

Butterfield Bank Group

Ticker: **NTB - BH**
Sector: **Financial**

Fiscal Year-End: **Dec. 31, 2006**
Web Site: **www.butterfieldbank.com**

Share Price (09/30/07):	\$20.00	Annual Dividend:	\$0.64	Shares O/S:	89.61m
Stock Rating:	Hold	Current Yield:	3.20%	Market Cap:	\$1,792m
Risk Profile:	Low	Payout Ratio:	42%	BSX Weight:	62.93%
1-Year Target Price:	\$21.00	Ex-Dividend Date:	11/06/07	Book Value:	\$6.13
1-Year Implied ROR:	8.2%	Frequency:	Quarterly	Price/Book:	3.26x

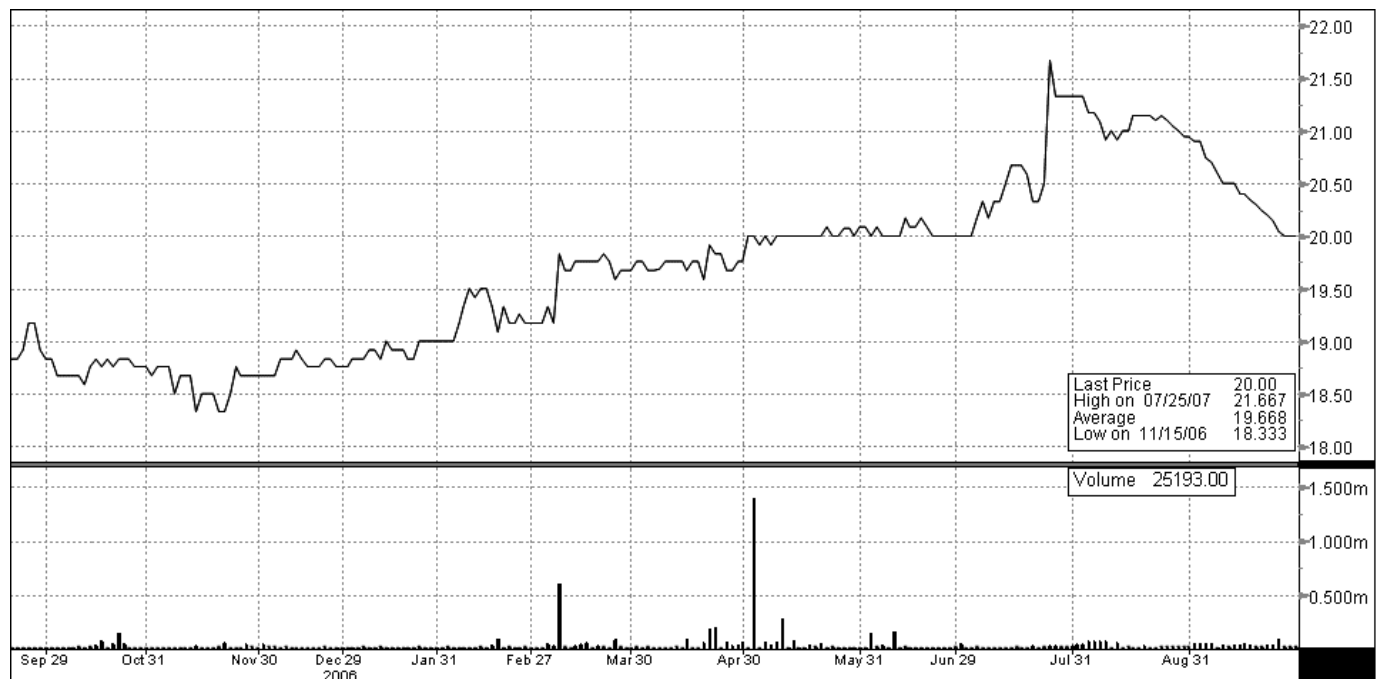
52-Week High: \$21.67
52-Week Low: \$18.33
Avg. Monthly Volume: 604,000

Current P/E Ratio: 13.04x
Shareholder's Equity: \$571.9m
Total Assets: \$12,000m
Return on Equity: 24.4%
Return on Assets: 1.3%

	2004	2005	2006	2007E
EPS:	\$1.06	\$1.28	\$1.53	\$1.62
YoY Growth:	25.6%	20.7%	19.5%	5.7%
P/E Ratio:	10.49x	11.00x	12.23x	13.00x
Fiscal YE Price:	\$11.16	\$14.12	\$18.75	

Notes: NTB distributed a 3-for-1 stock split in August 2007
NTB raised its annual dividend by \$0.05 in November 2006

NTB 1-year price/volume chart:



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Company Description

Butterfield Bank Group is a diversified provider of financial services with headquarters in Bermuda, and operations in six other jurisdictions. The bank's 2006 revenues can be deconstructed geographically and operationally as follows:

<u>Revenue by Location</u>		<u>Revenue by Segment</u>	
Bermuda	54%	Net Interest Income	52%
Cayman	23%	Investment & Pension Admin.	11%
Guernsey	11%	Banking Services	10%
UK	7%	Asset Management	8%
Barbados	3%	Foreign Exchange	8%
Bahamas	2%	Trust & Investment Services	8%
		Other	3%

In their latest financial release (06/30/07), Butterfield reported total assets of \$12.0 billion, assets under management of \$11.7 billion, and assets under administration of \$137 billion.

2006 Results

Butterfield enjoyed another record year in 2006, with net income climbing 22.6% year-on-year to \$134 million and revenue growing 16.9% to \$415 million. Net interest income before provisions increased 17.7% to \$218 million on the back of a healthy growth in customer deposits, which rose 22.7%, or \$1.8 billion, to \$9.8 billion. The bank's investment and loan portfolios were up year-on-year by 30% and 22% respectively, with each standing at \$3.8 billion as of fiscal year-end. Butterfield's capital structure remains strong, as evidenced by a highly liquid balance sheet and risk-weighted capital ratios that are well above the minimum requirements mandated by the Bermuda Monetary Authority.

Half-Year 2007 Results

Bank of Butterfield recently reported 2nd quarter earnings of \$35.9 million, up only 6.1% from the same quarter last year. This brings half-year diluted earnings per share (pre the 3:1 stock split) to \$2.46 for fiscal 2007 versus \$2.31 for 2006, a gain of 6.5% year-on-year. Net interest income for the quarter grew a healthy 15% to \$61.6 million on customer deposits of \$10.6 billion, which rose nearly 20%. The recent slowdown in earnings growth can be attributed to three main factors:

- The bank undertook a number of acquisitions from 2001 to 2004, the benefits of which have been recognized handsomely over the past two years. The lack of recent acquisitions has made double-digit rates of revenue and earnings growth more difficult to sustain.
- An increase in Butterfield's headcount required to support its rapid growth, especially increased staffing in "corporate governance" areas such as Risk Management and Compliance.
- It is common for expense growth to lag behind strong revenue growth.

Forecast and Recommendation

Butterfield Bank remains a first-rate financial institution and the bellweather stock of the BSX index, accounting for over 60% of the Domestic Issuers market capitalization. The stock has performed admirably over the past three years, posting an average annualized return of approximately 25%. Butterfield's retail business in the Caribbean is poised for organic growth, and there exist the future possibilities of both accretive acquisitions and of periodic dividend increases. However, it is unreasonable to expect the bank to maintain its torrid growth rate of the past few years. In addition, there remains the likelihood that recent volatility in global capital markets may negatively impact Butterfield's operations going forward.

We apply a 13.0x multiple to our 2007 earnings projection of \$1.62 and generate a 1-year price target of \$21 for shares of NTB. LOM rates Butterfield Bank Group as a "hold".