Butterfield Bank

2006
Annual Report

Mission Statement

Butterfield Bank will provide consistent and superior returns to our shareholders, offer security and opportunities to our employees, and be recognised as making a valuable contribution to the communities in which we operate by a customer focused, efficient and ethical delivery of banking and other selected financial services.

Awards

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Financial & Statistical Summary

(In $ thousands except per share data)	Year ended 31 December 2006	31 December 2005	31 December 2004	31 December 2003
Net income	**134,083**	109,351	90,466	70,838
Diluted earnings per share	**4.60**	3.85	3.19	2.54
At year end				
Total assets	**11,132,802**	9,197,566	8,630,383	7,733,806
Cash and deposits with banks	**3,151,191**	2,849,920	2,396,724	2,912,383
Investments	**3,786,793**	2,916,399	3,266,400	2,638,253
Loans	**3,760,745**	3,085,594	2,645,331	1,954,716
Deposits from customers	**9,755,659**	7,948,966	7,404,855	6,612,303
Deposits from banks	**287,173**	291,143	502,595	510,274
Subordinated capital and senior debt	**280,168**	278,679	142,333	122,871
Shareholders' equity	**549,553**	495,226	428,030	382,095
Net book value per share	**19.37**	17.71	15.57	13.91
Market value per share	**56.25**	42.36	33.47	33.05
Number of shares (in thousands)*	**28,375**	25,429	22,745	20,643
Number of shareholders	**3,915**	3,878	3,778	3,581
Number of employees	**1,730**	1,597	1,552	1,381
Financial ratios				
Return on assets**	**1.3%**	1.2%	1.1%	1.0%
Return on shareholders' equity**	**24.6%**	23.6%	21.2%	17.9%
Total capital ratio	**13.5%**	13.1%	10.7%	13.0%

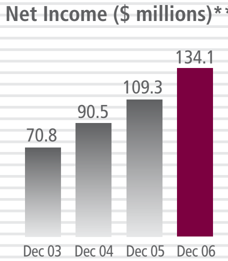
Comparative per share data has been restated to reflect the 1 for 10 stock dividends in August 2006, 2005, 2004 and 2003.

All percentages here and in the report that follows are based on actual rather than rounded numbers.

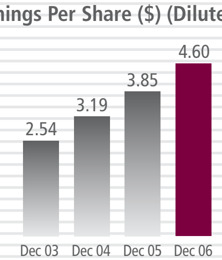
* Actual outstanding; excludes shares held by the Bank's Stock Option Trust.

** Excludes gain on sale of subsidiaries.

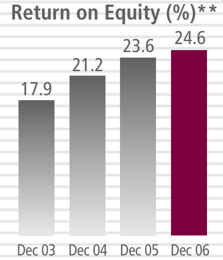
Net Income ($ millions)**



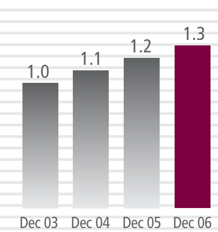
Earnings Per Share ($) (Diluted)**



Return on Equity (%)**



Return on Assets (%)**



Corporate Profile

Butterfield Bank Group is a publicly held, diversified provider of financial services with operations in seven jurisdictions. In addition to assets of $11 billion, we have $10 billion of assets under management, and over $123 billion of client assets under administration.

The Group is headquartered in Bermuda, where we were established as the Island's first bank in 1858. We have additional operations in The Bahamas, Barbados, the Cayman Islands, Guernsey, Switzerland and the United Kingdom.

Our home country regulator is the Bermuda Monetary Authority, which operates in accordance with Basel principles and maintains close contacts with regulators in other jurisdictions. Our common stock is listed on the Bermuda Stock Exchange and the Cayman Islands Stock Exchange. We have over 3,900 shareholders and 29.9 million shares outstanding.

We provide community banking services in Barbados, Bermuda and the Cayman Islands, encompassing retail banking, corporate banking and treasury activities. In the wealth management area, private banking, asset management and personal trust services are provided from the Group's headquarters in Bermuda and subsidiary offices in The Bahamas, the Cayman Islands, Guernsey, Switzerland and the United Kingdom. For corporate and institutional clients, investment and pension fund administration services, asset management and corporate trust services are offered in Bermuda, The Bahamas, the Cayman Islands and Guernsey.

Our success is built on a set of fundamental strengths: sound corporate values, a motivated and capable workforce, a stable customer base, strong liquidity and capital positions, and a focus on the ongoing development of our core businesses.

We believe that a positive, rewarding work environment that offers employees security and opportunities benefits our customers through quality service, and our shareholders through long-term improvement in results. At 31 December 2006, Butterfield Bank Group had 1,730 employees around the world.

Good corporate citizenship and community involvement are part of our culture. We support a variety of local projects and organisations that invest in areas such as youth development, healthcare, social causes, heritage and the arts. Our educational scholarships and bursaries help young people fulfil their potential and achieve their dreams. We take an active role in community events and encourage and recognise employees who volunteer their time and energy to charitable causes.

Our business strategy involves judiciously expanding our core businesses – community banking, private banking and wealth management, and fund services. For Butterfield Bank Group, these areas represent our strongest competencies and greatest opportunities. We seek to increase profitability by widening our client base and deepening our customer relationships in these business lines, offering the right products at fair prices, with excellent service. This strategy is the basis of our success to date and the key to future growth.

Messages From The Board

Chairman's Letter to the Shareholders

On behalf of the Board of Directors, I am pleased to report that Butterfield Bank Group enjoyed another year of growth and profitability in 2006.

Although, as an increasingly international organisation, we faced varied challenges in each of our jurisdictions, through astute management and an ongoing commitment to strengthening our core businesses, the Group generated a record profit of $134.1 million.

The Board approved cash dividends of $0.44 for each of the first three quarters of 2006 and a cash dividend of $0.48 for the fourth quarter, bringing the 12-month dividend to $1.80, which when taking account of the 'one for ten' stock dividend in August, equates to a 20% increase in the dividend and provided shareholders with an impressive return on their investments.

In 2006, we bade farewell to our colleague, Sheila Manderson, who retired from the Board of Directors on 31 July. I thank Mrs. Manderson, who was a valued member of the Board for ten years, for her significant contributions and the good counsel she provided to the management team. The vacancy created by Mrs. Manderson's retirement was filled by Pauline Richards, whom we are delighted to welcome to the Board.

On a personal note, I recently advised the Board that I will retire as Chairman and Director following the Annual General Meeting to be held on 18 April 2007. Brian Duperreault, who was elected to the Board in 1996 and appointed to the position of Co-Vice Chairman in 2006, has been elected by the Board to take over as Chairman upon my retirement.

It has been my honour to be part of the Board of Directors and the Butterfield Bank family for 29 years. Although the Bank has changed over the years – growing substantially and expanding internationally – what has not changed is the unwavering commitment of management and employees to our customers and to the communities in which we operate. I would like to express my sincere thanks to them, and to our shareholders and customers, whose ongoing support and loyalty are the bedrock upon which Butterfield Bank Group will continue to build and prosper.

In closing, I extend sincere best wishes to Mr. Duperreault. I am confident that, under his direction, the Board will continue to provide effective guidance and leadership to the Group, and build sustainable value for our shareholders.

James A.C. King, JP
Chairman of the Board

Message from the Incoming Chairman

On behalf of the Board of Directors, I would like to thank Dr. James King for his many contributions to Butterfield Bank Group. As a member of the Board for 29 years and as Chairman for close to ten years, Dr. King has provided strong governance oversight to the Bank and exemplary leadership to the Board.

I have had the pleasure of working with Dr. King for over ten years, and I know him to be a compassionate advocate for the Group's stakeholders – employees, shareholders, customers and the public. The Board and the management team have benefited greatly from Dr. King's experience and constructive guidance. Over his term as Chairman, shareholders enjoyed a total return (including dividends) of over 800%.

Although I will miss Dr. King's presence on the Board following his retirement in April, I am looking forward to taking on the role of Chairman and continuing to work with the Directors to help Butterfield Bank Group realise strategic and financial growth and create value for our fellow shareholders.

Brian Duperreault
Incoming Chairman

President & Chief Executive Officer's Report

Butterfield Bank Group's strategy of growth through investment in our core competencies – community banking, private banking and wealth management, and fund administration – yielded strong results in 2006. On revenues of $415.1 million, we earned a record net income of $134.1 million, an increase of 22.6% over last year, leading to a return of 24.6% on shareholders' equity.

We are particularly pleased with our results this year, as the growth we enjoyed is based purely on the solid performance of our existing operations. There were no acquisitions during 2006 that contributed to the bottom line. Our achievements are the result of the commitment of our employees to strengthening our quality of service and deepening relationships with our customers.

Solidifying customer relationships and growing market share in each of our jurisdictions means being attuned to local market developments and responding with products and services that meet local needs. From the introduction of unique home equity lending products in Bermuda, to the expansion of Lifestyle Mortgage options in the Cayman Islands, to the introduction of Art Advisory services for private banking clients in the United Kingdom, Butterfield Bank Group continues to earn market share through innovation in each of our jurisdictions and lines of business.

At the same time, the Group continues to work at developing our global brand. This year, we introduced a new Group website, www.butterfieldbank.com, which showcases the scope of our worldwide operations, but also provides user-friendly information and tools for customers in each market. This successful project, which is destined to be among the first of many international marketing collaborations, highlighted the synergies we now enjoy, along with the customer benefits we can deliver, as an increasingly multinational bank.

Although we did not make any acquisitions in 2006, we did announce plans for the expansion of two of our core businesses. In November, we broadened our European asset management presence with the establishment of an office in Zurich, Switzerland. In the same month we also announced the planned extension of our fund administration services to North American providers of alternative investments with the establishment of Butterfield Fund Services (Canada) Limited to be based in Halifax, Nova Scotia.

As we continue to expand internationally, we will ensure that community involvement remains a priority for each of our offices. In 2006, with our financial donations, and through the efforts of employees who lent their time, expertise and talent, we supported causes that fund the arts, help to preserve and celebrate local culture, and provide assistance and care to those in need.

In recognition of our financial strength, service excellence, product innovation, and philanthropic efforts, Butterfield Bank received awards from three prestigious international financial publications during the year: the *Euromoney* Award for Excellence, the *Global Finance* award for Best Bank in Bermuda, and *The Banker* awards for Bank of the Year in Bermuda and the Cayman Islands. These awards reflect the dedication of our employees, to whom I express my sincere thanks.

On behalf of the management team, I would also like to express appreciation to the Board of Directors for their ongoing advice and oversight, and to our customers and shareholders, whose continuing support inspires us to succeed.

Alan R. Thompson
President & Chief Executive Officer

Left:
James A.C. King JP
Chairman of the Board

Centre:
Brian Duperreault
Incoming Chairman

Right:
Alan R. Thompson
President & Chief Executive Officer

Management's Discussion & Analysis of Results of Operations & Financial Condition[1]

Results of operations for the 12-month period ended 31 December 2006 compared with the 12-month period ended 31 December 2005.

Butterfield Bank Group[2] achieved net income of $134.1 million for the 12-month period ending 31 December 2006, representing a 22.6% increase over the same period last year.

Net interest income was a record at $218.2 million before credit related provisions. Up year on year by 17.7%, the increase reflects balance sheet growth, a 21.9% increase in the loan portfolio and a benefit from the rise in both U.S. and U.K. interest rates. Non-interest income also increased year on year by $21.6 million, or 12.5%, to $193.7 million reflecting strong growth in revenues from investment and pension fund administration, trust and investment services and banking.

The Group's balance sheet remains highly liquid with a loan to customer deposits ratio of 38.6%. Customer deposits increased significantly by 22.7% year on year to $9.8 billion, reflecting growth in the United Kingdom, up $701 million, Bermuda, up $619 million, Guernsey, up $234 million and the Cayman Islands, up $188 million. Loan portfolio growth of 21.9% across the Group's operations reflects our ability to meet new demand for lending products, with Guernsey up 109.9%, the United Kingdom up 35.1%, Barbados up 14.9% and Bermuda's community banking business up 11.4%.

Non-performing loans totalled $29.1 million at year-end 2006, representing 0.8% of total loans, compared to 0.9% a year ago. As at 31 December 2006 the general provision for credit losses of $22.1 million was equivalent to 0.6% of total loans. In addition, there is a specific provision of $3.6 million held for possible shortfalls in the security for non-performing loans. In total, therefore, the allowance for credit losses is $25.7 million, or 0.7% of the loan portfolio. Delinquency and charge-off ratios continued to be well below industry average.

Shareholder Value

Sustained strong performances have enabled the Group to continue building shareholder value and, for the fourth consecutive year, a 'one for ten' bonus share issue was made in August 2006. Additionally, for the fourth quarter the Board approved a dividend increase of 4 cents, resulting in a total dividend for 2006 of $1.80 per share, an increase of 13 cents, or 7.8%, over last year. The dividend paid to shareholders in 2006 was $46.5 million, up 20.8% on the previous year, and represents a 34.7% payout on net income for the period. The increase in shareholder value for the year, defined as the increase in share price plus dividends reinvested, was 36.8%, compared to 31.4% the previous year.

(from left to right)
Graham M. Jack Managing Director, Butterfield Trust (Bermuda) Limited
Michael O'Mahoney Senior Vice President, Treasury
Donna E. Harvey Maybury Senior Vice President, Human Resources

Share Purchase Activity

Under the Share Buy-back Plan, during the year 47,659 shares were repurchased and cancelled at an average cost of $55.82 per share. The Stock Option Trust bought 431,132 shares at an average cost of $58.11 per share to satisfy the Bank's obligations with respect to the Stock Option Plan. The Bank's Charitable Foundation bought 192,899 shares at an average cost of $56.71 per share.

Performance Indicators

The Group's overall strength and performance are indicated by certain key measures. Return on shareholders' equity was 24.6% for the period, up from 23.6% in 2005. Diluted earnings per share were $4.60, up 75 cents, or 19.5% compared with $3.85 last year.

The Group's efficiency ratio, which is operating expenses (excluding corporation tax and amortisation of intangible assets) expressed as a percentage of operating income (excluding credit provisions and gain on sale of subsidiaries and affiliates) saw a year on year improvement, from 66.4% the previous year to 64.8% in 2006.

[1] Management's discussion and analysis of results of operations and financial condition should be read in conjunction with the Group's Consolidated Financial Statements, beginning on page 25, and the notes to those financial statements, which begin on page 29. These statements and notes have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP).

[2] All references to Butterfield Bank Group or "the Group" refer to The Bank of N.T. Butterfield & Son Limited and its subsidiaries on a consolidated basis.

(from left to right)
Richard J. Ferrett Executive Vice President, Chief Financial Officer
Graham C. Brooks Executive Vice President, International
Peter J.M. Rodger Senior Vice President & Group Legal Adviser, Secretary to the Board
Curtis Dickinson Senior Vice President, Corporate Management

Jurisdictional Overview

Bermuda

$ millions (noted percentage changes reflect year on year variances)

Net Income:	65.3	(▲ 23.5%)
Revenue:	227.3	(▲ 13.6%)
Customer Deposits:	3,833	(▲ 19.2%)
Loans:	2,265	(▲ 11.4%)
Total Assets*:	4,974	(▲ 8.9%)
Assets Under Administration:	50,276	(▲ 11.3%)
Assets Under Management:	7,487	(▲ 11.8%)

*Before inter-segment eliminations

Major Business Lines: Community Banking, Private Banking, Treasury Services, Asset Management, Personal Trust, Corporate Trust, Investment & Pension Fund Administration

Number of Employees: 845

2006 was our 148th year of business in Bermuda, which is home to Butterfield Bank Group headquarters. As the largest independent bank on the Island, we play an important role in the daily functioning of Bermuda's economy. The major pillar of the economy is international business, followed by sizeable tourism and hospitality industries and a large number of locally based retail and service organisations. Combined, these industries have pushed Bermuda's per capita Gross Domestic Product to the top of world rankings, and the thriving economy has led to increased competition among financial services providers on the Island for community banking, wealth management and corporate business.

Community Banking

To help solidify our position as a leading premier community bank, we invested in initiatives designed to enhance our customers' banking experiences and build market share. We completed renovations to public spaces at a number of our locations and extended the range of products offered in our branches. Mortgages and loans, which were previously available only from our Consumer Credit office in the City of Hamilton, are now offered at Rosebank, St. George's and Somerset branches, creating a network of full-service community banking locations across the Island. Further service enhancements included the introduction of a centralised Call Centre that is able to handle virtually all client enquiries.

We continued to leverage our relationship with insurance provider Freisenbruch-Meyer Group. In keeping with our efforts to improve convenience, Butterfield Bank customers can now obtain home, yacht and vehicle ownership and protection solutions by speaking with a Personal Banking Representative at any of our branches.

Notable among new retail offerings introduced in 2006 was Butterfield Line, an innovative, revolving home equity line of credit product that allows customers to access the equity in their homes using a special Butterfield Bank MasterCard® credit card. ATM features were also enhanced during the year with the addition of iTop Up services that allow local Digicel prepaid cellular phone customers to easily top up their cell phone accounts from their Butterfield Bank accounts.

(from left to right)
Bob W. Wilson Senior Vice President, Corporate and Private Banking
Sheila M. Brown Senior Vice President, Investment Services
Ian M. Coulman Managing Director, Butterfield Asset Management

We ran a highly successful credit card promotion during the first quarter – the Butterfield Bank MasterCard FIFA World Cup™ 2006 Contest – which helped increase consumer card usage and our share of the Bermuda merchant market.

Private Banking

We continue to expand our private client business in Bermuda by following a proven strategy that utilises a comprehensive approach to addressing the wealth management needs of high net worth clients. Our Private Banking Relationship Managers act as a gateway for clients, enabling them to access the full range of Butterfield Bank products and services through a single point of contact. Strong growth in our private client loan and investment businesses has resulted from the success of this service model, which helps us broaden our relationships with existing clients and from our efforts to attract new clients to the Bank.

Trust

Butterfield Trust (Bermuda) provides a comprehensive range of trust, estate and company administration, company management and custody services, focusing on local and international clients, both corporate and individual.

Asset Management

Butterfield Asset Management continued to experience growth during 2006. Assets Under Management increased to $7.5 billion, up 11.8% year on year. Growth was particularly strong in mutual funds, where assets increased 16.8% to $5.8 billion. The Butterfield Money Market Fund and our fund of funds product, Butterfield Select, saw strong asset growth. The Butterfield Select Funds passed the $400 million mark and ended 2006 valued at $406 million.

We are also pleased with the recent announcement that our USD Money Market Fund Portfolio Manager received a top manager award for 2006 from *iMoneyNet*.

Fund Services

Working cooperatively with Butterfield fund administration offices in other jurisdictions, the Bermuda Fund Services (BFS) team significantly increased Assets Under Administration during the past year by participating in the burgeoning and increasingly complex global hedge fund market. BFS offers highly rated administration services to a diverse group of alternative investment and fund of hedge fund managers based in Bermuda and abroad. These clients count on BFS to provide them with consistently accurate and timely fund pricing, financial statements and shareholder reporting to meet the sophisticated needs of wealthy individual and institutional investors.

Community Involvement

We are well known in Bermuda for our support of local charities and cultural events, and for providing a range of bursaries and scholarships to assist young Bermudians pursuing higher education. Notable among our community-focused activities this year were our sponsorship of the Bermuda International Film Festival's "BIFF Kids" film series and the Masterworks Museum of Bermuda Art which, when completed in 2007, will be the Island's first purpose-built art museum, designed to permanently house the Bermudiana Collection.

Bermuda

(from left to right)
Lloyd O. Wiggan Senior Vice President, Retail Banking
W. Aaron M. Spencer Senior Vice President, Operations
Douglas Lang Managing Director, Butterfield Fund Services (Bermuda) Limited

Jurisdictional Overview

The Bahamas

$ millions (noted percentage changes reflect year on year variances)		
Net Income:	2.2	(▲ 33.4%)
Revenue:	9.1	(▲ 33.7%)
Customer Deposits:	140	(▲ 66.4%)
Loans:	14	(▲164.1%)
Total Assets:	155.4	(▲ 60.4%)
Assets Under Administration:	3,890	(▼ 1.8%)

Major Business Lines: Private Banking, Personal Trust, Corporate Trust, Investment & Pension Fund Administration

Number of Employees: 63

During the year, the Bahamas office generated strong growth, as well as local and international recognition, through focused business development and targeted marketing of bespoke financial and fund administration services.

The increase in the loan book of over 160% was a notable success, reflecting growth in our international mortgage products.

The fund administration business is focused on providing administration services to investment and pension funds. The year saw growth in innovative products like SMART Funds, which are regulated vehicles for investment funds, and new business was attracted by The Bahamas' progressive investment fund legislation, offset by a number of redemptions from existing administered funds.

Barbados

$ millions (noted percentage changes reflect year on year variances)		
Net Income:	1.0	(▼ 32.4%)
Revenue:	12.3	(▲ 10.0%)
Customer Deposits:	170.0	(▲ 6.3%)
Loans:	124.0	(▲ 14.9%)
Total Assets:	213	(▲ 9.8%)

Major Business Lines: Community Banking

Number of Employees: 123

Our long-term objective is to increase our share of the Barbados community banking market. Toward that end, significant investment was made in the development of our technical and service-related infrastructure during 2006. These projects will help establish a foundation for new services that will be introduced during 2007 to meet the evolving financial services needs of Barbadians.

Community involvement was a major focus for the Barbados team in 2006. Highlights included our sponsorship of the Barbados International Jazz Festival as "Official Bank" and title sponsorship of Butterfield Empire Hockey Club.

Left: Bahamas Management Team (from left to right)
Heather M. Bellot Managing Director Fund Services
Ian D. Fair Deputy Chairman
Julien D. Martel Vice President, Private Banking
Robert V. Lotmore Managing Director

Right: Barbados Management Team (from left to right)
Mariano Browne Managing Director
Cheryll-Ann Wilson-Drakes Vice President, Investment Banking
Caroline Prow Vice President, Butterfield Asset Management (Barbados) Limited
Arlene Miller Senior Manager, Credit

Cayman Islands

$ millions (noted percentage changes reflect year on year variances)		
Net Income:	53.4	(▲ 16.5%)
Revenue:	99.1	(▲ 20.6%)
Customer Deposits:	2,374	(▲ 7.3%)
Loans:	340	(▲ 11.7%)
Total Assets:	2,793	(▲ 8.3%)
Assets Under Administration:	40,152	(▲ 26.8%)
Assets Under Management:	1,110	(▼ 4.1%)

Major Business Lines: Community Banking, Private Banking, Treasury Services, Asset Management, Personal Trust, Corporate Trust, Investment & Pension Fund Administration

Number of Employees: 351

The Cayman Islands' economy continued to grow in 2006, fuelled in part by the construction that commenced following 2004's Hurricane Ivan. Representative of our commitment to Cayman, we are currently constructing a new 60,000 square foot office building in George Town. The completion of structural work (at seven storeys) was celebrated in November with a topping out ceremony. The building is expected to be complete and ready for occupancy in the third quarter of 2007.

Butterfield Bank is the largest private sector employer in the Cayman Islands' financial services industry. As an employer of choice, we focus on providing quality educational and career opportunities for employees. This year, we introduced a comprehensive e-learning system to enhance our existing training and development programmes. The Bank also committed to assisting the Government with a project to provide funding, management training, and staff and student mentoring to local high schools. We see these developments as key to our ability to continue to attract high-potential candidates and build organisational strength. Currently 86% of our employees are Cayman nationals, which is significant in an environment where expatriates comprise more than half of the workforce.

We continue to respond to the changing needs of customers with new products and services. In 2006, we introduced a suite of "Lifestyle Mortgage" products, which contributed to good growth in the loan book.

We strive to be a model corporate citizen and took the lead in several community projects during the year that focused on the arts, health and sports. We were pleased to present the Grand Finale of the 2006 Cayman Arts Festival and continue to support Little League and Junior Squash programmes.

The Bahamas & Caribbean

Left: Cayman Management Team (from left to right)
Erwin Dikau Senior Manager, CFO
Barry Yetton Director and Head of Banking
Sheree Ebanks Director and Head of Wealth Management
Conor O'Dea Managing Director

Right: Cayman Management Team (from left to right)
Simon Cawdery Manager, Discretionary Management Services
David Titcombe Senior Manager and Head of Trust
Adrian Watkin Head of Credit Services
Antonette Alexander Manager, Branch Banking

Jurisdictional Overview

Guernsey

$ millions (noted percentage changes reflect year on year variances)		
Net Income:	10.7	(▲ 47.9%)
Revenue:	50.4	(▲ 25.5%)
Customer Deposits:	1,610	(▲ 19.2%)
Loans:	451	(▲109.9%)
Total Assets:	1,810	(▲ 21.0%)
Assets Under Administration:	28,090	(▲ 39.3%)
Assets Under Management:	1,120	(▲ 28.9%)

Major Business Lines: Private Banking, Treasury Services, Personal Trust, Corporate Trust, Investment & Pension Fund Administration, Administered Banking, Custody and Custodian Trustee Services

Number of Employees: 223

The positive international economic environment seen in 2005 carried on into 2006 and again provided a supportive backdrop for the Guernsey operations. Institutional client business registered high growth levels on all fronts, including fund administration, custody services and administered banking services. Loan volumes registered particularly strong increases during the year, with good growth both in property-related lending and in facilities collateralised by securities portfolios.

We continued to be a market leader for administered banking – providing outsourcing solutions, such as operational, accounting, compliance and corporate secretarial services – for Guernsey branches and subsidiaries of leading international banks and other financial institutions. This business line saw further growth in 2006, with assets under administration increasing by 21.9%.

Custody Services also registered strong business growth. Institutional custody clients, including sponsors of both Guernsey and non-Guernsey regulated investment funds, continue to be attracted by the combination of technical expertise and high quality service we offer.

Switzerland

Butterfield Bank Group's Swiss subsidiary was established in November 2006 and focused on office set-up and recruitment for the balance of the year.

Major Business Lines: Asset Management

Number of Employees: 2

Left: Guernsey Management Team (from left to right)
Robert S. Moore Managing Director
Neil Farrand Director
Ivor Bisson Director
John Robinson Deputy Managing Director

Right: Guernsey Management Team (from left to right)
Paul Hodgson Managing Director - Butterfield Trust (Guernsey) Limited
Richard Saunders Senior Manager - Investments
Patrick Firth Managing Director - Butterfield Fund Services (Guernsey) Limited

Butterfield Asset Management (Switzerland) Limited opened for business in November 2006, with the establishment of an office in Zurich. We offer independent and global wealth management services to private clients and their families. We work closely with Butterfield Bank Group's other international offices to provide multi-jurisdictional services and with selected banks in Switzerland to provide other key services.

United Kingdom

$ millions (noted percentage changes reflect year on year variances)		
Net Income:	0.7	(▲390.3%)
Revenue:	25.4	(▲ 12.5%)
Customer Deposits:	1,630	(▲ 75.4%)
Loans:	566.5	(▲ 35.1%)
Total Assets:	1,986	(▲ 64.7%)
Assets Under Administration:	1,198	(▼ 18.9%)
Assets Under Management:	263	(▼ 62.8%)

Major Business Lines: Private Banking, Treasury Services

Number of Employees: 123

Butterfield Bank (UK) Limited operates under the trade name Butterfield Private Bank. During the year, we continued to strengthen our private banking offer, working together with clients' professional advisers (especially Solicitors, Accountants and specialist IFAs) and with other Group offices. Notable among the service enhancements introduced in 2006 was the fee-based Family Office service, which provides bespoke solutions to the often complex financial and lifestyle requirements of clients and their families.

The reduction in Assets Under Management was caused by the departure of some members of the Asset Management team. We have recruited a strong new team and, with improved coordination among Group offices, we believe a strong building block for future growth is now in place.

With the advent of A-day affecting pensions in April 2006, and recent changes to financial services regulations, Butterfield Private Bank has seen continued growth as a major provider of full Self-Invested Personal Pensions. This has been achieved through a special partnership with independent trustees and our unique offering of pension banking, pension lending and pension investment management options in one package.

Europe

Left:
Iain Little Managing Director, Switzerland

Right: U.K. Office (from left to right)
Joan Mason Manager Property Finance
George Bogucki Managing Director
Kathryn Field Portfolio Manager
Simon Brooks Head of Banking

Group Business Lines

Group Asset Management

The Group's Asset Management businesses provide investment management, advisory and brokerage services to institutional and private clients from offices in Bermuda, the Cayman Islands, Guernsey, Switzerland and the United Kingdom.

A full spectrum of asset classes are handled for clients, from money market funds to hedge funds. We respond to clients' needs with services ranging from wealth management advice including portfolio structuring to niche funds for existing structures.

During 2006, Group Asset Management continued to meet clients' needs through solid investment performance, timely reporting and analysis. Additional portfolio managers and analysts were added in various jurisdictions to increase market coverage and client growth. During the year, we installed new, more advanced portfolio analytics tools to produce comprehensive reports and to assist with improved internal research. Our Swiss asset management office was opened in November, expanding our ability to service clients in Europe and adding investment input to our global process. We introduced new investment funds in the Butterfield stable, enriching our offerings to help meet ever-more demanding client needs.

Assets Under Management continued to grow, reaching $10 billion by year end, through both the addition of new clients and existing clients entrusting us with the management of greater portions of their wealth, offset by the loss of business in the United Kingdom.

Group Fund Services

Significant progress was made during the year in the coordination of the activities of Butterfield Fund Services' (BFS) various operating units in Bermuda, The Bahamas, the Cayman Islands and Guernsey. This process was initiated with the hiring of an executive to oversee the Group's business and the appointment of regional business heads for Europe and the Americas.

BFS provides a range of essential administration services to hedge fund and other alternative investment managers as well as to pension plan and mutual fund sponsors. In the past year, Assets Under Administration grew from $61 billion to over $75 billion, making BFS the 12th and 14th largest administrator of fund of hedge funds and single hedge funds, respectively, worldwide, according to industry publication HFM *Week*. The Group's current staff of 210 specialists administers over 800 diverse funds for many of the world's leading investment organisations.

BFS looks to participate in the continuing growth of the global investment industry in the years ahead and, in this regard, has announced the opening in 2007 of a new administration centre to be located in Halifax, Canada. The new facility will provide the Group with the significant additional servicing capacity required to support their growth strategy.

(from left to right)
Frank J. Sebestyen, III Senior Vice President, Group Head of Fund Services
Bruce Albrecht Senior Vice President, Group Head of Asset Management

Support Divisions

Human Resources

Human Resources provides oversight and management of compensation, benefits, recruiting, employee relations and organisational development in each jurisdiction. The Group operates under human resources policies and standards that require adherence to the highest ethical standards and all applicable regulations and employment laws.

Our overriding objective is to become the employer of choice in each of our jurisdictions and lines of business. We strive to attract and retain knowledgeable, service-oriented, high potential employees by creating and maintaining a motivating work environment. Recognising that our organisation's people are our strongest competitive advantage, we offer employees fair and equitable compensation, personal development and career advancement opportunities, as well as recognition for good performance.

In 2006, our continued focus was on employee training and improvement of the physical working environment. These priorities were reflected in a host of service training and development opportunities provided to employees in multiple jurisdictions, and in the ongoing renovation and improvement of premises in many areas.

Marketing & Communications

Marketing and Communications teams in each jurisdiction provide direction and support for the Group's corporate and departmental marketing activities and overall image. Responsibilities include internal and external communication activities, including sponsorships and events, promotions and advertising, newsletters, and public and media relations. The Group's Corporate Standards provide consistency in brand messages and advertising across all jurisdictions and lines of business. We also conduct market research to measure the success of new product launches and advertising campaigns, customer service levels, market demographics and opinions, and obtain employee feedback through internal workplace surveys.

Technology

Much of the Group's project activity this year focused on upgrading infrastructure items – ranging from desktops to networks, telephony to data centres. This modernisation effort will continue through 2007. A major upgrade of the Bank's general ledger system commenced in 2006, with the first project completed successfully at the end of December. Activities for 2007 include a new Bermuda banking system implementation.

The new Butterfield Bank Group website went live in November, and has enhanced customers' online experiences. Additional Internet banking capabilities are planned, building on the progress we made with the new website.

(from left to right)
Pete D. Ramsdale Senior Vice President, Chief Information Officer
Dianne M. Brewer Vice President, Head of Marketing and Communications

As the Group continues to grow, Information Technology must provide expanded support for new buildings, staff, tools and products. Along with increased regulatory and compliance obligations, this makes for an ever-more challenging business environment. In 2006, the Information Technology team rose to that challenge, and we will strive to continue to deliver value to our internal and external customers going forward.

Risk Management

Risk is inherent in all of the Group's businesses and support activities. Our goal is to limit risks to appropriate levels in light of the Group's financial strength, the characteristics of our businesses, the markets in which we operate, and the competitive and regulatory environment to which we are subject.

The Risk Policy Committee of the Board of Directors reviews the risks impacting our businesses and establishes Risk Management Policies that are to be consistently applied across all jurisdictions. The Enterprise Risk Management Division (Group ERM) is responsible for developing and maintaining a framework for the application of those Policies and related Standards that establish both accountability and approval authorities, and a comprehensive set of control objectives against which we benchmark product/process controls.

Credit risk is the risk of loss associated with the failure of a borrower or counterparty to fulfill its financial or contractual obligation to the Bank. The Group Credit Risk Management Division (Group CRM), which is independent of the Bank's business units, is responsible for identifying, monitoring and reporting on credit risks affecting the Group's business activities, including connected lending, large exposures and sector concentrations. All significant credit proposals are processed through Group CRM for adjudication.

In addition, the Group Credit Committee, chaired by the President & Chief Executive Officer, provides a forum to review credit exposures, establish and review credit strategy and policy, and approve selected credit transactions for the Group. The Group has an independent loan review program, which provides Management and the Board of Directors with an assessment of overall loan quality and soundness of credit management practices. The Risk Policy Committee of the Board of Directors plays an integral role in reviewing the Group's credit risk framework and profile.

Market risk and liquidity risk are managed through appropriate controls and reporting systems. The Asset and Liability Management Committee (ALCO), chaired by the Chief Financial Officer, and the Risk Policy Committee of the Board of Directors play an integral role in identifying, reviewing and managing financial risk.

The Risk Review Committee, chaired by the Head of Enterprise Risk Management, reviews and monitors business/event risks, transactions and operational controls, operating losses and frauds, business continuity, potential regulatory changes, legal risks and compliance with financial and business conduct regulations.

The Compliance function seeks to ensure the Group is adequately safeguarded from criminals and fraud. Undertaking Know Your Customer research, monitoring of account activity, working with regulators and assisting with criminal investigations, Compliance is an integrated part of the Group's business processes.

(from left to right)
Fred H. Tesch Senior Vice President, Group Internal Audit
Michael A. McWatt Senior Vice President, Credit Risk Management
James R. Stewart Senior Vice President, Enterprise Risk Management

Financials

Financial Overview

Income

Total income for the Group after provisions was $415.1 million for the year ended 31 December 2006, up $59.9 million, or 16.9%, from $355.1 million for the same period a year ago. Net interest income before provisions for credit losses increased by 17.7% to $218.2 million. The increase reflects growth in average interest earning assets, up 13.5% to $10.0 billion, and the Group's continually successful asset/liability management strategies. As a result the net interest margin widened by 0.09% to 2.15%.

We continue to be appropriately reserved with total provisions of $25.7 million. Non-performing loans totalled $29.1 million as at 31 December 2006, up from $27.0 million a year ago, reflecting loan growth. They represent 0.8% of the total loan portfolio, in line with that a year ago. Provisions in respect of credit losses charged to income were $3.0 million, compared to $3.2 million last year.

Non-interest income grew by 12.5% to $193.7 million, reflecting business growth, notably from investment & pension fund administration (+15.6%), banking services (+13.4%), trust and investment services (+11.4%), and foreign exchange (+10.6%).

Other revenues during the year totalled $6.2 million, up from $0.9 million the previous year, reflecting realised gains on the sale of affiliates and an equity investment, the final settlement of an insurance claim, and unrealised gains on trading securities.

Changes in Net Interest Income

(In $ thousands)

For the year ended 31 December	2006			2005		
	Average balance	Interest	Rate	Average balance	Interest	Rate
Assets						
Cash and deposits with banks	3,308,586	129,908	3.93%	2,660,107	69,346	2.61%
Investments	3,317,309	163,348	4.92%	3,307,160	129,092	3.90%
Loans	3,384,718	234,772	6.94%	2,855,086	180,743	6.33%
Interest earning assets	10,010,613	528,028	5.27%	8,822,353	379,181	4.30%
Other assets	389,083	-	-	333,286	-	-
Total assets	10,399,696	528,028	5.08%	9,155,639	379,181	4.14%
Liabilities						
Deposits	8,415,621	298,254	3.54%	7,345,378	188,493	2.57%
Subordinated capital	278,963	14,553	5.22%	223,335	8,514	3.81%
Interest bearing liabilities	8,694,584	312,807	3.60%	7,568,713	197,007	2.60%
Non-interest bearing current accounts	964,496	-	-	963,599	-	-
Other liabilities	195,115	-	-	157,380	-	-
Total liabilities	9,854,195	-	-	8,689,692	-	-
Shareholders' equity	545,501	-	-	465,947	-	-
Total liabilities and shareholders' equity	10,399,696	312,807	3.60%	9,155,639	197,007	2.60%
Spread			1.67%			1.70%
Net interest margin			2.15%			2.06%

Note: Underlying assets and liabilities are comprised of various currencies.

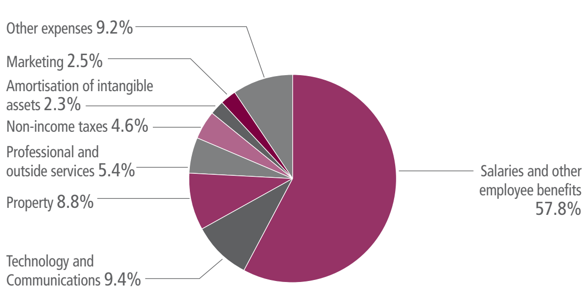
Expenses

The Group remains committed to the prudent management of the expense base and continually seeks opportunities to improve efficiency. The efficiency ratio improved from 66.4% in 2005 to 64.8%, reflecting the fact that growth in the Group's operating revenue, up 16.9%, was higher than the 13.5% increase for operating expenses.

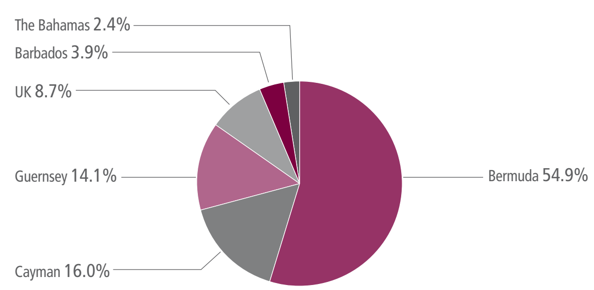
The increase in the operating expense primarily reflected the expanding size of the Group, with salaries and employee benefits up 12.6% to $162.5 million, and accounting for 58.6% of total Group operating expenses, compared with 59.1% last year. Increases of 16.3% and 18.0% respectively were seen in technology and communication and property costs, reflecting continued investment in these areas.

As at 31 December 2006 there were 845 employees in Bermuda, up from 789 a year ago, and overseas the headcount rose by 77 to 885, the increases primarily to support continued business growth.

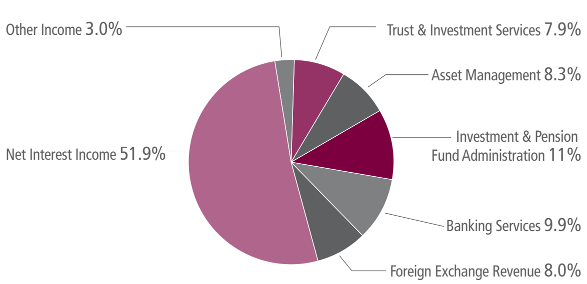
Distribution of 2006 Total Expense



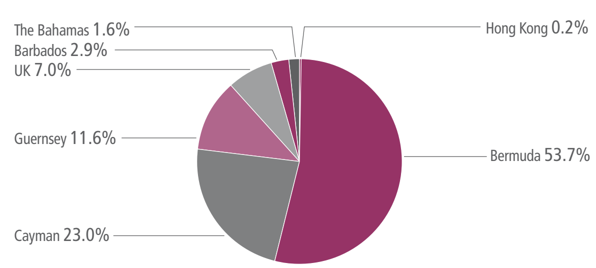
Distribution of 2006 Expenses by Location



Distribution of 2006 Total Revenue



Distribution of 2006 Total Revenue by Location



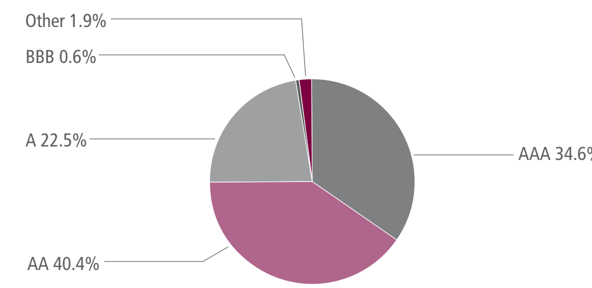
Balance Sheet

Total assets increased by 21.0% to $11.1 billion, up from $9.2 billion a year ago. This increase reflects the rise in the customer deposit base, up year on year by $1.8 billion, or 22.7%, to $9.8 billion. The increase in the customer deposit base was primarily employed in deposits with banks, up 10.6% to $3.2 billion, and in funding our investment and loan portfolios, up year on year by 29.8% and 21.9% to $3.8 billion for both portfolios respectively. The Balance sheet remains highly liquid with a loans to customer deposits ratio of 38.6% and loans to total assets ratio of 33.8%.

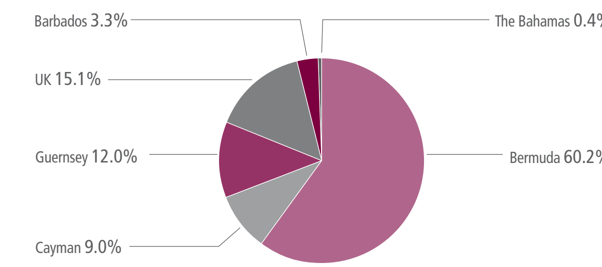
Taxes

For the period under review the corporation tax of the Group was $3.8 million compared to $1.6 million for the same period a year ago, reflecting increased taxable earnings in Guernsey and the United Kingdom. Corporation taxes of $3.6 million in Guernsey, $0.1 million in Barbados and $0.1 million in the United Kingdom were incurred for the year. Non-income taxes of $13.0 million were also paid across the Group, up from $11.9 million the previous year, primarily reflecting an increase in employee-related 'payroll tax' paid in Bermuda.

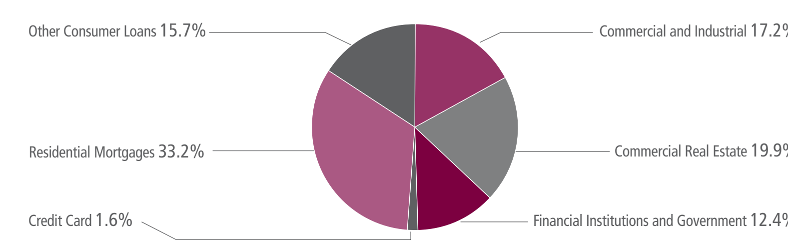
Investment Portfolio by Long Term Debt Rating



Lending by Location



Group Loans by Type



Capital

The Group continues to maintain a strong capital base that ensures stability and allows us to take advantage of opportunities for growth. At 31 December 2006 the risk weighted total capital ratio was 13.5%, compared to the 10.0% minimum requirement of the Bermuda Monetary Authority and up from 13.1% a year ago. Of the total, the Tier 1 ratio was 8.9%, compared to a 5% minimum requirement and 8.6% at year-end 2005. Shareholders' equity increased by $54.3 million, or 11.0%, over a year ago, reflecting the increase in retained earnings less share buy-backs offset by the adoption of the Financial Accounting Standards Board new accounting standard – FAS 158 'Employers' accounting for Defined Benefit Pension and Other Postretirement Plans'. This standard is effective for years ending after 15 December 2006 with no retrospective application. Its impact was to reduce shareholders' equity by $41.3 million.

Weighted risk assets rose year on year by 16.6% to $5.5 billion, primarily due to growth in loans and investments. The loan to the Stock Option Trust of $37.0 million is in respect of potential obligations under the Bank's Stock Option Plan and is deducted from shareholders' equity as treasury stock. The increase in the loan from $25.5 million the previous year reflects the purchase by the Trust of 431,132 shares at a total cost of $25.1 million during the year, offset by repayments from cash received on the exercise of stock options by Directors and employees.

During the period under review, the Bank issued 263,435 shares under the Dividend Re-investment Programme, which represents a cash savings of $10.6 million, or 32.3% of the total dividend paid. As a result of the one-for-ten stock dividend in August 2006, 2,706,063 new shares were also issued. Under the Share Repurchase Programme, the Bank purchased and cancelled 47,659 shares, at a cost of $2.7 million.

Capital Composition

(In $ thousands)

For the year ended 31 December	2006	2005
Tier 1 capital	488,131	402,766
Tier 2 capital	266,185	222,012
Deductions *	(18,722)	(13,351)
Total capital	735,594	611,427

Weighted Risk Assets

(In $ thousands)

	2006	2005
Cash and inter-bank placements	623,260	569,030
Investments	1,091,422	874,306
Loans	2,867,821	2,407,471
Other assets	285,450	218,971
Off-balance sheet items	600,715	611,571
Total weighted risk assets	5,468,668	4,681,349

Capital Ratios (%)

	2006	2005
Tier 1	8.9%	8.6%
Tier 2	4.9%	4.7%
Deductions *	(0.3%)	(0.2%)
Total	13.5%	13.1%

* Deductions from capital comprise investments in affiliates.

Financial Overview

Selected Quarterly Results of Operations

(Unaudited, in $ thousands except per share data and ratios)

	2006			
Quarter ended	**31 December**	**30 September**	**30 June**	**31 March**
Net interest income after provision for credit losses	**57,688**	**55,058**	**53,573**	**48,902**
Total fees and other income	**49,581**	**51,018**	**51,078**	**48,154**
Total revenue	**107,269**	**106,076**	**104,651**	**97,056**
Total non-interest expense	**74,786**	**71,424**	**70,794**	**63,965**
Net income for the quarter	**32,483**	**34,652**	**33,857**	**33,091**
Earnings per share ($) *				
Basic	**1.15**	**1.22**	**1.19**	**1.18**
Diluted	**1.11**	**1.18**	**1.16**	**1.15**
Return on shareholders' equity (%)	**22.7**	**24.5**	**25.0**	**26.3**

	2005			
Quarter ended	31 December	30 September	30 June	31 March
Net interest income after provision for credit losses	47,918	47,602	45,760	40,894
Total fees and other income	42,638	43,919	44,564	41,834
Total revenue	90,556	91,521	90,324	82,728
Total non-interest expense	66,218	60,893	60,274	58,393
Net income for the quarter	24,338	30,628	30,050	24,335
Earnings per share ($) *				
Basic	0.88	1.10	1.09	0.88
Diluted	0.85	1.07	1.07	0.86
Return on shareholders' equity (%)	19.7	25.7	27.3	22.7

* Comparative per share data has been restated to reflect the 1 for 10 stock dividends in August 2006 and 2005.

Financial Summary

(In $ thousands, except per share data)

Year ended 31 December	2006	2005	2004	2003	2002
At year end					
Cash and deposits with banks	**3,151,191**	2,849,920	2,396,724	2,912,383	1,989,159
Investments	**3,786,793**	2,916,399	3,266,400	2,638,253	2,073,112
Loans, net of allowance for credit losses	**3,760,745**	3,085,594	2,645,331	1,954,716	1,767,088
Premises, equipment and computer software	**171,326**	141,708	126,031	99,979	96,419
Total assets	**11,132,802**	9,197,566	8,630,383	7,733,806	6,007,874
Total deposits	**10,042,832**	8,240,109	7,907,450	7,122,577	5,516,216
Subordinated capital and senior debt	**280,168**	278,679	142,333	122,871	75,000
Shareholders' equity	**549,553**	495,226	428,030	382,095	338,799
For the year					(unaudited)
Net interest income after provision for credit losses	**215,221**	182,174	148,075	115,066	97,503
Fee and other income	**199,831**	172,955	163,090	118,985	114,832
Gain on sale of subsidiaries	**-**	-	-	-	17,013
Salaries and other employee benefits	**162,504**	144,331	127,459	100,104	88,612
Other non-interest expenses	**118,465**	101,447	93,240	63,109	56,993
Net income	**134,083**	109,351	90,466	70,838	83,927
Dividends paid	**46,496**	38,504	32,217	26,809	25,432
Financial ratios					
Return on assets *	**1.3%**	1.2%	1.1%	1.0%	1.2%
Return on shareholders' equity *	**24.6%**	23.6%	21.2%	17.9%	20.5%
Dividend payout ratio	**34.7%**	35.2%	35.6%	37.8%	30.3%
Total capital funds to total assets ratio	**7.5%**	8.4%	6.6%	6.5%	6.9%
Risk weighted capital ratio	**13.5%**	13.1%	10.7%	13.0%	13.1%
Efficiency ratio	**64.8%**	66.4%	69.1%	67.7%	66.4%
Per share ($) **†					
Net income (diluted)	**4.60**	3.85	3.19	2.54	2.69
Dividends declared	**1.80**	1.67	1.55	1.43	1.37
Net book value	**19.37**	17.71	15.57	13.91	12.44
Number of employees					
Bermuda	**845**	789	786	734	724
Overseas	**885**	808	766	647	476
Total	**1,730**	1,597	1,552	1,381	1,200
Shareholder data					
Number of shareholders	**3,915**	3,878	3,778	3,581	3,322
Number of shares (in thousands)**	**28,375**	25,429	22,745	20,643	18,603

* Excludes gain on sale of subsidiaries.
** Excludes shares held by the Bank's Stock Option Trust.
† Inclusive of gain on sale of subsidiaries.
Comparative per share data, with the exception of dividends, has been restated to reflect the 1 for 10 stock dividends in August 2006, 2005, 2004 and 2003.
The number of shares in 2006, 2005, 2004, and 2003 increased primarily due to the issue of the stock dividends.
Data for 2006, 2005, 2004 and 2003 is shown under US GAAP and for 2002 under Canadian GAAP.

Management's Financial Reporting Responsibility

The Management of The Bank of N.T. Butterfield & Son Limited is responsible for the preparation of the consolidated financial statements contained in this Report, which covers all of the interests of the Bank. Management has fully disclosed its income, assets, liabilities and off balance sheet commitments. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and, where appropriate, are based on the best estimates and judgement of Management.

Management has established and maintains a system of financial reporting and internal controls to provide reasonable assurance that transactions are properly authorised and recorded, assets are protected against unauthorised use or disposition and liabilities are recognised. These procedures include the careful selection and training of qualified staff, the establishment of organisational structures providing an appropriate and well-defined division of responsibilities, and the communication of policies and standards of business conduct throughout the Bank.

The system of internal controls is further supported by a professional staff of internal auditors who conduct periodic inspections of all aspects of the Bank's operations. In addition, the Bank's Head of Group Internal Audit has full and free access to the Audit & Compliance Committee of the Board of Directors.

The Audit & Compliance Committee, composed entirely of directors who are not employees of the Bank, reviews the financial statements before such statements are approved by the Board of Directors and submitted to the Bank's shareholders. The Committee meets and consults regularly with Management, the internal auditors and our external independent auditors to review the scope and results of their work.

Under the provisions of the Bermuda Monetary Authority Act 1969, the Bermuda Monetary Authority is charged with the supervision of the Bank. Such supervision is in line with international practices and combines a comprehensive system of statistical returns, providing a detailed breakdown of the balance sheet and statement of income accounts of the Bank, and regular meetings with the senior management of the Bank. Such regular reviews are intended to satisfy the Authority that the safety and interests of the depositors, creditors and shareholders of the Bank are being duly observed and that the Bank is in a sound financial condition.

The accounting firm of PricewaterhouseCoopers, the shareholders' independent auditors, has examined the consolidated financial statements of the Bank in accordance with auditing standards generally accepted in the United States of America and have expressed their opinion in their report to the shareholders. The auditors have unrestricted access to, and meet periodically with, the Audit & Compliance Committee to review their findings regarding internal controls over the financial reporting process, auditing matters and financial reporting issues. Management has made available to PricewaterhouseCoopers all of the Bank's financial records and related data as well as the minutes of shareholders' and directors' meetings.

Alan R. Thompson
President & Chief Executive Officer
2 March 2007

Richard J. Ferrett
Executive Vice President & Chief Financial Officer
2 March 2007

Independent Auditors' Report to the Shareholders

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Chartered Accountants
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Independent Auditors' Report

To the Shareholders of
The Bank of N.T. Butterfield & Son Limited

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholders' equity and comprehensive income and of cash flows present fairly, in all material respects, the financial position of The Bank of N.T. Butterfield & Son Limited and its subsidiaries at 31 December 2006 and 2005 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers

Chartered Accountants

2 March 2007

A list of partners can be obtained from the above address
PricewaterhouseCoopers refers to the members of the worldwide PricewaterhouseCoopers organisation

Consolidated Balance Sheet

As at 31 December (In $ thousands)

	2006	2005
Assets		
Cash and demand deposits with banks	341,582	154,698
Term deposits with banks	2,809,609	2,695,222
Total cash and deposits with banks	3,151,191	2,849,920
Investments		
Trading	56,471	136,520
Available for sale	963,355	546,302
Held to maturity	2,766,967	2,233,577
Total investments	3,786,793	2,916,399
Loans, net of allowance for credit losses	3,760,745	3,085,594
Premises, equipment and computer software	171,326	141,708
Accrued interest	64,163	44,648
Goodwill	25,018	22,840
Other intangible assets	69,685	69,622
Other assets	103,881	66,835
Total assets	11,132,802	9,197,566
Liabilities		
Deposits		
Non-interest bearing	964,496	858,358
Interest bearing		
Customers	8,791,163	7,090,608
Banks	287,173	291,143
Total deposits	10,042,832	8,240,109
Employee future benefits	107,191	61,573
Accrued interest	33,409	19,093
Dividend payable	13,178	11,049
Other liabilities	106,471	91,837
Total other liabilities	260,249	183,552
Subordinated capital	280,168	278,679
Total liabilities	10,583,249	8,702,340
Shareholders' equity		
Share capital ($1.00 par: Authorised shares 100,000,000 (2005: 70,000,000))	29,870	26,948
Additional paid in capital	514,872	341,647
Retained earnings	76,881	152,501
Less: treasury stock	(37,039)	(25,548)
Accumulated other comprehensive income	(35,031)	(322)
Total shareholders' equity	549,553	495,225
Total liabilities and shareholders' equity	11,132,802	9,197,566

The accompanying notes are an integral part of these consolidated financial statements.

James A. C. King, JP
Chairman of the Board

Robert J. Stewart, JP
Co-Vice Chairman

Alan R. Thompson
President & Chief Executive Officer

Consolidated Statement of Income

For the year ended 31 December (In $ thousands, except per share data)

	2006	2005
Non-interest income		
Investment and pension fund administration	45,798	39,617
Banking services	41,289	36,404
Asset management	34,492	34,687
Foreign exchange revenue	33,053	29,894
Trust and investment services	32,650	29,309
Other non-interest income	6,372	2,188
Total non-interest income	193,654	172,099
Interest income		
Loans	237,769	183,915
Investments	163,348	129,092
Deposits with banks	129,908	69,346
Total interest income	531,025	382,353
Interest expense		
Deposits	298,254	188,493
Subordinated capital and senior debt	14,553	8,514
Total interest expense	312,807	197,007
Net interest income before provision for credit losses	218,218	185,346
Provision for credit losses	(2,997)	(3,172)
Net interest income after provision for credit losses	215,221	182,174
Realised / unrealised gains on trading securities	1,608	895
Realised gains on available for sale securities	-	90
Gain on sale of affiliates	2,144	-
Other gains / (losses)	2,425	(129)
Total revenue	415,052	355,129
Non-interest expense		
Salaries and other employee benefits	162,504	144,331
Technology and communications	26,531	22,813
Property	24,770	20,993
Professional and outside services	15,071	14,352
Non-income taxes	13,045	11,886
Amortisation of intangible assets	6,352	6,308
Marketing	6,932	5,658
Other expenses	21,972	17,809
Total non-interest expense	277,177	244,150
Net income before income taxes	137,875	110,979
Income taxes	(3,792)	(1,628)
Net income	134,083	109,351
Earnings per share		
Basic	4.74	3.95
Diluted	4.60	3.85

The accompanying notes are an integral part of these consolidated financial statements.
Earnings per share comparative figures have been restated for the 1 for 10 stock dividend in August 2006.

Consolidated Statement of Changes in Shareholders' Equity and Comprehensive Income

For the year ended 31 December (In $ thousands)

	2006	2005
Share capital		
Authorised: 100,000,000 shares (2005: 70,000,000) of par value $1 each		
Issued		
Issued and outstanding at beginning of year	26,948	24,301
(January 2006: 26,947,915 shares; January 2005: 24,301,337 shares)		
Dividend reinvestment	264	243
(December 2006: 263,435 shares; December 2005: 242,738 shares)		
Stock dividend	2,706	2,437
(December 2006: 2,706,063 shares; December 2005: 2,436,730 shares)		
Shares repurchased and cancelled	(48)	(33)
(December 2006: 47,659 shares; December 2005: 32,890 shares)		
Issued and outstanding at end of year	29,870	26,948
(December 2006: 29,869,754; December 2005: 26,947,915 shares)		
Additional paid in capital		
Balance at beginning of year	341,647	229,495
Dividend reinvestment	14,804	10,395
Stock dividend	158,371	102,769
Issued under directors' and executive officers' and employees' stock option plans	2,666	321
Shares repurchased and cancelled	(2,616)	(1,333)
Balance at end of year	514,872	341,647
Retained earnings		
Appropriated - general reserve	100,000	100,000
Unappropriated at beginning of year	52,501	88,674
Net income for year	134,083	109,351
Cash dividends declared	(48,626)	(40,318)
Stock dividend	(161,077)	(105,206)
Balance at end of year	76,881	152,501
Accumulated other comprehensive (loss) income		
Balance at beginning of year	(322)	11,031
Net change in unrealised gains and losses on translation of net investment in foreign operations	5,465	(7,752)
Net change in unrealised gains and losses on available for sale securities	(446)	(328)
Net change in unrealised gains and losses on cash flow hedges	1,134	(2,869)
Net change in employee future benefits	(41,266)	-
Net change in minimum pension liability	404	(404)
Balance at end of year	(35,031)	(322)
Treasury stock		
Balance at beginning of year (January 2006: 1,519,203 shares; January 2005: 1,556,476 shares)	(25,548)	(25,471)
Net purchases	(11,491)	(77)
Balance at end of year	(37,039)	(25,548)
(December 2006: 1,494,584 shares; December 2005: 1,519,203 shares)		
Total shareholders' equity	549,553	495,226
Comprehensive income		
Net income	134,083	109,351
Other comprehensive loss	(34,709)	(11,353)
Total comprehensive income	99,374	97,998

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December (In $ thousands)

	2006	2005
Cash flows from operating activities		
Net income	134,083	109,351
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortisation	21,009	20,822
Write down of equipment and computer software	-	1,100
(Increase) decrease in carrying value of investments in affiliates	(4,204)	833
Share-based compensation	2,328	-
Gain on sale of affiliate	(635)	-
Gain on sale of premises and equipment	(1,509)	-
Gain on sale of private equity investment	(1,501)	-
Realised gain on sale of available for sale securities	-	(90)
Provision for credit losses	2,997	3,172
Increase in accrued interest receivable	(16,708)	(15,237)
Increase in other assets	(27,521)	(10,359)
Increase in accrued interest payable	12,724	10,743
(Decrease) increase in other liabilities	(344)	30,280
	120,719	150,615
Net change in trading account securities	86,758	487,611
Cash provided by operating activities	207,477	638,226
Cash flows from investing activities		
Net decrease (increase) in term deposits with banks	21,486	(555,669)
Additions to premises, equipment and computer software	(42,621)	(35,569)
Net increase in loans	(575,187)	(504,151)
Held to maturity securities: proceeds from maturities	734,672	1,168,313
Held to maturity securities: purchases	(1,240,278)	(883,195)
Available for sale securities: proceeds from sale and maturities	2,685,099	731,186
Available for sale securities: purchases	(3,030,445)	(1,263,259)
Net proceeds on sale of private equity investment	1,501	-
Net proceeds on sale of affiliate	635	-
Cash used in investing activities	(1,445,138)	(1,342,344)
Cash flows from financing activities		
Net increase in demand and term deposit liabilities	1,470,924	583,108
Issuance of subordinated capital	-	150,000
Repayment of senior debt	-	(9,666)
Proceeds from dividend re-investment plan	15,066	10,638
Shares repurchased and cancelled	(2,664)	(1,366)
Treasury stock	(11,491)	(77)
Cash dividends paid	(46,496)	(38,504)
Cash used in financing activities	1,425,339	694,133
Effect of exchange rates on cash and demand deposits with banks	(794)	252
Net increase (decrease) in cash and demand deposits with banks	186,884	(9,733)
Cash and demand deposits with banks: beginning of year	154,698	164,431
Cash and demand deposits with banks: end of year	341,582	154,698
Supplemental disclosure of cash flow information		
Cash interest paid	300,956	187,429
Cash income tax paid	2,741	322

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

For the year ended 31 December 2006 (All amounts are expressed in thousands of Bermuda dollars unless otherwise stated)

Note 1: Significant Accounting Policies

(a) Basis of Presentation

The accounting and financial reporting policies of The Bank of N.T. Butterfield & Son Limited (the Bank) and its subsidiaries conform to Generally Accepted Accounting Principles in the United States of America (GAAP). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are subject to change in the future as additional information becomes available or previously existing circumstances are modified.

(b) Basis of Consolidation

The Bank consolidates subsidiaries where it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. Entities where the Bank holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence, other than investments in designated variable interest entities (VIEs), are accounted for under the equity method, and the pro rata share of their income (loss) is included in other income. The Bank consolidates entities deemed to be VIEs when the Bank is determined to be the primary beneficiary under the Financial Accounting Standards Board (FASB) Interpretation No. 46 (Revised 2003) Consolidation of Variable Interest Entities (FIN 46R).

(c) Foreign Currency Translation

Assets, liabilities, revenues and expenses denominated in US dollars are translated to Bermuda dollars at par. Assets and liabilities arising from other foreign currency transactions are translated into Bermuda dollars at the rates of exchange prevailing at the balance sheet date. The resulting gains or losses are included in foreign exchange revenue in the Consolidated Statement of Income.

The assets and liabilities of foreign currency based subsidiaries are translated at the rate of exchange prevailing at the balance sheet date while associated revenues and expenses are translated to Bermuda dollars at the average rates of exchange prevailing throughout the period. Unrealised translation gains or losses on investments in foreign currency based subsidiaries are recorded as a separate component of shareholders' equity within accumulated other comprehensive income. Such gains and losses are recorded in the Consolidated Statement of Income only when realised.

(d) Assets Held in Trust or Custody

Securities and properties (other than cash and deposits held with the Bank and its subsidiaries) held in trust, custody, agency or fiduciary capacity for customers are not included in the Consolidated Balance Sheet because the Bank is not the beneficiary of these assets.

(e) Investments

Investments include debt and equity securities. Debt securities include bonds, notes, certificates of deposit, redeemable preferred stock, as well as certain loan or asset backed and structured securities subject to prepayment risk. Equity securities include common and non-redeemable preferred stocks. Debt securities classified as "held to maturity" represent securities that the Bank has both the ability and the intent to hold until maturity and are carried at amortised cost adjusted to recognise other than temporary impairment, except for money market mutual funds which are carried at market value, which approximates cost plus accrued and reinvested interest since acquisition. Debt securities and marketable equity securities classified as "available for sale" are carried at fair value, with unrealised gains and losses reported in Other Comprehensive Income, with the exception of other than temporary impairments which are included in net income. Debt and equity securities classified as "trading" securities are carried at fair value, with the unrealised gains and losses included in the Consolidated Statement of Income as gains and losses on trading securities.

Fair value is determined based on the quoted market price when available or, if quoted market prices are not available, discounted expected cash flows using market rates commensurate with the credit quality and maturity of the investment. In respect of held to maturity or available for sale securities, declines in fair value that are determined to be other than temporary are charged to earnings. Accrual of income is suspended in respect of debt securities that are in default, or from which it is unlikely that future interest payments will be received as scheduled. Realised gains and losses on sales of investments are included in earnings on a specific identified cost basis.

Venture capital investments are recorded at fair value with adjustments to fair value being recognised in investment income. In assessing fair value, management reviews meaningful third party transactions in the private market and the results of applying acceptable valuation methodologies to current and projected cash flows. In the absence of persuasive evidence to the contrary, management generally considers cost to be the best indicator of fair value. Due to the dynamic nature of assumptions used in establishing fair values, the values reflected in the consolidated financial statements may differ materially from the values that would be determined by negotiations held between parties in a sale transaction.

(f) Loans

Loans are reported at the principal amount outstanding, net of allowance for credit losses, unearned income and net deferred loan fees. Interest income is recognised over the term of the loan using the interest method, or on a basis approximating a level rate of return over the term of the loan, except for loans classified as non-accrual. Non-accrual loans are those on which the accrual of interest is discontinued. Loans are placed on non-accrual status immediately if, in the opinion of management, full payment of principal or interest is in doubt or when principal or interest is 90 days past due, unless the loan is fully secured and any collection efforts are reasonably expected to result in repayment of all amounts due under the contractual terms of the loan.

Interest accrued but not collected at the date a loan is placed on non-accrual status is reversed against interest income. In addition, the amortisation of net deferred loan fees is suspended. Interest income on non-accrual loans is recognised only to the extent it is received in cash. However, where there is doubt regarding the ultimate collectivity of the loan principal, all cash thereafter received is applied to reduce the carrying value of the loan. Loans are restored to accrual status only when interest and principal payments are brought current and future payments are reasonably assured.

Credit card loans that are contractually 180 days past due and consumer loans with an outstanding balance under $100,000 that are contractually 180 days past due are automatically written off.

The Bank accounts for and discloses non-accrual commercial loans as impaired loans, and recognises interest income as previously discussed for non-accrual loans. Accordingly, interest income on these loans is recognised after the entire recorded investment is recovered, and interest is actually received. In addition, the amortisation of net deferred loan fees is suspended.

(g) Allowance for Credit Losses

The Bank maintains an allowance for credit losses, which in management's opinion is adequate to absorb all incurred credit related losses in its portfolio relating to on and off balance sheet financial instruments. The allowance for credit losses consists of specific allowances and a general allowance, each of which is reviewed on a regular basis. The allowance for credit losses is included as a reduction of the related asset category.

(h) Specific Allowances

Specific allowances are determined on an item by item basis and reflect the associated estimated credit loss. The specific allowance for credit loss is computed as the difference between the recorded investment in the loan and present value of expected future cash flows from the loan. The effective rate of return on the loan is used for discounting the cash flows. However, when foreclosure of a collateral-dependent loan is probable, the Bank measures impairment based on the fair value of the collateral. The Bank considers estimated costs to sell, on a discounted basis, in the measurement of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan. If the measurement of an impaired loan is less than the recorded investment in the loan, then the Bank recognises impairment by creating a valuation allowance with a corresponding charge to bad debt expense.

(i) General Allowance

The allowance for credit losses attributed to the remaining portfolio is established through a process that estimates the probable loss inherent in the portfolio based upon various analyses. These analyses consider historical default rates and loss severities, internal risk ratings, and geographic, industry, and other environmental factors. Management also considers overall portfolio indicators including trends in internally risk rated exposures, cash-basis loans, historical and forecasted write-offs, and a review of industry, geographic and portfolio concentrations, including current developments within those segments. In addition, management considers the current business strategy and credit process, including limit setting and compliance, credit approvals, loan underwriting criteria and loan workout procedures.

Each portfolio of smaller balance, homogeneous loans, including consumer mortgage, instalment, revolving credit, and most other consumer loans, is collectively evaluated for impairment. The allowance for credit losses attributed to these loans is established via a process that estimates the probable losses inherent in the portfolio, based upon various analyses. Management considers overall portfolio indicators including historical credit losses; delinquent (defined as loans with payments contractually over 30 days past due), non-performing, and classified loans; trends in volumes and terms of loans; an evaluation of overall credit quality; the credit process, including lending policies and procedures; and economic, geographical, product, and other environmental factors.

(j) Business Combinations, Goodwill and Intangible Assets

All business combinations are accounted for using the purchase method. Identifiable intangible assets (mostly customer relationships) are recognised separately from goodwill and are initially valued using discounted cash flow calculations and other recognised valuation techniques. Goodwill represents the excess of the price paid for the acquisition of a business over the fair value of the net assets acquired. Goodwill is tested annually for impairment at the reporting unit level, or more frequently if events or circumstances such as adverse changes in the business climate indicate there may be impairment. If the carrying amount of a reporting unit, including the allocated goodwill, exceeds its fair value, goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill. Other acquired intangible assets with finite lives are amortised on a straight-line basis over their estimated useful lives, not exceeding 15 years. Intangible assets' estimated lives are re-evaluated annually and an impairment test is carried out if certain indicators of impairment exist.

(k) Premises, Equipment and Computer Software

Land, building, equipment and computer software, including leasehold improvements, are carried at cost less accumulated depreciation. The Bank generally computes depreciation using the straight-line method over the estimated useful life of an asset, which is 50 years for buildings, and 3 to 10 years for other equipment. For leasehold improvements the Bank uses the straight-line method over the lesser of the remaining term of the leased facility or the estimated economic life of the improvement. The Bank capitalises certain costs associated with the acquisition or development of internal use software. Once the software is ready for its intended use, these costs are amortised on a straight-line basis over the software's expected useful life, which is between 5 and 7 years. If deemed significant the Bank will capitalise interest cost in accordance with FAS No. 34 Capitalisation of Interest Cost (FAS 34).

(l) Derivatives

In accordance with FAS No. 133 Accounting for Derivative Instruments and Hedging Activities (FAS 133), all derivatives are recognised on the Consolidated Balance Sheet at their fair value. FAS 133, as amended by FAS No. 138 Accounting for Certain Derivative Instruments and Certain Hedging Activities (FAS 138) and FAS No. 149 Amendment of Statement 133 on Derivative Instruments and Hedging Activities (FAS 149), establishes accounting and reporting standards for financial derivatives, including certain financial derivatives embedded in other contracts and hedging activities. On the date that the Bank enters into a derivative contract, it designates the derivative as either: a hedge of the fair value of a recognised asset or liability (a fair value hedge); a hedge of a forecasted transaction or the variability of cash flows that are to be received or paid in connection with a recognised asset or liability (a cash flow hedge), or an instrument that is held for trading or non-hedging purposes (a trading or non-hedging instrument).

Changes in the fair value of a derivative that is highly effective, and that is designated and qualifies as a fair value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk, are recorded in current period earnings. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction. Any hedge ineffectiveness is recorded in current period earnings.

Changes in the fair value of a derivative that is highly effective as and that is designated and qualifies as a foreign currency hedge is recorded in either current period earnings or other comprehensive income, depending on whether the hedging relationship satisfies the criteria for a fair value or cash flow hedge. If, however, a derivative is used as a hedge of a net investment in a foreign operation, the changes in the derivative's fair value, to the extent that the derivative is effective as a hedge, are recorded in the cumulative translation adjustment account within other comprehensive income. Changes in the fair value of derivative trading and non-hedging instruments are reported in current period earnings.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value, cash flow, or foreign currency hedges to specific assets and liabilities on the consolidated balance sheet or specific firm commitments or forecasted transactions. The Bank also formally assesses whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative has ceased to be highly effective as a hedge, the Bank discontinues hedge accounting prospectively.

For those hedge relationships that are terminated, hedge designations that are removed, or forecasted transactions that are no longer expected to occur, the hedge accounting treatment described in the paragraphs above is no longer applied and the end-user derivative is terminated or transferred to the trading account. For fair value hedges, any changes to the hedged item remain as part of the basis of the asset or liability and are ultimately reflected as an element of the yield. For cash flow hedges, any changes in fair value of the end-user derivative remain in other comprehensive income and are included in retained earnings of future periods when earnings are also affected by the variability of the hedged cash flows. If the forecasted transaction is no longer likely to occur, any changes in fair value of the end-user derivatives are immediately reflected in other income.

(m) Employee Future Benefits

The Bank maintains trusteed pension plans for substantially all employees including non-contributory defined benefit plans and a number of defined contribution plans. Benefits under the defined benefit plans are primarily based on the employee's years of credited service and average annual salary during the final years of employment as defined in the plans. The Bank also provides post-retirement medical benefits for substantially all retired Bermuda-based employees.

The Bank's defined benefit pension plans are accounted for in accordance with FAS No. 87 Employers' Accounting for Pensions (FAS 87) and FAS No. 88 Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits (FAS 88). Its post-retirement medical and life insurance plans are accounted for in accordance with FAS No. 106 Employers' Accounting for Post-retirement Benefits Other Than Pensions (FAS 106). Starting 31 December 2006, both plans are also accounted for in accordance with FAS No. 158 (FAS 158), Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R).

Expense for the defined benefit pension plans and the post-retirement medical benefits plan is comprised of (a) the actuarially determined benefits for the current year's service, (b) imputed interest on the actuarially determined liability of the plan, (c) in the case of the defined benefit pension plans, the expected investment return on the market value of plan assets and (d) amortisation of certain items over the expected average remaining service life of employees in the case of the defined benefit pension plans, and the expected average remaining service life to full eligibility age of employees covered by the plan in the case of the post-retirement medical benefits plan. The items amortised are amounts arising as a result of experience gains and losses, changes in assumptions, plan amendments and the change in the net pension asset or post-retirement medical benefits liability arising on adoption of revised accounting standards.

For each of the defined benefit pension plans and for the post-retirement medical benefits plan, the asset (liability) recognised for accounting purposes is reported in other assets and employee future benefits.

For the defined contribution pension plans the Bank and participating employees provide an annual contribution based on each participating employee's pensionable earnings. Amounts paid are expensed in the period.

(n) Share-Based Compensation

The Bank has a stock option plan for all eligible employees. In accordance with FAS No. 123R Share-Based Payment (FAS 123R), starting on 1 January 2006 the Bank follows the fair value method of accounting for stock options. The fair value of options that eventually vest is amortised over the vesting period of the options.

(o) Revenue Recognition

Trust and investment services fees include fees for private and institutional trust, executorship, and custody services. These fees are recognised as revenue when the Bank has rendered all services to the clients and is entitled to collect the fee from the client, as long as there are no other contingencies associated with the fee.

Asset management fees include fees for investment management, investment advice and brokerage services. Investment management fees are recognised over the period in which the related service is provided, on a net asset value basis. Investment advice and brokerage services fees are recognised in the period in which the related service is provided.

Investment and pension fund administration fees include fees for pension fund administration, institutional fund administration, registration and transfer agent and corporate services. Pension and institutional fund administration fees are recognised as revenue when the Bank has rendered all services to the clients and is entitled to collect the fee from the client, as long as there are no other contingencies associated with the fee. All other fees are recognised as revenue over the period of the relationship.

Banking services fees primarily include fees for certain loan origination, letters of credit, other financial guarantees, compensating balances and other financial services related products. Certain loan origination fees are primarily overdraft and other revolving lines of credit fees. These fees are recognised as revenue over the period of the underlying facilities. Letters of credit fees are recognised as revenue over the period in which the related service is provided. All other fees are recognised as revenue in the period in which the service is provided.

Loan interest income includes the amortisation of non-refundable loan origination and commitment fees. These fees are deferred (except for certain retrospectively determined fees meeting specified criteria) and recognised as an adjustment of yield over the life of the related loan. In accordance with FAS No. 91 Accounting for Non-refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases (FAS 91), these loan origination and commitment fees are offset by their related direct cost and only the net amounts are deferred and amortised into interest income.

Dividend and interest income on all securities, including amortisation of premiums and discounts on debt securities held for investment, are included in investment income in the Consolidated Statement of Income.

(p) Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The accounting for an asset or liability may differ based on the type of instrument and / or its use in a trading or investing strategy. Generally, the measurement framework recorded in financial statements is based on one of the following:

– At fair value on the Consolidated Balance Sheet, with changes in fair value recorded each period in the Consolidated Statement of Income.

– At fair value on the Consolidated Balance Sheet, with changes in fair value recorded each period as a separate component of shareholders' equity and as part of other comprehensive income.

– At cost (less other than temporary impairments), with changes in fair value not recorded in the financial statements but disclosed in the notes.

– At the lower of cost or fair value.

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Some of the Bank's financial instruments lack an available trading market. Therefore, these instruments have been valued using present value or other valuation techniques and may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The book value of financial assets and financial liabilities held for purposes other than trading may exceed their fair value due primarily to changes in interest rates. In such instances, the Bank does not reduce the book value of these financial assets and financial liabilities to their fair values as it is the Bank's intention to hold them until maturity. The fair values disclosed exclude premises and equipment and certain other assets and liabilities as these are not financial instruments.

The following methods and assumptions were used in the determination of the fair value of financial instruments:

i) **Cash and deposits with banks:** The fair value of cash and deposits with banks, being short term in nature, is deemed to equate to the carrying value.

ii) **Investments:** The fair values of investments are based upon quoted market prices where available.

iii) **Loans:** The majority of loans are variable rate and re-price in response to changes in market rates and hence the fair value has been estimated as the carrying value. For fixed-rate loans, the fair value has been estimated by performing a discounted cash flow calculation using market rates for similar loans made at the balance sheet date.

iv) **Accrued interest:** The carrying values of accrued interest receivable and payable are assumed to approximate their fair values given their short-term nature.

v) **Deposits:** The fair value of fixed-rate deposits has been estimated by discounting the contractual cash flows, using market interest rates offered at the balance sheet date for deposits of similar terms. The fair value of deposits with no stated maturity date is deemed to equate to the carrying value.

vi) **Subordinated capital and senior debt:** The fair value of the subordinated capital and senior debt is based on current market pricing.

vii) **Derivatives:** Fair value of exchange traded derivatives is based on quoted market prices. Fair value of over the counter derivatives is calculated as the net present value of contractual cash flows using prevailing market rates. The aggregate of the estimated fair value of amounts presented does not represent management's estimate of the underlying value to the Bank.

(q) Credit Related Arrangements

In the normal course of business, the Bank enters into various commitments to meet the credit requirements of its customers. Such commitments, which are not included in the Consolidated Balance Sheet, include:

i) Commitments to extend credit which represent undertakings to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions.

ii) Standby letters of credit, which represent irrevocable obligations to make payments to third parties in the event that the customer is unable to meet its financial obligations.

iii) Documentary and commercial letters of credit, primarily related to the import of goods by customers, which represent agreements to honour drafts presented by third parties upon completion of specific activities.

These credit arrangements are subject to the Bank's normal credit standards and collateral is obtained where appropriate. The contractual amounts for these commitments set out in the table in Note 10 represent the maximum payments the Bank would have to make should the contracts be fully drawn, the counterparty default, and any collateral held prove to be of no value. As many of these arrangements will expire or terminate without being drawn upon or fully collateralised, the contractual amounts do not necessarily represent future cash requirements. The Bank does not carry any liability for these obligations.

(r) Income Taxes

The Bank uses the asset and liability method whereby income taxes reflect the expected future tax consequences of temporary differences between the financial statements' carrying amounts of assets and liabilities and their respective tax bases. Accordingly, a deferred income tax asset or liability is determined for each temporary difference based on the enacted tax rates to be in effect on the expected reversal date of the temporary difference. Income taxes on the Consolidated Statement of Income include the current and deferred portions of the income taxes. Income taxes applicable to items charged or credited directly to shareholders' equity are included in such items.

Net deferred income tax assets or liabilities accumulated as a result of temporary differences are included in other assets or other liabilities, respectively. A valuation allowance is established to reduce deferred income tax assets to the amount more likely than not to be realised.

(s) Consolidated Statement of Cash Flows

For the purposes of the Consolidated Statement of Cash Flows, cash and demand deposits with banks include cash and demand deposits; vault cash and cash in transit where the Bank holds the related assets.

(t) Earnings Per Share

Earnings per share has been calculated using the weighted average number of shares outstanding during the year and adjusted for the stock dividends declared during the years ended 31 December 2006 and 2005 (see also Notes 17 and 21). The dilutive effect of stock options was calculated using the treasury stock method, whereby the proceeds received from the exercise of stock options are assumed to be used to repurchase outstanding shares, using the quarterly average market price of the Bank's shares for the period.

(u) Consolidation of Variable Interest Entities

FIN 46R requires beneficiaries of variable interests to consolidate the VIE if that party will absorb a majority of the expected losses of the VIE, receive a majority of residual returns of the VIE, or both. This party is considered the primary beneficiary of the entity. The determination of whether an entity meets the criteria to be considered the primary beneficiary of a VIE requires an evaluation of all transactions (such as investments, loans and fee arrangements) with the entity.

(v) Impairment or Disposal of Long-Lived Assets

An impairment loss is recognised when the carrying amount of a long-lived asset to be held and used exceeds the sum of the undiscounted cash flows expected from its use and disposal. The impairment recognised is measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets that are to be disposed of other than by sale are classified and accounted for as held for use until the date of disposal or abandonment. Assets that meet certain criteria are classified as held for sale and are measured at the lower of their carrying amounts or fair value, less costs of sale.

Note 2: Cash and Deposits with Banks

		2006			2005	
31 December	**Bermuda**	**Non-Bermuda**	**Total**	Bermuda	Non-Bermuda	Total
Unrestricted						
Non-interest earning						
Cash and demand deposits	27,062	22,955	50,017	22,962	16,200	39,162
Interest earning						
Deposits maturing within three months and on demand	183,815	2,745,502	2,929,317	307,898	1,628,157	1,936,055
Deposits maturing between three to six months	-	77,458	77,458	-	810,453	810,453
Deposits maturing between six to twelve months	-	78,719	78,719	-	58,235	58,235
Sub-total - Interest earning	183,815	2,901,679	3,085,494	307,898	2,496,845	2,804,743
Total unrestricted cash and deposits	210,877	2,924,634	3,135,511	330,860	2,513,045	2,843,905
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Non-interest earning						
Demand deposits	-	12,795	12,795	-	-	-
Interest earning						
Deposits maturing within three months	2,885	-	2,885	1,586	4,429	6,015
Total restricted deposits	2,885	12,795	15,680	1,586	4,429	6,015
Total cash and deposits with banks	213,762	2,937,429	3,151,191	332,446	2,517,474	2,849,920

Note 3: Investments

The following table presents securities by remaining term to maturity:

	Remaining term to maturity					
31 December 2006	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No specific maturity**	**Carrying value**
Trading						
Debt securities issued by non-US governments	-	559	3,847	6,351	-	10,757
Corporate securities and other	-	3	-	-	45,711	45,714
Total trading	-	562	3,847	6,351	45,711	56,471
Available for sale						
Debt securities issued by non-US governments	27,265	-	-	-	-	27,265
Corporate debt securities	464,226	372,059	-	1,650	-	837,935
Equity securities	-	-	-	-	223	223
Other, primarily asset-backed securities	97,932	-	-	-	-	97,932
Total available for sale	589,423	372,059	-	1,650	223	963,355
Held to maturity						
US government and federal agencies / corporations	-	-	64,645	158,977	-	223,622
Collateralised mortgage obligations	-	-	-	279,393	-	279,393
Debt securities issued by non-US governments	-	5,458	60,396	14,407	-	80,261
Corporate debt securities	319,165	397,402	1,130,477	113,568	-	1,960,612
Other, primarily asset-backed securities	-	19,524	44,413	159,142	-	223,079
Total held to maturity	319,165	422,384	1,299,931	725,487	-	2,766,967
Total investments	908,588	795,005	1,303,778	733,488	45,934	3,786,793
Total by currency						
Bermuda dollars	-	-	-	-	2,787	2,787
US dollars	364,042	393,328	1,138,242	573,015	40,925	2,509,552
Other	544,546	401,677	165,536	160,473	2,222	1,274,454
Total investments	908,588	795,005	1,303,778	733,488	45,934	3,786,793

31 December 2005	Remaining term to maturity Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying value
Trading						
Certificates of deposit, bankers acceptances and commercial paper	73,285	12,901	-	-	-	86,186
Debt securities issued by non-US governments	-	828	2,126	7,677	-	10,631
Corporate securities and other	219	-	692	-	38,792	39,703
Total trading	73,504	13,729	2,818	7,677	38,792	136,520
Available for sale						
Debt securities issued by non-US governments	33,226	-	9,443	-	-	42,669
Corporate debt securities	207,094	260,185	-	1,650	-	468,929
Equity securities	-	-	-	-	301	301
Other, primarily asset-backed securities	-	34,403	-	-	-	34,403
Total available for sale	240,320	294,588	9,443	1,650	301	546,302
Held to maturity						
US government and federal agencies / corporations	-	-	59,950	36,678	-	96,628
Collateralised mortgage obligations	-	-	-	151,135	-	151,135
Debt securities issued by non-US governments	5,003	3,178	71,761	13,575	-	93,517
Corporate debt securities	161,603	266,427	1,229,485	5,000	-	1,662,515
Other, primarily asset-backed securities	-	-	48,888	180,894	-	229,782
Total held to maturity	166,606	269,605	1,410,084	387,282	-	2,233,577
Total investments	480,430	577,922	1,422,345	396,609	39,093	2,916,399
Total by currency						
Bermuda dollars	61	-	-	-	800	861
US dollars	217,295	194,576	1,350,436	370,949	28,536	2,161,792
Other	263,074	383,346	71,909	25,660	9,757	753,746
Total investments	480,430	577,922	1,422,345	396,609	39,093	2,916,399

Investments at carrying value includes $2,159 million (2005: $1,738 million) of floating-rate instruments and $1,582 million (2005: $1,144 million) of fixed-rate instruments. The approximate yield on floating-rate securities at 31 December 2006 was 5.61% (2005: 4.36%), while the approximate yield on fixed-rate securities was 5.39% (2005: 4.46%).

The cost of available for sale securities, the amortised cost of held to maturity securities and their estimated fair values were as follows:

	2006				2005			
31 December	**Cost**	**Gross unrealised gains**	**Gross unrealised losses**	**Fair value**	Cost	Gross unrealised gains	Gross unrealised losses	Fair value
Available for sale								
US government and federal agencies / corporations	**-**	**-**	**-**	**-**	-	-	-	-
Collateralised mortgage obligations	**-**	**-**	**-**	**-**	-	-	-	-
Debt securities issued by non-US governments	**27,265**	**-**	**-**	**27,265**	42,669	-	-	42,669
Corporate debt securities	**838,476**	**-**	**(541)**	**837,935**	468,996	67	(134)	468,929
Equity securities	**223**	**-**	**-**	**223**	301	-	-	301
Other, primarily asset-backed securities	**97,931**	**1**	**-**	**97,932**	34,400	3	-	34,403
Total available for sale	**963,895**	**1**	**(541)**	**963,355**	546,366	70	(134)	546,302

	2006				2005			
31 December	**Amortised cost**	**Gross unrealised gains**	**Gross unrealised losses**	**Fair value**	Amortised cost	Gross unrealised gains	Gross unrealised losses	Fair value
Held to maturity								
US government and federal agencies / corporations	**223,623**	**397**	**(849)**	**223,171**	96,628	99	(716)	96,011
Collateralised mortgage obligations	**279,393**	**61**	**(128)**	**279,326**	151,135	106	(157)	151,084
Debt securities issued by non-US governments	**80,261**	**125**	**(543)**	**79,843**	93,517	177	(703)	92,991
Corporate debt securities	**1,960,611**	**1,495**	**(2,080)**	**1,960,026**	1,662,515	1,315	(2,662)	1,661,168
Other, primarily asset-backed securities	**223,079**	**337**	**(9,190)**	**214,226**	229,782	124	(11,117)	218,789
Total held to maturity	**2,766,967**	**2,415**	**(12,790)**	**2,756,592**	2,233,577	1,821	(15,355)	2,220,043

The following table shows the fair value and gross unrealised losses of the Bank's investments with unrealised losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealised loss position:

	Less than 12 months		**12 months or more**			
31 December 2006	**Fair value**	**Gross unrealised losses**	**Fair value**	**Gross unrealised losses**	**Total fair value**	**Total gross unrealised losses**
Available for sale						
Corporate debt securities	**831,839**	**(541)**	**-**	**-**	**831,839**	**(541)**
Total available for sale securities with unrealised losses	**831,839**	**(541)**	**-**	**-**	**831,839**	**(541)**
Held to maturity						
US government and federal agencies / corporations	**35,162**	**(89)**	**63,885**	**(760)**	**99,047**	**(849)**
Collateralised mortgage obligations	**113,455**	**(78)**	**35,218**	**(50)**	**148,673**	**(128)**
Debt securities issued by non-US governments	**-**	**-**	**39,399**	**(543)**	**39,399**	**(543)**
Corporate debt securities	**313,482**	**(270)**	**277,480**	**(1,810)**	**590,962**	**(2,080)**
Other, primarily asset-backed securities	**39,117**	**(53)**	**64,076**	**(9,137)**	**103,193**	**(9,190)**
Total held to maturities securities with unrealised losses	**501,216**	**(490)**	**480,058**	**(12,300)**	**981,274**	**(12,790)**
Total securities with unrealised losses	**1,333,055**	**(1,031)**	**480,058**	**(12,300)**	**1,813,113**	**(13,331)**

31 December 2005	Less than 12 months Fair value	Less than 12 months Gross unrealised losses	12 months or more Fair value	12 months or more Gross unrealised losses	Total fair value	Total gross unrealised losses
Available for sale						
Corporate debt securities	302,040	(134)	-	-	302,040	(134)
Total available for sale securities with unrealised losses	302,040	(134)	-	-	302,040	(134)
Held to maturity						
US government and federal agencies / corporations	64,186	(716)	-	-	64,186	(716)
Collateralised mortgage obligations	26,118	(19)	46,009	(137)	72,127	(156)
Debt securities issued by non-US governments	54,038	(703)	-	-	54,038	(703)
Corporate debt securities	310,912	(1,594)	447,381	(1,067)	758,293	(2,661)
Other, primarily asset-backed securities	45,265	(749)	63,046	(10,370)	108,311	(11,119)
Total held to maturities securities with unrealised losses	500,519	(3,781)	556,436	(11,574)	1,056,955	(15,355)
Total securities with unrealised losses	802,559	(3,915)	556,436	(11,574)	1,358,995	(15,489)

In respect of the following categories, the Bank does not consider those investments to be other-than-temporarily impaired at 31 December 2006:

US Government and federal agencies / corporations

The unrealised losses on the Bank's investments in US Treasury obligations and direct obligations of US government agencies were caused by interest rate increases and not credit quality decreases. The Bank has the ability and intent to hold those investments until a recovery of fair value, which may be maturity.

Collateralised mortgage obligations

The unrealised losses on the Bank's investment in collateralised mortgage obligations were caused by interest rate increases and not credit quality decreases. It is expected that the securities would not be settled at a price less than the amortised cost of the Bank's investment. The Bank has the ability and intent to hold those investments until a recovery of fair value, which may be maturity.

Debt securities issued by non-US governments

The unrealised losses on the Bank's investments in non-US government debt securities obligations and direct obligations of non-US government agencies were caused by interest rate increases and not credit quality decreases. The Bank has the ability and intent to hold those investments until a recovery of fair value, which may be maturity.

Corporate debt securities

The unrealised losses on the Bank's investments in corporate bonds were caused by interest rate increases and not credit quality decreases. The Bank currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Therefore, it is expected that the debentures would not be settled at a price less than the amortised cost of the investments. The Bank has the ability and intent to hold those investments until a recovery of fair value, which may be maturity.

Other, primarily asset-backed securities

The unrealised losses on the Bank's other investments, primarily asset-backed securities, were caused by credit rating decreases and interest rate increases. The Bank currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Therefore, it is expected that the securities would not be settled at a price less than the amortised cost of the investments. The Bank has the ability and intent to hold those investments until a recovery of fair value, which may be maturity.

The following table presents realised and unrealised gains and losses on trading securities:

31 December	2006	2005
Realised / unrealised gains (losses) on trading securities		
Equities (a)	2,103	1,084
Fixed income and other (b)	(495)	(189)
Total	1,608	895

(a) Includes equity securities and equity derivatives.
(b) Includes bonds, commercial paper, interest rate and foreign exchange derivatives.

The following table presents realised gains and losses from available for sale securities:

31 December	2006	2005
Realised gains on available for sale securities		
Realised gains	-	90
Net realised gains	-	90

Note 4: Loans

The composition of the loan portfolio at each of the indicated dates was as follows:

31 December	2006 Bermuda	2006 Non-Bermuda	2006 Total	2005 Bermuda	2005 Non-Bermuda	2005 Total
Commercial loans						
Commercial and industrial	467,222	183,749	650,971	445,970	87,386	533,356
Commercial real estate						
Commercial mortgage	123,123	485,179	608,302	133,626	427,765	561,391
Construction	138,055	7,920	145,975	140,101	8,980	149,081
Financial institutions	422,528	26,392	448,920	313,980	10,615	324,595
Government	21,600	-	21,600	15,600	-	15,600
Overdrafts	24,995	214,627	239,622	33,939	51,548	85,487
Total commercial loans	1,197,523	917,867	2,115,390	1,083,216	586,294	1,669,510
Less allowance for credit losses on commercial loans	(12,734)	(1,763)	(14,497)	(13,765)	(2,158)	(15,923)
Total commercial loans after allowance for credit losses	1,184,789	916,104	2,100,893	1,069,451	584,136	1,653,587
Consumer loans						
Automobile financing	60,068	7,419	67,487	52,919	8,948	61,867
Credit card	42,385	18,879	61,264	38,990	18,254	57,244
Mortgages	904,339	352,906	1,257,245	799,922	252,498	1,052,420
Overdrafts	4,514	16,254	20,768	6,345	22,090	28,435
Other consumer	76,787	187,537	264,324	72,033	168,819	240,852
Total consumer loans	1,088,093	582,995	1,671,088	970,209	470,609	1,440,818
Less allowance for credit losses on consumer loans	(7,628)	(3,608)	(11,236)	(5,978)	(2,833)	(8,811)
Total consumer loans after allowance for credit losses	1,080,465	579,387	1,659,852	964,231	467,776	1,432,007
Total loans	2,285,616	1,500,862	3,786,478	2,053,425	1,056,903	3,110,328
Less allowance for credit losses	(20,362)	(5,371)	(25,733)	(19,743)	(4,991)	(24,734)
Net loans	2,265,254	1,495,491	3,760,745	2,033,682	1,051,912	3,085,594

The principal means of securing residential mortgages, personal, credit card and business loans are charges over assets and guarantees. Mortgage loans are generally repayable over periods of up to thirty years and personal, credit card, business and government loans are generally repayable over terms not exceeding five years. The effective yield on total loans as at 31 December 2006 is 6.94% (2005: 6.37%).

The table below sets forth information about the Bank's non-accrual loans:

	2006			2005		
31 December	**Gross**	**Allowance**	**Total**	Gross	Allowance	Total
Commercial loans - Bermuda	5,082	(2,484)	2,598	6,293	(2,625)	3,668
Commercial loans - Non-Bermuda	7,201	(226)	6,975	7,791	(729)	7,062
Consumer loans - Bermuda	1,524	(51)	1,473	900	(165)	735
Consumer loans - Non-Bermuda	1,053	(610)	443	2,700	(358)	2,342
Mortgages - Bermuda	7,714	(165)	7,549	4,597	(165)	4,432
Mortgages - Non-Bermuda	6,514	(79)	6,435	4,681	(62)	4,619
Total	29,088	(3,615)	25,473	26,962	(4,104)	22,858

For the year ended 31 December 2006, the amount of gross interest income that would have been recorded had impaired loans been current was $2,808 (2005: $2,711). For the year ended 31 December 2006, the Bank recovered overdue interest of $192 (2005: $529) on impaired loans that were repaid in the year. The average balance of impaired loans during the year ended 31 December 2006 was $28,521 (2005: $24,705).

The table below summarises the changes in the allowances for credit losses:

	2006			2005		
Year ended 31 December	**Specific allowances**	**General allowance**	**Total**	Specific allowances	General allowance	Total
Allowance for credit losses at beginning of year	4,104	20,630	24,734	1,918	21,903	23,821
Provision this year	1,871	1,126	2,997	4,464	(1,292)	3,172
Recoveries	400	996	1,396	255	1,195	1,450
Charge-offs	(2,760)	(634)	(3,394)	(2,528)	(1,176)	(3,704)
Other	-	-	-	(5)	-	(5)
Allowance for credit losses at end of year	3,615	22,118	25,733	4,104	20,630	24,734

The table below presents information about the loan delinquencies, and charge-offs:

	2006			2005		
31 December	**Total delinquent loans**	**Loans 90 days or more past due**	**Charge-offs**	Total delinquent loans	Loans 90 days or more past due	Charge-offs
Credit card	4,770	502	1,204	4,198	845	897
Automobile financing	2,513	441	27	765	369	42
Other consumer and mortgages	30,409	20,001	188	22,637	11,798	2,431
Consumer loans	37,692	20,944	1,419	27,600	13,012	3,370
Commercial loans	12,165	8,967	310	6,433	5,127	334
Total loans reported	49,857	29,911	1,729	34,033	18,139	3,704

Note 5: Credit Risk Concentrations

Concentrations of credit risk arise when a number of customers are engaged in similar business activities, are in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. The Bank regularly monitors various segments of its credit risk portfolio to assess potential concentrations of risks and to obtain collateral when deemed necessary. In the Bank's commercial portfolio, risk concentrations are primarily evaluated by industry and also by geographic region. In the consumer portfolio, concentrations are primarily evaluated by products. Credit exposures include loans, guarantees and acceptances, letters of credit and commitments for undrawn lines of credit.

The following table summarises the credit exposure of the Bank by business sector:

	2006			2005		
31 December	**On-balance sheet**	**Off-balance sheet**	**Total credit exposure**	On-balance sheet	Off-balance sheet	Total credit exposure
Banks and financial services	851,643	818,742	1,670,385	446,481	815,745	1,262,226
Commercial and merchandising	444,696	252,723	697,419	558,895	166,979	725,874
Governments	21,600	2,400	24,000	9,421	9,882	19,303
Individuals	1,659,580	156,834	1,816,414	1,219,941	158,254	1,378,195
Primary industry and manufacturing	28,731	36,476	65,207	41,400	14,279	55,679
Real estate	755,089	156,169	911,258	803,530	164,151	967,681
Transport and communication	21,524	11,731	33,255	26,556	4,438	30,994
Sub-total	3,782,863	1,435,075	5,217,938	3,106,224	1,333,728	4,439,952
General allowance	(22,118)	-	(22,118)	(20,630)	-	(20,630)
Total	3,760,745	1,435,075	5,195,820	3,085,594	1,333,728	4,419,322

The following table summarises the credit exposure of the Bank by region:

	2006			2005		
31 December	**On-balance sheet**	**Off-balance sheet**	**Total credit exposure**	On-balance sheet	Off-balance sheet	Total credit exposure
Bermuda	2,282,917	1,016,157	3,299,074	2,050,470	979,214	3,029,684
Barbados	125,044	29,467	154,511	108,710	10,910	119,620
Cayman	343,710	110,242	453,952	307,604	136,672	444,276
Guernsey	451,046	163,940	614,986	214,898	109,298	324,196
The Bahamas	13,598	-	13,598	5,182	-	5,182
United Kingdom	566,548	115,269	681,817	419,360	97,634	516,994
Sub-total	3,782,863	1,435,075	5,217,938	3,106,224	1,333,728	4,439,952
General allowance	(22,118)	-	(22,118)	(20,630)	-	(20,630)
Total	3,760,745	1,435,075	5,195,820	3,085,594	1,333,728	4,419,322

Note 6: Premises, Equipment and Computer Software

The following table summarises land, buildings, equipment and computer software:

	2006			2005		
31 December	Cost	Accumulated depreciation	Net carrying value	Cost	Accumulated depreciation	Net carrying value
Land	13,571	-	13,571	11,997	-	11,997
Buildings	126,218	(29,757)	96,461	109,742	(28,403)	81,339
Equipment	50,366	(30,907)	19,459	42,925	(25,229)	17,696
Computer software	66,055	(24,220)	41,835	49,848	(19,172)	30,676
Total	256,210	(84,884)	171,326	214,512	(72,804)	141,708

31 December	2006	2005
Depreciation		
Buildings (included in property expense)	3,755	2,839
Equipment (included in property expense)	3,549	3,794
Computer hardware and software (included in technology expense)	6,552	7,698
Total depreciation charged to operating expenses	13,856	14,331

Note 7: Goodwill and Other Intangible Assets

The following table presents goodwill and other intangible assets by business segment:

Goodwill

Business segment	Barbados	Guernsey	The Bahamas	United Kingdom	Total
Balance as at 31 December 2004	5,220	8,191	1,923	9,304	24,638
Foreign exchange translation adjustment	-	(848)	-	(950)	(1,798)
Balance as at 31 December 2005	5,220	7,343	1,923	8,354	22,840
Foreign exchange translation adjustment	-	1,020	-	1,158	2,178
Balance as at 31 December 2006	5,220	8,363	1,923	9,512	25,018

Other intangible assets	2006			2005		
31 December	Gross carrying amount	Accumulated amortisation	Net carrying amount	Gross carrying amount	Accumulated amortisation	Net carrying amount
Bermuda	8,337	(1,250)	7,087	8,337	(695)	7,642
Barbados	6,681	(1,371)	5,310	6,681	(926)	5,755
Cayman	1,211	(188)	1,023	1,211	(108)	1,103
Guernsey	51,801	(17,381)	34,420	45,491	(12,205)	33,286
The Bahamas	7,790	(2,142)	5,648	7,790	(1,465)	6,325
United Kingdom	20,219	(4,022)	16,197	17,905	(2,394)	15,511
Customer relationships	96,039	(26,354)	69,685	87,415	(17,793)	69,622

There have been no impairment losses for the years ended 31 December 2006 and 2005. The estimated aggregate amortisation expense for each of the succeeding years until 31 December 2011 is $6.6 million. Customer relationships are initially valued based on the present value of net cash flows expected to be derived solely from the recurring customer base existing as at the date of acquisition. Customer relationship intangible assets may or may not arise from contracts. During 2006, the Bank did not purchase new customer relationships (2005: nil), the amortisation expense amounted to $6.3 million (2005: $6.3 million) and the foreign exchange translation adjustment increased the net carrying amount by $6.4 million (2005: decreased by $5.5 million).

Note 8: Customer Deposits and Deposits from Banks

(a) By maturity

	2006			2005		
31 December	Customers	Banks	Total	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	964,496	-	964,496	858,358	-	858,358
Demand deposits - Interest bearing	4,779,115	49,248	4,828,363	3,891,545	72,472	3,964,017
Sub-total - demand deposits	5,743,611	49,248	5,792,859	4,749,903	72,472	4,822,375
Term deposits						
Term deposits maturing within six months	3,594,235	233,097	3,827,332	2,869,968	216,543	3,086,510
Term deposits maturing between six to twelve months	200,471	2,995	203,466	148,667	-	148,667
Term deposits maturing after twelve months	217,342	1,833	219,175	180,428	2,128	182,557
Sub-total - term deposits	4,012,048	237,925	4,249,973	3,199,063	218,671	3,417,734
Total	9,755,659	287,173	10,042,832	7,948,966	291,143	8,240,109

(b) By type and location

	2006			2005		
31 December	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	2,273,826	1,558,952	3,832,778	1,970,607	1,243,597	3,214,204
Banks	-	-	-	8,069	24,831	32,900
Barbados						
Customers	123,621	45,886	169,507	117,272	42,168	159,440
Banks	-	16,156	16,156	7,710	-	7,710
Cayman						
Customers	1,646,663	727,156	2,373,819	1,522,129	689,696	2,211,825
Banks	38,198	78,782	116,980	55,185	75,994	131,179
Guernsey						
Customers	717,452	892,275	1,609,727	654,654	695,709	1,350,363
Banks	8,346	10,037	18,383	5,681	2,005	7,686
The Bahamas						
Customers	61,444	78,454	139,898	57,537	26,531	84,068
Banks	-	1,558	1,558	-	-	-
United Kingdom						
Customers	920,605	709,325	1,629,930	419,994	509,072	929,066
Banks	2,704	131,392	134,096	3,537	108,131	111,668
Total Customers	5,743,611	4,012,048	9,755,659	4,742,193	3,206,773	7,948,966
Total Banks	49,248	237,925	287,173	80,182	210,961	291,143
Total	5,792,859	4,249,973	10,042,832	4,822,375	3,417,734	8,240,109

Note 9: Employee Future Benefits

The Bank maintains trusteed 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.

Substantially all of the pension assets are invested in equity, fixed income and other marketable securities.

The following table presents the financial position of the Bank's defined benefit pension plans and the Bank's post-retirement medical benefit plan. The benefit obligations and plan assets are measured as at 30 November.

	2006		2005	
	Pension plans	Post-retirement medical benefit plan	Pension plans	Post-retirement medical benefit plan
Accumulated benefit obligation at end of year	112,720	-	103,713	-
Change in projected benefit obligation				
Opening projected benefit obligation	112,228	97,245	105,515	82,524
Service cost	3,634	2,358	3,748	2,256
Employee contributions	386	-	272	-
Interest cost	6,293	5,893	5,729	5,572
Benefits paid	(5,079)	(1,569)	(3,650)	(1,257)
Actuarial (gain) loss	(1,586)	2,729	5,342	8,150
Foreign exchange translation adjustment	6,502	-	(4,728)	-
Closing projected benefit obligation	122,378	106,656	112,228	97,245
Change in plan assets				
Opening fair value of plan assets	97,260	-	86,448	-
Actual return on plan assets	9,853	-	8,461	-
Employer contribution	14,623	1,569	9,348	1,257
Employee contributions	386	-	272	-
Benefits paid	(5,079)	(1,569)	(3,650)	(1,257)
Foreign exchange translation adjustment	5,686	-	(3,619)	-
Closing fair value of plan assets	122,729	-	97,260	-
Funded status				
Deficit of plan assets over projected benefit obligation at measurement date	351	(106,656)	(14,968)	(97,245)
Employer contribution during the period from measurement date to fiscal year end	161	83	5,176	-
Unamortised net actuarial loss	161	40,409	4,854	41,048
Unamortised past service cost	127	-	146	-
Net amount recognised before 2006 adjustments	800	(66,164)	(4,792)	(56,197)
Amounts recognised in balance sheet before 2006 adjustments consist of:				
Prepaid benefit cost included in other assets	2,577	-	180	-
Accrued pension benefit cost included in employee future benefits liability	(1,780)	(66,164)	(5,376)	(56,197)
Accumulated other comprehensive income	-	-	404	-
Net amount recognised before 2006 adjustments	797	(66,164)	(4,792)	(56,197)

Balance sheet effect of recognising the funded status of the plans at 31 December 2006

	Before Recognition	Adjustments	After Recognition
Other assets	105,330	(1,449)	103,881
Other liabilities	105,901	570	106,471
Employee future benefits liability	67,944	39,247	107,191
Accumulated other comprehensive income (loss)	6,235	(41,266)	(35,031)
Total shareholders' equity	590,819	(41,266)	549,553
Total liabilities and shareholders' equity	11,134,251	(1,449)	11,132,802

Before-tax amounts recognised in accumulated other comprehensive loss after adjustments consist of:	**31 December 2006**
Net actuarial loss	(40,570)
Past service cost	(127)
Accumulated other comprehensive loss after adjustments	(40,697)

	2006		2005	
	Pension plans	Post-retirement medical benefit plan	Pension plans	Post-retirement medical benefit plan
Annual benefit expense				
Service cost	3,634	2,358	3,748	2,256
Interest cost	6,293	5,893	5,729	5,572
Expected return on plan assets	(6,746)	N/A	(5,733)	-
Amortisation of past service cost	37	-	36	-
Amortisation of actuarial (gain) loss	(52)	3,368	(71)	3,976
Defined benefit expense	3,166	11,619	3,709	11,804
Defined contribution expense	4,589	-	3,378	-
Total benefit expense	7,755	11,619	7,087	11,804

The estimated portions of the net actuarial loss and past service cost for the pension plans that will be amortised from accumulated other comprehensive income into benefit expense over the next fiscal year are nil. The estimated portion of the net actuarial loss for the post-retirement medical benefit plan that will be amortised from accumulated other comprehensive income into benefit expense over the next fiscal year is $3.2 million.

31 December	2006 Pension plans	2006 Post-retirement medical benefit plan	2005 Pension plans	2005 Post-retirement medical benefit plan
Actuarial assumptions used to determine annual benefit expense				
Weighted average discount rate	5.45%	6.00%	5.60%	6.00%
Weighted average rate of compensation increases	3.80%	N/A	3.70%	N/A
Weighted average expected long-term rate of return on plan assets	6.45%	N/A	6.50%	N/A
Weighted average annual medical cost increase rate	N/A	11% to 5% in 2013	N/A	12% to 5% in 2013
Actuarial assumptions used to determine benefit obligations at end of year				
Weighted average discount rate	5.35%	5.75%	5.45%	6.00%
Weighted average rate of compensation increases	3.65%	N/A	3.80%	N/A
Weighted average annual medical cost increase rate	N/A	10% to 5% in 2013	N/A	11% to 5% in 2013

For 2006, the effect of a one percentage point increase or decrease in the assumed medical cost increase rate on the aggregate of service and interest costs is a $1.7 million increase (2005: $1.6 million increase) and a $1.3 million decrease (2005: $1.2 million decrease), respectively, and on the benefit obligation a $19.5 million increase (2005: $16.8 million increase) and a $15.7 million decrease (2005: $13.6 million decrease), respectively.

To develop the expected long-term rate of return on the plan assets assumption for each plan, the Bank considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocations of the funds. The weighted average discount rate used to determine benefit obligations at the end of the year is derived from interest rates on high quality corporate bonds with maturities that match the expected benefit payments.

The weighted average actual and target asset allocations of the pension plans by asset category, are as follows:

31 December	2006 Actual allocation	2006 Target allocation	2005 Actual allocation	2005 Target allocation
Asset category				
Equity securities (including equity mutual funds)	49%	46%	55%	50%
Debt securities (including debt mutual funds)	32%	43%	40%	50%
Other	19%	11%	5%	-
Total	100%	100%	100%	100%

At 31 December 2006, 34.8% (2005: 52.6%) of the assets of the pension plans were mutual funds and alternative investments managed or administered by wholly-owned subsidiaries of the Bank. At 31 December 2006, 3.3% (2005: 2.0%) of the plans' assets were invested in common shares of the Bank.

The investments of the pension funds are diversified across a range of asset classes and are diversified within each asset class. The assets are generally actively managed with the goal of adding some incremental value through security selection and asset allocation.

Estimated 2007 Bank contribution to, and estimated benefit payments for the next ten years under, the pension and post-retirement medical benefit plans are as follows:

	Pension plans	Post-retirement medical benefit plan
Estimated Bank contributions for 2007	5,200	3,087
Estimated benefit payments by year:		
2007	3,500	3,087
2008	3,900	3,510
2009	4,000	3,925
2010	4,400	4,363
2011	4,700	4,773
2012-2016	28,700	29,497

The projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets were $93 million and $93 million respectively, as at 31 December 2006 ($110 million and $94 million respectively, as at 31 December 2005).

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were nil as at 31 December 2006 ($43 million, $41 million and $32 million respectively, as at 31 December 2005).

Note 10: Commitments, Credit Related Arrangements and Contingencies

Commitments

The Bank was committed to expenditures under contract for software development and construction of $3.3 million and $23 million respectively, as at 31 December 2006 (2005: $5.4 million and $29.5 million). Rental expense for premises leased on a long-term basis for the year ended 31 December 2006 amounted to $5.7 million (2005: $5.1 million).

The following table summarises the Bank's commitments for construction, software development and long-term leases:

Year	
2007	9,425
2008	5,338
2009	5,150
2010	4,773
2011	4,596
2012 & thereafter	5,936

Credit Related Arrangements

Standby letters of credit and letters of guarantee are issued at the request of a Bank customer in order to secure the customer's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Bank to pay the third party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the customer. Generally, the term of the standby letters of credit does not exceed one year, while the term of the guarantees does not exceed four years. The types and amounts of collateral security held by the Bank for these standby letters of credit and guarantees is generally represented by deposits with the Bank or a charge over assets held in mutual funds.

The Bank considers the fees collected in connection with the issuance of standby letters of credit to be representative of the fair value of its obligation undertaken in issuing the guarantee. In accordance with applicable accounting standards related to guarantees, the Bank defers fees collected in connection with the issuance of standby letters of credit. The fees are then recognised in income proportionately over the life of standby letters of credit agreements.

The Bank enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of the Bank's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for possible loan losses.

The following table presents the credit related arrangements with contractual amounts representing credit risk as follows:

	2006			2005		
31 December	**Gross**	**Collateral**	**Net**	Gross	Collateral	Net
Commitments to extend credit	**959,495**	**182,514**	**776,981**	775,689	245,875	529,814
Letters of credit						
Standby	**492,220**	**443,098**	**49,122**	560,419	529,593	30,826
Documentary and commercial	**2,422**	**2,422**	**-**	2,324	2,324	-
Guarantees	**15,667**	**9,164**	**6,503**	37,441	32,347	5,094
Forward guarantees	**1,741**	**1,741**	**-**	2,846	2,846	-
Total	**1,471,545**	**638,939**	**832,606**	1,378,719	812,985	565,734

Collateral is shown at estimated market value less selling cost. Where cash is the collateral, this is shown gross including interest income.

The Bank has a facility by one of its custodians, whereby the Bank may offer up to US$150 million of standby letters of credit to its customers on a fully secured basis. Under the standard terms of the facility, the custodian has the right to set-off against securities held of 110% of the utilised facility. At 31 December 2006, $27.8 million (2005: $20.4 million) of standby letters of credit were issued under this facility.

Legal Proceedings

There are a number of actions and legal proceedings pending against the Bank and its subsidiaries which arose in the normal course of its business. Management, after reviewing all actions and proceedings, pending against or involving the Bank and its subsidiaries, considers that the resolution of these matters would not be material to the consolidated financial position of the Bank.

Note 11: Interest Income

Loans

The following table presents the components of loan interest income:

Year ended 31 December	**2006**	2005
Mortgages	**111,783**	85,134
Other loans	**120,893**	95,201
	232,676	180,335
Amortisation of loan origination fees (net of amortised costs)	**5,093**	3,580
Total loan interest income	**237,769**	183,915
Balance of unamortised loan fees as at 31 December	**12,528**	10,843

Note 12: Segmented Information

(a) Operating Segments

For management reporting purposes, the operations of the Bank are grouped into the following nine business segments based upon the geographic location of the Bank's operations: Bermuda (which is further sub-divided based on products and services into Community Banking, Wealth Management & Fiduciary Services and Investment & Pension Fund Administration, and Real Estate), Barbados, Cayman, Guernsey, The Bahamas, the United Kingdom, and Hong Kong. Accounting policies of the reportable segments are the same as those described in Note 1.

The Bermuda Community Banking segment provides a full range of community, commercial and private banking services. Retail services are offered to individuals and small to medium sized businesses through five branch locations and through telephone banking, internet banking, Automated Teller Machines (ATMs) and debit cards. Retail services include deposit services, consumer and mortgage lending, credit cards and personal insurance products. Corporate services include commercial lending and mortgages, cash management, payroll services, remote banking, and letters of credit. Treasury services include money market and foreign exchange activities.

The Bermuda Wealth Management & Fiduciary Services and Investment & Pension Fund Administration segment consists of Butterfield Asset Management Limited, which provides investment management, advisory and brokerage services, Butterfield Fund Services Limited, which provides valuation, accounting, corporate and shareholder services, and Butterfield Trust (Bermuda) Limited which provides trust, estate, company management and custody services.

The Real Estate segment consists of the Bank's investments in real estate and all related costs. This segment also includes rental revenues from third parties.

The Barbados segment provides a range of community and commercial banking services through four branch locations, ATMs and debit cards. Services include deposit services, commercial banking, consumer and mortgage lending, credit cards.

The Cayman segment provides a comprehensive range of community and commercial banking services to private and corporate customers through five locations and through internet banking, ATMs and debit cards. Wealth management and fiduciary services and investment and pension fund administration services are also provided.

The Guernsey segment provides a broad range of services to private clients and financial institutions including, private banking and treasury services, internet banking, administered bank services, investment and pension fund administration services and offers wealth management and fiduciary services from both Guernsey and Switzerland.

The Bahamas segment provides institutional, corporate and private clients with a range of wealth management & fiduciary services and investment fund administration services.

The United Kingdom segment provides a broad range of services including private banking and treasury services, internet banking and wealth management and fiduciary services to high net worth individuals and privately owned businesses.

The Hong Kong segment represents the Bank's 20% investment in RBC Dexia Investor Services Limited (formerly Dexia Holdings (Hong Kong) Limited), which provides investment and pension fund administration and custody services.

Operating segment information follows:

31 December	2006	2005
Total Assets		
Bermuda		
Community Banking	4,853,686	4,459,464
Wealth Management & Fiduciary Services and Investment & Pension Fund Administration	37,532	32,432
Real Estate	82,735	76,265
Total Bermuda	4,973,953	4,568,161
Barbados	213,449	194,433
Cayman	2,792,777	2,579,080
Guernsey	1,809,878	1,495,284
The Bahamas	155,398	96,903
United Kingdom	1,985,942	1,206,154
Hong Kong	3,439	233
Total overseas	6,960,883	5,572,087
Less: inter-segment eliminations	(802,034)	(942,682)
Total	11,132,802	9,197,566

Business Area Analysis

Year ended 31 December 2006	Net interest income		Allowance for credit losses	Fees and other income	Total revenue	Other expenses	Depreciation & amortisation	Total expenses	Net income
	Customer	Intersegment							
Bermuda									
Community Banking	119,740	(2,931)	(1,902)	33,867	148,774	106,437	4,223	110,660	38,114
Wealth Management & Fiduciary Services and Investment & Pension Fund Administration	-	688	-	75,244	75,932	41,172	1,146	42,318	33,614
Real Estate	-	(1,235)	-	3,811	2,576	6,705	2,345	9,050	(6,474)
Sub-total Bermuda	119,740	(3,478)	(1,902)	112,922	227,282	154,314	7,714	162,028	65,254
Barbados	8,785	144	(479)	3,845	12,295	9,594	1,726	11,320	975
Cayman	53,133	2,955	(615)	43,643	99,116	42,508	3,216	45,724	53,392
Guernsey	15,395	1,728	-	33,250	50,373	35,521	4,191	39,712	10,661
The Bahamas	(360)	2,535	(1)	6,907	9,081	6,026	848	6,874	2,207
United Kingdom	21,525	(3,884)	-	7,726	25,367	22,103	2,515	24,618	749
Hong Kong	-	-	-	845	845	-	-	-	845
Sub-total overseas	98,478	3,478	(1,095)	96,216	197,077	115,752	12,496	128,248	68,829
Total income	218,218	-	(2,997)	209,138	424,359	270,066	20,210	290,276	134,083
Less: inter-segment eliminations (principally rent and management fees)	-	-	-	(9,307)	(9,307)	(9,307)	-	(9,307)	-
Total	218,218	-	(2,997)	199,831	415,052	260,759	20,210	280,969	134,083

Year ended 31 December 2005	Net interest income		Allowance for credit losses	Fees and other income	Total revenue	Other expenses	Depreciation & amortisation	Total expenses	Net income
	Customer	Intersegment							
Bermuda									
Community Banking	112,658	(5,730)	(4,513)	28,285	130,700	96,893	5,709	102,602	28,098
Wealth Management & Fiduciary Services and Investment & Pension Fund Administration	-	342	-	67,692	68,034	35,907	1,160	37,067	30,967
Real Estate	-	(1,115)	-	2,518	1,403	5,692	1,925	7,617	(6,214)
Sub-total Bermuda	112,658	(6,503)	(4,513)	98,495	200,137	138,492	8,794	147,286	52,851
Barbados	7,934	-	(255)	3,495	11,174	8,136	1,595	9,731	1,443
Cayman	37,345	6,717	1,622	36,520	82,204	33,454	2,935	36,389	45,815
Guernsey	10,993	1,652	-	27,493	40,138	28,622	4,310	32,932	7,206
The Bahamas	(301)	1,354	(26)	5,763	6,790	4,476	659	5,135	1,655
United Kingdom	16,717	(3,220)	-	9,058	22,555	20,284	2,529	22,813	(258)
Hong Kong	-	-	-	639	639	-	-	-	639
Sub-total overseas	72,688	6,503	1,341	82,968	163,500	94,972	12,028	107,000	56,500
Total income	185,346	-	(3,172)	181,463	363,637	233,464	20,822	254,286	109,351
Less: inter-segment eliminations (principally rent and management fees)	-	-	-	(8,508)	(8,508)	(8,508)	-	(8,508)	-
Total	185,346	-	(3,172)	172,955	355,129	224,956	20,822	245,778	109,351

For the year ended 31 December 2006, included within other expenses are the following income tax expense amounts: Guernsey $3.5 million (2005: $1.0 million), United Kingdom $0.1 million (2005: $0.1 million) and Barbados $0.1 million (2005: $0.6 million). Transactions between operating segments principally include interbank deposits and rent which are recorded based upon market rates, and management fees, which are recorded based on the cost of the services provided.

(b) Revenues by Products and Services

The principal sources of revenues by products and services are disclosed separately in the Consolidated Statement of Income.

Note 13: Accounting for Derivative Instruments and Risk Management

The Bank uses derivatives in the asset and liability management (ALM) of positions and to assist customers with their risk management objectives. The Bank primarily enters into derivative contracts as part of its overall interest rate risk management strategy to minimise significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Bank's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain consolidated balance sheet assets and liabilities so that movements in interest rates do not adversely affect the net interest margin.

The Bank's derivative contracts principally involve over the counter transactions that are privately negotiated between the Bank and the counterparty to the contract. Derivative instruments that are used as part of the Bank's interest rate risk management strategy include interest rate swaps and option contracts that have indices related to the pricing of specific consolidated balance sheet assets and liabilities. Interest rate swaps generally involve the exchange of fixed and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date. Interest rate options represent contracts that allow the holder of the option to receive cash or purchase, sell, or enter into a financial instrument at a specified price within a specified period.

The Bank pursues opportunities to reduce its exposure to credit losses on derivatives by entering into International Swaps and Derivatives Association Master Agreements (ISDAs). Depending on the nature of the derivative transaction, bilateral collateral arrangements may be used as well. When the Bank is engaged in more than one outstanding derivative transaction with the same counterparty, and also has a legally enforceable master netting agreement with that counterparty, the "net" marked to market exposure represents the netting of the positive and negative exposures with that counterparty. When there is a net negative exposure, the Bank regards its credit exposure to the counterparty as being zero. The net marked to market position with a particular counterparty represents a reasonable measure of credit risk when there is a legally enforceable master netting agreement between the Bank and that counterparty.

Included in other assets (other liabilities) are the reported receivables and unrealised gains (payables and unrealised losses) related to derivatives. These amounts include the effect of netting as permitted under FASB Interpretation No. 39 Offsetting Amounts Related to Certain Contracts (FIN 39).

(a) Fair Value Hedges

The Bank enters into interest rate swaps to convert its fixed-rate long-term debt to floating-rate debt, and convert fixed-rate deposits to floating-rate deposits. For the year ended 31 December 2006 the Bank recognised a net loss of $0.1 million (2005: $0.4 million) reported as other income in the Consolidated Statement of Income, which represented the ineffective portion of all fair value hedges. As of 31 December 2006 the Bank has recorded the fair value of derivative instrument assets of $1.5 million (2005: $1.3 million) in other assets and derivative instrument liabilities of $6.2 million (2005: $7.2 million) in other liabilities.

(b) Cash Flow Hedges

The Bank uses interest rate swaps to convert floating-rate notes to fixed-rate instruments. These swaps, which qualify for hedge accounting, have the pay rate indexed to the rates received on the Bank's variable-rate assets and the receive rate indexed to rates paid on the Bank's various deposit liabilities.

For cash flow hedges, gains and losses on derivative contracts that are reclassified from accumulated other comprehensive income to current period earnings are included in the line item in which the hedged item is recorded in the same period the forecasted transaction affects earnings. As at 31 December 2006 and 2005, there was no hedge ineffectiveness related to cash flow hedges. As of 31 December 2006, nil (2005: ($0.5) million) of the deferred net gains on derivative instruments accumulated in other comprehensive income are expected to be reclassified as earnings during the next twelve months. The maximum term over which the Bank is hedging its exposure to the variability of future cash flows is 2 months (2005: 2 years). As of 31 December 2006, the Bank has recorded the fair value of derivative instrument assets of nil (2005: $0.2 million) in other assets and nil (2005: $1.5 million) in other liabilities.

Notional amounts: The following table provides the aggregate notional amounts of derivative contracts outstanding listed by type and divided between those used for trading (non-hedging) and those used in hedging activities. The notional amounts are not recorded as assets or liabilities on the Consolidated Balance Sheet as they represent the face amount of the contract to which a rate or price is applied to determine the amount of cash flows to be exchanged. Notional amounts represent the volume of outstanding transactions and do not represent the potential gain or loss associated with market risk or credit risk of such instruments.

		2006			2005	
31 December	**Trading**	**ALM**	**Total value**	Trading	ALM	Total value
Interest rate contracts						
Interest rate swaps	**2,763**	**476,332**	**479,095**	26,748	444,204	470,952
Interest rate caps	**43,810**	**-**	**43,810**	52,332	-	52,332
Sub-total	**46,573**	**476,332**	**522,905**	79,080	444,204	523,284
Foreign exchange contracts						
Spot and forwards	**7,369,599**	**-**	**7,369,599**	5,604,472	-	5,604,472
Total notional amount of financial derivatives outstanding	**7,416,172**	**476,332**	**7,892,504**	5,683,552	444,204	6,127,756

Included in the notional amounts for cash flow hedges using interest rate swaps for 31 December 2006, are $25.0 million (2005: $225.2 million), pertaining to specific floating-rate notes included in the investment portfolio which were classified as held to maturity, and nil (2005: $12.9 million) pertaining to floating-rate deposits. Included in the notional amounts for fair value hedges using interest rate swaps for 2006, are $86.4 million (2005: $51.2 million). pertaining to specific loans, $125.0 million (2005: $125.0 million) pertaining to subordinated debt, and $245.6 million (2005: $42.8 million) pertaining to fixed-rate deposits.

(c) Fair Value

Derivative instruments, in the absence of any compensating up-front cash payments, generally have no market value at inception. They obtain value, positive or negative, as relevant interest rates, exchange rates, equity or commodity prices or indices change, such that previously contracted derivative transactions have become more or less favourable than what can be negotiated under current market conditions for contracts with the same remaining period to maturity. The potential for derivatives to increase or decrease in value as a result of the foregoing factors is generally referred to as market risk. Market risk is managed within clearly defined parameters as prescribed by senior management of the Bank. The following table shows the marked to market fair value of all derivative contracts outstanding. This is defined as the profit (loss) associated with replacing the derivative contracts at prevailing market prices.

		2006			2005	
31 December	**Positive**	**Negative**	**Net**	Positive	Negative	Net
Derivative financial instruments						
Interest rate swaps	**1,485**	**6,891**	**(5,406)**	1,519	8,740	(7,221)
Spot and forward foreign exchange	**25,410**	**27,095**	**(1,685)**	26,318	24,613	1,705
Interest rate caps and currency options	**1,286**	**1,233**	**53**	1,136	1,070	66
Total fair value	**28,181**	**35,219**	**(7,038)**	28,973	34,423	(5,450)

(d) Remaining Maturity

The following table summarises the remaining term to maturity of the notional amounts of the Bank's derivative instruments by type:

31 December 2006	**Within 6 months**	**6 to 12 months**	**1 to 3 years**	**3 to 5 years**	**After 5 years**	**Total**
Interest rate contracts						
Interest rate swaps	**196,182**	**47,223**	**102,305**	**58,344**	**75,041**	**479,095**
Interest rate caps	**16,750**	**12,250**	**3,917**	**10,893**	**-**	**43,810**
Sub-total	**212,932**	**59,473**	**106,222**	**69,237**	**75,041**	**522,905**
Foreign exchange contracts						
Spot and forwards	**7,325,246**	**38,760**	**110**	**5,483**	**-**	**7,369,599**
Total notional amount by remaining maturity	**7,538,178**	**98,233**	**106,332**	**74,720**	**75,041**	**7,892,504**

31 December 2005	Within 6 months	6 to 12 months	1 to 3 years	3 to 5 years	After 5 years	Total
Interest rate contracts						
Interest rate swaps	158,310	78,380	130,663	22,157	81,442	470,952
Interest rate caps	-	24,000	17,440	10,892	-	52,332
Sub-total	158,310	102,380	148,103	33,049	81,442	523,284
Foreign exchange contracts						
Spot and forwards	5,560,957	39,891	3,624	-	-	5,604,472
Total notional amount by remaining maturity	5,719,267	142,271	151,727	33,049	81,442	6,127,756

(e) Replacement Cost

The following table reflects the replacement cost of all derivative contracts outstanding. This is defined as the cost of replacing, at current market rates, all contracts that have a positive fair value before factoring in the impact of master netting agreements. The replacement cost of an instrument is dependent upon its terms relative to prevailing market prices and will fluctuate as market prices change and as the derivative approaches its scheduled maturity.

	2006			2005		
31 December	**Trading**	**ALM**	**Total value**	Trading	ALM	Total value
Interest rate contracts						
Interest rate swaps	5	1,480	1,485	156	1,363	1,519
Interest rate caps	1,286	-	1,286	1,136	-	1,136
Sub-total	1,291	1,480	2,771	1,292	1,363	2,655
Foreign exchange contracts						
Spot and forwards	25,410	-	25,410	26,318	-	26,318
Total replacement cost	26,701	1,480	28,181	27,610	1,363	28,973

Note 14: Fair Value of Financial Instruments

The following table presents the carrying value and fair value of financial assets and liabilities under FAS No. 107 Disclosures About Fair Value of Financial Instruments (FAS 107). Accordingly, certain amounts which are not considered financial instruments are excluded from the table. For investments with an indicator of impairment, management has considered the available evidence, including discussions with rating agencies. Based on this and because the Bank has the ability and the intent to hold such securities to maturity, the Bank believes it will recover the full carrying value of the security. Should specific circumstances dictate that the Bank may not be able to hold such securities to maturity, such as a significant deterioration of credit worthiness of the issuer, the Bank may reassess whether a market value below carrying value represents an other than temporary impairment.

	2006			2005		
31 December	**Carrying value**	**Fair value**	**Appreciation / (depreciation)**	Carrying value	Fair value	Appreciation / (depreciation)
Financial assets						
Cash and deposits with banks	3,151,191	3,151,191	-	2,849,920	2,849,920	-
Investments						
Trading	56,471	56,471	-	136,520	136,520	-
Available for sale	963,355	963,355	-	546,302	546,302	-
Held to maturity	2,766,967	2,756,592	(10,375)	2,233,577	2,220,043	(13,534)
Loans						
Commercial, net of allowance for credit losses	2,100,893	2,097,201	(3,692)	1,653,587	1,653,265	(322)
Consumer, net of allowance for credit losses	1,659,852	1,660,992	1,140	1,432,007	1,432,443	436
Other assets	434,073	434,073	-	345,653	345,653	-
Total financial assets	11,132,802	11,119,875	(12,927)	9,197,566	9,184,146	(13,420)
Financial liabilities						
Customer deposits						
Demand deposits	5,743,611	5,743,611	-	4,742,193	4,742,193	-
Term deposits	4,012,048	4,015,231	(3,183)	3,206,773	3,209,043	(2,270)
Deposits, financial institutions	287,173	287,173	-	291,143	291,143	-
Other liabilities	260,249	260,249	-	183,552	183,552	-
Subordinated capital	280,168	274,836	5,332	278,679	275,408	3,271
Total financial liabilities	10,583,249	10,580,100	2,149	8,702,340	8,701,339	1,001

Note 15: Interest Rate Risk

The following table sets out the assets, liabilities and off-balance sheet instruments on the date of the earlier of contractual maturity or repricing date. Use of this table to derive information about the Bank's interest rate risk position is limited by the fact that customers may choose to terminate their financial instruments at a date earlier than the contractual maturity or repricing date. Examples of this include fixed-rate mortgages, which are shown at contractual maturity but which may pre-pay earlier, and certain term deposits, which are shown at contractual maturity but which may be withdrawn before their contractual maturity, and certain investments which have call or pre-payment features.

	Earlier of contractual maturity or repricing date						
31 December 2006 (in $ millions)	**Within 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**After 5 years**	**Non-interest bearing funds**	**Total**
Assets							
Cash and deposits with banks	2,932	77	79	-	-	63	3,151
Investments	2,886	318	252	216	69	46	3,787
Loans	3,430	150	28	141	50	(38)	3,761
Premises, equipment and computer software	-	-	-	-	-	171	171
Other assets	-	-	-	-	-	263	263
Total assets	9,248	545	359	357	119	505	11,133
Liabilities							
Shareholders' equity	-	-	-	-	-	550	550
Deposits	8,384	272	203	212	8	964	10,043
Other liabilities	-	-	-	-	-	260	260
Subordinated capital (a)	125	-	-	90	70	(5)	280
Total liabilities	8,509	272	203	302	78	1,769	11,133
Interest rate sensitivity gap	739	273	156	55	41	(1,264)	-
Cumulative interest rate sensitivity gap	739	1,012	1,168	1,223	1,264	-	-

	Earlier of contractual maturity or repricing date						
31 December 2005 (in $ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash and deposits with banks	1,943	810	58	-	-	39	2,850
Investments	1,745	353	355	368	56	39	2,916
Loans	2,948	26	9	118	21	(36)	3,086
Premises, equipment and computer software	-	-	-	-	-	142	142
Other assets	-	-	-	-	-	204	204
Total assets	6,636	1,189	422	486	77	388	9,198
Liabilities							
Shareholders' equity	-	-	-	-	-	495	495
Deposits	6,183	913	103	144	39	858	8,240
Other liabilities	-	-	-	-	-	184	184
Subordinated capital (a)	125	-	-	90	69	(5)	279
Total liabilities	6,308	913	103	234	108	1,532	9,198
Interest rate sensitivity gap	328	276	319	252	(31)	(1,144)	-
Cumulative interest rate sensitivity gap	328	604	923	1,175	1,144	-	-

(a) Includes interest rate swaps with fair value of $4.6 million (2005: ($4.9 million)), that are highly effective, designated and qualify as fair value hedges.

Note 16: Subordinated Capital

On 28 May 2003, the Bank issued US $125 million of Subordinated Lower Tier II capital notes. The notes were issued at par and in two tranches, namely US $78 million in Series A notes due 2013 and US $47 million in Series B notes due 2018. The issuance was by way of private placement with US institutional investors. The notes are listed on the Bermuda Stock Exchange (BSX) in the specialist debt securities category. Part proceeds of the issue were used to repay the entire amount of the US $75 million outstanding subordinated notes redeemed in July 2003.

The notes issued under Series A pays a fixed coupon of 3.94% until 27 May 2008 when they become redeemable in whole at the option of the Bank. The Series B notes pays a fixed coupon of 5.15% until 27 May 2013 when they also become redeemable in whole at the Bank's option. The Series A notes were priced at a spread of 1.25% over the 5-year US Treasury yield and the Series B notes were priced at a spread of 1.35% over the 10-year US Treasury yield.

On 2 April 2004, in conjunction with the acquisition of Leopold Joseph, the Bank assumed a subordinated debt of £5 million which is included in the balance sheet in the amount of $9.8 million. The issuance was by way of private placement in the United Kingdom and pays a fixed coupon of 9.29% until April 2012 when it becomes redeemable in whole at the option of the Bank and 10.29% thereafter until August 2017.

On 27 June 2005, the Bank issued US $150 million of Subordinated Lower Tier II capital notes. The notes were issued at par in two tranches, namely US $90 million in Series A notes due 2015 and US $60 million in Series B notes due 2020. The issuance was by way of private placement with US institutional investors. The notes are listed on the BSX in the specialist debt securities category.

The notes issued under Series A pays a fixed coupon of 4.81% until 2 July 2010, when they will become redeemable in whole at the Bank's option. The Series B notes pays a fixed coupon of 5.11% until 2 July 2015 when they also become redeemable in whole at the Bank's option. The Series A notes were priced at a spread of 1.00% over the 5-year US Treasury yield and the Series B notes were priced at a spread of 1.10% over the 10-year US Treasury yield.

Interest capitalised in accordance with FAS 34 during the year amounted to $1.5 million (2005: $1.2 million) and is included in interest expense - subordinated capital in the Consolidated Statement of Income.

The following table presents the contractual maturity and interest payments for subordinated capital issued by the Bank as at 31 December 2006:

		Within 1 year	1 to 5 years	After 5 years	Carrying value
Subordinated capital					
Bermuda					
2003 issuance - Series A	Fixed rate	3,073	12,293	82,610	78,000
2003 issuance - Series B	Fixed rate	2,421	9,682	62,733	47,000
2005 issuance - Series A	Fixed rate	4,329	17,316	107,316	90,000
2005 issuance - Series B	Fixed rate	3,066	12,264	87,594	60,000
Subsidiary	Fixed rate	-	-	9,793	9,793
Other (a)		-	-	-	(4,625)
Total		12,889	51,555	350,046	280,168

(a) Other includes interest rate swaps with notional amount of $125 million, that are highly effective, designated and qualify as fair value hedges.

Note 17: Earnings per Share

Earnings per share has been calculated using the weighted average number of shares outstanding during the year after deduction of the shares held as treasury stock and adjusted for the stock dividends declared during the year ended 31 December 2006 and 2005 (see also Note 21). The dilutive effect of stock options was calculated using the treasury stock method, whereby the proceeds received from the exercise of stock options are assumed to be used to repurchase outstanding shares, using the average market price of the Bank's shares for the period.

31 December	2006	2005
Basic earnings per share		
Net income for the year	134,083	109,351
Weighted average number of common shares issued (in thousands)	29,769	29,513
Weighted average number of common shares held as treasury stock (in thousands)	(1,480)	(1,795)
Adjusted weighted average number of common shares (in thousands)	28,289	27,718
	4.74	3.95

31 December	2006	2005
Diluted earnings per share		
Net income for the year	134,083	109,351
Weighted average number of common shares issued (in thousands)	29,769	29,513
Weighted average number of common shares held as treasury stock (in thousands)	(1,480)	(1,795)
Stock options (in thousands)	840	721
Adjusted weighted average number of diluted common shares (in thousands)	29,129	28,439
	4.60	3.85

Note 18: Share-Based Payment

As at 31 December 2006, the Bank has two share-based compensation plans, which are described below. The compensation cost that has been charged against net income for those plans for the year ended 31 December 2006 was $3.7 million (2005: $1.9 million). The total income tax benefit recognised in the income statement for share-based compensation arrangements for the year ended 31 December 2006 was $0.1 million (2005: nil).

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.

Under the Bank's 1997 Stock Option Plan (the 1997 Plan), options to purchase common shares of the Bank may be granted to employees and directors of the Bank that entitle the holder to purchase one common share at a subscription price equal to the market price on the effective date of the grant. Option exercise prices are stated and payable in Bermuda dollars. Generally, grants vest 25 percent at the end of each year for four years. The committee that administers the 1997 Plan has the discretion to vary the period during which the holder has the right to exercise options and, in certain circumstances, may accelerate the right of the holder to exercise options, but in no case shall the exercise period exceed ten years.

The Board of Directors of the Bank has established at 3,000,000 the current maximum number of common shares which may be issued or transferred by the Stock Option Trust pursuant to exercise of options.

On 12 December 2005, the Board of Directors of the Bank approved the acceleration of the vesting of all outstanding unvested stock options (the Acceleration) for non-managerial employees. The Acceleration was effective for all such options outstanding on 25 November 2005, all of which were granted by the Bank when the accounting rules permitted use of the intrinsic value method of accounting for stock options. All of the other terms and conditions applicable to such outstanding stock option grants still apply. Under Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees (APB 25), the Acceleration resulted in recognition of stock-based compensation expense of $0.3 million which was determined by measuring the intrinsic value on the date of the modification of the options that otherwise would have expired unexercised. The Company's decision to accelerate the vesting of these options was made to reduce administrative burden and in anticipation of compensation expense to be recorded in connection with outstanding unvested stock options issued to employees subsequent to the effective date of FAS No. 123 (Revised 2004) Share Based Payment (FAS 123R).

The compensation expense that would have been recognised in the income statements for the years 2006 to 2009 as a result of the adoption of FAS 123R had the Acceleration not taken place is $0.7 million. As a result of the Acceleration, options to purchase 206,588 shares of the Bank's common stock became immediately exercisable.

At 31 December 2006, the Bank held as treasury stock 1,494,584 shares (2005: 1,519,203) that will be used to satisfy the Bank's obligations with respect to the Stock Option Plan.

Directors' and Executive Officers' Stock Option Plan

31 December	2006 Number of stock options	2006 Weighted average exercise price ($)	2006 Weighted average life remaining (years)	2006 Aggregate Intrinsic Value ($)	2005 Number of stock options	2005 Weighted average exercise price ($)
Outstanding at beginning of year	614,698	27.82			520,229	25.47
Granted	100,000	50.00			129,425	38.48
Stock dividend granted	55,718	29.22			60,937	26.42
Exercised	(228,517)	23.63			(95,893)	15.98
Outstanding at end of year	541,899	30.96	6.68	13,706	614,698	27.82
Vested and exercisable at end of year	334,303	25.44	5.74	10,301	311,265	20.81

Employees' Stock Option Plan

31 December	2006 Number of stock options	2006 Weighted average exercise price ($)	2006 Weighted average life remaining (years)	2006 Aggregate Intrinsic Value ($)	2005 Number of stock options	2005 Weighted average exercise price ($)
Outstanding at beginning of year	1,407,065	30.00			1,217,466	28.72
Granted	489,471	50.12			495,309	37.53
Stock dividend granted	189,793	34.16			159,708	29.65
Exercised	(345,914)	24.55			(350,820)	25.65
Forfeited / cancelled	(34,894)	37.81			(114,598)	34.07
Outstanding at end of year	1,705,521	34.87	7.39	36,460	1,407,065	30.00
Vested and exercisable at end of year	686,223	24.57	5.86	21,739	708,588	24.87

The weighted average fair value of stock options granted in the year ended 31 December 2006 was $6.53 per stock option (2005: $5.18), calculated using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions:

Year Ended 31 December	2006	2005
Projected dividend yield	4.00%	4.00%
Risk-free interest rate	4.60%	3.71%
Projected volatility	16%	19%
Expected life (years)	5.0	5.0

The projected dividend yield and volatility are based on the historical dividends paid and trading prices of the Bank's shares. The risk-free interest rate for periods within the expected life of the option is based on the US Treasuries yield curve in effect at the time of grant. The Bank uses historical data to estimate expected option life and employee termination rates; separate groups of employees that have similar historical exercise behaviour are considered separately for valuation purposes.

The compensation cost related to the Plan that has been charged against the income for the year ended 31 December 2006 was $2.4 million (2005: $0.3 million). The total intrinsic value of options exercised during the year ended 31 December 2006 was $13.1 million (2005: $9.0 million).

As at 31 December 2006, there was $2.9 million of total unrecognised compensation cost related to non-vested options granted under the Plan. That cost is expected to be recognised over a weighted average period of 2.4 years.

Had compensation cost been determined based on the fair value of the stock option awards at the date of grant, net income and earnings per share would have been reduced to the pro-forma amounts shown below:

Year Ended 31 December	2006	2005
Net income as reported	N/A	109,351
Net income – pro-forma	N/A	107,560
Earnings per share – as reported (basic)	N/A	3.95
Earnings per share – pro-forma (basic)	N/A	3.88

Deferred Incentive Plan

Under its Deferred Incentive Plan as approved by the Board of Directors, the Bank grants restricted shares to selected members of the management team. Shares are granted fully vested and are affected by transfer restrictions which are lifted at a rate of 33 percent at the end of each year for three years. The fair value of each restricted share granted under the Deferred Incentive Plan was estimated based on the grant date market price of the Bank's shares discounted by 25% for their transfer restrictions. The discount for transfer restrictions was based, among other factors, on published restricted stock studies. During the year ended 31 December 2006, 32,569 restricted shares were granted (2005: 38,025). The fair value of shares granted during the year was $1.3 million (2005: $1.2 million).

Note 19: Share Buy-Back Plans

During the year under review, 47,659 shares (2005: 32,890) were purchased and cancelled at a cost of $2.7 million (2005: $1.4 million). During the same period, the Bank's Stock Option Trust bought 431,132 shares at a cost of $25.1 million (2005: 285,854 shares at a cost of $12.6 million) and the Bank's Charitable Foundation bought 192,899 shares at a cost of $11.0 million (2005: nil).

The Bank has the present intention to repurchase and cancel over the twelve month period commencing 1 January 2007, 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. This intention is subject to appropriate market conditions and repurchases will only be made in the best interest of the Bank. From time to time the Bank's associates, insiders and insiders' associates as defined by the BSX regulations may sell shares which may result in such shares being repurchased pursuant to the programme, but under BSX regulations such trades must not be pre-arranged and all repurchases must be made in the open market. Prices paid by the Bank must not, according to BSX regulations, be higher than the last independent trade for a 'round lot', defined as 100 shares or more.

The BSX is advised monthly of shares repurchased and cancelled by the Bank and shares purchased by both the Stock Option Trust and the Charitable Foundation.

Note 20: Dividend Re-Investment and Employee Common Stock Purchase Plans

The Bank's dividend re-investment and employee common stock direct purchase plans permit participants to purchase, at market value, shares of the Bank's common stock by re-investment of dividends and/or optional cash payments, subject to the terms of each plan.

Note 21: Stock Dividend

In August 2006 and August 2005, the Bank distributed a 10% stock dividend to shareholders of record on 7 August 2006 and 5 August 2005 respectively. All prior period per share amounts have been restated to reflect the stock dividend.

Note 22: Variable Interest Entities

The effect of FIN 46R was an increase in the Bank's net assets of approximately $1.4 million for the year ended 31 December 2006 (2005: decrease of $0.6 million). The increase (decrease) primarily relates to the Bank's venture capital investment subsidiary (Butterfield Vencap Limited). Butterfield Vencap Limited holds investments in private and listed companies where the nature of the investment relationship is such that the Bank, through Butterfield Vencap Limited, may absorb a majority of the expected losses or receive a majority of the residual returns of these companies.

As at 31 December 2006 the total assets of variable interest entities consolidated in the balance sheet is $40.2 million (2005: $17.7 million).

Note 23: Income Taxes

The Bank is not subject to any taxes in Bermuda, The Bahamas and Cayman on either income or capital gains under current laws in those jurisdictions. The Bank's income tax expense for all periods presented relates to income from operations and is attributable to subsidiaries and offices in various other jurisdictions that are subject to the relevant taxes in those jurisdictions.

31 December	2006	2005
Income taxes in Consolidated Statement of Income		
Current	3,061	1,358
Deferred	731	270
Total tax expense	3,792	1,628
Deferred income tax asset		
Tax loss carried forward	3,953	3,229
General bad debt allowance	20	33
Pension liability	912	2,230
Allowance for compensated absence	34	14
Onerous leases	145	190
Other	704	495
Total asset	5,768	6,191
Deferred income tax liability		
Other	266	3
Total liability	266	3
Net deferred income tax asset	5,502	6,188

Note 24: Future Accounting Developments

a) In July 2006, the Financial Accounting Standards Board released FIN 48, Accounting for Uncertainty in Income Taxes, which addresses how companies should recognise and measure uncertain tax positions under US generally accepted accounting principles. FIN 48 will be effective for fiscal years beginning after 15 December 2006 and, therefore, effective from the Bank's first quarter in 2007. Management is currently evaluating the effect of adoption.

b) In September 2006, the Financial Accounting Standards Board issued FAS 157, Fair Value Measurement, which addresses how companies should measure fair value when required for recognition or disclosure purposes under US generally accepted accounting principles. Specifically, FAS 157 creates a common definition of fair value and will require expanded disclosures about fair value measurements. FAS 157 will be effective for fiscal years beginning after 15 November 2007 and, therefore, effective from the Bank's first quarter in 2008. Management is currently evaluating the effect of adoption.

Directory

Board of Directors and Principal Board Committees

Committees indicated by numbers

2
James A.C. King, JP, Chairman
Chairman, KeyTech Ltd.
Chairman, Argus Group Holdings Ltd.

2
Brian Duperreault, Co-Vice Chairman
Chairman, ACE Limited
Director, Tyco International Ltd.

1
Robert J. Stewart, JP, Co-Vice Chairman
Chairman, Island Circle Limited, Bermuda
Director, Shell Trust (Bermuda) Limited

1
Roderick A. Ferguson III, JP
Chairman, Gorham's Ltd.
Chairman, Purvis Ltd.
Director, KeyTech Ltd.

4
A.L. Vincent Ingham, JP
Executive Vice President & Chief Operating Officer, BELCO Holdings Limited
Director, BELCO Holdings Limited

Sheila G. Manderson (retired 31 July 2006)
Former Chief Executive Officer, KeyTech Ltd.

1, 3
Robert A. Mulderig
Retired Chairman & Chief Executive Officer, Mutual Risk Management Ltd.
Chairman, Woodmont Trust Co. Ltd.

3, 4
Pauline Richards
(appointed 1 August 2006)
Director, Wyndham Worldwide Inc
Director of Development, Saltus Grammar School

1, 2
Robert Steinhoff
Retired Partner, KPMG
Director, Argus Group Holdings Ltd.

Alan R. Thompson*
President & Chief Executive Officer,
The Bank of N.T. Butterfield & Son Limited

3, 4
Glenn M. Titterton
Chairman, BF&M Insurance Group
Retired President & Chief Executive Officer, BF&M Insurance Group
Chairman, Insurance Corporation of Barbados Limited

1, 2
Harry Wilken*
President, Jardine Matheson International Services Limited

4
John R. Wright*
Retired Bank Chief Executive

Principal Board Committees:

1 Audit & Compliance Committee
2 Risk Policy Committee
3 Corporate Governance Committee
4 Human Resources Committee

*Non-Bermudian

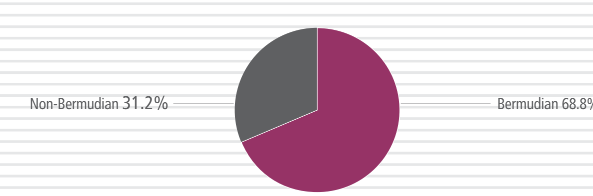
Directors' Code of Practice and Group Code of Conduct

The Directors have adopted a Code of Best Practice based upon recommended principles of corporate governance. In implementing the Code, the Board meets regularly, retains full effective control over the Bank, and monitors executive management. A Group Code of Conduct applies to Directors and employees and imposes the Bank's principles of business, including ethics and conflicts of interest. Copies of the Codes can be accessed on www.butterfieldbank.com/About/corporate_governance.

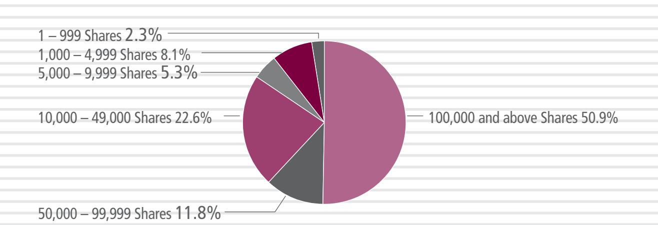
Directors' and Executive Officers' Share Interests and Directors' Service Contracts

Pursuant to Regulation 6.8(3) 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 31 December 2006 were 942,749 shares. With the exception of those participating in the Shareholders' Dividend Reinvestment Plan or the Stock Option Plan, no rights to subscribe for shares in the Bank have been granted to or exercised by any Director or Officer. None of the Directors or Executive Officers had any interest in any debt securities issued by the Bank or its subsidiaries.

There are no service contracts with Directors, except for Alan R. Thompson, President & Chief Executive Officer, whose contract expires on 30 June 2008.



Split of Share Ownership: Bermudian / Non-Bermudian



Distribution of Shares by Number Held

Management

Alan R. Thompson
President & Chief Executive Officer

Graham C. Brooks
Executive Vice President
International

Richard J. Ferrett
Executive Vice President
Chief Financial Officer

Bruce Albrecht
Senior Vice President
Group Head of Asset Management

George Bogucki
Managing Director
Butterfield Bank (UK) Limited

Dianne M. Brewer
Vice President
Marketing & Communications

Sheila M. Brown
Senior Vice President
Investment Services

Mariano R. Browne
Managing Director
Butterfield Bank (Barbados) Limited

Andrew R. Collins
Managing Director
Butterfield Fund Services (Bermuda) Limited

Ian M. Coulman
Managing Director
Butterfield Asset Management Limited

Curtis Dickinson
Senior Vice President
Corporate Management

Donna E. Harvey Maybury
Senior Vice President
Human Resources

Graham M. Jack
Managing Director
Butterfield Trust (Bermuda) Limited

Douglas Lang
Managing Director
Butterfield Fund Services (Bermuda) Limited

Robert V. Lotmore
Managing Director
Butterfield Bank (Bahamas) Limited

Michael A. McWatt
Senior Vice President
Credit Risk Management

Robert S. Moore
Managing Director
Butterfield Bank (Guernsey) Limited

Conor O'Dea
Managing Director
Butterfield Bank (Cayman) Limited

Michael O'Mahoney
Senior Vice President
Treasury

Pete D. Ramsdale
Senior Vice President
Chief Information Officer

Peter J.M. Rodger
Senior Vice President & Group Legal Adviser
Secretary to the Board

Frank J. Sebestyen, III
Senior Vice President
Group Head of Fund Services

W. Aaron M. Spencer
Senior Vice President
Operations

James R. Stewart
Senior Vice President
Enterprise Risk Management

Fred H. Tesch
Senior Vice President
Group Internal Audit

Lloyd O. Wiggan
Senior Vice President
Retail Banking

Bob W. Wilson
Senior Vice President
Corporate and Private Banking

Shareholders' Information

Dividend Payment
Dividends approved by the Board are paid quarterly, occurring normally in November, March, May and August.

Exchange Listing
The Bank's shares are listed on the Bermuda Stock Exchange (BSX) and the Cayman Islands Stock Exchange (CSX), located at:

Bermuda Stock Exchange
(Primary Listing)
Phase 1 – 3rd Floor Washington Mall
Church Street
Hamilton, HM 11
Bermuda
Tel: (441) 292 7212 or (441) 292 7213
Fax: (441) 292 7619
www.bsx.com

Cayman Islands Stock Exchange
(Secondary Listing)
Elizabethan Square, 4th Floor
GT, Grand Cayman
Cayman Islands
Tel: (345) 945 6060
Fax: (345) 945 6061
www.csx.com.ky

Share Dealing Service
Butterfield Securities (Bermuda) Limited
65 Front Street
Hamilton, HM 12
Bermuda
Tel: (441) 299 3972
Fax: (441) 296 8867

Share Price
Published daily in *The Royal Gazette* in Bermuda and available on *Bloomberg Financial Markets* (symbol: NTB BH).

Also available on the BSX and CSX websites.

Dividend Reinvestment Plan
Details are available from Butterfield Fund Services (Bermuda) Limited
E-mail: contact@bntb.bm

Certain restrictions apply.

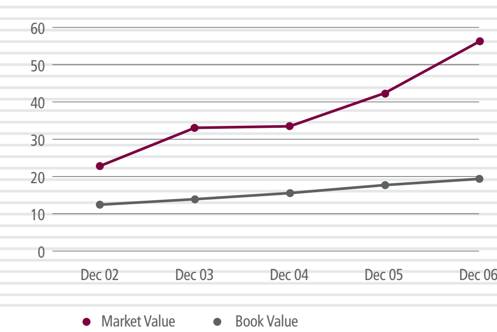
Registrar and Transfer Agent
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, HM 11
Bermuda
Tel: (441) 298 6464
Fax: (441) 295 6759
E-mail: contact@bntb.bm

Head Office
The Bank of N.T. Butterfield & Son Limited
65 Front Street
Hamilton, HM 12
Bermuda
Tel: (441) 295 1111
Fax: (441) 292 4365
E-mail: contact@bntb.bm

Media Relations / Publication Requests
Marketing & Communications
Tel: (441) 299 1624 or (441) 298 4610
E-mail: markjohnson@bntb.bm or stuartroberts@bntb.bm

Investor Relations
Chief Financial Officer
Tel: (441) 299 1643
E-mail: richardferrett@bntb.bm

Market Value & Net Book Value per Share ($)



Written Notice of Share Repurchase Programme — BSX Regulation 6.38
The Board of Directors of the Bank announced the intention to repurchase over the 12 month period commencing 1 January 2007, up to 2,000,000 of its ordinary shares of par value $1 each pursuant to its share repurchase programme authorised by shareholders on 29 October 1997.

As at 31 December 2006, 2,000,000 shares represented 6.7% of total issued shares of the Bank. This intention is subject to appropriate market conditions and repurchases will only be made in the best interests of the Bank. The Directors consider that share repurchase is an excellent means of enhancing shareholder value while increasing earnings per share.

Shares repurchased and cancelled in the 12 months to 31 December 2006 totalled 47,659 at an average price of $55.82 and aggregate cost of $2,663,389.

From time to time the Bank's associates, insiders, and insiders' associates as defined in the BSX Regulations may sell shares which may result in being repurchased pursuant to the programme, but under BSX Regulations such trades must not be prearranged and all repurchases must be made in the open market. Prices paid by the Bank must not, according to BSX Regulations, be higher than the last independent trade.

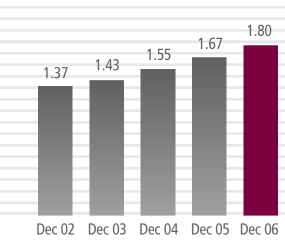
The Bank will continue to advise the BSX monthly of shares repurchased and cancelled.

In addition and separate to the above, the Bank's Stock Option Trust may from time to time purchase shares of the Bank through the BSX to satisfy the Bank's obligations with respect to the Stock Option Plan, and such purchases will likewise be advised to the BSX monthly. Shares purchased in this way in the 12 months to 31 December 2006 totalled 431,132 shares at an average price of $58.11 and aggregate cost of $25,080,967. In addition and separate to the above, the Bank's Charitable Foundation bought 192,899 shares at an average price of $56.71 and aggregate cost of $10,951,119. Such purchases by the Foundation are advised to the BSX on a monthly basis.

Large Shareholders
The following professional nominees at 31 December 2006 were registered holders of 5% or more of the issued share capital: Harcourt & Co. (14.84%), Palmar Limited (5.83%) and Murdoch & Co. (5.10%).

Known beneficial holdings of 5% or more of issued share capital, at that date, were: Bermuda Life Insurance Company Limited (6.98%); Jardine Strategic Holdings Limited (6.73%); and the Bank's Stock Option Trust (5.28%).

Annual Dividend Declared ($)



Principal Offices and Subsidiaries

This list does not include all companies in the Group. It includes all companies that materially contribute to the profit or loss or assets of the Group.

The Bank of N.T. Butterfield & Son Limited
Holding Company, Community Banking, Credit and Treasury Services

Head Office
65 Front Street
Hamilton, HM 12
Bermuda
Tel: (441) 295 1111
Fax: (441) 292 4365
S.W.I.F.T. BNTB BM HM
E-mail: contact@bntb.bm

BERMUDA

Butterfield Asset Management Limited
Investment Management and Brokerage Services

Managing Director: Ian M. Coulman
65 Front Street
Hamilton, HM 12
Bermuda
Tel: (441) 299 3817
Fax: (441) 292 9947
E-mail: contact@bntb.bm

Butterfield Fund Services (Bermuda) Limited
Investment and Pension Fund Administration, Corporate Trust

Managing Director: Douglas Lang
Rosebank Centre
11 Bermudiana Road
Pembroke, HM 11
Bermuda
Tel: (441) 299 3933
Fax: (441) 295 6759
E-mail: contact@bntb.bm

Butterfield Trust (Bermuda) Limited
Grosvenor Trust Company Limited
Private Banking, Personal Trust

Managing Director: Graham M. Jack
65 Front Street
Hamilton, HM 12
Bermuda
Tel: (441) 299 3980
Fax: (441) 292 1258
E-mail: contact@bntb.bm

THE BAHAMAS

Butterfield Bank (Bahamas) Limited
Private Banking, Personal Trust, Corporate Trust

Managing Director: Robert V. Lotmore
Montague Sterling Centre, East Bay Street
Nassau, N.P.
Bahamas
Tel: (242) 393 8622
Fax: (242) 393 3772
E-mail: info@butterfieldbank.bs

Butterfield Fund Services (Bahamas) Limited
Investment and Pension Fund Administration

Managing Director: Heather Bellot
Montague Sterling Centre, East Bay Street
Nassau, N.P.
Bahamas
Tel: (242) 393 8622
Fax: (242) 393 3772
E-mail: info@butterfieldbank.bs

BARBADOS

Butterfield Bank (Barbados) Limited
Community Banking

Managing Director: Mariano R. Browne
1st Floor, Carlisle House
Hincks Street, Bridgetown
Barbados
Tel: (246) 431 4500
Fax: (246) 430 0221
E-mail: contact@butterfieldbank.bb

Vice President, Butterfield Asset Management (Barbados) Limited: Caroline J. Prow
Belleville Corporate Centre
38 Pine Road
Belleville, St. Michael
Barbados
Tel: (246) 430-1650
Fax: (246) 436-7999
E-mail: carolineprow@butterfield.bb

CAYMAN ISLANDS

Butterfield Bank (Cayman) Limited
Community Banking, Private Banking, Asset Management, Personal Trust, Corporate Trust

Managing Director: Conor O'Dea
Butterfield House
68 Fort Street
Grand Cayman, KY1-1107
Cayman Islands
Tel: (345) 949 7055
Fax: (345) 949 7004
E-mail: info@butterfieldbank.ky

Butterfield Fund Services (Cayman) Limited
Investment and Pension Fund Administration

Managing Director: John Lewis
Butterfield House
68 Fort Street
Grand Cayman, KY1-1107
Cayman Islands
Tel: (345) 949 7055
Fax: (345) 949 7004
E-mail: fund.admin@butterfieldbank.ky

GUERNSEY

Butterfield Bank (Guernsey) Limited
Private Banking, Administered Banking, Custody

Managing Director: Robert S. Moore
Regency Court
Glategny Esplanade
St Peter Port, Guernsey, GY1 3AP
Channel Islands
Tel: (44) 1481 711 521
Fax: (44) 1481 714 533
E-mail: info@butterfield.gg

Butterfield Trust (Guernsey) Limited
Personal Trust, Corporate Trust, Custodian Trustee Services

Managing Director: Paul D.H. Hodgson
Regency Court
Glategny Esplanade
St Peter Port, Guernsey, GY1 3AP
Channel Islands
Tel: (44) 1481 711 521
Fax: (44) 1481 714 533
E-mail: info@butterfield.gg

Butterfield Fund Services (Guernsey) Limited
Investment and Pension Fund Administration

Managing Director: Patrick A.S. Firth
Regency Court
Glategny Esplanade
St Peter Port, Guernsey, GY1 3AP
Channel Islands
Tel: (44) 1481 720 321
Fax: (44) 1481 716 117
E-mail: info@butterfield.gg

SWITZERLAND

Butterfield Asset Management (Switzerland) Limited
Asset Management

Managing Director: Iain Little
Talstrasse 37
CH-8022 Zurich
Switzerland
Telephone: (41) 43 888 6488
Facsimile: (41) 43 888 6489
E-mail: info@butterfield.ch

UNITED KINGDOM

Butterfield Bank (UK) Limited
Private Banking, Treasury Services

Managing Director: George Bogucki
99 Gresham Street
London, EC2V 7NG
United Kingdom
Tel: (44) 207 776 6700
Fax: (44) 207 776 6701
E-mail: info@butterfieldprivatebank.co.uk

Butterfield Bank

The Bank of N.T. Butterfield & Son Limited | 65 Front Street, Hamilton, Bermuda | **www.butterfieldbank.com**