

One hundred and fifty — 00/100



Butterfield Bank

QUARTERLY REPORT

2008 | Q3

Consolidated Balance Sheet

(In \$ thousands - unaudited except where stated)

	As at		
	30 September 2008	31 December 2007*	30 September 2007
Assets			
Cash and demand deposits with banks	331,353	267,261	231,622
Term deposits with banks	1,525,322	2,249,751	2,062,853
Total cash and deposits with banks	1,856,675	2,517,012	2,294,475
Investments			
Trading	154,262	58,534	60,622
Available for sale	1,262,552	932,238	1,416,391
Held to maturity	3,499,853	3,754,217	3,847,537
Total investments	4,916,667	4,744,989	5,324,550
Loans, net of allowance for credit losses	4,402,901	4,124,764	3,988,941
Premises, equipment and computer software	192,361	215,379	200,357
Accrued interest	44,413	68,597	90,485
Goodwill	22,333	25,260	25,808
Intangible assets	68,095	81,230	66,787
Other assets	126,033	133,689	110,128
Total assets	11,629,478	11,910,920	12,101,531
Liabilities			
Deposits			
Non-interest bearing	1,081,567	1,042,062	1,290,830
Interest bearing			
Customers	8,935,942	9,399,517	9,411,259
Banks	366,374	306,392	283,578
Total deposits	10,383,883	10,747,971	10,985,667
Employee future benefits	99,149	98,063	113,475
Accrued interest	29,735	34,774	41,152
Dividend payable	15,287	14,081	14,133
Other liabilities	152,660	102,510	78,112
Total other liabilities	296,831	249,428	246,872
Subordinated capital	283,887	284,191	283,511
Total liabilities	10,964,601	11,281,590	11,516,050
Shareholders' equity			
Common share capital (\$1.00 par: Authorised shares 260,000,000 (31 December 2007 and 30 September 2007: 100,000,000))	98,400	89,456	89,456
Additional paid in capital	606,416	455,114	454,399
Retained Earnings	63,698	167,607	146,312
Less: treasury common stock	(84,856)	(71,576)	(71,513)
Accumulated other comprehensive loss	(18,781)	(11,271)	(33,173)
Total shareholders' equity	664,877	629,330	585,481
Total liabilities and shareholders' equity	11,629,478	11,910,920	12,101,531

Consolidated Statement of Income

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

	For the three month period ended			For the nine month period ended	
	30 September 2008	30 June 2008	30 September 2007	30 September 2008	30 September 2007
Non-interest income					
Investment and pension fund administration	10,766	13,506	13,146	37,730	37,517
Banking	10,647	10,756	10,214	31,760	31,412
Foreign exchange revenue	10,448	11,135	10,176	32,817	28,634
Asset management	10,340	11,024	9,440	32,129	27,533
Trust and custody	10,383	10,614	9,671	30,722	27,672
Other non-interest (expense) income	(574)	2,510	2,711	5,252	6,675
Total non-interest income	52,010	59,545	55,358	170,410	159,443
Interest income					
Loans	65,394	66,386	72,931	201,411	210,188
Investments	45,853	48,790	71,249	153,441	183,953
Deposits with banks	21,652	22,470	28,952	72,171	97,147
Total interest income	132,899	137,646	173,132	427,023	491,288
Interest expense					
Deposits	68,956	72,068	105,669	226,691	294,992
Subordinated capital	3,652	3,126	3,750	10,050	11,201
Total interest expense	72,608	75,194	109,419	236,741	306,193
Net interest income before provision for credit losses	60,291	62,452	63,713	190,282	185,095
Provision for credit (losses) recoveries	(282)	(1,243)	73	(1,754)	(402)
Net interest income after provision for credit losses	60,009	61,209	63,786	188,528	184,693
Realised / unrealised (losses) gains on trading securities	(3,242)	1,113	635	(3,219)	2,143
Realised / unrealised losses on held to maturity investments	(7,600)	(23,032)	-	(30,632)	-
Gain on sale of subsidiaries and affiliate	115,479	-	-	115,479	170
Other (losses) gains	(39,808)	(20,913)	1,245	(58,714)	1,469
Total revenue	176,848	77,922	121,024	381,852	347,918
Non-interest expense					
Salaries and other employee benefits	50,658	51,995	46,876	152,205	137,062
Property	8,055	8,419	8,046	24,278	22,367
Technology and communications	11,881	9,483	7,687	30,861	21,859
Professional and outside services	8,506	8,485	5,043	25,703	14,822
Non-income taxes	4,084	3,945	3,524	11,874	10,446
Marketing	1,610	2,429	1,468	5,546	4,406
Amortisation of intangible assets	1,851	1,958	1,694	5,771	5,020
Other expenses	7,185	6,184	5,129	19,775	15,576
Total non-interest expense	93,830	92,898	79,467	276,013	231,558
Net income (loss) before income taxes	83,018	(14,976)	41,557	105,839	116,360
Income taxes	(2,566)	(1,522)	(1,911)	(5,559)	(5,121)
Net income (loss)	80,452	(16,498)	39,646	100,280	111,239
Earnings per share					
Basic	0.87	(0.18)	0.43	1.08	1.19
Diluted	0.86	(0.18)	0.42	1.07	1.16
Return on shareholders' equity (%)	51.1	(10.4)	27.1	21.1	26.0

Earnings per share comparative figures have been restated for the one for ten stock dividend in February 2008.

Consolidated Statement of Changes in Retained Earnings and Comprehensive Income

(In \$ thousands - unaudited)

	For the three month period ended		For the nine month period ended	
	30 September 2008	30 September 2007	30 September 2008	30 September 2007
Retained earnings				
Balance at beginning of period	(2,044)	120,179	167,607	76,881
Effect of changing employee future benefit plans' measurement date	-	-	(1,068)	-
Net income for the period	80,452	39,646	100,280	111,239
Cash dividends declared	(14,710)	(13,513)	(44,208)	(41,808)
Stock dividend	-	-	(158,913)	-
Balance at end of period	63,698	146,312	63,698	146,312
Accumulated other comprehensive loss				
Balance at beginning of period	(13,163)	(33,119)	(11,271)	(35,031)
Net change in unrealised gains and losses on translation of net investment in foreign operations	(6,078)	1,282	(8,100)	2,282
Net change in unrealised gains and losses on available for sale securities	155	(2,136)	(477)	(2,862)
Net change in unrealised gains and losses on cash flow hedges	-	-	-	38
Net change in employee future benefits	305	800	1,067	2,400
Balance at end of period	(18,781)	(33,173)	(18,781)	(33,173)

Consolidated Statement of Cash Flows

(In \$ thousands - unaudited)

	For the three month period ended		For the nine month period ended	
	30 September 2008	30 September 2007	30 September 2008	30 September 2007
Cash flows from operating activities				
Net income	80,452	39,646	100,280	111,239
Adjustments to reconcile net income to cash (used in) provided by operating activities				
Depreciation and amortisation	9,034	7,620	21,161	19,443
Write down of computer software	29,180	-	29,180	-
Decrease (increase) in carrying value of investments in affiliates	1,479	(1,451)	(717)	(2,632)
Share-based compensation	759	764	5,144	4,683
Gain on sale of subsidiaries and affiliate	(115,479)	-	(115,479)	(170)
Loss on sale of premises and equipment	108	-	40	-
Realised and unrealised net losses (gains) on private equity investments	2,923	(3,429)	(21,873)	(3,429)
Loss on credit derivative instruments	6,915	-	50,375	-
Realised and unrealised losses on held to maturity investments	7,600	-	30,632	-
Provision for credit losses (recoveries)	282	(73)	1,754	402
Decrease (increase) in accrued interest receivable	8,555	(11,341)	21,787	(24,665)
(Increase) decrease in other assets	(8,056)	(6,450)	3,450	(1,401)
Increase (decrease) in accrued interest payable	1,154	1,928	(3,762)	6,907
Increase (decrease) in other liabilities	51,326	(20,359)	45,103	(39,976)
	76,232	6,855	167,075	70,401
Net change in trading account securities	(97,450)	(2,005)	(98,364)	(3,304)
Cash (used in) provided by operating activities	(21,218)	4,850	68,711	67,097
Cash flows from investing activities				
Net decrease in term deposits with banks	456,018	376,734	637,234	785,541
Net additions to premises, equipment and computer software	(3,861)	(13,110)	(25,760)	(40,493)
Net increase in loans	(210,159)	(39,969)	(397,646)	(181,581)
Held to maturity securities: proceeds from maturities	4,404,901	559,260	5,454,841	1,349,084
Held to maturity securities: purchases	(4,347,524)	(660,114)	(5,328,558)	(2,461,062)
Available for sale securities: proceeds from sale and maturities	1,796,818	819,930	5,127,310	2,349,688
Available for sale securities: purchases	(1,815,326)	(1,032,772)	(5,580,978)	(2,688,424)
Proceeds on sale of private equity investment	-	3,429	12,872	3,429
Proceeds on sale of subsidiaries	131,721	-	131,721	-
Cash provided by (used in) investing activities	412,588	13,388	31,036	(883,818)
Cash flows from financing activities				
Net (decrease) increase in demand and term deposit liabilities	(278,076)	12,695	33,025	783,608
Proceeds from dividend re-investment plan	3,027	2,770	8,659	9,763
Stamp duty paid to increase authorised share capital	-	-	(800)	-
Common shares repurchased	(4,941)	(5,079)	(28,701)	(40,718)
Treasury stock	264	(10,985)	3,752	(9,088)
Cash dividends paid	(14,738)	(13,527)	(43,003)	(40,852)
Cash (used in) provided by financing activities	(294,464)	(14,126)	(27,068)	702,713
Effect of exchange rates on cash and demand deposits with banks	(9,464)	3,856	(8,587)	4,048
Net increase (decrease) in cash and demand deposits with banks	87,442	7,968	64,092	(109,960)
Cash and demand deposits with banks: beginning of period	243,911	223,654	267,261	341,582
Cash and demand deposits with banks: end of period	331,353	231,622	331,353	231,622
Supplemental disclosure of cash flow information				
Cash interest paid	147,816	106,493	234,616	299,057
Cash income tax paid	2,543	1,638	2,602	4,518

Segmented Information

(In \$ thousands - unaudited)

	For the three month period ended						For the nine month period ended			
	30 September 2008		30 June 2008		30 September 2007		30 September 2008		30 September 2007	
	Total revenue	Net (loss) income	Total revenue	Net (loss) income	Total revenue	Net income (loss)	Total revenue	Net (loss) income	Total revenue	Net income (loss)
Bermuda										
Community Banking	25,810	(14,320)	(355)	(37,005)	42,520	11,956	71,130	(41,796)	120,963	30,606
Wealth Management & Fiduciary Services and Investment & Pension Fund Administration	18,774	5,673	20,784	7,277	20,846	9,273	60,757	20,932	60,810	27,848
Real Estate	298	(2,629)	303	(2,298)	276	(2,405)	856	(7,103)	837	(6,828)
Sub-total Bermuda	44,882	(11,276)	20,732	(32,026)	63,642	18,824	132,743	(27,967)	182,610	51,626
Overseas businesses										
Barbados	3,099	178	3,638	679	2,692	(187)	11,839	3,049	8,868	386
Cayman	100,709	83,991	25,634	7,954	29,152	14,853	154,221	103,562	84,701	43,690
Guernsey	15,354	4,451	16,494	5,130	16,631	4,270	48,772	14,927	46,338	11,267
Switzerland	90	(749)	56	(1,416)	85	(239)	237	(2,917)	136	(647)
The Bahamas	2,714	372	3,126	685	3,185	930	8,962	1,798	8,733	1,980
United Kingdom	11,968	3,029	10,792	1,955	8,373	914	32,633	6,549	24,102	2,074
Malta	465	17	610	170	-	-	1,315	317	-	-
Hong Kong	858	439	1,225	371	281	281	2,800	962	863	863
Sub-total overseas	135,257	91,728	61,575	15,528	60,399	20,822	260,779	128,247	173,741	59,613
Less: inter-segment eliminations (principally rent and management fees)	(3,291)	-	(4,385)	-	(3,017)	-	(11,670)	-	(8,433)	-
Total	176,848	80,452	77,922	(16,498)	121,024	39,646	381,852	100,280	347,918	111,239

Total assets

As at	30 September 2008	31 December 2007*	30 September 2007
Bermuda	6,031,980	5,555,496	5,449,261
Barbados	276,455	277,297	263,950
Cayman	2,650,938	2,729,334	2,962,510
Guernsey	1,948,295	2,368,565	2,280,273
Switzerland	1,432	537	605
The Bahamas	165,442	181,671	152,487
United Kingdom	1,862,712	1,999,093	2,114,146
Malta	3,885	-	-
Hong Kong	8,477	4,271	3,971
	12,949,616	13,116,264	13,227,203
Less: inter-segment eliminations	(1,320,138)	(1,205,344)	(1,125,672)
Total	11,629,478	11,910,920	12,101,531

* 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. Divestiture

On 11 September 2008, the Bank completed the sale and merger of its Bermuda-based and international Fund Services businesses with those of Fulcrum Group to form the new company, Butterfield Fulcrum Group. In relation with this transaction, the Bank has recognised a gain of \$115.5 million which is included in Gain on sale of subsidiaries and affiliate in the Statement of Income.

The Bank received a 40% ownership interest in Butterfield Fulcrum Group (on a fully diluted basis). The Bank's Fund Services businesses sold were previously reported under the Wealth Management & Fiduciary Services and Investment & Pension Fund Administration segment. The equity ownership in Butterfield Fulcrum Group will also be reported in the Wealth Management & Fiduciary Services and Investment & Pension Fund Administration segment.

3. 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			For the nine month period ended	
	30 September 2008	30 June 2008	30 September 2007	30 September 2008	30 September 2007
Defined benefit pension expense					
Service cost	716	749	883	2,213	2,622
Interest cost	1,817	1,871	1,667	5,558	4,964
Expected return on plan assets	(2,160)	(2,223)	(2,058)	(6,606)	(6,129)
Amortisation of past service cost	9	10	10	29	30
Amortisation of net actuarial gain	(4)	(4)	(12)	(12)	(36)
Total defined benefit pension expense	378	403	490	1,182	1,451
Post-retirement medical benefit expense					
Service cost	792	792	653	2,375	1,959
Interest cost	1,768	1,768	1,548	5,305	4,644
Amortisation of net actuarial loss	322	322	800	966	2,400
Total post-retirement medical benefit expense	2,882	2,882	3,001	8,646	9,003

Estimated Bank contributions to the defined benefit pension and medical benefit plans for the 2008 financial year are \$3,300 and \$3,510 respectively.

4. 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 30 September 2008 the total number of options which can be exercised until 2018 was 9,496,703 with a weighted average exercise price of \$13.90. The total compensation cost that has been charged against net income for this plan for the quarter ended 30 September 2008 was \$0.6 million (30 September 2007: \$0.7 million).

Notes to Interim Unaudited Consolidated Financial Statements (continued)

(In \$ thousands, except per share data)

5. 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:

30 September 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	140,802	13,460	-	154,262
Available for sale	1,262,552	-	-	1,262,552
Liabilities				
Derivatives	-	(54,201)	-	(54,201)

30 September 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	50,293	10,329	-	60,622
Available for sale	1,327,792	88,599	-	1,416,391
Derivatives	-	492	-	492
Liabilities				
Derivatives	-	(5,743)	-	(5,743)

6. Share Buy-Back Plan

During the three month period ended 30 September 2008 352,254 common shares were purchased to be held as treasury stock at a cost of \$4.9 million (30 September 2007: 251,189 shares at a cost of \$5.1 million).

During the three month period ended 30 September 2008, the Bank's Stock Option Trust bought nil common shares at a cost of nil (30 September 2007: 514,671 common shares at a cost of \$17.7 million).

7. Large Shareholders

The following professional nominees at 30 September 2008 were registered holders of 5% or more of the issued common share capital: Harcourt & Co. (17.03%), Palmar Limited (6.24%) & Wilson & Co. (5.24%). Known beneficial holding of 5% or more of issued common share capital at that date was Bermuda Life Insurance Limited (7.46%).

Notes to Interim Unaudited Consolidated Financial Statements (continued)

(In \$ thousands, except per share data)

8. Future Accounting Developments

(a) Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities

In June 2008, the Financial Accounting Standards Board (FASB) issued the FASB Staff Position (FSP) No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP No. EITF 03-6-1), which specifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are "participating securities" and therefore should be included in computing earnings per share. FSP No. EITF 03-6-1 will be effective for fiscal years beginning after 15 December 2008 and therefore effective from the Bank's first quarter in 2009. There will be no effect on adoption as the Bank is already in compliance.

(b) Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlements)

In May 2008, the Financial Accounting Standards Board (FASB) issued the FASB Staff Position (FSP) No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlements) (FSP No. APB 14-1), which specifies that issuers of this type of convertible debt account for the liability and equity components separately. The initial measurement of the liability component is to be consistent with similar non-convertible debt as of the issuance date. The convertible debt proceeds less the fair value of the liability component is recorded as additional paid-in capital. FSP No. APB 14-1 will be effective for fiscal years beginning after 15 December 2008 and therefore effective from the Bank's first quarter in 2009. Currently, the bank is not an issuer of debt instruments considered by this FSP, therefore management does not expect any effect of adoption.

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

In March 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS 161), which addresses how companies should disclose information about derivative instruments and hedging activities. SFAS 161 is designed to improve the relevance, comparability, and transparency of financial information relating to derivative instruments and hedging activities. SFAS 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.

(d) Non-controlling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interest in Consolidated Financial Statements (SFAS 160), which addresses how companies should measure and present non-controlling interests. SFAS 160 is designed to improve the relevance, comparability, and transparency of financial information relating to non-controlling interests. SFAS 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.

(e) Business Combinations

In December 2007, the FASB issued SFAS No. 141 (Revised), Business Combinations (SFAS 141R), which addresses how companies should recognise and measure assets and liabilities acquired through business combinations. SFAS 141R is designed to improve the relevance and comparability of financial information relating to business combinations. SFAS 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.

(f) Disclosure about Credit Derivatives

In September 2008, the FASB staff issued FAS 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161. The FSP and FIN require additional disclosures about credit derivatives sold by a reporting entity and were issued primarily to improve the transparency surrounding credit default swaps. FAS 133-1 and FIN 45-4 will be effective for reporting periods ending after 15 November 2008 and therefore, are effective from the Bank's fourth quarter in 2008. Management is currently evaluating the effect of adoption.

The Bank has not entered into any credit default swap transactions.

9. Subsequent Events

In October 2008 the government of Iceland took control of that nation's three major banks and restructurings are currently underway. The Bank holds US\$25 million of senior debt instruments issued by Icelandic banks. While there is a possibility that a loss may have been incurred, Management has made no provision for a loss contingency because an amount cannot be reasonably estimated at this time.