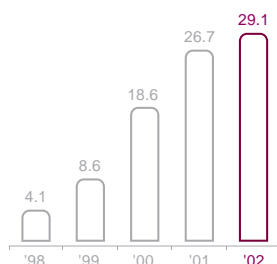






Bermuda is home to the Bank's head office and our largest operation, which includes Community Banking and Asset Management and Administration. Located in the mid-Atlantic, due east of North Carolina, it is the United Kingdom's largest overseas territory with a population of some 62,000. The 21-square-mile 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.



Community Banking, Bermuda Net Income (\$m)

Community Banking

Bank of Butterfield provides a full range of retail, corporate and treasury services in Bermuda. These activities are an essential part of the Group's business. Net income from our Community Banking activities increased by 9.1%, or \$2.4 million, to \$29.1 million in 2002. Our market share in both the local deposit and lending markets has risen, reflecting our commitment to this important market. We believe that Bank of Butterfield is the premier community bank on the island and take pride in winning the Bank of the Year in Bermuda Award for 2002 from "The Banker" magazine and the Financial Times Group.

We continue to provide innovative products and services across all our banking functions. This year we introduced Butterfield Direct Telephone banking to complement our other electronic banking services. This service allows customers to perform all transactions that can be performed at our ATMs, with the exception of deposits and withdrawals.

We are proud of our long history of developing and maintaining strong customer relationships built on trust and caring service. Meeting customers' banking needs effectively and efficiently is our top priority as we evolve and improve our products, services and procedures. Through personal contact, ATMs, Internet and telephone banking, we offer our customers multi-channel access, ensuring that the Bank is conveniently available to them at all times. We understand that behind each transaction is a customer whose time and money is valuable, regardless of the channel they use.

We are expanding our initiatives to reach targeted segments of the Bermuda community through lifestyle based banking packages that meet their specific needs. One such program involves an offering to college and university students who are 18 years or older. The "Hook Up with BNTB" package provides students with an introduction to forming their own banking relationship with a focus on managing credit responsibly. Our customer-centric approach enables us to anticipate and effectively meet customers' needs, resulting in a favourable response rate to these lifestyle banking packages.

To accommodate the expanding Butterfield Premium clientele, in May 2002 the offices were relocated to newly renovated facilities in our head office. This new area, exclusively for customers of the Premium Banking service, offers use of dedicated tellers and direct access to Personal Banking Representatives who act on their customers' financial requests and maintain an ongoing understanding of their banking needs.

To coincide with the introduction of Euro notes and coins, the Bank extended two new services, Euro cash sales and Euro traveller's cheques. The resulting demand has been significant and is expected to increase.

Our statement savings (Strata) product continues to drive the growth of Bermuda dollar customer deposits, with the portfolio growing by 50.2% over the last year. Strata accounts offer attractive interest rates and quarterly statements, and can be accessed via electronic and telephone banking, both locally and overseas.



E-Commerce & Electronic Banking

Technology is a key driver in the financial services industry. Throughout the year we continued to take advantage of new business opportunities presented by e-commerce and e-banking.

A significant innovation introduced last year, Butterfield Direct Internet Banking, continues to provide customers with the power, control and convenience of managing their money and performing transactions 24 hours a day, 365 days a year, using the Internet. More than 5,000 customers are now using Butterfield Direct, with an average of 42,000 user log-ins per month.

One of our top priorities is to ensure that Butterfield Direct Internet Banking continuously evolves to meet customers' needs and demands. We have expanded the functionality of the service to include future dated and recurring transactions so that customers can plan their payments in advance.

Electronic bill payments are a popular feature for customers, whether they pay online, via the ATM network or by telephone. During the past year we expanded the list of companies that customers can pay electronically. Credit and debit cards continue to be a key element in our electronic banking strategy, and focus is maintained on enhancing convenience, accessibility and security for card users.

Bank of Butterfield's web site, www.bankofbutterfield.com, won the prestigious Minister's Choice Award at Bermuda's first "Web S Awards" from Bermuda's Minister of Telecommunications & E-Commerce at a ceremony held in January 2002. The site scored top marks in every category, including functionality, ease of use, aesthetic appeal and e-commerce readiness.

Lending

From a lending standpoint we experienced a very successful year, with strong performance in the corporate and business loan portfolios, coupled with steady growth in our mortgage business.

This year we achieved net loan growth of 18.5%, or \$207 million, bringing the total Bermuda loan portfolio to \$1.3 billion. Prospects for the coming year look positive, although we continue to maintain a close watch on loan quality, and our conservative lending criteria has helped to maintain the underlying quality of our portfolio.

Residential mortgages saw growth of 8.2%, to \$529.4 million, due to our quality product, strong customer service, competitive rates and improved relationships with local

realtors. Consumer loans performed satisfactorily during the year under review, with an increase of 7.9%, or \$9.1 million, to \$124.4 million, excluding lending to employees. We were able to obtain an increased share of the automobile dealer business and continue to improve our customer service.

Our Letter of Credit products continue to attract attention, notably from the insurance industry in Bermuda. During the past financial year, these have generated solid fee income for the Bank, and have been promoted in tandem with our Treasury and Investment Management capabilities.

Treasury

The primary role of our Treasury is to manage the Bank's cash flows, maintain liquidity requirements and monitor and control the Bank's interest rate and foreign exchange risk. In addition to this role as the Bank's banker, Treasury offers a range of foreign exchange and money market products and services, including international money transfers and cash management, to the Bank's customers. In order to effectively provide these services, Treasury is an active participant in the international inter-bank financial markets.

During 2002, the Treasury dealing room operation was streamlined by reducing staffing levels, eliminating inefficient procedures and controlling expenses. This resulted in greater efficiency and significant cost savings. As a result operating expenses reduced by \$0.6 million or 9.0%.

The Treasury Training Programme, which seeks to attract Bermudian university graduates to careers in this field, continued the success of the previous year and will be expanded in fiscal year 2003.

The introduction of Butterfield Direct has enabled the Bank's customers to use the Internet to execute online foreign exchange transactions for amounts up to \$100,000 or the currency equivalent. This feature has proven to be very popular and improved our ability to manage significantly more transactions while simplifying the process for customers. Our foreign exchange earnings rose 9.3%, reflecting increased customer volumes.

This year we implemented a new payment system, PAYplus RTGS, which moved the Bank from manual processing to full automation. This has significantly improved our efficiency in the straight-through processing of wire transfers.



Asset Management and Administration

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

These areas receive support from the recently restructured Investment Services Group. All agency and back-office operations have been consolidated within the Investment Services unit of Butterfield Trust. This consolidation has resulted in improved efficiencies and a reduction in the number of people employed in this area. In addition, Investment Services provides orientation training for all new employees in any unit of the Asset Management and Administration area.

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.

For the fifth consecutive year Butterfield Funds received prestigious performance awards in the offshore fund categories from Standard & Poor's Micropal (S&P). The Bank won two first place awards for the Butterfield Capital Appreciation Bond Fund in the five-year and one-year categories and a first place award for the Butterfield International Balanced Fund in the five-year category. In addition, the entire family of Butterfield Funds won second place in the world for their five-year performance.

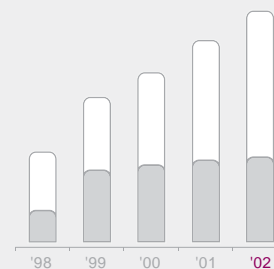
We were particularly pleased with this year's awards as they demonstrate that our investment strategy has consistently outperformed over the long term across all sectors. This accomplishment is the result of the team effort of our Bermuda, Cayman and Guernsey investment managers

Our net income of \$6.3 million was an increase of 8.4% over 2001. Assets under management grew 14.5% during the year to \$5.9 billion. Butterfield Funds overall increased 22.5% over last year to \$3.7 billion. The most significant increases were achieved by the AAf Standard & Poor's rated Liquid Reserve Fund, which grew by 79% to \$376 million, the AA-f Standard & Poor's rated US Dollar Bond Fund, which increased by 64% to \$56 million, and the AAAM Standard & Poor's rated Money Market Fund, which increased by 20% to \$3.3 billion.

Butterfield Select Fund also experienced strong growth, albeit from a lower base. Our business with private clients experienced significant growth of 21.4%.

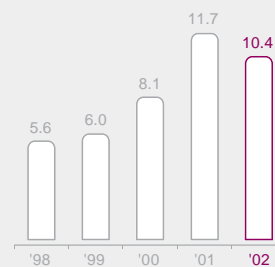
Through the evolution of Butterfield Direct Internet Banking, we were able to provide significant added value to our investment clients this year. We now offer online access to investment accounts, including all Butterfield Funds. Accessing investment accounts over the Internet is a very convenient way for our clients to manage their money.

The opening of the Barbados office provided entry to a promising new market for the services of Butterfield Asset Management. This new office was established to promote our investment management services to a specialised market similar to that found in Bermuda, the Cayman Islands and Guernsey, specifically the international banking and insurance sectors as well as international businesses and trusts.



Assets Under Management by Butterfield Asset Management (\$m)

Butterfield Funds	1,492	1,862	2,369	3,061	3,749
Discretionary	821	1,844	1,963	2,091	2,151
Total	2,313	3,706	4,332	5,152	5,900



Asset Management & Administration, Bermuda Net Income (\$m)



Bermuda

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Butterfield Corporate Services Limited

Butterfield Corporate Services Limited (BCSL) markets third party fund and pension fund administration services under the banner of Butterfield Fund Services. BCSL provides a full range of accounting, corporate and shareholder services to offshore hedge funds and mutual funds. Our clients include a number of the world's leading investment management groups with mainly institutional investors. BCSL also administers the Butterfield group of mutual funds for Butterfield Asset Management and provides accounting services in respect of the Bank's own investment portfolios in Bermuda, Guernsey and the UK.

During the year the introduction of the USA PATRIOT Act and ensuing guidance and directives affected parties to our funds. BCSL's own anti-money laundering procedures already in operation are believed by management to be as stringent as any of the proposals being made in reference to this Act.

Total income for BCSL declined 6.7% in the year, from \$7.5 million to \$7.0 million, as a direct result of internal restructuring which transferred some fund and corporate custody business, together with the associated income and expense, to our Trust operations. When excluding the impact of this restructuring, underlying net income increased by \$1.8 million, or 24.0%.

Customers of BCSL continued to provide substantial business to other areas of the Group, such as Butterfield Asset Management, Treasury and Credit.

Butterfield Trust (Bermuda) Limited

Butterfield Trust (Bermuda) Limited provides trust, estate, pension administration and company management services to local and international clients.

Our Trust and Global Custody operations in Bermuda achieved net income of \$3.6 million, down \$1.2 million, or 25.0%, on last year, reflecting the impact of declining interest rates and lower equity values across major markets on fee income.

We continue to attract high quality personal and corporate trusts, although the level of new business gained was lower than in recent years. We have been particularly successful at growing the services we provide to insurance companies based in Bermuda and providing trustee services to multi-national companies establishing pension and other employee benefit trusts for their international work force. The importance we place on our relationships with the settlors and beneficiaries of the trusts we administer is rewarded through our high level of business retention.

Our appointment as a Qualified Intermediary for US withholding taxes has been a key contributor to the development of our Investment Services and the provision of custody services to overseas investors.

In continuing to enhance our services, we successfully linked our investment system to Butterfield Direct Internet Banking to enable clients to have convenient online access to valuations and daily transaction reports.