



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. It 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.

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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 we see potential in the local Bermuda market.

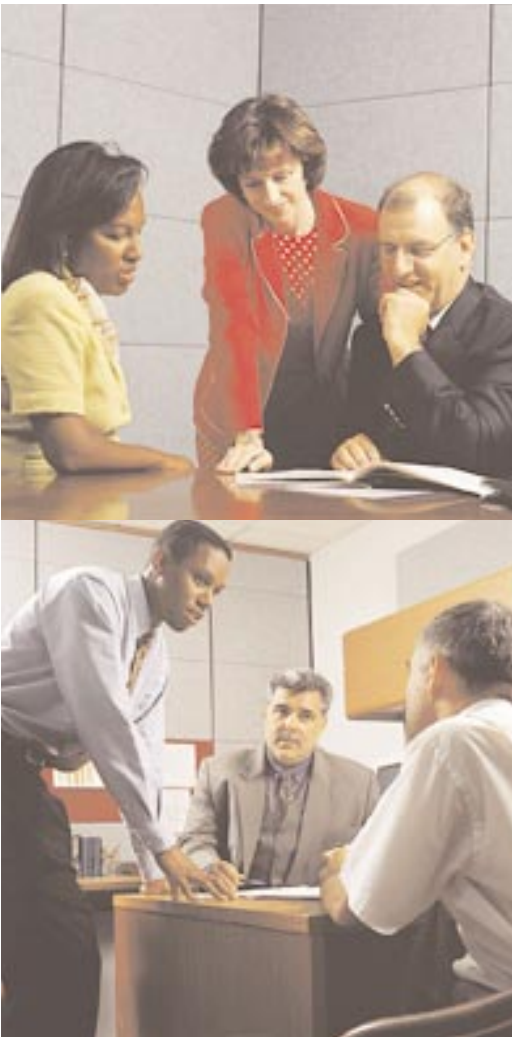
Retail Banking

Through its retail operations the Bank provides a full range of deposit services, consumer and residential mortgage lending and personal insurance products in Bermuda. Services include a network of 30 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.

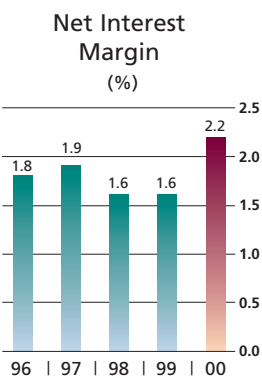
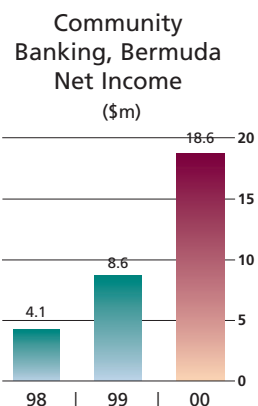
During the year under review, Retail Banking has worked to recruit and retain staff to improve the quality of customer service in our branches. Working with our Human Resources Department, branch managers have been successful in raising staffing levels from 70-80% of requirement to 95-100%. To ensure that employees are knowledgeable in technical and customer service skills, the recruiting programme was augmented by the introduction of a structured Career Development Programme for customer service associates. This system for training and confirmation of knowledge gives new hires and younger employees a clear understanding of what is required to progress within a career in retail banking.

Another initiative has been to examine the Bank's systems and processes with a view to improved efficiency and service. One of the results has been the introduction of a team approach to customer service. In an example of consolidating

similar activities in 'centres of excellence,' we moved our mortgage and loans sales force and support departments to a central site. This created a cohesive, more efficient lending team that has exceeded its target for mortgage sales by 12%.



Top left photograph: Management in Bermuda, l-r: William G. Francis II, Senior Vice President – Information Systems; Peter J.M. Rodger, Senior Vice President, Group Legal Adviser, Secretary to the Board; and David M. Brierly, Senior Vice President – Credit Risk Management.



As well as customer service, Community Banking competes on products and pricing. Product enhancements included Cheque-Wise, a new range of chequing options for Retail Banking and Corporate Banking customers. Fees are now linked to the volume of cheques written on an account and, as a result, the Bank has seen increased use of more cost-effective payment services, such as debit cards and ATMs. We have improved rates offered on Bermuda Dollar fixed term deposits and US Dollar savings, reflecting rate rises in major world financial markets. We have also increased the amount VISA and MasterCard customers can withdraw daily through ATMs in Bermuda and abroad, increased the number of ATM locations in Bermuda and added the ability to manage credit card activity via our ATMs.

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 made a significant contribution to the redevelopment of Bermuda’s tourism industry, so critical to Bermuda’s economic success. We have assisted in the purchase and/or development of several properties, including three major resort ventures. As a community bank, we were instrumental in the original development of

this important industry and are proud to continue that role. We are also building new business with the international companies operating from Bermuda, participating not only in loan syndication, but also cash management and other business services.

Treasury

The role of Treasury is that of the Bank’s banker. It manages 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 is involved in the international money and capital markets to ensure we can meet our liabilities at all times.

Bermuda’s first retail equity derivative, introduced by the Bank three years ago, was about to mature as the fiscal year closed. This equity-linked deposit-type investment offered retail clients a return geared to the performance of the S&P 500 stock index. This product has been very successful for the Bank and has produced attractive returns for clients. The Bank watches the market carefully for opportunities to offer clients competitive investment instruments to complement our other products.

This year, Treasury took the steps to make its daily market commentary available through the Bank’s web site (www.bankofbutterfield.com). This concise update on market activity provides our clients with information



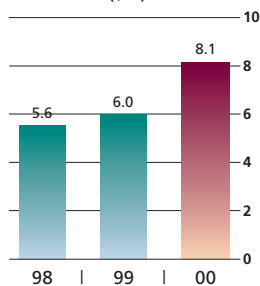
Above: Management in Bermuda, I-r: Peter G. Wignall, Senior Vice President – Asset Management and Managing Director, Butterfield Asset Management Limited; Fred H. Tesch, Senior Vice President & Head of Group Internal Audit; and Patricia G. Bean, Senior Vice President – Human Resources.

This year Corporate Banking made a significant contribution to the redevelopment of Bermuda's tourism industry

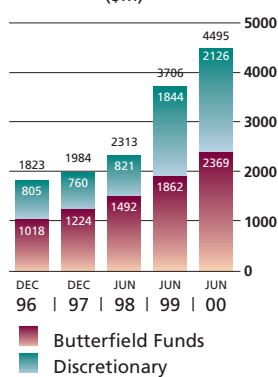




Asset Management, Bermuda Net Income (\$m)



Assets under Management by BAM (\$m)



about foreign exchange markets and fixed income investments and general comments on equities and central bank policies in major financial markets. This initiative makes useful market facts easily available to clients and supports the Group's efforts to link the Butterfield name with reliable, relevant financial information and advice.

For fiscal 2000, our overall Bermuda Community Banking revenues were \$90.7 million compared to \$71.7 million the previous year. The increase of 26.6% was primarily due to improved net income emanating from widening loan margins on our Bermuda loan portfolio and a significant reduction in non-performing loans. As a result, net income increased by \$10.0 million to \$18.6 million. We continued to see strong local loan growth, reflecting focused marketing, and this resulted in an increase in Bermuda based lending by some 6.7% to \$1,039 million.

Asset Management

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

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 record results for the year with revenue up a strong 22.2% and net income up 40.3% year on year at \$5.1 million from the record \$3.6 million the previous year. The company's efficiency ratio has improved to 69.2% from last year's 73.1%. This is in spite



*The Bank
offers its clients
top quality
products with
consistent
world-leading
performance*

of a new allocation of central corporate expense that is now being charged to the underlying subsidiaries.



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

This year, we have gained significant new business as we continue to develop a structure in the Trust Company that allows trust officers to develop better relationships with their major clients. We have developed initiatives to increase our personal communication with them and strengthen these important links.

Our customer service is further enhanced through ongoing development of our employees' expertise. In addition to the Bank's training programmes, 20% of our staff members are working towards the Diploma in Offshore Trust Management now offered by the Society of Trust and Estate Practitioners and the International Trust Companies Association.

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.

The Bank's customers have benefited from good performance from our investment products despite stock market volatility. We have experienced significant growth in private client assets, which results from the excellent record of our mutual funds and segregated portfolios. For the third year running, BAM has won a prestigious Standard & Poor's award for Mutual Funds. The AAAm-rated Butterfield Money Market US Dollar and Sterling classes were placed first in the world in their respective groups for their five-year performance. These awards for investment performance are the standard by which managers and management groups are measured in the offshore investment arena. This continued recognition

indicates that the Bank offers its clients top quality products with consistent world-leading performance.

In February, BAM launched a new mutual fund, Butterfield Select, to take advantage of the Bermuda Government's introduction of the National Pension Scheme (Occupational Pensions) Act 1998. The fund was developed as an ideal investment for Bermuda's employers and



Investment Portfolio by Long-Term Debt Rating



25.7%	AAA
30.1%	AA
36.8%	A
5.6%	BBB
1.8%	BB

Investment Portfolio by Country of Issuer



63%	USA
8%	UK
18%	Other OECD
6%	Canada
5%	Australia

employees, permitting a high degree of flexibility and diversification while retaining the advantage of long-term pension investments. While initially aimed at the pension market, this product has already proved extremely attractive to our private clients for their non-pension assets as it offers equity, fixed income and alternative investment classes with a low \$10,000 initial subscription.

For BAM, performance is not the only criterion – our employees also strive to provide outstanding customer service to clients. Staff members have participated in relationship management training and several are actively pursuing the Certified Financial Analyst (CFA) designation to strengthen the professional expertise we offer our clients.

BAM has performed well over the year, but with its allocation of central costs this is not revealed by the year on year comparisons. Revenue increased from the previous year's record \$10.2 million to a new record \$11.6 million, however, net income declined to \$3.2 million from the previous year's \$3.9 million, whereas without the new central allocations net income would have been slightly ahead. At 30 June 2000, BAM had \$4.5 billion in assets under management, up 21.3% from the previous year's \$3.7 billion. Mutual funds were the strongest element of our business growing by 30.8% to \$2.4 billion.

Butterfield Corporate Services Limited

Butterfield Corporate Services Limited (BCSL) provides mutual fund administration, custody and other corporate services. It specialises in providing third-party administration for offshore funds and acts for a number of the world's leading investment management groups. It serves mostly institutional fund clients, including BAM, which manages the Butterfield mutual funds.

During the year under review, BCSL worked closely with the other Bank offices to co-ordinate its international marketing programme and has developed new business at the fastest rate in many years. It has taken on a significant number of full service and partial service accounts and has developed a team approach to serving these clients.

BCSL also improved work processes through automation and enhanced procedures and controls. System enhancements included direct computer feeds with prime brokers and other service providers.

This year, we introduced a number of in-house training initiatives aimed at further developing the job skills and industry knowledge of our employees. In addition, several staff members are pursuing professional designations in the areas of financial management or accounting to augment the unit's significant expertise.



Total income for BCSL once again grew strongly, up 9.3% to \$5.7 million from the previous year's record of \$5.2 million. However, again, the new allocation of central expenses reduced the impact of this on the bottom line, with net income falling to \$0.2 million from the previous year's \$0.7 million. The new business generated in the last year is expected to have a significant benefit in the coming year. This new business generates revenue not only for BCSL but also for other areas of the Bank such as Treasury and BAM.

E-Commerce

This year, we created a team dedicated to exploring and exploiting the world of e-commerce for the benefit of the Bank and its customers. We have made several investments in promising e-commerce ventures by forming partnerships with experts in the field. These give us an opportunity to provide banking and investment services and, at the same time, to benefit as an equity investor. We are a major player, together with local and international partners, in an initiative to obtain Bermuda's first new banking licence in many years. The new bank, if licenced, intends to deliver services over the internet.

