

QUARTERLY REPORT

2006 – Q2

REPORT TO SHAREHOLDERS & FINANCIAL RESULTS
SIX MONTHS ENDED 30 JUNE 2006



Butterfield Bank

Consolidated Balance Sheet

(In \$ thousands - unaudited except where stated)

	As at		
	30 June 2006	31 December 2005*	30 June 2005
Assets			
Cash and demand deposits with banks	237,351	154,698	48,170
Term deposits with banks	2,856,714	2,695,222	2,416,540
Total cash and deposits with banks	3,094,065	2,849,920	2,464,710
Investments			
Held to maturity	2,396,032	2,233,577	2,632,070
Available for sale	886,348	546,302	257,966
Trading	52,362	136,520	558,865
Total investments	3,334,742	2,916,399	3,448,901
Loans, net of allowance for credit losses	3,357,535	3,085,594	2,832,575
Premises, equipment and computer software	152,924	141,708	133,816
Accrued interest	49,193	44,648	44,004
Goodwill and other intangible assets	94,028	92,462	98,169
Other assets	101,476	66,835	61,424
Total assets	10,183,963	9,197,566	9,083,599
Liabilities			
Deposits			
Non-interest bearing	975,624	858,358	903,123
Interest bearing			
Customers	7,854,229	7,090,608	6,786,371
Banks	330,009	291,143	494,185
Total deposits	9,159,862	8,240,109	8,183,679
Accrued interest	21,150	19,093	11,571
Dividend payable	11,914	11,049	10,000
Other liabilities	158,749	153,410	135,895
Total other liabilities	191,813	183,552	157,466
Subordinated capital and senior debt	276,921	278,679	281,897
Total liabilities	9,628,596	8,702,340	8,623,042
Shareholders' equity			
Share capital (\$1.00 par: Authorised shares 100,000,000 (31 December 2005 and 30 June 2005: 70,000,000))	27,078	26,948	24,391
Additional paid in capital	350,264	341,647	233,273
Retained earnings	196,002	152,501	223,608
Less: treasury stock	(20,950)	(25,548)	(22,231)
Accumulated other comprehensive income	2,973	(322)	1,516
Total shareholders' equity	555,367	495,226	460,557
Total liabilities and shareholders' equity	10,183,963	9,197,566	9,083,599

* Audited

Consolidated Statement of Income

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

	For the three month period ended			For the six month period ended	
	30 June 2006	31 March 2006	30 June 2005	30 June 2006	30 June 2005
Non-interest income					
Trust and investment services	7,842	8,282	8,397	16,124	16,463
Asset management	8,807	8,829	8,261	17,636	16,753
Investment and pension fund administration	11,621	10,350	9,936	21,971	19,116
Banking services	10,226	10,496	9,358	20,722	18,217
Foreign exchange revenue	8,180	8,098	7,186	16,278	14,279
Other non-interest income	2,644	1,075	1,515	3,719	1,768
Total non-interest income	49,320	47,130	44,653	96,450	86,596
Interest income					
Deposits with banks	35,031	27,683	17,135	62,714	30,412
Loans	57,858	53,257	44,576	111,115	85,744
Investments	38,158	33,234	32,690	71,392	62,110
Total interest income	131,047	114,174	94,401	245,221	178,266
Interest expense					
Deposits	73,290	60,947	48,132	134,237	88,950
Subordinated capital and senior debt	3,538	3,496	1,216	7,034	2,323
Total interest expense	76,828	64,443	49,348	141,271	91,273
Net interest income before provision for credit losses	54,219	49,731	45,053	103,950	86,993
(Provision for credit losses) credit recoveries	(646)	(829)	707	(1,475)	(339)
Net interest income after provision for credit losses	53,573	48,902	45,760	102,475	86,654
Other gain (loss)	2,069	-	57	2,069	(27)
Realised / unrealised (losses) gains on trading securities	(311)	1,024	(146)	713	(171)
Total revenue	104,651	97,056	90,324	201,707	173,052
Non-interest expense					
Salaries and other employee benefits	41,084	38,009	34,878	79,093	68,533
Property	7,398	7,161	6,656	14,559	14,411
Systems and communications	6,331	6,128	5,732	12,459	11,166
Marketing	1,750	1,534	1,238	3,284	2,355
Other expenses	13,202	10,658	11,350	23,860	21,356
Total non-interest expense	69,765	63,490	59,854	133,255	117,821
Net income before income taxes	34,886	33,566	30,470	68,452	55,231
Income taxes	(1,029)	(475)	(420)	(1,504)	(846)
Net income	33,857	33,091	30,050	66,948	54,385
Earnings per share(\$)*					
Basic	1.31	1.30	1.19	2.61	2.16
Diluted	1.28	1.26	1.17	2.54	2.12
Return on shareholders' equity (%)	25.1	26.3	27.3	25.7	24.7

* 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		For the six month period ended	
	30 June 2006	30 June 2005	30 June 2006	30 June 2005
Retained earnings				
Balance at beginning of period	173,516	202,861	152,501	188,674
Net income for the period	33,857	30,050	66,948	54,385
Cash dividends declared	(11,371)	(9,303)	(23,447)	(19,451)
Balance at end of period	196,002	223,608	196,002	223,608
Accumulated other comprehensive income				
Balance at beginning of period	63	5,598	(322)	11,031
Net change in unrealised gains and losses on translation of net investment in foreign operations	2,408	(3,731)	2,711	(6,577)
Net change in unrealised gains and losses on available for sale securities	(185)	-	(266)	-
Net change in unrealised gains and losses on cash flow hedges	687	(351)	850	(2,938)
Balance at end of period	2,973	1,516	2,973	1,516

Consolidated Statement of Cash Flows

(In \$ thousands - unaudited)

	For the three month period ended		For the six month period ended	
	30 June 2006	30 June 2005	30 June 2006	30 June 2005
Cash flows from operating activities				
Net income	33,857	30,050	66,948	54,385
Adjustments to reconcile net income to cash provided by operating activities				
Depreciation and amortisation	5,041	5,102	10,282	10,177
Write down of equipment and computer software	-	-	-	1,100
Change in carrying value of investment in affiliate	(1,352)	771	(1,886)	1,874
Share-based compensation	530	-	1,059	-
Gain on sale of affiliate	(635)	-	(635)	-
Gain on sale of premises	(1,509)	-	(1,509)	-
Provision for credit losses (credit recoveries)	646	(707)	1,475	339
Increase in accrued interest receivable	(7,510)	(4,497)	(3,297)	(14,200)
Increase in other assets	(5,494)	(1,877)	(29,457)	(4,980)
Increase in accrued interest payable	3,441	400	1,438	2,451
(Decrease) increase in other liabilities	(7,847)	9,062	(6,348)	1,282
	19,168	38,304	38,070	52,428
Net change in trading account securities	15,761	(140,300)	87,764	(163,776)
Cash provided by (used in) operating activities	34,929	(101,996)	125,834	(111,348)
Cash flows from investing activities				
Term deposits with banks	241,539	122,809	(88,088)	(236,979)
Additions to premises, equipment and computer software	(16,180)	(6,719)	(22,513)	(15,336)
Net change in loans	(96,129)	(139,441)	(218,667)	(226,436)
Held to maturity securities: proceeds from maturities	174,430	528,860	356,659	676,298
Held to maturity securities: purchases	(306,401)	(330,503)	(510,611)	(694,718)
Available for sale securities: proceeds from sale and maturities	1,241,529	36,770	1,592,213	36,770
Available for sale securities: purchases	(1,403,320)	(90,560)	(1,891,886)	(111,926)
Proceeds on sale of affiliate	635	-	635	-
Cash (used in) provided by investing activities	(163,897)	121,216	(782,258)	(572,327)
Cash flows from financing activities				
Net increase (decrease) in demand and term deposit liabilities	273,303	(152,070)	749,920	438,673
Issuance of subordinated capital and senior debt	-	150,000	-	150,000
Repayment of senior debt	-	(9,666)	-	(9,666)
Proceeds from dividend re-investment plan	3,726	2,493	7,350	4,798
Shares repurchased and cancelled	-	(179)	-	(927)
Treasury stock	3,419	2,682	4,598	3,240
Cash dividends paid	(11,343)	(9,363)	(22,582)	(18,686)
Cash provided by (used in) financing activities	269,105	(16,103)	739,286	567,432
Effect of exchange rates on cash and demand deposits with banks	(116)	(14)	(209)	(18)
Net increase (decrease) in cash and demand deposits with banks	140,021	3,103	82,653	(116,261)
Cash and demand deposits with banks: beginning of period	97,330	45,067	154,698	164,431
Cash and demand deposits with banks: end of period	237,351	48,170	237,351	48,170
Supplemental disclosure of cash flow information				
Amount of interest paid in the period	73,826	48,948	140,606	88,822
Amount of income tax paid in the period	1,732	38	1,732	38

Business Area Highlights

(In \$ thousands - unaudited)

Total and net income	For the three month period ended			For the six month period ended	
	30 June 2006	31 March 2006	30 June 2005	30 June 2006	30 June 2005
Bermuda					
Community banking					
Total income	36,307	36,192	33,811	72,499	63,983
Net income	7,116	10,219	8,214	17,335	14,280
Wealth management & fiduciary services and investment & pension fund administration					
Total income	19,725	18,263	16,517	37,988	32,796
Net income	9,231	8,560	8,153	17,791	16,433
Real estate					
Total income	1,751	272	354	2,023	695
Net loss	(347)	(1,710)	(1,439)	(2,057)	(2,828)
Overseas businesses					
Barbados					
Total income	3,403	2,687	2,581	6,090	5,235
Net income	499	163	320	662	867
Cayman					
Total income	24,413	23,129	21,714	47,542	39,149
Net income	13,669	12,800	12,664	26,469	21,986
Guernsey					
Total income	12,417	11,372	10,006	23,789	19,833
Net income	2,712	2,594	1,699	5,306	3,182
The Bahamas					
Total income	2,155	2,085	1,615	4,240	3,245
Net income	484	493	408	977	825
United Kingdom					
Total income	6,465	5,553	5,7431	2,018	10,979
Net income (loss)	179	(178)	(111)	1	(623)
Hong Kong					
Total income	314	150	142	464	263
Net income	314	150	142	464	263
Less intersegment eliminations					
Total income	(2,299)	(2,647)	(2,159)	(4,946)	(3,126)
Total income for the period	104,651	97,056	90,324	201,707	173,052
Net income for the period	33,857	33,091	30,050	66,948	54,385

Total Assets

	As at		
	30 June 2006	31 December 2005*	30 June 2005
Bermuda	4,770,703	4,565,550	4,567,563
Barbados	204,614	194,433	174,505
Cayman	2,495,440	2,579,080	2,317,648
Guernsey	1,743,668	1,495,284	1,550,581
The Bahamas	118,306	96,903	83,866
United Kingdom	1,547,023	1,206,154	1,182,690
Hong Kong	3,064	2,844	2,340
	10,882,818	10,140,248	9,879,193
Less: Intersegment eliminations	(698,855)	(942,682)	(795,594)
Total	10,183,963	9,197,566	9,083,599

* 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			For the six month period ended	
	30 June 2006	31 March 2006	30 June 2005	30 June 2006	30 June 2005
Defined benefit pension expense					
Service cost	865	825	958	1,690	2,210
Interest cost	1,580	1,536	1,352	3,116	2,919
Expected return on plan assets	(1,688)	(1,646)	(1,300)	(3,334)	(2,844)
Amortisation of past service cost	9	9	9	18	19
Amortisation of actuarial loss	(2)	(8)	(10)	(10)	(36)
Total defined benefit pension expense	764	716	1,009	1,480	2,268
Post-retirement medical benefit expense					
Service cost	597	590	368	1,187	736
Interest cost	1,489	1,473	1,188	2,962	2,376
Amortisation of actuarial loss	883	873	794	1,756	1,588
Total post-retirement medical benefit expense	2,969	2,936	2,350	5,905	4,700

Estimated Bank contributions to the defined benefit pension and medical benefit plans for the 2006 financial year are \$5,400 and \$2,760 respectively.

3. Stock Option Plan and Directors' and Executive Officers' Share Interest

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 30 June 2006 the total number of options which can be exercised until 2016 was 2,215,753 with an average exercise price of \$36.11.

The following table presents the details of stock options granted to directors and executive officers:

	For the six month period ended 30 June 2006	
	Number of Stock Options	Weighted Average Exercise Price (\$)
Directors' and Executive Officers' Stock Option Plan		
Outstanding at beginning of period	614,698	27.82
Granted	100,000	55.00
Exercised	(157,555)	29.78
Outstanding at end of period	557,143	32.14

Pursuant to Regulation 6.9(2)(x)(a) and (b) of Section IIA of the Bermuda Stock Exchange Listing Regulations, the total interests of all directors and executive officers of the Bank in the shares of the Bank as at 30 June 2006 were 981,207 shares.

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 30 June 2006 (31 March 2006: \$0.5 million).

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:

	For the three month period ended			For the six month period ended	
	30 June 2006	31 March 2006	30 June 2005	30 June 2006	30 June 2005
As reported:					
Net income	33,857	33,091	30,050	66,948	54,385
Earnings per share	1.31	1.30	1.19	2.61	2.16
Diluted earnings per share	1.28	1.26	1.17	2.54	2.12
Pro forma:					
Net income	N/A	N/A	29,638	N/A	53,610
Earnings per share	N/A	N/A	1.18	N/A	2.13
Diluted earnings per share	N/A	N/A	1.15	N/A	2.08

5. Share Buy-Back Plan

During the three month period ended 30 June 2006 nil shares (30 June 2005: 4,371 shares) were purchased and cancelled at a cost of nil (30 June 2005: \$0.2 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 30 June 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 30 June 2006, the Bank's Stock Option Trust bought 2,543 shares at a cost of \$0.1 million (30 June 2005: nil).

During the six month period ended 30 June 2006 the Bank's Charitable Foundation bought 107,777 shares at a cost of \$6.1 million (30 June 2005: nil).

6. Large Shareholders

The following professional nominees at 30 June 2006 were registered holders of 5% or more of the issued share capital: Harcourt & Co. (14.0%), Palmar Ltd. (5.7%) 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%) and Jardine Strategic Holdings Limited (6.6%).

7. Future Accounting Developments

Pension and post-retirement medical benefits accounting and disclosures

The Financial Accounting Standards Board (FASB) affirmed on 26 July 2006 its decision to make the provisions of its proposed standard, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, effective for fiscal years ending after 15 December 2006. These changes 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. The FASB is expected to issue its final standard on or before 29 September 2006. Management is currently evaluating the effect of adoption which may be material.

Financial Highlights

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

	As at		
	30 June	31 December	30 June
Consolidated Balance Sheet	2006	2005*	2005
Cash and deposits with banks	3,094,065	2,849,920	2,464,710
Investments	3,334,742	2,916,399	3,448,901
Loans	3,357,535	3,085,594	2,832,575
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Total deposits	9,159,862	8,240,109	8,183,679
Subordinated capital and senior debt	276,921	278,679	281,897
Shareholders' equity	555,367	495,226	460,557

* Audited

	For the three month period ended			For the six month period ended	
	30 June	31 March	30 June	30 June	30 June
Consolidated Statement of Income	2006	2006	2005	2006	2005
Total non-interest income	49,320	47,130	44,653	96,450	86,596
Net interest income after provision for credit losses	53,573	48,902	45,760	102,475	86,654
Other gains and losses	1,758	1,024	(89)	2,782	(198)
Total revenue	104,651	97,056	90,324	201,707	173,052
Total non-interest expense	69,765	63,490	59,854	133,255	117,821
Income taxes	(1,029)	(475)	(420)	(1,504)	(846)
Net income	33,857	33,091	30,050	66,948	54,385
Shareholder data					
Return on shareholders' equity	25.1%	26.3%	27.3%	25.7%	24.7%
Earnings per share (\$)					
Basic	1.31	1.30	1.19	2.61	2.16
Diluted	1.28	1.26	1.17	2.54	2.12
Number of shares outstanding, in 000's	27,078	27,013	24,391	27,078	24,391
Dividend declared (cents)	44	44	41	88	82

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.

Directors' and Executive Officers' Share Interests

Pursuant to Regulation 6.9(2)(x)(a) of Section IIA of the Bermuda Stock Exchange Listing Regulations, the total interests of all directors and executive officers of the Bank in the shares of the Bank as at 30 June 2006 were 981,207 shares.

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