

Cyprus back from the brink

The path to reunification

With the economic recovery in full swing and a reunification agreement looking more tangible than ever before, Cyprus is heading towards a new era of peace and prosperity

Public-private partnerships key to creation of world-class business and logistics centre

The government is working closely with private firms in the transport and communications sectors to turn well-positioned Cyprus into a competitive business and logistics hub

Bank of Cyprus comes out of the woods

Investors re-engage with Cyprus' largest bank, which sold one billion euros worth of seven-year bonds in April, and now plans to raise a further 10 billion from 10-year bonds

On the path to reunification

Cypriot President Nicos Anastasiades and leader of the Turkish Cypriot community Mustafa Akinci have met on numerous occasions since the latter was elected last May, in order to try to bring forward a deal to reunite the ethnically divided island. With the economy recovering well and a reunification agreement looking more tangible, Cyprus is heading for a new era of peace and prosperity



Cypriot President Nicos Anastasiades (R) shakes the hand of Turkish Cypriot community leader Mustafa Akinci, as UN special envoy Espen Barth Eide (C) looks on

With so many countries of the Eastern Mediterranean beset by instability and violence, it's easy to lose sight of what's been happening in Cyprus, where the mutually reinforcing dynamics of economic recovery and political convergence have led two confrontational communities to take steps towards overcoming their turbulent past for the sake of a more prosperous common future.

"Doing away with the division and occupation of Cyprus is the historical responsibility politicians of this island share," says President Nicos Anastasiades. "The aim is to bequeath to the future generations a reunited homeland, full of hope and potential; a peaceful island where individuals of different ethnic or religious background are able to peacefully coexist in conditions of security and prosperity."

The "Cyprus problem" is a legacy of 1974, when militant Greek Cypriots supported the military junta that had taken power in an Athens coup and attempted to annex Cyprus as a Greek province. After fighting, terrorism and massacres claimed over 5,000 lives, the invasion

of Turkish troops left Turkish Cypriots in control of roughly 40% of the territory.

In 2004, the United Nations proposed the Annan Plan to resolve the territorial dispute. The plan would have seen the creation of a federation of two states, but in a referendum it was rejected by more than three quarters of Greek Cypriot voters.

Eleven years on since the failed Anan Plan and there are now fresh hopes for a resolution. Last September before the UN General Assembly, President Anastasiades unfolded a road map on which all routes lead to a constitutional reboot in which Cyprus becomes "a federal state in a bizonal, bicomunal federation with political equality, a single sovereignty, a single international legal personality and a single citizenship for all its people."

It may sound like a fairly straightforward arrangement, but as so often is the case, the devil is in the details. Civil war and partition resulted in the displacement of hundreds of thousands of people in both communities. Greek Cypriots were expelled from the northern half of the island, where they had been the majority, and driven into the south.

In addition, around half of the 250,000 present-day inhabitants of the Turkish Cypriot community are immigrants from the Turkish mainland or their descendants who were induced by Ankara to settle on the island after it was divided. They have had time to put down roots – often enough on confiscated land. How can one negotiate restitution or reparations given that kind of conundrum?

In May of this year, voters in the Turkish Cypriot community elected Mustafa Akinci as their leader. Conventional wisdom characterises him as a moderate unencumbered by the dogmatic extremes of nationalism. He appears to be pretty much on the same wavelength as the Cypriot president, who has praised Mr Akinci for showing the "political courage and resolve to decisively move forward in order to materialise the joint vision of our people." Between May and October the two leaders met 10 times, agreeing to a further six meetings during November in a bid to accelerate peace talks that could lead to the eventual reunification of the island.

Speaking on the economic benefits of reunification in November, UN special envoy to Cyprus, Espen Barth Eide, said, "In the long run, there will be more growth and more money to distribute, we need to prepare for potential growth."

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Nicos Anastasiades, President of Cyprus

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The change in the political climate coincides with signs of a return to the economic growth that Cyprus was registering before the crunch point of 2012-2013, when the European Union "troika" stepped in with a \$13 billion (£8.55 billion) credit that allowed local banks to ride out the crisis while fulfilling their structural reform and repayment obligations.

"It has worked well, it is working well, and Cyprus continues to make progress under the programme," acknowledges Jerry Rice, an IMF spokesperson who confirms that Nicosia's debt load appears to be stabilising and the government met all fiscal targets for the first half of 2015.

Meanwhile, tourism – an important source of jobs that generates €2 billion (£1.4 billion) in annual revenues – is showing signs of recovery after losing its second-largest market due to international sanctions against Russia. And geologists indicate that a massive pocket holding five trillion cubic feet of natural gas has been found within Cyprus' offshore Exclusive Economic Zone. Unconfirmed reports claim exploratory talks have been held with Egypt (which controls an even larger gas field that abuts on Cyprus' "Aphrodite" reserves), Italy's ENI, and even Turkish energy giants on synergetic initiatives for developing this game-changing resource.

In that light, it would not be too surprising if the inhabitants of northern Cyprus should decide it would be in their own best interests to strike a deal in return for a seat at the table when the fruits of this newfound prosperity are distributed. As President Anastasiades says, "Cyprus can become a model for the region, and the solution of its problems may very well have positive ripple effects to our conflict-ridden neighbourhood. Furthermore, reunification can unleash great economic potential both for the local economy and international investors."

Reunification would make Cyprus a major investment destination

Cyprus Chamber of Commerce and Industry draws attention to the potential economic benefits of the island's reunification

A series of landmark public meetings staged recently between the Cyprus Chamber of Commerce and Industry (CCCI) and its counterpart, the Turkish Cypriot Chamber of Commerce (TCCC) have highlighted the enormous economic benefits in finding a permanent solution to the issue of the country's separation.

Despite having been in cooperation for many years over matters of trade and the reunification of the island, for the first time ever in September "the two chamber leaders, alongside the President of Cyprus and Turk-

ish Cypriot community leader spoke to the representatives of the business community from both sides together in the same event," explains Phidias Pilides, President of CCCI.

Mr. Pilides told the media that while cooperation between the chambers had already played an important role towards building peace on the island, resolving the so called 'Cyprus issue' would benefit all sectors of the economy. It is estimated that reunification of the country would boost per capita income by 70 percent in 20 years, and that Cyprus would become a major investment centre in the region.

Aside from boosting relations with its Turkish Cypriot counterparts, the CCCI is played a key role in Cyprus' trade mission to the UK on October 7. "The UK is probably the most important economic partner to Cyprus," says Mr. Pilides. "We attract a lot of tourists from the UK." Beyond this, according to Mr Pilides, "coming back from the so called 'crisis' in 2013, we are focusing on enhancing our role as an international business hub, and the UK can contribute and benefit a lot from such a development."

Crisis offered real opportunity for change

The European commission has praised Cyprus for the “enormous efforts” made in social, political and economic reform over the past two years. These efforts are already “delivering early results”, says Finance Minister Harris Georgiades

If it is true that crisis is the gateway to opportunity, then what has been happening lately in Cyprus certainly merits close examination as the island nation's to-do list advances beyond mere reforms and moves towards something more like a systemic reset of its financial institutions. It is an ongoing and far from painless process, but one that won the approval of European Commission President Jean-Claude Juncker on his official visit to the island last July.

“Cyprus has been going in the last two years through an economic adjustment programme,” he told lawmakers. “It has required – as I know – enormous efforts: social, political, economic efforts. I want to pay tribute to these efforts and the commitment of your political leaders to implement the programme and to welcome the fact that now the results are visible: the financial sector, which was not an easy thing to be done, is stabilising, confidence is growing and the economy is doing better.”

The crisis was itself triggered by the imminent failure of local banks that were heavily

exposed to Greek bonds and holding credit portfolios choking with non-performing loans. Dealing with those threats exposed a series of shortcomings long overdue for remedial action to bring them up to EU best practice standards.

Among the institutions targeted was a bloated and unproductive civil service, one that even President Nicos Anastasiades does not hesitate to characterise as “terrible” – riddled with nepotism, inefficiency and corruption. “Our goal,” the president says, “is to implement a new, more efficient public administration system, a system in which positions of responsibility will be awarded to the most worthy that will be fairly awarded through written exams and a modern system of assessment.”

Privatisation of state-owned industries is more than just a good idea; it is a hard and fast requirement of the international bailout deal that the government raise €1.2 billion (£850 million) by selling off state assets. Those plans received a setback in February 2014, when a draft bill that would

“We are maintaining everything that was healthy and strong but we are changing everything that was holding us back. We chose to treat the crisis as an opportunity – an opportunity for change. This effort is already delivering early results. We are back in positive growth rates and Cyprus is fast becoming an island of new opportunities”

Harris Georgiades, Minister of Finance



have paved the way for ports, power utilities and the phone company transferring to private hands was roundly rejected by parliament. A slightly amended version passed a few weeks later, although fears that jobs and accumulated privileges would be slashed under the new owners have not been entirely dispelled and the measure remains deeply unpopular.

No one is throwing in the towel just yet. “Apart from being an obligation, the privatisation programme is also an opportunity to attract investment, bolster efficiency and competitiveness and shed the weight of state control on significant sectors of the economy,” insists Harris Georgiades, the finance minister in Mr. Anastasiades’ cabinet. He is convinced the recovery trail will not be as steep as some have made it out to be because Cyprus’ core economic drivers – tourism, shipping and services – survived the catastrophe relatively unscathed and are spearheading the current recovery.

“We have always been a very attractive tourist destination. We also have a significant shipping industry. We are a major ship management centre in the EU and we didn’t lose a single company, mainly because we have unrivalled local expertise, a competitive tax regime and excellent professional services. Banking was a problem, it had over expanded, but we showed that our business and financial services were much more than banking. These include legal, audit and fiduciary services, as well as new areas like the fund management and the Forex industry.”

Speaking to the press after the 2015-2016 budget was passed this past September, Mr. Georgiades said the country was registering “satisfactory growth” and that a 5% increase in government spending had been factored into the budget without having to resort to tax increases or cuts in spending. The recent sale of a one billion euro bond on international markets is another sign that normality, and investor confidence, is being restored.

“We are maintaining everything that was healthy and strong but we are changing everything that was holding us back,” the Finance Minister asserts. “We chose to treat

the crisis as an opportunity – an opportunity for change. This effort is already delivering early results. We are back in positive growth rates and Cyprus is fast becoming an island of new opportunities.”

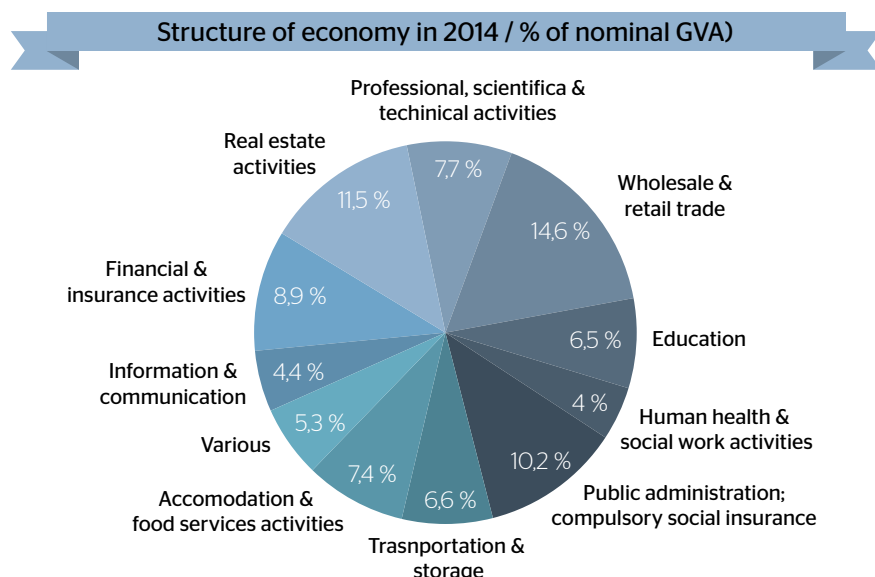
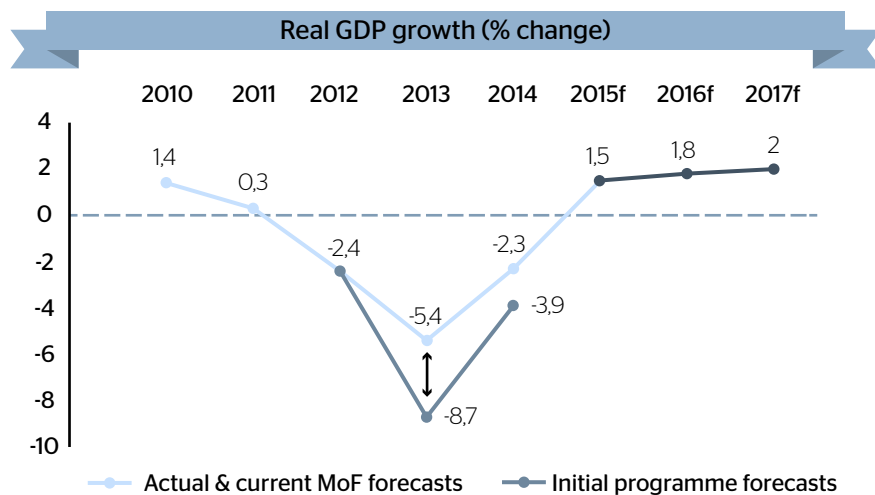
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CYPRUS CHAMBER OF COMMERCE AND INDUSTRY

Investors re-engage as Bank of Cyprus comes out of the woods

Cyprus' largest bank, which sold one billion euros worth of seven-year bonds in April, now plans to raise a further 10 billion from 10-year bonds and float on the London Stock Exchange

Rish banker John Hourican had his work cut out for him travelling around the world to deliver essentially the same message to potential investors: "No, no. Cyprus is not Greece - nothing like it. In Cyprus, the government had the conviction to recover, and was willing to make hard and immediate choices. Cyprus had a fiscal legislative and reform agenda that was consistent with an actual desire to recover, rather than just talk about recovery."

It's a message that is beginning to resonate as a flat-lined financial system staggers back to life and foreign direct investment trickles back into the country. As the macro indicators revived, the Bank of Cyprus, where Mr Hourican has served as CEO for the past two years, became one of only two local lenders to pass EU-imposed stress tests. "I think the bank is coming very nicely out of the woods and is out of the danger zone," Mr Hourican said at the time. "In Cyprus, people understand that prosperity is built on the foundations of austerity."

Signs of recovery were confirmed this past April, when investors acquired one billion euros worth of seven-year bonds, a placement equivalent to roughly half of the demand. It allowed the Bank of Cyprus to repay part of its allocation from the 10 billion euros (£8.06 billion) bailout from the European Commission, the IMF and the European Central Bank, and prompted the government to lift all remaining restrictions on capital leaving the country.

Plans now are to raise 10 billion euros in 10-year bonds, which is not bad for a country that Moody's downgraded just four years earlier to two notches above junk. Cyprus needs exposure on the international capital markets to attract major investment flows, and Mr Hourican expects that when housecleaning is completed in April 2016, the bank's owners will seek a float on the London Stock Exchange. "It is obvious that this bank is big enough and investible enough for us to want to put it on a proper exchange," he told the London financial press.

The Bank of Cyprus was already the island's largest when it was earmarked for

restructuring by incorporating salvageable components of the Cyprus Popular Bank (also known as Laiki; in its time, the country's second largest) as part of a recapitalisation process carried out under EU supervision. Operations in Romania, Russia, Greece and elsewhere were hived off the balance sheet and high net worth clients saw 47.5 percent of their uninsured deposits over 100,000 euros converted into equity in the bank. Mr Hourican raised another billion from investors, including billionaire investor Wilbur Ross, in order to reach the 15 percent common equity needed to pass the ECB stress test.

"We have been deleveraging our balance sheet by 6 percent of GDP every quarter, which is enormous," says Mr Hourican. "That means doing all of the things you naturally do in a recession environment. We have combined the two largest banks on the island, and we have shared 35 percent of the cost, 25 percent of the staff, combined IT platforms, and taken 70 of the 200 branches. Basically, we have been busy, busy doing normal M&A corporate finance stuff, which, if you do it as a job, you get used to it, but it feels like a shock to any institution."

The upshot is that the Bank of Cyprus announced after-tax profits of €60 million for the first six months of 2015. By way of explanation, Mr Hourican cites improving credit risk management and optimising risk weighted assets, deleveraging and reducing the number of problem loans. That last item is what damaged Cyprus' banks arguably even more than their exposure to unredeemable Greek bonds.

Damaged may be too mild a term to characterise the results of the mountain of underperforming loans that some experts say will eventually have to be written off as irrecoverable. Obtaining credit was a simple matter. Cyprus is not that huge a place; everybody knows everybody, families develop ties to other families, merge and overlap. With a stock exchange serving mainly as a platform for short-term speculation, banks were providing the bulk of long-term fi-



John Hourican,
Outgoing CEO of the Bank of Cyprus

nancing and mortgage lending to families and companies, especially in the briefly booming construction sector. Loans were approved on the basis of collateral, rather than reasonably verifiable prospects of on-time repayment.

The result: on average, approximately half of all the outstanding loans in the portfolios of Cyprus' banks are dead in the water. For the Bank of Cyprus, announcing its second quarter results, the figure is 53 percent of its gross lending, or 12.6 million euros.

Cypriot President Nicos Anastasiades is perfectly aware of the situation, and says it is in the process of being solved. "Banks have been restructured and recapitalised, most importantly through private capital, and are refocusing their operations with a prudent risk-based approach to lending. Banking institutions now continue to reduce their operational costs and improve their profitability, as well as strengthening their capital position."

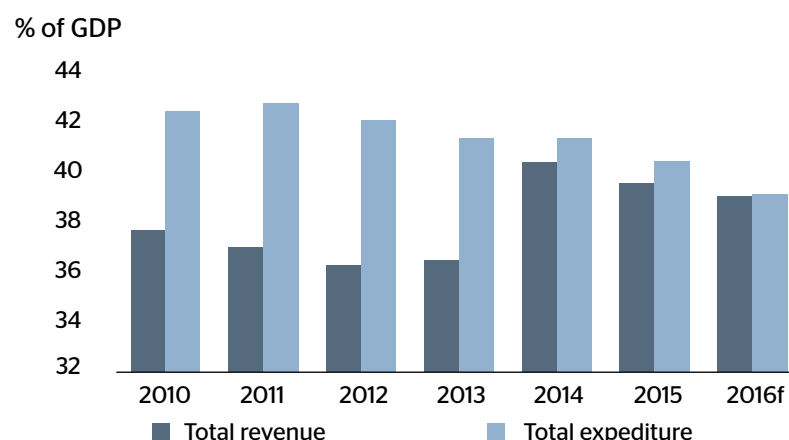
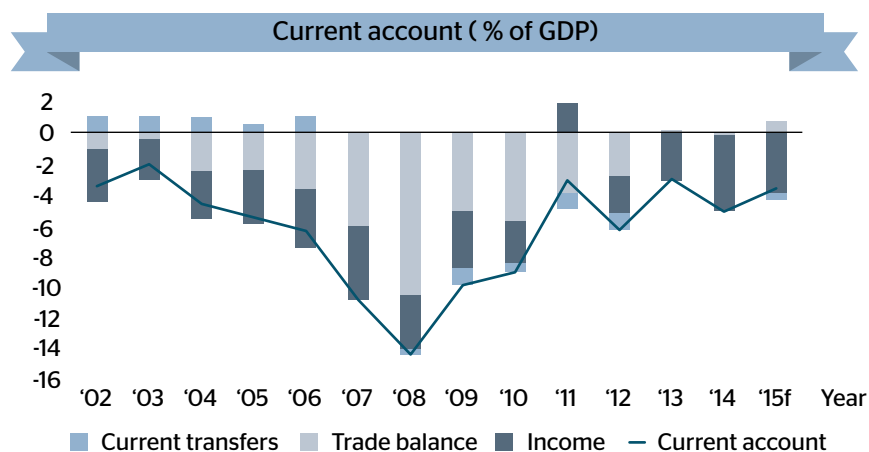
"The House of Representatives have enacted the improved legal framework on foreclosures and insolvency, which is intended to address the issue of non-performing loans. The legislation, implemented in April, is a critical step aiming at reducing the high level of non-performing loans, which is essential to restoring growth and job creation in Cyprus."

For the first time, under the new law, residential and other property valued at

"The confidence was so badly interrupted that restoring it was going to be quite a challenge. I wasn't sure we could, but it has been really pleasing to see people start to re-engage with the bank and recognise what we do"

250,000 euros or more will be subject to foreclosure if the owner defaults. A new regulatory framework allowing for the securitisation of debt is also part of the reform package that Mr Hourican says he welcomes, realising it will be painful for many. "It's very important to create the moral hazard for a functioning banking system in a recovering economy, because we can't provide credit to an economy that doesn't have the legal basis on which we can recover in a rapid way."

Mr Hourican's mission to oversee the bank's restructuring is nearing the end. "You need confidence in a leveraged environment, and if you don't restore it, you will just die. That is what worried me most about the Bank of Cyprus - the confidence was so badly interrupted that restoring it was going to be quite a challenge. I wasn't sure we could, but it has been really pleasing to see people start to re-engage with the bank and recognise what we do as good."



Source: Ministry of Finance and Central Bank of Cyprus

Restructuring NPLs top priority for banks

Held in high regard by the public and politicians alike for their ethical, social and community-focused approach to financial services, co-operative banks in Cyprus were hit hard by the financial crisis, as they were in other deeply stricken southern European countries like Spain and neighbouring Greece.

The impact of the crisis on Cyprus' 150-year-old co-op banking industry led to a series of mergers that vastly reduced the number of these so-called "friendly" lenders from 93 to 18. With restructuring and a capital injection of 1.5 billion euros (£1.1 billion) in the Cooperative Central Bank (which now controls 99 percent of the shares in the 18 co-op banks) one year ago, there have been concrete measures taken to combat non-performing loans (NPLs).

The NPL rate of the Cypriot banking system as a whole stood at 46 percent in June, and according to Nicholas Hadjiyiannis, CEO of the CCB, tackling the NPL issue, which he called a "national problem", is his number one priority. In September he announced a 12-month strategic plan to manage NPLs, as well as a target to restructure one billion euros worth of bad loans by the end of 2015, representing around 12 percent of the total value of NPLs. From January until the end of August, 6,500 loans worth €550 million had already been restructured, indicating that the CCB is on track to reach its end-of-year target.

"Dealing with NPLs is a priority for us, because it affects our balance sheet," says Mr Hadjiyiannis. "We had to set up a structure to handle this major issue, as it was uncharted territory. We had to create a consolidated balance sheet to establish what our real NPLs were, and there was no local expertise to really tackle this. We set up a new division where we allocated significant human resources internally, which was no small task.

"And I have to say that now we are on a good path. We can see some light at the end of the tunnel and it's not the light of an oncoming train. We have taken the initiative and pioneered within the Cyprus banking system."

According to Mr Hadjiyiannis, the co-op sector is closing the gap on the rest of the banking system: "We had only restructured 4 percent of our NPLs by the end of 2014, and the rest of the market was at 15 percent. Now they are somewhere around 24 percent and we are at 15 percent."

In July Troika inspectors, frequent visitors to Europe's crisis-stricken countries over the past few years, were in the Cypriot



Nicholas Hadjiyiannis, CEO of Cooperative Central Bank

capital of Nicosia to conduct the seventh review of the economic adjustment programme. The programme will conclude in mid-2016, with the government confident that it will not need to tap into all of the €10 billion of bailout funds available to it.

Mr Hadjiyiannis believes that the Troika's intervention has led to improved management and standards across the Cypriot banking sector: "In terms of corporate governance, risk management, internal audit, in terms of technology, in terms of expertise, there have been big changes. There is now a lot of international expertise coming into the banking system and we have managers with in-

ternational experience; we have executives that are not local; we have foreign investors; and we have foreign monitoring. There is no differentiation in how we all handle Cypriot banks compared to German banks."

Despite the NPL challenge, CCB continues to have a very important place in community development post recovery, ensuring liquidity returns to the real economy to stimulate growth: "Our role is providing alternative banking in a simple way, primarily to households and SMEs. That is where we have lowered interest rates compared to other banks. We want to do ethical and responsible banking."

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Banking sector investment and reform ensures more reliable partners for international investment

Cyprus was hit harder than most by the global economic downturn but green shoots are emerging and the country's prospects are beginning to brighten

There is little doubt that Cypriots were amongst those facing the most acute problems following the financial crisis.

However the country's economy is now in full recovery mode as a combination of public sector reform and a reduction in expenditure have propelled the European nation to gaining a more stable financial footing.

"It is true that the public sector has done what needed to be done; we have made many necessary and painful sacrifices as a country to bring the economy back on track," says Irena Georgiadou, Chairwoman of Hellenic Bank.

Government reforms have been considerably supported by a resilient private sector that is helping to drive growth across numerous sectors of the country's economy and encourage more foreign direct investment.

"Both the government and the private sector have been very active in bringing productivity back to the private sector," Ms Georgiadou adds, who believes that the government's careful austerity measures have helped bring the first signs of growth. She is also clear however, that the country is committed to building a new economic model

that is more competitive, with better regulations and less bureaucracy.

At the heart of Cyprus' recovery is the banking sector, which was hit hard by the economic crisis. More recently, it has undergone painful but essential reform that is helping to ensure corporate governance has become a central tenet for the sector.

Hellenic Bank in particular has helped to drive this improvement in standards and Ms Georgiadou says that being supervised directly by the ECB is helping Cypriot banks integrate in accordance to Euro's mainstream elite.

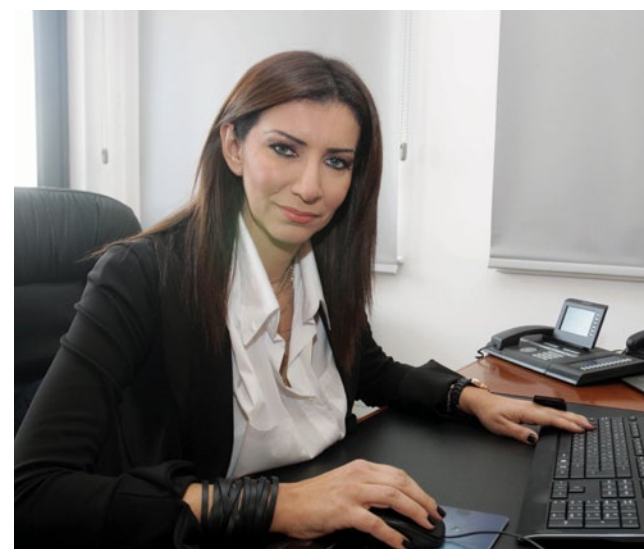
"This means we basically have the same rules and regulations as the 130 systemic banks of Europe. This also helps us in changing our working practices into world-class practices," she says.

Hellenic Bank survived the economic crash relatively intact, and is now back in profit and enjoying growth. The Bank did not receive any bail out – an unusual position for a Cypriot financial institution to be in and one that has engendered considerable confidence in the Bank. Since then, it has invested in talent and created a strategic plan targeting organic

and inorganic growth, while also improving its technological set-up.

Challenges remain, not least ensuring that Cyprus' fledgling businesses can gain access to credit, something that has been criticised over recent months, but Hellenic Bank is well-placed to make the most of the recovery. It attracted the first foreign direct investment after the crisis and was fully capitalised with fresh capital – most of it coming from abroad. Its two main shareholders are US-based Third Point and Cyprus-based Wargaming, who collectively own more than 50%.

Such confidence is helping to rebuild the Cypriot economy, but it is also clear that opportunities are now emerging for both local and foreign investors. Hellenic Bank has launched a dedicated division to assist with bank-related queries – just one example of the way Cyprus is looking to build on its re-



Irena Georgiadou, Chairwoman of Hellenic Bank

covery and ensure a more stable and prosperous future.

"We have a banking sector that can be a very reliable partner to the international investment community," adds Ms Georgiadou. "The banking system is back on track, despite the problems that it has faced. We have really tried to preserve our reputation and international branding as a country, particularly by not disrupting the favourable tax system. We want continuity in building confidence for investors in Cyprus, as an island and as a brand."

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Public-private partnerships key to creation of world-class business and logistics centre

The government is working closely with private firms in the transport and communications sectors to turn well-positioned Cyprus into a competitive business and logistics hub

Cyprus faced a slew of challenges both on a domestic and international front following a turbulent 2013 but it's now making the most of efficient communications and logistics infrastructure to power economic growth.

The country has enjoyed cross-sector expansion at a faster rate than most analysts expected, much of it driven by government interaction with the private sector to deliver results. Structural reforms to legislative framework were made and Cyprus is now launching programmes to promote entrepreneurship, reduce unemployment and improve market liquidity.

Developments across tourism and the energy sector are well underway and Yorgos Lakkotrypīs Minister of Commerce, Tourism, Industry and Energy, says repositioning the country's geographical and political direction has been vital.

"A lot of business people are interested in what is going on in the Eastern Mediterranean, what is going on in Cyprus," he says. "If you look at the developments around the region, you have offshore exploration, discoveries in Israel, discoveries in Cyprus, Egypt



Cyprus has become an important telecommunications hub in the Eastern Mediterranean and a telecommunication centre of excellence due to CYTA's international network, which is considered to be amongst the most technologically advanced in Europe"

Michalis E. Achilleos, CEO at Cyprus Telecommunications Authority (CYTA)

is back on track with the widening and the deepening of the Suez Canal."

This latest development is providing numerous benefits to Cyprus and particularly its shipping industry but Marios Demetriades, Minister of Transport, Communication and Works, admits there is more to be done.

"Over the last two years we have recovered relatively fast due to the fast implementation of the initial measures. Having said that, we now need to implement more structural changes and this is when the hard work begins," he explains, outlining how low corporate taxes mean the shipping sector has "great prospects."

Indeed Cyprus' logistics potential is well-documented but the country is perhaps most famous as a tourism destination. The sector has struggled over recent years but for Wes Porter, CEO at Hermes Airports, reigniting demand could be a catalyst for wider economic growth.

"In my mind you cannot have a business hub without creating demand, so when I talk about tourism, it is about creating demand, when I talk about investments it is about creating demand, which then has favourable returns for corporations and the demand leads to connectivity," he says.

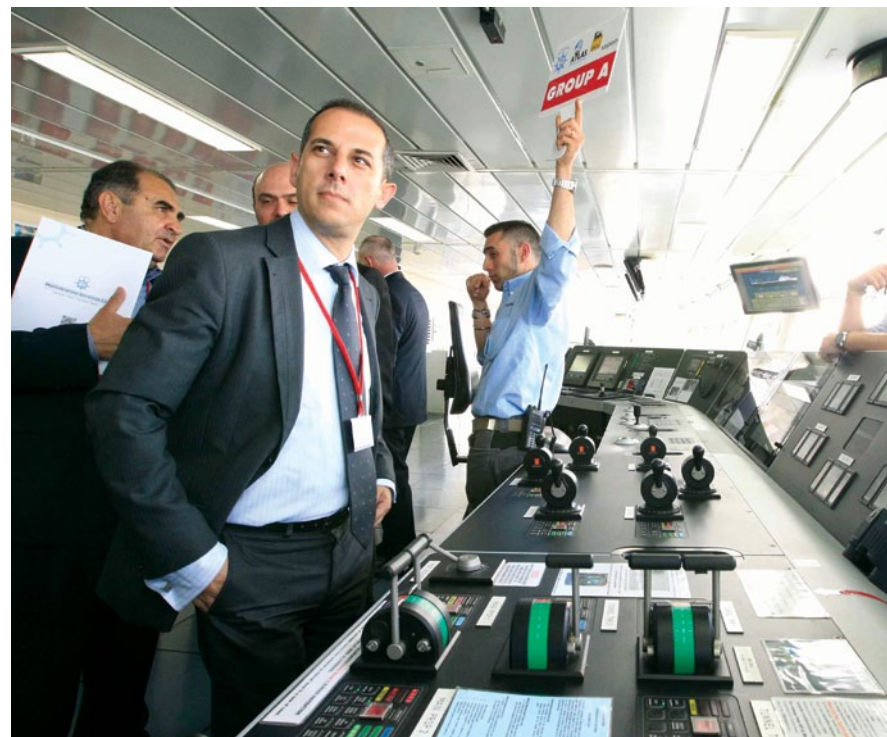
"Tourism itself has a strong catalytic effect on investment. It does improve connectivity; it does give opportunities, not just for people to come over, but also for investment to come."

Private-public partnerships have already been successful within the transport industry and Mr Lakkotrypīs says the focus is now on creating "the most business-friendly environment possible, whether it is for setting up a business - where we have cut the time down from three weeks to three days - or by having a more predictable tax regime."

Positioning Cyprus as a business hub has clear potential and its much-vaunted communications network is a key attribute. For Michalis E. Achilleos, CEO at Cyprus Telecommunications Authority (CYTA), reforms have proven that the country has the resilience to succeed.

CYTA, which offers fixed and mobile services as well as Internet provision and digital applications, has made the most of Cyprus' state-of-the-art infrastructure while the country's highly skilled labour force has helped deliver solutions across the island nation and abroad.

"Cyprus has become an important telecommunications hub in the Eastern Mediterranean and a telecommunica-



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Marios Demetriades, Minister of Transport, Communication and Works

tion centre of excellence due to CYTA's international network, which is considered to be amongst the most technologically advanced in Europe," explains Mr Achilleos, who adds that the island is connected with 10 submarine fibre optic cable systems within the region. The company also has subsidiaries in countries including Greece and the UK, which have formed part of CYTA's strategy to derive further revenue streams.

"The biggest expansion was in Greece, where we started in 2007," Mr Achilleos says, where voice, data, television (IPTV) and mobile services are offered. "We also established ourselves in the UK through CYTA UK, which offers services to the Greek speaking community living in the UK; there are around 270,000 Cypriots who live there."

CYTA's impressive expansion comes at a time when its future is under close scrutiny. The organisation agreed memorandum of understandings with the government over a proposed privatisation plan provisionally set for

2016, but Mr Achilleos is clear that the timing must be right. It is however clear that CYTA is already operating in many ways as a private company in a fully competitive environment and is currently prepping the introduction of 4G technology, which is set to be operational within weeks.

"When we launch new services," says Mr Achilleos, "our foremost aim is to provide customer centric, reliable solutions to the Cypriot consumer differentiated with the customer care, the knowledge and support from CYTA's experts which are among the most qualified in the industry. In this respect we are competing against ourselves, because these values have always been a strong competitive advantage for CYTA, recognised by our customers."

Elsewhere telecoms firms such as MTN are also making their mark in the country. It has forged alliances with international game developer Wargaming.net, which is based in Cyprus, and offers hardware server solutions, cloud and consulting services to customers. It is another example of an international company making the most of Cyprus' highly developed ICT infrastructure and its skilled workforce, as well as its business-friendly regulatory framework and its global outlook, a combination that Mr Lakkotrypīs says is key.

"We need to position ourselves as a place where you can do business not only limited to Cyprus, but with many other destinations as well. We aim to communicate that we are predictable, transparent and certainly business friendly. Investors will come here and they will invest their money, and make an appropriate return."

Foreign direct Investment needed to reinforce positive growth

After a devastating banking crisis in 2013, Cyprus' economy is bouncing back as the Mediterranean Island positions itself as not only an idyllic place to live and play, but a choice destination for foreign investment dollars



Christodoulos E. Angastiniotis,
Chairman of the Cyprus Investment Promotion Agency (CIPA)

“I firmly believe resilience was a key element in this country's recovery,” said Christodoulos E. Angastiniotis, Chairman of the Cyprus Investment Promotion Agency (CIPA). “It's clear that the majority of Cypriots accepted our own shortcomings early on and this was the first step in order to move forward. Having recognised our weaknesses we treated the crisis as an opportunity to fix things and create a more stable, efficient and attractive economy.”

The fixes include curtailing government bureaucracy and streamlining procedures aimed at reducing cost to the private sector and encouraging a more pro-business environment. A member state of the European Union since 2004, the small but dynamic country has played a role in global trade for centuries. Its place at the crossroads of three continents, Europe, Asia and Africa makes it an attractive hub for international commerce, a position enhanced by the recent

discovery of significant hydrocarbon reserves in the country's Exclusive Economic Zone (EEZ).

After years of exploration a consortium led by U.S. gas giant, Noble Energy has discovered a reserve of more than 127 billion cubic meters of natural gas offshore in the Aphrodite gas field. The sector is being targeted for development as Cyprus seeks to carve a role for itself as a major regional energy provider.

“The investment map of our country has changed significantly over the last few years, FDI (Foreign Direct Investment) into Cyprus probably reached its highest level in 2014,” said Mr. Angastiniotis, pointing to the infusion of capital into the banking and leisure sectors from overseas investors.

Tasked with coordinating and attracting new investment to the country, CIPA is highlighting the country's robust legal and regulatory framework, as a key competitive advantage.

“For a lot of investors, it's a combination of a transparent legal framework based on English Common Law-arguably the most comprehensive tax system in the EU-and the strength and benchmark expertise of Cyprus' legal, financial, and administrative services,” said Mr. Angas-

tinotis. “It's a comprehensive support package for doing business where almost everybody speaks English.”

Cyprus boasts other assets including a high standard of living. Even in the midst of its financial crisis, Knight Frank, a global property and relocation firm ranked Cyprus the 5th best place to relocate, notes Mr. Angastiniotis.

An efficient business infrastructure and superior quality of life make up a big part of the marketing pitch for foreign dollars and the energy generated from the campaign could be impetus for Cyprus to finally resolve the division that has dogged the country for decades.

Looking to the future, Mr. Angastiniotis, sees high growth potential in ICT, R & D, and innovation, effectively creating a knowledge-based economy. This would leverage on the main competitive advantages of Cyprus, especially its highly educated and experienced professionals. Cyprus has embarked on a collective quest to create a more efficient, flexible, transparent and investment-friendly environment. Cyprus is changing from the ground up, according to Mr. Angastiniotis: “We are rebuilding a different Cyprus, not just a different Cyprus brand.”

International businesses choose Cyprus for headquarters

Cyprus is increasingly ranked on the shortlist of decision makers when it comes to choosing the right location to establish international and regional headquarters. The island provides not only access to the EU's market of over 500 million people, but also a secure base to tap into the evolving markets of the Middle East and Africa

With new regulation such as the OECD Common Reporting Standard coming into play, establishing substance and physical presence is an increasingly important aspect for business. Cyprus' importance as a management centre and a jurisdiction where substance is easily established is set to grow. With operational costs being substantially lower than in Western Europe, Cyprus offers an efficient

and conducive business environment in which to build-up European, African or Middle Eastern networks. The country also has a long-established free trade zone close to Larnaca, offering excellent infrastructure, low rents and customs-free status.

Gateway Country

The strategic geographical position of Cyprus in the Eastern Mediterranean has always played a pivotal role in influencing the country's destiny and prosperity, and led to close cultural and business relationships with countries in the region. A former British colony, Cyprus has a longstanding relationship with the UK, enjoying close business ties as well as a comprehensive, modern and forward-looking legal and regulatory framework based on English Common Law principles. Cyprus' s entry into the EU in 2004, and the Eurozone in 2008, was welcomed by the international business community, who saw it as a new opportunity for foreign companies to use Cyprus as a convenient entry point into the EU marketplace. Multinationals from a range of different sectors have already chosen Cyprus as the location for their regional headquarters. Giants such as, Weatherford, Buena Vista Hospitality Group, NCR, Bernard Shulte Shipmanagement, Kardex, Wargaming and AMDOCS are just

some of the corporations that have based operational or corporate management functions on the island.

Corporate Location

Cyprus offers a strategic location, a competitive and EU-approved tax environment, an educated English-speaking labour force, excellent telecommunications, modern banking and legal infrastructure, and a high quality of life - all of which make it an ideal international management centre and springboard into neighbouring markets. Foreign companies already based in Cyprus comment favourably on their experiences with local employees in terms of productivity, profitability and dependability. Home to a major international business and financial services sector, the country is an ideal base for region-wide corporate coordination and central management functions, sales, marketing and customer service. As a pro-business, neutral, cost-effective and politically stable country, Cyprus offers companies a perfect climate to successfully compete in the region. A fiscally efficient tax structure leads the way and is complemented by a network of almost 60 double-taxation treaties, facilitating international business and ensuring a smooth trading environment. In addition

to its geographical proximity to major markets, Cyprus also scores high on connectivity. The country is connected by air through its two international airports with major cities in Europe and key destinations in North Africa and the Middle East, most being just a few hours' flight-time away.

The Pull Factor

Cyprus has established itself as a magnet for foreign-owned companies and is continuously improving its competitive position. A stable business environment and excellent quality of life are just a few of the many reasons why companies relocate senior decision makers to perform strategic functions from Cyprus. In the long term, Cyprus has great prospects to benefit from growth in the region and become an increasingly popular choice as a location for international and regional headquarters. Boasting the lowest crime rate in the EU, a superb Mediterranean climate, competitive personal tax rates, as well as excellent educational and healthcare systems, Cyprus is an easy sell for expatriate executives, particularly those with families.

Source: CyprusProfile.com, part of the CountryProfiler Group, an international publisher of business intelligence

Financial services will be ‘one of the pillars of growth of the Cyprus economy’

Professional and financial services sector supports vision of international business hub

Cyprus’ professional services sector is helping to power the country out of recession and generate international recognition. The industry has played a key role in facilitating a move away from offshore transactional business, a change brought about after the 2013 crisis and the scrutiny that followed.

Audit, consultancy and legal services are all offered but unlike some territories, the Eastern Mediterranean nation has developed an innovative market that sees companies supporting each other to succeed. Cyprus’s location has also enabled it to tap into emerging markets, Iran being one example, while its workforce have used their expertise in niche sectors to secure clients in diverse markets.

For Kikis Treppides, Managing Partner and Chairman of K. Treppides & Co Ltd, the sector has a clear role in propelling Cyprus’ long-term economic success. Over the past few years, K. Treppides & Co itself has innovated and adapted, diversifying into new business areas such as funds.

“Through the professional services sector, mainly lawyers and accountants have actively assessed the factors that resulted to the 2013 crisis and have managed to sustain the international business that was and is operating through Cyprus,” he explains.

“Taking into consideration the current compliance and regulatory requirements taking place in the EU and worldwide, the sector has identified the opportunities available and has set the cornerstones for Cyprus to be established as a hub for investment firms, financial institutions and funds. These services are the services that will be one of the pillars of growth of the Cyprus economy.”

It’s a point shared by Demetra Kalogerou, Chairwoman of Cyprus Securities Exchange Commission, who says that the country is now perfectly positioned to attract fund managers.

“We have the entire regulatory regime and all the European directives in place and we have a national law that gives the power to establish different alternative funds,” she says. “We have also different investment policies that they can use and I think we have all the tools for fund managers to establish here and issue funds.”



Kikis Treppides, Managing Partner and Chairman, K. Treppides & Co Ltd

the country, but what is happening is the opposite,” says Andreas K. Christofides, Board Member and Managing Director at KPMG. “We are getting a lot of new businesses; people are coming to set their bases here. It is logical for people from Europe working in the Middle East or working with Russia, Ukraine or Eastern Europe.”

The country was an early adopter of the Foreign Account Tax Compliance Act and the revised European Savings Directive, both of which are enabling Cyprus to improve ties with European partners and countries across the Middle East and North Africa.

And yet while Cyprus is becoming a regional business hub, recent reforms are likely only the beginning. As Evgenios Evgeniou, CEO of PwC Cyprus explains, the key to economic success will be a long-term focus on regulatory practices.

“In terms of this growth becoming sustainable, it is key that we continue with the reforms that make the economy more competitive and doing business easier,” she says. “These reforms will facilitate both business activity and foreign investment whilst having in place a robust and transparent regulatory framework.”

Green shoots are emerging and the country’s revamped financial sector is providing a more solid footing while across the professional services sector, the expertise of the workforce has been sustained and international firms remain keen on Cyprus.

“After the problems in 2013, we thought everyone was going to leave

Private sector drives higher education development

Opening of tertiary education to private sector in 2007 has raised standards

Cyprus has one of the highest percentages of people with university qualifications in Europe. There are now 8 universities and for the first time, in 2010, the number of Cypriots studying at home exceeded the number abroad.

This change has been driven by institutions such as The University of Nicosia, which is ranked as the best private university in Cyprus, and is one of the largest English-language universities in the Mediterranean region.

Nicos Peristianis, Founder and Council President of the University of Nicosia, says it was only in 2007 that the private sector was allowed to establish universities. The opening of tertiary education to the private sector has led to rapid development, as Mr Peristianis notes: “we now have more students, more resources, a better faculty, and better facilities.”

However, in the view of Mr Peristianis, more needs to be done for Cyprus to reach its potential: “We need to do more. Cyprus has many advantages over other countries in the region; we have a very high percentage of highly educated peo-

ple, good services, security, and good weather. In fact, it is like studying in a good UK university but with a good climate and safe environment.”

Whilst there has been some support from the government in utilising these advantages, Mr Peristianis makes it clear that the developments in the sector were driven by their own initiative: “We always try to innovate and adapt, they have been the key factors in our success.” Moving quickly to innovate and introduce relevant courses is something that the University of Nicosia has excelled at, with an example being their position as one of the first universities in Europe to establish an undergraduate degree in oil and gas management studies, as soon as gas was discovered in Cyprus.

In many ways the strength of the education sector has been in their commitment to building relationships with prestigious higher education institutions abroad. For example the University of Nicosia collaborates with St. George, the University of London, to run a medical programme: the first in Cyprus, and the first such degree to be offered by St. George’s outside the UK.

With an agile private sector driving growth, the contribution of education to Cyprus’ economy will be a positive catalyst that the rest of the Cypriot economy sorely needs.

$$\sum (AvG, I, Q, D, HcE) = \text{Globe}$$

- AvG = Adding Value Globally
- I = Integrity
- Q = Quality
- D = Differentiation
- HcE = Human Capital Excellence

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More than just games

Wargaming co-founder and CEO Victor Kislyi discusses why the award-winning online game developer, publisher and industry leader chose Cyprus as a base and how his perspective on innovation is proving Wargaming is more than just entertainment

Two kids are sitting in a bedroom in Shanghai, another two in Hamburg and a couple more in Silicon Valley. They are all gamers designing their first game, and they all share one common goal to make the very best game of all time. “That is the mantra,” says Victor Kislyi, co-founder and CEO of Wargaming, an award-winning online game developer and one of the leaders in the free-to-play MMO (Massively Multiplayer Online) market.

“That is the aspiration of any game developer: to make the best game of all time.”

Kislyi knows this first hand. Back in August of 1995, he was one of those kids. Along with some college friends, they developed an amateur project called Iron Age, a strategy game influenced by Risk and Civilization. Three years later, they founded Wargaming, based on a tabletop miniatures war game Kislyi had seen during a visit to the United States. It took some years of financial failures to realize their dream, “but we were patient, we were reasonable, and we stayed true to the values that our potential players would appreciate. We knew that because we were passionate strategy game players ourselves, we knew what we wanted,” he says today.

In November of 2007, they acquired the Minsk-based development studio, Arise, strengthening their position in the CIS games market and changed focus from turn-based strategy games to the real-time strategy genre. And in 2011, they were off to the races. Kislyi and crew had built the best game ever, World of Tanks, a runaway online hit, which this year was one of the first free-to-play games to hit Xbox Live.

Today, Wargaming has shipped more than 15 titles and employs over 3,800 professionals across such key continents as North America, Europe, Russia, Belarus, Ukraine, Asia and Australia. World of Tanks has more than 110 million players worldwide, and one of the company's other games, World of Warplanes, was named one of the most anticipated MMOs to date in the gaming world.

Kislyi, who has a master's degree in physics and, not surprisingly, is a military history buff, is an active gamer himself, and this fact has played a crucial role in Wargaming's ability to surpass hurdles along the way. “I am my own consumer. I play World of Tanks, World of Warships and World of Tanks Blitz for an hour and a half a day on average. I play with my son, I play alone, and with my colleagues; so we are consumers of our own products, I know what I am talking about. I am not just the CEO counting money, I play as a player and very passionately.”

Online distribution also played a key role in Wargaming's success. After the com-

pany's 2008 Order of War game failed to take off, Kislyi, who had seen the industry evolution in free-to-play, online markets, realized that selling small game projects was a dead-end. The company took the free-to-play model that had emerged in Asia and combined it with high-production values, themes and gameplay for a mostly-male Western audience. World of Tanks was released in 2010. It was a benchmark, breaking with past trends in the online subscriber world that had seen a number of badly-localized products. Word travelled quickly, and Wargaming had its first taste of sweet success. World of Warplanes and World of Warships followed in 2013 and 2015, respectively, and as did the awards for yes, best game ever. World of Tanks was named Best Online Game at the Golden Joystick Awards in 2013. Last year, it was awarded Best Online Game of the Year at the 17th Annual D.I.C.E. Awards.

“The free-to-play and free-to-win concept is very different to how things were done in the past. Imagine you are paying €60 per box, and you receive the physical disc of the game to play. That costs you upfront before you actually know if you like the game or not,” says Wargaming's CEO.

“Free-to-play has a dramatically different approach. You have the same top quality when it comes to graphics, sound, network interaction technology, and in all of the other features, but you don't charge money upfront. You allow anyone to download the game for free, which is good for them and also for us, as you don't have to spend money in the physical distribution or retail, line shares or shelf space.”

Free-to-win means that players can reach the top tier of the game, and acquire all of the tools needed to do so, using only in-game currency. They can acquire these tools more quickly by paying for them with real currency, but it is not necessary to do so in order to win. Kislyi says the move to this platform was a gamble, but that enough players are choosing to buy tools to ensure Wargaming's continuing revenue stream.

The company's future profitability is also ensured by the ever-growing size

“Our business is not a one or two-year hit-and-run kind of enterprise. We are building a sustainable global company, which will stay here in Cyprus. Our top-management team is now being relocated here”

Victor Kislyi

of its market. The bulk of Wargaming's revenues currently come from Europe, where Brits lead the way in the number of gamers and average weekly playing times (there are an estimated 34.7 million people playing an average of 14 hours per week in the UK). Still, says Kislyi, the world is your oyster if you are an online vendor today.

“Just five or ten years ago, the gaming industry was very much located in the western world, America and Western Europe, and big companies were very successful in a retail strategy of selling games in big retail chains like Wal-Mart, GameStop or Dixons. Meanwhile, there were some very exotic online games in China and in Korea following a different path. These MMO games started gaining popularity, and now, going into mobile devices, we are seeing it as a global phenomenon,” he explains.

“With the development of online social mobile gaming, many tech and gaming companies have been moving from the physical presence economy into the digital world. There, the whole world is your market. Wherever you have computers, Internet, gaming consoles and mobile devices, you have a market.”

Consequently, the future looks bright for this Cyprus-based gaming company. Though Wargaming is headquartered in Nicosia, the company has offices around the world in Austin, Baltimore, Chicago, Kyiv, Minsk, Paris, Saint Petersburg, Seattle, Seoul, Singapore, Sidney, Taipei, the San Francisco Bay Area and Tokyo. Cyprus may seem an unlikely choice for an international gaming company, but Wargaming has no plans to leave anytime soon. On the contrary, it is planning on moving more of its staff in.

“Our business is not a one or two year hit-and-run kind of enterprise. We are building a sustainable global company, which will stay here in Cyprus. Our top-management team is now being relocated here,” says the CEO.

“For us, Cyprus is a relatively small country where a big company like ours can make an impact and not just in terms of financial contribution, but also as a meaningful contributor to society. Considering



“With the development of online social mobile gaming, many tech and gaming companies have been moving from the physical presence economy into the digital world. There, the whole world is your market. Wherever you have computers, Internet, gaming consoles and mobile devices, you have a market”

Victor Kislyi

all of the assets of this country, and having offices in other parts of the world, we have realized that for us, Cyprus is the place to be. I see no reason why any big company would not be headquartered here.”

And for those kids around the world right now who are working on their own first games, Kislyi advises them to work hard, be adventurous and to take risks. Though he is not sure of what the future holds for his company, he promises that Wargaming will remain at the cutting edge of its industry.

“We dedicate significant resources to innovation. You cannot live without it. Six months from now, we may find a new game style, maybe a new monetization style, a new business model, or we may link, for example, gaming with the social aspect in a very special way. We don't know what that next innovation will be, but we have hundreds of people thinking about it full-time right now,” he concludes.

'We are rebuilding a different Cyprus brand'

We asked Cypriot business and political leaders about their insight on the changing brand of Cyprus since the image crisis following the 2013 financial crisis

Nicos Anastasiades, President of Cyprus: Cyprus has the potential to become an energy hub in the region of the Eastern Mediterranean. Further business and foreign investment-friendly measures have been announced by the government, in the hope of positively supplementing efforts to increase Cyprus' competitiveness and create a more effective business environment. Brand Cyprus can be synthesised in the following: strengthening and maintaining traditional productive sectors of the economy; diversifying and tapping into new areas of investment; fortifying and continuously optimising the institutional framework to make Cyprus an even more competitive and attractive destination for doing business.

Harris Georgiades, Ministry of Finance: We urgently need to work through our political divisions and differences; we need to find solutions, in order to create a com-

pletely new state of play in the entire Eastern Mediterranean region based on inclusiveness, cooperation, commerce, travel and investment opportunities.

Yiorgos Lakkotrypis, Ministry of Commerce, Tourism, Industry and Energy: We need to position ourselves as a place where you can do business not only limited to Cyprus, but with many other destinations as well. We aim to communicate that we are predictable, transparent and certainly business friendly.

Demetra Kalogerou, Chairwoman, Cyprus Securities Exchange Commission: Cyprus is becoming an international business centre. That is what comes to my mind when I think about Cyprus. The second image that comes to my mind is tourism. It is a good destination for tourists as well, because of the climate, culture and resources that we have.

Charis Papacharalambous, Director General, Cyprus Investment Promotion Agency: Moving away from the negative image the crisis left us, we are rebuilding a different Cyprus brand beyond the "sun and sea" of the past; Cyprus has much more to offer than sun and sea. Brand Cyprus must change

into a quality notion in a number of sectors and redevelop with the government's encouragement. Although a brand is very difficult to change, and it will not happen overnight, in a couple of years it will be possible to see the new brand.

Nicholas Hadjiyiannis, CEO, Cooperative Central Bank: We are moving towards a more balanced brand. We are moving away from just international business on a transaction basis. We are trying to add value and bring in businesses with real substance. We are moving towards a more specific and quality-based brand.

Euripides L. Evriviades, High Commission of the Republic of Cyprus to the UK: Our records show that last year approximately 872,000 British tourists visited Cyprus; this year we expect an 8-10 percent increase. The UK market has consistently been the highest source of tourists to Cyprus, representing just under 40 percent of total tourists. This is attributed to the quality of the Cyprus tourism product, its excellent hotels, pristine beaches (57 of which have a Blue Flag), high quality of service, variety of scenery and rich history. We also speak English and drive on the "correct" side of the road, i.e. the left.

Nicos Peristianis, Founder and Council President of the University of Nicosia: I think we are a bridge; Cyprus is a bridge of civilisations and ideas. We have been playing that role throughout history and I think we have a very important role to play in the future. That is why we have such good relations with Africa and the Middle East. We want to link Europe to these parts of the world.

Androulla Pittas, Cyprus-UK Business Association: There was a lot of unfair criticism of Cyprus as a jurisdiction, so we have great challenges to sell Cyprus as a product for new investors; however we have shown them that we have done it. It has happened in the last two years, which was the most difficult time, so from now on it will be easier, given the degree of challenge. I think it will be easier now because we have something solid to sell. I also want to mention entrepreneurship because there is a small growing community of engineers and IT specialists, people who would normally be employed by companies in Cyprus, who instead have decided to create products and use innovation for themselves. Both public and private sector support these initiatives; it's like a joint venture happening to support this growth, hoping that someday something good will come out of it.

A unique selling proposition

Cyprus is the only stable country in the East Mediterranean

Cyprus' standing as an international business centre was dealt a big blow by the events of March 2013, when the second largest bank was wound up, deposits at the biggest bank were frozen and eventually bailed in and capital controls imposed.

A country with its banks on life support, crippled by non-performing loans (NPL) and in desperate need of recapitalisation, would have trouble enough keeping the foreign businesses based here from leaving, let alone attracting new ones. Being in an assistance programme and having international lenders dictating economic policy were not the kind of selling points that attracted new business.

Two-and-a-half years later, the economy is on the recovery path, recording modest growth for two consecutive quarters, the banks have been re-capitalised although the proportion of NPLs remains high, capital controls have been lifted and the government can once again borrow from the markets.

On the minus side, many local businesses are still struggling and the government has concluded that the best way to give the economy a boost is by attracting foreign investment. President Nicos Anastasiades has visited more than half a dozen countries accompanied by businessmen in an effort to secure investment but has not been very successful. There is a lot of competition and Cyprus is still in an as-

sistance programme which it will exit in March.

While these presidential road-shows may have some value they do not seem to offer incentives that are attractive. The government and agencies seeking investment have failed to come up with a unique selling proposition, to use the advertiser's lingo. Before EU membership, particularly in the '90s, the 4% corporate tax attracted big numbers of foreign businesses to the island marketed as being at the "crossroads of three continents".

This matters very little, in the age of the Internet, but the government could still market Cyprus as an international business centre as corporate tax remains relatively low - this is why the feared mass exodus of companies after March 2013 did not materialise - and because it offers a good lifestyle. Many foreigners have their businesses here because of the lifestyle they can enjoy.

There are no big distances to travel to work, meeting up with friends is not a logistics exercise as it is in big cities, the weather is perfect apart from the peak summer months, the beach is only a short drive away, there are English language schools in all towns and it is a very safe place to bring up children. These are just a few of the factors that contribute to an easy and relaxed lifestyle and should be used by the government to sell Cyprus to foreign businessmen.

If the current peace talks lead to a settlement of the Cyprus problem we would have a second unique selling proposition apart from the good lifestyle - the only peaceful and stable country in the eastern Mediterranean.

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