

Bank of Bermuda Foundation

Consolidated Financial Statements

December 31, 2017

(expressed in Bermuda dollars)

The accompanying report of KPMG is for the sole and exclusive use of the Foundation. No person, other than the Foundation, is authorized to rely upon the report of KPMG unless KPMG expressly so authorizes. Furthermore, the report of KPMG is as of June 28, 2018 and KPMG has carried out no procedures of any nature subsequent to that date which in any way extends that date.



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

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, 2017, including the consolidated schedule of investments as at December 31, 2017 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, 2017, 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 Audit of the Consolidated 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

Chartered Professional Accountants
Hamilton, Bermuda
June 28, 2018

Bank of Bermuda Foundation
 Consolidated Statement of Financial Position
As at December 31, 2017

(expressed in Bermuda dollars)

	2017	2016
	\$	\$
Assets		
Cash and cash equivalents	7,133,432	10,138,363
Restricted cash	-	1,046,182
Dividends and accounts receivable	250,342	216,099
Loan receivable (note 3)	400,000	1,400,000
Investments, at fair value (schedule) (note 4)	158,583,691	140,421,254
	<u>166,367,465</u>	<u>153,221,898</u>
Liabilities		
Accounts payable and accrued liabilities (note 6)	146,891	153,658
Accrued donations	333,334	439,167
	480,225	592,825
Net assets		
Restricted net assets – Endowment purposes	-	1,047,071
Unrestricted net assets (note 5)		
- Internally restricted	165,887,240	151,582,002
	<u>165,887,240</u>	<u>152,629,073</u>
	<u>166,367,465</u>	<u>153,221,898</u>

Approved by the Board of Directors on June 28, 2018

_____ 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, 2017

(expressed in Bermuda dollars)

	2017 \$	2016 \$
Revenue		
Dividends and interest income (note 6)	3,389,560	3,388,298
Gain (loss) on sale of investments (note 4)	972,167	(32,481)
Loan interest (note 3)	42,000	42,051
Miscellaneous income	7,058	-
	<u>4,410,785</u>	<u>3,397,868</u>
Donations		
Scholarships	784,000	701,001
Human services (and housing)	745,622	1,481,880
Youth development and sports	449,545	499,813
Education	387,000	469,900
Arts, culture, heritage, environment	380,000	621,000
General charitable	300,800	416,065
Bermuda Community Foundation	1,054,490	-
	<u>4,101,457</u>	<u>4,189,659</u>
Expenses		
Investment management fees (note 6)	280,000	210,000
Professional fees and other fees	233,529	171,246
Administrative charges (note 6)	232,000	232,000
Managing director's fee (note 7)	81,000	81,000
Member funding expenses (note 6)	76,100	76,000
Director fees (note 7)	75,000	65,000
Programme officer fees	60,628	-
Custody fees (note 6)	41,667	50,000
Miscellaneous	41,380	50,617
Committee member fees	32,000	31,000
Printing and advertising	9,799	9,351
Endowment Trust costs (note 6)	8,342	8,100
Bank charges	3,319	3,657
	<u>1,174,764</u>	<u>987,971</u>
Increase in fair value of investments (note 4)	<u>14,123,603</u>	<u>6,483,202</u>
Surplus of revenue over donations and expenses for the year	<u>13,258,167</u>	<u>4,703,440</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, 2017

(expressed in Bermuda dollars)

	Restricted Net Assets - Endowment Trust 2017 \$	Unrestricted Net Assets 2017 \$	Total 2017 \$
Revenue	15,761	4,395,024	4,410,785
Donations	(1,054,490)	(3,046,967)	(4,101,457)
Expenses	(8,342)	(1,166,422)	(1,174,764)
Increase in fair value of investments	-	14,123,603	14,123,603
Surplus (deficit) of revenue over donations and expenses for the year	<u>(1,047,071)</u>	<u>14,305,238</u>	<u>13,258,167</u>

	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	<u>5,400</u>	<u>4,698,040</u>	<u>4,703,440</u>

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, 2017

(expressed in Bermuda dollars)

	Restricted Net Assets - Endowment Trust 2017 \$	Unrestricted Net Assets 2017 \$	Total 2017 \$
Net assets at December 31, 2016	1,047,071	151,582,002	152,629,073
Surplus (deficit) of revenue over donations and expenses for the year	(1,047,071)	14,305,238	13,258,167
Net assets at December 31, 2017	-	165,887,240	165,887,240

	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

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, 2017

(expressed in Bermuda dollars)

	2017 \$	2016 \$
Cash flows from (used in) operating activities		
Surplus of revenue over donations and expenses for the year	13,258,167	4,703,440
Items not affecting cash:		
Change in fair value of investments	(14,123,603)	(6,483,202)
(Gain) loss on sale of investments	(972,167)	32,481
Changes in non-cash working capital:		
Dividends and accounts receivable	(34,243)	(73,415)
Unsettled investment trade receivable	-	17,152,201
Accounts payable and accrued liabilities	(6,767)	(68,258)
Accrued donations	(105,833)	439,167
Net cash (used in) provided by operating activities	<u>(1,984,446)</u>	<u>15,702,414</u>
Cash flows (used in) from investing activities		
Purchase of investments	(22,457,514)	(35,697,235)
Proceeds on sale of investments	19,390,847	17,716,552
Loan repayments	1,000,000	-
Decrease (increase) in restricted cash	1,046,182	(2,411)
Net cash used in investing activities	<u>(1,020,485)</u>	<u>(17,983,094)</u>
Decrease in cash and cash equivalents	(3,004,931)	(2,280,680)
Cash and cash equivalents - Beginning of year	<u>10,138,363</u>	<u>12,419,043</u>
Cash and cash equivalents - End of year	<u><u>7,133,432</u></u>	<u><u>10,138,363</u></u>

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

Bank of Bermuda Foundation

Consolidated Schedule of Investments

As at December 31, 2017

(expressed in Bermuda dollars)

	No. of shares 2017 \$	Cost 2017 \$	Fair value 2017 \$	No. of shares 2016 \$	Cost 2016 \$	Fair value 2016 \$
BANK MANAGED FUND						
Equities						
Ishares Core MSCI Emerging Mkts ETF	177,000	7,690,722	10,071,300	140,000	5,867,145	5,943,000
Ishares MSCI Japan ETF	109,000	5,606,562	6,532,370	64,000	3,142,377	3,127,040
Ishares MSCI Pac ex-Japan ETF	70,000	2,676,648	3,346,000	70,000	2,676,648	2,769,900
Ishares MSCI UK Fund	85,000	2,878,950	3,044,700	90,000	3,110,120	2,762,100
Ishares Global Financials EFT	12,000	732,868	839,160	-	-	-
SPDR S&P 500 ETF Trust	133,000	27,394,973	35,618,189	133,000	27,394,973	29,853,213
Vanguard FTSE Europe ETF	216,000	12,282,697	12,776,400	45,000	2,358,504	2,157,300
Wisdomtree Europe Hedged Equity ETF	73,000	4,418,624	4,650,830	205,000	12,408,464	11,767,000
Wisdomtree Japan Hedged Fund	44,000	2,333,172	2,610,520	89,000	4,719,372	4,409,060
Fixed Income						
Bermuda Govt 5.603% 20/07/20	2,500,000	2,500,000	2,759,320	2,500,000	2,500,000	2,808,795
HSBC GIF Gbl Corporate Bond - ZD	2,569,002	26,498,642	28,345,742	2,518,945	25,663,060	26,647,916
HSBC GIF Emerging Mkts Local Debt - Z	323,530	3,200,250	3,365,351	323,530	3,200,250	3,088,087
HSBC GIF GL Short Dur High Yield - ZQ	241,078	2,378,328	2,450,179	535,748	5,285,374	5,405,700
HSBC GIF Gbl Gov Bond - ZD	1,077,391	11,423,933	11,831,909	1,318,143	13,976,702	14,292,621
HSBC GIF Global High Yield Bond - Z	853,498	8,368,195	9,107,677	757,436	7,368,070	7,831,893
Ishares JP Morgan Emerging Mkts Bond ETF	38,500	4,257,616	4,469,850	25,000	2,698,042	2,755,500
Ishares Emerging Mkts Local Debt - Z	100,000	4,457,984	4,820,000	47,000	2,009,396	2,013,950
Alternative Investments						
HSBC Global Real Estate Equity Fund	789,570	7,915,282	8,191,793	789,570	7,915,282	7,766,215
		<u>137,015,446</u>	<u>154,831,290</u>		<u>132,293,779</u>	<u>135,399,290</u>
FOUNDATION MANAGED FUND						
Equities						
BF&M Limited	108,490	1,148,890	1,871,453	108,490	1,148,890	2,224,045
BNTB Ltd	-	-	-	1	1	21
Butterfield Bermuda Fund Ltd Series A	70,474	1,496,162	1,880,948	102,638	2,178,994	2,797,898
		<u>2,645,052</u>	<u>3,752,401</u>		<u>3,327,885</u>	<u>5,021,964</u>
		<u>139,660,498</u>	<u>158,583,691</u>		<u>135,621,664</u>	<u>140,421,254</u>

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

Bank of Bermuda Foundation

Notes to Consolidated Financial Statements

December 31, 2017

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) as read with section 18(4) of the 2014 Act provides an exemption from registration where a foundation or company has not solicited funds from the Bermuda public and does not receive funding from the Bermuda Government or from Bermuda public sources. 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. On October 17, 2017, the Foundation, after consultation with the original donor, donated the assets of the Endowment Trust to the Bermuda Community Foundation ("BCF") and the Endowment Trust dissolved.

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. As described above, these funds were donated to the BCF during the year.

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.

Bank of Bermuda Foundation

Notes to Consolidated Financial Statements

December 31, 2017

(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.

(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 recognised 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, 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, 2017

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 consolidated statement of financial position and the consolidated statement of operations or in Note 7 – 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 7, 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 disclosed in Note 7 are included, along with all other donations, as an expense in the consolidated 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. On December 21, 2017, \$1,000,000 of the balance was repaid. The loan is secured by a charge over certain assets of the borrower.

4. *Investments*

	2017 Cost \$	2017 Fair value \$	2016 Cost \$	2016 Fair value \$
Unrestricted investments	139,660,498	158,583,691	135,621,664	140,421,254

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 \$
2017			
Realised gain (loss)	(301,573)	1,273,740	972,167
Change in unrealised gain/loss	301,573	13,822,030	14,123,603
	-	15,095,770	15,095,770

Bank of Bermuda Foundation
Notes to Consolidated Financial Statements
December 31, 2017

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

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.

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% (2017 and prior – 4.5%) while ensuring that its donations and expenses drawn from the unrestricted funds do not exceed approximately 2.9% (2017 and prior – 2.9%) 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 can fall below the target level of unrestricted net assets, specifically, below the level of net assets internally restricted for endowment as disclosed in Note 6. The Foundation reviewed its expected long term real rates of return, draw rates and the target level of unrestricted net assets as at December 31, 2016. As a result of that review it reset the target level of net assets internally restricted for endowment to \$148,980,979, equal to the unrestricted assets at that date.

The Foundation believes that over time it can grow the unrestricted assets so that they continue to exceed the target level and maintain its targeted level of community support. At December 31, 2017 the Foundation had \$10,116,309 (2016 - \$2,601,023) of net assets restricted for future funding, indicating that the unrestricted net assets exceed the target level at each year-end. 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, 2017

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

2017	Internally restricted for endowment \$	Net assets restricted for future funding \$	Other unrestricted net assets (deficit) \$	Total unrestricted net assets \$
Balance – Beginning of period	148,980,979	2,601,023	-	151,582,002
Revenue earned	-	-	4,395,024	4,395,024
Donations paid	-	(51,000)	(2,995,967)	(3,046,967)
Expenses paid	-	-	(1,166,422)	(1,166,422)
Change in fair value of investments	-	-	14,123,603	14,123,603
Appropriation of unrestricted net assets	6,789,952	7,566,286	(14,356,238)	-
Balance – End of period	155,770,931	10,116,309	-	165,887,240

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

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, 2017, the Foundation has \$1,269,294 (2016 - \$1,105,294) 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, 2017

6. Significant and other relationships

i) 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 \$22 (2016 - \$18) of interest earned on cash held with Butterfield Bank. \$9,662 (2016 - \$7,598) was earned from 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 \$nil (2016 - \$16,667) 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 \$41,667 (2016 - \$33,333) for custody fees relating to this subsidiary, of which \$12,500 (2016 - \$33,333) is included in accounts payable and accrued liabilities. The Foundation has expensed \$280,000 (2016 - \$210,000) for the year for management of its investments by a subsidiary of the Bank and \$70,000 (2016 - \$70,000) of this amount is included in accounts payable and accrued liabilities as at December 31, 2017.

BTCL provides secretarial and other corporate administrative services to the Foundation. Included in expenses for the year is \$232,000 (2016 - \$232,000) for these services. BTCL also acts as Trustee of the Charitable Trust and the Endowment Trust. During the year, the Foundation contributed \$76,100 (2016 - \$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 \$6,100 (2016 - \$6,000) to the Endowment Trust to cover its trustee fees and other fees and expenses, which fees and expenses are included as Endowment Trust costs in the consolidated statement of operations.

ii) Other relationships

The Foundation paid \$29,671 (2016 - \$35,076) to a law firm where the spouse of a director of the Foundation is a director of the law firm.

7. 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 March 31, 2018. The total amount expensed during the year ended December 31, 2017 and included within professional fees and other fees in the Consolidated Statement of Operations amounted to \$18,020 (2016 - \$16,800). The Foundation has identified one charity (2016 - two charities) over which it exercises significant influence. The total funding by the Foundation during the year amounted to \$75,000 (2016 - \$165,000). The Foundation has no economic interest in the net assets of this charity. 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, 2017

8. *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 November 2017 and valued the collection at \$1,120,950. 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.