensed subsidiaries or branches of international banks in Guernsey. The management of these banks is carried out, and its books and records are retained, on the Island, with Butterfield Bank providing personnel, premises and support under service level agreements.

Custody

We are pleased to report that our Custody business in Guernsey received a clean SAS 70 Type Two certification during the year.

Raising Standards

Butterfield Bank is a founding member of the Bermuda Banker's Association, established in 2007 as the main representative body for banks on the Island. The Association will be involved in the development of industry standards that improve the efficiency and soundness of the financial system and encourage compliance with the highest ethical standards. Similarly, Butterfield Bank, as a member of the Cayman Islands Bankers Association, played an integral part in developing a new *Banking Code* for the Cayman Islands that establishes world-class standards for banking practices, designed to benefit consumers.

Butterfield Trust (Switzerland) Limited at Boulevard des Tranchées 16 in Geneva.

Representing a further step in our strategy of increasing our European private client business and capabilities, Butterfield Trust (Switzerland) Limited opened for business in early 2008. The office will provide fiduciary, trust and company administration services.

For Generations.

1986

For Generations.

For 150 years in Bermuda, over 40 years in both the Cayman Islands and the UK, and 35 years in Guernsey, Butterfield Bank Group companies have been a part of the lives of generations of customers, employees and investors.

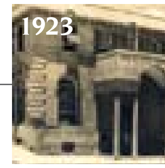
Bermudian Roots

Our roots in Bermuda are intertwined with those of some of the Island's oldest and most successful business enterprises. Over the years, we have provided funding for their expansion, investment opportunities for their capital and introduced banking mechanisms to facilitate local and international commercial transactions. We have been a vital contributor to the development of Bermuda from an agrarian economy to a leading tourist destination to a thriving international business centre. In the process, we have directly or indirectly touched the lives of virtually every resident of the Island.

It is not uncommon for several generations of the same family to bank with "Butterfield's" in Bermuda. Many of our customers have been customers for life, a legacy that we strive to earn every day through proactive, friendly service and the development of market leading customer solutions.

We offer products and services that are tailored to customers' various life stages — from "Young Savers," a savings account for children that we introduced in 2007, to specially discounted services for senior citizens. Our investment products range from growth

Then and now
Serving young customers has long been a focus of our Community Banking division in Bermuda.



instruments to stable, income generating securities. We offer customers access to their accounts through various channels – telephone, Internet, ATM and in-person at local branches – to ensure that they are able to deal with us however they choose.

As competition in domestic business and personal banking and wealth management intensifies, we aim to continue to be the company that Bermudians think of first when it comes to meeting their financial needs.

Multi-jurisdiction, Multi-generation Focus

Our ability to nurture customer relationships, a skill honed over a century and a half in Bermuda, is a fundamental strength of Butterfield Bank Group companies around the world. Butterfield Bank in the Cayman Islands, which celebrated its 40th anniversary in 2007, offers a full range of banking and wealth management products through various delivery channels that have made us the bank of choice for more than a generation of Caymanians. In our other markets, too, we are experiencing growth in niche businesses where long-term success is relationship led.

In wealth management, the ability to serve clients' needs increasingly means expanding capabilities beyond traditional investment advisory and private banking. Today, full-service wealth management means being able to provide long-term, multi-generation solutions encompassing wealth transfer, estate planning, tax sheltering and asset protection.

In 2007, Butterfield Bank Group moved into jurisdictions where we did not previously have a wealth management presence and expanded our services in others. Through the Bentley Reid acquisition, we gained a significant book of private client business in Hong Kong, where the clientele is made up largely of expatriates. The expatriate market is a niche that offers growth potential as we expand our geographic reach. As we move into new jurisdictions, we are increasingly able to provide greater continuity of service to internationally mobile customers and their families over the long term.

Butterfield Bank's 2007 Management Trainees (Bermuda)

The Next Generation

Since 1994, Butterfield Bank's Management Training Programme in Bermuda has been creating opportunities and developing strong new managers for the Bank from among the ranks of recent college and university graduates. The 18-month Programme consists of rotational work assignments in various Bank departments, including a minimum of three months in Internal Audit and at least six weeks as a branch Customer Service Associate. These assignments provide our Trainees with in-depth exposure to key front and back-office functions and first-hand experience dealing with customers.

Services for the Family Office

Families with significant wealth are increasingly establishing their own offices to manage their funds, plan their estates and make provisions for inter-generation wealth transfer. In Guernsey, our approach to delivering services to Family Offices is one of partnership. We work with the family's professional advisers beginning at the early stages of the planning process. Our team of experienced, technical experts assists in providing innovative solutions that utilise a variety of structures, including limited partnerships, segregated asset companies and private trust companies, alongside more traditional trust and company structures.

In The Bahamas, we were able to take advantage of new legislation and enhance our trust services through the use of Bahamas Private Trust Companies (PTC). PTCs offer ultra high net worth individuals and families the option of establishing and maintaining their own trust company as a platform for a Family Office.

Opened in January 2008, Butterfield International Private Office was established as a UK-based Group subsidiary. It provides independent fiduciary and asset structuring services to international families, with emphasis on the use of private trust companies.

After a century and a half of success, we're pleased that we continue to be known as a friendly, experienced institution in our established markets and, increasingly, the provider of choice for a new generation of international customers.

Bank logo in use from 1980 to 2004.

Managements' Discussion & Analysis of Results of Operations & Financial Condition

1989

St. George's branch, Bermuda.

Management's Discussion & Analysis of Results of Operations & Financial Condition[1]

Results of operations for the 12-month period ended 31 December 2007 compared with the 12-month period ended 31 December 2006.

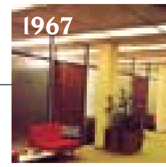
Butterfield Bank Group[2] achieved net income of $146.0 million for the 12-month period ending 31 December 2007, representing an 8.9% increase in net income over the same period last year. Pre-tax net income at $153.0 million, was up 10.9% year on year.

Net interest income was a record, at $252.6 million before credit related provisions. Up year on year by 15.8%, or $34.4 million, the increase reflects balance sheet growth, in particular a 14.8% increase in average interest earning assets and a 9.7% increase in loans. Non-interest income also increased year on year by $26.0 million, or 13.4%, to $219.7 million, reflecting strong growth in revenues from investment and pension fund administration, trust and custody services and customer-driven foreign exchange.

The Group's balance sheet remains highly liquid with a loan to customer deposits ratio of 39.5%. Customer deposits increased by 7.1% year on year to $10.4 billion, reflecting growth in Guernsey, up $496 million, the United Kingdom, up $112 million, and Barbados, up $58 million. Loan portfolio growth was 9.7% across the Group's operations, with The Bahamas up 205.1%, Barbados up 18.8%, Bermuda up 12.8% and the United Kingdom up 8.1%.

[1] 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 63, and the notes to those financial statements, which begin on page 67. Certain statements in this discussion and analysis may be deemed to include 'forward-looking statements' and are based on management's current expectations and are subject to uncertainty and changes in circumstances. Forward looking statements are not historical facts but instead represent only management's belief regarding future events, many of which by their nature are inherently uncertain and outside of management's control. Actual results may differ materially from those included in these statements due to a variety of factors, including worldwide economic conditions, success in business retention and obtaining new business and other factors. These statements and notes have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP).

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



The Bank maintains a held-to-maturity investment portfolio that is designated to be settled on the contractual maturities of the individual securities and monitors its liquidity requirements to ensure it has the ability and intent to hold designated HTM securities to their stated maturity dates. Within this portfolio, the Bank has direct and indirect exposures to the US residential mortgage-backed securities market, representing 11.5% of the investment portfolio and 14.5% of the HTM portfolio. Recent instability in the markets for US mortgage-backed and asset-backed securities has affected the liquidity of markets for these securities and thereby made it more difficult to obtain market quotations on many of these securities, thereby requiring significant management judgment to determine the appropriate fair values. The underlying security cash flows continue to be in accordance with contractual terms. Our ongoing analysis of the factors used in determining other than temporary impairment, together with the Bank's ability and intent to hold these securities through to the contractual maturities, leads to the conclusion that investments that currently have a fair value less than the current carrying value are not other than temporarily impaired.

Non-performing loans totalled $36.8 million at year-end 2007, representing 0.9% of total loans, compared to 0.8% a year ago, the increase reflecting the growth in the Bank's loan portfolio. As at 31 December 2007, the general provision for credit losses of $23.0 million was equivalent to 0.6% of total loans. In addition, there is a specific provision of $3.9 million held for possible shortfalls in the security for non-performing loans. In total, therefore, the allowance for credit losses is $26.9 million, or 0.7% of the loan portfolio. Delinquency and charge-off ratios continued to be below industry average.

Shareholder Value

The Bank continues to seek to build shareholder value and, for the fourth quarter, the Board approved a dividend increase of 2 cents, resulting in a total dividend for 2007 of $0.64 per share, an increase of 4 cents, or 6.7%, over last year. The dividend paid to shareholders in 2007 was $54.4 million, up 16.9% on the previous year and represents a 37.2% payout on net income for the period, up from 34.7% the previous year. In July, the Board announced a stock split whereby all shareholders of record at the close of business on Friday, 17 August 2007 received two additional shares for each share held on that date, which meant, for example, that a shareholder owning 100 shares on the record date saw his or her share holding increase to 300 shares (i.e., by three times) following the split. The additional shares commenced trading on a split-adjusted basis on Wednesday, 15 August 2007. The increase in shareholder value for the year, defined as the change in share price plus dividends reinvested, was 0.10%, compared to 36.8% the previous year, reflecting a fall in the Bank's share price from $18.75 at year-end 2006, when adjusted for the stock split, to $18.25 at 31 December 2007, offset by dividends reinvested. By contrast, and including dividends reinvested, the NASDAQ Bank Index for 2007 was down 19.8% and the FTSE Allshare Bank share index was down 16.9%.

Share Purchase Activity

The loan to the Stock Option Trust of $41.6 million is in respect of potential obligations under the Bank's Stock Option Plan and is deducted from shareholders' equity as treasury stock. The increase in the loan, from $37.0 million, the previous year, reflects $22.7 million of share buy-backs net of $18.1 million repayments from cash received on the exercise of stock options by employees and the effect of other share-based payments.

Under the Share Buy-back Plan, during the year 125,603 shares were repurchased and cancelled at an aggregate cost of $7.4 million and shares repurchased and held as treasury shares totalled 967,119 shares for an aggregate cost of $38.1 million.

In addition and separate to the above, the Bank's Stock Option Trust bought 597,818 shares at an aggregate cost of $22.7 million to satisfy the Bank's obligations with respect to the Stock Option Plan. There were no purchases of shares during the year by the Bank's Charitable Foundation.

Note: Number of shares stated are actual numbers reflecting purchases pre and post the stock split.

Performance Indicators

The Group's overall strength and performance are indicated by certain key measures. Return on shareholders' equity was 25.2% for the period, up from 24.6% in 2006. Diluted earnings per share were $1.68, up 15 cents, or 9.8%, compared with $1.53 last year.

The Group's Efficiency Ratio, which is operating expenses (excluding corporation tax and amortisation of intangible assets) expressed as a percentage of operating income (excluding credit provisions and gain on the sale of subsidiaries and affiliates), saw a year on year modest decline from 64.8% to 65.7% in 2007, reflecting increased investment in technology and operations.

Jurisdiction Overviews

Bermuda

($ millions; noted percentage changes reflect year on year variances)

Net Income*:	67.3	(△ 1.9%)
Revenue:	246.0	(△ 7.8%)
Customer Deposits:	3,855	(△ 0.6%)
Loans:	2,544	(△ 12.8%)
Total Assets:**	5,560	(△ 14.6%)
Assets Under Administration:	53,329	(△ 6.1%)
Assets Under Management:	8,889	(△ 18.7%)

**Before central cost allocations*
***Before inter-segment eliminations*

Major Business Lines: Community Banking, Private Banking, Asset Management, Personal Trust, Corporate Trust Investment & Pension Fund Administration

Number of Employees: 843

Total revenue increased year on year by $17.9 million, or 7.8%, to $246.0 million. Net interest income from community banking before credit provisions was up 11.7% to $130.5 million, reflecting strong loan growth and a $562 million increase in total assets to $5.4 billion. Net income for the year was up 4.1% to $40.5 million. The wealth management & fiduciary services and investment & pension fund administration businesses achieved a 6.8% growth in net income to $35.9 million. This reflects growth in client assets under administration, up 6.1% to $53.5 billion, and assets under investment management , up 18.7% to $8.9 billion. The Real Estate operating segment, which represents property related costs in Bermuda, recorded a net expense of $9.1 million in 2007, up $2.6 million over 2006, reflecting increased depreciation relating to upgrades to the Bank's premises. Net income from the Bermuda based businesses was a record $67.3 million and represents 46.1% of Group net income in 2007, compared to 49.3% in 2006.

The Bahamas

Bahamas Management Team
(from left to right)

Heather M. Bellot
Managing Director, Fund Services

Ian D. Fair
Deputy Chairman

Julien D. Martel
Vice President, Private Banking

Robert V. Lotmore
Managing Director

($ millions; noted percentage changes reflect year on year variances)

Net Income*:	3.1	(△ 38.9%)
Revenue:	12.1	(△ 32.7%)
Customer Deposits:	154	(△ 10.3%)
Loans:	41	(△ 205.1%)
Total Assets:	182	(△ 16.9%)
Assets Under Administration:	5,447	(△ 40.0%)

**Before central cost allocations*

Major Business Lines: Private Banking, Personal Trust, Corporate Trust, Investment & Pension Fund Administration

Number of Employees: 77

Our Bahamas businesses experienced good growth during 2007, building on the successes of 2006. Our profile was enhanced and grew locally and internationally through focused business development and marketing activities related to bespoke financial and fund administration products, reflected in the division's assets under administration increasing by 40% to $5,447 million.

One of the most notable successes in 2007 was the growth in the loan book of 205.1%, reflecting strong demand for the international mortgage product.

We were also able to embrace and launch a key jurisdictional service during 2007 using the Bahamas Private Trust Company ("PTC"). The PTC can play an important role in the management of an ultra high net worth individual's or family's wealth, in essence providing the structure for a Family Office.

Fund administration is focused on providing administrative services to investment and pension fund managers. Good growth was experienced during the year which was directly attributable to the direct marketing of services to the main decision makers. Additionally, The Bahamas' progressive investment fund legislation has provided an additional marketing opportunity through the SMART Funds which are especially tailored to start-up and incubator funds.

Barbados

Barbados Management Team
(back, from left to right)

Glyne Harrison
Manager, Banking Services

Lloyd O. Wiggan
Director

(front, from left to right)
Arlene Miller
Senior Manager, Credit

Caroline Prow
Vice President, Butterfield Asset Management (Barbados) Limited

($ millions; noted percentage changes reflect year on year variances)

Net Income*:	0.2	(▽ 82.5%)
Revenue:	12.2	(▽ 1.2%)
Customer Deposits:	226	(△ 34.9%)
Loans:	147	(△ 18.8%)
Total Assets:	277	(△ 30.0%)

**Before central cost allocations*

Major Business Line: Community Banking

Number of Employees: 127

The Bank continues in its long term objective to improve customer service and increase market share in the Barbados retail banking sector. To this end, during the year we completed the conversion of our credit card platform to that utilised by the Group. Additionally, our drive to increase our asset base resulted in gross loan growth of 18% over 2006. The local market remained highly competitive, resulting in a 76 basis point decline in the net interest margin. The Bank also converted the employee pension plan from a defined benefit plan to a defined contribution plan during the course of the year.

Canada

Sylvain Lacoursière
Managing Director,
Butterfield Fund Services
(Canada) Limited

Butterfield Fund Services (Canada) Limited provides fund administration support to the Bank's Fund Services businesses in Bermuda and the Cayman Islands. Assets administered in Halifax are therefore included in Assets Under Administration amounts noted for Cayman and Bermuda.

Major Business Line: Fund Services (administrative office)

Number of Employees: 32

The Halifax office commenced operations in March 2007 as a "back office" for our Bermuda and Cayman-based Fund Services businesses. The focus of the Canadian office in 2007 was on hiring qualified staff to add fund administration capacity to support ongoing business growth.

Cayman Islands

Cayman Islands Management Team
(from left to right)

Barry Yetton
Director & Head of Business Support Services

Sheree Ebanks
Director & Head of Wealth Management

Conor O'Dea
Managing Director

Erwin Dikau
Chief Financial Officer

Mike McWatt
Deputy Managing Director

($ millions; noted percentage changes reflect year on year variances)

Net Income*:	57.2	(△ 7.2%)
Revenue:	115.2	(△ 16.2%)
Customer Deposits:	2,358	(▽ 0.7%)
Loans:	367	(△ 2.3%)
Total Assets:	2,729	(▽ 2.3%)
Assets Under Administration:	53,488	(△ 33.2%)
Assets Under Management:	1,192	(△ 7.4%)

**Before central cost allocations*

Major Business Lines: Community Banking, Private Banking, Asset Management, Personal Trust, Corporate Trust, Investment & Pension Fund Administration

Number of Employees: 374

Our businesses in the Cayman Islands enjoyed another year of strong growth in 2007, collectively generating a record net income of $57.2 million, up year on year by $3.8 million, or 7.2%. The loan portfolio was up year on year by $8.2 million, or 2.3%. Run-off in the consumer loan portfolio and lower demand for mortgages offset loan growth in the commercial portfolio of $11.4 million or 8.8%. Net interest income before credit provisions was up 11.3% over 2006, at $62.4 million, while non-interest income totalled $52.4 million, an increase of 20.2% over 2006, reflecting strong growth in revenues from investment and pension fund administration revenues, up 32.5%, and asset management, up 16.1%.

Although the year end customer deposit balances showed a modest decline, average customer deposit balances rose 10.4% in 2007. Total assets declined modestly, down 2.3% to $2.7 billion. Growth in third party fund assets of 37.0% and custodied securities of 38.0% drove overall assets under administration levels to $53.5 billion, up from $40.2 billion in the prior year.

Guernsey

Guernsey Management Team (left to right)

Patrick Firth
Managing Director, Butterfield Fund Services (Guernsey) Limited

Neil Farrand, Director, Credit & Risk

Robert S. Moore, Managing Director

John Robinson
Deputy Managing Director

Ivor Bisson, Director, Banking Services

Paul Hodgson, Managing Director, Butterfield Trust (Guernsey) Limited

Hong Kong

Nic Bentley
Deputy Chairman,
Bentley Reid & Co. (Pacific) Ltd

($ millions; noted percentage changes reflect year on year variances)

Net Income*:	16.2	(△ 48.8%)
Revenue:	64.6	(△ 28.3%)
Customer Deposits:	2,106	(△ 30.8%)
Loans:	466	(△ 3.2%)
Total Assets:	2,368	(△ 30.9%)
Assets Under Administration:	31,794	(△ 13.2%)
Assets Under Management:	910	(▽ 18.8%)

**Before central cost allocations*

Major Business Lines: Private Banking, Personal Trust, Corporate Trust, Investment & Pension Fund Administration, Administered Banking, Custody and Custodian Trustee Services

Number of Employees: 228

Butterfield Bank Group announced an agreement to acquire Bentley Reid Group, including Hong Kong-based Bentley Asia Limited (providing trust services), Bentley Reid & Co. (Pacific) Ltd. (providing private wealth management services) and Bentley Capital (Pacific) Ltd. (providing asset management services) in late 2007.

Major Business Lines: Private Wealth Management, Asset Management, Personal Trust

Number of Employees: 10

The Guernsey businesses again delivered strong growth in net income (up 48.8%), all of our institutional administration and wealth management lines contributing significantly to this growth. Our continuing commitment to excellent service quality and a favourable economic backdrop supported a growth in revenue of 28.3%.

Particularly strong performances were seen in the Fund Administration and Institutional Custody businesses, which were the main contributors to growth in assets under administration (up 13.2%), whilst we maintained our market-leading position in Administered Banking. Loan volumes continued to grow over the year (up 3.2%), consolidating on the very substantial growth in 2006 whilst credit quality remained sound. Customer deposits exceeded $2 billion for the first time (up 30.8%) reflecting consistently strong growth over the period.

Malta

Malcolm Becker
Managing Director,
Bentley Trust Limited

Butterfield Bank Group announced an agreement to acquire Bentley Reid Group, including Malta-based Bentley Trust Limited in late 2007.

Major Business Lines: Personal Trust, Company Administration

Number of Employees: 13

Switzerland

Switzerland Management Team
(left to right)

Phil Lenz
Deputy Country Head

Jim Parker
Country Head

Missing from photo:
Iain Little
Managing Director,
Butterfield Asset Management
(Switzerland) Limited

($ millions)

Net Income:	-1.0
Revenue:	0.2
Assets Under Management:	77

Major Business Lines: Trust and Company Services, Asset Management

Number of Employees: 6

Butterfield Trust (Switzerland) Limited was incorporated on 14 September 2007 in Geneva in order to reinforce the Group's presence in the Swiss market. Butterfield Trust offers a highly specialised, expert service in private wealth structures to an international clientele. Together with Butterfield Asset Management (Switzerland) Limited, established in November 2006, the Swiss businesses now offer trust and corporate administration, as well as asset management services.

In Switzerland, a loss of $1.0 million was recorded on revenues of $0.2 million, reflecting start up costs associated with our new businesses. The Zurich asset management office has now generated client assets under administration of $77 million.

United Kingdom

United Kingdom Management Team (left to right)

Peter Fletcher
Chief Operating Officer

Andrew Jackson
Head of Product Expert Group

Jonathan Lidster
Head of Risk & Compliance

George Bogucki
Managing Director

Simon Ironside
Chief Financial Officer

John Dodds
Head of Internal Audit

Rupert Bentley
Managing Director
Bentley Reid & Co. (Europe) Ltd

Raymond Sykes
Director, Private Banking

Noel Crosse
Company Secretary

Missing from photo:
Katie Booth
Managing Director, Butterfield International Private Office Limited

($ millions; noted percentage changes reflect year on year variances)

Net Income*:	3.1	(△ 310.7%)
Revenue:	32.4	(△ 27.6%)
Customer Deposits:	1,742	(△ 6.9%)
Loans:	613	(△ 8.1%)
Total Assets:	1,999	(△ 0.7%)
Assets Under Administration:	1,619	(△ 35.2%)
Assets Under Management:	722	(△ 174.3%)

**Before central cost allocations*

Major Business Lines: Private Banking and Wealth Management, Asset Management, Treasury Services, Services for Family Offices

Number of Employees:140

Butterfield Bank (UK) Limited, trading as Butterfield Private Bank, offers private banking services to high net worth individuals, their families and business interests from offices in the City of London.

The UK businesses continued to record significant progress, with record net income of $3.1 million, up 310.7% on 2006. Total revenues were up 27.6% to $32.4 million, reflecting strong growth in net interest income, up 44.9%, and revenues from banking and client driven foreign exchange, up 25.2% and 63.6% respectively. Total assets, at $2 billion, were in line with a year ago, reflecting continued good growth in loans and customer deposits, up 8.1% and 6.9% respectively. Assets under management totalled $0.7 billion at 31 December 2007.

Butterfield Bank announced an agreement to acquire Bentley Reid Group, including UK-based Bentley Reid & Co. (Europe) Ltd. (providing private wealth management services) and Bentley Capital (Europe) Ltd. (providing asset management services) in late 2007. We also established Butterfield International Private Office Limited as a Group subsidiary in London (providing global and independent asset structuring services).

Financials.

1965

Financial Overview

Income

Total revenue for the Group after provisions was $470.0 million for the year ended 31 December 2007, up $54.9 million, or 13.2%, from $415.1 million for the same period a year ago. Net interest income before provisions for credit losses increased by 15.8% to $252.6 million. The increase reflects growth in average interest earning assets, up 14.9% to $11.5 billion, and the Group's continually successful asset/liability management strategies. As a result, the net interest margin widened by 0.03% to 2.18%.

We continue to be appropriately reserved with total provisions of $26.9 million. Non-performing loans totalled $36.8 million as at 31 December 2007, up from $29.1 million a year ago, the increase reflecting loan growth in the commercial loan and mortgage portfolios. They represent 0.9% of the total loan portfolio, compared to 0.8% a year ago. Provisions in respect of credit losses charged to income were $2.0 million, compared to $3.0 million last year.

Non-interest income grew by 13.4% to $219.7 million, reflecting business growth, notably from foreign exchange (+17.1%), trust and custody (+16.7%), investment & pension fund administration (+14.2%), and asset management (+10.9%).

An unrealised gain of $3.2 million was recorded in respect of trading securities, principally mutual funds managed by the Bank, and there was a $0.2 million gain on sale of an affiliate in respect of a Bermuda based company. Other (losses)/gains netted to a loss of $3.7 million, reflecting gains made from the sale of equity positions in a credit card processing company ($3.4 million) and a fund administration company ($1.0 million), and the sale and lease-back of premises in Cayman ($0.6 million) offset by losses from the write down of an investment in a Bermuda based financial services company ($2.4 million) and an unrealised loss of $6.3 million on a credit derivative transaction entered into with a related party.

Changes in Net Interest Income

(In $ thousands)

For the year ended 31 December		2007			2006	
	Average balance	Interest	Rate	Average balance	Interest	Rate
Assets						
Cash and deposits with banks	**3,005,511**	**124,609**	**4.15%**	3,308,586	129,908	3.93%
Investments	**4,569,566**	**253,831**	**5.55%**	3,317,309	163,348	4.92%
Loans	**3,922,337**	**282,711**	**7.21%**	3,384,718	234,772	6.94%
Interest earning assets	**11,497,414**	**661,151**	**5.75%**	10,010,613	528,028	5.27%
Other assets	**473,076**	**-**	**-**	389,083	-	-
Total assets	**11,970,490**	**661,151**	**5.52%**	10,399,696	528,028	5.08%
Liabilities						
Deposits	**9,731,178**	**395,681**	**4.07%**	8,415,621	298,254	3.54%
Subordinated capital	**281,750**	**14,853**	**5.27%**	278,963	14,553	5.22%
Interest bearing liabilities	**10,012,928**	**410,534**	**4.10%**	8,694,584	312,807	3.60%
Non-interest bearing current accounts	**1,114,722**	**-**	**-**	964,496	-	-
Other liabilities	**262,960**	**-**	**-**	195,115	-	-
Total liabilities	**11,390,610**	**410,534**	**3.60%**	9,854,195	312,807	3.17%
Shareholders' equity	**579,880**			545,501		
Total liabilities and shareholders' equity	**11,970,490**			10,399,696		
Spread			**1.65%**			1.67%
Net interest margin			**2.18%**			2.15%

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

Expenses

The efficiency ratio was 65.7%, compared to 64.8% in 2006, reflecting that growth in the Group's operating expenses, up 14.4%, was higher than the percentage increase for operating income, up 13.2% year on year.

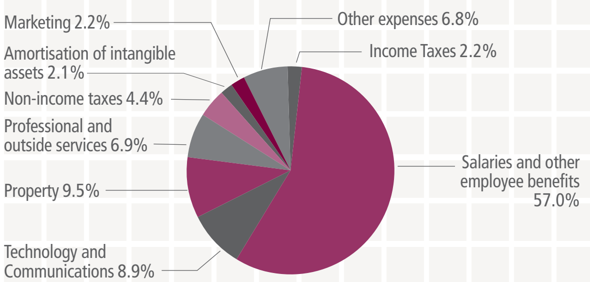
The increase in the operating expense primarily reflected the expanding size of the Group, with salaries and employee benefits up 13.7% to $184.8 million, accounting for 58.3% of total Group operating expenses, compared with 58.6% last year. There was a significant increase in costs relating to professional and outside services, up 48.0% to $22.3 million, reflecting a number of technology, risk management and client services initiatives. Property costs increased year on year by 24.6%, principally reflecting increased depreciation relating to the refurbishment of and improvements made to the Bank's Rosebank operations centre in Bermuda.

As at 31 December 2007 there were 843 employees in Bermuda, down from 845 a year ago. Overseas, the total headcount increased by 122 to 1,007 primarily due to continued growth in Cayman (+23), Guernsey (+14), the acquisition of the Bentley Reid Group (+44) and the establishment of a fund administration operations centre in Halifax, Nova Scotia (+32).

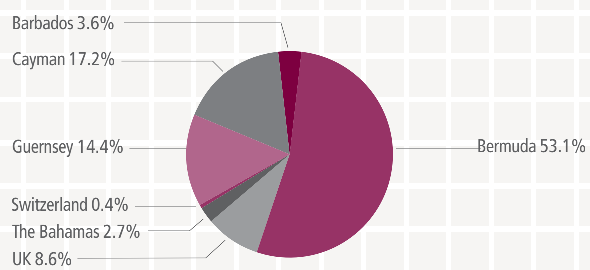
Balance Sheet

Total assets increased by 7.0% to $11.9 billion, up from $11.1 billion a year ago. This increase reflects the rise in the customer deposit base, up year on year by $0.7 billion, or 7.1%, to $10.4 billion, which included an 8.2% increase in non-interest bearing deposits to $1.0 billion. The increase in the customer deposit base was primarily employed in funding growth in our loan portfolio, up 9.7% to $4.1 billion, and our held to maturity investment portfolio, up year on year by 35.7% to $3.8 billion. Cash and deposits with banks reduced year on year by 20.1% to $2.5 billion, reflecting increased investments in AAA/AA rated floating rate note securities. Available for sale securities; principally bank certificates of deposit, reduced slightly by 3.2% to $0.9 billion whilst trading investments, at $0.1 billion, were at the same level as a year ago. There was no other than temporary impairment recorded in respect of held to maturity investments and the fair value of the portfolio, at $3.6 billion, represented 95.7% of amortised cost. The Balance sheet remains highly liquid with a loans to customer deposits ratio of 39.5% and loans to total assets ratio of 34.6%.

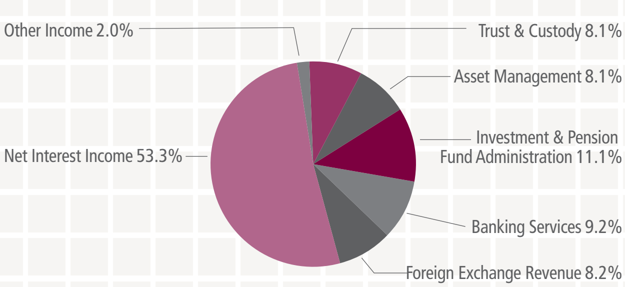
Distribution of 2007 Total Expense



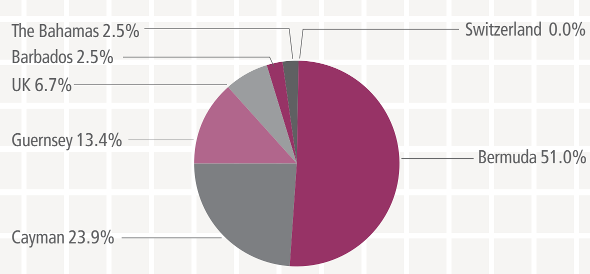
Distribution of 2007 Expenses by Location



Distribution of 2007 Total Revenue



Distribution of 2007 Total Revenue by Location



The Bank has previously viewed the mortgage-backed and other asset-backed securities markets as good sources of yield, liquidity and transparency of information on issuers and underlying collateral. Through the ALCO Committee, the Bank monitors its investments with exposure to the US residential market, as well as exposures to other residential and commercial mortgage-backed securities and other forms of asset-backed securities through timely reporting, the use of industry standard models and sources of information and specialists within the Bank to interpret the results of stress testing. The Bank's policy is to invest in senior tranches of investment grade asset-backed securities. As at 31 December 2007 investments in US residential collateralised mortgage obligations (CMO's), had a carrying value (amortised cost) of $478.7 million with a fair value of $371.2 million and represented 12.8% of total held to maturity investments. Total holdings of CMO's as at 31 December 2007, including residential CMO's, were $828.5 million with a fair value of $713.2 million and represented 22.1% of total held to maturity investments.

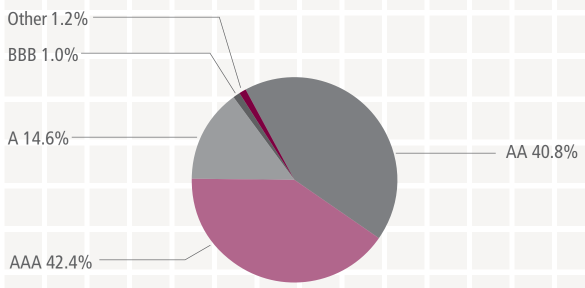
Other asset-backed securities had a carrying value (amortised cost) of $632.9 million with a fair value of $593.8 million and represented 16.9% of held to maturity investments.

In light of the market instability and complexity in fair value and other-than-temporary impairment determinations, a large degree of judgement is involved in the assessments. The Bank continues to have exposure to these markets and as such there exists a level of uncertainty as to the impact of future events in these markets and declines in the US economy, that may affect management's views on other-than-temporary impairment, ultimately resulting in possible write-downs to fair value. However, based on current economic conditions, management believes that the Bank will collect all amounts due according to the contractual terms of the securities. By rating category, holdings of US residential mortgage-backed securities were as follows: AAA: 60.1%; AA: 33.1%; BBB: 2.8%.

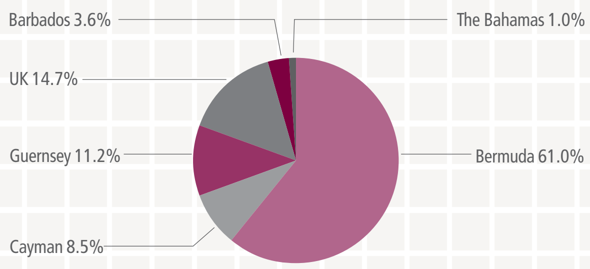
Taxes

For the period under review the corporation tax of the Group was $7.0 million compared to $3.8 million for the same period a year ago, reflecting increased taxable earnings in Guernsey and the UK. Corporation taxes of $4.9 million in Guernsey, $2.0 million in the UK and $0.1 million in Barbados were incurred for the year. As a result, the Group's effective corporation tax rate increased from 2.8% a year ago to 4.6%. Non-income taxes of $14.2 million were also paid across the Group, up 8.5% from $13.0 million the previous year, primarily reflecting an increase in employee related taxes.

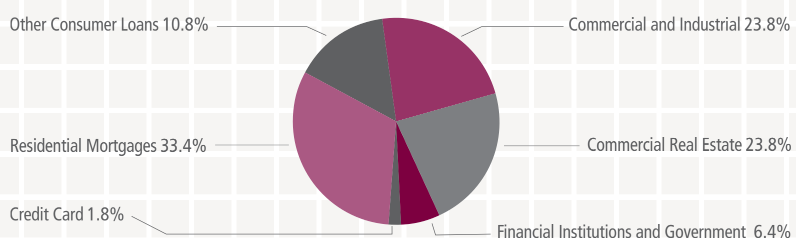
Investment Portfolio by Long Term Debt Rating



Lending by Location



Group Loans by Type



Capital

The Group continues to maintain a strong capital base that ensures stability and allows us to take advantage of opportunities for growth. At 31 December 2007 the risk weighted total capital ratio was 13.0%, compared to the 10.0% minimum requirement of the Bermuda Monetary Authority (BMA). Of the total, the Tier 1 ratio was 8.6%, compared to a 5% minimum requirement. Shareholders' equity increased by $79.8 million, or 14.5% over a year ago, reflecting the increase in retained earnings offset by share buy-backs.

Weighted risk assets rose year on year by 16.0% to $6.3 billion, primarily due to growth in loans and investments. The loan to the Stock Option Trust of $41.6 million is in respect of potential obligations under the Bank's Stock Option Plan and is deducted from shareholders' equity as treasury stock. The increase in the loan from $37.0 million the previous year reflects the purchase of 597,818 Bank shares by the Stock Option Trust at a cost of $22.7 million, offset by repayments from cash received on the exercise of stock options by employees.

During the period under review, the Bank issued 74,522 new shares and transferred 232,392 treasury shares under the Dividend Re-investment Programme, which represents a cash savings of $12.5 million, or 23.0% of the total dividend paid. As a result of the stock split in August 2007, 59,637,346 new shares were issued. Under the Share Buy-Back Plan, the Bank purchased and cancelled 125,603 shares, at a cost of $7.4 million and purchased and held as treasury stock, 967,119 shares at a cost of $38.1 million.

Capital Composition

(In $ thousands)

For the year ended 31 December	**2007**	2006
Tier 1 capital	**547,801**	488,131
Tier 2 capital	**296,922**	266,185
Deductions *	**(21,413)**	(18,722)
Total capital	**823,310**	735,594

Weighted Risk Assets

(In $ thousands)

Cash and inter-bank placements	**487,158**	623,260
Investments	**1,795,446**	1,091,422
Loans	**3,169,395**	2,867,821
Other assets	**360,335**	285,450
Off-balance sheet items	**533,420**	600,715
Total weighted risk assets	**6,345,754**	5,468,668

Capital Ratios (%)

Tier 1	**8.6%**	8.9%
Tier 2	**4.7%**	4.9%
Deductions *	**(0.3%)**	(0.3%)
Total	**13.0%**	13.5%

* Deductions from capital comprise investments in affiliates.

Financial Overview

Selected Quarterly Results of Operations

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

	2007			
Quarter ended	**31 December**	**30 September**	**30 June**	**31 March**
Net interest income after provision for credit losses	**65,924**	**63,786**	**61,649**	**59,258**
Total fees and other income	**56,121**	**57,238**	**54,400**	**51,587**
Total revenue	**122,045**	**121,024**	**116,049**	**110,845**
Total non-interest expense	**87,289**	**81,378**	**80,140**	**75,161**
Net income for the quarter	**34,756**	**39,646**	**35,909**	**35,684**
Earnings per share ($) *				
Basic	**0.41**	**0.47**	**0.42**	**0.42**
Diluted	**0.40**	**0.46**	**0.41**	**0.41**
Return on shareholders' equity (%)	**22.9**	**27.1**	**25.1**	**25.8**

	2006			
Quarter ended	31 December	30 September	30 June	31 March
Net interest income after provision for credit losses	57,688	55,058	53,573	48,902
Total fees and other income	49,581	51,018	51,078	48,154
Total revenue	107,269	106,076	104,651	97,056
Total non-interest expense	74,786	71,424	70,794	63,965
Net income for the quarter	32,483	34,652	33,857	33,091
Earnings per share ($) *				
Basic	0.38	0.41	0.40	0.39
Diluted	0.37	0.39	0.39	0.38
Return on shareholders' equity (%)	22.7	24.5	25.0	26.3

* All prior period per share data have been restated to reflect the three for one stock split in August 2007 and the one for ten stock dividend in August 2006.

Financial Summary

(In $ thousands, except per share data)

Year ended 31 December	**2007**	2006	2005	2004	2003
At year end					
Cash and deposits with banks	**2,517,012**	3,151,191	2,849,920	2,396,724	2,912,383
Investments	**4,744,989**	3,786,793	2,916,399	3,266,400	2,638,253
Loans, net of allowance for credit losses	**4,124,764**	3,760,745	3,085,594	2,645,331	1,954,716
Premises, equipment and computer software	**215,379**	171,326	141,708	126,031	99,979
Total assets	**11,910,920**	11,132,802	9,197,566	8,630,383	7,733,806
Total deposits	**10,747,971**	10,042,832	8,240,109	7,907,450	7,122,577
Subordinated capital and senior debt	**284,191**	280,168	278,679	142,333	122,871
Shareholders' equity	**629,330**	549,553	495,226	428,030	382,095
For the year					
Net interest income after provision for credit losses	**250,617**	215,221	182,174	148,075	115,066
Fee and other income	**219,346**	199,831	172,955	163,090	118,985
Salaries and other employee benefits	**184,751**	162,504	144,331	127,459	100,104
Other non-interest expenses	**139,217**	118,465	101,447	93,240	63,109
Net income	**145,995**	134,083	109,351	90,466	70,838
Dividends paid	**54,366**	46,496	38,504	32,217	26,809
Financial ratios					
Return on assets	**1.2%**	1.3%	1.2%	1.1%	1.0%
Return on shareholders' equity	**25.2%**	24.6%	23.6%	21.2%	17.9%
Dividend payout ratio	**37.2%**	34.7%	35.2%	35.6%	37.8%
Total capital funds to total assets ratio	**7.7%**	7.5%	8.4%	6.6%	6.5%
Risk weighted capital ratio	**13.0%**	13.5%	13.1%	10.7%	13.0%
Efficiency ratio	**65.7%**	64.8%	66.4%	69.1%	67.7%
Per share ($) *					
Net income (diluted)	**1.68**	1.53	1.28	1.06	0.85
Dividends declared	**0.64**	0.60	0.56	0.52	0.48
Net book value	**7.44**	6.46	5.90	5.19	4.64
Number of employees					
Bermuda	**843**	845	789	786	734
Overseas	**1,007**	885	808	766	647
Total	**1,850**	1,730	1,597	1,552	1,381
Shareholder data					
Number of shareholders	**4,201**	3,915	3,878	3,778	3,581
Number of common shares (in thousands) *	**84,553**	28,375	25,429	22,745	20,643

* Actual outstanding; excludes common shares held as treasury stock and common shares held by the Bank's Stock Option Trust.

All prior period per share data have been restated to reflect the three for one stock split in August 2007.

All prior period per share data, with the exception of dividends, have been restated to reflect the one for ten stock dividends in August 2006, 2005, 2004 and 2003.

The number of shares in 2007 increased primarily due to the three for one stock split.
The number of shares in 2006, 2005 and 2004 increased primarily due to the issue of the stock dividends.

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 our external independent auditors 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
29 February 2008

Richard J. Ferrett
Executive Vice President & Chief Financial Officer
29 February 2008

Independent Auditors' Report to the Shareholders

PRICEWATERHOUSECOOPERS

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Chartered Accountants
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Hamilton HM 11
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Independent 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, of 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 and its subsidiaries at 31 December 2007 and 2006 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers

Chartered Accountants

29 February 2008

Consolidated Balance Sheet

As at 31 December (In $ thousands)

	2007	2006
Assets		
Cash and demand deposits with banks	267,261	341,582
Term deposits with banks	2,249,751	2,809,609
Total cash and deposits with banks	2,517,012	3,151,191
Investments		
Trading	58,534	56,471
Available for sale	932,238	963,355
Held to maturity	3,754,217	2,766,967
Total investments	4,744,989	3,786,793
Loans, net of allowance for credit losses	4,124,764	3,760,745
Premises, equipment and computer software	215,379	171,326
Accrued interest	68,597	64,163
Goodwill	25,260	25,018
Other intangible assets	81,230	69,685
Other assets	133,689	103,881
Total assets	11,910,920	11,132,802
Liabilities		
Deposits		
Non-interest bearing	1,042,062	964,496
Interest bearing		
Customers	9,399,517	8,791,163
Banks	306,392	287,173
Total deposits	10,747,971	10,042,832
Employee future benefits	98,063	107,191
Accrued interest	34,774	33,409
Dividend payable	14,081	13,178
Other liabilities	102,510	106,471
Total other liabilities	249,428	260,249
Subordinated capital	284,191	280,168
Total liabilities	11,281,590	10,583,249
Shareholders' equity		
Common share capital ($1.00 par: Authorised shares 100,000,000)	89,456	29,870
Additional paid in capital	455,114	514,872
Retained earnings	167,607	76,881
Less: treasury common stock	(71,576)	(37,039)
Accumulated other comprehensive loss	(11,271)	(35,031)
Total shareholders' equity	629,330	549,553
Total liabilities and shareholders' equity	11,910,920	11,132,802

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

Robert A. Mulderig
Chairman of the Board

Robert J. Stewart
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)

	2007	2006
Non-interest income		
Investment and pension fund administration	52,301	45,798
Banking	43,266	41,289
Foreign exchange revenue	38,717	33,053
Asset management	38,260	34,492
Trust and custody	38,112	32,650
Other non-interest income	9,026	6,372
Total non-interest income	219,682	193,654
Interest income		
Loans	284,695	237,769
Investments	253,831	163,348
Deposits with banks	124,608	129,908
Total interest income	663,134	531,025
Interest expense		
Deposits	395,681	298,254
Subordinated capital	14,853	14,553
Total interest expense	410,534	312,807
Net interest income before provision for credit losses	252,600	218,218
Provision for credit losses	(1,983)	(2,997)
Net interest income after provision for credit losses	250,617	215,221
Realised/unrealised gains on trading securities	3,221	1,608
Gain on sale of affiliates	170	2,144
Other (losses) gains	(3,727)	2,425
Total revenue	469,963	415,052
Non-interest expense		
Salaries and other employee benefits	184,751	162,504
Property	30,856	24,770
Technology and communications	28,741	26,531
Professional and outside services	22,304	15,071
Non-income taxes	14,152	13,045
Marketing	7,131	6,932
Amortisation of intangible assets	6,916	6,352
Other expenses	22,140	21,972
Total non-interest expense	316,991	277,177
Net income before income taxes	152,972	137,875
Income taxes	(6,977)	(3,792)
Net income	145,995	134,083
Earnings per share		
Basic	1.72	1.58
Diluted	1.68	1.53

Earnings per share comparative figures have been restated for the three for one stock split in August 2007.
The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity and Comprehensive Income

For the year ended 31 December (In $ thousands)

	2007	2006
Common share capital		
Authorised: 100,000,000 shares (2006: 100,000,000) of par value $1 each		
Issued		
Issued and outstanding at beginning of year	**29,870**	26,948
(January 2007: 29,869,754 shares; January 2006: 26,947,915 shares)		
Dividend reinvestment	**307**	264
(December 2007: 306,914 shares; December 2006: 263,435 shares)		
of which issued from treasury common stock	**(232)**	-
(December 2007: 232,392 shares; December 2006: nil shares)		
Stock dividend	**-**	2,706
(December 2007: nil shares; December 2006: 2,706,063 shares)		
Stock split	**59,637**	-
(December 2007: 59,637,346 shares; December 2006: nil shares)		
Shares repurchased and cancelled	**(126)**	(48)
(December 2007: 125,603 shares; December 2006: 47,659 shares)		
Issued and outstanding at end of year	**89,456**	29,870
(December 2007: 89,456,019 shares; December 2006: 29,869,754 shares)		
Additional paid in capital		
Balance at beginning of year	**514,872**	341,647
Dividend reinvestment	**12,403**	14,804
of which related to treasury common stock	**(8,197)**	-
Stock split	**(59,637)**	-
Stock dividend	**-**	158,371
Issued under directors' and executive officers' and employees' stock option plans	**2,959**	2,666
Common shares repurchased and cancelled	**(7,286)**	(2,616)
Balance at end of year	**455,114**	514,872
Retained earnings		
Appropriated - general reserve	**100,000**	100,000
Unappropriated at beginning of year	**(23,119)**	52,501
Net income for year	**145,995**	134,083
Cash dividends declared	**(55,269)**	(48,626)
Stock dividend	**-**	(161,077)
Balance at end of year	**167,607**	76,881
Accumulated other comprehensive loss		
Balance at beginning of year	**(35,031)**	(322)
Net change in unrealised gains and losses on translation of net investment in foreign operations	**542**	5,465
Net change in unrealised gains and losses on available for sale securities	**(398)**	(446)
Net change in unrealised gains and losses on cash flow hedges	**38**	1,134
Net change in employee future benefits	**23,578**	(41,266)
Net change in minimum pension liability	**-**	404
Balance at end of year	**(11,271)**	(35,031)
Treasury common stock		
Balance at beginning of year (January 2007: 1,494,584 shares; January 2006: 1,519,203 shares)	**(37,039)**	(25,548)
Net purchases	**(34,537)**	(11,491)
Balance at end of year	**(71,576)**	(37,039)
(December 2007: 4,903,324 shares; December 2006: 1,494,584 shares)		
Total shareholders' equity	**629,330**	549,553
Comprehensive income		
Net income	**145,995**	134,083
Other comprehensive income (loss)	**23,760**	(34,709)
Total comprehensive income	**169,755**	99,374

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)

	2007	2006
Cash flows from operating activities		
Net income	145,995	134,083
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortisation	27,536	21,009
Increase in carrying value of investments in affiliates	(1,051)	(4,204)
Share-based compensation	2,959	2,328
Gain on sale of affiliate	(170)	(635)
Gain on sale of premises and equipment	(569)	(1,509)
Gain on sale of private equity investments	(4,388)	(1,501)
Provision for credit losses	1,983	2,997
Increase in accrued interest receivable	(4,069)	(16,708)
Increase in other assets	(15,608)	(27,521)
Increase in accrued interest payable	1,114	12,724
Increase (decrease) in other liabilities	3,273	(344)
	157,005	120,719
Net change in trading account securities	(1,872)	86,758
Cash provided by operating activities	155,133	207,477
Cash flows from investing activities		
Net decrease increase in term deposits with banks	573,681	21,486
Net additions to premises, equipment and computer software	(59,152)	(42,621)
Net increase in loans	(348,491)	(575,187)
Held to maturity securities: proceeds from maturities	1,980,152	734,672
Held to maturity securities: purchases	(2,981,357)	(1,240,278)
Available for sale securities: proceeds from sale and maturities	4,019,843	2,685,099
Available for sale securities: purchases	(3,964,763)	(3,030,445)
Net proceeds on sale of private equity investment	4,388	1,501
Net proceeds on sale of affiliate	2,344	635
Purchase of subsidiary	(28,353)	-
Cash used in investing activities	(801,708)	(1,445,138)
Cash flows from financing activities		
Net increase in demand and term deposit liabilities	664,323	1,470,924
Proceeds from dividend re-investment plan	12,478	15,066
Common shares repurchased	(45,564)	(2,664)
Treasury stock	(4,582)	(11,491)
Cash dividends paid	(54,366)	(46,496)
Cash provided by financing activities	572,289	1,425,339
Effect of exchange rates on cash and demand deposits with banks	(35)	(794)
Net (decrease) increase in cash and demand deposits with banks	(74,321)	186,884
Cash and demand deposits with banks: beginning of period	341,582	154,698
Cash and demand deposits with banks: end of period	267,261	341,582
Supplemental disclosure of cash flow information		
Cash interest paid	411,082	300,956
Cash income tax paid	5,428	2,741

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

Notes to Consolidated Financial Statements

For the year ended 31 December 2007 (All amounts are expressed in thousands of Bermuda dollars unless otherwise stated)

Note 1: Significant Accounting Policies

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

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, including the provision for credit losses, the fair value of financial instruments, the fair value of investments, litigation provisions, variable interest entities, pensions and post-retirement medical benefit plan benefits, the carrying value of goodwill and intangible assets require management to make subjective or complex judgments and 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 in designated variable 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 VIEs when the Bank is determined to be the primary beneficiary under the Financial Accounting Standards Board (FASB) interpretation No. 46 (Revised 2003) Consolidation of Variable Interest Entities (FIN 46R).

(c) Foreign Currency Translation

Assets, liabilities, revenues and expenses denominated in US dollars are translated to Bermuda dollars at par. Assets and liabilities arising from other foreign currency transactions are translated into Bermuda dollars at the rates of exchange prevailing at the balance sheet date. The resulting gains or losses are included in foreign exchange revenue in the Consolidated Statement of 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 because the Bank is not the beneficiary of these assets.

(e) Investments

Investments include debt and equity securities. Debt securities include bonds, notes, certificates of deposit, 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, with the exception of other than temporary impairments which are included in net 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 or independent pricing services when available, or if quoted market prices or independent pricing services 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 from which it is unlikely that future interest payments will be received 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 sale 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. The entire balance of an account is contractually delinquent if the minimum payment of principal or interest is not received by the specified due date. Delinquency is reported on loans that are 30 days or more past due.

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 lending portfolio. The allowance for credit losses consists of specific allowances and a general allowance, 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 Allowances

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

(i) General Allowance

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

(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 tested annually for impairment at the reporting unit level, or more frequently 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. Intangible assets' estimated lives are re-evaluated annually and an impairment test is carried out if certain indicators of impairment exist.

(k) Premises, Equipment and Computer Software

Land, building, equipment and computer software, including leasehold improvements, are carried at cost less accumulated depreciation. The Bank generally computes depreciation using the straight-line method over the estimated useful life of an asset, which is 50 years for buildings, and 3 to 10 years for other equipment. For leasehold improvements the Bank uses the straight-line method over the lesser of the remaining term of the leased facility or the estimated economic life of the improvement. The Bank capitalises certain costs associated with the acquisition or development of internal use software. Once the software is ready for its intended use, these costs are amortised on a straight-line basis over the software's expected useful life, which is between 5 and 7 years. If deemed significant the Bank will capitalise interest cost in accordance with FAS No. 34 Capitalisation of Interest Cost (FAS 34).

(l) Derivatives

In accordance with FAS No. 133 Accounting for Derivative Instruments and Hedging Activities (FAS 133), all derivatives are recognised on the Consolidated Balance Sheet at their fair value. FAS 133, as amended by FAS No. 138 Accounting for Certain Derivative Instruments and Certain Hedging Activities (FAS 138) and FAS No. 149 Amendment of Statement 133 on Derivative Instruments and Hedging Activities (FAS 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 in accordance with FAS No. 87 Employers' Accounting for Pensions (FAS 87) and FAS No. 88 Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits (FAS 88). Its post-retirement medical and life insurance plans are accounted for in accordance with FAS No. 106 Employers' Accounting for Post-retirement Benefits Other Than Pensions (FAS 106). Both plans are also accounted for in accordance with FAS No. 158 (FAS 158), Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R).

Expense for the defined benefit pension plans and the post-retirement medical benefits plan is comprised of (a) the actuarially determined benefits for the current year's service, (b) imputed interest on the actuarially determined liability of the plan, (c) in the case of the defined benefit pension plans, the expected investment return on the 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 revised accounting standards.

For each of the defined benefit pension plans and for the post-retirement medical benefits plan, the asset (liability) recognised for accounting purposes is reported in other assets and employee future benefits.

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

(n) Share-Based Compensation

The Bank has a number of share-based compensation plans for eligible employees. In accordance with FAS No. 123R Share-Based Payment (FAS 123R), the Bank follows the fair value method of accounting for share-based compensation plans. The fair value of share-based awards that eventually vest is amortised over the vesting period of the award.

(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 FAS No. 91 Accounting for Non-refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases (FAS 91), 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 one 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. Had a ready market for the instruments existed, the differences could be material. 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 and credit agency ratings and outlooks. The Bank does not reduce the book value of financial assets to their fair values, unless they are other-than-temporarily impaired, 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 are determined based on the quoted market price or independent pricing services when available, or if quoted market prices or independent pricing services are not available, discounted expected cash flows using market rates commensurate with the credit quality and maturity of the investment.

iii) **Loans:** The majority of loans are variable rate and re-price in response to changes in market rates and hence the fair value has been estimated as the carrying value. For fixed-rate loans, the fair value 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 has been estimated by discounting the contractual cash flows, using current market interest rates.

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 to 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 Sheet, include:

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

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

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

These credit arrangements are subject to the Bank's normal credit standards and collateral is obtained where appropriate. The contractual amounts for these commitments set out in the table in Note 11 represent the maximum payments the Bank would have to make should the contracts be fully drawn, the counterparty default, and any collateral held prove to be of no value. As many of these arrangements will expire or terminate without being drawn upon or 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 tax assets or liabilities accumulated as a result of temporary differences are included in other assets or other liabilities, respectively. A valuation allowance is established to reduce deferred income tax assets to the amount more likely than not to be realised.

(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 common shares outstanding during the year and adjusted for the stock split and the stock dividend declared during the years ended 31 December 2007 and 2006 (see also Notes 18 and 23). The dilutive effect of share-based compensation plans was calculated using the treasury stock method, whereby the proceeds received from the exercise of share-based awards are assumed to be used to repurchase outstanding common shares, using the quarterly average market price of the Bank's shares for the period.

(u) Consolidation of Variable Interest Entities

FIN 46R requires beneficiaries of variable interests 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 an entity meets the criteria to be considered the primary beneficiary of a VIE requires an evaluation of all transactions (such as investments, loans and fee arrangements) with the entity.

(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 29 October 2007, the Bank acquired all outstanding shares of Bentley Reid Group Limited (Bentley Reid), a privately-held, international wealth management company with offices in Hong Kong, London and Malta for consideration of £13.8 million ($28.4 million) paid in cash. The purchase agreement provides for contingent payments in years 2009 and 2010 of up to £5.3 million ($10.5 million). Management has assessed that the contingency amounts are not probable and therefore have not been accounted for at this time. The payments will be accounted for as and when they are probable and will be recorded as additional goodwill at that time.

The following table summarises the total consideration in respect of the acquisition of Bentley Reid:

	Bentley Reid
Fair value of assets acquired	
Cash and deposits with banks	9,154
Premises, equipment and computer software	2,069
Intangible assets - customer relationships	17,705
Other assets	2,206
Total assets	31,134
Fair value of liabilities assumed	
Other liabilities	2,781
Fair value of identifiable net assets acquired	28,353
Total purchase consideration	**28,353**

Note 3: Cash and Deposits with Banks

	2007			2006		
31 December	**Bermuda**	**Non-Bermuda**	**Total**	Bermuda	Non-Bermuda	Total
Unrestricted						
Non-interest earning						
Cash and demand deposits	**56,667**	**41,622**	**98,289**	27,062	22,955	50,017
Interest earning						
Deposits maturing within three months and on demand	**255,443**	**2,010,071**	**2,265,514**	183,815	2,745,502	2,929,317
Deposits maturing between three to six months	**-**	**43,117**	**43,117**	-	77,458	77,458
Deposits maturing between six to twelve months	**-**	**64,123**	**64,123**	-	78,719	78,719
Sub-total - Interest earning	**255,443**	**2,117,311**	**2,372,754**	183,815	2,901,679	3,085,494
Total unrestricted cash and deposits	**312,110**	**2,158,933**	**2,471,043**	210,877	2,924,634	3,135,511
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Non-interest earning						
Demand deposits	**-**	**27,876**	**27,876**	-	12,795	12,795
Interest earning						
Deposits maturing within three months	**5,032**	**13,061**	**18,093**	2,885	-	2,885
Total restricted deposits	**5,032**	**40,937**	**45,969**	2,885	12,795	15,680
Total cash and deposits with banks	**317,142**	**2,199,870**	**2,517,012**	213,762	2,937,429	3,151,191

Restricted cash of $5.032 million in Bermuda reflects collateral posted against interest rate swaps.

Note 4: Investments

The following table presents securities by remaining term to maturity:

	Remaining term to maturity					
31 December 2007	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying value
Trading						
Debt securities issued by non-US governments	-	731	4,304	5,572	-	10,607
Corporate securities and other	-	-	-	-	47,927	47,927
Total trading	-	731	4,304	5,572	47,927	58,534
Available for sale						
Certificates of deposit	669,729	248,344	-	-	-	918,073
Debt securities issued by non-US governments	11,996	-	-	-	-	11,996
Corporate debt securities	-	-	-	1,838	-	1,838
Equity securities	-	-	-	-	331	331
Total available for sale	681,725	248,344	-	1,838	331	932,238
Held to maturity						
US government and federal agencies/corporations	-	59,987	4,496	136,248	-	200,731
Certificates of deposit	81,152	149,260	-	-	-	230,412
Collateralised mortgage obligations	-	-	87,699	740,781	-	828,480
Debt securities issued by non-US governments	19,997	22,205	14,395	17,827	1,887	76,311
Corporate debt securities	186,419	206,082	1,346,894	45,981	-	1,785,376
Other, primarily asset-backed securities	90,831	18,335	49,986	473,755	-	632,907
Total held to maturity	378,399	455,869	1,503,470	1,414,592	1,887	3,754,217
Total investments	1,060,124	704,944	1,507,774	1,422,002	50,145	4,744,989
Total by currency						
Bermuda dollars	-	-	-	-	492	492
US dollars	270,411	352,388	1,160,218	1,249,561	45,323	3,077,901
Other	789,713	352,556	347,556	172,441	4,330	1,666,596
Total investments	1,060,124	704,944	1,507,774	1,422,002	50,145	4,744,989

31 December 2006	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 securities issued by non-US governments	-	559	3,847	6,351	-	10,757
Corporate securities and other	-	3	-	-	45,711	45,714
Total trading	-	562	3,847	6,351	45,711	56,471
Available for sale						
Certificates of deposit	464,226	372,059	-	-	-	836,285
Debt securities issued by non-US governments	27,265	-	-	-	-	27,265
Corporate debt securities	-	-	-	1,650	-	1,650
Equity securities	-	-	-	-	223	223
Other, primarily asset-backed securities	97,932	-	-	-	-	97,932
Total available for sale	589,423	372,059	-	1,650	223	963,355
Held to maturity						
US government and federal agencies/corporations	-	-	64,645	158,977	-	223,622
Certificates of deposit	167,162	50,000	-	-	-	217,162
Collateralised mortgage obligations	-	-	-	279,393	-	279,393
Debt securities issued by non-US governments	-	5,458	60,396	14,407	-	80,261
Corporate debt securities	152,003	347,402	1,130,477	113,568	-	1,743,450
Other, primarily asset-backed securities	-	19,524	44,413	159,142	-	223,079
Total held to maturity	319,165	422,384	1,299,931	725,487	-	2,766,967
Total investments	908,588	795,005	1,303,778	733,488	45,934	3,786,793
Total by currency						
Bermuda dollars	-	-	-	-	2,787	2,787
US dollars	364,042	393,328	1,138,242	573,015	40,925	2,509,552
Other	544,546	401,677	165,536	160,473	2,222	1,274,454
Total investments	908,588	795,005	1,303,778	733,488	45,934	3,786,793

Investments at carrying value includes $3,062 million (2006: $2,159 million) of floating-rate instruments and $1,634 million (2006: $1,582 million) of fixed-rate instruments. The approximate yield on floating-rate securities at 31 December 2007 was 5.22% (2006: 5.61%), while the approximate yield on fixed-rate securities was 5.67% (2006: 5.39%).

Certificates of deposit with a carrying value of $50.0 million included in the Held to maturity category are restricted from sale in accordance with a credit enhancement agreement.

The cost of available for sale securities, the amortised cost of held to maturity securities and their estimated fair values were as follows:

31 December	2007 Cost	2007 Gross unrealised gains	2007 Gross unrealised losses	2007 Fair value	2006 Cost	2006 Gross unrealised gains	2006 Gross unrealised losses	2006 Fair value
Available for sale								
Certificates of deposit	916,187	2,004	(118)	918,073	836,826	-	(541)	836,285
Debt securities issued by non-US governments	11,996	-	-	11,996	27,265	-	-	27,265
Corporate debt securities	1,838	-	-	1,838	1,650	-	-	1,650
Equity securities	192	139	-	331	223	-	-	223
Other, primarily asset-backed securities	-	-	-	-	97,931	1	-	97,932
Total available for sale	930,213	2,143	(118)	932,238	963,895	1	(541)	963,355

31 December	2007 Amortised Cost	2007 Gross unrealised gains	2007 Gross unrealised losses	2007 Fair value	2006 Amortised Cost	2006 Gross unrealised gains	2006 Gross unrealised losses	2006 Fair value
Held to maturity								
US government and federal agencies/corporations	200,731	113	(821)	200,023	223,622	397	(849)	223,170
Certificates of deposit	230,412	133	(48)	230,497	217,162	68	-	217,230
Collateralised mortgage obligations	828,480	719	(115,976)	713,223	279,393	61	(128)	279,326
Debt securities issued by non-US governments	76,311	809	(36)	77,084	80,261	125	(543)	79,843
Corporate debt securities	1,785,376	853	(14,317)	1,771,912	1,743,450	1,427	(2,080)	1,742,797
Other, primarily asset-backed securities	632,907	25	(33,691)	599,241	223,079	337	(9,190)	214,226
Total held to maturity	3,754,217	2,652	(164,889)	3,591,980	2,766,967	2,415	(12,790)	2,756,592

The following table shows the fair value and gross unrealised losses of the Bank's investments with unrealised losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealised loss position:

31 December 2007	Less than 12 months Fair value	Less than 12 months Gross unrealised losses	12 months or more Fair value	12 months or more Gross unrealised losses	Total fair value	Total gross unrealised losses
Available for sale						
Certificates of deposit	221,248	(118)	-	-	221,248	(118)
Held to maturity						
US government and federal agencies/corporations	95,228	(553)	47,287	(268)	142,515	(821)
Certificates of deposit	115,108	(48)	-	-	115,108	(48)
Collateralised mortgage obligations	509,804	(113,931)	134,776	(2,045)	727,595	(127,702)
Debt securities issued by non-US governments	-	-	40,958	(36)	40,958	(36)
Corporate debt securities	1,116,584	(12,775)	205,356	(1,542)	1,321,940	(14,317)
Other, primarily asset-backed securities	507,628	(24,900)	48,498	(8,791)	473,111	(21,965)
Total held to maturity securities with unrealised losses	2,344,352	(152,207)	476,875	(12,682)	2,821,227	(164,889)
Total securities with unrealised losses	2,565,600	(152,325)	476,875	(12,682)	3,042,475	(165,007)

31 December 2006	Less than 12 months Fair value	Less than 12 months Gross unrealised losses	12 months or more Fair value	12 months or more Gross unrealised losses	Total fair value	Total gross unrealised losses
Available for sale						
Certificates of deposit	831,839	(541)	-	-	831,839	(541)
Held to maturity						
US government and federal agencies/corporations	35,162	(89)	63,885	(760)	99,047	(849)
Collateralised mortgage obligations	113,455	(78)	35,218	(50)	148,673	(128)
Debt securities issued by non-US governments	-	-	39,399	(543)	39,399	(543)
Corporate debt securities	313,482	(270)	277,480	(1,810)	590,962	(2,080)
Other, primarily asset-backed securities	39,117	(53)	64,076	(9,137)	103,193	(9,190)
Total held to maturity securities with unrealised losses	501,216	(490)	480,058	(12,300)	981,274	(12,790)
Total securities with unrealised losses	1,333,055	(1,031)	480,058	(12,300)	1,813,113	(13,331)

Management conducts an ongoing review to identify and evaluate securities that show objective indications of possible impairment. An investment is considered impaired if its unrealised losses represent impairment that is considered to be other-than-temporary.

To assess whether an other-than-temporary impairment has occurred, management must make certain judgments and estimates and in determining whether a loss is temporary factors considered include the extent of the unrealised loss, the length of time that the security has been in an unrealised loss position, the financial condition of the issuer, prospects for recovery in fair value, and the Bank's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. If the decline is considered to be other-than-temporary, a write-down is recorded in the Consolidated Statement of Income.

Unrealised losses for US Government and federal agencies/corporations, Collateralised mortgage obligations, Debt securities issued by non-US governments, Corporate debt securities and Other, primarily asset-backed securities, were due to interest rate changes and widening credit spreads caused by the recent disruption in the financial markets, the weakening of the US housing market, and credit rating downgrades of certain securities in the marketplace. However, given that a substantial portion of these securities are investment grade securities, the unrealised losses are primarily in higher rated securities, we believe these losses are a result of technical spread widening rather than fundamental deterioration and we have the ability and intent to hold these investments until there is a recovery of fair value, which may be at maturity, the Bank believes it is probable that it will be able to collect all amounts due according to the contractual terms of the investments. Accordingly, the Bank does not consider these investments to be other-than-temporarily impaired as at 31 December 2007.

The fair value of the Bank's collateralised mortgage obligations related exposure depends on market conditions and assumptions that are subject to change over time. The Bank expects that market conditions will continue to evolve, and that the fair value of the Bank's positions will frequently change. The degree of judgement involved in determining the fair value of an investment security is dependent upon the availability of quoted market prices or observable market parameters. When observable market prices and parameters do not exist as was in certain circumstances the case at 31 December 2007, judgement is necessary to estimate fair value which gives rise to added uncertainty in the valuation process and assessment of whether a security is considered other-than-temporarily impaired. The valuation process takes into consideration factors such as interest rate changes, movements in credit spreads, default rate assumptions, prepayment assumptions, type and quality of collateral, and market sentiment.

Management has supplemented its fair value and impairment analyses by stress testing collateralised mortgage obligations where the fair value is significantly lower than amortised cost using a widely employed industry modeling and analytics software tool. This analytics software tool provides an extensive, accurate, and timely set of structured securities deal models and data, covering the wide range of asset backed securities, collateralised mortgage obligations, residential collateralised mortgage obligations, and collateralised debt obligations (including collateralised bond obligations and collateralised loan obligations) deals.

Investments in collateralised mortgage obligations with fair values significantly lower than amortised cost were stress tested using various loss severity scenarios and based on the results the Bank has concluded that there is no other-than-temporary impairment in the Bank's portfolio of investments. Specific risk factors of the underlying collateral were considered in other-than-temporary impairment assessments, specifically, the vintage of the underlying loans, the percentage of first lien loan mortgages, home owner/owner occupied properties, geographic location and diversification, loan to value ratios and FICO scores, and seniority of tranche. Stress tests assumed a combination of: slow prepayment rates, high annual default rates, and recovery rates of only 50% on each default. Based on the Bank's stress testing, which management believes is an extreme scenario, potential principal impairments to these pools is remote.

In respect of the following categories, the Bank does not consider those investments to be other-than-temporarily impaired at 31 December 2007:

Certificates of deposit

The unrealised losses on the Bank's certificates of deposit were due to interest rate changes. However, given that all of these securities are investment grade securities, and we have the ability and intent to hold these investments until there is a recovery of fair value, which may be at maturity, the Bank believes that it will collect all amounts due according to the contractual terms of the investments.

US Government and federal agencies/corporations

The unrealised losses on the Bank's investments in US Treasury obligations and direct obligations of US government agencies were due to interest rate changes. However, given that all of these securities are investment grade securities, and we have the ability and intent to hold these investments until there is a recovery of fair value, which may be at maturity, the Bank believes that it will collect all amounts due according to the contractual terms of the investments.

Collateralised mortgage obligations

The unrealised losses on the Bank's investments in collateralised mortgage obligations were due to interest rate changes and widening credit spreads caused by the recent disruption in the financial markets, the weakening of the US housing market, and credit rating downgrades of certain securities in the marketplace. However, given that a substantial portion of these securities are investment grade securities, management assesses each security individually for impairment, and we have the ability and intent to hold these investments until there is a recovery of fair value, which may be at maturity, the Bank believes that a significant deterioration has not occurred as it is not probable that all amounts due (principal and interest) will not be collected.

Debt securities issued by non-US governments

The unrealised losses on the Bank's investments in non-US government debt securities obligations and direct obligations of non-US government agencies were due to interest rate changes. Given that these securities are investment grade, and we have the ability and intent to hold these investments until there is a recovery of fair value, which may be at maturity, the Bank believes that a significant deterioration has not occurred as it is not probable that all amounts due (principal and interest) will not be collected.

Corporate debt securities

The unrealised losses on the Bank's investments in corporate bonds were due to interest rate changes and widening credit spreads and credit rating downgrades of certain securities in the marketplace. However, given that these securities are predominantly investment grade, and we have the ability and intent to hold these investments until there is a recovery of fair value, which may be at maturity, the Bank believes that a significant deterioration has not occurred as it is not probable that all amounts due (principal and interest) will not be collected.

Other, primarily asset-backed securities

The unrealised losses on the Bank's other investments, primarily asset-backed securities were due to interest rate changes and widening credit spreads caused by the recent disruption in the financial markets, and credit rating downgrades of certain securities in the marketplace. However, given that a substantial portion of these securities are investment grade securities, management assesses each security individually for impairment, and the Bank has the ability and intent to hold these investments until there is a recovery of fair value, which may be at maturity, management believes that a significant deterioration has not occurred as it is not probable that all amounts due (principal and interest) will not be collected. In August 2007, the Bank purchased from a related party, namely the AAAm rated Butterfield Money Market Fund Ltd. (BMMFL), $93 million of collateralised mortgage obligations at its best estimate of fair value at the time. The Bank holds the purchased securities in its held to maturity portfolio.

The following table presents realised and unrealised gains and losses on trading securities:

31 December	2007	2006
Realised/unrealised gains (losses) on trading securities		
Equities (a)	**3,252**	2,103
Fixed income and other (b)	**(31)**	(495)
Total	**3,221**	1,608

(a) Includes equity securities and equity derivatives.

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

Note 5: Loans

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

	2007			2006		
31 December	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Commercial loans						
Commercial and industrial	620,973	156,245	777,218	467,222	183,749	650,971
Commercial real estate						
Commercial mortgage	194,911	588,065	782,976	123,123	485,179	608,302
Construction	194,130	11,351	205,481	138,055	7,920	145,975
Financial institutions	211,596	35,880	247,476	422,528	26,392	448,920
Government	15,600	3,017	18,617	21,600	-	21,600
Overdrafts	42,758	167,701	210,459	24,995	214,627	239,622
Total commercial loans	1,279,968	962,259	2,242,227	1,197,523	917,867	2,115,390
Less allowance for credit losses on commercial loans	(12,206)	(1,757)	(13,963)	(12,734)	(1,763)	(14,497)
Total commercial loans after allowance for credit losses	1,267,762	960,502	2,228,264	1,184,789	916,104	2,100,893
Consumer loans						
Automobile financing	59,301	6,106	65,407	60,068	7,419	67,487
Credit card	51,185	22,109	73,294	42,385	18,879	61,264
Mortgages	1,053,387	333,795	1,387,182	904,339	352,906	1,257,245
Overdrafts	7,734	6,447	14,181	4,514	16,254	20,768
Other consumer	80,580	288,778	369,359	76,787	187,537	264,324
Total consumer loans	1,252,187	657,235	1,909,423	1,088,093	582,995	1,671,088
Less allowance for credit losses on consumer loans	(8,965)	(3,958)	(12,923)	(7,628)	(3,608)	(11,236)
Total consumer loans after allowance for credit losses	1,243,222	653,277	1,896,500	1,080,465	579,387	1,659,852
Total loans	2,532,155	1,619,494	4,151,650	2,285,616	1,500,862	3,786,478
Less allowance for credit losses	(21,171)	(5,715)	(26,886)	(20,362)	(5,371)	(25,733)
Net loans	2,510,984	1,613,779	4,124,764	2,265,254	1,495,491	3,760,745

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 2007 is 7.21% (2006: 6.94%).

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

31 December	2007 Gross	2007 Allowance	2007 Total	2006 Gross	2006 Allowance	2006 Total
Commercial loans - Bermuda	**3,354**	**(2,272)**	**1,082**	5,082	(2,484)	2,598
Commercial loans - Non-Bermuda	**12,650**	**(201)**	**12,449**	7,201	(226)	6,975
Consumer loans - Bermuda	**1,416**	**(179)**	**1,237**	1,524	(51)	1,473
Consumer loans - Non-Bermuda	**1,381**	**(747)**	**634**	1,053	(610)	443
Mortgages - Bermuda	**11,321**	**(165)**	**11,156**	7,714	(165)	7,549
Mortgages - Non-Bermuda	**6,628**	**(300)**	**6,328**	6,514	(79)	6,435
Total	**36,750**	**(3,864)**	**32,886**	29,088	(3,615)	25,473

For the year ended 31 December 2007, the amount of gross interest income that would have been recorded had impaired loans been current was $3.1 million (2006: $2.8 million). For the year ended 31 December 2007, the Bank recovered overdue interest of $0.4 million (2006: $0.2 million) on impaired loans that were repaid in the year. The average balance of impaired loans during the year ended 31 December 2007 was $34.7 million (2006: $28.5 million).

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

Year ended 31 December	2007 Specific allowances	2007 General allowance	2007 Total	2006 Specific allowances	2006 General allowances	2006 Total
Allowance for credit losses at beginning of year	**3,615**	**22,118**	**25,733**	4,104	20,630	24,734
Provision this year	**2,794**	**(811)**	**1,983**	1,871	1,126	2,997
Recoveries	**316**	**2,380**	**2,696**	400	996	1,396
Charge-offs	**(2,860)**	**(666)**	**(3,526)**	(2,760)	(634)	(3,394)
Allowance for credit losses at end of year	**3,865**	**23,021**	**26,886**	3,615	22,118	25,733

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

31 December	2007 Total delinquent loans	2007 Loans 90 days or more past due	2007 Charge-offs	2006 Total delinquent loans	2006 Loans 90 days or more past due	2006 Charge-offs
Credit card	**6,001**	**788**	**1,534**	4,770	502	1,204
Automobile financing	**2,563**	**1,524**	**238**	2,513	441	27
Other consumer and mortgages	**51,854**	**19,668**	**1,126**	30,409	20,001	188
Consumer loans	**60,418**	**21,980**	**2,898**	37,692	20,944	1,419
Commercial loans	**35,694**	**16,293**	**628**	12,165	8,967	310
Total loans reported	**96,112**	**38,273**	**3,526**	49,857	29,911	1,729

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 include 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:

	2007			2006		
31 December	**On-balance sheet**	**Off-balance sheet**	**Total credit exposure**	On-balance sheet	Off-balance sheet	Total credit exposure
Banks and financial services	**482,765**	**610,577**	**1,093,342**	851,643	818,742	1,670,385
Commercial and merchandising	**595,596**	**275,756**	**871,352**	444,696	252,723	697,419
Governments	**29,049**	**-**	**29,049**	21,600	2,400	24,000
Individuals	**1,824,497**	**179,814**	**2,004,311**	1,659,580	156,834	1,816,414
Primary industry and manufacturing	**57,787**	**37,370**	**95,157**	28,731	36,476	65,207
Real estate	**1,132,237**	**140,681**	**1,272,918**	755,089	156,169	911,258
Transport and communication	**25,855**	**2,803**	**28,658**	21,524	11,731	33,255
Sub-total	**4,147,786**	**1,247,001**	**5,394,787**	3,782,863	1,435,075	5,217,938
General allowance	**(23,022)**	**-**	**(23,022)**	(22,118)	-	(22,118)
Total	**4,124,764**	**1,247,001**	**5,371,765**	3,760,745	1,435,075	5,195,820

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

	2007			2006		
31 December	**On-balance sheet**	**Off-balance sheet**	**Total credit exposure**	On-balance sheet	Off-balance sheet	Total credit exposure
Bermuda	**2,529,540**	**661,089**	**3,190,629**	2,282,917	1,016,157	3,299,074
Barbados	**148,447**	**4,091**	**152,538**	125,044	29,467	154,511
Cayman	**351,776**	**137,227**	**489,003**	343,710	110,242	453,952
Guernsey	**465,663**	**333,850**	**799,513**	451,046	163,940	614,986
The Bahamas	**41,368**	**-**	**41,368**	13,598	-	13,598
United Kingdom	**610,992**	**110,744**	**721,736**	566,548	115,269	681,817
Sub-total	**4,147,786**	**1,247,001**	**5,394,787**	3,782,863	1,435,075	5,217,938
General allowance	**(23,022)**	**-**	**(23,022)**	(22,118)	-	(22,118)
Total	**4,124,764**	**1,247,001**	**5,371,765**	3,760,745	1,435,075	5,195,820

Note 7: Premises, Equipment and Computer Software

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

	2007			2006		
31 December	**Cost**	**Accumulated depreciation**	**Net carrying value**	Cost	Accumulated depreciation	Net carrying value
Land	**13,726**	**-**	**13,726**	13,571	-	13,571
Buildings	**154,737**	**(34,537)**	**120,200**	126,218	(29,757)	96,461
Equipment	**60,332**	**(39,033)**	**21,299**	50,366	(30,907)	19,459
Computer software	**86,254**	**(26,100)**	**60,154**	66,055	(24,220)	41,835
Total	**315,049**	**(99,670)**	**215,379**	256,210	(84,884)	171,326

31 December	**2007**	2006
Depreciation		
Buildings (included in property expense)	**6,026**	3,755
Equipment (included in property expense)	**3,075**	3,549
Computer hardware and software (included in technology expense)	**6,803**	6,552
Total depreciation charged to operating expenses	**15,904**	13,856

Note 8: Goodwill and Other Intangible Assets

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

Goodwill

Business segment	**Barbados**	**Guernsey**	**The Bahamas**	**United Kingdom**	**Total**
Balance as at 31 December 2005	5,220	7,343	1,923	8,354	22,840
Foreign exchange translation adjustment	-	1,020	-	1,158	2,178
Balance as at 31 December 2006	5,220	8,363	1,923	9,512	25,018
Foreign exchange translation adjustment	-	114	-	128	242
Balance as at 31 December 2007	5,220	8,477	1,923	9,640	25,260

Other intangible assets	2007			2006		
31 December	**Gross carrying amount**	**Accumulated amortisation**	**Net carrying amount**	Gross carrying amount	Accumulated amortisation	Net carrying amount
Bermuda	**26,063**	**(2,003)**	**24,060**	8,337	(1,250)	7,087
Barbados	**6,681**	**(1,816)**	**4,865**	6,681	(1,371)	5,310
Cayman	**1,211**	**(268)**	**943**	1,211	(188)	1,023
Guernsey	**52,504**	**(21,147)**	**31,357**	51,801	(17,381)	34,420
The Bahamas	**7,790**	**(2,819)**	**4,971**	7,790	(2,142)	5,648
United Kingdom	**20,477**	**(5,443)**	**15,034**	20,219	(4,022)	16,197
Customer relationships	**114,726**	**(33,496)**	**81,230**	96,039	(26,354)	69,685

There have been no impairment losses for the years ended 31 December 2007 and 2006. The estimated aggregate amortisation expense for each of the succeeding years until 31 December 2012 is $7.8 million. Customer relationships are initially valued based on the present value of net cash flows expected to be derived solely from the recurring customer base existing as at the date of acquisition. Customer relationship intangible assets may or may not arise from contracts. During 2007, the Bank acquired new customer relationships for $17.7 million (2006: nil) as a result of the aquisition of Bentley Reid and this has been included in the Bermuda segment based on management reporting lines, the amortisation expense amounted to $6.9 million (2006: $6.3 million) and the foreign exchange translation adjustment increased the net carrying amount by $0.7 million (2006: $6.4 million).

Note 9: Customer Deposits and Deposits from Banks

(a) By Maturity

31 December	2007 Customers	2007 Banks	2007 Total	2006 Customers	2006 Banks	2006 Total
Demand deposits						
Demand deposits - Non-interest bearing	1,042,062	-	1,042,062	964,496	-	964,496
Demand deposits - Interest bearing	4,869,122	154,769	5,023,891	4,779,115	49,248	4,828,363
Sub-total - demand deposits	5,911,184	154,769	6,065,953	5,743,611	49,248	5,792,859
Term deposits						
Term deposits maturing within six months	4,153,351	147,080	4,300,431	3,594,235	233,097	3,827,332
Term deposits maturing between six to twelve months	178,814	4,543	183,357	200,471	2,995	203,466
Term deposits maturing after twelve months	198,230	-	198,230	217,342	1,833	219,175
Sub-total - term deposits	4,530,395	151,623	4,682,018	4,012,048	237,925	4,249,973
Total	10,441,579	306,392	10,747,971	9,755,659	287,173	10,042,832

(b) By Type and Location

31 December	2007 Payable on demand	2007 Payable on a fixed date	2007 Total	2006 Payable on demand	2006 Payable on a fixed date	2006 Total
Bermuda						
Customers	2,229,386	1,626,180	3,855,566	2,273,826	1,558,952	3,832,778
Banks	86,562	27,078	113,640	-	-	-
Barbados						
Customers	165,532	60,609	226,141	123,621	45,886	169,507
Banks	2,566	20,549	23,115	-	16,156	16,156
Cayman						
Customers	1,518,295	839,220	2,357,515	1,646,663	727,156	2,373,819
Banks	12,848	98,709	111,557	38,198	78,782	116,980
Guernsey						
Customers	962,832	1,143,182	2,106,014	717,452	892,275	1,609,727
Banks	44,649	506	45,155	8,346	10,037	18,383
The Bahamas						
Customers	72,393	81,967	154,360	61,444	78,454	139,898
Banks	-	-	-	-	1,558	1,558
United Kingdom						
Customers	962,746	779,237	1,741,983	920,605	709,325	1,629,930
Banks	8,144	4,781	12,925	2,704	131,392	134,096
Total Customers	5,911,184	4,530,395	10,441,579	5,743,611	4,012,048	9,755,659
Total Banks	154,769	151,623	306,392	49,248	237,925	287,173
Total	6,065,953	4,682,018	10,747,971	5,792,859	4,249,973	10,042,832

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.

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 30 November.

	2007		2006	
	Pension plans	**Post-retirement medical benefit plan**	Pension plans	Post-retirement medical benefit plan
Accumulated benefit obligation at end of year	**109,978**	**-**	112,720	-
Change in projected benefit obligation				
Opening projected benefit obligation	**122,378**	**106,656**	112,228	97,245
Service cost	**3,529**	**2,612**	3,634	2,358
Employee contributions	**332**	**-**	386	-
Interest cost	**6,632**	**6,192**	6,293	5,893
Benefits paid	**(4,450)**	**(1,240)**	(5,079)	(1,569)
Settlement of liability	**(2,969)**	**-**	-	-
Actuarial (gain) loss	**(5,982)**	**(16,068)**	(1,586)	2,729
Foreign exchange translation adjustment	**742**	**-**	6,502	-
Closing projected benefit obligation	**120,212**	**98,152**	122,378	106,656
Change in plan assets				
Opening fair value of plan assets	**122,729**	**-**	97,260	-
Actual return on plan assets	**6,682**	**-**	9,853	-
Employer contribution	**8,541**	**1,240**	14,623	1,569
Employee contributions	**400**	**-**	386	-
Benefits paid	**(4,450)**	**(1,240)**	(5,079)	(1,569)
Cost of settlement	**(2,603)**	**-**	-	-
Foreign exchange translation adjustment	**708**	**-**	5,686	-
Closing fair value of plan assets	**132,007**	**-**	122,729	-
Funded status				
Surplus (deficit) of plan assets over projected benefit obligation at measurement date	**11,795**	**(98,152)**	351	(106,656)
Employer contribution during the period from measurement date to fiscal year end	**167**	**89**	161	83
Net asset (liability) recognised	**11,962**	**(98,063)**	512	(106,573)
Amounts recognised in the balance sheet consist of:				
Prepaid benefit cost included in other assets	**11,962**	**-**	1,130	-
Accrued pension benefit cost included in employee future benefits liability	**-**	**(98,063)**	(618)	(106,573)
Net asset (liability) recognised in the balance sheet	**11,962**	**(98,063)**	512	(106,573)
Before-tax amounts recognised in accumulated other comprehensive loss consist of:				
Net actuarial gain (loss)	**3,542**	**(21,141)**	(161)	(40,409)
Past service cost	**(89)**	**-**	(127)	-
Net amount recognised in accumulated other comprehensive loss	**3,453**	**(21,141)**	(288)	(40,409)

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

	2007		2006	
	Pension plans	Post-retirement medical benefit plan	Pension plans	Post-retirement medical benefit plan
Annual benefit expense				
Service cost	3,529	2,612	3,634	2,358
Interest cost	6,632	6,192	6,293	5,893
Expected return on plan assets	(8,191)	N/A	(6,746)	N/A
Amortisation of past service cost	40	-	37	-
Amortisation of net actuarial loss	578	3,200	(52)	3,368
Gain on settlement	(366)	-	-	-
Defined benefit expense	2,222	12,004	3,166	11,619
Defined contribution expense	5,281	-	4,589	-
Total benefit expense	7,503	12,004	7,755	11,619
Other changes recognised in other comprehensive income				
Net gain arising during the period	3,692	16,068	N/A	N/A
Amortisation of past service cost	40	-	N/A	N/A
Amortisation of net actuarial loss	578	3,200	N/A	N/A
Total changes recognised in other comprehensive income	4,310	19,268	N/A	N/A

The estimated portions of the net actuarial loss and past service cost for the pension plans that will be amortised from accumulated other comprehensive loss into benefit expense over the next fiscal year are nil. The estimated portion of the net actuarial loss for the post-retirement medical benefit plan that will be amortised from accumulated other comprehensive loss into benefit expense over the next fiscal year is $1.2 million.

	2007		2006	
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	5.35%	5.75%	5.45%	6.00%
Weighted average rate of compensation increases	3.65%	N/A	3.80%	N/A
Weighted average expected long-term rate of return on plan assets	6.55%	N/A	6.45%	N/A
Weighted average annual medical cost increase rate	N/A	10% to 5% in 2013	N/A	11% to 5% in 2013
Actuarial assumptions used to determine benefit obligations at end of year				
Weighted average discount rate	6.25%	6.70%	5.35%	5.75%
Weighted average rate of compensation increases	4.00%	N/A	3.65%	N/A
Weighted average annual medical cost increase rate	N/A	9% to 5% in 2013	N/A	10% to 5% in 2013

For 2007, the effect of a one percentage point increase or decrease in the assumed medical cost increase rate on the aggregate of service and interest costs is a $1.9 million increase (2006: $1.7 million) and a $1.5 million decrease (2006: $1.3 million), respectively, and on the benefit obligation a $17.6 million increase (2006: $19.5 million) and a $14.3 million decrease (2006: $15.7 million), respectively.

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

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

	2007		2006	
31 December	**Actual allocation**	**Target allocation**	Actual allocation	Target allocation
Asset category				
Equity securities (including equity mutual funds)	**46%**	**46%**	49%	46%
Debt securities (including debt mutual funds)	**44%**	**52%**	32%	43%
Other	**10%**	**2%**	19%	11%
Total	**100%**	**100%**	100%	100%

At 31 December 2007, 38.1% (2006: 34.8%) of the assets of the pension plans were mutual funds and alternative investments managed or administered by wholly-owned subsidiaries of the Bank. At 31 December 2007, 3.1% (2006: 3.3%) of the plans' 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 2008 Bank contribution to, and estimated benefit payments for the next ten years under, the pension and post-retirement medical benefit plans are as follows:

	Pension plans	Post-retirement medical benefit plan
Estimated Bank contributions for 2008	3,300	3,510
Estimated benefit payments by year:		
2008	3,600	3,510
2009	4,300	3,925
2010	4,700	4,363
2011	5,000	4,773
2012	5,200	5,140
2013-2017	30,200	31,433

The projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets were nil and nil as at 31 December 2007 ($93.2 million and $92.6 million respectively, as at 31 December 2006).

As at 31 December 2007 and 2006 there were no pension plans with an excess of accumulated benefit obligations over the plan assets.

Note 11: Commitments, Credit Related Arrangements and Contingencies

Commitments

The Bank was committed to expenditures under contract for software development and construction of $12.6 million and nil respectively, as at 31 December 2007 (2006: $3.3 million and $23.0 million). Rental expense for premises leased on a long-term basis for the year ended 31 December 2007 amounted to $7.9 million (2006: $5.7 million).

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

Year	
2008	19,559
2009	6,566
2010	5,273
2011	5,081
2012	5,093
2013 & thereafter	7,094

Credit Related Arrangements

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

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

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

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

	2007			2006		
31 December	**Gross**	**Collateral**	**Net**	Gross	Collateral	Net
Commitments to extend credit	**1,245,604**	**511,669**	**733,935**	959,495	182,514	776,981
Letters of credit						
Standby	**407,656**	**350,983**	**56,673**	492,220	443,098	49,122
Documentary and commercial	**2,381**	**2,381**	**-**	2,422	2,422	-
Guarantees	**16,744**	**10,283**	**6,461**	15,667	9,164	6,503
Forward guarantees	**1,527**	**1,527**	**-**	1,741	1,741	-
Total	**1,673,912**	**876,843**	**797,069**	1,471,545	638,939	832,606

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

The Bank has a facility by one of its custodians, whereby the Bank may offer up to US$150 million of standby letters of credit to its customers on a fully secured basis. Under the standard terms of the facility, the custodian has the right to set-off against securities held of 110% of the utilised facility. At 31 December 2007, $97.5 million (2006: $27.8 million) of standby letters of credit were issued under this facility.

Legal Proceedings

There are a number of actions and legal proceedings pending against the Bank and its subsidiaries which arose in the normal course of its business. Management, after reviewing all actions and proceedings, pending against or involving the Bank and its subsidiaries, considers that the resolution of these matters would not be material to the consolidated financial position of the Bank, with the following exception: the Bank has an interest in interpleader proceedings in New York Southern Federal District Court concerning the priority of payments relating to an investment security in which the Bank has an interest in an amount of $13.5 million, which is the carrying value. Given the significant uncertainty surrounding this matter, it is reasonably possible that a loss will arise. However due to the significant uncertainty surrounding this matter an estimate of the potential loss in carrying value cannot be determined and no provision has been made.

Note 12: Interest Income

Loans

The following table presents the components of loan interest income:

Year ended 31 December	2007	2006
Mortgages	**144,240**	111,783
Other loans	**134,190**	120,893
	278,430	232,676
Amortisation of loan origination fees (net of amortised costs)	**6,265**	5,093
Total loan interest income	**284,695**	237,769
Balance of unamortised loan fees as at 31 December	**13,723**	12,528

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 & Fiduciary Services and Investment & Pension Fund Administration, and Real Estate), Barbados, Cayman, Guernsey, Switzerland, The Bahamas, and the United Kingdom. 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 community, commercial and private banking services. Retail services are offered to individuals and small to medium sized businesses through five branch locations and through telephone banking, internet banking, Automated Teller Machines (ATMs) and debit cards. Retail services include deposit services, consumer and mortgage lending, credit cards and personal insurance products. Corporate services include commercial lending and mortgages, cash management, payroll services, remote banking, and letters of credit. Treasury services include money market and foreign exchange activities.

The Bermuda Wealth Management & Fiduciary Services and Investment & Pension Fund Administration segment consists of Butterfield Asset Management Limited, which provides investment management, advisory and brokerage services, Butterfield Fund Services Limited, which provides valuation, accounting, corporate and shareholder services, and Butterfield Trust (Bermuda) Limited which provides trust, estate, company management and custody 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 four branch locations, ATMs and debit cards. Services include deposit services, commercial banking, consumer and mortgage lending, credit cards.

The Cayman segment provides a comprehensive range of community and commercial banking services to private and corporate customers through five locations and through internet banking, ATMs and debit cards. Wealth management and fiduciary services 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, investment and pension fund administration services and wealth management and fiduciary services.

The Switzerland segment provides wealth management and fiduciary 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.

Operating segment information follows:

31 December	2007	2006
Total Assets		
Bermuda		
Community Banking	**5,419,174**	4,857,125
Wealth Management & Fiduciary Services and Investment & Pension Fund Administration	**38,680**	37,532
Real Estate	**101,913**	82,735
Total Bermuda	**5,559,767**	4,977,392
Barbados	**277,297**	213,449
Cayman	**2,729,334**	2,792,777
Guernsey	**2,368,565**	1,809,527
Switzerland	**537**	351
The Bahamas	**181,671**	155,398
United Kingdom	**1,999,093**	1,985,942
Total overseas	**7,556,497**	6,957,444
Less: inter-segment eliminations	**(1,205,344)**	(802,034)
Total	**11,910,920**	11,132,802

Business Area Analysis

	Net interest income		Allowance for credit	Fees and other	Total	Total	Net Income before central	Central	Net Income after central
Year ended 31 December 2007	**Customer**	**Intersegment**	**losses**	**income**	**revenue**	**expenses**	**allocations**	**allocations***	**allocations**
Bermuda									
Community Banking	146,817	(16,317)	(2,332)	33,282	161,450	120,908	40,542	18,246	58,788
Wealth Management & Fiduciary Services and Investment & Pension Fund Administration	-	526	-	82,922	83,448	47,563	35,885	(18,587)	17,298
Real Estate	-	(1,268)	-	2,387	1,119	10,221	(9,102)	9,102	-
Sub-total Bermuda	146,817	(17,059)	(2,332)	118,591	246,017	178,692	67,325	8,761	76,086
Barbados	7,323	1,039	42	3,750	12,154	11,983	171	(30)	141
Cayman	48,603	13,808	352	52,447	115,210	57,981	57,229	(6,549)	50,680
Guernsey	18,589	4,514	-	41,495	64,598	48,380	16,218	(1,640)	14,578
Switzerland	-	(35)	-	241	206	1,296	(1,090)	-	(1,090)
The Bahamas	418	2,981	-	8,654	12,053	8,987	3,066	(292)	2,774
United Kingdom	30,850	(5,248)	(45)	6,807	32,364	29,288	3,076	(250)	2,826
Sub-total overseas	105,783	17,059	349	113,394	236,585	157,915	78,670	(8,761)	69,909
Total income	252,600	-	(1,983)	231,985	482,602	336,607	145,995	-	145,995
Less: inter-segment eliminations (principally rent and management fees)	-	-	-	(12,639)	(12,639)	(12,639)	-	-	-
Total	252,600	-	(1,983)	219,346	469,963	323,968	145,995	-	145,995

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

Year ended 31 December 2006	Net interest income: Customer	Net interest income: Intersegment	Allowance for credit losses	Fees and other income	Total revenue	Total expenses	Net Income before central allocations	Central allocations*	Net Income after central allocations
Bermuda									
Community Banking	119,740	(2,931)	(1,902)	34,712	149,619	110,660	38,959	-	38,959
Wealth Management & Fiduciary Services and Investment & Pension Fund Administration	-	688	-	75,244	75,932	42,318	33,614	-	33,614
Real Estate	-	(1,235)	-	3,811	2,576	9,050	(6,474)	-	(6,474)
Sub-total Bermuda	119,740	(3,478)	(1,902)	113,767	228,127	162,028	66,099	-	66,099
Barbados	8,785	144	(479)	3,845	12,295	11,320	975	-	975
Cayman	53,133	2,955	(615)	43,643	99,116	45,724	53,392	-	53,392
Guernsey	15,391	1,728	-	33,250	50,369	39,468	10,901	-	10,901
Switzerland	4	-	-	-	4	244	(240)	-	(240)
The Bahamas	(360)	2,535	(1)	6,907	9,081	6,874	2,207	-	2,207
United Kingdom	21,525	(3,884)	-	7,726	25,367	24,618	749	-	749
Sub-total overseas	98,478	3,478	(1,095)	95,371	196,232	128,248	67,984	-	67,984
Total income	218,218	-	(2,997)	209,138	424,359	290,276	134,083	-	134,083
Less: inter-segment eliminations (principally rent and management fees)	-	-	-	(9,307)	(9,307)	(9,307)	-	-	-
Total	218,218	-	(2,997)	199,831	415,052	280,969	134,083	-	134,083

For the year ended 31 December 2007, included within other expenses are the following income tax expense amounts: Guernsey $4.9 million (2006: $3.5 million), United Kingdom $2.0 million (2006: $0.1 million) and Barbados $0.1 million (2006: $0.1 million). Transactions between operating segments principally include interbank deposits and rent which are recorded based upon market rates, and management fees, which are recorded based on the cost of the services provided.

(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.

On 31 October 2007 the Bank provided credit enhancement to a related party, namely BMMFL. Under the credit enhancement agreement (the Agreement), the Bank is committed to compensate BMMFL subject to a maximum of $50.0 million should specific identified investment holdings in BMMFL have a fair value less than their carrying value and BMMFL is required to draw down on the obligation in order to retain its credit rating from the ratings agency. The decision by the ratings agency with regard to the rating requirements is outside the control of the Bank. In consideration, the Bank receives a fee of $1.3 million during the six month period covered by the Agreement ending 30 April 2008. As at 31 December 2007 the Bank has recognised a derivative liability for the fair value of the credit derivative of $6.3 million. The Agreement may be terminated without being drawn down before its term expires in certain circumstances, including if the underlying asset backed commercial paper is sold or restructured into securities at a price equal to or more than its then amortised cost. The value of the derivative liability has been determined based on marked-to-market fair valuation based on the difference between fair market value and the amortised cost of the covered investments. This marked-to-market unrealised loss may be reversed in a subsequent period to the extent that the unrealised loss on the covered investments are reduced due to increases in the market value of the covered investments.

Included in other assets (other liabilities) are the reported receivables and unrealised gains (payables and 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).

(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 2007 the Bank recognised a net loss of nil (2006: $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 2007 the Bank has recorded the fair value of derivative instrument assets of $0.1 million (2006: $1.5 million) in other assets and derivative instrument liabilities of $5.1 million (2006: $6.2 million) in 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 loss 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 2007 and 2006, there was no hedge ineffectiveness related to cash flow hedges. As of 31 December 2007 and 2006 there was no deferred net gains or losses on derivative instruments accumulated in other comprehensive income that 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 nil months (2006: 2 months). As of 31 December 2007, the Bank has recorded the fair value of derivative instrument of $0.1 million (2006: nil) in other liabilities.

(c) 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.

		2007			2006	
31 December	**Trading**	**ALM**	**Total value**	Trading	ALM	Total value
Interest rate contracts						
Interest rate swaps	**40,000**	**407,676**	**447,676**	2,763	476,332	479,095
Interest rate caps and currency options	**38,686**	**-**	**38,686**	43,810	-	43,810
Sub-total	**78,686**	**407,676**	**486,362**	46,573	476,332	522,905
Other derivatives						
Spot and forward foreign exchange	**11,826,492**	**-**	**11,826,492**	7,369,599	-	7,369,599
Credit derivative	**50,000**	**-**	**50,000**	-	-	-
Sub-total	**11,876,492**	**-**	**11,876,492**	7,369,599	-	7,369,599
Total notional amount of financial derivatives outstanding	**11,955,178**	**407,676**	**12,362,854**	7,416,172	476,332	7,892,504

Included in the notional amounts for cash flow hedges using interest rate swaps for 31 December 2007, are nil (2006: $25.0 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 2007, are $166.0 million (2006: $86.4 million) pertaining to specific loans, $125.0 million (2006: $125.0 million) pertaining to subordinated debt, and $116.6 million (2006: $245.6 million) pertaining to fixed-rate deposits.

(d) 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.

	2007			2006		
31 December	Positive	Negative	Net	Positive	Negative	Net
Derivative financial instruments						
Interest rate swaps	1,085	5,884	(4,799)	1,485	6,891	(5,406)
Spot and forward foreign exchange	71,692	77,475	(5,783)	25,410	27,095	(1,685)
Credit derivative	-	6,250	(6,250)	-	-	-
Interest rate caps and currency options	1,039	1,039	-	1,286	1,233	53
Total fair value	73,816	90,648	(16,832)	28,181	35,219	(7,038)

(e) 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 2007	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	254,582	18,333	84,597	17,073	73,091	447,676
Interest rate caps and currency options	3,970	-	-	34,716	-	38,686
Sub-total	258,552	18,333	84,597	51,789	73,091	486,362
Other derivatives						
Spot and forward foreign exchange	11,731,335	84,210	10,947	-	-	11,826,492
Credit derivative	50,000	-	-	-	-	50,000
Sub-total	11,781,335	84,210	10,947	-	-	11,876,492
Total notional amount by remaining maturity	12,039,887	102,543	95,544	51,789	73,091	12,362,854

31 December 2006	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	196,182	47,223	102,305	58,344	75,041	479,095
Interest rate caps and currency options	16,750	12,250	3,917	10,893	-	43,810
Sub-total	212,932	59,473	106,222	69,237	75,041	522,905
Other derivatives						
Spot and forward foreign exchange	7,325,246	38,760	110	5,483	-	7,369,599
Total notional amount by remaining maturity	7,538,178	98,233	106,332	74,720	75,041	7,892,504

(f) 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.

		2007			2006	
31 December	**Trading**	**ALM**	**Total value**	Trading	ALM	Total value
Interest rate contracts						
Interest rate swaps	-	1,085	1,085	5	1,480	1,485
Interest rate caps and currency options	1,039	-	1,039	1,286	-	1,286
Sub-total	1,039	1,085	2,124	1,291	1,480	2,771
Other derivatives						
Spot and forward foreign exchange	71,692	-	71,692	25,410	-	25,410
Total replacement cost	72,731	1,085	73,816	26,701	1,480	28,181

Note 15: Fair Value of Financial Instruments

The following table presents the carrying value and fair value of financial assets and liabilities under FAS No. 107 Disclosures About Fair Value of Financial Instruments (FAS 107). Accordingly, certain amounts which are not considered financial instruments are excluded from the table. For investments with an indicator of impairment, management has 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.

		2007			2006	
31 December	**Carrying value**	**Fair value**	**Appreciation/ (depreciation)**	Carrying value	Fair value	Appreciation/ (depreciation)
Financial assets						
Cash and deposits with banks	**2,517,012**	**2,517,012**	**-**	3,151,191	3,151,191	-
Investments						
Trading	**58,534**	**58,534**	**-**	56,471	56,471	-
Available for sale	**932,238**	**932,238**	**-**	963,355	963,355	-
Held to maturity	**3,754,217**	**3,591,980**	**(162,237)**	2,766,967	2,756,592	(10,375)
Loans						
Commercial, net of allowance for credit losses	**2,228,264**	**2,225,280**	**(2,984)**	2,100,893	2,097,201	(3,692)
Consumer, net of allowance for credit losses	**1,896,500**	**1,896,965**	**465**	1,659,852	1,660,992	1,140
Other assets	**118,504**	**118,504**	**-**	434,073	434,073	-
Financial liabilities						
Customer deposits						
Demand deposits	**5,911,184**	**5,911,184**	**-**	5,743,611	5,743,611	-
Term deposits	**4,530,395**	**4,526,335**	**4,060**	4,012,048	4,015,231	(3,183)
Deposits, financial institutions	**306,392**	**306,392**	**-**	287,173	287,173	-
Other liabilities	**65,741**	**65,741**	**-**	260,249	260,249	-
Subordinated capital	**284,191**	**290,993**	**(6,802)**	280,168	274,836	5,332

Note 16: Interest Rate Risk

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

	Earlier of contractual maturity or repricing date						
31 December 2007 (in $ millions)	**Within 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**After 5 years**	**Non-interest bearing funds**	**Total**
Assets							
Cash and deposits with banks	**2,284**	**43**	**64**	**-**	**-**	**126**	**2,517**
Investments	**3,987**	**301**	**236**	**126**	**47**	**48**	**4,745**
Loans	**3,478**	**215**	**52**	**175**	**209**	**(4)**	**4,125**
Premises, equipment and computer software	**-**	**-**	**-**	**-**	**-**	**215**	**215**
Other assets	**-**	**-**	**-**	**-**	**-**	**309**	**309**
Total assets	**9,749**	**559**	**352**	**301**	**256**	**694**	**11,911**
Liabilities and shareholders' equity							
Shareholders' equity	**-**	**-**	**-**	**-**	**-**	**629**	**629**
Deposits	**7,807**	**1,517**	**183**	**186**	**13**	**1,042**	**10,748**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**250**	**250**
Subordinated capital (a)	**125**	**-**	**-**	**100**	**60**	**(1)**	**284**
Total liabilities and shareholders' equity	**7,932**	**1,517**	**183**	**286**	**73**	**1,920**	**11,911**
Interest rate sensitivity gap	**1,817**	**(958)**	**169**	**15**	**183**	**(1,226)**	**-**
Cumulative interest rate sensitivity gap	**1,817**	**859**	**1,028**	**1,043**	**1,226**	**-**	**-**

	Earlier of contractual maturity or repricing date						
31 December 2006 (in $ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash and deposits with banks	2,932	77	79	-	-	63	3,151
Investments	2,886	318	252	216	69	46	3,787
Loans	3,430	150	28	141	50	(38)	3,761
Premises, equipment and computer software	-	-	-	-	-	171	171
Other assets	-	-	-	-	-	263	263
Total assets	9,248	545	359	357	119	505	11,133
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	550	550
Deposits	8,384	272	203	212	89	64	10,043
Other liabilities	-	-	-	-	-	260	260
Subordinated capital (a)	125	-	-	90	70	(5)	280
Total liabilities and shareholders' equity	8,509	272	203	302	78	1,769	11,133
Interest rate sensitivity gap	739	273	156	55	41	(1,264)	-
Cumulative interest rate sensitivity gap	739	1,012	1,168	1,223	1,264	-	-

(a) Includes interest rate swaps with fair value of $0.7 million (2006: $4.6 million), that are highly effective, designated and qualify as fair value hedges.

Note 17: Subordinated Capital

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

The notes issued under Series A pays a fixed coupon of 3.94% until 27 May 2008 when they become redeemable in whole at the option of the Bank. The Series B notes pays a fixed coupon of 5.15% 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 $9.9 million. The issuance was by way of private placement in the United Kingdom 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 27 June 2005, the Bank issued US $150 million of Subordinated Lower Tier II capital notes. The notes were issued at par in two tranches, namely US $90 million in Series A notes due 2015 and US $60 million in Series B notes due 2020. The issuance was by way of private placement with US institutional investors. The notes are listed on the BSX in the specialist debt securities category.

The notes issued under Series A pays a fixed coupon of 4.81% until 2 July 2010, when they will become redeemable in whole at the Bank's option. The Series B notes pays a fixed coupon of 5.11% until 2 July 2015 when they also become redeemable in whole at the Bank's option. The Series A notes were priced at a spread of 1.00% over the 5-year US Treasury yield and the Series B notes were priced at a spread of 1.10% over the 10-year US Treasury yield.

Interest capitalised in accordance with FAS 34 during the year amounted to $1.7 million (2006: $1.5 million) and is included in interest expense - subordinated capital in the Consolidated Statement of Income.

The following table presents the contractual maturity and interest payments for subordinated capital issued by the Bank as at 31 December 2007:

		Within 1 year	1 to 5 years	After 5 years	Carrying value
Subordinated capital					
Bermuda					
2003 issuance - Series A	Fixed-rate	3,621	16,547	80,050	78,000
2003 issuance - Series B	Fixed-rate	2,421	9,682	62,130	47,000
2005 issuance - Series A	Fixed-rate	4,329	18,845	102,415	90,000
2005 issuance - Series B	Fixed-rate	3,066	12,264	86,076	60,000
Subsidiary	Fixed-rate	922	13,153	-	9,926
Other (a)		-	-	-	(735)
Total		14,359	70,491	330,671	284,191

(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 common shares outstanding during the year after deduction of the shares held as treasury stock and adjusted for the stock split and the stock dividend declared during the years ended 31 December 2007 and 2006 (see also Note 23). The dilutive effect of share-based compensation plans was calculated using the treasury stock method, whereby the proceeds received from the exercise of share-based awards are assumed to be used to repurchase outstanding shares, using the average market price of the Bank's shares for the period.

31 December	2007	2006
Basic earnings per share		
Net income for the year	**145,995**	134,083
Weighted average number of common shares issued (in thousands)	**89,514**	89,307
Weighted average number of common shares held as treasury stock (in thousands)	**(4,734)**	(4,440)
Adjusted weighted average number of common shares (in thousands)	**84,780**	84,867
	1.72	1.58

31 December	2007	2006
Diluted earnings per share		
Net income for the year	**145,995**	134,083
Weighted average number of common shares issued (in thousands)	**89,514**	89,307
Weighted average number of common shares held as treasury stock (in thousands)	**(4,734)**	(4,440)
Stock options (in thousands)	**2,137**	2,520
Adjusted weighted average number of diluted common shares (in thousands)	**86,917**	87,387
	1.68	1.53

Note 19: Share-Based Payment

As at 31 December 2007, the Bank has three share-based compensation plans, which are described below. The compensation cost that has been charged against net income for those plans for the year ended 31 December 2007 was $5.4 million (2006: $3.7 million). The total income tax benefit recognised in the income statement for share-based compensation arrangements for the year ended 31 December 2007 was $0.1 million (2006: $0.1 million).

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 executive officers 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 equal to the market price on the effective date of the grant. Option exercise prices are stated and payable in Bermuda dollars. 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 Board of Directors of the Bank has established at 9,000,000 the current maximum number of common shares which may be issued or transferred by the Stock Option Trust pursuant to exercise of options.

At 31 December 2007, the Bank held as treasury stock 4,903,324 common shares (2006: 1,494,584) that can be used to satisfy the Bank's obligations with respect to the Stock Option Plan.

Directors' and Executive Officers' Stock Option Plan	2007				2006	
31 December	Number of stock options	Weighted average exercise price ($)	Weighted average life remaining (years)	Aggregate intrinsic value ($)	Number of stock options	Weighted average exercise price ($)
Outstanding at beginning of year	**541,899**	**30.96**			614,698	27.82
Granted (prior to 2007 stock split)	**80,000**	**58.25**			100,000	50.00
Exercised (prior to 2007 stock split)	**(75,204)**	**19.89**			(228,517)	23.63
Stock dividend granted	**-**	**-**			55,718	29.22
Stock split	**1,093,390**	**12.16**			-	-
Exercised (after 2007 stock split)	**(241,037)**	**7.80**			-	-
Outstanding at end of year	**1,399,048**	**12.91**	**6.87**	**7,752**	541,899	30.96
Vested and exercisable at end of year	**769,109**	**10.32**	**5.87**	**6,099**	**334,303**	**25.44**

Employees' Stock Option Plan	2007				2006	
31 December	Number of shares transferable upon exercise	Weighted average exercise price ($)	Weighted average life remaining (years)	Aggregate intrinsic value ($)	Number of shares transferable upon exercise	Weighted average exercise price ($)
Outstanding at beginning of year	1,705,521	34.87			1,407,065	30.00
Granted (prior to 2007 stock split)	564,455	58.25			489,471	50.12
Exercised (prior to 2007 stock split)	(291,193)	27.03			(345,914)	24.55
Forfeited/cancelled (prior to 2007 stock split)	(34,439)	15.56			(34,894)	37.81
Stock dividend granted	-	-			189,793	34.16
Stock split	3,888,492	14.24			-	-
Granted (after 2007 stock split)	6,000	20.50			-	-
Exercised (after 2007 stock split)	(575,753)	9.08			-	-
Forfeited/cancelled (after 2007 stock split)	(88,289)	16.59			-	-
Outstanding at end of year	5,174,794	14.78	7.56	19,919	1,705,521	34.87
Vested and exercisable at end of year	1,836,223	11.05	6.19	13,264	686,223	24.57

The weighted average fair value of stock options granted in the year ended 31 December 2007 was $6.54 per stock option (2006: $6.53), calculated using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions:

Year Ended 31 December	2007	2006
Projected dividend yield	3.70%	4.00%
Risk-free interest rate	4.80%	4.60%
Projected volatility	14%	16%
Expected life (years)	5.0	5.0

The projected dividend yield and volatility are based on the historical dividends paid and trading prices of the Bank's common shares. The risk-free interest rate for periods within the expected life of the option is based on the U.S. Treasuries yield curve in effect at the time of grant. The Bank uses historical data to estimate expected option life and employee termination rates; separate groups of employees that have similar historical exercise behaviour are considered separately for valuation purposes.

The compensation cost related to the Plan that has been charged against the income for the year ended 31 December 2007 was $2.9 million (2006: $2.4 million). The total intrinsic value of options exercised during the year ended 31 December 2007 was $24.2 million (2006: $13.1 million).

As at 31 December 2007, there was $3.5 million of total unrecognised compensation cost related to non-vested options granted under the Plan. That cost is expected to be recognised over a weighted average period of 2.3 years.

Deferred Incentive Plan

Under its Deferred Incentive Plan as approved by the Board of Directors, the Bank grants restricted common shares to selected members of the management team. Shares are granted fully vested and are affected by transfer restrictions which are lifted at a rate of 33 percent at the end of each year for three years. The fair value of each restricted common share granted under the Deferred Incentive Plan was estimated based on the grant date market price of the Bank's common shares discounted by 25% for their transfer restrictions. The discount for transfer restrictions was based, among other factors, on published restricted stock studies. During the year ended 31 December 2007, 35,442 restricted shares were granted (2006: 32,569). The fair value of common shares granted during the year ended 31 December 2007 was $1.5 million (2006: $1.3 million).

Executive Long-Term Incentive Restricted Shares Plan

The purpose of the Executive Long-Term Incentive Restricted Share Plan is to provide to selected executives of the Bank and certain subsidiaries of the Bank compensation opportunities that are compatible with shareholder interests that will encourage share ownership and that will enhance the Bank's ability to retain key executives. Under its Executive Long-Term Incentive Restricted Share Plan, the Bank grants restricted shares to selected members of the management team. Shares are granted unvested and vest at a rate of 25 percent at the end of each year for four years. In certain circumstances, including retirement, shares vest on an accelerated basis. The fair value of each common share granted under the Executive Long-Term Incentive Restricted Share Plan was based on the grant date market price of the Bank's common shares. During the year ended 31 December 2007, 23,532 shares were granted (2006: nil). The fair value of common shares granted during the year ended 31 December 2007 was $1.4 million (2006: nil). As at 31 December 2007, there was $0.4 million of total unrecognised compensation cost related to non-vested shares granted under the Plan. That cost is expected to be recognised over a weighted average period of 2.6 years.

Note 20: Share Buy-Back Plan

During the year, 125,603 common shares (2006: 47,659) were purchased and cancelled at a cost of $7.4 million (2006: $2.7 million) and 967,119 common shares were purchased to be held as treasury stock at a cost of $38.1 million (2006: nil shares at a cost of nil).

During the same period, the Bank's Stock Option Trust bought 597,818 common shares at a cost of $22.7 million (2006: 431,132 common shares at a cost of $25.1 million) and the Bank's Charitable Foundation bought nil common shares at a cost of nil (2006: 192,899 common shares at a cost of $11.0 million).

The Bank has the present intention to repurchase over the twelve month period commencing 1 January 2008, up to 3,000,000 of its common shares of par value $1 each, pursuant to its share repurchase programme authorised by shareholders on 29 October 1997. 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 BSX regulations may sell shares which may result in such shares being repurchased pursuant to the programme, but under BSX regulations such trades must not be pre-arranged and all repurchases must be made in the open market. Prices paid by the Bank must not, according to BSX regulations, be higher than the last independent trade for a 'round lot', defined as 100 shares or more.

The BSX is advised monthly of shares repurchased and cancelled by the Bank and shares purchased by both the Stock Option Trust and the Charitable Foundation.

Note 21: Dividend Re-Investment and Employee Common Stock Purchase Plans

The Bank's dividend re-investment and employee common stock direct purchase plans permit participants to purchase, at 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: Capital Structure

The Bank's authorised common share capital is $100,000,000 (par value: $1.00).

At the Annual General Meeting of Shareholders held on 18 April 2007, the Directors were granted authority to issue redeemable preference share capital of US $1,000,000 (par value US $0.01) and £500,000 (par value of £0.01). The redeemable preference share capital is issuable with such powers, preferences and other rights, limitations and restrictions as may be determined appropriate by the Directors.

Note 23: Stock Split and Stock Dividend

Shareholders of record at the close of business on 17 August 2007 were issued two additional shares of Butterfield Bank common stock on 31 August 2007 for each one share held as of the record date. All prior period per share data have been restated to reflect the three for one stock split.

In August 2006, the Bank distributed a 10% stock dividend to shareholders of record on 7 August 2006. All prior period per share data have been restated to reflect the stock dividend.

Note 24: Variable Interest Entities

The effect of FIN 46R was a decrease in the Bank's net assets of approximately $1.9 million for the year ended 31 December 2007 (2006: increase of $1.4 million). The change primarily relates to the Bank's venture capital investment subsidiary (Butterfield Vencap Limited). Butterfield Vencap Limited holds investments in private 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 or receive a majority of the residual returns of these companies.

As at 31 December 2007 the total assets of variable interest entities consolidated in the balance sheet is $31.4 million (2006: $40.2 million).

Note 25: Income Taxes

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

31 December	2007	2006
Income taxes in Consolidated Statement of Income		
Current	**6,977**	3,061
Deferred	**-**	731
Total tax expense	**6,977**	3,792
Deferred income tax asset		
Tax loss carried forward	**444**	3,953
General bad debt allowance	**-**	20
Pension liability	**707**	912
Allowance for compensated absence	**31**	34
Onerous leases	**147**	145
Other	**2,831**	704
Total asset	**4,160**	5,768
Deferred income tax liability	**1,338**	266
Net deferred income tax asset	**2,822**	5,502

For the years ended 31 December 2007 and 2006, there were no unrecognised tax benefits and the tax related interest and penalties recognised in net income were nil. The Bank is no longer subject to federal, state and local income tax examinations by tax authorities for years before 1998.

Note 26: Future Accounting Developments

(a) Fair Value Measurement

In September 2006, the Financial Accounting Standards Board issued FAS No. 157, Fair Value Measurement (FAS 157), which addresses how companies should measure fair value when required for recognition or disclosure purposes under US generally accepted accounting principles. Specifically, FAS 157 creates a common definition of fair value and will require expanded disclosures about fair value measurements. FAS 157 will be effective for fiscal years beginning after 15 November 2007 and, therefore, effective from the Bank's first quarter in 2008. The effect of adoption will not be material.

In February 2007, the Financial Accounting Standards Board issued FAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159), which permits companies to choose to measure many financial instruments and certain other items at fair value which are not currently required to be measured at fair value. FAS 159 is effective for financial statements issued for fiscal years beginning after 15 November 2007, and therefore, effective from the Bank's first quarter in 2008. Management is currently evaluating the effect of adoption.

(b) Business Combinations

In December 2007, the Financial Accounting Standards Board issued FAS No. 141 (Revised), Business Combinations (FAS 141R), which addresses how companies should recognise and measure assets and liabilities acquired through business combinations. FAS 141R is designed to improve the relevance and comparability of financial information relating to business combinations. FAS 141R will be effective for fiscal years beginning after 15 December 2008 and therefore, effective from the Bank's first quarter in 2009. Management is currently evaluating the effect of adoption.

(c) Non-controlling Interests in Consolidated Financial Statements

In December 2007, the Financial Accounting Standards Board issued FAS No. 160, Non-controlling Interest in Consolidated Financial Statements (FAS 160), which addresses how companies should measure and present non-controlling interests. FAS 160 is designed to improve the relevance, comparability, and transparency of financial information relating to non-controlling interests. FAS 160 will be effective for fiscal years beginning after 15 December 2008 and therefore, effective from the Bank's first quarter in 2009. Management is currently evaluating the effect of adoption.

Note 27: Subsequent Events

On 15 January 2008 the Bank provided credit enhancement to BMMFL. Under the credit enhancement agreement (the Agreement), the Bank is committed to compensate BMMFL subject to a maximum of $51.0 million should specific identified investment holdings in BMMFL have a fair value less than their carrying value and BMMFL is required to draw down on the obligation in order to retain its credit rating from the ratings agency. The decision by the ratings agency with regard to the rating requirements is outside the control of the Bank. In consideration, the Bank is entitled to receive a fee of $1.5 million during the six month period covered by the Agreement. The Agreement may be terminated without being drawn down before its term expires in certain circumstances, including if the underlying asset backed commercial paper is sold or restructured into securities at a price equal to or more than its then amortised cost.

On 25 February 2008 the Bank purchased from BMMFL $75.0 million of asset backed security for fair market value of $73.565 million, and placed these securities into the held to maturity portfolio. The holdings of the asset backed security are high quality with no direct exposure to sub-prime, mid-prime, or second lien mortgages.

Directory.

2007

Shareholders' Information

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 2007 were 1,441,125 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 30 June 2009.

Dividend Payment

Dividends approved by the Board are paid 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:

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, HM 12
Bermuda
Tel: (441) 299 3972
Fax: (441) 292 9947
E-mail: contact@bntb.bm

Share Price

Published daily in *The Royal Gazette* in Bermuda and available on *Bloomberg Financial Markets* (symbol: NTB BH).

Also available on the BSX and CSX websites.

Dividend Reinvestment Plan

Details are available from Butterfield Fund Services (Bermuda) Limited (E-mail: contact@bntb.bm) and on our website, www.butterfieldbank.com, under "About Us | Shareholder Information."

Certain restrictions apply.

Registrar and Transfer Agent

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
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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 2008, up to 3,000,000 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 2007, 3,000,000 shares represented 3.4% 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.

In the 12 months to 31 December 2007, shares repurchased and cancelled totalled* 376,809 shares at an average price of $19.65 and aggregate cost of $7.4 million while shares repurchased and held as treasury shares totalled 1,907,119 shares at an average price of $20.00 and aggregate cost of $38.1 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 prearranged 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 those cancelled or held as treasury shares.

In addition and separate to the above, the Bank's Stock Option Trust may from time to time purchase shares of the Bank through the BSX to satisfy the Bank's obligations with respect to the Stock Option Plan, and such purchases will likewise be advised to the BSX monthly. Shares purchased in this way in the 12 months to 31 December 2007 totalled* 1,094,354 shares at on average price of $20.73 and aggregate cost of $22.7 million.

(*Numbers have been adjusted to reflect the stock split during 2007 of two new shares issued for each share held.)

Large Shareholders

The following professional nominees at 31 December 2007 were registered holders of 5% or more of the issued share capital: Harcourt & Co. (15.8%), Palmar Limited (6.2%), Wilson & Co. (5.1%).

Known beneficial holdings of 5% or more of issued share capital at that date were: Bermuda Life Insurance Company Limited (7.1%).

Principal Offices & Subsidiaries

This list does not include all companies in the Group.

The Bank of N.T. Butterfield & Son Limited
Holding Company, Community Banking, Private Banking, Credit, Treasury Services

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S.W.I.F.T. BNTB BM HM
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Mailing Address:
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Bermuda

Bermuda

Butterfield Asset Management Limited
Investment Management, Brokerage Services

Managing Director: Ian Coulman
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E-mail: contact@bntb.bm

Butterfield Fund Services (Bermuda) Limited
Investment & Pension Fund Administration

Managing Director: Douglas Lang
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Butterfield Trust (Bermuda) Limited
Grosvenor Trust Company Limited
Personal Trust, Corporate Trust

Managing Director: Michelle Wolfe
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Field Real Estate Holdings Limited
Real Estate Holding

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Fax: (441) 292 4365

The Bahamas

Butterfield Bank (Bahamas) Limited
Private Banking, Personal Trust, Corporate Trust

Managing Director: Robert Lotmore
3rd floor, Montague Sterling Centre, East Bay Street
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Butterfield Fund Services (Bahamas) Limited
Investment & Pension Fund Administration

Managing Director: Heather Bellot
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Barbados

Butterfield Bank (Barbados) Limited
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Butterfield Asset Management (Barbados) Limited
Representative Office

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Canada

Butterfield Fund Services (Canada) Limited
Fund Administration

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Cayman Islands

Butterfield Bank (Cayman) Limited
Community Banking, Private Banking, Asset Management, Personal Trust, Corporate Trust

Managing Director: Conor O'Dea
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Guernsey

Butterfield Bank (Guernsey) Limited
Private Client and Institutional Banking and Credit, Investment Management, Custody and Custodian Trustee Services

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Butterfield Trust (Guernsey) Limited
Fiduciary Services

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Hong Kong

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Personal Trust

Bentley Capital (Pacific) Ltd
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Bentley Reid & Co. (Pacific) Ltd
Wealth Advisory and Management

Deputy Chairman: Nic Bentley
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Malta

Bentley Trust Limited
Personal Trust, Company Administration

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E-mail: admin@bentleytrust.com.mt

Switzerland

Butterfield Trust (Switzerland) Limited
Trust and Company Services

Country Head, Managing Director: Jim Parker
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E-mail: info@butterfield.ch

Butterfield Asset Management (Switzerland) Limited
Asset Management, Funds Advisory

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United Kingdom

Butterfield Bank (UK) Limited
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Butterfield International Private Office Limited
Global and Independent Asset Structuring Services

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Bentley Capital (Europe) Ltd
Asset Management

Bentley Reid & Co. (Europe) Ltd
Wealth Advisory and Management

Managing Director: Rupert Bentley
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