

Bank of Bermuda Foundation

Consolidated Financial Statements
December 31, 2016
(expressed in Bermuda dollars)



KPMG Audit Limited
Crown House
4 Par-la-Ville Road
Hamilton HM 08 Bermuda

Mailing Address:
P.O. Box HM 906
Hamilton HM DX Bermuda

Telephone +1 441 295 5063
Fax +1 441 295 9132
Internet www.kpmg.bm

INDEPENDENT AUDITOR'S REPORT

To the Member of Bank of Bermuda Foundation

Report on the Audit of the consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bank of Bermuda Foundation (the "Foundation"), which comprise the consolidated statement of financial position as at December 31, 2016, including the consolidated schedule of investments as at December 31, 2016 and the consolidated statements of operations, operations by fund, changes in net assets by fund and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Foundation as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting standards for not-for-profit organizations generally accepted in Bermuda and Canada.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the consolidated Audit of the Financial Statements* section of our report. We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting standards for not-for-profit organizations generally accepted in Bermuda and Canada and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Audit Limited

KPMG Audit Limited
Chartered Professional Accountants
Hamilton, Bermuda
May 31, 2017

Bank of Bermuda Foundation
 Consolidated Statement of Financial Position
 As at December 31, 2016

(expressed in Bermuda dollars)

	2016 \$	2015 \$
Assets		
Cash and cash equivalents	10,138,363	12,419,043
Restricted cash	1,046,182	1,043,771
Dividends and accounts receivable	216,099	142,684
Unsettled investment trade receivable (note 4)	-	17,152,201
Loan receivable (note 3)	1,400,000	1,400,000
Investments, at fair value (schedule) (note 4)	140,421,254	115,989,850
	<u>153,221,898</u>	<u>148,147,549</u>
Liabilities		
Accounts payable and accrued liabilities (note 6)	153,658	221,916
Accrued donations	439,167	-
	<u>592,825</u>	<u>221,916</u>
Net assets		
Restricted net assets – Endowment purposes	1,047,071	1,041,671
Unrestricted net assets (note 5)		
- Internally restricted	151,582,002	160,877,340
- Unrestricted	-	(13,993,378)
	<u>151,582,002</u>	<u>146,883,962</u>
	<u>152,629,073</u>	<u>147,925,633</u>
	<u>153,221,898</u>	<u>148,147,549</u>

Approved by the Board of Directors on May 30, 2017

_____ Director

_____ Director

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

Bank of Bermuda Foundation

Consolidated Statement of Operations

For the year ended December 31, 2016

(expressed in Bermuda dollars)

	2016 \$	2015 \$
Revenue		
(Loss) gain on sale of investments (note 4)	(32,481)	30,894,828
Dividends and interest income (note 6)	3,388,298	2,438,333
Miscellaneous income (note 7)	-	4,345
Foreign exchange loss	-	(75,528)
Loan interest (note 3)	42,051	-
	<u>3,397,868</u>	<u>33,261,978</u>
Donations		
Human services (and housing)	1,481,880	762,669
Scholarships	701,001	598,656
Arts, culture, heritage, environment	621,000	733,334
Youth development and sports	499,813	467,333
Education	469,900	661,133
General charitable	416,065	386,415
	<u>4,189,659</u>	<u>3,609,540</u>
Expenses		
Administrative charges (note 6)	232,000	232,000
Investment management fees (note 6)	210,000	280,000
Professional fees and other fees	171,246	212,009
Managing director's fee (note 8)	81,000	81,000
Member funding expenses (note 6)	76,000	76,000
Director fees (note 8)	65,000	54,375
Miscellaneous	50,617	35,406
Custody fees (note 6)	50,000	50,000
Committee member fees	31,000	27,750
Printing and advertising	9,351	6,190
Bank charges	3,657	12,994
Endowment Trust costs (note 6)	8,100	6,150
	<u>987,971</u>	<u>1,073,874</u>
Increase (decrease) in fair value of investments (note 4)	<u>6,483,202</u>	<u>(33,088,924)</u>
Surplus (deficit) of revenue over donations and expenses for the year	<u>4,703,440</u>	<u>(4,510,360)</u>

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

Bank of Bermuda Foundation

Consolidated Statement of Operations by Fund For the year ended December 31, 2016

(expressed in Bermuda dollars)

	Restricted Net Assets - Endowment Trust 2016 \$	Unrestricted Net Assets 2016 \$	Total 2016 \$
Revenue	13,500	3,384,368	3,397,868
Donations	-	(4,189,659)	(4,189,659)
Expenses	(8,100)	(979,871)	(987,971)
Increase in fair value of investments	-	6,483,202	6,483,202
Surplus of revenue over donations and expenses for the year	5,400	4,698,040	4,703,440

	Restricted Net Assets - Endowment Trust 2015 \$	Unrestricted Net Assets 2015 \$	Total 2015 \$
Revenue	13,171	33,248,807	33,261,978
Donations	-	(3,609,540)	(3,609,540)
Expenses	(6,150)	(1,067,724)	(1,073,874)
Decrease in fair value of investments	-	(33,088,924)	(33,088,924)
Surplus (deficit) of revenue over donations and expenses for the year	7,021	(4,517,381)	(4,510,360)

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

Bank of Bermuda Foundation

Consolidated Statement of Changes in Net Assets by Fund For the year ended December 31, 2016

(expressed in Bermuda dollars)

	Restricted Net Assets - Endowment Trust 2016 \$	Unrestricted Net Assets 2016 \$	Total 2016 \$
Net assets at December 31, 2015	1,041,671	146,883,962	147,925,633
Surplus of revenue over donations and expenses for the year	5,400	4,698,040	4,703,440
Net assets at December 31, 2016	1,047,071	151,582,002	152,629,073

	Restricted Net Assets - Endowment Trust 2015 \$	Unrestricted Net Assets 2015 \$	Total 2015 \$
Net assets at December 31, 2014	1,034,650	151,401,343	152,435,993
Surplus (deficit) of revenue over donations and expenses for the year	7,021	(4,517,381)	(4,510,360)
Net assets at December 31, 2015	1,041,671	146,883,962	147,925,633

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

Bank of Bermuda Foundation

Consolidated Statement of Cash Flows For the year ended December 31, 2016

(expressed in Bermuda dollars)

	2016 \$	2015 \$
Cash flows from (used in) operating activities		
Surplus (deficit) of revenue over donations and expenses for the year	4,703,440	(4,510,360)
Items not affecting cash:		
Change in fair value of investments	(6,483,202)	33,088,924
Loss (gain) on sale of investments	32,481	(30,894,828)
Changes in non-cash working capital:		
Dividends and accounts receivable	(73,415)	(94,009)
Unsettled investment trade receivable	17,152,201	(17,152,201)
Accounts payable and accrued liabilities	(68,258)	34,243
Accrued donations	439,167	-
Net cash provided by (used in) operating activities	15,702,414	(19,528,231)
Cash flows (used in) from investing activities		
Purchase of investments	(35,697,235)	(123,744,266)
Proceeds on sale of investments	17,716,552	153,573,646
Loan advances	-	(1,392,027)
Increase in restricted cash	(2,411)	(8,122)
Net cash (used in) provided by investing activities	(17,983,094)	28,429,231
(Decrease) increase in cash and cash equivalents	(2,280,680)	8,901,000
Cash and cash equivalents - Beginning of year	12,419,043	3,518,043
Cash and cash equivalents - End of year	10,138,363	12,419,043

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

Bank of Bermuda Foundation

Consolidated Schedule of Investments

As at December 31, 2016

(expressed in Bermuda dollars)

	No. of shares	Cost	Fair value	No. of shares	Cost	Fair value
	2016	2016	2016	2015	2015	2015
	\$	\$	\$	\$	\$	\$
BANK MANAGED FUND						
Equities						
Ishares MSCI Emerging Mkts	140,000	5,867,145	5,943,000	70,000	2,676,648	2,687,300
Ishares MSCI Japan ETF	64,000	3,142,377	3,127,040	-	-	-
Ishares MSCI PacExJp	70,000	2,676,648	2,769,900	180,000	3,110,120	2,905,200
IShares MSCI UK Fund	90,000	3,110,120	2,762,100	-	-	-
SPDR S&P 500 ETF Trust Series	133,000	27,394,973	29,853,213	123,000	25,401,044	25,182,784
Vanguard FTSE EU ETF	45,000	2,358,504	2,157,300	45,000	2,358,504	2,244,600
Wisdomtree EU Hedged	205,000	12,408,464	11,767,000	165,000	10,328,547	8,878,650
Wisdomtree Jap Hedge	89,000	4,719,372	4,409,060	101,000	5,586,708	5,058,080
Fixed Income						
Govt of Bda 5.603%	2,500,000	2,500,000	2,808,795	2,500,000	2,500,000	2,822,020
HSBC GIF CorpBond ZD	2,518,945	25,663,060	26,647,916	2,457,270	25,000,000	24,911,807
HSBC GIF Emerging Mkts Local Debt - Z	323,530	3,200,250	3,088,087	-	-	-
HSBC GIF GL Short ZQ	535,748	5,285,374	5,405,700	301,750	3,000,000	2,942,064
HSBC GIF Govt ZD-DIS	1,318,143	13,976,702	14,292,621	1,302,364	13,800,000	13,779,014
HSBC GIF High Yield ZD	757,436	7,368,070	7,831,893	720,445	7,000,000	6,927,074
Ishares JP Morgan USD Emerging Mkts Bond ETF	25,000	2,698,042	2,755,500	-	-	-
Ishares Emerging Mkts Local Currency ETF	47,000	2,009,396	2,013,950	-	-	-
Alternative Investments						
HSBC SP FD ALT AC	-	-	-	85,000	3,464,280	3,348,150
HSBC GIF GL Real Estate ZD	789,570	7,915,282	7,766,215	769,566	7,693,948	7,719,512
		<u>132,293,779</u>	<u>135,399,290</u>		<u>111,919,799</u>	<u>109,406,255</u>
FOUNDATION MANAGED FUND						
Equities						
BF&M Limited	108,490	1,148,890	2,224,045	108,490	1,148,890	1,828,057
BNTB Ltd	1	1	21	1	1	1
BNTB Ltd-8% Pfd Shs	-	-	-	1,233	1,233,000	1,393,294
Butterfield Bermuda Fund Ltd Series A	102,638	2,178,994	2,797,898	158,821	3,371,772	3,362,243
		<u>3,327,885</u>	<u>5,021,964</u>		<u>5,753,662</u>	<u>6,583,595</u>
		<u>135,621,664</u>	<u>140,421,254</u>		<u>117,673,461</u>	<u>115,989,850</u>

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

Bank of Bermuda Foundation

Notes to Consolidated Financial Statements

December 31, 2016

1. *The Foundation*

Bank of Bermuda Foundation (the “Foundation”) was incorporated in Bermuda on December 13, 2000 with The Bank of Bermuda Limited (the “Bank”) as its sole member. On February 18, 2004, the Bank was amalgamated to become a wholly owned subsidiary of HSBC and in May 2010 the Bank changed its name to HSBC Bank Bermuda Limited. The Bank tendered its resignation as sole member of the Foundation effective February 13, 2004, at which time the directors approved the admission of Bermuda Trust Company Limited (“BTCL”), in its capacity as Trustee of the Bank of Bermuda Foundation Charitable Trust (the “Charitable Trust”), as sole member of the Foundation. BTCL was a subsidiary of HSBC Bank Bermuda Limited until May 1, 2016. Effective May 1, 2016, the Bank of N.T. Butterfield & Son Ltd. (“Butterfield Bank”) purchased BTCL. The Foundation is a company limited by guarantee whose purpose is to promote, further or advance any charitable purpose or activity in Bermuda and elsewhere in the world. The Foundation was registered under the Charities Act, 1978. Upon the coming into force of the Charities Act, 2014 section 51, a transitional provision, automatically re-registered charitable organisations that were validly registered under the 1978 Act. However, section 18(2) of the 2014 Act provides an exemption from registration where a foundation or company has not solicited or received funds from the public. The Foundation meets all the requirements of the exemption section and has put the Registrar General on notice that it has availed itself of this exemption.

On August 26, 2004, the Foundation incorporated Bank of Bermuda Foundation Endowment (“Endowment”) under the Segregated Accounts Companies Act 2000. The purpose of this Company is to facilitate the endowment program for the Foundation. The Foundation is the sole member of Endowment, which is not currently active.

The Foundation created a charitable trust, under deed, on May 31, 2007 which is known as Bank of Bermuda Foundation Endowment Trust (“Endowment Trust”). The Endowment Trust receives and holds funds from third parties and the Foundation for the benefit of specific charities rather than the Foundation. BTCL is the Trustee of Endowment Trust. Under the terms of the Trust Deed, the Foundation controls the investment and donation activities of Endowment Trust.

2. *Summary of significant accounting policies*

The Foundation follows Accounting Standards for Not-For-Profit Organizations generally accepted in Bermuda and Canada as set out in Part III of the Chartered Professional Accountants of Canada Handbook - Accounting. The significant accounting policies are as follows:

(a) **Restricted fund**

The Foundation follows the restricted fund method of accounting under which it has two funds:

Unrestricted net assets - net assets can be applied to any charitable purpose. Identified in this fund are internally restricted net assets, which are net assets reserved by the board of directors to be used for designated charitable purposes in future years;

Restricted net assets – net assets can only be applied for specific charitable purposes due to the nature of the original gift. The Endowment Trust received funds from a third party to be used expressly for the benefit of the football community in Bermuda.

Income from the investments in a particular fund and any proceeds on sale of such investments are credited to the fund. Donations made are charged to a particular fund as determined by the directors of the Foundation or, in the case of the Endowment Trust, a Committee of Protectors who are appointed by the directors of the Foundation.

(b) **Consolidation**

The consolidated financial statements of the Foundation include Endowment, Endowment Trust and the General Fund. The General Fund comprises the Unrestricted Net Assets of the Foundation.

Bank of Bermuda Foundation

Notes to Consolidated Financial Statements

December 31, 2016

(c) **Cash and cash equivalents and restricted cash**

Cash and cash equivalents comprise cash, demand deposits and money market funds with original maturities of three months or less.

Restricted cash is comprised of cash, demand deposits and money market funds restricted for use in the Endowment Trust.

(d) **Investments**

Investments in marketable securities are carried at fair value. Securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. Realised and unrealised gains and losses are calculated on the difference between cost and sale proceeds or fair value, respectively, at the date of measurement. Realised and unrealised gains and losses are recorded in the consolidated statement of operations. All transaction costs on the purchase or sale of investments have been included in the cost or netted from the proceeds of sale of the investments and transactions are recorded at the trade date.

(e) **Donations made**

Donations made by the Foundation are recorded as an expense when the Foundation has made an unconditional commitment to make a donation. In the case of conditional donations, they are recognised as an expense when the conditions attached to the donation have been satisfied by the potential recipient. Generally, this results in donations being expensed when paid.

(f) **Investment income**

Investment income is recognized on an accrual basis, and is reflected in the consolidated statement of operations.

(g) **Foreign currency translation**

Assets and liabilities in foreign currencies are translated to Bermuda dollars at rates of exchange in effect at the consolidated statement of financial position date. Income and expense items in foreign currencies are translated at the rate of exchange prevailing on the transaction date. Exchange adjustments are charged or credited to the consolidated statement of operations.

(h) **Fair value of financial instruments**

The Foundation's financial instruments consist of cash and cash equivalents, restricted cash, dividends and accounts receivable, unsettled investment trade receivable, loan receivable, investments, accounts payable and accrued liabilities and accrued donations. The investment portfolio is inherently exposed to market, interest, currency and credit risks arising from fluctuating market conditions.

Fair values of equity and bond investments and dividends receivable have been determined based on quoted market prices in an active market and declared dividend payments respectively. Fair values of investments in mutual funds have been determined based on the net asset values reported by the funds' administrators. The fair value of the loan receivable is, in the opinion of the directors, not materially different from its recorded value.

The Foundation is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using financial instruments are credit risk, liquidity and market risks.

Credit risk is the risk of the potential inability of counterparties to perform under the terms of contracts. The Foundation's exposure to credit risk at any point in time is limited to amounts recorded as assets in the statement of financial position. Credit risk is reduced by dealing with reputable counterparties, which are high credit quality institutions.

Bank of Bermuda Foundation

Notes to Consolidated Financial Statements

December 31, 2016

The Foundation manages liquidity risk by holding cash and cash equivalents and investments in highly liquid securities which are readily convertible to cash and by continually monitoring actual and projected cash flows.

Market risk arises mainly from uncertainty about future values of financial instruments held specifically from price, currency and interest rate movements. Market risk represents the potential gains or losses the Foundation might suffer through holding market positions in the face of market movements.

(i) **Related party transactions**

Transactions with related parties are recorded at their exchange amount. The Foundation discloses its transactions with related parties. Related parties include the Foundation's directors, the Charitable Trust and entities which the Foundation controls or over which it exercises significant influence. These transactions are either separately disclosed in the statement of financial position and the statement of operations or in Note 8 – Related party transactions. The Foundation makes donations to a large number of not-for-profit entities, including some where directors of the Foundation are also directors or officers of the not-for-profit entities. Except as disclosed in Note 8, in the opinion of the directors, the Foundation does not have significant influence over, or control of, any of these entities and therefore, these entities are not related parties. Donations to those entities are included, along with all other donations, as an expense in the statement of operations.

(j) **Use of estimates**

The preparation of consolidated financial statements in accordance with Accounting Standards for Not-For-Profit Organizations in Bermuda and Canada requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

3. **Loan receivable**

The loan receivable has a maximum term of three years maturing on December 18, 2018 and has an interest rate of 3% per annum, reduced from 5.5% for as long as the loan is maintained in good standing. Interest is payable quarterly and the principal is payable at the discretion of the borrower as long as the balance is paid within the three year term. The loan is secured by a charge over certain assets of the borrower.

4. **Investments**

	2016 Cost \$	2016 Fair value \$	2015 Cost \$	2015 Fair value \$
Unrestricted investments	135,621,664	140,421,254	117,673,461	115,989,850

The realised gain on investments and change in fair value of investments can be further analysed as follows:

	Arising prior to beginning of period \$	Arising in the period \$	Total realised and unrealised in the period \$
2016			
Realised gain	324,409	(356,890)	(32,481)
Change in unrealised loss	(324,409)	6,807,611	6,483,202
	-	6,450,721	6,450,721

Bank of Bermuda Foundation
Notes to Consolidated Financial Statements
December 31, 2016

2015	Arising prior to beginning of period \$	Arising in the period \$	Total realised and unrealised in the period \$
Realised gain	30,690,277	204,551	30,894,828
Change in unrealised loss	(30,690,277)	(2,398,647)	(33,088,924)
	-	(2,194,096)	(2,194,096)

The Foundation is exposed to market risk arising from the effect of economic conditions and changes in interest rates, currency exchange rates and credit risks on the investments.

The Foundation has an unsettled investment trade receivable of \$nil (2015 - \$17,152,201) in respect of investments sold as at December 31, 2016 with a settlement date after year-end.

5. Capital disclosures and unrestricted net assets, including internally restricted net assets

The Foundation's objective when managing capital, which changed during 2014, is to maintain, in the long run, the inflation adjusted value of its net assets on the day its shares in the Bank were sold as a result of the amalgamation of the Bank to become a wholly-owned subsidiary of HSBC (note 1). The Foundation seeks to achieve this objective by investing its assets in a well-diversified portfolio of exchange traded funds, mutual funds, equities and fixed income securities so as to achieve a long term real rate of return of at least 4.5% (2016 and prior - 5%) while ensuring that its donations and expenses drawn from the unrestricted funds do not exceed approximately 2.9% (2016 and prior - 3.2%) of the quarterly average of the previous six years' net assets less net assets externally restricted for endowment. The Foundation also minimizes its exposure to financial leverage and variable financial obligations by holding cash and cash equivalents to maintain sufficient liquidity to enable it to meet its obligations as they become due.

The Foundation anticipates that fluctuations in the market value of its investments in any one year can mean that unrestricted net assets will also fluctuate and, indeed, in certain cases become negative. The Foundation reviewed its expected long term real rates of return, draw rates and the level of unrestricted net assets as at December 31, 2016. As a result of that review it adjusted these rates for 2017 and it reset the amount of net assets internally restricted for endowment to \$148,980,979 such that unrestricted net assets is zero. The Foundation believes that over time it can sustain the targeted level of support to the community and grow the net assets such that unrestricted net assets will be positive and it will achieve its objective of growing the inflation adjusted value of its net assets to its targeted level, albeit over a longer period. As such, the Foundation anticipates no material changes in its level of community support at the current time. The Foundation is not subject to any externally imposed requirements on capital.

Bank of Bermuda Foundation
Notes to Consolidated Financial Statements
December 31, 2016

The movement in internally restricted and unrestricted net assets during the period comprises:

2016	Internally restricted for endowment \$	Net assets restricted for future funding \$	Other unrestricted net assets (deficit) \$	Total unrestricted net assets \$
Balance – Beginning of period	160,831,959	45,381	(13,993,378)	146,883,962
Revenue earned	-	-	3,384,368	3,384,368
Donations paid	-	(32,000)	(4,157,659)	(4,189,659)
Expenses paid	-	-	(979,871)	(979,871)
Change in fair value of investments	-	-	6,483,202	6,483,202
Appropriation of unrestricted net assets	(11,850,980)	2,587,642	9,263,338	-
Balance – End of period	148,980,979	2,601,023	-	151,582,002

2015	Internally restricted for endowment \$	Net assets restricted for future funding \$	Other unrestricted net assets (deficit) \$	Total unrestricted net assets \$
Balance – Beginning of period	156,001,369	286,020	(4,886,046)	151,401,343
Revenue earned	-	-	33,248,807	33,248,807
Donations paid	-	(195,036)	(3,414,504)	(3,609,540)
Expenses paid	-	-	(1,067,724)	(1,067,724)
Change in fair value of investments	-	-	(33,088,924)	(33,088,924)
Appropriation of unrestricted net assets	4,830,590	(45,603)	(4,784,987)	-
Balance – End of period	160,831,959	45,381	(13,993,378)	146,883,962

The Foundation provides scholarships to individuals to pursue post-secondary educational opportunities. These scholarships generally require that the individuals maintain certain minimum academic standards. As at December 31, 2016, the Foundation has \$1,105,294 (2015 - \$943,795) in scholarships it intends to pay out over the next three years if such minimum requirements are met. In accordance with the Foundation's accounting policy, these amounts are expensed in the consolidated statement of operations as they are paid.

Bank of Bermuda Foundation

Notes to Consolidated Financial Statements

December 31, 2016

6. Significant relationships

As disclosed in Note 1, the Bank was the sole member of the Foundation until February 13, 2004.

Until May 1, 2016, the Foundation's banking transactions were entirely with the Bank. Subsequent to that time, they have been substantially with Butterfield Bank and its subsidiaries. No special terms or conditions are applied to these transactions. Included in revenue is \$7,616 (2015 - \$7,373) of interest earned on cash held with HSBC Bank Bermuda Limited during the year.

Until May 1, 2016, the Bank was Custodian of the Foundation's investments. Included in expenses for the year is \$16,667 (2015 - \$50,000) for custody fees paid to the Bank. Effective May 1, 2016, the Foundation appointed a subsidiary of Butterfield Bank as its custodian. Included in expenses is \$33,333 (2015 - \$nil) for custody fees relating to this subsidiary, which amount is included in accounts payable and accrued liabilities. The Foundation has expensed \$210,000 (2015 - \$280,000) for the year for management of its investments by a subsidiary of the Bank and \$70,000 (2015 - \$140,000) of this amount is included in accounts payable and accrued liabilities as at December 31, 2016.

BTCL provides secretarial and other corporate administrative services to the Foundation. Included in expenses for the year is \$232,000 (2015 - \$232,000) for these services. BTCL also acts as Trustee of the Charitable Trust and the Endowment Trust. During the year, the Foundation contributed \$76,000 (2015 - \$76,000) to the Charitable Trust to enable it to cover its expenses, which amount is included as member funding expenses in the consolidated statement of operations. The Foundation also contributed \$6,000 (2015 - \$6,100) to the Endowment Trust to cover its trustee fees and other fees and expenses, which amounts are included as Endowment Trust costs in the consolidated statement of operations.

7. Miscellaneous income

Miscellaneous income consists of rebates received by the investment managers from the managers of mutual funds in which the Foundation has invested, that are passed on to the Foundation.

8. Related party transactions

The directors of the Foundation receive a fee. These fees are disclosed in the consolidated statement of operations. One director provides consulting services to the Foundation under a contract which pre-dates the appointment to the Board of Directors. The consulting fees are based on the time spent at an agreed hourly rate. These services are expected to be completed by December 31, 2017. The total amount expensed during the year ended December 31, 2016 and included within professional fees and other fees in the Consolidated Statement of Operations amounted to \$16,800 and the amount owed and included within Accounts payable and accrued liabilities in the Consolidated Statements of Financial Position at December 31, 2016 was \$nil. The Foundation has identified two charities over which it exercises significant influence. The total funding of these charities by the Foundation during the year amounted to \$165,000 (2015 - \$100,036). The Foundation has no economic interest in the net assets of these charities. There are no other related party transactions which are not fully disclosed in the consolidated statement of financial position or consolidated statement of operations.

Bank of Bermuda Foundation

Notes to Consolidated Financial Statements

December 31, 2016

9. *Coin, art and artefacts collection*

The Bank gifted collections of coins, artwork and artefacts to the Foundation in February 2004. The Foundation has not capitalised the assets in the consolidated statement of financial position. The carrying value of these assets at the time of the gift was \$406,500. The collection of coins, artwork and artefacts are periodically valued, for insurance purposes, by independent specialists. The last valuation for artwork was done in December 2009 and valued the collection at \$1,138,000. The coins were last valued in December 2013 at \$2,934,835. These values do not represent the fair value of the collections as at the statement of financial position date in accordance with Accounting Standards for Not-For-Profit Organizations in Bermuda and Canada and as such the fair value could be significantly different. These items will be maintained as collections, and displayed for public viewing. At the current time, portions of the collections are on loan to the Bermuda National Trust, the National Museum of Bermuda, the St. George's Foundation, the Bermuda Zoological Society, Butterfield Bank and the Bank. Four bronze sculptures were sold in December 2009 for \$29,500.