

BERMUDA

Bermuda is home to the Bank's head office and our largest operation, which includes Community Banking and Asset Management. Set in the mid-Atlantic, due east of North Carolina, it is the United Kingdom's largest overseas territory with a population of 62,000. The 21-square-mile archipelago has a long-established tourism industry and is the base for a sophisticated international business community specialising in insurance and reinsurance. It is also an important domicile for mutual funds and offshore trusts, and is positioning itself as a preferred centre for global electronic commerce.

Community Banking

Bank of Butterfield is one of only two banks providing a full range of retail, corporate and treasury services in Bermuda. These activities constitute an essential part of the Group's business, not only because Bermuda is the Bank's home base, but also because of the potential we see in the local Bermuda market.

Retail Banking

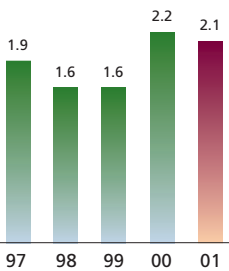
Through our retail operations in five locations, we provide a full range of deposit services, consumer and residential mortgage lending and personal insurance products in Bermuda. Services include a network of 31 Automated Teller Machines (ATMs), credit and debit cards, standing order payments, point of sale services, drafts, foreign currency exchange, wire payments and general branch services. Efficient and effective customer service is our priority and we are making the investment in staff training, information systems and improved processes to ensure service continually improves.



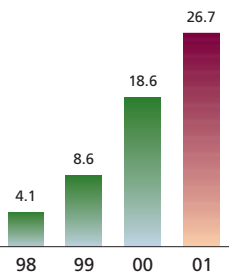
The introduction of Butterfield Direct Internet Banking was the result of the hard work and commitment of a dedicated team. Butterfield Direct is Bermuda's first and, to date, only Internet banking solution.



NET INTEREST MARGIN (%)



COMMUNITY BANKING, BERMUDA NET INCOME (\$m)



One of the most exciting developments for Retail Banking during 2001 was the launch of Butterfield Direct Internet Banking. Bank of Butterfield is the first and, to date, the only Bermuda bank to introduce Internet Banking to its customers. This convenient, secure service recognises that customers desire and require access to financial transactions at their convenience, not the Bank's. Using their computers at home or at work, they can now access chequing, savings, loan, money market, credit card and call accounts. They can view balances, pay bills and generate account statements and can even download reports into certain accounting software packages. Butterfield Direct is an important innovation that reinforces our commitment to meeting the needs of our customers.

Another major initiative this year was the opening, in August 2000, of our new 'Micro' Branch at the Waterfront complex on Pitt's Bay Road. This branch features three customer stations using a state-of-the-art, two-way audio/video communication system that allows tellers to serve customers from a remote location. Customer response has been enthusiastic and the branch team has attracted significant business in personal and small business accounts and services.

Also in August, Retail Banking introduced a new mortgage plan that makes it possible for more Bermudians to purchase homes. Affordable housing is an important concern for the people of Bermuda, and response to this programme has been very positive. Not only has it generated 67 mortgages worth \$21.2 million, for the public, it is further tangible evidence of our ongoing commitment to Bermuda and Bermudians.



Left: Management in Bermuda: William G. Francis II, Senior Vice President – Information Systems; Michael A. McWatt, Senior Vice President – Credit Risk Management; and Peter J.M. Rodger, Senior Vice President, Group Legal Adviser, Secretary to the Board.

In cooperation with the Government of Bermuda, the Bank introduced a scheme of interest free loans for the restoration of historic buildings. The Government pays the interest on the loans at a reduced rate provided by the Bank. The programme was introduced to encourage owners of the Island's heritage buildings to maintain them in good repair and to help preserve Bermuda's rich architectural history. This is of particular importance given the town of St. George's recently affirmed status as a World Heritage Site.

Throughout the fiscal year, we have continued to review our Retail Banking operations, systems, premises and processes and make adjustments and improvements that provide more accurate and efficient service to customers.

Corporate Banking

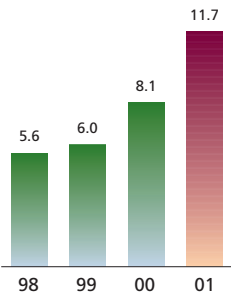
The Corporate Banking group provides a broad range of products and services, including commercial lending and mortgages, cash management, payroll services, remote banking and letters of credit.

This year, Corporate Banking showed continued strong growth in its Bermuda commercial loan portfolio. The Group continued its significant contribution to the redevelopment of the tourism industry, on which Bermuda relies so much. We provided loans to major cottage resort properties as well as important hotel/condominium projects. Other real estate funding enabled the construction of major office accommodation and affordable housing, through the Bermuda Housing Corporation.

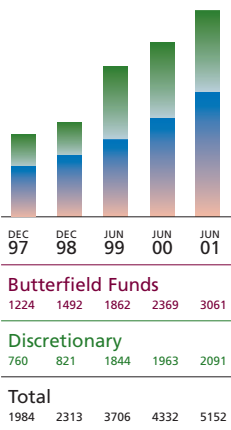




ASSET MANAGEMENT, BERMUDA
NET INCOME (\$m)



ASSETS UNDER MANAGEMENT
BY BUTTERFIELD ASSET
MANAGEMENT (\$m)



For the fourth year running, Butterfield Funds have been recognised in the international investment arena with prestigious performance awards from Standard & Poor's Micropal.

Growth in our Letter of Credit business reflects our ongoing commitment to the insurance industry and we continue to be a key provider of cash management services to Bermuda's international business community, which has welcomed the introduction of Butterfield Direct.

Treasury

The role of Treasury is that of the Bank's banker, managing the surplus funds within the Bank along with the interest rate and foreign exchange risks from client transactions. To manage the Bank's liquidity, Treasury has a two-way presence in the international money markets and ensures that we can meet our liabilities at all times.

During 2001, Treasury introduced a number of changes that benefit both the Bank and its customers and augmented our strong contribution to Community Banking's financial results.

We have reduced our brokerage costs by expanding our use of web based pricing systems for distributing foreign exchange (FX) risk. With the introduction of Butterfield Direct, our customers, too, can use the Internet to execute FX transactions up to \$100,000 or the equivalent in other currencies.



Left: Management in Bermuda: Patricia G. Bean, Senior Vice President – Human Resources; Fred H. Tesch, Senior Vice President & Head of Group Internal Audit; and Peter G. Wignall, Senior Vice President – Asset Management and Managing Director, Butterfield Asset Management Limited.

This year, we implemented a new model for Value At Risk (VAR) evaluation, an important measure of the sensitivity of the Bank's assets and liabilities to interest rate moves.

We have also introduced a Treasury Training Programme to attract Bermudian university graduates to careers in this field.

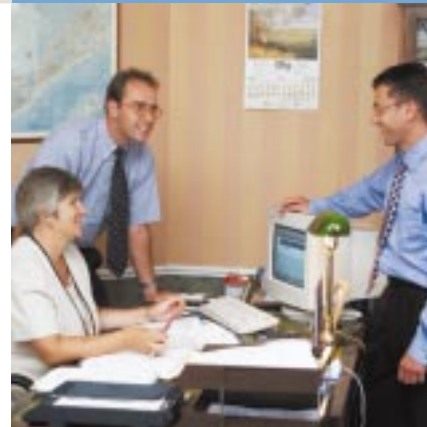
Asset Management and Administration

Three subsidiary companies comprise our Asset Management business in Bermuda: Butterfield Asset Management Limited, Butterfield Corporate Services Limited and Butterfield Trust (Bermuda) Limited. International in scope, these companies serve institutional and individual clients, including high net worth individuals and their families.

These companies are fee and commission earning, and are not capital intensive. Combined net income for 2001 was \$11.7 million, up 44.6% from the previous year.

Butterfield Asset Management Limited

Butterfield Asset Management Limited (BAM), our investment management subsidiary, provides discretionary portfolio management for institutional and private clients and manages the award-winning family of Butterfield Funds, as well as the Bank's own investment portfolios.



Butterfield Asset Management Limited, while based in Bermuda, receives valuable input from the investment teams in Guernsey (pictured above) and Cayman (at top).

SuperStars

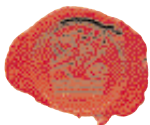


Butterfield Asset Management wins performance awards once again!

For the last four years, Butterfield Asset Management has won top performance awards from Standard & Poor's (S&P) Micropal for its family of eight "in-house" managed mutual funds. These awards have been for the overall performance of all Butterfield Funds as well as its S&P AAAM rated Money Market Fund. Our other funds include: fixed income, balanced and equity. This confirms our experience and top quality management skills across our whole range of funds.

The awards from Standard & Poor's for our performance in 2000:

- ★ **FIRST PLACE** in the World* for the Five Year Performance of our Butterfield Money Market Fund (GBP Class).
- ★ **SECOND PLACE** in the World** for the One Year Performance of our whole family of in-house managed mutual funds.



Butterfield Asset Management Limited

A wholly owned subsidiary of The Bank of N. T. Butterfield & Son Limited, and licensed to conduct Investment Business by the Bermuda Monetary Authority.

www.bam.bm

Past performance does not guarantee future results.

Any offer or invitation for subscription or purchase of shares in the Funds will be made on the basis of a current prospectus.

Applications will only be considered on the basis of a duly completed application form.

* Internationally Marketed Funds Survey ** Internationally Marketed Funds Survey – Smaller Groups Category

For the fourth year running, BAM has won top performance awards from Standard & Poor's Micropal (S&P) for its in-house-managed mutual funds. S&P awards are considered the global standard by which fund managers and investment groups are measured. For 2001, we were awarded second place in the world for overall one-year performance of our entire family of Butterfield Funds in the smaller group category. We also earned first place for five-year performance on the Butterfield Money Market Fund, Sterling Class.

The Butterfield Money Market Fund, rated AAAm by Standard & Poor's continues to attract new accounts at a rapid pace and posted record revenues during the period under review. Assets under management grew by 24.9% to \$2.7 billion. The US Dollar A Class produced a return of 5.8% for the 12 months ended 30 June 2001.

The Butterfield Liquid Reserve Fund, rated AAF by Standard & Poor's, grew by 84.0% during the year under review, reaching \$210.3 million in assets. It produced a return of 7.34% for the year. This short-term bond fund invests in US Dollar denominated short dated fixed and floating securities. The Butterfield Bermuda Fund grew by 65.1% to \$27.1 million, producing a return of 73.7% for 12 months. The Butterfield US Dollar Bond Fund has grown by 41.3% over the year and returned 10.4%, and our longest duration bond fund, Butterfield Capital Appreciation Bond Fund, grew by 10.0% and returned 11.3% over the year.

During 2001, assets under management grew at a record rate, rising by 18.9% to \$5.2 billion. Asset growth has led to a record net income, \$5.8 million, \$2.6 million over 2000. With the sharp rise in net income our efficiency ratio has improved to 60.9% from the prior year's 72.4%.

Butterfield Corporate Services Limited

Butterfield Corporate Services Limited (BCSL) provides specialist full service mutual and hedge fund administration and corporate services, such as accounting, valuation, reporting, compliance, corporate secretary and custodial services. We focus on providing third-party administration for offshore funds and act for a number of the world's leading investment management groups. We serve mostly institutional fund clients, including Butterfield Asset Management, which manages the Butterfield group of mutual funds.

For the year under review, BCSL worked in conjunction with the Bank's other fund services operations in the Cayman Islands, Guernsey and Hong Kong to develop a group identity, 'Butterfield Fund Services,' for its international marketing programmes. This focuses on the strengths of the Group as a whole. Business continues to grow at an impressive rate and BCSL itself now has \$14.0 billion under administration.

A new share registration system, NTAS, has been implemented and we continue to upgrade and update our processes and systems on an ongoing basis. Staffing has been increased to meet the influx of new business and ongoing training is a priority.



Our new 'Micro' Branch at the Waterfront Centre is an innovative banking concept. It combines modern technology with personal service by using two-way audio/video communication to provide interactive service from a remote teller.

THE BANK'S INVESTMENT PORTFOLIO BY LONG-TERM DEBT RATING



- 22% AAA
- 32% AA
- 40% A
- 5% BBB
- 1% BB

INVESTMENT PORTFOLIO BY COUNTRY OF ISSUER



- 65% USA
- 8% UK
- 18% Other OECD
- 5% Canada
- 4% Australia

Net income increased to a new record of \$1.1 million from the previous year's \$0.2 million. The efficiency ratio accordingly improved to 84.7% from the previous year's disappointing 96.5% and we are optimistic that this will continue to fall towards the Group average in the coming year.

New business from growing 'fund families' is expected to have significant benefits over the coming year. Customers of BCSL also provide substantial business to other areas of the Bank, such as BAM, Treasury and Corporate Banking.

Butterfield Trust (Bermuda) Limited

Butterfield Trust (Bermuda) Limited provides trust, estate, pension administration and employee benefits services as well as private banking. Butterfield Trust has continued to attract new clients and, this year, has been especially successful in broadening its business beyond the traditional personal trusts by attracting insurance-related trust business as well as commercial trusts for complex transactions.

Butterfield Trust produced a strong result for the year, although net income fell by 5.1% to \$4.8 million. The prior year net income was raised by several non-recurring special fees, without which the year-on-year comparative would have been significantly positive. In fact although slightly below the prior year, net income in 2001 was well ahead of our target for the year. Because of the slight decline in net income the efficiency ratio rose to 70.6% from the prior year 69.2%.



Above: Management in Bermuda: Janet M. Nearon, Senior Vice President – Customer Relations; Ronald E. Simmons, Senior Vice President & Chief Accountant; and John Whale, Senior Vice President and Head of Treasury.

Throughout the year, Butterfield Trust continued to develop and enhance its institutional and pension trust services, gaining several important new clients. We also implemented procedures and systems to comply with new US regulations concerning withholding tax and have received status as a Qualified Intermediary.

Professionalism and integrity are the keys to our success. We place high importance on developing close relationships with our clients – the settlors and beneficiaries of the trusts we handle. They and their advisors know they can communicate with and rely on our team's experience and knowledge.

Our commitment to the highest standards of service is further enhanced through continuous development of our employees' expertise. In addition to the Bank's training programmes, one third of our staff members are completing the new education programmes offered by the Society of Trust and Estate Practitioners.

E-Commerce & Electronic Banking

Our long experience with multi-jurisdiction and multi-currency transactions positions us to take advantage of new business opportunities presented by e-commerce and e-banking.

One of our most significant projects during the year under review was the development and implementation of Butterfield Direct Internet Banking, discussed previously under Retail Banking. It gives both retail and corporate customers the power, control and convenience of managing their money and performing transactions 24 hours a day, 365 days a year, using the Internet.

Other electronic banking products continue to contribute to the Bank's success. We added three companies to our ATM bill payment programme, which allows customers to use our networked banking machines to pay their bills to local businesses.

Credit and debit cards continue to be a significant element in our electronic banking strategy. We repositioned our debit card product, BankCard Plus, as the Butterfield Card, to ensure consistent branding of the Bank's products and services.

Our People

We recognise the importance of a highly motivated, customer focused employee culture, and we provide employees with ample opportunities to gain key skills and knowledge that will help them meet Bank objectives and build their careers.

During the year under review, our training programmes, both internal and external, enabled 517 employees to enhance their capabilities. Our emphasis on recruiting and retaining Bermudian employees continued. Through the Management Training Programme, now in its third year, four university graduates joined the Bank. We also introduced a Retail Fast Track Programme, designed to attract high school graduates into careers in Retail Banking, and a Treasury Training Programme, which aims to produce qualified and competent traders. In both programmes, senior employees mentor trainees.