

# QUARTERLY REPORT

## 2006 – Q1

CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED 31 MARCH 2006



Butterfield Bank

## Consolidated Balance Sheet

(In \$ thousands – unaudited except where stated)

	As at		
	31 March 2006	31 December 2005*	31 March 2005
<b>Assets</b>			
Cash and demand deposits with banks	97,330	154,698	45,067
Term deposits with banks	3,037,228	2,695,222	2,592,081
Total cash and deposits with banks	3,134,558	2,849,920	2,637,148
Investments			
Held to maturity	2,257,715	2,233,577	2,809,601
Available for sale	684,835	546,302	51,047
Trading	64,792	136,520	667,346
Total investments	3,007,342	2,916,399	3,527,994
Loans, net of allowance for credit losses	3,212,520	3,085,594	2,730,920
Premises, equipment and computer software	144,581	141,708	130,074
Accrued interest	40,605	44,648	40,546
Goodwill and other intangible assets	91,551	92,462	103,340
Other assets	93,538	66,835	62,113
<b>Total assets</b>	<b>9,724,695</b>	<b>9,197,566</b>	<b>9,232,135</b>
<b>Liabilities</b>			
Deposits			
Non-interest bearing	1,068,065	858,358	1,016,198
Interest bearing			
Customers	7,433,210	7,090,608	7,026,826
Banks	237,224	291,143	455,169
Total deposits	8,738,499	8,240,109	8,498,193
Accrued interest	17,221	19,093	11,171
Dividend payable	11,886	11,049	9,979
Other liabilities	156,031	153,410	133,202
Total other liabilities	185,138	183,552	154,352
Subordinated capital and senior debt	278,761	278,679	140,692
<b>Total liabilities</b>	<b>9,202,398</b>	<b>8,702,340</b>	<b>8,793,237</b>
<b>Shareholders' equity</b>			
Share capital (\$1.00 par: Authorised shares 70,000,000)	27,013	26,948	24,338
Additional paid in capital	346,074	341,647	231,014
Retained earnings	173,516	152,501	202,861
Less: treasury stock	(24,369)	(25,548)	(24,913)
Accumulated other comprehensive income	63	(322)	5,598
<b>Total shareholders' equity</b>	<b>522,297</b>	<b>495,226</b>	<b>438,898</b>
<b>Total liabilities and shareholders' equity</b>	<b>9,724,695</b>	<b>9,197,566</b>	<b>9,232,135</b>

\*Audited

## Consolidated Statement of Income

(In \$ thousands, except per share data – unaudited)

	For the three month period ended		
	31 March 2006	31 December 2005	31 March 2005
<b>Non-interest income</b>			
Trust and investment services	8,282	7,759	8,066
Asset management	8,829	9,384	8,492
Investment and pension fund administration	10,350	10,724	9,180
Banking services	10,496	9,252	8,859
Foreign exchange revenue	8,098	8,170	7,093
Other non-interest income (loss)	1,075	(573)	253
<b>Total non-interest income</b>	<b>47,130</b>	<b>44,716</b>	<b>41,943</b>
<b>Interest income</b>			
Deposits with banks	27,683	20,136	13,277
Loans	53,257	50,742	41,168
Investments	33,234	32,528	29,420
<b>Total interest income</b>	<b>114,174</b>	<b>103,406</b>	<b>83,865</b>
<b>Interest expense</b>			
Deposits	60,947	52,941	40,818
Subordinated capital and senior debt	3,496	2,868	1,107
<b>Total interest expense</b>	<b>64,443</b>	<b>55,809</b>	<b>41,925</b>
<b>Net interest income before provision for credit losses</b>	<b>49,731</b>	<b>47,597</b>	<b>41,940</b>
Provision for credit losses	(829)	(2,579)	(1,046)
<b>Net interest income after provision for credit losses</b>	<b>48,902</b>	<b>45,018</b>	<b>40,894</b>
Other loss	–	(135)	(84)
Realised / unrealised gains (losses) on trading securities	1,024	90	(25)
Realised gains on available for sale securities	–	867	–
<b>Total revenue</b>	<b>97,056</b>	<b>90,556</b>	<b>82,728</b>
<b>Non-interest expense</b>			
Salaries and other employee benefits	38,009	38,868	33,655
Property	7,161	6,783	7,755
Systems and communications	6,128	5,448	5,434
Marketing	1,534	2,088	1,117
Other expenses	10,658	12,740	10,006
<b>Total non-interest expense</b>	<b>63,490</b>	<b>65,927</b>	<b>57,967</b>
<b>Net income before income taxes</b>	<b>33,566</b>	<b>24,629</b>	<b>24,761</b>
Income taxes	(475)	(291)	(426)
<b>Net income</b>	<b>33,091</b>	<b>24,338</b>	<b>24,335</b>
<b>Earnings per share(\$)*</b>			
Basic	1.30	0.97	0.97
Diluted	1.26	0.93	0.95
<b>Return on shareholders' equity (%)</b>	<b>26.3</b>	<b>19.7</b>	<b>22.7</b>

\*The comparative figures have been restated to reflect the 1 for 10 stock dividend in August 2005.

## Consolidated Statement of Changes in Retained Earnings and Comprehensive Income

(In \$ thousands – unaudited)

	For the three month period ended	
	31 March 2006	31 March 2005
<b>Retained earnings</b>		
Balance at beginning of period	152,501	188,674
Net income for the period	33,091	24,335
Cash dividends declared	(12,076)	(10,148)
<b>Balance at end of period</b>	<b>173,516</b>	<b>202,861</b>
<b>Accumulated other comprehensive income</b>		
Balance at beginning of period	(322)	11,031
Net change in unrealised gains and losses on translation of net investment in foreign operations	303	(2,846)
Net change in unrealised gains and losses on available for sale securities	(81)	–
Net change in unrealised gains and losses on cash flow hedges	163	(2,587)
<b>Balance at end of period</b>	<b>63</b>	<b>5,598</b>

## Consolidated Statement of Cash Flows

(In \$ thousands – unaudited)

	For the three month period ended	
	31 March 2006	31 March 2005
<b>Cash flows from operating activities</b>		
Net income for the year	33,091	24,335
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortisation	5,241	5,075
Write down of equipment and computer software	–	1,100
Change in carrying value of investment in affiliate	(534)	1,103
Share-based compensation	529	–
Provision for credit losses	829	1,046
Decrease (increase) in accrued interest receivable	4,213	(9,703)
Increase in other assets	(23,963)	(3,103)
(Decrease) increase in accrued interest payable	(2,003)	2,051
Increase (decrease) in other liabilities	1,499	(7,780)
	18,902	14,124
Net change in trading account securities	72,003	(23,476)
<b>Cash provided by (used in) operating activities</b>	<b>90,905</b>	<b>(9,352)</b>
<b>Cash flows from investing activities</b>		
Term deposits with banks	(329,627)	(359,788)
Additions to premises, equipment and computer software	(6,333)	(8,617)
Net change in loans	(122,538)	(86,995)
Held to maturity securities: proceeds from maturities	182,229	147,438
Held to maturity securities: purchases	(204,210)	(364,215)
Available for sale securities: proceeds from sale and maturities	350,684	–
Available for sale securities: purchases	(488,566)	(21,366)
<b>Cash used in investing activities</b>	<b>(618,361)</b>	<b>(693,543)</b>
<b>Cash flows from financing activities</b>		
Increase in demand and term deposit liabilities	476,617	590,743
Proceeds from dividend re-investment plan	3,624	2,305
Shares repurchased and cancelled	–	(748)
Treasury stock	1,179	558
Cash dividends paid	(11,239)	(9,323)
<b>Cash provided by financing activities</b>	<b>470,181</b>	<b>583,535</b>
Effect of exchange rates on cash and demand deposits with banks	(93)	(4)
<b>Net decrease in cash and demand deposits with banks</b>	<b>(57,368)</b>	<b>(119,364)</b>
<b>Cash and demand deposits with banks: beginning of period</b>	<b>154,698</b>	<b>164,431</b>
<b>Cash and demand deposits with banks: end of period</b>	<b>97,330</b>	<b>45,067</b>
<b>Supplemental disclosure of cash flow information</b>		
Amount of interest paid in the period	66,780	39,874
Amount of income tax paid in the period	–	–

## Business Area Highlights

(In \$ thousands – unaudited)

Total and net income	For the three month period ended		
	31 March 2006	31 December 2005	31 March 2005
<b>Bermuda</b>			
Community banking			
Total income	36,192	29,828	30,172
Net income	10,219	4,048	6,066
Wealth management & fiduciary services and investment & pension fund administration			
Total income	18,263	18,479	16,279
Net income	8,560	6,413	8,280
Real estate			
Total income	272	341	341
Net loss	(1,710)	(1,691)	(1,389)
<b>Overseas businesses</b>			
Barbados			
Total income	2,687	2,877	2,654
Net income	163	114	547
Cayman			
Total income	23,129	22,699	17,435
Net income	12,800	12,459	9,322
Guernsey			
Total income	11,372	10,243	9,827
Net income	2,594	2,109	1,483
The Bahamas			
Total income	2,085	1,873	1,630
Net income	493	442	417
United Kingdom			
Total income	5,553	5,901	5,236
Net (loss) income	(178)	226	(512)
Hong Kong			
Total income	150	218	121
Net income	150	218	121
Less intersegment eliminations			
Total income	(2,647)	(1,903)	(967)
<b>Total income for the period</b>	<b>97,056</b>	<b>90,556</b>	<b>82,728</b>
<b>Net income for the period</b>	<b>33,091</b>	<b>24,338</b>	<b>24,335</b>

Total Assets	As at		
	31 March 2006	31 December 2005*	31 March 2005
Bermuda	4,549,725	4,565,550	4,518,231
Barbados	192,087	194,433	173,017
Cayman	2,689,181	2,579,080	2,446,306
Guernsey	1,555,471	1,495,284	1,527,200
The Bahamas	81,682	96,903	68,492
United Kingdom	1,230,134	1,206,154	1,143,189
Hong Kong	2,993	2,844	2,197
	10,301,273	10,140,248	9,878,632
Less: Intersegment eliminations	(576,578)	(942,682)	(646,497)
<b>Total</b>	<b>9,724,695</b>	<b>9,197,566</b>	<b>9,232,135</b>

\*Audited

## Notes to Interim Unaudited Consolidated Financial Statements

(In \$ thousands, except per share data)

### 1. Accounting Policies

These interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2005, as set out in the Annual Report. Except as described in Note 4 below, the accounting policies used in the preparation of these interim consolidated financial statements are consistent with the accounting policies used in the Bank's year end audited financial statements for 2005.

### 2. Employee Future Benefits

The Bank maintains trustee pension plans including non-contributory defined benefit plans and a number of defined contribution plans, and provides post-retirement medical benefits to its qualifying retirees. The defined benefit provisions under the pension plans are generally based upon years of service and average salary during the final years of employment. The defined benefit plans are non-contributory and the funding required is provided by the Bank, based upon the advice of an independent actuary.

The following table summarises the components of the defined benefit plan net expense recognised in the consolidated statement of income:

	For the three month period ended		
	31 March 2006	31 December 2005	31 March 2005
<b>Defined benefit pension expense</b>			
Service cost	825	514	1,252
Interest cost	1,536	1,373	1,567
Expected return on plan assets	(1,646)	(1,441)	(1,544)
Amortisation of past service cost	9	8	10
Amortisation of actuarial loss	(8)	(18)	(26)
<b>Total defined benefit pension expense</b>	<b>716</b>	<b>436</b>	<b>1,259</b>
<b>Post-retirement medical benefit expense</b>			
Service cost	590	808	368
Interest cost	1,473	1,700	1,188
Amortisation of actuarial loss	873	1,270	794
<b>Total post-retirement medical benefit expense</b>	<b>2,936</b>	<b>3,778</b>	<b>2,350</b>

Estimated Bank contributions to the defined benefit pension and medical benefit plans for the 2005 financial year are \$5,400 and \$2,760 respectively.

### 3. 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. As at 31 March 2006 the total number of options which can be exercised until 2016 was 2,416,509 with an average exercise price of \$35.64.

## Notes to Interim Unaudited Consolidated Financial Statements (continued)

(In \$ thousands, except per share data)

### 4. Share-Based Payment

On 1 January 2006, the Bank adopted Financial Accounting Standards Board Statement 123 (revised 2004), Share-Based Payment (FAS 123R). The adoption of this standard resulted in the recognition of a compensation expense of \$0.5 million in the three month period ended 31 March 2006.

The Bank prospectively adopted the fair value method of accounting recommended by FAS 123R for unvested stock options outstanding as at 31 December 2005 and stock options granted thereafter.

For periods before 1 January 2006 during which the Bank followed the intrinsic value method of accounting for stock options, the pro forma effect of determining the compensation cost based on the fair value of the stock option award at the date of grant is presented in the following table:

	31 March 2006	For the three month period ended	
		31 December 2005	31 March 2005
As reported:			
Net income	33,091	24,338	24,335
Earnings per share	1.30	0.97	0.97
Diluted earnings per share	1.26	0.93	0.95
Pro forma:			
Net income	N/A	23,876	23,972
Earnings per share	N/A	0.94	0.96
Diluted earnings per share	N/A	0.92	0.93

### 5. Share Buy-Back Plan

During the three month period ended 31 March 2006 nil shares (31 March 2005: 18,146 shares) were purchased and cancelled at a cost of nil (31 March 2005: \$0.7 million).

The Bank has the present intention to repurchase and cancel over the twelve month period ending 31 December 2006, up to 2 million of its ordinary shares of par value \$1 each, pursuant to its share repurchase programme authorised by the shareholders on 29 October 1997. As at 31 March 2006, the remaining number of shares that can be purchased and cancelled under the present intention represents 7.4% of the total issued and outstanding shares of the Bank. This intention is subject to appropriate market conditions and repurchases will only be made in the best interest of the Bank.

During the three month period ended 31 March 2006, the Bank's Stock Option Trust bought 103,459 shares at a cost of \$5.7 million (31 March 2005: nil).

### 6. Large Shareholders

The following professional nominees at 31 March 2006 were registered holders of 5% or more of the issued share capital: Harcourt & Co. (14.6%), Palmar Ltd. (5.6%) and Murdoch & Co. (5.0%). Known beneficial holdings of 5% or more of issued share capital at that date were Bermuda Life Insurance Limited (6.9%), Jardine Strategic Holdings Limited (6.6%) and the Bank's Stock Option Trust (5.2%).

### 7. Future Accounting Developments

#### Pension and post-retirement medical benefits accounting and disclosures

The FASB issued on 31 March 2006 an exposure draft which proposed changes that will require the Bank to recognise a balance sheet asset or liability equal to the full amount of its net surplus or deficit in the pension and other post-retirement benefit plans, with the corresponding income or loss included in other comprehensive income. Management is currently evaluating the effect of adoption which may be material.



## Financial Highlights

(In \$ thousands except per share data – unaudited except where stated)

<b>Consolidated Balance Sheet</b>	<b>As at</b>		
	<b>31 March 2006</b>	31 December 2005*	31 March 2005
Cash and deposits with banks	<b>3,134,558</b>	2,849,920	2,637,148
Investments	<b>3,007,342</b>	2,916,399	3,527,994
Loans	<b>3,212,520</b>	3,085,594	2,730,920
Total assets	<b>9,724,695</b>	9,197,566	9,232,135
Total deposits	<b>8,738,499</b>	8,240,109	8,498,193
Subordinated capital and senior debt	<b>278,761</b>	278,679	140,692
Shareholders' equity	<b>522,297</b>	495,226	438,898
*Audited			
<b>Consolidated Statement of Income</b>	<b>For the three month period ended</b>		
	<b>31 March 2006</b>	31 December 2005	31 March 2005
Total non-interest income	<b>47,130</b>	44,716	41,943
Net interest income after provision for credit losses	<b>48,902</b>	45,018	40,894
Other income	<b>1,024</b>	822	(109)
Total revenue	<b>97,056</b>	90,556	82,728
Total non-interest expense	<b>63,490</b>	65,927	57,967
Income taxes	<b>(475)</b>	(291)	(426)
Net income	<b>33,091</b>	24,338	24,335
<b>Shareholder data</b>			
Return on shareholders' equity	<b>26.3%</b>	19.7%	22.7%
Earnings per share (\$)			
Basic	<b>1.30</b>	0.97	0.97
Diluted	<b>1.26</b>	0.93	0.95
Number of shares outstanding, in 000's	<b>27,013</b>	26,948	24,338
Dividend declared (cents)	<b>44</b>	44	41

### Per Share Data

With the exception of dividends, per share data has been restated to reflect the 1 for 10 stock dividend in August 2005.

### Further Financial Information

The Group's results are stated in accordance with US GAAP. Further financial information may be found on our web site at: [www.butterfieldbank.com](http://www.butterfieldbank.com).