

# **Bank of Bermuda Foundation**

Financial Statements

**December 31, 2018**

(expressed in Bermuda dollars)

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## **INDEPENDENT AUDITOR'S REPORT**

To the Member of Bank of Bermuda Foundation

### **Opinion**

We have audited the financial statements of Bank of Bermuda Foundation (the "Foundation"), which comprise the statement of financial position as at December 31, 2018, including the schedule of investments as at December 31, 2018 and the 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 financial statements present fairly, in all material respects, the financial position of the Foundation as at December 31, 2018, and its financial performance and its 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 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 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 Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the 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  
May 8, 2019

# Bank of Bermuda Foundation

## Statement of Financial Position

As at December 31, 2018

(expressed in Bermuda dollars)

	2018	2017
	\$	\$
<b>Assets</b>		
Cash and cash equivalents	5,867,220	7,133,432
Dividends and accounts receivable	157,646	250,342
Loan receivable (note 3)	-	400,000
Investments, at fair value (schedule) (note 4)	145,288,741	158,583,691
	<u>151,313,607</u>	<u>166,367,465</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities (note 6)	144,375	146,891
Accrued donations	115,500	333,334
	<u>259,875</u>	<u>480,225</u>
<b>Net assets</b>		
Unrestricted net assets (note 5)	<u>151,053,732</u>	<u>165,887,240</u>
	<u>151,313,607</u>	<u>166,367,465</u>

Approved by the Board of Directors on May 8, 2019

\_\_\_\_\_ Director

\_\_\_\_\_ Director

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

# Bank of Bermuda Foundation

## Statement of Operations

For the year ended December 31, 2018

(expressed in Bermuda dollars)

	2018 \$	2017 \$
<b>Revenue</b>		
Dividends and interest income	3,625,507	3,389,560
Gain on sale of investments (note 4)	717,509	972,167
Loan interest (note 3)	7,989	42,000
Miscellaneous income	-	7,058
	<u>4,351,005</u>	<u>4,410,785</u>
<b>Donations</b>		
Scholarships	778,500	784,000
General donations (note 9)	2,679,625	3,317,457
	<u>3,458,125</u>	<u>4,101,457</u>
<b>Expenses</b>		
Investment management fees (note 6)	280,000	280,000
Administrative charges (note 6)	232,000	232,000
Professional fees and other fees	184,016	233,529
Programme officer fees	130,260	60,628
Managing director's fee (note 7)	81,000	81,000
Member funding expenses (note 6)	76,100	76,100
Director fees (note 7)	70,000	75,000
Custody fees (note 6)	50,000	41,667
Committee member fees	38,000	32,000
Miscellaneous and bank charges	27,613	23,654
GIFT software	13,430	21,045
Printing and advertising	12,046	9,799
Endowment Trust costs (note 6)	-	8,342
	<u>1,194,465</u>	<u>1,174,764</u>
<b>(Decrease) increase in fair value of investments</b> (note 4)	<u>(14,531,923)</u>	<u>14,123,603</u>
<b>(Deficit) surplus of revenue over donations and expenses for the year</b>	<u>(14,833,508)</u>	<u>13,258,167</u>

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

# Bank of Bermuda Foundation

Statement of Operations by Fund

For the year ended December 31, 2018

(expressed in Bermuda dollars)

	<b>Restricted Net Assets - Endowment Trust 2018 \$</b>	<b>Unrestricted Net Assets 2018 \$</b>	<b>Total 2018 \$</b>
<b>Revenue</b>	-	4,351,005	4,351,005
<b>Donations</b>	-	(3,458,125)	(3,458,125)
<b>Expenses</b>	-	(1,194,465)	(1,194,465)
<b>Decrease in fair value of investments</b>	-	(14,531,923)	(14,531,923)
<b>Deficit of revenue over donations and expenses for the year</b>	-	(14,833,508)	(14,833,508)

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

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

**Bank of Bermuda Foundation**  
Statement of Changes in Net Assets by Fund  
**For the year ended December 31, 2018**

(expressed in Bermuda dollars)

	<b>Restricted Net Assets - Endowment Trust 2018 \$</b>	<b>Unrestricted Net Assets 2018 \$</b>	<b>Total 2018 \$</b>
<b>Net assets at December 31, 2017</b>	-	165,887,240	165,887,240
Deficit of revenue over donations and expenses for the year	-	(14,833,508)	(14,833,508)
<b>Net assets at December 31, 2018</b>	-	151,053,732	151,053,732

	<b>Restricted Net Assets - Endowment Trust 2017 \$</b>	<b>Unrestricted Net Assets 2017 \$</b>	<b>Total 2017 \$</b>
<b>Net assets at December 31, 2016</b>	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
<b>Net assets at December 31, 2017</b>	-	165,887,240	165,887,240

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

# Bank of Bermuda Foundation

## Statement of Cash Flows

For the year ended December 31, 2018

(expressed in Bermuda dollars)

	2018 \$	2017 \$
<b>Cash flows used in operating activities</b>		
(Deficit) surplus of revenue over donations and expenses for the year	(14,833,508)	13,258,167
Items not affecting cash:		
Change in fair value of investments	14,531,923	(14,123,603)
Gain on sale of investments	(717,509)	(972,167)
Changes in non-cash working capital:		
Dividends and accounts receivable	92,696	(34,243)
Accounts payable and accrued liabilities	(2,516)	(6,767)
Accrued donations	(217,834)	(105,833)
Net cash used in operating activities	(1,146,748)	(1,984,446)
<b>Cash flows used in investing activities</b>		
Purchase of investments	(10,808,885)	(22,457,514)
Proceeds on sale of investments	10,289,421	19,390,847
Loan repayments received	400,000	1,000,000
Decrease in restricted cash	-	1,046,182
Net cash used in investing activities	(119,464)	(1,020,485)
<b>Decrease in cash and cash equivalents</b>	(1,266,212)	(3,004,931)
<b>Cash and cash equivalents - Beginning of year</b>	7,133,432	10,138,363
<b>Cash and cash equivalents - End of year</b>	5,867,220	7,133,432

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



# Bank of Bermuda Foundation

## Schedule of Investments

As at December 31, 2018

(expressed in Bermuda dollars)

	No. of shares 2018 \$	Cost 2018 \$	Fair value 2018 \$	No. of shares 2017 \$	Cost 2017 \$	Fair value 2017 \$
<b>BANK MANAGED FUND</b>						
<b>Equities</b>						
Ishares Core MSCI Emerging Mkts ETF	214,000	9,695,532	10,090,100	177,000	7,690,722	10,071,300
Ishares MSCI Japan ETF	164,000	8,835,385	8,313,160	109,000	5,606,562	6,532,370
Ishares MSCI Pac ex-Japan ETF	70,000	2,676,648	2,849,000	70,000	2,676,648	3,346,000
Ishares MSCI UK Fund	70,000	2,370,900	2,054,500	85,000	2,878,950	3,044,700
Ishares Global Financials ETF	-	-	-	12,000	732,868	839,160
SPDR S&P 500 ETF Trust	133,000	27,394,973	33,239,360	133,000	27,394,973	35,618,189
Vanguard FTSE Europe ETF	256,000	14,657,819	12,446,720	216,000	12,282,697	12,776,400
Wisdomtree Europe Hedged Equity ETF	45,000	2,723,809	2,539,800	73,000	4,418,624	4,650,830
Wisdomtree Japan Hedged Fund	-	-	-	44,000	2,333,172	2,610,520
<b>Fixed Income</b>						
Bermuda Govt 5.603% 20/07/20	-	-	-	2,500,000	2,500,000	2,759,320
HSBC GIF Gbl Corporate Bond - ZD	2,596,002	26,498,642	27,330,705	2,596,002	26,498,642	28,345,742
HSBC GIF Emerging Mkts Local Debt - Z	323,530	3,200,250	3,020,469	323,530	3,200,250	3,365,351
HSBC GIF GL Short Dur High Yield - ZQ	241,078	2,378,328	2,350,507	241,078	2,378,328	2,450,179
HSBC GIF Gbl Gov Bond - ZD	1,077,391	11,423,933	12,009,678	1,077,391	11,423,933	11,831,909
HSBC GIF Global High Yield Bond - Z	853,498	8,368,195	8,428,292	853,498	8,368,195	9,107,677
HSBC Global Investment Funds - Global Asset-Backed Bond ZC(EUR)	6,888	1,000,000	994,703	-	-	-
Ishares JP Morgan Emerging Mkts Bond ETF	43,500	4,815,202	4,520,085	38,500	4,257,616	4,469,850
Ishares Emerging Mkts Local Debt - Z	118,000	5,267,099	5,083,440	100,000	4,457,984	4,820,000
<b>Alternative Investments</b>						
HSBC Global Real Estate Equity Fund	789,570	7,915,282	7,666,729	789,570	7,915,282	8,191,793
		<u>139,221,997</u>	<u>142,937,248</u>		<u>137,015,446</u>	<u>154,831,290</u>
<b>FOUNDATION MANAGED FUND</b>						
<b>Equities</b>						
BF&M Limited	88,000	931,904	1,425,600	108,490	1,148,890	1,871,453
Butterfield Bermuda Fund Ltd Series A	30,314	643,568	876,380	70,474	1,496,162	1,880,948
<b>Partnerships</b>						
BAM PEP III LP		<u>100,000</u>	<u>49,513</u>		<u>-</u>	<u>-</u>
		<u>1,675,472</u>	<u>2,351,493</u>		<u>2,645,052</u>	<u>3,752,401</u>
		<u>140,897,469</u>	<u>145,288,741</u>		<u>139,660,498</u>	<u>158,583,691</u>

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

# Bank of Bermuda Foundation

Notes to Financial Statements

December 31, 2018

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## 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 provided 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 the exemption provided by this section. In August, 2018 the 2014 Act was amended requiring all exempted foundations to register but with fewer regulatory requirements. The Foundation has submitted an application to register in compliance with these amendments.

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 was known as Bank of Bermuda Foundation Endowment Trust ("Endowment Trust"). The Endowment Trust received and held funds from third parties and the Foundation for the benefit of specific charities rather than the Foundation. BTCL was the Trustee of Endowment Trust. Under the terms of the Trust Deed, the Foundation controlled 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 in the year ended December 31, 2017.

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 Financial Statements

December 31, 2018

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(b) **Consolidation**

The financial statements of the Foundation include Endowment and the General Fund. The General Fund comprises the Unrestricted Net Assets of the Foundation. In 2017, the financial statements of the Foundation included Endowment, Endowment Trust and the General Fund.

(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.

(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 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 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 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 statement of operations.

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

The Foundation's financial instruments consist of cash and cash equivalents, 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 Financial Statements

December 31, 2018

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 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 entities disclosed in Note 7 are included, along with all other donations, as an expense in the statement of operations.

(j) **Use of estimates**

The preparation of 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 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 had a maximum term of three years maturing on December 18, 2018 and had an interest rate of 3% per annum, reduced from 5.5% for as long as the loan was maintained in good standing. Interest was payable quarterly and the principal was payable at the discretion of the borrower as long as the balance was paid within the three year term. On August 22, 2018, the remaining \$400,000 of the balance was repaid.

### 4. **Investments**

	2018 Cost \$	2018 Fair value \$	2017 Cost \$	2017 Fair value \$
Unrestricted investments	140,897,469	145,288,741	139,660,498	158,583,691

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 \$
2018			
Realised gain (loss)	1,213,074	(495,565)	717,509
Change in unrealised gain/loss	(1,213,074)	(13,318,849)	(14,531,923)
	-	(13,814,414)	(13,814,414)

# Bank of Bermuda Foundation

Notes to Financial Statements

December 31, 2018

2017	Arising prior to beginning of period \$	Arising in the period \$	Total realised and unrealised in the period \$
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

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 below. 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, 2018 the Foundation had \$Nil (2017 - \$10,116,309) of net assets restricted for future funding, with a deficit in other restricted net assets of \$7,636,406 (2017 - \$Nil) indicating that the unrestricted net assets was less than the target level at year-end (2017 – exceeded the target level). The Foundation believes that asset values will recover during 2019 and, as such, 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 Financial Statements

December 31, 2018

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

2018	Internally restricted for endowment \$	Net assets restricted for future funding \$	Other unrestricted net assets (deficit) \$	Total unrestricted net assets \$
<b>Balance – Beginning of period</b>	155,770,931	10,116,309	-	165,887,240
Revenue earned	-	-	4,351,005	4,351,005
Donations paid	-	(6,000)	(3,452,125)	(3,458,125)
Expenses paid	-	-	(1,194,465)	(1,194,465)
Change in fair value of investments	-	-	(14,531,923)	(14,531,923)
Appropriation of unrestricted net assets	2,919,207	(10,110,309)	7,191,102	-
<b>Balance – End of period</b>	<b>158,690,138</b>	<b>-</b>	<b>(7,636,406)</b>	<b>151,053,732</b>

2017	Internally restricted for endowment \$	Net assets restricted for future funding \$	Other unrestricted net assets (deficit) \$	Total unrestricted net assets \$
<b>Balance – Beginning of period</b>	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)	-
<b>Balance – End of period</b>	<b>155,770,931</b>	<b>10,116,309</b>	<b>-</b>	<b>165,887,240</b>

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, 2018, the Foundation has \$1,299,294 (2017 - \$1,269,294) 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 statement of operations as they are paid.

# Bank of Bermuda Foundation

Notes to Financial Statements

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## 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.

Effective May 1, 2016, the Foundation appointed a subsidiary of Butterfield Bank as its custodian. Included in expenses is \$50,000 (2017 - \$41,667) for custody fees relating to this subsidiary, of which \$25,000 (2017 - \$12,500) is included in accounts payable and accrued liabilities. The Foundation has expensed \$280,000 (2017 - \$280,000) for the year for management of its investments by a subsidiary of the Bank and \$70,000 (2017 - \$70,000) of this amount is included in accounts payable and accrued liabilities as at December 31, 2018.

BTCL provides secretarial and other corporate administrative services to the Foundation. Included in expenses for the year is \$232,000 (2017 - \$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 (2017 - \$76,100) to the Charitable Trust to enable it to cover its expenses, which amount is included as member funding expenses in the statement of operations. The Foundation also contributed \$nil (2017 - \$6,100) 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 statement of operations.

### ii) **Other relationships**

The Foundation paid \$18,873 (2017 - \$29,671) 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 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 were completed by March 31, 2018. The total amount expensed during the year ended December 31, 2018 and included within professional fees and other fees in the statement of operations amounted to \$700 (2017 - \$18,020). There are no other related party transactions which are not fully disclosed in the statement of financial position or statement of operations.

# Bank of Bermuda Foundation

Notes to Financial Statements

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## **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 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 November 2018 at \$3,434,885. 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 and Butterfield Bank. Four bronze sculptures were sold in December 2009 for \$29,500.

## **9. *General donations***

In 2017, donations were made to the following focus areas: \$745,622 to Human Services (and Housing), \$449,545 to Youth Development and Sports, \$387,000 to Education, \$380,000 to Arts, Culture, Heritage and Environment, \$300,800 to General Charitable and \$1,054,490 to Bermuda Community Foundation. These donations have been included in the general donations of \$3,317,457 in the prior year comparative amounts in the statement of operations.

During the year, the Foundation restructured the focus areas of the donations made by the Foundation. Donations were made to the following new focus areas: \$386,500 to Connected Communities, \$986,625 to Healthy Families, \$10,000 to Economic Participation, \$1,124,000 to Education, \$164,500 to Community Capacity Building and \$93,000 to General Charitable. There was a donation of \$85,000 which was returned by The Bermuda Culture and Heritage Alliance during the year. These donations are included in the general donations of \$2,679,625 in the current year in the statement of operations.