



Pictured Left to Right:

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## Guernsey

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Guernsey is a long-established and highly competitive financial centre, with particular expertise in the areas of banking, investment management, trustee services, captive insurance and mutual fund administration.

A British Crown dependency with a population of almost 60,000, it is self governing and is responsible for its own internal affairs. It is not a member of the European Union but benefits from the free movement of goods, persons and capital between the EU and the Channel Islands.

Guernsey is a high quality, well-regulated jurisdiction. In 2001, it became one of the first jurisdictions in the world to introduce a comprehensive system for the regulation and supervision of providers of trust and corporate services. As a result, Butterfield Trust (Guernsey) Limited has been licensed under The Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailliwick of Guernsey) Law, 2000.

Guernsey also has in place an effective framework of legislation in respect of information exchange in line with the

OECD's policies on criminal tax matters and, having achieved agreement with the OECD, has not been included on their recent list of uncooperative jurisdictions.

Bank of Butterfield's presence in Guernsey dates back almost 30 years, and our businesses provide a broad range of services to private clients and financial institutions. These include investment management and custody, banking and treasury, trust and third party fund administration services.

In July 2001 we acquired for cash the Guernsey operations of CIBC, a significant acquisition which continues our strategy of building on core activities and strengths. These operations had assets of \$414.8 million and liabilities of \$400.1 million at the time of acquisition. Legal amalgamation took effect in December 2001 and most of the work to achieve full business integration has been completed. During the year, an agreement was signed to lease prestigious new premises from 2004, which will enable our operations to be brought together in one building.

As a result of the acquisition, we have considerably strengthened our market position in all business lines. Total revenues for the year were \$25.2 million, 84.0% up from \$13.7 million the previous year. Within this figure, non-interest income more than doubled, rising from \$7.8 million to \$18.1 million, reflecting the acquisition and organic growth. Total client assets under management and administration increased significantly

from \$4.2 billion to \$10.2 billion. During the year, substantial investment was made in information technology systems and there is now a modern, efficient, investment banking and fiduciary systems platform providing a strong basis for future development. The costs of integration, together with the investment in systems, resulted in a deterioration of our efficiency ratio, from 63.9% to 75.2%. As productivity gains are captured, and with the one-off costs of achieving integration having now been met, we expect this ratio to improve significantly over the next year.

Net income after taxation and amortisation of intangible assets increased by 14.7% to \$4.4 million. Pre-tax return on equity was 10.9%. We expect this to improve with enhanced productivity and continuing growth of non-balance sheet based fee income. Fee income rose to 71.8% of total revenues in 2002 from 57.1% the previous year. At the same time, our balance sheet remained strong, with a risk asset ratio of 17.8% for our combined Guernsey operations and a loans to assets ratio of 11.4%.

Building long-term, mutually beneficial relationships with clients, based on high quality service, remains at the heart of our business strategy. Our mission is to maintain this focus in a business which has grown substantially through acquisition and organic growth.

Proactive service-based relationships are central to our private client business development. The strategy for growth in institutional administration is to capitalise on our leading position in administered banking and breadth of experience in fund administration to capture new business, while at the same time maintaining the highest levels of service to existing clients.

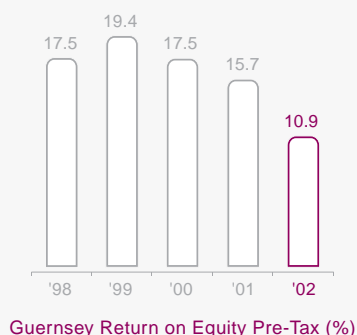
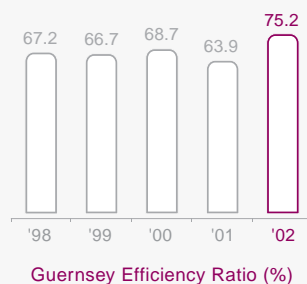
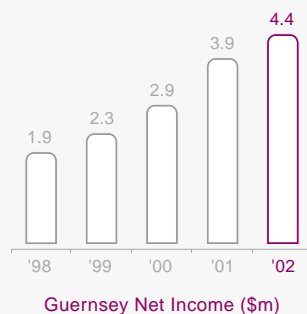
Also core to our strategy is to protect our reputation by applying the highest standards of regulatory compliance and employment of best practice throughout our business.

### Banking

We provide a comprehensive banking service to high net worth individuals and institutions. Customer deposit balances grew to \$857.9 million, an increase of 46.9% on the previous year.

### Credit

The demand for credit has been relatively low during the past year, and scheduled repayments of loans have resulted in net growth in our loan portfolio from \$91.1 million to \$108.8 million. The loan portfolio includes exposure to property, both residential and commercial, in the UK and in Guernsey, as well as cash-backed and securities-backed facilities. Despite difficult economic conditions, the quality of the portfolio has been maintained.



### Treasury

Our Treasury operations manage cash flows, liquidity, interest rate risk and foreign exchange risk. Approximately 15% of our balance sheet assets are invested in short term paper of a minimum rating of A. Our US dollar floating rate note portfolio is rated by Standard & Poor's at Aaf – credit and S1 – volatility and our UK Sterling floating rate note portfolio is rated A+f and S1. Our Treasury operations are profitable and income from foreign exchange in particular doubled to \$2.6 million.

### Asset Management and Administration

Asset management and administration services include the provision of discretionary investment portfolio management, investment administration and custody services to institutional and individual investors. They also include the provision of custodian and trustee services to collective investment schemes.

Assets under investment management increased to \$432 million. In addition to managing our clients' portfolios, the Guernsey investment team also made an important contribution to the management of the award winning Butterfield Funds.

Income from custody and custodian trustee services for collective investment funds grew almost threefold to \$1.9 million based on a growth in assets under administration of 155% to \$561 million.



## Guernsey

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### Trust & Corporate Services

Our fiduciary services are provided through Butterfield Trust (Guernsey) Limited, which specialises in private client trusteeship and company administration services to both individuals and institutions. This business line has grown significantly through the acquisition and assets under administration grew to \$2.0 billion, while revenues grew from \$1.6 million to \$3.9 million.

### Administered Bank Services

Our core business includes the provision of financial administration services to other financial institutions and encompass the provision of administratively based outsourcing solutions to banks, fund managers and trust companies wishing to conduct financial activities in or from Guernsey.

We are now leaders in Guernsey in the provision of administered bank services to branches and subsidiaries of highly reputable financial institutions. We anticipate continued growth in this business line arising from our leadership position.

### Third Party Fund Administration

This is provided through Butterfield Fund Managers (Guernsey) Limited (BFM), which focuses on the provision of specialist third party fund administration services. BFM experienced substantial growth with assets under administration increasing from \$2.6 billion to \$3.4 billion and revenues increasing from \$2.3 million to \$3.6 million.



## Hong Kong

During the year under review the Hong Kong operations produced net income of \$1.4 million, up 41.6%, or \$0.4 million, on the previous year. This was primarily due to increased fee income generation, up \$0.6 million, or 10.4%.

In June 2002 we sold an 80% controlling interest in our Hong Kong subsidiaries to Dexia BIL. A profit of \$17.0 million was made on this disposal, and is shown in the Consolidated Statement of Income as 'Gain on sale of subsidiaries'. The sale is consistent with our overall strategy to focus on core strengths while enhancing shareholder value.

In addition to acquiring a majority interest in our Trust and Corporate Services operations, Dexia BIL will take over the business of the restricted licence branch once they have regulatory approval. As at 30 June 2002, the Branch had assets of \$148.8 million, primarily consisting of deposits with banks of \$135.6 million. Loans were modest at \$0.5 million.

This transaction will enable us to continue to participate in the highly competitive Hong Kong market through an alliance with a major global provider of administration and custody services to the investment and pension fund industries. We will continue to provide services to our Hong Kong based customers who maintain accounts in Bermuda, the Cayman Islands, Guernsey and the United Kingdom.