(In $ thousands, except share data)	2001	2000	1999	1998	1997
At Year End					
Cash and deposits with banks	**1,691,423**	1,514,813	1,421,842	2,349,047	2,143,294
Investments	**1,882,479**	1,831,303	1,705,853	1,348,610	884,135
Loans	**1,451,773**	1,284,223	1,223,159	1,164,731	1,251,294
Premises and equipment	**97,690**	96,557	90,433	87,627	91,132
Total assets	**5,197,804**	4,794,012	4,512,543	5,008,116	4,429,387
Total deposits	**4,700,723**	4,337,782	3,901,151	4,614,060	4,076,913
Subordinated debt capital	**75,000**	75,000	75,000	75,000	–
Shareholders' equity	**286,525**	250,197	241,012	235,782	255,854
For the Year					
Net interest income	**100,213**	97,487	69,527	73,160	71,831
Fee and other income	**91,775**	83,368	80,050	75,085	67,064
Salaries and other staff benefits	**71,616**	75,520	67,969	69,896	67,143
Other non-interest expenses	**53,640**	50,448	45,200	49,591	42,163
Net income from continuing operations	**66,732**	54,887	36,408	28,758	29,589
Net income	**60,742**	40,347	36,408	2,482	8,111
Dividends declared	**20,525**	13,730	12,163	12,839	10,250
Financial Ratios					
Return on assets #	**1.2%**	0.9%	0.8%	0.1%	0.2%
Return on shareholders' equity #	**22.7%**	16.4%	15.6%	0.9%	2.9%
Dividend payout ratio	**33.8%**	34.0%	33.4%	517.3%	126.4%
Total capital funds to total assets ratio	**7.2%**	7.0%	7.3%	6.5%	6.0%
Risk weighted capital ratio	**14.8%**	13.2%	13.0%	13.2%	11.7%
Efficiency ratio	**62.2%**	67.1%	68.5%	75.0%	78.1%
Per Share ($)					
Net income from continuing operations	**3.79**	3.02	1.92	1.42	1.45
Net income	**3.45**	2.22	1.92	0.12	0.40
Dividends	**1.16**	0.75	0.64	0.64	0.50
Net book value	**16.33**	14.13	12.86	11.84	12.43
Number of Employees					
Bermuda	**744**	762	772	772	835
Overseas	**418**	351	353	372	386
Total	**1,162**	1,113	1,125	1,144	1,221
Shareholder Data					
Number of shareholders	**3,619**	3,602	3,659	3,716	3,742
Number of shares (000s)*	**17,571**	17,705	18,743	19,911	20,580

* 1999 and 2000 number of shares excludes shares purchased by the Bank for the Stock Option Trust.

after losses from discontinued operations.

The Management of The Bank of N.T. Butterfield & Son Limited is responsible for the preparation of the consolidated financial statements contained in this Annual Report. These financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada and, where appropriate, are based on the best estimates and judgment of management.

Management has established and maintains a system of financial reporting and internal controls to provide reasonable assurance that transactions are properly authorised and recorded, assets are protected against unauthorised use or disposition and liabilities are recognised. These procedures include the careful selection and training of qualified staff, the establishment of organisational structures providing an appropriate and well-defined division of responsibilities, and the communication of policies and standards of business conduct throughout the Bank.

The system of internal controls is further supported by a professional staff of internal auditors which conducts periodic inspections of all aspects of the Bank's operations. In addition, the Bank's Head of Group Internal Audit has full and free access to the Audit & Compliance Committee.

The Audit & Compliance Committee of the Board of Directors, composed entirely of directors who are not employees of the Bank, reviews the financial statements before such statements are approved by the Board of Directors and submitted to the Bank's shareholders.

Under the provisions of the Bermuda Monetary Authority Act 1969, the Bermuda Monetary Authority is charged with the supervision of the Bank. Such supervision is in line with international practices and combines a comprehensive system of statistical returns, providing a detailed breakdown of the balance sheet and statement of income accounts of the Bank, and regular meetings with the senior management of the Bank. Such regular reviews are intended to satisfy the Authority that the safety and interests of the depositors, creditors and shareholders of the Bank are being duly observed and that the Bank is in a sound financial condition.

PricewaterhouseCoopers, the shareholders' independent auditors, have examined the consolidated financial statements of the Bank in accordance with generally accepted auditing standards and have expressed their opinion in their report to the shareholders. The auditors have unrestricted access to, and meet periodically with, the Audit & Compliance Committee to review their findings regarding internal controls over the financial reporting process, auditing matters and financial reporting issues.

M. Calum Johnston, FICB
President & Chief Executive Officer
17 August 2001

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Chartered Accountants
Dorchester House
7 Church Street
Hamilton
Bermuda HM 11
Telephone =1 (441) 295 2000
Facsimile =1 (441) 295 1242

Auditors' Report to the Shareholders of The Bank of N.T. Butterfield & Son Limited

We have audited the consolidated balance sheet of The Bank of N.T. Butterfield & Son Limited as at 30 June 2001 and the consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 30 June 2001 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

PricewaterhouseCoopers

Chartered Accountants
17 August 2001

Consolidated Balance Sheet

As at 30 June 2001 (In $ thousands)	2001	2000*
Assets		
Cash and demand deposits with banks	**87,692**	63,697
Term deposits with banks	**1,603,731**	1,451,116
Total cash and deposits with banks (note 2)	**1,691,423**	1,514,813
Investments (notes 1(c) and 3)	**1,882,479**	1,831,303
Loans (notes 1(d) and 4)	**1,451,773**	1,284,223
Premises and equipment (notes 1(e) and 5)	**97,690**	96,557
Accrued interest	**31,535**	38,455
Other assets	**42,904**	28,661
Total Assets	**5,197,804**	4,794,012
Liabilities		
Deposits		
Customers	**4,464,379**	3,961,746
Banks	**236,344**	376,036
Total deposits (note 6)	**4,700,723**	4,337,782
Securities sold under agreements to repurchase (note 1(h))	**55,360**	54,822
Dividend payable	**6,219**	4,516
Accrued interest	**12,380**	9,215
Other liabilities	**61,597**	62,480
Total other liabilities	**135,556**	131,033
Subordinated debt capital (note 15)	**75,000**	75,000
Total Liabilities	**4,911,279**	4,543,815
Shareholders' Equity		
Share capital	**19,436**	19,634
Share premium	**22,186**	25,542
General reserve	**100,000**	100,000
Retained earnings	**176,273**	136,718
Less: loan to stock option trust (notes 1(i) and 16)	**(31,370)**	(31,697)
Total Shareholders' Equity	**286,525**	250,197
Total Liabilities and Shareholders' Equity	**5,197,804**	4,794,012

The accompanying notes are an integral part of these consolidated financial statements.

* 2000 comparative format has been restated to conform with current period presentation.

James A.C. King,
MD, FRCS(C), FACS, JP
Chairman of the Board

Robert J. Stewart,
B.Sc. (Econ.), FCIS,LL.B
Vice Chairman

M. Calum Johnston, FICB
President & Chief
Executive Officer

Consolidated Statement of Income

For the year ended 30 June 2001 (In $ thousands, except share data)	2001	2000*
Interest Income		
Loans	**107,524**	108,671
Investments	**113,323**	111,598
Deposits with banks	**89,632**	78,821
Interest income	**310,479**	299,090
Interest Expense		
Deposits and other	**204,863**	196,394
Subordinated debt capital	**5,403**	5,209
Interest expense	**210,266**	201,603
Net Interest Income	**100,213**	97,487
Fees, commissions and service charges	**28,006**	25,028
Trust and executorship fees	**14,428**	15,216
Investment services revenue	**18,797**	16,403
Corporate services revenue	**12,716**	10,526
Foreign exchange revenue	**14,066**	13,133
Other income	**3,762**	3,062
Total Fees and Other Income	**91,775**	83,368
Total Income	**191,988**	180,855
Expenses		
Salaries and other staff benefits	**71,616**	75,520
Property	**12,127**	11,583
Systems and communications	**14,248**	12,967
Marketing	**2,455**	1,986
Stationery and supplies	**1,669**	1,907
Taxes	**6,334**	7,804
Other expenses	**16,807**	14,201
Total Expenses	**125,256**	125,968
Net Income from Continuing Operations	**66,732**	54,887
Loss from discontinued operations (note 17)	**(5,990)**	(14,540)
Net Income for the Year	**60,742**	40,347
Earnings per Share (notes 1(i), 1(k) and 20)		
Including discontinued operations	**$ 3.45**	$ 2.22
Excluding discontinued operations	**$ 3.79**	$ 3.02

The accompanying notes are an integral part of these consolidated financial statements.

* 2000 comparative format has been restated to conform with current period presentation.

For the year ended 30 June 2001 (In $ thousands)	2001	2000*
Share Capital		
Authorised: 60,000,000 shares of par value $1.00 each	**60,000**	60,000
Issued:		
Balance at Beginning of Year		
(2001: 19,634,062 shares; 2000: 20,079,396 shares)	**19,634**	20,079
Dividend re-investment plan		
(2001: 222,230 shares; 2000: 166,969 shares)	**222**	167
Share redemptions		
(2001: 420,637; 2000: 612,303) – (note 18)	**(420)**	(612)
Balance at End of Year		
(19,435,655 shares; 2000: 19,634,062 shares)	**19,436**	19,634
Share Premium		
Balance at Beginning of Year	**25,542**	32,514
Dividend re-investment plan	**4,811**	2,560
Share redemptions – (note 18)	**(8,167)**	(9,532)
Balance at End of Year	**22,186**	25,542
General Reserve		
Balance at Beginning of Year	**100,000**	100,000
Balance at End of Year	**100,000**	100,000
Retained Earnings		
Balance at Beginning of Year	**136,718**	110,101
Net income for the year	**60,742**	40,347
	197,460	150,448
Dividends declared	**(20,525)**	(13,730)
Unrealised loss on translation of investments in foreign operations	**(662)**	–
Balance at End of Year	**176,273**	136,718
Loan to Stock Option Trust		
Balance at Beginning of Year		
(2001: 1,928,965 shares; 2000: 1,336,016 shares)	**(31,697)**	(21,682)
Loan repaid (advanced) during year – (notes 1(i) and 16)	**327**	(10,015)
Balance at End of Year		
(1,864,547 shares; 2000: 1,928,965 shares)	**(31,370)**	(31,697)
Total Shareholders' Equity	**286,525**	250,197

The accompanying notes are an integral part of these consolidated financial statements.

* 2000 comparative format has been restated to conform with current period presentation.

Consolidated Statement of Cash Flows

For the year ended 30 June 2001 (In $ thousands)	2001	2000*
Cash Flows From Operating Activities		
Net income for the year	**60,742**	40,347
Adjustments for:		
Depreciation and amortisation	**10,886**	11,729
Provision for credit losses	**11,366**	18,656
Writedown of investments	**3,522**	–
Decrease (increase) in accrued interest receivable	**6,920**	(7,334)
(Increase) decrease in other assets	**(14,774)**	11,221
Increase (decrease) in accrued interest payable	**3,165**	(6,723)
Decrease in other liabilities	**(785)**	(6,165)
Cash flows from operations	**81,042**	61,731
Cash Flows From Investing Activities		
Interest bearing deposits	**(152,615)**	(46,449)
Net purchase of investments	**(54,698)**	(125,450)
Net increase in loans	**(178,916)**	(79,720)
Purchase of premises and equipment	**(11,488)**	(17,600)
Cash flows used in investing activities	**(397,717)**	(269,219)
Cash Flows From Financing Activities		
Net increase in demand and term deposits	**362,941**	436,631
Securities sold under agreements to repurchase	**538**	(152,762)
Dividends paid	**(18,822)**	(12,427)
Proceeds from dividend reinvestment plan	**5,033**	2,727
Stock option trust loan	**327**	(10,015)
Redemption of shares	**(8,587)**	(10,144)
Cash flows from financing activities	**341,430**	254,010
Effect of exchange rates on cash and demand deposits with banks	**(760)**	–
Increase in cash and demand deposits with banks	**23,995**	46,522
Cash and demand deposits with banks:		
– Beginning of Year	**63,697**	17,175
– End of Year	**87,692**	63,697
Interest Paid	**207,101**	205,868
Income Taxes Paid	**502**	1,857

The accompanying notes are an integral part of these consolidated financial statements.

* 2000 comparative format has been restated to conform with current period presentation.

Note 1: Significant Accounting Policies

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Bermuda and Canada. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements. Estimates also affect the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates. The following is a summary of those accounting policies considered to be significant:

(a) Basis of Consolidation: The consolidated financial statements include the assets, liabilities and results of operations of the Bank and all of its subsidiaries. Subsidiaries are companies which the Bank controls and are normally those in which the Bank owns directly or indirectly more than 50% of the voting shares. The purchase method is used to account for all business acquisitions. The difference between the acquisition cost of an investment and the fair value of the net assets acquired represents goodwill which is amortised to income over a period not to exceed 20 years.

The Bank's interest in its joint venture is recognised using the proportionate consolidation method. Under this approach the Bank's share of the joint venture's assets, liabilities, revenues and expenses is reported on a line-by-line basis.

(b) Translation of Foreign Currencies: Assets and liabilities arising from foreign currency transactions are translated into Bermuda dollars at the rates of exchange prevailing at the balance sheet date while associated revenues are translated into Bermuda dollars at the average rates of exchange prevailing throughout the year. Resulting gains or losses are included as foreign exchange income in the Consolidated Statement of Income.

Assets and liabilities of the Bank's foreign operations are translated into Bermuda dollars at the rates of exchange prevailing at the balance sheet date while associated revenues and expenses are translated into Bermuda dollars at the average rates of exchange prevailing throughout the year. Exchange gains and losses arising from the translation of net investment positions and from the results of hedging these positions are reported in retained earnings.

(c) Investments: Investment portfolio securities are primarily securities where the Bank's original intention is to hold to maturity and investments in money market mutual funds. They are carried at cost or amortised cost, adjusted to recognise other than temporary impairment in the underlying value, except for money market mutual funds which are carried at market value, which approximates amortised cost. Investments held in the trading portfolio are carried at market value and any adjustments to market value of these investments are included in the Consolidated Statement of Income.

(d) Loans: Loans are stated net of any unearned income and of an allowance for credit losses. Interest income is accounted for on the accrual basis for all loans other than impaired loans.

A loan is classified as non-accrual when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. If an interest payment on a loan becomes contractually 90 days in arrears, the loan will be classified as non-accrual, if not already classified as such, unless the loan is fully secured, the collection of the debt is in process and the collection efforts are reasonably expected to result in repayment of the loan and overdue interest in full. Any credit card loan that has a payment that is contractually 210 days in arrears is classified as non-accrual and a 100% specific provision is raised against the loan.

When a loan is classified as non-accrual, recognition of interest ceases. Interest received on non-accrual loans is credited to the carrying value of the loan. Loans are generally returned to accrual status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current.

The Bank maintains an allowance for credit losses, which in management's opinion, is adequate to absorb all credit-related losses in its portfolio. The allowance for credit losses consists of specific provisions, and a general provision, each of which is reviewed on a regular basis. The allowance for credit losses is included as a reduction of the related asset category.

Specific provisions, except those relating to credit card loans, are determined on an item-by-item basis and reflect the associated estimated credit loss. The specific provision is the amount that is required to reduce the carrying value of an impaired loan to its estimated realisable amount. Generally, the estimated realisable amount is measured by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of non-accrual. When the amounts and timing of future cash flows cannot be measured with reasonable reliability, either the fair value of any security underlying the loan, net of expected costs of realisation and any amounts legally required to be paid to the borrower, or the observable market price for the loan is used to measure the estimated realisable amount. The change in the present value attributable to the passage of time on the expected future cash flows is reported as a reduction of the provision for credit losses in the Consolidated Statement of Income. Specific provisions for credit card loans are equal to the total balance of credit card loans where payments are contractually 210 days in arrears.

The general provision is established against the loan portfolio in respect of the Bank's core business lines where a prudent assessment by the Bank of past experience and existing economic and portfolio conditions indicate that losses have occurred, but where such losses cannot be determined on an item-by-item basis. The general provision is determined by using historical trends in loss experience, weighted to emphasise recent periods, and the current portfolio profile together with management's evaluation of other conditions existing at the balance sheet date which are not reflected in historical trends.

(e) Premises and Equipment: Land is carried at cost. Premises, equipment and leasehold improvements are carried at cost less accumulated depreciation and/or amortisation. Depreciation and amortisation are calculated using the straight-line method over the estimated useful lives of the related assets, which are up to 50 years for buildings, up to 10 years for furniture, up to 5 years for computers and equipment and, in the case of leasehold improvements, the term of the lease.

(f) Employee Future Benefits: The Bank maintains trusteed pension plans including a non-contributory defined benefit plan and a number of defined contribution plans for substantially all employees.

Benefits under the defined benefit plan are primarily based on the employee's years of credited service and average annual salary during the final years of employment as defined in the plan. Annual changes in net pension asset or obligation arising from experience gains or losses, changes in assumptions, and plan amendments, and the net pension asset at the date the policy was implemented, are amortised on a straight-line basis over the expected average remaining service life of the employees covered by the plan, which in 2001 was twelve years. The cumulative difference between pension expense and the funding contributions is reported in other assets.

Pension expense has comprised (a) the actuarially determined pension benefits for the current year's service, (b) imputed interest on the net funding excess or deficiency of the plan and (c) amortisation of certain items over the expected average remaining service life of employees. The items amortised are experience gains and losses, amounts arising as a result of changes in assumptions and plan amendments, and the net funding excess at the date the current accounting policy was implemented.

The defined contribution plans provide for an annual contribution of a percentage of each participating employee's pensionable earnings. Amounts paid are expensed in the year.

The Bank provides post-retirement medical benefits for substantially all retired Bermuda based employees. Effective 1 July 1997, the Bank retroactively adopted the accrual basis of accounting for these benefits whereby an accrual is made for the present value of the future benefits to be provided in the reporting period in which the employee has provided the related service. Annual changes in the post-retirement medical benefit obligation arising from actuarial gains and losses, changes in assumptions and plan amendments are amortised on a straight-line basis over the expected average remaining service life to full eligibility age of employees covered by the plan, which in 2001 was thirteen years.

Effective 1 July 2000 the Bank adopted the revised recommendations of the Canadian Institute of Chartered Accountants on accounting for pension benefits and on accounting for employees' future benefits. The new standard requires the use of current market interest rates to estimate the present value of the liability and related expense and the use of current market prices for valuing the pension plan asset and related income. The change in accounting policy for employees' future benefits has been adopted prospectively.

(g) Derivatives: Derivatives are used for asset and liability management and proprietary trading purposes and also to provide clients with the ability to manage their own market risk exposures. The most frequently used derivative products are currency options, foreign exchange contracts and interest rate swaps.

Asset and liability management derivatives are used to manage the Bank's own exposure to interest rate and foreign exchange risks which arise from the Bank's balance sheet positions. Income and expense on these derivatives are recognised over the life of the related position as an adjustment to net interest income. Gains or losses on these derivatives are deferred and amortised over the remaining life of the related positions. Deferred gains and losses are included in other assets and other liabilities, as appropriate in the Consolidated Balance Sheet. Unrealised gains and losses are not recognised.

Proprietary trading derivatives are marked to market and realised and unrealised gains and losses are included in interest income.

(h) Securities Sold Under Agreements to Repurchase: Securities sold under agreements to repurchase arise on the sale of a security, with the commitment by the Bank to repurchase the security at a specified price, and are carried at cost on the Consolidated Balance Sheet. The difference between the sale price and the agreed repurchase price is recorded as an interest expense.

(i) Loan to Stock Option Trust: The loan made to finance the acquisition of shares by the Stock Option Trust is shown as a deduction from shareholders' equity. Dividends paid on the acquired shares are deducted in arriving at dividends paid reflected in the Statements of Changes in Shareholders' Equity and Cash Flows. The weighted average number of shares outstanding used in the calculation of earnings per share is calculated after deducting the shares held by the Stock Option Trust during the year.

(j) Stock-based Compensation: The Bank has a Stock Option Plan for all eligible employees. The Bank follows the intrinsic value method of accounting for stock options. Since the exercise price is set at an amount equal to the closing price on the day prior to the grant of the stock options, no compensation expense is recognised on the day of the grant. When options are exercised the proceeds received are credited to the loan to the Stock Option Trust.

(k) Earnings Per Share: Earnings per share has been calculated using the weighted average number of shares outstanding during the year as described in 1(i) above. Fully diluted earnings per share, calculated after giving effect to the potential dilution arising from the existence of stock options, is not materially different from the earnings per share disclosed in the Consolidated Statement of Income (see also note 20).

Note 2: Cash and Deposits with Banks

A summary of cash and deposits with banks as at 30 June follows:

	2001	2000
Cash and demand deposits	**87,692**	63,697
Term deposits maturing within six months	**1,542,935**	1,305,230
Term deposits maturing within six to twelve months	**59,383**	145,886
Term deposits maturing after twelve months	**1,413**	–
Total	**1,691,423**	1,514,813

NOTE 3: INVESTMENTS

a) Maturity: A summary of investments as at 30 June follows:

2001	Within 1 Year	1 To 3 Years	3 To 5 Years	5 To 10 Years	Over 10 Years*	Total
Marketable Securities						
US Government and agencies	–	37,801	114,986	67,795	28,905	249,487
Other OECD Governments	22,516	1,039	–	11,941	2,557	38,053
Financial institution debt	393,467	488,435	216,350	–	–	1,098,252
Corporate and asset backed debt	95,460	192,515	101,063	35,909	40,491	465,438
Non OECD Governments	–	–	–	12,348	–	12,348
Mutual fund/equity investments	–	–	–	–	18,901	18,901
Total	**511,443**	**719,790**	**432,399**	**127,993**	**90,854**	**1,882,479**

2000	Within 1 Year	1 To 3 Years	3 To 5 Years	5 To 10 Years	Over 10 Years*	Total
Marketable Securities						
US Government and agencies	–	50,000	–	10,023	7,013	67,036
Other OECD Governments	14,021	22,579	–	100	2,000	38,700
Financial institution debt	224,490	716,369	301,351	2,400	–	1,244,610
Corporate and asset backed debt	34,540	156,991	142,545	42,612	68,217	444,905
Non OECD Governments	–	–	–	13,283	–	13,283
Mutual fund/equity investments	–	–	–	–	22,769	22,769
Total	273,051	945,939	443,896	68,418	99,999	1,831,303

* Instruments with no specific maturity date are listed as Over 10 Years.

All of the above amounts are held in the investment portfolio and are carried at amortised cost with the exception of the trading portfolio which amounts to $Nil ($14,270 in 2000), venture capital investments which amount to $17,555 ($Nil in 2000), and certain other investments aggregating $1,346 ($8,499 in 2000). Actual maturities may differ from the stated maturities reflected above because certain investments may have call or prepayment features.

b) Market Value Summary as at 30 June:

	2001				2000		
	Carrying Value	**Unrealised Gain**	**(Loss)**	**Market Value**	Carrying Value	Unrealised Gain/(Loss)	Market Value
Marketable Securities							
US Government and agencies	**249,487**	**557**	**(143)**	**249,901**	67,036	(635)	66,401
Other OECD Governments	**38,053**	**49**	**(28)**	**38,074**	38,700	(9)	38,691
Financial institution debt	**1,098,252**	**1,034**	**(433)**	**1,098,853**	1,244,610	(6,288)	1,238,322
Corporate and asset backed debt	**465,438**	**1,647**	**(3,699)**	**463,386**	444,905	(9,949)	434,956
Non OECD Governments	**12,348**	**350**	**(153)**	**12,545**	13,283	214	13,497
Mutual fund/equity investments	**18,901**	**98**	**–**	**18,999**	22,769	(40)	22,729
Total	**1,882,479**	**3,735**	**(4,456)**	**1,881,758**	1,831,303	(16,707)	1,814,596

Marketable Securities, excluding mutual funds/equity investments include $345,163 ($478,441 in 2000) of fixed rate instruments and $1,518,414 ($1,330,093 in 2000) of floating rate instruments. The approximate yield on the floating rate securities as at 30 June 2001 was 4.58% (6.70% in 2000), while the approximate yield on the fixed rate securities was 6.20% (6.33% in 2000). Unrealised gains were $3,735 ($628 in 2000) and unrealised losses were $4,456 ($17,335 in 2000).

During the year the Bank reduced the carrying value of certain venture capital investments, which are included in mutual funds/equity investments, by $3,522 ($Nil in 2000).

NOTE 4: LOANS

a) Loans outstanding as at 30 June follows:

The Bank's loans net of unearned income and the allowance for credit losses in respect of loans are as follows:

	2001	2000
Residential mortgages	**627,421**	575,360
Personal and credit cards	**356,114**	312,535
Business and government	**493,020**	418,678
Sub-total loans	**1,476,555**	1,306,573
Allowance for credit losses	**(24,782)**	(22,350)
Net loans	**1,451,773**	1,284,223

The principal means of securing residential mortgages, personal, credit card and business loans are charges over assets and guarantees. Mortgage loans are generally repayable over fifteen years and personal, credit card, business and government loans are generally repayable over terms not exceeding five years. The effective yield on total loans as at 30 June 2001 is 8.3% (8.8% as at 30 June 2000).

b) Impaired loans as at 30 June follows:

	2001				2000
	Gross	Specific Provisions	General Provisions	Net	Net
By loan type:					
Residential mortgages	**439**	**–**	**–**	**439**	490
Personal and credit cards	**4,151**	**(1,407)**	**–**	**2,744**	4,065
Business	**4,947**	**(2,800)**	**–**	**2,147**	5,293
General provisions	**–**	**–**	**(20,575)**	**(20,575)**	(16,587)
Total impaired loans	**9,537**	**(4,207)**	**(20,575)**	**(15,245)**	(6,739)
By geography:					
Bermuda	**8,031**	**(3,825)**	**–**	**4,206**	9,175
Cayman	**1,506**	**(382)**	**–**	**1,124**	673
Other international	**–**	**–**	**–**	**–**	–
Sub-total before general provisions	**9,537**	**(4,207)**	**–**	**5,330**	9,848
General provisions	**–**	**–**	**(20,575)**	**(20,575)**	(16,587)
Total impaired loans	**9,537**	**(4,207)**	**(20,575)**	**(15,245)**	(6,739)

c) Allowance for credit losses as at 30 June follows:

	2001			2000
	Specific Provisions	General Provisions	Total	Total
Beginning of year	**5,763**	**16,587**	**22,350**	34,623
New acquisitions	**–**	**565**	**565**	–
Write-offs	**(8,549)**	**–**	**(8,549)**	(30,929)
Recoveries/transfers	**7,060**	**(7,220)**	**(160)**	–
Provisions this year	**–**	**11,366**	**11,366**	18,656
Other, including exchange movement	**(67)**	**(723)**	**(790)**	–
Carried forward	**4,207**	**20,575**	**24,782**	22,350

d) Credit exposure as at 30 June follows:

The following table summarises the credit exposure* of the Bank to governments, individuals and businesses by sector:

	2001	2000
Primary industry and manufacturing	**27,297**	29,798
Commercial and merchandising	**512,050**	425,973
Real estate	**80,910**	47,125
Transport and communication	**41,968**	45,495
Banks and financial services	**734,960**	804,648
Governments	**6,430**	–
Individuals	**718,292**	657,530
Sub-Total	**2,121,907**	2,010,569
General provisions	**(20,575)**	(16,587)
Total	**2,101,332**	1,993,982

* Credit exposures include loans, guarantees and acceptances, letters of credit, commitments for undrawn lines of credit and derivative instruments.

NOTE 5: PREMISES AND EQUIPMENT

A summary of premises and equipment as at 30 June follows:

	Cost	Accumulated Depreciation & Amortisation	Net Book Value 2001	Net Book Value 2000
Land	**11,523**	**–**	**11,523**	10,885
Buildings	**76,399**	**16,811**	**59,588**	60,766
Equipment	**79,808**	**53,229**	**26,579**	24,906
Total	**167,730**	**70,040**	**97,690**	96,557

Depreciation and amortisation charged to operating expenses for the year ended 30 June 2001 was $10,355 ($11,476 in 2000).

NOTE 6: DEPOSITS

An analysis of deposits as at 30 June follows:

(i) By Maturity

	2001	2000
Demand	**1,891,094**	1,559,272
Term deposits maturing within six months	**2,437,415**	2,423,036
Term deposits maturing within six to twelve months	**99,324**	117,592
Term deposits maturing after twelve months	**272,890**	237,882
Total	**4,700,723**	4,337,782

(ii) By Type and Location

	Payable On Demand	Payable on A Fixed Date	2001	2000
Bermuda:				
Customer	**1,327,697**	**1,376,721**	**2,704,418**	2,668,241
Bank	**–**	**136,875**	**136,875**	213,050
Cayman:				
Customer	**315,971**	**520,497**	**836,468**	738,880
Bank	**5,553**	**85,892**	**91,445**	106,173
Other International:				
Customer	**241,873**	**681,620**	**923,493**	554,625
Bank	**–**	**8,024**	**8,024**	56,813
Total	**1,891,094**	**2,809,629**	**4,700,723**	4,337,782

The effective yield on deposits as at 30 June 2001 was 3.3% (4.3% at 30 June 2000).

Note 7: Employee Future Benefits

The Bank maintains trusteed pension plans including a non-contributory defined benefit plan and a number of defined contribution plans, and provides defined health care benefits to its qualifying retirees. The actuarially determined cost of these benefits under the defined pension and health benefit plans is accrued over the estimated service life of employees. The defined benefit provisions under the pension plan are generally based upon years of service and average salary during the final years of employment. The defined benefit plan is non-contributory and the funding required is provided by the Bank, based upon the advice of an independent actuary. Effective 1 September 2000 the Bank implemented a defined contribution pension plan for its Bermuda based employees. Funding of the plan is determined based upon the provisions of the plan and is shared with the employees. All Bermuda based employees under age 45 were transferred into this plan from the defined benefit plan. All Bermuda based employees joining the Bank after this date will automatically join this defined contribution plan. The transfer of employees resulted in a gain on the settlement of the Bank's obligations under the defined benefit plan. Substantially all of the pension assets are invested in equity, fixed income and other marketable securities.

Pension Plans and Post-Retirement Benefit Plan Expense	Pension Plans 2001	Post-Retirement Benefit Plan 2001
a) Defined benefit plan		
Employer current service cost	1,340	577
Interest cost	3,772	1,683
Expected return on plan assets	(5,094)	–
Amortisation of transitional (asset) obligation	(1,091)	(553)
Gain on settlement	(3,275)	–
Amortisation of past service costs	95	–
b) Defined contribution plans	2,748	–
Total expense (credit)	(1,505)	1,707
Total funding of pension plans	3,825	–

The expense for the pension plans and the post-retirement plan for the year ended 30 June 2000 was $2,748 and $2,007 respectively.

Financial Status of Defined Benefit Plans	Pension Plans 2001	Post-Retirement Benefit Plan 2001
Fair value of plan assets	63,131	–
Accrued benefit obligation	52,331	24,759
Funded status – plan surplus (deficit)	10,800	(24,759)
Unamortised transitional (asset) obligation	(11,289)	(9,948)
Unamortised past service cost	1,246	–
Unamortised actuarial loss	7,297	1,801
Accrued benefit asset (liability), included in other assets (liabilities)	8,054	(32,906)
Reconciliation of Plan Assets		
Fair value of plan assets at beginning of year	76,033	–
Contributions	1,077	–
Benefits paid	(2,700)	–
Actual return on plan assets	1,119	–
Amount transferred on settlement	(12,398)	–
Fair value of plan assets at end of year	63,131	–
Reconciliation of Accrued Benefit Obligation		
Accrued benefit obligation at beginning of year	67,366	26,104
Effect of change in accounting policy	(11,071)	(4,528)
Accrued benefit obligation at beginning of year as adjusted	56,295	21,576
Amount transferred on settlement	(12,398)	–
Amount transferred on curtailment	1,360	–
Past service cost	1,340	–
Current service cost	1,340	577
Interest cost	3,772	1,683
Benefits paid	(2,700)	(878)
Actuarial losses	3,322	1,801
Accrued benefit obligation at end of year	52,331	24,759

Assumptions	Pension Plans 2001	Post-Retirement Benefit Plan 2001
Year-end obligation discount rate	7.25%	7.25%
Expense discount rate	7.75%	7.75%
Long-term rate of return on plan assets	7.75%	–
Rate of compensation increase, excluding merit increases	4.5%	4.5%
Annual increase in the per capita cost of other post-retirement benefits	–	8% to 5% over 4 yrs

NOTE 8: ASSETS UNDER ADMINISTRATION

Securities and properties (other than cash deposits directly with the Bank and its subsidiaries) held in a trust, agency or fiduciary capacity for customers, including mutual funds, are not included in the Consolidated Balance Sheet as they are not the property of the Bank or its subsidiaries. The value of assets under administration as at 30 June 2001 was estimated to be $39.18 billion ($34.10 billion in 2000).

NOTE 9: CONTIINGENT LIABILITIES AND COMMITMENTS

The Bank was contingently liable for letters of credit, guarantees, and other contracts amounting to $379,046 as at 30 June 2001 ($447,986 in 2000) of which $356,588 was fully collateralised ($408,107 in 2000).

The Bank's commitment for undrawn lines of credit amounted to $257,671 as at 30 June 2001 ($321,908 in 2000).

There are a number of actions and legal proceedings pending against the Bank and its subsidiaries which arose in the normal course of its business. Management, after reviewing all actions proceeding, pending against or involving the Bank and its subsidiaries, considers that the resolution of these matters would not be material to the consolidated financial position of the Bank.

NOTE 10: SEGMENTED INFORMATION

a) Operating Segments: The Bank has adopted the accounting requirements relating to the presentation of operating segments based upon its internal management reporting structure. Management has identified its reportable segments based upon the geographic location of the Bank's operations except that Bermuda is further subdivided based on products and services into Community Banking, including Treasury operations and the Bank's proportionate share of the assets, liabilities, income and expenses of its joint venture, ProServe Bermuda Limited, Asset Management & Administration and Real Estate. Accounting policies of the reportable segments are the same as those described in note 1.The following changes of note occurred during the periods under review:

i) On 7 February 2001 the Bank acquired for cash, at a small premium over net book value, Matheson Bank Limited of London from Matheson and Co., Limited, a subsidiary of Jardine Matheson Holdings Limited. On the date of acquisition Matheson Bank had assets of $396 million and liabilities of $360 million. Accordingly, the United Kingdom results for the financial year 2001 include income from the date of purchase.

ii) On 16 June 2000 the Bank sold Davenham Group Plc at a small premium over net book value. Accordingly, the United Kingdom results for the financial year 2000 include income up to the date of sale.

iii) On 7 January 2000 ANZ Bank (Guernsey) Limited and ANZ Nominees (Guernsey) Limited were acquired for cash, at a small premium over net book value, by the Bank's Guernsey subsidiary, Bank of Butterfield International (Guernsey) Limited. The companies had assets of $420 million and liabilities of $388 million at the time of acquisition. Accordingly, the Guernsey results for the financial year 2000 include income from the date of purchase.

Operating segment information follows:

Total Assets	**2001**	2000
Community Banking	**3,026,200**	2,909,892
Asset Management & Administration	**15,785**	34,856
Real Estate	**54,368**	54,993
Total Bermuda	**3,096,353**	2,999,741
Cayman	**1,060,816**	955,182
Guernsey	**644,691**	690,907
United Kingdom	**297,288**	–
Hong Kong	**98,656**	126,252
Total Overseas	**2,101,451**	1,772,341
Total Continuing Operations	**5,197,804**	4,772,082
Discontinued Operations	**–**	21,930
Total	**5,197,804**	4,794,012

Business Area Analysis 2001	Net Interest Income Customer	Net Interest Income Intersegment	Loan Loss Provision	Fees and Other Income	Total Income	Other Expenses	Amortisation of Capital Assets	Total Expenses	Net Income
Community Banking	**72,992**	**(3,271)**	**(4,182)**	**30,350**	**95,889**	**63,708**	**5,527**	**69,235**	**26,654**
Asset Management & Administration	**3,777**	**386**	**–**	**32,381**	**36,544**	**24,407**	**416**	**24,823**	**11,721**
Real Estate	**–**	**(1,808)**	**–**	**9,094**	**7,286**	**4,615**	**2,109**	**6,724**	**562**
Total Bermuda	**76,769**	**(4,693)**	**(4,182)**	**71,825**	**139,719**	**92,730**	**8,052**	**100,782**	**38,937**
Cayman	**22,449**	**2,739**	**(756)**	**17,925**	**42,357**	**18,161**	**1,631**	**19,792**	**22,565**
Guernsey	**4,014**	**2,259**	**(385)**	**7,825**	**13,713**	**8,914**	**946**	**9,860**	**3,853**
United Kingdom	**1,358**	**(45)**	**–**	**427**	**1,740**	**1,365**	**20**	**1,385**	**355**
Hong Kong	**950**	**(260)**	**(4)**	**5,638**	**6,324**	**5,065**	**237**	**5,302**	**1,022**
Total Overseas	**28,771**	**4,693**	**(1,145)**	**31,815**	**64,134**	**33,505**	**2,834**	**36,339**	**27,795**
Total Income	**105,540**	**–**	**(5,327)**	**103,640**	**203,853**	**126,235**	**10,886**	**137,121**	**66,732**
Less: Intersegment eliminations, principally rent & management fees	**–**	**–**	**–**	**(11,865)**	**(11,865)**	**(11,865)**	**–**	**(11,865)**	**–**
Sub-Total	**105,540**	**–**	**(5,327)**	**91,775**	**191,988**	**114,370**	**10,886**	**125,256**	**66,732**
Discontinued Operations	**205**	**–**	**(6,039)**	**14**	**(5,820)**	**170**	**–**	**170**	**(5,990)**
Total	**105,745**	**–**	**(11,366)**	**91,789**	**186,168**	**114,540**	**10,886**	**125,426**	**60,742**
Business Area Analysis 2000									
Community Banking	66,890	(488)	(3,111)	27,447	90,738	65,214	6,931	72,145	18,593
Asset Management & Administration	2,963	239	–	28,399	31,601	22,963	533	23,495	8,106
Real Estate	–	(651)	–	8,448	7,797	4,309	2,011	6,320	1,477
Total Bermuda	69,853	(900)	(3,111)	64,294	130,136	92,486	9,475	101,960	28,176
Cayman	19,437	1,380	(243)	17,407	37,982	15,178	1,445	16,623	21,359
Guernsey	2,815	1,869	(143)	6,901	11,442	8,106	402	8,508	2,934
United Kingdom	8,964	(2,521)	(624)	496	6,315	4,074	229	4,302	2,013
Hong Kong	534	172	4	4,700	5,410	4,827	178	5,005	405
Total Overseas	31,750	900	(1,006)	29,504	61,149	32,185	2,254	34,438	26,711
Total Income	101,603	–	(4,117)	93,798	191,285	124,671	11,729	136,398	54,887
Less: Intersegment eliminations, principally rent & management fees	–	–	–	(10,430)	(10,430)	(10,430)	–	(10,430)	–
Sub-Total	101,603	–	(4,117)	83,368	180,855	114,241	11,729	125,968	54,887
Discontinued Operations	–	–	(14,540)	–	(14,540)	–	–	–	(14,540)
Total	101,603	–	(18,657)	83,368	166,315	114,241	11,729	125,968	40,347

Included in other expenses is $5,505 ($Nil in 2000) relating to the cost of developing new systems. Included within interest paid, other income and other expenses for Bermuda are certain charges aggregating $500 ($1,527 in 2000) relating to the internal reconciliation process, and included within other expenses for Guernsey and UK is income tax expense of $352 ($781 in 2000) and $150 ($1,076 in 2000), respectively. Transactions between operating segments principally include interbank deposits and rent which are recorded based upon market rates, and management fees, which are recorded based on the cost of the services provided.

(b) Revenues by Products and Services: The principal sources of revenues by products and services are disclosed separately in the Consolidated Statement of Income. Fees, commissions and service charges comprise principally fees from loans and other banking transactions.

NOTE 11: DERIVATIVE FINANCIAL INSTRUMENTS

(a) Notional Amounts: The following table provides the aggregate notional amounts of derivative contracts outstanding as at 30 June listed by type and divided between those used for trading and those used in managing the Bank's asset and liability risk management (ALM) exposures. The notional principal amounts of these contracts do not represent the potential gain or loss associated with the positions, but rather the amount to which a rate or price is applied to determine the amount of cash flows to be exchanged.

	2001			2000		
	Trading	**ALM**	**Total Value**	Trading	ALM	Total Value
Interest Rate Contracts						
Over-the-Counter Traded						
Interest rate swaps	**21,243**	**96,845**	**118,088**	–	90,373	90,373
Foreign Exchange Contracts						
Spot and forwards	**635,501**	**24,054**	**659,555**	36,431	173,135	209,566
Currency options	**5,000**	**–**	**5,000**	–	–	–
Total	**640,501**	**24,054**	**664,555**	36,431	173,135	209,566
Total Notional Amount of Financial Derivatives Outstanding	**661,744**	**120,899**	**782,643**	36,431	263,508	299,939

(b) Fair Value: Market risk is the risk that fluctuations in asset and currency markets may cause adverse price movements in the fair value of the underlying contracts. Market risk is managed within clearly defined parameters as prescribed by senior management of the Bank.

The following table shows the marked to market fair value of all derivative contracts outstanding as at 30 June. This is defined as the profit (loss) associated with the derivative contracts at prevailing market prices.

	2001			2000		
	Positive	**Negative**	**Net**	Positive	Negative	Net
Derivative Financial Instruments						
Interest rate swaps	**3,521**	**2,072**	**1,449**	1,697	829	868
Spot and forward foreign exchange	**3,316**	**3,301**	**15**	1,703	852	851
Currency options	**–**	**–**	**–**	–	–	–
Total	**6,837**	**5,373**	**1,464**	3,400	1,681	1,719

(c) Remaining Maturity: The following table summarises the remaining term to maturity of the notional amounts of the Bank's derivative instruments by type:

2001	**0-6 mths**	**6-12 mths**	**1-3 years**	**3-5 years**	**5-10 years**	**Total**
Interest Rate Contracts						
Interest rate swaps	**24,776**	**20,000**	**59,744**	**701**	**12,867**	**118,088**
Foreign Exchange Contracts						
Spot and forwards	**650,263**	**8,014**	**1,278**	**–**	**–**	**659,555**
Currency options	**5,000**	**–**	**–**	**–**	**–**	**5,000**
Total	**655,263**	**8,014**	**1,278**	**–**	**–**	**664,555**
Total by Remaining Maturity	**680,039**	**28,014**	**61,022**	**701**	**12,867**	**782,643**
2000						
Interest Rate Contracts						
Interest rate swaps	22,699	–	45,250	8,924	13,500	90,373
Foreign Exchange Contracts						
Spot and forwards	208,360	1,206	–	–	–	209,566
Currency options	–	–	–	–	–	–
Total	208,360	1,206	–	–	–	209,566
Total by Remaining Maturity	231,059	1,206	45,250	8,924	13,500	299,939

(d) Replacement: The following table reflects the replacement cost of all derivative contracts outstanding as at 30 June. This is defined as the cost of replacing, at current market rates, all contracts which have a positive fair value.

	2001			2000		
	Trading	**ALM**	**Total Value**	Trading	ALM	Total Value
Interest Rate Contracts						
Interest rate swaps	**107**	**3,414**	**3,521**	–	1,697	1,697
Foreign Exchange Contracts						
Spot and forwards	**3,235**	**81**	**3,316**	29	1,674	1,703
Currency options	**0**	**–**	**0**	–	–	–
Total	**3,235**	**81**	**3,316**	29	1,674	1,703
Total Replacement Cost	**3,342**	**3,495**	**6,837**	29	3,371	3,400

Credit Risk: As with on-balance sheet assets, derivative instruments are subject to credit risk. Credit risk arises from the possibility that counterparties may default on their obligations to the Bank. However, whereas the credit risk of on-balance sheet assets is represented by the principal amount net of any applicable allowance for credit losses, the credit risk associated with derivatives is normally a small fraction of the notional amount of the derivative instrument. Derivative contracts expose the Bank to credit loss only if changes in market rates affect a counterparty's position unfavourably and the counterparty defaults on payment. Accordingly, credit risk of derivatives is represented by the positive fair value of the instrument.

Negotiated over-the-counter derivatives often present greater credit exposure than exchange-traded contracts. The net change in value of the exchange-traded contracts is normally settled daily in cash with the exchange. Holders of these contracts look to the exchange for performance under the contract.

The Bank strives to limit credit risk by dealing with counterparties that it believes are creditworthy, and manages its credit risk for derivatives through the same credit risk process applied to on-balance sheet assets.

The Bank pursues opportunities to reduce its exposure to credit losses on derivative instruments. These opportunities include entering into master netting arrangements with counterparties. The credit risk associated with favourable contracts is eliminated by a master netting arrangement to the extent that unfavourable contracts with the same counterparty are not settled before favourable contracts.

The Bank uses various off-balance sheet derivative contracts in the management of its asset and liability positions, for trading purposes and as a market maker for its clients' needs. The Bank enters into foreign exchange contracts for both asset and liability management and as a market maker for its clients needs. Interest rate contracts are used for trading and asset and liability management purposes. Currency options are purchased for trading purposes. These contracts are financial instruments, the value of which is derived from underlying assets or interest and exchange rates. Such financial instruments used by the Bank include:

Interest rate swaps are transactions in which two counterparties exchange interest payments based on a specified notional principal amount for a predetermined period, based on agreed-upon fixed and floating rates. Notional amounts are not exchanged.

Cross currency interest rate swaps are transactions in which two counterparties exchange currencies and interest payments on a specified notional amount for a predetermined period. The notional amount is generally exchanged at inception and re-exchanged at maturity.

Foreign exchange forwards are contracts to exchange two currencies based on a rate agreed to by both parties at inception for settlement at a predetermined future date. Spot transactions are similar to forward contracts except that settlement takes place within two business days.

A currency option is a contract which gives the right, without obligation, to buy or sell one currency against another at a specified price during a specified period. The Bank only buys currency options and, therefore, enjoys the right to exercise the option and the right not to exercise the option, i.e. to let it lapse, through the payment of an option premium or fee at the outset of the transaction.

Note 12: Fair Value of Financial Instruments

The following table shows the fair value of the Bank's financial instruments as at 30 June:

	2001 Book Value	2001 Fair Value	2001 Favourable (Unfavourable)	2000 Book Value	2000 Fair Value	2000 Favourable (Unfavourable)
Assets						
Cash and deposits with banks	**1,691,423**	**1,691,423**	**–**	1,514,813	1,514,813	–
Investments	**1,882,479**	**1,881,758**	**(721)**	1,831,303	1,814,596	(16,707)
Loans	**1,451,773**	**1,457,403**	**5,630**	1,284,223	1,287,944	3,721
Accrued interest	**31,535**	**31,535**	**–**	38,455	38,455	–
Liabilities						
Deposits	**4,700,723**	**4,701,402**	**(679)**	4,337,782	4,333,398	4,384
Securities sold under agreements to repurchase	**55,360**	**55,360**	**–**	54,822	54,822	–
Accrued interest	**12,380**	**12,380**	**–**	9,215	9,215	–
Subordinated debt capital	**75,000**	**73,461**	**1,539**	75,000	72,203	2,797
Derivative Financial Instruments						
Interest rate swaps	**1,690**	**1,449**	**(241)**	(30)	868	898
Spots and forwards	**15**	**15**	**–**	851	851	–
Currency options	**–**	**–**	**–**	–	–	–

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Many of the Bank's financial instruments lack an available trading market. Therefore, these instruments have been valued using present value or other valuation techniques and may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The book value of financial assets and financial liabilities held for purposes other than trading may exceed its fair value due primarily to changes in interest rates. In such instances, the Bank does not reduce the book value of these financial assets and financial liabilities to their fair values as it is the Bank's intention to hold them until maturity.

The fair values disclosed exclude premises and equipment and certain other assets and liabilities as these are not financial instruments.

The following methods and assumptions were used in the determination of the fair value of financial instruments:

Cash and Deposits with Banks

The fair value of cash and deposits with banks, being short term in nature, is deemed to equate to the carrying value.

Investments

The fair values of investments are based upon quoted market prices.

Loans

The majority of loans are variable rate and repriced in response to changes in market rates and hence the fair value has been estimated as the carrying value. For fixed rate loans, the fair value has been estimated by performing a discounted cash flow calculation using market rates for similar loans made at the balance sheet date.

Accrued Interest

The carrying values of accrued interest receivable and payable are assumed to approximate their fair values given their short-term nature.

Deposits

The fair value of fixed rate deposits has been estimated by discounting the contractual cash flows, using market interest rates offered at the balance sheet date for deposits of similar terms. The fair value of deposits with no stated maturity date is deemed to equate to the carrying value.

Securities Sold Under Agreements to Repurchase

The fair value of obligations relating to securities sold under repurchase agreements is considered to be equal to the carrying value given their short-term nature.

Subordinated Debt Capital

The fair value of the subordinated debt capital is based on current market pricing.

Derivatives

Fair value of exchange traded derivatives are based on quoted market prices. Fair value of over-the-counter derivatives are calculated as the net present value of contractual cash flows using prevailing market rates.

The aggregate of the estimated fair value of amounts presented does not represent management's estimate of the underlying value of the Bank.

Note 13: Interest Rate Risk

The following table sets out the assets, liabilities and off-balance sheet instruments on the date of the earlier of contractual maturity or repricing date. Use of this table to derive information about the Bank's interest rate risk position is limited by the fact that customers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing date. Examples of this include mortgages, which are shown at contractual maturity but which often pre-pay earlier, and certain term deposits, which are shown at contractual maturity but which are often cashed before their contractual maturity and certain investments which may have call or pre-payment features.

As at 30 June 2001 (In $ millions)	Within 3 mths	After 3 mths but within 6 mths	After 6 mths but within 1 year	After 1 year but within 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash and deposits with banks	1,393	221	59	1	–	17	1,691
Investments	1,486	28	14	306	29	19	1,882
Loans	1,205	39	68	122	17	1	1,452
Premises and equipment	–	–	–	–	–	98	98
Other assets	–	–	–	–	–	75	75
Total Assets	4,084	288	141	429	46	210	5,198
Liabilities							
Shareholders' equity	–	–	–	–	–	287	287
Deposits	3,640	214	99	273	–	475	4,701
Securities sold under agreements to repurchase	55	–	–	–	–	–	55
Other liabilities	–	–	–	–	–	80	80
Subordinated debt capital	75	–	–	–	–	–	75
Total Liabilities	3,770	214	99	273	–	842	5,198
Off-balance sheet	(7)	1	(3)	22	(13)	–	–
Interest rate sensitivity gap	307	75	39	178	33	(632)	–
Cumulative interest rate sensitivity gap	307	382	421	599	632	–	–

NOTE 14: CONCENTATIONS OF CREDIT RISK

Concentrations of credit risk exist where clients are engaged in similar activities, are located in the same geographic region or have some other form of commonality such that their ability to meet their contractual obligations would be similarly affected by changes in economic, political or other conditions.

Of the total interest earning assets of $4.99 billion as at 30 June 2001 ($4.61 billion in 2000), 17.8% (20.3% in 2000) relates to the Bermuda market, 2.7% (4.7% in 2000) relates to the Canadian market, 17.9% (19.5% in 2000) relates to the United Kingdom market and 49.4% (29.2% in 2000) to the United States market. No other country accounts for more than 5% of interest earning assets.

Of the total loan book, which amounted to $1.45 billion as at 30 June 2001 ($1.28 billion in 2000), 76.7% (80.4% in 2000) of the lending was from Bermuda, 13.1% (12.4% in 2000) from Cayman, 10.2% (7.2% in 2000) from Europe and less than 0.1% (less than 0.1% in 2000) from Hong Kong.

NOTE 15: SUBORDINATED DEBT CAPITAL

On 29 June 1998, the Bank issued at par US$75 million of callable step-up subordinated Floating Rate Notes due on 1 July 2008. Interest at US$ 3-month LIBOR plus 65 basis points is payable quarterly in arrears until July 2003 when, if not redeemed, the interest steps up to US$ 3-month LIBOR plus 115 basis points. Unless previously redeemed or purchased and cancelled, the Notes are redeemable, at their principal amount on 1 July 2008. The Notes will be redeemable, in whole but not in part, at their principal amount on the Interest Payment date falling in July 2003, at the option of the Issuer, subject to the prior consent of the Bermuda Monetary Authority. The Notes may also be redeemed, in whole but not in part, at their principal amount prior to maturity at the option of the Issuer in the event of certain changes affecting tax in Bermuda. The Notes are listed on the Bermuda and Luxembourg Stock Exchanges, and count as Tier 2 capital for capital adequacy purposes.

NOTE 16: STOCK OPTION PLAN

At the Annual General Meeting of Shareholders held on 29 October 1997, the directors were granted authority to implement a Stock Option Plan for directors and employees.

Under the Bank's 1997 Stock Option Plan (the "1997 Plan"), options to purchase common shares of the Bank may be granted to employees and directors of the Bank that entitle the holder to purchase one common share at a subscription price related to the market value prior to the effective date of the grant. Subscription prices are stated and payable in Bermuda dollars for the options. Generally grants vest 25 percent at the end of each year for four years. The committee that administers the 1997 Plan has the discretion to vary the period during which the holder has the right to exercise options and, in certain circumstances, may accelerate the right of the holder to exercise options, but in no case shall the exercise period exceed ten years. The Bank has established a Stock Option Trust to meet its potential obligations under the 1997 Plan by the purchase on the open market of common shares. The Stock Option Trust is funded by a loan from the Bank. As at 30 June 2001 the Stock Option Trust held 1,864,547 shares (30 June 2000: 1,928,965 shares) that will be used to satisfy the Bank's obligations with respect to the Stock Option Plan.

The current maximum number of common shares reserved for issuance by the Board of Directors of the Company under the 1997 Plan is 2,000,000.

Employee Stock Option Plan	2001		2000	
	Number of Stock Options	Weighted Average Exercise Price ($)	Number of Stock Options	Weighted Average Exercise Price ($)
Outstanding at beginning of year	1,003,454	16.50	760,655	16.64
Granted	423,616	16.35	304,320	16.50
Exercised	134,815	16.50	11,035	16.00
Forfeited/Cancelled	53,896	16.74	50,486	17.00
Outstanding at end of year	1,238,359	16.45	1,003,454	16.50
Vested and exerciseable at end of year	835,429	16.41	631,726	16.15

Options Outstanding as at 30 June 2001 Exercise price	Outstanding	Stock Options Vested	Stock Options Expiry
17.90	173,507	130,130	1st July 2008
16.00	341,165	341,165	1st July 2008
16.50	199,447	99,724	1st July 2009
16.00	90,030	90,030	1st July 2009
16.00	50,662	50,662	1st July 2009
16.35	346,440	86,610	1st July 2010
16.35	37,108	37,108	1st July 2010
Total	1,238,359	835,429	

NOTE 17: DISCONTINUED OPERATIONS

In 1997, the Bank adopted a formal plan to cease operations at its London Branch, and to exit the trade finance business in the United Kingdom. In light of new circumstances the collectability of loans proved more difficult than had been anticipated and as a result the Bank recorded additional provisions.

NOTE 18: SHARE BUY-BACK PLAN

In 2000 the Bank recommenced its initiative under the Share Buy-back Plan. During the year under review, 420,637 shares (612,303 in 2000) were purchased and cancelled at a cost of $8,587 ($10,144 in 2000).

NOTE 19: COMPARATIVE FIGURES

Certain 2000 comparative figures have been restated to conform with current year presentation.

NOTE 20: SUBSEQUENT EVENTS

On 23 July 2001 the Board of Directors approved a 1 for 10 stock dividend, effective 14 August 2001. The effect of the stock dividend as at 30 June 2001, if the additional shares had been in issue throughout the year, would have been to reduce earnings per share from $3.79 excluding discontinued operations to $3.45 and to reduce earnings per share including discontinued operations from $3.45 to $3.14. Shares to be issued under the stock dividend do not rank for the fourth quarter dividend.

On 26 July 2001, CIBC Bank and Trust Company (Channel Islands) Limited, Canadian Imperial Bank of Commerce Trust Company (Channel Islands) Limited and CIBC Fund Managers (Guernsey) Limited were acquired for cash at a small premium over net book value by the Bank's Guernsey subsidiaries, Bank of Butterfield International (Guernsey) Limited and Butterfield Fund Managers (Guernsey) Limited. The companies had assets of $350 million and liabilities of $336 million at their last financial year end, 30 October 2000. All the former CIBC Guernsey operations will be renamed to reflect the change of ownership.