

Provident Fund for the employees of the Hotel Industry

Translated Report and translated Financial Statements in English 31 December 2016

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Provident Fund for the employees of the Hotel Industry

Administrative Committee and other information

Administrative Committee

Anna Michaelides-Ataliotis, Chairman
Miltiades Miltiadous, Secretary
Eleftherios Georgiades, Member
Pavlos Theocharous, Member
Andreas Tsokkos, Member (resigned 5 October 2016)
Maria Tsokkou, Member (appointed 5 October 2016)
Evripides Loizides, Member
Marios Ioannou, Member
Michael Panayiotou, Member
Marios Ellinas, Member
Andreas Skitsas, Member
Panayiotis Charalambous, Member
Antonis Pelekanou, Member
Michael Koronides, Member

Office personnel

Marinos Gialeli, General Manager
Stella Charalambous, Head of Accounting office
Skevi Sarri
Eleni Antoniou
Andri Damianou
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 2016.

Members

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

	2016 Number	2015 Number
Members at beginning of the year	11.159	11.615
New members	1.647	207
	<u>12.806</u>	<u>11.822</u>
Less:		
Members who retired	217	248
Members who withdrew	117	341
Members who passed away	13	14
Members who withdrew for health purposes	54	60
	<u>401</u>	<u>663</u>
Members at the end for the year	<u><u>12.405</u></u>	<u><u>11.159</u></u>

The active members for which contributions were collected during the year were 6.851 (2015: 5.397).

Movement of the Fund

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

	€
Employers' contribution	4.165.976
Members' contribution	5.761.755
Benefits paid or payable	(13.135.753)
Investment Income	1.329.036
Net new money available for investment	<u>(1.878.986)</u>
Value of the Fund at 31 December 2016	225.138.386
Net profit from sale and investments' revaluation in shares, bonds and investments properties	4.657.918
Value of the Fund at 31 December 2016	<u><u>227.917.318</u></u>

Provident Fund for the employees of the Hotel Industry

Report of the Administrative Committee (continued)

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 2016, except Ms Maria Tsokkou, who was appointed as a Member on 5 October 2016. Mr Andreas Tsokkos, who was a member from 1 January 2016, resigned on 5 October 2016.

Internal Auditor of the Fund

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

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.

Independent Auditors

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

By the Order of the Administrative Committee

Anna Michaelides - Ataliotis
Chairman

Nicosia, 2 May 2017

Independent Auditor's Report

To the Members of the Provident Fund of the employees of the Hotel Industry

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the Provident Fund of the employees of the Hotel Industry (the "Fund"), which are presented in pages 8 to 39 and comprise the statement of net assets as at 31 December 2016, the statement of changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the 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 2016, 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 2015.

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.

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 2015, 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Fund, so far as appears from our examination of these books.
- The Fund's financial statements are in agreement with the books of account.
In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Establishment, the Activities and the Supervision of Funds for Occupational Retirement Benefits Laws of 2012 to 2015, in the manner so required.
- 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 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 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, 2 May 2017

TRANSLATED FS IN ENGLISH

Provident Fund for the employees of the Hotel Industry

Statement of changes in net assets available for benefits for the year ended 31 December 2016

	Note	2016 €	2015 €
Contributions			
From Members	5&20	5.761.755	4.922.213
From Employers	5&20	4.165.976	2.643.303
		<u>9.927.731</u>	<u>7.565.516</u>
Benefits paid or payable			
To withdrawn members	6&20	(13.135.753)	(20.546.168)
		<u>(3.208.022)</u>	<u>(12.980.652)</u>
Contributions less benefits			
Investment return for the year			
	7		
Interest income on:			
Bank deposit		470.154	865.900
Investments in bonds		220.956	328.722
Loans to Members	16	1.212.513	1.332.675
Profit from sale and revaluation of investments in financial assets at fair value through statement of changes in net assets available for benefits.	14	3.206.502	3.593.713
Profit from sale and revaluation of bonds	15	2.093.660	34.311
Investment properties:			
Fair value loss	13&19	(642.244)	(545.645)
Rental income		753.457	792.283
Overprovision for rents receivable in previous years		(241.025)	-
Amounts retained according to article 9(c) of association	20	25.561	32.674
Return to members withdrawn		(324.081)	(275.754)
Administrative and other expenses	8	(717.706)	(738.344)
Defence contribution on interest income, dividends, rents and loans to members		(72.050)	(74.574)
Other income		1.257	3.100
		<u>5.986.954</u>	<u>5.349.061</u>
Change in the net asset available for benefits			
		<u>2.778.932</u>	<u>(7.631.591)</u>
Balance of Fund at beginning of the year			
		<u>225.138.386</u>	<u>232.769.977</u>
Balance of Fund at end of the year			
	20	<u>227.917.318</u>	<u>225.138.386</u>

The notes on pages 10 to 39 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 2016

	Note	2016 €	2015 €
Assets			
Plant and machinery	12	83.160	74.544
Investment properties	13	19.194.499	19.814.500
Financial assets at fair value through statement of changes in net assets available for benefits	14	119.699.300	109.113.658
Investment in bonds	15	7.712.196	6.314.188
Loans to members	16	52.012.319	54.667.897
Bank deposits	17	23.340.985	29.002.335
Account with ninety-day notice	18	-	5
Cash at bank and in hand		4.009.590	2.629.171
Contributions receivable	5	1.741.437	2.872.284
Interest receivable		157.187	493.278
Rents and other receivables		412.433	603.227
		<u>228.363.106</u>	<u>225.585.087</u>
Liabilities			
Deferred tax	19	(136.345)	(146.913)
Defence contribution payable		(43.673)	(38.957)
Deferred income from rents and accrued expenses		(265.770)	(260.831)
		<u>(445.788)</u>	<u>(446.701)</u>
Balance of Fund – Members’ accounts	20	<u>227.917.318</u>	<u>225.138.386</u>

The financial statements were authorised for issue by the Administrative Committee on 2 May 2017 and signed on behalf of:

Anna Michaelides-Ataliotis, Chairmain

Miltiades Miltiadous, Secretary

The notes on pages 10 to 39 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 ("Fund"), 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 of 3%. The Fund is also subject to capital gains tax.

Provident Fund for the employees of the Hotel Industry

Notes to the financial statements (continued)

1 General information (continued)

(e) Operating Environment

Following a long and relatively deep economic recession, the Cyprus economy began to record positive growth in 2015 which accelerated during 2016. The restrictive measures and capital controls which were in place since March 2013 were lifted in April 2015 and on the back of the strength of the economy's performance and the strong implementation of required measures and reforms, Cyprus exited its economic adjustment programme in March 2016. In recognition of the progress achieved on the fiscal front and the economic recovery, as well as the enactment of the foreclosure and insolvency framework, the international credit rating agencies have proceeded with a number of upgrades of the credit ratings for the Cypriot sovereign, and although the rating continues to be "non-investment grade", the Cyprus government has regained access to the capital markets. The outlook for the Cyprus economy over the medium term remains positive, however, there are downside risks to the growth projections emanating from the high levels of non performing exposures, uncertainties in the property markets, as well as potential deterioration in the external environment for Cyprus, including continuation of the recession in Russia in conditions of protracted declines in oil prices; weaker than expected growth in the euro area as a result of worsening global economic conditions; slower growth in the UK with a weakening of the pound as a result of uncertainty regarding the result of the Brexit referendum; and political uncertainty in Europe in view of Brexit and the refugee crisis.

This operating environment could affect (1) the ability of hoteliers and other fund debtors to repay the amounts owed to the Fund, (2) the valuation of real estate property and (3) the reduction of investment income.

The economic conditions outlined above for Cyprus may have an impact on the Fund's cash-Flow Forecasts and its estimates of impairment of financial and non-financial assets.

The Fund's Administrative Committee has assessed whether any impairment provisions are deemed necessary for financial assets recognised at amortised cost by examining the financial position and prospects of those assets at the end of the reporting period. Impairment for trade receivables is determined using the "loss making" model required by International Accounting Standard 39 "Financial Investments: Recognition and Measurement". This provision allows the recognition of impairment losses on the receivables arising from events of the past and does not allow the recognition of impairment losses that could arise from future events, regardless of the probability of future events.

Provident Fund for the employees of the Hotel Industry

Notes to the financial statements (continued)

1 General information (continued)

(e) Operating Environment (continued)

The Company's management is unable to predict all developments which could have an impact on the Cyprus economy and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of the Company.

The Administrative Committee of the Fund monitors these developments and, in consultation with investment consultants, takes the necessary measures to safeguard and maximise return on investment.

In relation to the above, the portfolio of the Fund at 31 December 2016 includes the following financial assets that are directly or indirectly dependent on the course of the Cypriot and Greek economy and the ability of the issuer to repay these amounts at maturity.

- Investments in bank bonds €7.396.952 (2015: €6.102.815).
- Investments in Cypriot government bonds €315.244 (2015: €211.373).
- Deposits in financial institutions €27.350.575 (2015: €31.631.511).

(f) Investment Strategy of the Fund

Main investment objective, Investment goals and Investment Principles

Main investment objective

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

The 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 4.7% per year in the long term investment horizon (10 years) based on the most recent review of the June 2015 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 -1.5% per year or lower in the long term investment horizon (10 years).

Provident Fund for the employees of the Hotel Industry

Notes to the financial statements (continued)

1 General information (continued)

(f) Investment Strategy of the Fund (continued)

The main investment objective and investment goals set, are:

Investment Principles

To define and implement an investment policy that meets the provisions of Law 208 (I), 2012, 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 Fund, given below:

Currency: Euro

Fund's maturity: Relatively mature

Average Age: 48,9 (simple)

Targeted Investment Horizon: Medium (10 years)

Investment Risk: Low

Need for Liquidity: High

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 June 2015 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 long-term investment policy of the Administrative Committee is included in the strategic investment allocation of the Fund's reserve, as described below:

Investment Type	Target distribution %	Percentage distribution at 31 December 2016 %	Allowable limits %
Development Investment	35	28	15 - 50
Bonds	5	12	0 - 15
Real Estate	10	8	5 - 10
Alternative Investments	15	16	5 - 15
Deposits	10	13	10 - 20
Member Loans	25	23	20 - 30
Total	100	100	
Expected performance in the decade		4,7% per year	
Investment risk (5% lower performance in the decade)		-1,5% per year	

Provident Fund for the employees of the Hotel Industry

1 General information (continued)

(f) Investment Strategy of the Fund (continued)

Strategy (continued)

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

Investment type	Target distribution %	Percentage distribution at 31 December 2016 %	Maximum Allowable limit %
Expressed in foreign currency	30	0	30
Total in shares and non-government bonds	70	40	70
Non traded on regulated markets	40	31	40
Alternative investments not including real estate	15	16	15

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 statement 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.

Provident Fund for the employees of the Hotel Industry

1 General information (continued)

(f) Investment Strategy of the Fund (continued)

Strategy (continued)

- **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.

- **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 in funded operations of the Fund.

- **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,
- (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.

Provident Fund for the employees of the Hotel Industry

1 General information (continued)

(f) Investment Strategy of the Fund (continued)

Risk Management and Measurement

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

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.
- Explanation of the reasons that led to the above investment returns.
- Confirmation of compliance with the guidelines for investment purposes a 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.

Provident Fund for the employees of the Hotel Industry

1 General information (continued)

(f) Investment Strategy of the Fund (continued)

Involved parties and their Role

The involved parties hired by the Administrative Committee are:

Involved parties	Remuneration
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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
- Schroders
- Veritas
- Unigestion

Spread development funds

- GMO Funds Plc
- Newton Fund

Percentage of assets under administration

Bond funds of absolute goal:

- GAM
- Insight
- Argus

Infrastructure:

- RARE
- Lazard

Compensation Funds:

- Blackstone
- Prisma
- Capula Global Relative value Fund Limited
- Winton Futures Fund Limited
- Lynx (Bermuda) Limited

Provident Fund for the employees of the Hotel Industry

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented in these financial statements unless otherwise stated.

Basis of preparation

The financial statements of the Provident Fund for Employees of the Hotel Industry ("Fund"), 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 2015.

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 2016 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

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.

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 4.

Adoption of new and revised IFRS

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 2016. This adoption did not have a material effect on the accounting policies of the Fund.

At the date of approval of these financial statements accounting standards were issued by the International Accounting Standards Board but were not yet effective. Some of these have been adopted by European Union and some other not yet. The Administrative Committee expects that the adoption of these standards in future periods will not have material effects in the accounting policies of the Fund, with the exception of the following:

Provident Fund for the employees of the Hotel Industry

2 Summary of significant accounting policies (continued)

Adoption of new and revised IFRS (continued)

- IFRS 9 “Financial Instruments: Classification and Measurement” (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:
 - i. Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
 - ii. Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
 - iii. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
 - iv. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
 - v. IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
 - vi. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Provident Fund for the employees of the Hotel Industry

2 Summary of significant accounting policies (continued)

Adoption of new and revised IFRS (continued)

- IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019) *. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the amendments on its financial statements.

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 entity 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:

(i) Interest income

Interest on bank deposit, loans to Members and other loans are accounted for as interest income. Interest income is recognized on a time proportion basis, taking into account the balance, actual yield and time until repayment, when it is proven that this income will arise.

(ii) Rental income

Rental income arising on operating leases is recognised on a straight-line basis over the lease term.

Contributions and benefits

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

Foreign currency translation

(i) 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.

Provident Fund for the employees of the Hotel Industry

2 Summary of significant accounting policies (continued)

Adoption of new and revised IFRS (continued)

Foreign currency translation (continued)

(ii) 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.

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 balance sheet date in the country of operation and generates taxable income. Management 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

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.

Provident Fund for the employees of the Hotel Industry

2 Summary of significant accounting policies (continued)

Plant and equipment (continued)

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 property, plant and equipment are determined by comparing proceeds with carrying amount and are recognised in statement of changes in net assets available for benefits.

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

(a) Classification

The Fund classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. The administrative Committee determines the classification of financial assets at initial recognition and re-evaluates this designation at the end of each reporting 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 the Administrative Committee.

Provident Fund for the employees of the Hotel Industry

2 Summary of significant accounting policies (continued)

Financial assets (continued)

(a) Classification (continued)

(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. The Fund's loans and receivables comprise of loans to members, bonds, other receivables and cash and cash equivalent.

(b) Recognition and measurement

Regular way purchases and sales of Fund 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 profit or loss. 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.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables 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 profit or loss as part of other income when the Fund's right to receive payments is established.

(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.

Provident Fund for the employees of the Hotel Industry

2 Summary of significant accounting policies (continued)

Financial assets (continued)

(c) Impairment of financial assets (continued)

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 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 profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at banks and bank overdrafts. In the statement of net assets available for benefits, the bank overdrafts are shown in liabilities.

Comparatives

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

3 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 Administration and the central treasury department under policies approved by the Administrative Committee. The Administrative Committee 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.

Provident Fund for the employees of the Hotel Industry

3 Financial risk management (continued)

(ii) Financial risk factors (continued)

- **Market Price risk**

Foreign exchange risk

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

Price risk

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

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

The table below summarises the effect of increases/decreases in stock market indices 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:

Index	Impact on changes in net assets available for benefits	
	2016 €	2015 €
Stock exchange-Cyprus and abroad	5.984.965	5.455.683

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.

Provident Fund for the employees of the Hotel Industry

3 Financial risk management (continued)

(ii) Financial risk factors (continued)

- **Market Price (continued)**

Cash Flow and Fair value interest rate risk (continued)

At 31 December 2016, 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 €409.732 (2015: €476.473) 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. 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 and Cooperative Credit Institutions.

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.

The Administrative Committee does not expect any losses from non-performance by these counter parties.

(ii) Capital risk management

Member's accounts represent the Fund's capital. The Fund is not exposed to capital risk because borrowing is not permitted under Fund Regulations.

(iii) Fair value estimation

The table below analyses financial instruments carried at fair value in the statement of changes in net assets available for benefits 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).

Provident Fund for the employees of the Hotel Industry

3 Financial risk management (continued)

(iii) Fair value estimation (continued)

The following table presents the Fund's financial assets and liabilities that are measured at fair value at 31 December 2016.

	Level 1 €	Level 2 €	Level 3 €	Total €
At 31 December 2016				
Assets				
Financial assets at fair value through profit or loss:				
- Trading securities and mutual funds	73.462.526	-	-	73.462.526
- Bond Funds	10.655.791	-	-	10.655.791
- Hedge Funds	-	35.580.983	-	35.580.983
Total financial assets measured at fair value	84.118.317	35.580.983	-	119.699.300

The following table presents the Fund's financial assets and liabilities that are measured at fair value at 31 December 2015.

	Level 1 €	Level 2 €	Level 3 €	Total €
At 31 December 2016				
Assets				
Financial assets at fair value through profit or loss:				
- Trading securities and mutual funds	70.233.238	-	-	70.233.238
- Bond Funds	3.169.607	-	-	3.169.607
- Hedge Funds	-	35.710.83	-	35.710.813
Total financial assets measured at fair value	73.402.845	35.710.813	-	109.113.658

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet 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 Athens Stock Exchange equity investments and corporate debentures listed on the Cyprus Stock Exchange classified as financial assets measured 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.

Provident Fund for the employees of the Hotel Industry

3 Financial risk management (continued)

(iii) Fair value estimation (continued)

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 13 for disclosures of fair values of investment property that is measured at fair value.

4 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.

(i) 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.

- **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 13).

- **Bonds**

Bonds are impaired if their book value exceeds the amount that is estimated to be recoverable. The recoverable amount is determined based on the present value of the expected cash flows. Determining the expected cash flows requires significant judgements and estimates related to the issuer's financial condition, breach of contract terms and the probability of issuer's bankruptcy.

At 31 December 2016, the Fund held bonds with book value of €7.712.196 (2015: €6.314.188) maturing from 2017 to 2023 and full recovery of these amounts depends directly or indirectly on the course of the Cypriot and Greek Economy and the ability of the issuer to fully repay the above amounts on maturity. If the expected cash flows of these securities at the repayment date were 10% lower than the estimates made, the book value of the securities would be €737.252 (2015: €797.045) lower.

Provident Fund for the employees of the Hotel Industry

5 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 13th 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 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 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 2016 there were contributions receivable from various hotels amounting to €1.741.437 (2015: €2.872.284). Overdue contributions amount to €1.020.499 (2015: €2.367.523). Until 22 March 2017, a total of €886.684 was collected. The Administrative Committee shall take the necessary measures to recover the remaining amount.

Interests of €89.426 (2015: €1.804) received from overdue contributions debts were credited to the relevant accounts of the members in which the corresponding contributions were also recorded.

6 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 Foundation, Activities and Supervision of Professional Pension Retirement Provisions Law 208 (1) 2012 – 2015, 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.

Provident Fund for the employees of the Hotel Industry

7 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.

8 Expenses by nature

	2016 €	2015 €
Depreciation of plant and equipment (Note 12)	21.259	15.747
Staff cost (Note 9)	315.063	310.929
Repairs and maintenance of investment property	44.572	24.171
Annual contractual maintenance	48.507	43.036
Property taxes and sewerage expenses	17.372	35.533
Valuations of investment property	18.232	12.163
Audit fees – including VAT	15.803	15.470
Municipality taxes and insurance	31.313	33.175
Legal expenses	10.954	11.392
Professional fees	21.874	13.219
Investment consultants' fees	42.245	36.593
Foreign Managers:		
Portfolio management costs	43.235	83.718
Reimbursement of portfolio expenses	(16.703)	(15.665)
Cyprus Managers:		
Portfolio management costs	17.134	23.166
Special services from trade unions and PASYXE	7.849	7.739
Stationery and printing	8.089	11.105
Telephone and post	8.728	7.098
Electricity and water	8.112	11.044
Expenses of the General Meeting	4.267	7.333
Other expenses	49.801	51.378
Total cost of administrative and other expenses	717.706	738.344

No fees for other non-audit services were charged by the statutory audit firm of the Fund.

9 Staff cost

	2016 €	2015 €
Salaries and wages	269.043	266.502
Social insurance and other funds	24.649	23.297
Contributions to the Provident Fund	21.371	21.130
Total	315.063	310.929

Provident Fund for the employees of the Hotel Industry

10 Financial instruments by category

	Loans and receivables €	Financial assets at fair value through statement of changes in net assets €	Total €
31 December 2016			
Financial assets as per the statement of net assets available for benefits			
Investments at fair value through profit or loss	-	119.699.300	119.699.300
Investments in bonds	7.712.196	-	6.706.563
Loans to members	52.012.319	-	52.012.319
Short term deposits	23.340.985	-	23.340.985
Current account balances and cash	4.009.590	-	4.009.590
Contributions receivable	1.741.437	-	1.741.437
Interest receivable	157.187	-	157.187
Rents and other receivables	412.433	-	412.433
Total	89.386.147	119.699.300	209.085.447

	Other financial liabilities €	Total €
Liabilities as per the statement of net assets available for benefits (except for statutory obligations)		
Rent prepayments and accrued expenses	265.770	265.770

	Loans and receivables €	Financial assets at fair value through statement of changes in net assets €	Total €
31 December 2015			
Financial assets as per the statement of net assets available for benefits			
Investments at fair value through profit or loss	-	109.113.658	109.113.658
Investments in bonds	6.314.188	-	6.314.188
Loans to members	54.667.897	-	54.667.897
Short term deposits	29.002.335	-	29.002.335
Accounts with ninety days notice period	5	-	5
Current account balances and cash	2.629.171	-	2.629.171
Contributions receivable	2.872.284	-	2.872.284
Interest receivable	493.278	-	493.278
Rents and other receivables	603.227	-	603.227
Total	96.582.385	109.113.658	205.696.043

	Other financial liabilities €	Total €
Liabilities as per the statement of net assets available for benefits (except for statutory obligations)		
Rent prepayments and accrued expenses	260.831	260.831

Provident Fund for the employees of the Hotel Industry

11 Credit quality of financial assets

The credit quality of financial assets can be assessed by reference to historical information about counterparty default rates:

	2016 €	2015 €
Parties without external assessment		
Group 1	52.012.319	54.667.897
Group 2	720.938	504.761
Group 3	569.620	1.096.505
Total receivables that are not past due or impaired	53.302.877	56.269.163
Group 4	877.697	663.959
Group 5	142.802	1.703.564
Total receivables that are past due but not impaired	1.020.499	2.367.523
Cash at bank and short-term bank deposits with external credit assessment (Moody's)		
B3	-	6.258.840
Caa1	659.792	-
Caa2	11.799.058	242.982
Caa3	40.603	8.964.397
Group 6	14.851.122	16.165.292
	27.350.575	31.631.511

Group 1 – Loans to Members

Group 2 – Contributions receivable (up to 1 month)

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

Group 4 – Contributions receivable (more than 1 month but less than 12 months)

Group 5 – Contributions receivable (more than 12 months)

Group 6 – Co-operative Credit Companies and other credit institutions without external credit assessment.

None of the above financial assets have been renegotiated and, as per Administrative Committee's estimation, no losses are expected.

Provident Fund for the employees of the Hotel Industry

12 Plant and machinery

	Plant €	Computer equipment €	Building equipment €	Total €
Non-current assets				
At 1 January 2015				
Cost	11.228	207.435	153.676	372.339
Accumulated depreciation	(11.228)	(204.679)	(127.632)	(343.539)
Net book amount	-	2.756	26.044	28.800
Year ended 31 December 2015				
Opening net book amount	-	2.756	26.044	28.800
Additions	2.380	7.827	51.284	61.491
Depreciation charge	(725)	(5.070)	(9.952)	(15.747)
Closing net book amount	1.655	5.513	67.376	74.544
At 31 December 2015				
Cost	13.608	215.262	204.960	433.830
Accumulated depreciation	(11.953)	(209.749)	(137.584)	(359.286)
Net book amount	1.655	5.513	67.376	74.544
Year ended 31 December 2016				
Opening net book amount	1.655	5.513	67.376	74.544
Additions	1.128	19.112	9.635	29.875
Depreciation charge	(1.052)	(9.794)	(10.413)	(21.259)
Closing net book amount	1.731	14.831	66.598	83.160
At 31 December 2016				
Cost	14.736	234.374	214.595	463.705
Accumulated depreciation	(13.005)	(219.543)	(147.997)	(380.545)
Net book amount	1.731	14.831	66.598	83.160

13 Investment property

	Xenios Building €	Foti Pitta Land and Buildings €	Dorothea Building €	Colossi Land €	Total 2016 €	Total 2015 €
Fair value at 1 January	10.322.000	3.372.500	4.470.000	1.650.000	19.814.500	20.362.500
Subsequent expenditure during the year	-	18.514	14.297	-	32.811	2.157
Net loss from adjustments to the fair value of investment property	(537.500)	(76.014)	(39.298)	-	(652.812)	(550.157)
Fair value at 31 December	9.784.500	3.315.000	4.444.999	1.650.000	19.194.499	19.814.500
Hierarchy of fair value	3	3	3	3	-	-

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

Provident Fund for the employees of the Hotel Industry

13 Investment property (continued)

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 €9.784.500 (2015: €10.322.000) for the Xenios Building includes accumulated fair value gains of €1.319.847 (2015: €1.857.347) from total revaluations made up to 31 December 2016.

The balance of €3.315.000 (2015: €3.372.500) for Fotis Pitta's land and building includes accumulated fair value gains of €883.433 (2015: €959.447) from total revaluations made up to 31 December 2016.

The balance of €1.650.000 (2015: €1.650.000) for the land in Kolossi includes accumulated fair value gains of €807.830 (2015: €807.830) from total revaluations made up to 31 December 2016.

The balance of €4.444.999 (2015: €4.470.000) for the Dorothea building includes accumulated fair value losses of €798.504 (2015: €759.206) from total revaluations made up to 31 December 2016.

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.

Valuations of fair value (Level 3)

	Office buildings €	Land €
Opening balance	18.164.500	1.650.000
Subsequent expenditure during the year	32.811	-
Losses recognised in the statement of changes in net assets available for benefits	(652.812)	-
Closing balance	<u>17.544.499</u>	<u>1.650.000</u>

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

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13 Investment property (continued)

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 2016 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.

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

Property	Estimate €	Valuation technique	Average value per square metre €
Xenios Building	9.784.500	Revised comparative valuation method and investment valuation method	1.932
Foti Pitta Land and Buildings	3.315.000	Revised comparative valuation method and investment valuation method	1.983
Dorothea Building	4.444.999	Revised comparative valuation method and investment valuation method	1.993
Colossi Land	1.650.000	Revised comparative valuation method	52

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13 Investment Property (continued)

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 €1.919.450 higher or lower.

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 2016, were:

Property	Occupancy rate %	Annual return %	Rental income €
Xenios Building	88	3,68	359.880
Foti Pitta Land and Buildings	100	2,73	90.357
Dorothea Building	100	6,82	303.220

14 Investment at fair value through profit or loss

	Fair value	
	2016 €	2015 €
Investment and other funds		
Schroders Investment Fund	-	11.281.559
Veritas Asset Management Investment Fund	15.263.235	14.168.569
Funds managed by Argus Stockbrokers	4.971.646	4.637.178
Rare Infrastructure Fund investment Fund	16.214.988	15.141.631
Blackstone Partners Offshore Sterling Fund plc – Investment Fund-hedging	16.123.089	15.896.217
Prisma Spectrum Fund Limited Investment Fund – hedging	10.469.633	10.768.415
Lazard Global Active Funds Investment Fund	9.843.824	9.069.379
Newton Fund Investment Fund	14.999.955	7.599.498
GMO Funds Plc Investment Fund	-	7.619.864
Unigestion Investment Fund	12.168.878	-
Capula Global Relative Value Limited Investment Fund- hedging	3.336.914	3.096.115
Winton Futures Fund Limited Investment Fund – hedging	2.936.251	3.065.078
Lynx (Bermuda) Limited investment Fund - hedging	2.715.096	2.884.989
	109.043.509	105.228.492
Bond Fund		
Investment Fund BNY Mellon Absolute Return Bond Fund	9.384.993	1.851.926
Investment Fund GAM Star Absolute Return Bond Fund	-	1.317.681
Argus Investment Fund	1.270.798	-
	10.655.791	3.169.607
Equity securities		
Shares in Bank of Cyprus	-	715.559
Total	119.699.300	109.113.658

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14 Investments at fair value through profit or loss (continued)

The fair value of all equity securities is based on their current bid prices in active markets.

The gain on disposal and revaluation of investment at fair value consists of:

	2016 €	2015 €
Gain on revaluation of investments	2.471.435	3.593.713
Gain on disposal of investments	735.067	-
Total	<u>3.206.502</u>	<u>3.593.713</u>

All the above investments that are measured at fair value through profit or loss are classified as current assets.

15 Investments in Bonds

	2016 €	2015 €
Bonds		
Bonds of Cyprus Republic (1)	315.244	211.373
Bonds of Greek Public Banks (1)	1.260.000	1.200.000
Bonds of Cypriot Public Banks (1)	6.136.952	4.902.815
	<u>7.712.196</u>	<u>6.314.188</u>

- (1) The bonds of Cyprus Republic and the bonds of Greek and Cypriot public banks carry interest rates from 1,338% to 3,875% (2015: 1,566% to 3,875%) and have maturity from 2017 to 2023.

The following are included in the statement of changes in net assets available for benefits.

	2016 €	2015 €
Gain on disposal of bonds	157.673	34.311
Gain on revaluation of bonds	1.935.987	-
	<u>2.093.660</u>	<u>34.311</u>

The above investments are classified as:

	2016 €	2015 €
Short term	1.260.000	-
Long term	6.452.196	6.314.188
	<u>7.712.196</u>	<u>6.314.188</u>

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16 Loans to Members

	2016 €	2015 €
At beginning of year	54.667.897	59.834.606
Loans granted during the year	2.890.419	2.724.128
Interest charged	1.212.513	1.332.675
Repayments	(6.785.022)	(9.250.942)
Other expenses	26.512	27.430
At end of year	<u>52.012.319</u>	<u>54.667.897</u>

The loans to Members are repayable by monthly instalments.

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.

17 Short term Deposits

	2016 €	2015 €
Bank of Cyprus Public Company Limited	12.000.178	4.000.000
Co-Operative credit Companies and savings banks	10.313.644	9.969.437
Housing Finance Corporation	1.027.163	1.871.753
Commercial Bank of Greece A.E.	-	1.017.266
Cyprus Development Bank Limited	-	4.341.864
Russian Commercial Bank (Cyprus) Limited	-	6.258.841
National Bank of Greece (Cyprus) Ltd	-	443.174
Alpha Bank Cyprus Limited	-	1.100.000
	<u>23.340.985</u>	<u>29.002.335</u>

The short term deposits carry interest from 1,50% to 2,20% annually (2015: from 1,25% to 3,3% annually).

18 Account with ninety days notice

	2016 €	2015 €
Bank of Cyprus Limited	<u>-</u>	<u>5</u>

The account with ninety days notice carries interest of 0% (2015: 1,25%) annually.

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19 Deferred Tax

	Revaluation of land and buildings €
Non-current liabilities	
At 1 January 2015	151.425
Transfer to the statement of changes in net assets available for benefits	(4.512)
At 31 December 2015/1 January 2016	<u>146.913</u>
Transfer to the statement of changes in net assets available for benefits	(10.568)
At 31 December 2016	<u><u>136.345</u></u>

20 Member's Accounts

	Account A €	Account B €	Total €
At 1 January 2015	118.614.989	114.154.988	232.769.977
Contributions received	3.231.489	1.461.743	4.693.232
Contributions receivable	1.690.724	1.181.560	2.872.284
Investment return for the year	2.745.381	2.603.680	5.349.061
Benefits paid or payable to members who have withdrawn	(10.514.141)	(10.032.027)	(20.546.168)
At 31 December 2015/1 January 2016	<u>115.768.442</u>	<u>109.369.944</u>	<u>225.138.386</u>
Contributions received	4.779.328	3.406.966	8.186.294
Contributions receivable	982.427	759.010	1.741.437
Investment return for the year	3.094.757	2.892.197	5.986.954
Benefits paid or payable to members who have withdrawn	(6.727.690)	(6.408.063)	(13.135.753)
At 31 December 2016	<u><u>117.897.264</u></u>	<u><u>110.020.054</u></u>	<u><u>227.917.318</u></u>

In accordance with the article 9 (c) of the Fund's articles of association, the accumulated amount of €25.561 (2015: €32.674) 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 2016 (Note 6).

21 Events after the balance sheet date

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

Independent auditor's report on pages 4 to 7.