

**Centennial Bermuda Foundation
(formerly Bank of Bermuda
Foundation)**

Financial Statements
December 31, 2020
(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 July 23, 2021 and KPMG has carried out no procedures of any nature subsequent to that date which in any way extends that date.



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INDEPENDENT AUDITOR'S REPORT

To the Member of Centennial Bermuda Foundation

Opinion

We have audited the financial statements of Centennial Bermuda Foundation (the "Foundation"), which comprise the statement of financial position as at December 31, 2020, the statements of operations, changes in net assets 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, 2020 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 ("ASNFP").

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 International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") together 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 and the IESBA Code. 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 these financial statements in accordance with ASNFP, 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 these 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 these 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
July 23, 2021

Centennial Bermuda Foundation

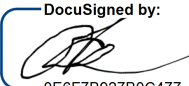
Statement of Financial Position

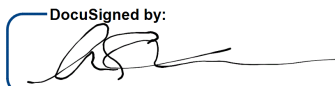
As at December 31, 2020

(expressed in Bermuda dollars)

	2020 \$	2019 \$
Assets		
Cash and cash equivalents	59,362,107	3,193,274
Dividends receivable	48,537	176,058
Prepayments	-	8,156
Investments, at fair value (note 3)	118,592,322	169,980,377
Collections (note 8)	-	-
	<u>178,002,966</u>	<u>173,357,865</u>
Liabilities		
Accounts payable and accrued liabilities (note 6)	285,536	158,357
Accrued donations	<u>222,500</u>	<u>289,000</u>
	<u>508,036</u>	<u>447,357</u>
Net assets		
Unrestricted net assets (note 4)	<u>177,494,930</u>	<u>172,910,508</u>
	<u>178,002,966</u>	<u>173,357,865</u>

Approved by the Board of Directors on 23rd July, 2021

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

Centennial Bermuda Foundation

Statement of Operations

For the year ended December 31, 2020

(expressed in Bermuda dollars)

	2020 \$	2019 \$
Revenue		
Dividends and interest income	2,871,521	3,872,411
Gain (loss) on sale of investments (note 3)	22,385,970	(34,108)
	25,257,491	3,838,303
Investment management fees (note 6)	(285,423)	(280,000)
	24,972,068	3,558,303
Donations		
Education	1,057,500	903,500
Healthy Families	949,800	700,475
Scholarships	704,000	778,500
Connected Communities	594,000	507,000
Emergency Grant Funding	531,854	-
Economic Participation	440,000	324,000
Community Capacity Building	128,000	393,288
Other	95,898	95,459
	4,501,052	3,702,222
Expenses		
Employment costs (note 5)	369,317	290,364
Administrative charges (note 6)	270,000	232,000
Professional fees and other fees (note 6)	239,823	228,296
Custody fees (note 6)	76,641	50,000
Member funding expenses (note 6)	76,100	76,100
Other operating costs	52,696	81,052
Director fees (note 7)	70,625	62,500
Committee member fees	29,500	26,000
Rent	35,137	7,500
	1,219,839	1,053,812
(Decrease) increase in fair value of investments (note 3)	(14,666,755)	23,054,507
Surplus of revenue over donations and expenses for the year	4,584,422	21,856,776

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

Centennial Bermuda Foundation

Statement of Changes in Net Assets

For the year ended December 31, 2020

(expressed in Bermuda dollars)

	Unrestricted net assets 2020 \$	Unrestricted net assets 2019 \$
Net assets – Beginning of the year	172,910,508	151,053,732
Surplus of revenue over donations and expenses for the year	<u>4,584,422</u>	<u>21,856,776</u>
Net assets – End of year	<u>177,494,930</u>	<u>172,910,508</u>

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

Centennial Bermuda Foundation

Statement of Cash Flows

For the year ended December 31, 2020

(expressed in Bermuda dollars)

	2020 \$	2019 \$
Cash flows used in operating activities		
Surplus of revenue over donations and expenses for the year	4,584,422	21,856,776
Items not affecting cash:		
Change in fair value of investments	14,666,755	(23,054,507)
(Gain) loss on sale of investments	(22,385,970)	34,108
Changes in non-cash working capital:		
Dividends receivable	127,521	(18,412)
Prepayments	8,156	(8,156)
Accounts payable and accrued liabilities	127,179	13,982
Accrued donations	(66,500)	173,500
Net cash used in operating activities	<u>(2,938,437)</u>	<u>(1,002,709)</u>
Cash flows used in investing activities		
Purchase of investments	(118,117,176)	(6,684,677)
Proceeds on sale of investments	<u>177,224,446</u>	<u>5,013,440</u>
Net cash provided by (used in) investing activities	<u>59,107,270</u>	<u>(1,671,237)</u>
Increase (decrease) in cash and cash equivalents	56,168,833	(2,673,946)
Cash and cash equivalents - Beginning of year	<u>3,193,274</u>	<u>5,867,220</u>
Cash and cash equivalents - End of year	<u><u>59,362,107</u></u>	<u><u>3,193,274</u></u>

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

Centennial Bermuda Foundation

Notes to Financial Statements

December 31, 2020

1. *The Foundation*

Centennial Bermuda Foundation (formerly known as Bank of Bermuda Foundation) (the "Foundation") was incorporated in Bermuda on December 13, 2000 with The Bank of Bermuda Limited as its sole member. On February 18, 2004, The Bank of Bermuda Limited was amalgamated to become a wholly owned subsidiary of HSBC Holdings plc and in May 2010, The Bank of Bermuda Limited changed its name to HSBC Bank Bermuda Limited ("HSBC Bermuda"). HSBC Bermuda 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 Bermuda until May 1, 2016. Effective May 1, 2016, the Bank of N.T. Butterfield & Son Ltd. ("Butterfield Bank") purchased BTCL.

BTCL, as trustee of the Charitable Trust appoints the Board of Directors of the Foundation under the direction of the Committee of Protectors in accordance with the trust deed. The Committee of Protectors, the Board of Directors and the Foundation are not related to, and are independent of, HSBC Bermuda or Butterfield Bank.

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 is registered as a private foundation under the Charities Act 2014 as amended.

The Foundation changed its name from Bank of Bermuda Foundation to Centennial Bermuda Foundation on November 16, 2020.

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. Currently, there are no such net assets.

(b) **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.

(c) **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.

Centennial Bermuda Foundation

Notes to Financial Statements

December 31, 2020

(d) **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.

(e) **Investment income**

Investment income is recognised on an accrual basis and is reflected in the statement of operations.

(f) **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.

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

The Foundation's financial instruments consist of cash and cash equivalents, dividends and accounts receivable, other receivables, 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 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. 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. The Foundation manages market risks by investing in a portfolio of marketable securities diversified by nature, industry and geography and by limiting withdrawals from the portfolio in any one year as described in Note 4.

(h) **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 Notes 6 and 7. 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 Notes 6 and 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.

Centennial Bermuda Foundation

Notes to Financial Statements

December 31, 2020

(i) **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. Investments

	2020 Cost \$	2020 Fair value \$	2019 Cost \$	2019 Fair value \$
Investments	104,897,072	118,592,322	141,608,662	169,980,377

The realised gain (loss) 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 \$
2020			
Realised gain (loss)	21,829,315	556,655	22,385,970
Change in unrealised (loss) gain	(21,829,315)	7,162,560	(14,666,755)
	-	7,719,215	7,719,215
2019			
Realised gain (loss)	85,775	(119,883)	(34,108)
Change in unrealised (loss) gain	(85,775)	23,140,282	23,054,507
	-	23,020,399	23,020,399

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.

Effective August 1, 2020, the Foundation appointed Equilibria Capital Limited as Investment Manager (previously HSBC Bermuda). Equilibria Capital Limited act as the Outsourced Chief Investment Officer (OCIO) and manage the Foundation's investment portfolio. This selection was a result of an extensive search and request for proposal process lasting several months. As OCIO, Equilibria assists the Foundation in setting overall investment policy and then manages the Foundation's investments within the parameters set by the policy. In managing the Foundation's investments, Equilibria will, where it believes they can add value in excess of their fees, employ other investment managers to oversee portions of the investment portfolio who, themselves, may sub-delegate investment management to other investment managers.

Centennial Bermuda Foundation

Notes to Financial Statements

December 31, 2020

4. 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 of Bermuda Limited were sold as a result of the amalgamation of the Bank of Bermuda Limited to become a wholly-owned subsidiary of HSBC Bermuda (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% (2019 and prior – 4.5%) while, for 2019 and prior, ensuring that its donations and expenses drawn from the unrestricted funds do not exceed approximately 2.9% of the quarterly average of the previous six years' net assets less net assets externally restricted for endowment. On May 21, 2020, the Board approved a change in the donations and expenses drawdown for the 2020 calendar year, increasing it to 3.9%, and then subsequently reduced it to 3.4% as at January 1, 2021 for 2021 and subsequent years. The increase to 3.9% for 2020 was to support increased community need due to the effects of the pandemic and was viewed as temporary by the Board. The increase to 3.4% for 2021 was to support the expected needs of the community in future years while continuing to increase the inflation adjusted value of the net assets internally 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 and has since increased the net assets internally restricted for endowment by local inflation plus 1% each year since then.

The Foundation believes that over time it can grow the unrestricted assets so that they continue to exceed the target level of net assets internally restricted for endowment and maintain its targeted level of community support. At December 31, 2020 the Foundation has had two consecutive years where revenue has exceeded donations and expenses for the year. As a consequence, in addition to the transfer to Net Assets Restricted for Endowment of \$2,382,001 (2019 - \$2,350,853) the Board has approved a transfer of \$14,071,938 from unrestricted net assets to net assets restricted for future funding. Should there be a deficiency of revenue over donations and expenses in future years due to fluctuations in the market values of its investments, the Board will consider releasing some of these net assets to maintain the targeted level of donations. The Foundation is not subject to any externally imposed requirements on capital.

At December 31, 2020 the Foundation has a capital commitment for further investment to its BAM PEP III LP holding of \$1,300,000 (2019: \$1,500,000).

Centennial Bermuda Foundation

Notes to Financial Statements

December 31, 2020

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

	Internally restricted for endowment \$	Net assets restricted for future funding \$	Other unrestricted net assets (deficit) \$	Total unrestricted net assets \$
2020				
Balance – Beginning of period	161,040,991	-	11,869,517	172,910,508
Revenue earned	-	-	24,972,068	24,972,068
Donations paid	-	-	(4,501,052)	(4,501,052)
Expenses paid	-	-	(1,219,839)	(1,219,839)
Change in fair value of investments	-	-	(14,666,755)	(14,666,755)
Appropriation of unrestricted net assets	2,382,001	14,071,938	(16,453,939)	-
Balance – End of period	163,422,992	14,071,938	-	177,494,930
2019				
Balance – Beginning of period	158,690,138	-	(7,636,406)	151,053,732
Revenue earned	-	-	3,838,303	3,838,303
Donations paid	-	-	(3,702,222)	(3,702,222)
Expenses paid	-	-	(1,333,812)	(1,333,812)
Change in fair value of investments	-	-	23,054,507	23,054,507
Appropriation of unrestricted net assets	2,350,853	-	(2,350,853)	-
Balance – End of period	161,040,991	-	11,869,517	172,910,508

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, 2020, the Foundation has \$1,299,294 (2019 - \$1,247,000) 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.

Centennial Bermuda Foundation

Notes to Financial Statements

December 31, 2020

5. *Employment costs*

As explained in Note 7, the former Managing Director, who had been remunerated under a consulting agreement, retired during 2019. The current Managing Director is employed pursuant to an employment agreement. At the same time, the Programme Consultant became an employee with the title Programme Director. All costs in 2019 and 2020 relating to the two Managing Directors and the Programme Consultant/Programme Director are classified as Employment costs in the statement of operations.

6. *Significant and other relationships*

i) *Significant relationships*

Effective May 1, 2016, the Foundation appointed a subsidiary of Butterfield Bank as its custodian. Included in expenses is \$76,641 (2019 - \$50,000) for custody fees relating to this subsidiary, of which \$18,474 (2019 - \$nil) is included in accounts payable and accrued liabilities as at December 31, 2020.

The Foundation has expensed \$285,423 (2019 - \$280,000) for the year for management of its investments and \$75,314. (2019 - \$70,000) of this amount is included in accounts payable and accrued liabilities as at December 31, 2020.

BTCL provides secretarial and other corporate administrative services to the Foundation. Included in expenses for the year is \$270,000 (2019 - \$232,000) for these services. BTCL also acts as Trustee of the Charitable Trust. During the year, the Foundation contributed \$76,100 (2019 - \$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.

ii) *Other relationships*

The Foundation paid \$25,108 (2019 - \$7,494) to a law firm where the spouse of a director of the Foundation is a director of the law firm. This amount is included in professional fees and other fees in the statement of operations.

7. *Related party transactions*

The directors of the Foundation receive a fee. These fees are disclosed in the statement of operations. During 2019 the former Managing Director of the Foundation, who was remunerated under the terms of a consulting contract, retired. The Foundation subsequently hired a new Managing Director under the terms of an employment contract. There were no fees paid to the former Managing Director in 2020 (2019 - \$27,000). There are no other related party transactions which are not fully disclosed in the statement of financial position or statement of operations.

8. *Coin, art and artefacts collection*

HSBC Bermuda gifted collections of coins, artwork and artefacts to the Foundation in February 2004. The Foundation has recorded these assets at nil value 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 February 2021 at \$4,371,217, having previously been valued in December 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, Butterfield Bank and the Washington Mall. Four bronze sculptures were sold in December 2009 for \$29,500.

Centennial Bermuda Foundation

Notes to Financial Statements

December 31, 2020

9. COVID-19

Since the outbreak of COVID-19 in the first quarter of 2020 global financial markets have experienced, and are expected to continue to experience, significant volatility, and there are continuing consequences for the global and local economies from travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty.

The extent and duration of the impact of COVID-19 on the global and local economies, financial markets and specific positions in which the Foundation invests remains uncertain at this time and has the potential to adversely affect the value of the Foundation's investment portfolio, however management expect that the medium and long term outlook for the value of its investments remains positive. Management will continue to monitor the situation and the impact to the Foundation.