



Butterfield Bank

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QUARTERLY REPORT

2006 – Q3

REPORT TO SHAREHOLDERS & FINANCIAL RESULTS
NINE MONTHS ENDED 30 SEPTEMBER 2006



Butterfield Bank

Financial Highlights

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

		As at	
	30 September	31 December	30 September
Consolidated Balance Sheet	2006	2005*	2005
Cash and deposits with banks	3,283,046	2,849,920	2,300,674
Investments	3,371,440	2,916,399	3,270,526
Loans	3,511,727	3,085,594	2,937,606
Total assets	10,574,166	9,197,566	8,852,361
Total deposits	9,528,918	8,240,109	7,936,199
Subordinated capital	280,514	278,679	280,670
Shareholders' equity	565,600	495,226	477,532
*Audited			

		For the three month period ended		For the nine month period ended	
	30 September	30 June	30 September	30 September	30 September
Consolidated Statement of Income	2006	2006	2005	2006	2005
Total non-interest income	48,103	49,320	43,687	144,553	130,283
Net interest income after provision for credit losses	55,058	53,573	47,602	157,533	134,256
Other gains and losses	2,915	1,758	232	5,697	34
Total revenue	106,076	104,651	91,521	307,783	264,573
Total non-interest expense	70,358	69,765	60,402	203,613	178,223
Income taxes	(1,066)	(1,029)	(491)	(2,570)	(1,337)
Net income	34,652	33,857	30,628	101,600	85,013
Shareholder data					
Return on shareholders' equity (%)	24.5	25.1	25.7	25.2	25.2
Earnings per share (\$)					
Basic	1.22	1.19	1.10	3.59	3.07
Diluted	1.18	1.16	1.07	3.49	2.99
Number of shares outstanding, in 000's	29,848	27,078	26,875	29,848	26,875
Dividend declared (cents)	44	44	41	132	123

Per Share Data

With the exception of dividends, per share data has been restated to reflect the 1 for 10 stock dividend in August 2006.

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.

Q3 2006 Report to Shareholders

Dear Shareholder,

The third quarter of 2006 was another quarter of strong earnings growth for Butterfield Bank Group. Net income for the quarter was \$34.7 million, up 13.1% over the same period last year. This brings year-to-date net income to \$101.6 million, a year on year increase of 19.5%.

Our results reflect a continued focus on developing our core businesses. This strategy led to significant year on year growth across the Group and the expansion of our European operations during the quarter. In September, we established Butterfield Asset Management (Switzerland) Limited in Zurich, setting the foundation for further international growth within our private banking and wealth management businesses.

Our Bermuda businesses continued to perform well during the quarter, with net income of \$17.7 million, an increase of \$1.5 million, or 9.3%, over last year. In Community Banking, the loan portfolio increased by 10.0% year on year, and customer deposits were up 15.4%. In our Wealth Management & Fiduciary Services and Investment & Pension Fund Administration businesses increases in both client assets under management and administration totalled more than 10%, leading to year on year growth in net income of 13.5% across these businesses.

In Barbados, revenues were in line with a year ago, whilst net income was down, reflecting increased investment to support future business growth. Net income in Cayman was up by 20.1% as a result of strong growth in our banking and fund administration businesses. In Guernsey, net income was up 32.0% year on year, reflecting strong growth in net interest income and fees from investment and pension fund administration and banking activities. Our Bahamas

businesses continued to enjoy strong organic growth, with increases in customer deposits and the loan portfolio, leading to a year on year increase in net income of 20.4%. In the United Kingdom, the loan portfolio and total customer deposits increased by 24.6% and 24.2%, respectively, and total revenue grew by 4.8%. A small post tax loss of \$0.038 million was recorded by our UK business for the quarter, compared to net income of \$0.139 million a year ago.

Quarterly Dividend

The quarterly dividend was maintained at 44 cents per share, payable on Wednesday 22 November 2006 to shareholders of record on Wednesday 8 November 2006.

Quarterly Highlights

- **Return on equity** of 24.5% was achieved for this quarter, in line with our goal of achieving a Return on equity in excess of 20%.
- **Total non-interest income** of \$48.1 million was up 10.1%, or \$4.4 million year on year. This reflects strong growth in revenues from investment and pension fund administration, up 20.1%, banking services, up 13.6%, and customer-driven foreign exchange, up 9.3%.
- **Net interest income** before credit related provisions, at \$55.7 million, was a record and is up year on year by \$7.8 million, or 16.3%. This reflects balance sheet growth across the Group's operations. During the quarter, the Group made provisions for credit losses of \$0.6 million, reflecting growth in the Barbados, Bermuda and Cayman loan portfolios, compared to \$0.3 million a year ago.
- During the quarter, 'Other gains' of \$2.4 million were recorded, primarily made up of a gain of \$1.5 million in respect of the sale of a part of the Bank's equity interest in a credit card company and an insurance recovery of \$0.7

million in respect of business interruption suffered in Cayman in 2004 due to Hurricane Ivan.

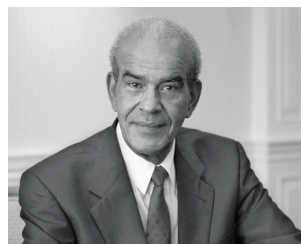
- **Total revenue** grew by \$14.6 million, or 15.9%, year on year to \$106.1 million, whilst total operating expenses increased by 16.5% to \$70.4 million, reflecting an increase in the Group's headcount to support business growth.
- **Total assets** of the Group as at 30 September 2006 were a record \$10.6 billion, compared to \$8.9 billion the previous year. The increase reflects solid growth in customer deposits, which have increased year on year by 21.3% to \$9.2 billion. The return on assets for the quarter was 1.3%, in line with last year.
- **The loan portfolio** increased year on year by 19.5%, or \$574 million, to \$3.5 billion, reflecting increased loan demand, particularly in our Bermuda, Guernsey and United Kingdom businesses. The loan portfolio represents 33.2% of total assets, the same percentage as last year.
- **The Group's balance sheet** remains highly liquid, with a loan-to-customer-deposits ratio of 38.2%. Deposits with banks and investments increased year on year by \$1.1 billion, or 19.4%, to \$6.7 billion, reflecting the increase in customer deposits, and represent 62.9% of total assets.
- **Shareholders' equity** increased year on year by 18.4% to \$565.6 million. The loan to the Stock Option Trust at 30 September 2006 was \$37.7 million, up from \$26.4 million a year ago. The Group has financed the purchase for the Stock Option Trust of 5.5% of the total shares in issue to satisfy its obligations under the Executive Officers' and Employee Stock Option Plans. During the quarter, the Bank's Stock Option Trust purchased 318,742 shares at a cost of \$18.9 million, compared to the purchase of 299,755 shares at a cost of \$12.9 million in the same quarter a year ago. There were no purchases made during the quarter under the Bank's Share Buy-Back Plan, compared to the

purchase and cancellation of 10,373 shares at a cost of \$0.4 million in the third quarter last year. During the quarter, the Bank's Charitable Foundation bought 85,122 shares at a cost of \$4.9 million. There were no such purchases made by the Foundation in the third quarter of 2005.

- **Diluted earnings per share** for the quarter were \$1.18, up 11 cents or 10.3%, year on year. Basic earnings per share were \$1.22, compared to \$1.10 a year ago.
- **Client assets under administration** across the Group increased by 19.2% year on year to \$115.0 billion.

Our strong results for the quarter and the nine months to 30 September 2006 reflect the effectiveness of our strategy and the efforts of our employees who, through their commitment and expertise, have helped attract new business to the Group.

For full financial details, and a more detailed review of the Group's performance, please visit our Web site, www.butterfieldbank.com.



A handwritten signature in dark ink, reading "James King".

Dr. James King
Chairman



A handwritten signature in dark ink, reading "Alan Thompson".

Alan Thompson
President & Chief Executive Officer