



President & Chief Executive Officer's Report



As we report on a year that was both challenging and profitable for Bank of Butterfield, we maintain an optimistic outlook for future success balanced by a realistic perspective on the global economic environment.

Overall the Bank performed well, delivering another year of record profit and a 27.1% return on equity.

This is our first annual report since 11 September 2001. Those tragic events caused a negative impact on tourism and the stock markets, but increased capital flowing into Bermuda's insurance industry. While our community banking activities performed well, with increases in both loans and deposits, we were not immune to the effects of the world in which we operate. Our net income growth slowed along with the economy during the last two quarters of the year. The increase in our non-performing loans was also consistent with the economic situation, although they remain at acceptable levels, representing 1.4% of total loans.

We accomplished a great deal during the year. Our investment teams in Bermuda, the Cayman Islands and Guernsey again received recognition from Standard & Poor's for the performance of Butterfield Funds. In addition to several first place awards for individual funds, the overall

family of Butterfield Funds received a second place award for five-year performance. This is particularly gratifying as it reflects the long term results of our investment strategy across all categories.

On the international front, we established Butterfield (Barbados) Limited to promote the investment management services of the Group in a promising market, focusing on international banking and insurance sectors, international businesses and trusts. Also, part of our profit this year came from the sale of a controlling interest in our Hong Kong subsidiaries, a transaction in keeping with our strategy to focus on core businesses and strengths.

Without a doubt, convenient, multi-channel access is essential for bank customers in the information age. We continued to enhance the functions of our Internet Banking products to meet customer needs in both Bermuda and the Cayman Islands. In Bermuda we added telephone banking to provide an additional channel for our customers to manage their money.

We also identified key demographic sectors of the market and developed specialised packages to meet their needs. For example, a new financial management seminar and product package called "Hook Up with BNTB" helps young people get started on the road to financial responsibility.

Improving customer service remains a key objective as we aim to not only achieve customer satisfaction but to exceed expectations whenever possible. Since joining the Bank I have been

consistently impressed by the calibre of people who work throughout the Group, and I believe that our expertise and teamwork will see us continue to improve service, enhance efficiencies, win business and meet challenges head on.

Corporate citizenship is a shared value at Bank of Butterfield. This year we extended the reach of our charitable dollars in Bermuda with BEST, Bank of Butterfield Employees Shared Trust. BEST is a partnership that combines employee donations with matching Bank funds and makes charitable investments as directed by those who contribute.

Moving forward, I believe that the worldwide focus on corporate ethics and regulatory compliance will continue. This underlines the need to continue to be vigilant in our own practices and to support and encourage high regulatory standards in the jurisdictions in which we operate. Communicating this compliance clearly with our stakeholders is also essential, as was emphasised by the tone of recent media reports regarding US companies locating offshore.

I would like to thank our employees in all locations for their teamwork and commitment, our Board of Directors for their expertise and advice, and our customers and shareholders for their loyalty and trust. You have all been instrumental in our success, and I am confident that together we will achieve even more in the future.

Alan R. Thompson

President & Chief Executive Officer