

One hundred and fifty — 00/100



Butterfield Bank

QUARTERLY REPORT

2008 | Q1

Consolidated Balance Sheet

(In \$ thousands - unaudited except where stated)

	As at		
	31 March 2008	31 December 2007*	31 March 2007
Assets			
Cash and demand deposits with banks	530,656	267,261	142,572
Term deposits with banks	2,514,386	2,249,751	2,983,798
Total cash and deposits with banks	3,045,042	2,517,012	3,126,370
Investments			
Trading	208,771	58,534	57,461
Available for sale	1,145,910	932,238	837,247
Held to maturity	3,666,987	3,754,217	3,053,647
Total investments	5,021,668	4,744,989	3,948,355
Loans, net of allowance for credit losses	4,246,603	4,124,764	3,827,375
Premises, equipment and computer software	223,439	215,379	181,045
Accrued interest	56,334	68,597	67,403
Goodwill	25,239	25,260	25,098
Other intangible assets	79,199	81,230	68,255
Other assets	133,569	133,689	106,766
Total assets	12,831,093	11,910,920	11,350,667
Liabilities			
Deposits			
Non-interest bearing	1,462,043	1,042,062	1,035,992
Interest bearing			
Customers	9,778,111	9,399,517	8,718,062
Banks	373,527	306,392	505,891
Total deposits	11,613,681	10,747,971	10,259,945
Employee future benefits	94,752	98,063	109,225
Accrued interest	32,140	34,774	35,106
Dividend payable	15,376	14,081	14,379
Other liabilities	144,022	102,510	74,508
Total other liabilities	286,290	249,428	233,218
Subordinated capital	287,906	284,191	282,017
Total liabilities	12,187,877	11,281,590	10,775,180
Shareholders' equity			
Common share capital (\$1.00 par: Authorised shares 100,000,000)	98,400	89,456	29,887
Additional paid in capital	606,777	455,114	516,510
Retained earnings	29,149	167,607	97,732
Less: treasury common stock	(79,404)	(71,576)	(34,478)
Accumulated other comprehensive loss	(11,706)	(11,271)	(34,164)
Total shareholders' equity	643,216	629,330	575,487
Total liabilities and shareholders' equity	12,831,093	11,910,920	11,350,667

* Audited

Consolidated Statement of Income

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

	For the three month period ended		
	31 March 2008	31 December 2007	31 March 2007
Non-interest income			
Investment and pension fund administration	13,458	14,784	11,795
Banking	10,357	11,854	10,137
Foreign exchange revenue	11,234	10,083	9,097
Asset management	10,765	10,727	9,051
Trust and custody	9,725	10,440	8,981
Other non-interest income	3,316	2,351	1,490
Total non-interest income	58,855	60,239	50,551
Interest income			
Loans	69,631	74,507	67,402
Investments	58,798	69,878	51,403
Deposits with banks	28,049	27,461	35,741
Total interest income	156,478	171,846	154,546
Interest expense			
Deposits	85,667	100,689	91,295
Subordinated capital	3,272	3,652	3,715
Total interest expense	88,939	104,341	95,010
Net interest income before provision for credit losses	67,539	67,505	59,536
Provision for credit losses	(229)	(1,581)	(278)
Net interest income after provision for credit losses	67,310	65,924	59,258
Realised / unrealised gains on trading securities	(1,090)	1,078	825
Other gains (losses)	2,007	(5,196)	211
Total revenue	127,082	122,045	110,845
Non-interest expense			
Salaries and other employee benefits	49,552	47,689	43,692
Property	7,804	8,489	6,738
Technology and communications	9,497	6,882	6,681
Professional and outside services	8,712	7,482	4,379
Non-income taxes	3,845	3,706	3,494
Marketing	1,507	2,725	1,516
Amortisation of intangible assets	1,962	1,896	1,654
Other expenses	6,406	6,564	5,416
Total non-interest expense	89,285	85,433	73,570
Net income before income taxes	37,797	36,612	37,275
Income taxes	(1,471)	(1,856)	(1,591)
Net income	36,326	34,756	35,684
Earnings per share			
Basic	0.39	0.37	0.38
Diluted	0.38	0.36	0.37
Return on shareholders' equity (%)	22.9	22.9	25.8

Earnings per share comparative figures have been restated for the one for ten stock dividend in February 2008 and the three for one stock split in August 2007.

Consolidated Statement of Changes in Retained Earnings and Comprehensive Income

(In \$ thousands - unaudited)

	For the three month period ended	
	31 March 2008	31 March 2007
Retained earnings		
Balance at beginning of period	167,607	76,881
Effect of changing employee future benefit plans' measurement date	(1,068)	-
Net income for the period	36,326	35,684
Cash dividends declared	(14,803)	(14,833)
Stock dividend	(158,913)	-
Balance at end of period	29,149	97,732
Accumulated other comprehensive loss		
Balance at beginning of period	(11,271)	(35,031)
Net change in unrealised gains and losses on translation of net investment in foreign operations	(554)	22
Net change in unrealised gains and losses on available for sale securities	(339)	7
Net change in unrealised gains and losses on cash flow hedges	-	38
Net change in employee future benefits	458	800
Balance at end of period	(11,706)	(34,164)

Consolidated Statement of Cash Flows

(In \$ thousands - unaudited)

	For the three month period ended	
	31 March 2008	31 March 2007
Cash flows from operating activities		
Net income	36,326	35,684
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortisation	6,115	5,458
Increase in carrying value of investments in affiliates	(957)	(309)
Share-based compensation	1,639	693
Loss on sale of premises and equipment	1	-
Gain on sale of private equity investments	(17,893)	-
Loss on credit derivative instruments	15,735	-
Provision for credit losses	229	278
Decrease (increase) in accrued interest receivable	12,243	(3,102)
Decrease (increase) in other assets	12,317	(1,656)
(Decrease) increase in accrued interest payable	(2,622)	1,620
Increase (decrease) in other liabilities	19,983	(30,297)
	83,116	8,369
Net change in trading account securities	(680)	(908)
Cash provided by operating activities	82,436	7,461
Cash flows from investing activities		
Net increase in term deposits with banks	(266,123)	(169,602)
Net additions to premises, equipment and computer software	(12,480)	(13,283)
Net increase in loans	(121,286)	(61,967)
Held to maturity securities: proceeds from maturities	471,952	466,304
Held to maturity securities: purchases	(385,583)	(750,268)
Available for sale securities: proceeds from sale and maturities	1,614,324	958,451
Available for sale securities: purchases	(1,979,509)	(827,884)
Proceeds on sale of private equity investment	10,053	-
Cash used in investing activities	(668,652)	(398,249)
Cash flows from financing activities		
Net increase in demand and term deposit liabilities	870,686	201,870
Proceeds from dividend re-investment plan	2,728	4,306
Common shares repurchased	(14,411)	(3,345)
Treasury stock	3,910	2,561
Cash dividends paid	(13,508)	(13,632)
Cash provided by financing activities	849,405	191,760
Effect of exchange rates on cash and demand deposits with banks	206	18
Net increase (decrease) in cash and demand deposits with banks	263,395	(199,010)
Cash and demand deposits with banks: beginning of period	267,261	341,582
Cash and demand deposits with banks: end of period	530,656	142,572
Supplemental disclosure of cash flow information		
Cash interest paid	86,800	93,785
Cash income tax paid	59	1,994

Business Area Highlights

(In \$ thousands - unaudited)

For the three month period ended	31 March 2008		31 December 2007		31 March 2007	
	Total revenue	Net income (loss)	Total revenue	Net income (loss)	Total revenue	Net income (loss)
Bermuda						
Community Banking	45,675	9,529	39,325	8,774	37,731	8,849
Wealth Management & Fiduciary Services and Investment & Pension Fund Administration	21,199	7,982	22,638	8,037	19,949	9,516
Real Estate	255	(2,176)	282	(2,274)	283	(2,094)
Sub-total Bermuda	67,129	15,335	62,245	14,537	57,963	16,271
Overseas businesses						
Barbados	5,102	2,192	3,286	(215)	2,817	48
Cayman	27,878	11,617	30,509	13,539	27,483	14,635
Guernsey	16,924	5,346	18,260	4,951	14,360	3,478
Switzerland	91	(752)	70	(443)	-	(261)
The Bahamas	3,122	741	3,320	1,086	2,704	577
United Kingdom	9,873	1,565	8,262	1,002	7,614	572
Malta	240	130	-	-	-	-
Hong Kong	717	152	299	299	364	364
Sub-total overseas	63,947	20,991	64,006	20,219	55,342	19,413
Less: inter-segment eliminations (principally rent and management fees)	(3,994)	-	(4,206)	-	(2,460)	-
Total	127,082	36,326	122,045	34,756	110,845	35,684

Total assets

As at	31 March 2008	31 December 2007*	31 March 2007
Bermuda	5,779,740	5,555,496	5,269,488
Barbados	298,790	277,297	212,897
Cayman	3,211,520	2,729,334	2,908,724
Guernsey	2,571,597	2,368,565	1,886,012
Switzerland	1,149	537	353
The Bahamas	188,132	181,671	169,877
United Kingdom	1,999,472	1,999,093	1,867,352
Malta	5,859	-	-
Hong Kong	6,945	4,271	3,803
	14,063,204	13,116,264	12,318,506
Less: inter-segment eliminations	(1,232,111)	(1,205,344)	(967,839)
Total	12,831,093	11,910,920	11,350,667

* 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 2007, as set out in the Annual Report. 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 2007.

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 Bank's defined benefit and post-retirement medical benefit plans' net expense recognised in the consolidated statement of income:

	For the three month period ended		
	31 March 2008	31 December 2007	31 March 2007
Defined benefit pension expense			
Service cost	748	907	865
Interest cost	1,870	1,668	1,643
Expected return on plan assets	(2,223)	(2,062)	(2,029)
Amortisation of past service cost	10	10	10
Amortisation of net actuarial (gain) loss	(4)	614	(12)
Gain on settlement	-	(366)	-
Total defined benefit pension expense	401	771	477
Post-retirement medical benefit expense			
Service cost	791	653	653
Interest cost	1,769	1,548	1,548
Amortisation of net actuarial loss	322	800	800
Total post-retirement medical benefit expense	2,882	3,001	3,001

Estimated Bank contributions to the defined benefit pension and medical benefit plans for the 2008 financial year are \$3,300 and \$3,510 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 executive officers and employees. As at 31 March 2008 the total number of options which can be exercised until 2018 was 9,692,678 with a weighted average exercise price of \$13.85. The total compensation cost that has been charged against net income for this plan for the quarter ended 31 March 2008 was \$1.6 million (31 March 2007: \$0.7 million).

Notes to Interim Unaudited Consolidated Financial Statements (continued)

(In \$ thousands, except per share data)

4. Fair value measurements

The following table presents the financial assets and liabilities that are measured at fair value on a recurring basis and classifies such fair value based on the type of input used in the related valuations:

31 March 2008	Fair value measurement using			Total fair value
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
Assets				
Investments				
Trading	195,344	13,427	-	208,771
Available for sale	1,145,910	-	-	1,145,910
Derivatives	-	3,859	-	3,859
Liabilities				
Derivatives	-	(29,215)	-	(29,215)

31 March 2007	Fair value measurement using			Total fair value
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
Assets				
Investments				
Trading	49,719	7,742	-	57,461
Available for sale	837,247	-	-	837,247
Derivatives	-	2,310	-	2,310
Liabilities				
Derivatives	-	(6,100)	-	(6,100)

5. Share Buy-Back Plan

During the three month period ended 31 March 2008 nil common shares were purchased and cancelled at a cost of nil (31 March 2007: 56,920 shares at a cost of \$3.3 million) and 811,036 common shares were purchased to be held as treasury stock at a cost of \$14.4 million (31 March 2007: nil shares at a cost of nil).

During the three month period ended 31 March 2008, the Bank's Stock Option Trust bought nil common shares at a cost of nil (31 March 2007: 28,500 common shares at a cost of \$1.7 million).

6. Large Shareholders

The following professional nominees at 31 March 2008 were registered holders of 5% or more of the issued common share capital: Harcourt & Co. (16.65%), Palmar Limited (6.17%) and Wilson & Co. (5.67%). Known beneficial holding of 5% or more of issued common share capital at that date was Bermuda Life Insurance Limited (7.11%).

Notes to Interim Unaudited Consolidated Financial Statements (continued)

(In \$ thousands, except per share data)

7. Future Accounting Developments

(a) Business Combinations

In December 2007, the Financial Accounting Standards Board issued FAS No. 141 (Revised), Business Combinations (FAS 141R), which addresses how companies should recognise and measure assets and liabilities acquired through business combinations. FAS 141R is designed to improve the relevance and comparability of financial information relating to business combinations. FAS 141R will be effective for fiscal years beginning after 15 December 2008 and therefore, effective from the Bank's first quarter in 2009. Management is currently evaluating the effect of adoption.

(b) Non-controlling Interests in Consolidated Financial Statements

In December 2007, the Financial Accounting Standards Board issued FAS No. 160, Non-controlling Interest in Consolidated Financial Statements (FAS 160), which addresses how companies should measure and present non-controlling interests. FAS 160 is designed to improve the relevance, comparability, and transparency of financial information relating to non-controlling interests. FAS 160 will be effective for fiscal years beginning after 15 December 2008 and therefore, effective from the Bank's first quarter in 2009. Management is currently evaluating the effect of adoption.

(c) Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133

In March 2008, the Financial Accounting Standards Board issued FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (FAS 161), which addresses how companies should disclose information about derivative instruments and hedging activities. FAS 161 is designed to improve the relevance, comparability, and transparency of financial information relating to derivative instruments and hedging activities. FAS 161 will be effective for fiscal years beginning after 15 December 2008 and therefore, effective from the Bank's first quarter in 2009. Management is currently evaluating the effect of adoption.