

# **Provident Fund for the employees of the Hotel Industry**

## **Translated Report and translated Financial Statements in English 31 December 2018**

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# **Provident Fund for the employees of the Hotel Industry**

## **Administrative Committee and other information**

### **Administrative Committee**

Ioannis Pantazis, Chairman (appointed 19 April 2018)  
Miltiades Miltiadous, Secretary  
Eleftherios Georgiades, Member  
Anna Michaelides-Ataliotis, Member  
Pavlos Theocharous, Member  
Maria Tsokkou, Member  
Marios Ioannou, Member  
Evripides Loizides, Member (resigned 19 April 2018)  
Michael Panayiotou, Member  
Marios Ellinas, Member  
Andreas Skitsas, Member  
Antonis Pelekanou, Member  
Michael Koronides, Member  
Aggela Efstathiou, Member (resigned 5 June 2018)  
Christos Ioannides, Member ( appointed 28 January 2019)

### **Office personnel**

Marinos Gialeli, General Manager  
Stella Charalambous, Head of Accounting office  
Skevi Sarri  
Eleni Antoniou  
Andri Adamou  
Sofia Georgiadou

### **Registered Office**

Xenios Commercial Center  
62A Karpenisiou and Arch. Makariou Avenue  
Office number 107 – 111  
1077 Nicosia

# Provident Fund for the employees of the Hotel Industry

## Report of the Administrative Committee

The Administrative Committee presents its report together with the audited financial statements of the Fund for the year ended 31 December 2018.

### Members

The changes in the number of Members of the Fund during the year were as follows:

	<b>2018</b> <b>Number</b>	2017 Number
Members at beginning of the year	<b>12.706</b>	12.405
New members that were registered	<b>1.168</b>	829
	<hr/> <b>13.874</b> <hr/>	<hr/> 13.234 <hr/>
Less:		
Members who retired	<b>145</b>	183
Members who withdrew	<b>262</b>	284
Members who passed away	<b>12</b>	6
Members who withdrew for health purposes	<b>32</b>	55
	<hr/> <b>451</b> <hr/>	<hr/> 528 <hr/>
Members at the end for the year	<hr/> <b>13.423</b> <hr/>	<hr/> 12.706 <hr/>

The active members for which contributions were collected during the year were 7 384 (2017: 6 985).

### Movement of the Fund

The movement of the Fund during the year was as follows:

	€
Employers' contribution	5.058.249
Members' contribution	6.724.270
Benefits paid or payable	(7.024.860)
Net Investment Income	1.544.477
	<hr/>
Net new money available for investment	6.302.136
Value of the Fund at 31 December 2017	219.619.343
Net loss from sale and investments' revaluation in shares, bonds and investment properties	(4.041.421)
	<hr/>
Value of the Fund at 31 December 2018	<b>221.880.058</b> <hr/>

# **Provident Fund for the employees of the Hotel Industry**

## **Report of the Administrative Committee (continued)**

### **Investment strategy**

The Investment strategy of the Fund is presented in Note 1 (e) of financial statements.

### **Results for the year**

The results of the Provident Fund for the year are represented at page 9.

### **Principal risks and uncertainties**

The principal risks and uncertainties faced by the Provident Fund are described in Note 6 of financial statements.

### **Administrative Committee**

The members of the Administrative Committee during the date of this report are shown on page 1. All of them were members of the Administrative Committee throughout the year 2018, except Mr Ioannis Pantazis and Mr Christos Ioannidis, who were appointed as Members on 19 April 2018 and 28 January 2019 respectively. Mr Evripidis Loizidis and Mrs Aggela Efstathiou, who were members from 1 January 2018, resigned on 19 April 2018 and on 5 June 2018 respectively.

According to the regulations of the Fund, the Commission consists of the President appointed by the Pancyprian Hotel Association and twelve members, six of whom are appointed by the Pancyprian Hoteliers Association and two of the PEO and SEK guilds. The remaining four members are elected with the suggestion of the SEEC and PEO Trade Unions at the Annual General Meeting of the members' representatives from members of the Provident Fund.

### **Internal Auditor of the Fund**

For better governance of the Provident Fund, the Administrative Committee appointed the internal audit of the Fund to Deloitte.

### **Investment Consultant for investment matters of General Nature**

The Provident Fund for the employees of the Hotel Industry appointed the international firm of actuaries and consultants Aon Hewitt Associates for the role of Investment Consultant for the Provident Fund.

### **Events after the Balance Sheet Date**

There were no material post balance sheet events, which have a bearing on the understanding of the financial statements.

# **Provident Fund for the employees of the Hotel Industry**

## **Report of the Administrative Committee (continued)**

### **Independent Auditors**

The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office.

### **By the Order of the Administrative Committee**

**Ioannis Pantazis**  
**Chairman**

Nicosia, 22 April 2019



# **Independent Auditor's Report To the Members of the Provident Fund of the employees of the Hotel Industry**

## **Report on the Audit of the Financial Statements**

### **Opinion**

We have audited the financial statements of the Provident Fund of the employees of the Hotel Industry (the "Fund"), which are presented in pages 9 to 50 and comprise the statement of net assets available for benefits as at 31 December 2018, the statement of changes in net assets available for benefits for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the amount and disposition of the assets and liabilities of the Fund as at 31 December 2018, and of its financial transactions for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Fund's Regulations and the Establishment, the Activities and the Supervision of Funds for Occupational Retirement Benefits Laws of 2012 to 2018.

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 Fund in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus, 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.

### **Other information**

The Fund's Administrative Committee is responsible for the other information. The other information comprises the Report of the Administrative Committee, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the Administrative Committee for the Financial Statements**

The Fund's Administrative Committee is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Fund's Regulations and the Establishment, the Activities and the Supervision of Funds for Occupational Retirement Benefits Laws of 2012 to 2018, and for such internal control as the Administrative Committee 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, the Administrative Committee is responsible for assessing the Fund'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 the Administrative Committee either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Administrative Committee is responsible for overseeing the Fund'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 ISAs 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 ISAs, we exercise professional judgment and maintain professional scepticism 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Administrative Committee.
- Conclude on the appropriateness of the Administrative Committee'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 Fund'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 Fund 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 a true and fair view.

We communicate with the Administrative Committee 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.



### **Report on Other Legal Requirements**

In accordance with the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, the information given in the report of the Administrative Committee is consistent with the financial statements.
- In our opinion, and in accordance with the understanding of the Fund's operations and its environment obtained during the audit of the financial statements, we did not identify any material misstatements in the Administrative Committee's report.

### **Other Matter**

This report, including the opinion, has been prepared for and only for the Fund's members as a body in accordance with Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Achilleas Chrysanthou  
Certified Public Accountant and Registered Auditor  
for and on behalf of

PricewaterhouseCoopers Limited  
Certified Public Accountants and Registered Auditors

Nicosia, 22 April 2019

# Provident Fund for the employees of the Hotel Industry

## Statement of changes in net assets available for benefits for the year ended 31 December 2018

	Note	2018 €	2017 €
<b>Contributions</b>			
From Members	8&18	<b>6.724.270</b>	6.212.300
From Employers	8&18	<b>5.058.249</b>	4.716.069
		<b>11.782.519</b>	10.928.369
<b>Benefits paid or payable</b>			
To withdrawn members	9&18	<b>(7.024.860)</b>	(18.983.642)
		<b>4.757.659</b>	(8.055.273)
<b>Contributions less benefits</b>			
	10		
<b>Investment return for the year</b>			
Interest income on:			
Bank deposit		<b>100.029</b>	218.873
Investments in bonds		<b>75.194</b>	186.188
Loans to Members		<b>864.570</b>	904.998
Investments:			
(Loss)/Profit from sale and revaluation of investments at fair value through income statement	15	<b>(5.523.203)</b>	6.903.129
Profit from sale and revaluation of bonds		<b>53.011</b>	715.542
Dividends		<b>139.784</b>	144.654
Investment properties:			
Fair value gain	14&17	<b>1.428.771</b>	1.459.412
Rental income		<b>943.595</b>	785.999
Amounts retained according to article 9(c) of association	18	<b>105.789</b>	39.439
Return to members withdrawn		<b>(61.994)</b>	(237.467)
Administrative and other expenses	11	<b>(657.351)</b>	(610.525)
Defence contribution on interest income, dividends, rents and loans to Members		<b>(32.643)</b>	(43.736)
Other income		<b>67.504</b>	512
		<b>(2.496.944)</b>	10.467.018
<b>Change in the net asset available for benefits</b>			
		<b>2.260.715</b>	2.411.745
Balance of Fund at beginning of the year		<b>219.619.343</b>	227.917.318
Loans set off		-	(10.709.720)
<b>Balance of Fund at end of the year</b>			
	18	<b>221.880.058</b>	219.619.343

The notes on pages 11 to 50 are an integral part of these financial statements.

# Provident Fund for the employees of the Hotel Industry

## Statement of net assets available for benefits at 31 December 2018

	Note	2018 €	2017 €
<b>Assets</b>			
Plant and machinery	13	78.603	78.677
Investment properties	14	22.180.250	20.702.000
Financial assets at fair value through profit or loss	15 (b)	137.475.956	144.703.904
Financial assets at amortised cost:			
Investment in bonds	15 (a)	334.679	6.927.378
Loans to members	15 (a)	38.007.702	37.502.937
Contributions receivable	8&15 (a)	1.606.279	1.588.225
Interest receivable	15 (a)	48.058	36.171
Rents and other receivables - net	15 (a)	320.314	170.677
Bank deposits with an original maturity of more than three months	16 (a)	6.636.025	6.676.488
Cash and cash equivalents	16 (b)	15.451.825	1.504.077
		<u>222.139.691</u>	<u>219.890.534</u>
<b>Liabilities</b>			
Deferred tax	17	(134.182)	(148.310)
Defence contribution payable		(46.199)	(44.758)
Deferred income from rents and accrued expenses		(79.252)	(78.123)
		<u>(259.633)</u>	<u>(271.191)</u>
<b>Balance of Fund – Members’ accounts</b>	18	<u>221.880.058</u>	<u>219.619.343</u>

The financial statements were authorised for issue by the Administrative Committee on 22 April 2019 and signed on behalf of:

Ioannis Pantazis, Chairman

Miltiades Miltiadous, Secretary

The notes on pages 11 to 50 are an integral part of these financial statements.

# Provident Fund for the employees of the Hotel Industry

## Notes to the financial statements

### 1 General information

#### (a) The Fund

The Provident Fund for the Employees of the Hotel Industry ("Fund"), which is a defined contributions scheme, was established by the Cyprus Hotels Association, the Cyprus Workers' Confederation (TEC) and the Pancyprian Federation of Labour (PFL) for the purpose of providing benefits to the members of the Fund ("Members"), or their legal heir, on the occasion of termination of employment, inability of work, retirement or death.

#### (b) Members

All monthly or weekly paid employees who have reached the age of 16 and have at least six months of continuous service in the Hotel Industry will be registered as Members of the Fund.

#### (c) Administrative Committee

The Administrative Committee is responsible for the administration and the investment policy of the Fund in accordance with the statute and the Fund Regulations and the relevant Legislation. For this purpose it meets periodically to assess all the issues related to the Fund.

According to the regulations of the Fund, the Committee consists of the Chairman appointed by the Cyprus Hotels Associations and twelve members, six of whom are appointed by the Cyprus Hotels Association and two by the TEC and PFL trade unions. The remaining four members are elected with the suggestion of the TEC and PFL trade union at the Annual General meeting of the members' representatives from members of the Provident Fund.

#### (d) Taxation

The Fund is not liable to taxation, in accordance with the provisions of the Income Tax Law. Income from interest receivable, rents (reduced by 25%) and dividends are subject to special defence contribution. The Fund is also subject to capital gains tax.

# Provident Fund for the employees of the Hotel Industry

## 1 General Information (continued)

### (e) Investment Strategy of the Fund

#### Main investment objective

Investing wisely to meet the reasonable expectations of Members, assuming an acceptable level of risk.

In view of the continuous achievement of the main investment objective, the Administrative Committee has also set the following investment goals:

#### Investment goals

- **Target Annual Investment Return**

The targeted investment return is 4.2% per year in the long term investment horizon (3 years) based on the most recent review of the March 2017 investment strategy.

- **Investment Risk**

In relation to the above goal, the Administrative Committee accepts with a probability 1 out of 20 (5% probability) that yield may be equal to -3.1% per year or lower in the long term investment horizon (3 years).

The main investment objective and investment goals set, are:

#### Investment Principles

- To define and implement an investment policy that meets the provisions of Fund's Regulations and the Establishment, the Activities and the Supervision of Funds for occupation Retirement Benefits Law 208 (I), of 2012 to 2018, the relevant Directives under this Law (Directives 1/2010 and 2/2010) and comply with the principles continued in the Declaration of the Fund's Investment Policy.
- Implement an investment policy taking into consideration the characteristics of all the members of the Funds given below:

**Currency:** Euro

**Fund's maturity:** Relatively mature

**Average Age:** 51 (simple)

**Targeted Investment Horizon:** Medium (3 years)

**Investment Risk:** Low

**Need for Liquidity:** High

# Provident Fund for the employees of the Hotel Industry

## 1 General information (continued)

### (e) Investment Strategy of the Fund (continued)

#### Strategy

The Administrative Committee has determined the Fund's investment policy after receiving experts' advice. The most recent review of the Fund's strategic allocation dates back to March 2017 and forms the basis for the design of current investment policy. For the study on the strategic allocation of the Fund, the investment risks that the Fund may face in its effort to achieve the stated objectives were measured and evaluated.

The medium-term investment policy of the Administrative Committee is included in the strategic investment allocation of the Fund's reserve, as described below:

<b>Investment Type</b>	<b>Target distribution %</b>	<b>Percentage distribution at 31 December 2018 %</b>	<b>Allowable limits %</b>
Development Investment	37	29,5	25-55
Bonds	9	9,5	0-20
Real Estate	17	18	0-25
Alternative Investments	15	15	5-15
Deposits	3	11	0-10
Member Loans	19	17	10-30
<b>Total</b>	<b>100</b>	<b>100</b>	
Expected performance in the three years		4,2% per year	
Investment risk (5% lower performance in the three years)		-3,1%% per year	

The table below shows the targeted allocation for each type of investment for the purposes of alignment with the Law Directives 208(1) 2012:

<b>Investment type</b>	<b>Percentage distribution at 31 December 2018 %</b>	<b>Maximum Allowable limit %</b>
Expressed in foreign currency	0	30
Total in shares and non-government bonds	40	70
Non traded on regulated markets	35	40
Alternative investments not including real estate	15	15

# Provident Fund for the employees of the Hotel Industry

## 1 General information (continued)

### (e) Investment Strategy of the Fund (continued)

#### Process

- **Frequency of revision of the Strategic Assets Allocation**

The Administrative Committee is committed, as an important part of its duty to the members to control investment risk, to review its investment policy every three years or sooner if necessary, for example in the event of a significant change in the characteristics of the Fund (e.g. due to Restructuring).

- **Frequency of revision of the Declaration of Principles of Investment Policy**

According to the Law, the Administrative Committee commits to revise the Declaration at least every three years or earlier if necessary. The Declaration should be revised without delay after any major change in the Fund's Investment policy.

- **Professional Advice and Responsibilities**

The Administrative Committee has the ultimate responsibility for all investment decisions. If the Administrative Committee does not have the resources, experience or expertise to make decisions, it will seek official advice from experts.

The Administrative Committee often meets to discuss matters relating to the Fund's Investments. Specifically:

- To receive and review reports on the Funds Investment returns.
- To receive advice on the implementation of the investment program.
- To communicate with the various external investment advisors and managers.
- To monitor and evaluate the performance of the Fund.

- **Dispersion**

The Administrative Committee recognises as a principle that the prudent management of the Fund's assets implies adequate dispersion in and within the different types of investments. The Administrative Committee agrees that a wide range of investment options will be considered for investment. Additionally, it is committed that each type of investment will be adequately dispersed by geographical area, industry, type of investment, issuer and other investment criteria, where feasible.

# Provident Fund for the employees of the Hotel Industry

## 1 General information (continued)

### (e) Investment Strategy of the Fund (continued)

- **Investment Restriction**

In order to control the risk, the Administrative Committee commits to adhere to the allowed limits for investments as defined by the Directive. It has also set allowed limits around the strategic allocation of the Fund's assets for each type of investment (see table above). More specifically, the Administrative Committee commits not to invest more than 10% in total to companies or funds of the Group to which the sponsoring Company belongs.

- **Application**

For cash investment, the Administrative Committee has decided to put in place a strategic allocation of cash to minimize risk. Cash investments may include cash funds that have a rating of A + or higher and include investments with a maturity of less than 13 months. The banks selected must have a short-term credit rating of "P2" or higher, or if that is not possible, the banks selected should be systematic.

- **Regular Asset allocation/Reset Allocation of Assets**

The Fund Administrators are allowed to invest the assets of the Fund within the limits of the above strategy. Where there is a need for reinstating within the strategy due to market reassessment or regular movements, the approval of the Administrative Committee is needed.

In cases where the distribution of Fund's assets deviates from the permitted limits of the investment strategy, the Administrative Committee commits to restart the investment policy within the allowed limits. These moves should be made in such way that the assets of the Fund are not negatively affected by any violent changes in securities trading.

In any event, the Administrative Committee is committed to restore the Fund's investment policy within the strategic limits within a reasonable time frame, taking into account factors such as:

- (a) the particular characteristics of each class of investment,
- (b) market conditions,

# Provident Fund for the employees of the Hotel Industry

## 1 General information (continued)

### (e) Investment Strategy of the Fund (continued)

- **Regular Asset allocation/Reset Allocation of Assets (continued)**

- (c) the extent that the defined investment profile of the Fund has been affected/diversified, as well as the approach/tolerance to the inherent risk; and

- (d) the future outflows/inflows of funds from/to the Fund.

In addition, where the tendency to approach the maximum or minimum fluctuation bandwidth rates/limits for each investment class is observed, the Administrative Committee will take timely corrective action to avoid any overrun.

- **Use of Foreign Exchange Coverage Method**

Methods of covering foreign exchange risk will be used when deemed necessary and when currency risk is considered a significant risk to the Fund.

- **Use of Derivatives**

According to the Law, the use of derivative instruments is only allowed to control or reduce the investment risk. Investments in hedging funds to improve the overall investment risk and portfolio performance can be excluded from this provision.

- **Guidelines for Investment Objectives**

For each investment authorisation mandates by the Administrative Committee, a series of official Investment Objectives must be agreed with the funds' Administrator. These objectives focus on risk control by setting prudent investment limits, managing investment principles and transparent information procedures.

- **Investment Performance Analysis**

The Administrative Committee has established an official assessment cycle of the Fund's return on investment as an additional measure to control investment risk. The investment performance reports to be provided will include:

- Investment returns per quarter, year and long-term for each Fund Administrator and investment class.
- Comment on the achievement of the investment objectives given to each Fund Administrator or for each type of investment and the overall investment objective of the Fund.

# Provident Fund for the employees of the Hotel Industry

## 1 General information (continued)

### (e) Investment Strategy of the Fund (continued)

#### • Investment Performance Analysis (continued)

- Explanation of the reasons that led to the above investment returns.
- Confirmation of compliance with the guidelines for investment purposes as set out above. Where there has been an infringement, the reason and proposed corrective measures must be given in writing.
- Quantified risk measurement methods, such as risk-related performance indicators, measurement of yield fluctuation and risk of minimal potential returns.

#### Involved parties and their Role

The involved parties hired by the Administrative Committee are:

#### Involved parties

#### Remuneration

**Consultant:** Aon Hewitt (Cyprus) Ltd

**Role:** Help the Administrative Committee to develop and implement the Fund's Investment policy. This includes:

- Develop investment strategy
- Monitoring of Fund Administration
- Training seminars on investment issues
- Support to the Administrative Committee
- Ensure compliance with the Law

Annual pre-agreed fee

**Fund Administrators:**

**Global stocks:**

- Argus
- Veritas
- Unigestion
- Commonfund

Percentage of assets under administration

**Emerging Markets Investment Fund:**

- Lazard

# Provident Fund for the employees of the Hotel Industry

## 1 General information (continued)

### (e) Investment Strategy of the Fund (continued)

- Investment Performance Analysis (continued)

#### Spread development funds

- Newton Fund

#### Bond funds of absolute goal:

- Insight
- PIMCO

#### Infrastructure:

- Rare
- Lazard

#### Compensation Funds:

- Blackstone
- Prisma
- Capula Global Relative value Fund Limited
- Winton Futures Fund Limited
- CFM
- MAN

#### Real estate Funds:

- Cbre/Global Investors
- Aviva/Encore

## 2 Basis of preparation

The financial statements of the Provident Fund for Employees of the Hotel Industry, have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and the requirements of the Fund's Regulations and the Regulations of the Provident Fund and the Establishment, the Activities and the Supervision of Funds for Occupational Retirement Benefits Law of 2012 to 2018.

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2018 and are relevant with the operations of the Fund have been adopted by the EU through the endorsement procedure established by the European Commission.

# **Provident Fund for the employees of the Hotel Industry**

## **2 Basis of preparation (continued)**

The financial statements have been prepared under the historical cost convention, as modified by the revaluation to fair value of the investment properties and the financial assets at fair value through statement of changes in net assets available for benefits.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires the Administrative Committee to exercise its judgment in the process of applying the Provident Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 7.

## **3 Adoption of new and revised standards and interpretations**

During the current year the Fund adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2018. This adoption did not have a material effect on the accounting policies of the Fund, with the exception of IFRS 9 “Financial Instruments”.

As explained below, in accordance with the transition provisions of IFRS 9, the Fund has elected the simplified approach for adoption of the standard. Accordingly, IFRS 9 was adopted without restating the comparative information.

The Fund has voluntarily changed the presentation of certain amounts in the comparative statement of net assets available for benefits to reflect the terminology of IFRS 9.

### **(i) IFRS 9 “Financial instruments”**

IFRS 9 “Financial instruments” replaces the provisions of IAS 39 that relate to recognition and derecognition of financial instruments and classification and measurement of financial assets and financial liabilities. IFRS 9 further introduces new principles for hedge accounting and a new forward-looking impairment model for financial assets.

# Provident Fund for the employees of the Hotel Industry

## 3 Adoption of new and revised standards and interpretations (continued)

### i) IFRS 9 “Financial instruments” (continued)

The new standard requires debt financial assets to be classified into two measurement categories: those to be measured subsequently at fair value (either through other comprehensive income (FVOCI) or through profit or loss (either FVTPL or FVPL) and those to be measured at amortized cost. The determination is made at initial recognition. For debt financial assets the classification depends on the entity’s business model for managing its financial instruments and the contractual cash flows characteristics of the instruments. For equity financial assets it depends on the Fund’s intentions and designation.

In particular, assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Lastly, assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. For investments in equity instruments that are not held for trading, the classification depends on whether the entity has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. If no such election has been made or the investments in equity instruments are held for trading they are required to be classified at fair value through profit or loss.

IFRS 9 also introduces a single impairment model applicable for debt securities at amortised cost and fair value through other comprehensive income and removes the need for a triggering event to be necessary for recognition of impairment losses. The new impairment model under IFRS 9 requires the recognition of allowances for doubtful debts based on expected credit losses (ECL), rather than incurred credit losses as under IAS 39. The standard further introduces a simplified approach for calculating impairment on trade receivables as well as for calculating impairment on contract assets and lease receivables; which also fall within the scope of the impairment requirements of IFRS 9.

With the introduction of IFRS 9 “Financial Instruments”, the IASB confirmed that gains or losses that result from modification of financial liabilities that do not result in derecognition shall be recognized in net assets available for benefits.

# Provident Fund for the employees of the Hotel Industry

## 3 Adoption of new and revised standards and interpretations (continued)

### i) IFRS 9 “Financial instruments” (continued)

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the “hedge ratio” to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The Fund has adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

The Fund’s new accounting policies following adoption of IFRS 9 at 1 January 2018 are set out in Note 4.

#### Impact of adoption

There is no significant impact of the adoption of IFRS 9.

- *Investments in equity securities previously classified as financial assets at FVTPL:*

Equity securities – held for trading are required to be held as Fair Value through Profit or Loss under IFRS 9. As a result there was no impact on the amounts recognised in relation to the investments in equity securities held for trading that were previously classified as financial assets at as Fair Value through Profit or Loss from the adoption of IFRS 9. Under IAS 39 equity securities designated as at fair value through profit or loss at inception were those that were managed and their performance was evaluated on a fair value basis, in accordance with the Fund's documented investment strategy. Information about these financial assets was provided internally on a fair value basis to the Fund's key management personnel. Under IFRS 9 investments in equity instruments are always measured at fair value, so as a result there was no impact from the adoption of IFRS 9 and other equity securities other than those held for trading were classified as financial assets at Fair Value through Profit or Loss.

- *Other financial instruments:*

For all other financial assets management assessed that the Fund’s business model for managing the assets is “hold to collect” and these assets meet SPPI tests. As a result all other financial assets were classified as financial assets at amortised cost and reclassified from the category “loans and receivables” under IAS 39, which was “retired”. Previously under IAS 39 these financial assets were also measured at amortised cost. Thus there were no impact of adoption of IFRS 9 as of 1 January 2018.

# Provident Fund for the employees of the Hotel Industry

## 3 Adoption of new or revised standards and interpretations (continued)

### i) IFRS 9 “Financial instruments” (continued)

- *Other financial instruments: (continued)*

The assessment of the impact of adoption of IFRS 9 on the Fund’s accounting policies required Management to make certain critical judgments in the process of applying the principles of the new standard. The judgments that had the most significant effect on Management's conclusion are disclosed in Note 7.

- *Assets reclassified to amortised cost category and the assets reclassified out of fair value through profit or loss to fair value through other comprehensive income category*

The main reasons for reclassifications were as follows:

- *Reclassification from retired categories with no change in measurement.* In addition to the above, the following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were retired, with no changes to their measurement basis:
  - those previously classified as AFS and now classified as measured at FVOCI; and
  - those previously classified as HTM and now classified as measured at AC.

## 4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 effective from 1 January 2018, this policy has been consistently applied to all the years presented, unless otherwise stated. The principal accounting policies in respect of financial instruments applied till 31 December 2017 are presented in Note 20.

### Revenue recognition

The Fund recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the Fund and when specific criteria have been met for each of the Fund's activities as described below. The Fund bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenues earned by the Fund are recognised on the following bases:

# Provident Fund for the employees of the Hotel Industry

## 4 Summary of significant accounting policies (continued)

### Revenue recognition (continued)

#### (a) Interest Income

Interest income from financial assets at FVTPL is included in the other gains/(losses) - net on these assets. Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in the income statement as "Other income". Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit impaired. For credit - impaired financial assets – Stage 3 the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance), for Stage 1 and Stage 2 – gross amount of financial assets.

#### (b) Dividend income

Dividends are received from financial assets measured at fair value through profit or loss (FVTPL). Dividends are recognised as other income in profit or loss when the Fund's right to receive payment is established.

### Contributions and benefits

Contribution and benefits are accounted for in the period that they fall due.

### Foreign currency translation

#### (a) Functional and presentation currency

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which the Fund operates ("the functional currency"). The financial statements are presented in Euro (€), which is the Fund's functional and presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in statement of changes in net assets available for benefits.

# Provident Fund for the employees of the Hotel Industry

## 4 Summary of significant accounting policies (continued)

### Current and deferred income tax

The tax expense for the period comprises defence contribution and deferred tax. Tax is recognised in statement of net assets available for benefits. The defence contribution is calculated on the basis of the tax laws enacted or substantively enacted at the statement of net assets available for benefits date in the country of operation and generates taxable income. Administrative Committee of Fund periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. If applicable tax regulation is subject to interpretation, it establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

### Plant and equipment

All plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of plant and equipment.

Depreciation on plant and equipment is calculated using the straight-line method to allocate their cost over their estimated useful lives. The annual depreciation rates are as follows:

	%
Plant and machinery	30
Computer equipment	30
Office equipment	10
Vehicles	20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of net assets available for benefits date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Expenditure for repairs and maintenance of plant and equipment is charged to the statement of changes in net assets available for benefits of the year in which they were incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Fund and the cost of the item can be measured reliably.

Gains and losses on disposal of plant and equipment are determined by comparing proceeds with carrying amount and are recognised in statement of changes in net assets available for benefits.

# Provident Fund for the employees of the Hotel Industry

## 4 Summary of significant accounting policies (continued)

### Investment property

Investment property consists of land and buildings, which are presented at fair value based on annual estimates from external independent valuers.

The Administrative Committee, taking into consideration this estimate, decides to transfer to the statement of changes in net assets available for benefits, any difference resulting from the revaluation. The carrying amount of these investments is immediately reduced to the recoverable amounts if the carrying amount exceeds the estimated recoverable amounts.

Repairs and maintenance costs are charged to the statement of changes in net assets available for benefits in the year in which they arise. The cost of significant renovations and other subsequent costs are included in the asset's value when it is probable that future economic benefits to the Fund will be greater than initially expected under the asset's original return.

### Financial assets - Classification

From 1 January 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (through profit or loss), and
- those to be measured at amortised cost.

The classification and subsequent measurement of debt financial assets depends on: (i) the Fund's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset. On initial recognition, the Fund may irrevocably designate a debt financial asset that otherwise meets the requirements to be measured at amortized cost or at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

All other financial assets are classified as measured at FVTPL.

- For assets measured at fair value, gains and losses will either be recorded in profit or loss. For investments in equity instruments that are not held for trading, this will depend on whether the Fund has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

### Financial assets - Recognition and derecognition

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date when the Fund commits to deliver a financial instrument. All other purchases and sales are recognized when the Fund becomes a party to the contractual provisions of the instrument.

# Provident Fund for the employees of the Hotel Industry

## 4 Summary of significant accounting policies (continued)

### Financial assets - Recognition and derecognition (continued)

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Fund has transferred substantially all the risks and rewards of ownership.

### Financial assets - Measurement

At initial recognition, the Fund measures a financial asset at its fair value. Transaction costs of financial assets at fair value are expensed in the statement of changes in net assets available for benefits. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

### Debt instruments

Subsequent measurement of debt securities depends on the Fund's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Fund classifies its debt securities:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in 'other income'. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the income statement. Financial assets measured at amortised cost (AC) comprise: cash and cash equivalents, bank deposits with original maturity over 3 months, trade receivables and financial assets at amortised cost.
- **FVTPL:** Assets that do not meet the criteria for amortised cost are measured at FVTPL. A gain or loss on a debt instruments that is subsequently measured at FVTPL is recognised in profit or loss and presented net within "other gains/(losses)" in the period in which it arises.

# Provident Fund for the employees of the Hotel Industry

## 4 Summary of significant accounting policies (continued)

### Equity instruments

The Fund subsequently measures all equity investments at fair value. Dividends from such investments continue to be recognised in profit or loss as other income when the Fund's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in the statement of changes in net assets available for benefits. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

### Financial assets – impairment –allowance for Expected Credit Loss (ECL)

From 1 January 2018, the Fund assesses on a forward-looking basis the ECL for debt instruments (including loans) measured at amortised cost (AC) arising from loan commitments and financial guarantee contracts. The Fund measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions..

The carrying amount of the financial assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of changes in net assets available for benefits.

Debt instruments measured at AC are presented in the statement of changes in net assets available for benefits, net of the allowance for ECL.

Expected losses are recognized and measured according to one of two approaches: general approach or simplified approach.

# Provident Fund for the employees of the Hotel Industry

## 4 Summary of significant accounting policies (continued)

### Financial assets – impairment –allowance for Expected Credit Loss (ECL) (continued)

For financial assets that are subject to impairment under IFRS 9, the Fund applies general approach – three stage model for impairment. The Fund applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (“12 Months ECL”). If the Fund identifies a significant increase in credit risk (“SICR”) since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any (“Lifetime ECL”). Refer to Note 6, Credit risk section for a description of how the Fund determines when a SICR has occurred. If the Fund determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Fund’s definition of credit impaired assets and definition of default is explained in Note 6, Credit risk section.

Additionally the Fund has decided to use the low credit risk assessment exemption for investment grade financial assets. Refer to Note 6, Credit risk section for a description of how the Fund determines low credit risk financial assets.

### Financial assets - Reclassification

Financial instruments are reclassified only when the business model for managing those assets changes. The reclassification has a prospective effect and takes place from the start of the first reporting period following the change.

### Financial assets – write-off

Financial assets are written-off, in whole or in part, when the Fund exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Fund may write-off financial assets that are still subject to enforcement activity when the Fund seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

# Provident Fund for the employees of the Hotel Industry

## 4 Summary of significant accounting policies (continued)

### Financial assets – modification

The Fund sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Fund assesses whether the modification of contractual cash flows is substantial.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Fund derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Fund also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Fund compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Fund recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate, and recognises a modification gain or loss in profit or loss.

### Cash and cash equivalents

Cash and cash equivalents are carried at amortised cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

### Comparatives

Comparative figures have been adjusted to conform with changes in the presentation for the current year.

## 5 New accounting pronouncements

At the date of approval of these financial statements a number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Fund.

# Provident Fund for the employees of the Hotel Industry

## 6 Financial risk management

### (i) Financial risk factors

The Fund's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and price risk) and credit risk.

The Fund's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Fund's financial performance. Risk management is carried out by the Management and the central treasury department under policies approved by the Administrative Committee. The Management identifies, evaluates and hedges financial risks in close co-operation with the Fund's investment committee. The Administrative Committee provides principles for risk management, as outlined in Note 1.

#### • Market Price risk

##### Foreign exchange risk

The Fund's investments are mainly in Euros, so the currency risk is reduced.

##### Price risk

###### *Exposure*

The Fund is exposed to equity securities price risk because of investments held by the Fund and classified on the statement of changes in net assets available for benefits as investments at FVTPL.

The Fund's equity investments are traded on International Stock Exchanges.

###### *Sensitivity*

The table below summarises the effect of increases/decreases in stock market index on changes in net assets of the Fund. The analysis is based on the assumption that the share price increased/decreased by 5% with all variables remaining stable:

	Impact on changes in net assets available for benefits	
	2018 €	2017 €
<b>Index</b>		
Stock exchange - Cyprus and abroad	6.873.798	7.235.195

# Provident Fund for the employees of the Hotel Industry

## 6 Financial risk management (continued)

### (i) Financial risk factors (continued)

- **Market Price risk (continued)**

The net assets available for benefits would be increased/decreased by the above amounts as a result of gains/losses on equity securities classified at fair value through profit or loss.

In order to manage market price risk, the Fund expands its portfolio. The portfolio is expanded according to the limits set by the Administrative Committee on the basis of the investment policy of the Fund.

#### **Cash Flow and Fair value interest rate risk**

The Fund has significant interest-bearing assets, so the Fund's income and cash flow are heavily dependent on changes in market interest rates.

The Administrative Committee does not manage the interest rate risk on a systematic basis but monitors interest rate fluctuations on a continuous basis and, taking into account the Fund's Investment Policy, acts accordingly. To this end, the Administrative Committee is requesting offers from financial institutions in Cyprus to secure the highest interest rate.

The interest rate on loans to members is determined annually by the Administrative Committee based on the lending rates of commercial banks.

At 31 December 2018, if interest rates on bank deposits and loans to members were 0,5% higher or lower, the change in net assets available for benefits of the year would be €262.177 (2017: €309.951) higher or lower due to an increase/decrease in interest income.

- **Credit risk**

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, contributions receivable from hotels, and from loans to Members.

- (i) *Risk management*

#### Credit risk is managed on a group basis

For banks and financial institutions, only organisations that, at the discretion of the Administrative Committee, are rated with a high degree of solvency are accepted. These organisations mainly include commercial banks.

# Provident Fund for the employees of the Hotel Industry

## 6 Financial risk management (continued)

### (i) Financial risk factors (continued)

#### • Credit risk (continued)

As of 15 April 2014, pursuant to Article 19 (1) of the Professional Retirement Provisions Regulations of 2014, each member is entitled to a loan of up to 45% of the amount payable to the member when it is likely to withdraw, as at the day of the loan. For contributions receivable, the necessary measures are taken to recover overdue debts which include close monitoring and disclosure of these debts to the Competent Authority.

### (ii) *Impairment of financial assets*

The Fund has two types of financial assets that are subject to the expected credit loss model:

- financial assets at amortised cost (loans to members, contributions receivable, debt instruments and other receivables),
- cash and cash equivalents.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

#### Other financial assets at amortised cost

For other financial assets at amortised cost which include loans to members, contributions receivables, debt securities and other receivables, the general credit loss model is applied.

The Fund considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Fund compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower/counterparty
- significant increases in credit risk on other financial instruments of the same borrower/counterparty
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the borrower/counterparty, including changes in the payment status of counterparty in the Fund and changes in the operating results of the borrower.

# Provident Fund for the employees of the Hotel Industry

## 6 Financial risk management (continued)

### (i) Financial risk factors (continued)

#### • Credit risk (continued)

Over the term of the loans, receivables and other receivables, and debt securities the Fund accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Fund considers historical loss rates for each category of customers, and adjusts for forward looking information on macroeconomic factors.

The Fund provides for credit losses against loans to members, contributions receivables and cash and cash equivalents. The following tables contain an analysis of the credit risk exposure of each class of financial instruments for which an ECL allowance is recognised. The gross carrying amounts below also represent the Company's maximum exposure to credit risk on these assets as at 31 December 2018.

#### ***Loans to members, contributions receivables, interest receivables, rents and other receivables at 31 December 2018***

Company internal credit rating	Gross carrying amount	(Loss allowance)	Carrying amount (net of impairment provision)
Performing	€40.732.729	-	€40.732.729

#### ***Cash and cash equivalents***

External credit rating	Total Expected credit loss rate	Gross carrying amount	(Loss allowance)	Carrying amount (net of impairment provision)
B3	3,35%	€22.087.850	-	€22.087.850
Total cash and cash equivalents		€22.087.850	-	€22.087.850

The above amount includes cash at bank and cash in hand amounting to €15.451.825 and short-term deposits amounting to €6.636.025. The calculated expected credit loss under IFRS 9, based on credit rating B3, was not significant and as a result no provision was made.

# Provident Fund for the employees of the Hotel Industry

## 6 Financial risk management (continued)

### (i) Financial risk factors (continued)

#### • Credit risk (continued)

#### Credit quality of financial assets at 31 December 2017

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates:

	2017 €
<b>Counterparties without external credit rating</b>	
Group 1	37.502.937
Group 2	768.964
Group 3	490.681
<b>Total receivables that are not past due neither amortised</b>	<u>38.762.582</u>
<b>Cash at bank and short term bank deposits with external credit rating(1) (Moody's)</b>	
Caa1	5.596.010
Caa3	2.572.306
	<u>8.168.316</u>

- (1) The remaining balance of "Bank deposits with an original maturity of more than three months" and "cash and cash equivalents" as presented in the net assets available for benefits is cash in hand.

Group 1 - Loans to members

Group 2 - Contributions receivables (up to 1 month)

Group 3 - Interest, rents receivable and other receivables (up to 6 months without default)

None of the above financial assets have been renegotiated and no losses are expected by Administrative Committee.

### (ii) Capital risk management

The members' accounts represent the capital of the Fund. The Fund is not exposed on capital risk management because according with the Fund's Regulations no borrowing is allowed.

# Provident Fund for the employees of the Hotel Industry

## 6 Financial risk management (continued)

### (iii) Fair value estimation

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Fund's financial assets and liabilities that are measured at fair value at 31 December 2018.

	Level 1 €	Level 2 €	Level 3 €	Total €
<b>At 31 December 2018</b>				
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Domestic investment fund Argus	1.166.713	-	-	1.166.713
- Alternative investments	22.457.359	12.114.703	-	34.572.062
- Equity securities	53.057.593	3.384.409	-	56.442.002
- Bonds	12.023.553	-	-	12.023.553
- Compensation funds	-	33.271.625	-	33.271.625
<b>Total financial assets measured at fair value</b>	<b>88.705.218</b>	<b>48.770.737</b>	<b>-</b>	<b>137.475.955</b>

The following table presents the Fund's financial assets and liabilities that are measured at fair value at 31 December 2017.

	Level 1 €	Level 2 €	Level 3 €	Total €
<b>At 31 December 2017</b>				
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Domestic investment fund Argus	1.191.604	-	-	1.191.604
- Alternative investments	20.445.473	5.153.669	-	25.599.142
- Equity securities	68.207.195	4.309.591	-	72.516.786
- Bonds	11.367.334	-	-	11.367.334
- Compensation funds	-	34.029.038	-	34.029.038
<b>Total financial assets measured at fair value</b>	<b>101.211.606</b>	<b>43.492.298</b>	<b>-</b>	<b>144.703.904</b>

There were no transfers between Levels 1 and 2 during the year.

# Provident Fund for the employees of the Hotel Industry

## 6 Financial risk management (continued)

### (iii) Fair value estimation (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of net assets available for benefits date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Fund is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily Cyprus and foreign Stock Exchange equity investments and corporate debentures listed on the Cyprus and foreign Stock Exchange classified as financial assets at fair value through profit or loss.

The fair value of financial instruments that are not traded in an active market (for example, unlisted equity securities) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Refer to Note 14 for disclosures of fair values for investment property respectively carried at fair value.

## 7 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Critical accounting estimates and assumptions

The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

# Provident Fund for the employees of the Hotel Industry

## 7 Critical accounting estimates and judgements (continued)

### Critical accounting estimates and assumptions (continued)

- **Fair value of investment property**

The fair value of investment property is based on the market value of the property, which takes into account all the physical and legal characteristics of the property subject to rent. The market value is determined by the Administrative Committee on the basis of estimates by independent valuers and market data.

During the year due to the ongoing economic crisis and its impact on the real estate market, there was a limited number of similar sales and the estimates were made using non-observable data (Note 14).

- **Impairment of financial assets**

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Fund uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Fund's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the Note 6 Credit risk section.

## 8 Contributions

Contributions to the Fund are made by Members and Hotels. The Contributions are calculated as a percentage of the total salary (basic and indexation allowance), excluding the 13<sup>th</sup> salary and Easter bonus, from the day a Member enters the Fund until the date he ceases to qualify for the Fund. Contribution rates from 1 April 1999 to 30 April 2013 are 10% for members and hotel employers, credited to Individual Members' accounts as Account A and B respectively. According to the "Memorandum of Understanding for an Extraordinary Special Collective Agreement in the Hotel Industry" with effect from 1 May 2013, the employer's contribution to the Provident Fund is 3% and employee's contribution is either 3% or 10% depending on what the employee chooses. From 2016 the employer's contribution to the Fund is 5% and the employee's contribution may be either 5% or 10% depending on what the employee chooses.

At 31 December 2018 there were contributions receivable from various hotels amounting to €1.606.279 (2017: €1.588.225). Overdue contributions amount €744.727 (2017: €819.261). Until 2 April 2019 a total of €639.102 was collected. The Administrative Committee shall take the necessary measures to recover the remaining amount.

Interests amounting to €1.043 (2017: €112.620) received from overdue contributions debts were credited to the relevant accounts of the members in which the corresponding contributions were also recorded.

# Provident Fund for the employees of the Hotel Industry

## 9 Benefits paid or payable

Members withdrawing from the Fund are entitled to payment of the amounts credited to their A and B accounts, including their share in return on investments in accordance with the Articles of Association and the Fund Regulations until the last day of the month preceding the payment.

In the case of Members who voluntarily leave before completing a four-year service in the Hotel Industry, then their B accounts amounts are transferred to the Special Fund account and are allocated to the A and B accounts of the Members remaining in the Fund. The percentages transferred from the B accounts of the Members voluntarily withdrawing are as follows:

	%
For service up to 1 year	100
For service up to 2 years	75
For service up to 3 years	50
For service up to 4 years	25
For service more than 4 years	-

Based on Article 29(3) of the Fund's Regulations and the Establishment, the Activities and the Supervision of Funds for Occupational Retirement Benefits Laws 208(1) of 2012 to 2018, no reduction of accrued rights by a Fund is allowed, except in cases of voluntary termination of employment by members before completing four years of continuous employment with the employing companies. Provided that, in the case of Provident Fund, it is forbidden to reduce the accumulated rights resulting from the personal contributions.

## 10 Return on investments for the year

At the end of each year the net return on investments is transferred to the special fund account, the balance of which is allocated to the Members' personal accounts in proportion to the amounts credited at the end of the year.

# Provident Fund for the employees of the Hotel Industry

## 11 Expenses by nature

	2018	2017
	€	€
Depreciation of plant and equipment (Note 13)	25.547	25.203
Staff cost (Note 12)	<b>326.060</b>	323.623
Repairs and maintenance of investment property	20.341	19.757
Annual contractual maintenance	<b>37.704</b>	43.006
Property taxes and sewerage expenses	6.038	5.554
Valuations of investment property	5.712	6.783
Audit fees – including VAT	<b>16.065</b>	16.065
Municipality taxes and insurance	<b>34.862</b>	33.668
Legal expenses	<b>13.520</b>	18.448
Professional fees	<b>10.905</b>	6.130
Investment consultants' fees	<b>42.245</b>	42.245
Foreign Managers:		
Reimbursement of portfolio expenses	<b>(21.971)</b>	(23.116)
Special services from trade unions and PASYXE	7.833	7.765
Stationery and printing	<b>10.748</b>	6.490
Telephone and post	<b>10.643</b>	8.776
Electricity and water	9.364	9.364
Expenses of the General Meeting	<b>24.455</b>	7.529
Bank expenses	9.662	2.898
Traveling expenses Administrative Committee's members	7.440	4.980
Shared office expenses and wages of cleaners	<b>31.672</b>	31.426
Office traveling expenses	1.885	2.008
Office cleaning expenses	<b>2.730</b>	2.409
Other expenses	<b>23.891</b>	9.514
Total cost of administrative and other expenses	<b>657.351</b>	610.525

## 12 Staff cost

	2018	2017
	€	€
Salaries	<b>273.516</b>	271.269
Social insurance and other funds	<b>30.663</b>	30.589
Contributions to the Provident Fund	<b>21.881</b>	21.765
<b>Total</b>	<b>326.060</b>	323.623
Average number of staff employed during the year	<b>11</b>	11

# Provident Fund for the employees of the Hotel Industry

## 13 Plant and machinery

	Plant €	Computer equipment €	Building equipment €	Vehicles €	Total €
<b>Non-current assets</b>					
<b>At 1 January 2017</b>					
Cost	14.736	234.374	214.595	-	463.705
Accumulated depreciation	(13.005)	(219.543)	(147.997)	-	(380.545)
Net book amount	<u>1.731</u>	<u>14.831</u>	<u>66.598</u>	<u>-</u>	<u>83.160</u>
<b>Year ended 31 December 2017</b>					
Opening net book amount	1.731	14.831	66.598	-	83.160
Additions	6.622	1.500	2.898	9.700	20.720
Depreciation charge	(5.080)	(7.821)	(10.362)	(1.940)	(25.203)
Closing net book amount	<u>3.273</u>	<u>8.510</u>	<u>59.134</u>	<u>7.760</u>	<u>78.677</u>
<b>At 31 December 2017</b>					
Cost	21.358	235.874	217.493	9.700	484.425
Accumulated depreciation	(18.085)	(227.364)	(158.359)	(1.940)	(405.748)
Net book amount	<u>3.273</u>	<u>8.510</u>	<u>59.134</u>	<u>7.760</u>	<u>78.677</u>
<b>Year ended 31 December 2018</b>					
Opening net book amount	3.273	8.510	59.134	7.760	78.677
Additions	4.165	6.307	15.001	-	25.473
Depreciation charge	(3.812)	(8.860)	(10.935)	(1.940)	(25.547)
Closing net book amount	<u>3.626</u>	<u>5.957</u>	<u>63.200</u>	<u>5.820</u>	<u>78.603</u>
<b>At 31 December 2018</b>					
Cost	25.523	242.181	232.494	9.700	509.898
Accumulated depreciation	(21.897)	(236.224)	(169.294)	(3.880)	(431.295)
Net book amount	<u>3.626</u>	<u>5.957</u>	<u>63.200</u>	<u>5.820</u>	<u>78.603</u>

# Provident Fund for the employees of the Hotel Industry

## 14 Investment property

	Xenios Building €	Foti Pitta Land and Buildings €	Dorothea Building €	Colossi Land €	<b>Total 2018</b> €	Total 2017 €
<b>Fair value at 1 January</b>	10.584.500	3.452.500	5.095.000	1.570.000	<b>20.702.000</b>	19.194.499
Subsequent expenditure during the year	39.962	19.992	3.653	-	<b>63.607</b>	36.124
Net profit from adjustments to the fair value of investment property	1.139.288	11.508	263.847	-	<b>1.414.643</b>	1.471.377
<b>Fair value at 31 December</b>	<b>11.763.750</b>	<b>3.484.000</b>	<b>5.362.500</b>	<b>1.570.000</b>	<b>22.180.250</b>	20.702.000

All the investment properties are located in the Republic of Cyprus.

Investment property is revalued annually by the Administrative Committee on 31 December on the basis of estimates by independent valuers and market data. Estimates are based on the market value on the free market using the comparative and investment valuation method that takes into account all the physical and legal characteristics of the property including the value of the property subject to rent.

Investment property relates to land and buildings held by the Fund for long-term rental returns or gains from capital appreciation.

The balance of €11.763.750 (2017: €10.584.500) for the Xenios Building includes accumulated fair value gains of €3.259.135 (2017: €2.119.847) from total revaluations made up to 31 December 2018.

The balance of €3.484.000 (2017: €3.452.500) for Fotis Pitta's land and building includes accumulated fair value gains of €1.003.518 (2017: €992.010) from total revaluations made up to 31 December 2018.

The balance of €1.570.000 (2017: €1.570.000) for the land in Kolossi includes accumulated fair value gains of €727.830 (2017: €727.830) from total revaluations made up to 31 December 2018.

The balance of €5.362.500 (2017: €5.095.000) for the Dorothea building includes accumulated fair value losses of €592.351 (2017: €328.504) from total revaluations made up to 31 December 2018.

The investment property of the Fund is recognised at fair value. The fund has 2 Investment property categories which comprise of office buildings and land.

# Provident Fund for the employees of the Hotel Industry

## 14 Investment property (continued)

The Fund uses a revised valuation technique based on non-observable data due to the limited number of similar sales and other observable data.

The revised valuation technique uses the sales comparison approach to calculate the fair value of the property by adjusting it for non-observable data in conjunction with the investment approach that approximates the value of the property on the basis of its capital value, meaning the annual income which the owner-investor derives or could derive from the property.

### Valuation procedures

The Fund's investment properties were valued at 31 December 2018 by independent valuers who hold relevant recognised professional qualifications and have recent experience in estimating investment property in the areas and real estate sector. For all investment properties, today's use equates to higher and better use. The Administrative Committee of the Fund includes a team that examines the valuations performed by independent valuers for financial reporting purposes. Discussion on valuation procedures and results between the Administrative Committee and independent valuers take place at least once a year. At the end of each financial year, the finance department of the Fund:

- Verifies all relevant data used for the independent assessment report,
- Evaluates changes in the property value compared to the previous year's valuation report; and
- Conducts discussions with the independent valuers.

Changes in Level 3 fair values are analysed at each reporting date during the annual discussions between the Administrative Committee and the valuation team.

# Provident Fund for the employees of the Hotel Industry

## 14 Investment property (continued)

### Information about fair value estimates using significant non-observable data (level 3)

2018

Property	Estimate €	Valuation technique	Average value per square metre €
Xenios Building	11.763.750	Revised comparative valuation method and investment valuation method	2.075
Foti Pitta Land and Buildings	3.484.000	Revised comparative valuation method and investment valuation method	1.892
Dorothea Building	5.362.500	Revised comparative valuation method and investment valuation method	2.501
Colossi Land	1.570.000	Revised comparative valuation method and investment valuation method	50

2017

Property	Estimate €	Valuation technique	Average value per square metre €
Xenios Building	10.584.500	Revised comparative valuation method and investment valuation method	1.952
Foti Pitta Land and Buildings	3.452.500	Revised comparative valuation method and investment valuation method	1.875
Dorothea Building	5.095.000	Revised comparative valuation method and investment valuation method	2.376
Colossi Land	1.570.000	Revised comparative valuation method	50

The higher the value per square meter the higher is the fair value. If the value per square meter of investment property was 10% higher or lower than the estimates made, the book value of the investment property would be €2.218.025 (2017: €2.070.200) higher or lower.

# Provident Fund for the employees of the Hotel Industry

## 14 Investment property (continued)

### Information about fair value estimates using significant non-observable data (level 3) (continued)

There are also, inter-relationships between unobservable inputs. Expected vacancy rates may impact the yield with higher vacancy rates resulting in higher yields. An increase in the future rental income may be linked with higher costs. If the remaining lease term increases, the yield may decrease.

Total rental income and annual return for the year ended 31 December 2018 were:

Property	Occupancy rate %	Annual return %	Rental income €
Xenios Building	88	3,76	442.045
Foti Pitta Land and Buildings	100	3,70	128.465
Dorothea Building	100	7	373.085

Total rental income and annual return for the year ended 31 December 2017, were:

Property	Occupancy rate %	Annual return %	Rental income €
Xenios Building	88	3,5	369.906
Foti Pitta Land and Buildings	100	3,3	112.872
Dorothea Building	100	7,05	336.220

## 15 Financial assets

### (a) Financial assets at amortised cost

Financial assets at amortised cost include the following:

	2018 €	2017 €
Loans to Fund's Members(1)	<b>38.007.702</b>	37.502.937
Interest receivables	<b>48.058</b>	36.171
Contribution receivables	<b>1.606.279</b>	1.588.225
Rents and other receivables	<b>320.314</b>	170.677
Debt securities investment (2) & (3)	<b>334.679</b>	6.927.378
Financial assets at amortised cost- net	<b><u>40.317.032</u></b>	<b><u>46.225.388</u></b>

# Provident Fund for the employees of the Hotel Industry

## 15 Financial assets (continued)

### a) Financial assets at amortised cost (continued)

<sup>(1)</sup> Member's loans are repayable with monthly instalments and bear interest 1,25% - 2,50%.

<sup>(2)</sup> The bonds of Cyprus Republic carry interest rates from 3,75% to 3,875% and have maturity dates in 2022 and 2023.

<sup>(3)</sup> The bonds of Cypriot Public Banks with carrying amount €6.587.218 at 31 December 2017 carried interest 2,47% and were fully repaid in 2018.

The movement of loans to members during the year is as follows::

	2018 €	2017 €
At beginning of year	37.502.937	52.012.319
Loans granted during the year	3.758.086	2.932.091
Interest charged	864.570	904.998
Repayments	(4.132.200)	(7.685.792)
Loan set offs	-	(10.709.720)
Other expenses	14.309	49.041
At end of year	<u>38.007.702</u>	<u>37.502.937</u>

The loans granted to the Members of the Fund carry an interest rate which is adjusted periodically after a decision made by the Administrative Committee.

On 2017, following a decision of the Administrative Committee, the Fund has proceeded with loans set offs with members balances for those members applied for the set off, according to the instructions of the Registrar of Occupational Retirement Provision. Offsetting took place on 1 February 2017 and related to 500 Members for the amount of € 10.709.720 representing a percentage of 20% of the Loans to Members held by the Fund at that date.

The carrying amounts of the Fund's financial assets at amortised cost are denominated in the following currencies:

	2018 €	2017 €
Euro - functional and presentation currency	<u>40.317.032</u>	<u>46.225.388</u>

The maximum exposure to credit risk at the balance sheet date is the carrying value of each class of financial asset at amortised cost mentioned above.

#### *Impairment and risk exposure*

Note 6 sets out information about the impairment of financial assets and the Fund's exposure to credit risk.

# Provident Fund for the employees of the Hotel Industry

## 15 Financial assets (continued)

### (b) Financial assets at fair value through profit or loss

Financial assets measured at FVTPL include the following:

	2018 €	2017 €
<b>Investment and other funds</b>		
<b>Alternative Investments</b>		
Spread Development Funds:		
Investment Fund Newton Fund	15.074.485	15.226.117
European Real Estate Funds:		
Encore+/Aviva Investment Fund	7.382.874	5.219.356
CBRE Investment Fund	10.493.181	5.153.669
Private Stocks:		
COMMONFUND Investment Fund	1.621.523	-
	<u>34.572.063</u>	<u>25.599.142</u>
<b>Equity instruments</b>		
International stocks:		
Veritas Asset Management Investment Fund	11.401.070	16.724.669
Funds managed by Argus Stockbrokers	3.384.409	4.309.591
Unigestion Investment Fund	8.748.456	12.839.279
Infrastructure funds:		
Lazard Global Active Funds Investment Fund	13.838.878	14.791.594
Rare Infrastructure Fund Investment Fund	11.510.326	19.687.509
Emerging markets:		
Lazard – emerging markets Investment Fund	7.558.863	4.164.144
	<u>56.442.002</u>	<u>72.516.786</u>
<b>Bonds</b>		
Bonds Absolute Goal		
PIMCO Investment Fund	12.023.553	-
BNY Mellon Absolute Return Bond Fund Investment Fund	-	11.367.334
	<u>12.023.553</u>	<u>11.367.334</u>
<b>Compensation Funds</b>		
C.F. Multiple Strategies:		
Blackstone Partners Offshore Sterling Fund plc – Investment Fund-hedging	12.180.075	16.834.909
Prisma Spectrum Fund Limited – Investment Fund-hedging	9.832.711	10.653.722
C.F. Macroeconomic Strategies:		
Capula Global Relative Value Fund Limited - Investment Fund-hedging	3.524.534	3.426.311
Winton Futures Fund Ltd - Investment Fund-hedging	2.041.481	3.114.096
C.F. Risk rewarding		
CFM- Investment Fund-hedging	977.082	-
MAN- Investment Fund-hedging	4.715.742	-
	<u>33.271.625</u>	<u>34.029.038</u>
<b>Total Foreign Investment</b>	<u>136.309.243</u>	<u>143.512.300</u>
<b>Argus Investment Fund</b>	<u>1.166.713</u>	<u>1.191.604</u>
<b>Total</b>	<u>137.475.956</u>	<u>144.703.904</u>

# Provident Fund for the employees of the Hotel Industry

## 15 Financial assets (continued)

### b) Financial assets at fair value through profit or loss (continued)

Changes in fair values of financial assets at fair value through profit or loss are recorded in “statement of changes at net assets available for benefits” and are analysed as follows:

	2018 €	2017 €
Financial assets at fair value through profit or loss – mandatorily measured at FVTPL (2017: some of which at fair value through profit or loss at initial recognition):		
Fair value gains	867.407	6.801.244
Fair value losses	<b>(4.395.391)</b>	(99.004)
	<hr/>	<hr/>
Net fair value (loss)/gain on financial assets at fair value through profit or loss	<b>(3.527.984)</b>	6.702.240
	<hr/> <hr/>	<hr/> <hr/>

The fair value of all equity instruments is based on their current bid prices in an active market.

## 16 Bank Deposits

### a) Short term Deposits

	2018 €	2017 €
Bank of Cyprus Public Company Limited	5.636.025	4.146.128
Hellenic Bank Public Company Limited	1.000.000	-
Commercial Bank of Greece A.E.	-	2.530.360
	<hr/>	<hr/>
	<b>6.636.025</b>	6.676.488
	<hr/> <hr/>	<hr/> <hr/>

The short term deposits carry interest from 1,20% to 1,72% annually (2017: from 1,20% to 1,72% annually) and have a maturity of 3 – 12 months (2017: 3 – 12 months).

### b) Cash and cash equivalents

	2018 €	2017 €
Cash in hand	12.002	12.002
Cash in transit (i)	4.400.000	-
Cash at bank	11.039.823	1.492.075
	<hr/>	<hr/>
	<b>15.451.825</b>	1.504.077
	<hr/> <hr/>	<hr/> <hr/>

(i) Cash in transit relates to cash disbursed from investment funds in mutual funds and deposited with the Provident Fund bank on 31 January 2019.

# Provident Fund for the employees of the Hotel Industry

## 17 Deferred Tax

	Revaluation of investment properties €
At 1 January 2017	136.345
Deferred tax movement	11.965
	<u>148.310</u>
At 31 December 2017/1 January 2018	
Deferred tax movement	(14.128)
	<u>134.182</u>
At 31 December 2018	<u>134.182</u>

## 18 Members' Accounts

	Account A €	Account B €	Total €
<b>At 1 January 2017</b>	117.897.264	110.020.054	227.917.318
Contributions received	5.310.752	4.029.392	9.340.144
Contributions receivable	901.548	686.677	1.588.225
Investment return for the year	5.178.624	5.288.394	10.467.018
Benefits paid or payable to withdrawn members	(9.802.947)	(9.180.695)	(18.983.642)
Loans set offs	(10.709.720)	-	(10.709.720)
	<u>108.775.521</u>	<u>110.843.822</u>	<u>219.619.343</u>
<b>At 31 December 2017 / 1 January 2018</b>			
Contributions received	5.801.278	4.374.962	10.176.240
Contributions receivable	922.992	683.287	1.606.279
Investment return for the year	(1.245.319)	(1.251.625)	(2.496.944)
Benefits paid or payable to withdrawn members	(3.471.467)	(3.553.393)	(7.024.860)
	<u>110.783.005</u>	<u>111.097.053</u>	<u>221.880.058</u>
<b>At 31 December 2018</b>			

In accordance with the article 9 (c) of the Fund's articles of association, amount of €105.789 (2017: €39.439) of the balances of withdrawn members were credited to the "Special Fund" account, the balance of which was allocated to personal accounts A and B of the remaining members of the Fund on 31 December 2018 (Note 6).

## 19 Events after the statement of net assets available for benefits

There were no material events after the statement of net assets available for benefits date which have an impact on the understanding of the financial statements.

# Provident Fund for the employees of the Hotel Industry

## 20 Accounting policies before 31 December 2017

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9 and IFRS 15, are as follows:

### Financial assets

#### (a) Classification

The Fund classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables. The classification depends on the purpose for which the investment were acquired. The Administrative Committee determines the classification of financial assets at initial recognition and in the case of assets classified as held to maturity, re-evaluates this designation at every net assets available for benefits period

#### (i) Financial assets at fair value through profit or loss

This category has two sub categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with the Fund's documented investment strategy. Information about these financial assets is provided internally on a fair value basis to the members of Administrative Committee.

#### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable. Loans and receivables comprise loans to members, investments on securities, other receivables and cash and cash equivalents.

#### (b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date which is the date on which the Fund commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in net assets available for benefits. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity financial assets are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in statement of net assets available for benefits in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of net assets available for benefits as part of other income when the Fund's right to receive payments is established.

# Provident Fund for the employees of the Hotel Industry

## 20 Accounting policies before 31 December 2017 (continued)

### Financial assets (continued)

#### (c) Impairment of financial assets

The Fund assesses at the balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Fund may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of net assets available for benefits during the period which were arised.

Independent auditor's report on pages 5 to 8.