



An open letter to our shareholders, customers and the community.

Last week, Butterfield announced its 2008 earnings. Although our businesses in Bermuda and abroad were profitable and continued to perform well amid the turmoil in global financial markets, the Bank's overall results—which were negatively impacted by losses in our investment portfolio—were disappointing.

We'd like you to know that:

- **Butterfield made a profit in 2008**
- **The Bank is strong and has the resources to serve its customers well and profitably in these turbulent times, and to return to healthy growth as conditions become more normal**
- **We have a liquid balance sheet and the quality of our loan portfolio is excellent**
- **We continue to support our customers and the local economy by extending credit to qualifying individuals and businesses**
- **Our capital levels comfortably meet current regulatory requirements, and we are taking steps to strengthen our capital base so that we can take advantage of future opportunities**

Our lower-than-expected results in 2008 are chiefly the result of declines in the carrying value of some securities—primarily those with exposure to the US residential mortgage market—in the Bank's own investment portfolio. Butterfield made the decision to stop purchasing such securities in 2007.

Butterfield will pay shareholders a fourth quarter dividend, but it will be reduced from previous levels. The decision to lower the dividend was a difficult one, but one that we believe is a prudent step in protecting the health and strength of the Bank.

Butterfield will enhance its capital position through the issuance of \$200 million in preference shares to be guaranteed and/or purchased by the Government of Bermuda. This will enable us to create an additional capital buffer against a pronounced and prolonged economic downturn, and is consistent with a recent directive issued by the Bermuda Monetary Authority to all banks in Bermuda to increase their capital cushions. We are appreciative of the Government's support of the Bank and our combined public/private capital raising strategy.

For over 150 years, Butterfield has been providing financial services to individuals, families and businesses. Although our history is largely a story of growth and expansion, there are a few years that have been marked by business contractions; 2008 was one of those years. Despite the challenges we faced, our core businesses performed well. The decisions to enhance our capital position will help us continue to fulfill our long-held mission of serving customers well, providing growth and opportunities to our employees, creating value for our shareholders and making a valuable contribution to the communities we serve.

Our future success will benefit from our considerable strengths: our resilient business model, solid core businesses, liquid balance sheet, excellent loan portfolio and conservative approach to lending and investing.

If you would like a copy of our 2008 earnings press release, please visit our website or call us on 295 1111.

On behalf of all of us at Butterfield, I thank you for your continued interest and support.

Sincerely yours,

Alan R. Thompson
President & Chief Executive Officer