

President & Chief Executive Officer's Report

It is very pleasing to report, once again, a year of record profit. For the third consecutive year the Group recorded the highest level of net profit in its over 140 year history. All our financial targets were met or surpassed and return on shareholders' equity was a very satisfactory 22.7%, up from 16.4% last year. The expanded balance sheet remains highly liquid and the Group is well poised to achieve further profitable growth.

The financial year was one of substantial progress which saw several achievements with a single theme – building on our strengths in order to produce long term sustainable and profitable growth. With this in mind we were pleased to have the opportunity to re-establish the Group in a major financial market through the acquisition in London of Matheson Bank Limited, now renamed Bank of Butterfield (UK) Limited. This conservative bank provides the Group with an excellent opportunity to expand into the large and well regulated United Kingdom market. We are fortunate to have acquired a well established customer focused bank. Also, in a transaction that was developed during the year, but that closed just after the year end, we purchased the Guernsey business of CIBC, a major North American bank. As significant as the business and the customers acquired is the fact that we expect the excellent management team and staff to contribute substantially to our growing Guernsey business and to develop further the synergies that exist between Guernsey and London. We welcome the added management strength brought to the Group.



M. Calum Johnston, FICB
President & Chief Executive Officer

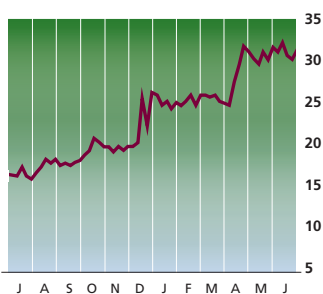
this year's objectives were met or surpassed

In a major upgrade of our customer service we were pleased during the year to introduce the first and only Internet banking facilities in Bermuda and the Cayman Islands. This service has been welcomed enthusiastically by customers as has the opening of our technologically advanced new branch in Bermuda and our first drive through banking facility in Cayman. These developments and the establishment of our call centre in Bermuda are in full accord with our objective of being the pre-eminent financial institution in Bermuda and Cayman.

For the fourth consecutive year Butterfield Asset Management Limited won awards for our family of eight mutual funds, all of which are managed in-house. This year we won first place in the world for the five-year performance of our Butterfield Money Market Fund (GBP Class) and second place in the world for the one-year performance of our entire family of funds in their respective groups.



MARKET PRICE PER SHARE
1 JULY 2000 - 30 JUNE 2001 (\$)



In previous years the book of discontinued loans has proved to be a drag on earnings and this year we have finally closed this chapter of our history by writing off all loans remaining from discontinued businesses. This, together with our continuing vigorous collection efforts, enabled us to reduce non-performing loans from \$18.8 million on 30 June 2000 to \$9.5 million on 30 June 2001. Shareholders will remember that on 30 June 1998 non-performing loans totalled \$99.7 million. The improvement in the quality of the loan book has contributed substantially to interest income, and thus to net profit, and we are determined to maintain the high quality now evident in the book.

During the year we again reviewed the segmentation of the loan portfolio and established detailed criteria for provisions for loan losses based on our experience and perception of the risk in each segment. On 30 June 2001, the General Provision for Loan Losses of \$20.6 million was equivalent to 1.4% of total loans. The General Provision is established in respect of any losses that have not been identified but that, in time, might become apparent. In addition to the General Provision, there is a Specific Provision of \$4.2 million for possible shortfalls in the security held for the \$9.5 million of loans identified as non-performing.

Our efforts to improve profitability and to strengthen the balance sheet were rewarded in November 2000 when Moody's Investor Service changed the Bank's outlook from stable to positive based on our improved earnings and asset quality performance, and stated that continued progress could have favourable rating implications. The Bank's improved performance was again acknowledged in June 2001 when Moody's raised the Bank's financial strength rating by two grades, to C. Banks rated C by Moody's possess good intrinsic financial strength with valuable and defensible business franchises. We believe this rating recognises the diversity and growing contributions to the Group of our operations in Cayman, Guernsey and Hong Kong, all of which produced record results for the year, and the potential in London. While your Bank does, indeed, have a valuable business franchise, our most important advantage is our people in all our locations. Their talent and commitment to our shared values of integrity and professional competence give us great confidence in our ability to deliver exceptional returns to our shareholders. Our people understand the challenges before us and the goals we have set in our efforts to increase shareholder value. This is not surprising because they too are shareholders. For the fourth consecutive year, on 2 July 2001 options in Bank shares were granted to all employees. With their help, in the coming year we intend to deliver an even higher level of performance for our shareholders, for whose support we are most grateful.