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Amendments to financial sector legislation in 2006 and 2007

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Harmonization with the EU directives and the EU accession process in 2006 and in 2007 resulted in substantial amendments to financial sector and other related legislation in Croatia. Particularities of the Croatian market conditions, still dominated by the transition processes, have also led to novel legislative solutions.

The new (and first-ever) Leasing Law and the Credit Unions Law were enacted, and the existing Banking Law, the Securities Market Law, and the Foreign Exchange Law were amended. The new Investment Promotion Law replaced the old law on investment promotion, which did not prove successful in achieving the results the legislator expected.

Implications for investors

The amendments to the Banking Law and the new Credit Unions Law provide for a new type of credit institution in Croatia: savings banks and credit unions. Savings banks are designed to help boost competition in the Croatian banking market (which is currently rather concentrated, with six major banks dominating the market), and to make financial services more easily available to individuals, as well as to medium and small entrepreneurs. Credit unions are intended to replace savings and loan associations, which have, due to the lack of an appropriate legal framework, frequently been associated with illegal activities, scandals and bankruptcies. For these reasons, the Credit Unions Law has introduced detailed financial criteria (regarding share capital, mandatory reserves, etc.) to safeguard the stability, solvency and liquidity of credit unions.

The amendments to the Foreign Exchange Law aim to eliminate restrictions on invest-

ments by non-residents into domestic securities as well as restrictions on capital transactions and cash payments. However, the application of certain amended provisions of the Foreign Exchange Law is suspended for the time being. The complete liberalization of capital and cash payment transactions is expected to occur by January 1 2009.

The amendments to the Securities Market Law introduce the notion of derivatives into the Croatian legal system. Certain additional legal requirements are established, aimed at fostering further development of the capital markets in Croatia and increasing their liquidity, transparency and security for investors. These include requirements concerning the minimum share capital of stock exchanges, membership of the management board of brokerage companies, the prevention of market manipulation and misuse, and reporting obligations.

The Leasing Law regulates, for the first time in Croatia, the business activities of leasing companies. The leasing industry, according to the ratio of its total assets compared to the Croatian GDP, has been the second largest industry in Croatia. It has influenced intensive growth in Croatia's foreign debt. For this reason, the legislator has established a number of legal requirements that leasing companies must comply with to continue pursuing leasing activities in Croatia. These include requirements for a minimum share capital, membership of the management board, establishment of a supervisory board, and mandatory reporting to the regulator. In addition, the Leasing Law expressly prohibits leasing companies from providing loans to individuals and legal entities (which was their regular practice before the Leasing Law was enacted).

The new Investment Promotion Law introduces various incentives for investors, such as tax and customs benefits. These are applicable to existing companies as well as to companies yet to be incorporated. However, they are restricted to manufacturing, development and innovation, and business support activities.

A number of changes have also been made in 2006 and 2007 to sub-legislation in the fields of banking, investment funds, brokerage companies, insurance and reinsurance companies, and pension funds, to name a few.

A new regulator – the Croatian Financial Services Supervisory Agency (Hanfa) – started its work on January 1 2006. Hanfa has taken over the activities and responsibilities of the former Securities Commission, the Pension Funds and Insurance Supervisory Agency, and the Insurance Companies Supervisory Agency. Among other functions, Hanfa supervises leasing companies.

Prospects for 2007 and 2008

According to the Croatian Pre-accession Economic Program, in 2007 and 2008 the legislator should prepare and adopt six new laws regulating the banking sector (i.e. the Law on Insurance of Deposits, the Law on Financial Collateral, the Law on Credit Institutions, the Law on Payment Systems, the Law on Reorganization and Liquidation of Financial Institutions, and the Law on Financial Conglomerates). The Law on Credit Institutions and respective sub-legislation is of particular interest to the legislator, as it incorporates into Croatian legislation the EU Capital Requirements Directive and Basel II principles.

In addition, an expert from the Croatian accession negotiations team reported recently that seven existing laws regulating the financial sector should be harmonized with the EU directives by the end of 2008. Discrepancies between Croatian legislation and EU legislation are still present in the securities markets, investments services and the infrastructure of the financial markets.

Capital markets

Recommended firms
Tier 1 Bogdanovic Dolicki & Partners Porobija & Porobija Zuric i Partneri
Tier 2 Divjak Topic & Bahtijarevic Hanzekovic Radakovic & Partners Markovic & Pliso Vukic Jelusic Sulina Stankovic Jurcan & Jabuka

Banking

Recommended firms
Tier 1 Bogdanovic Dolicki & Partners Porobija & Porobija Zuric i Partneri
Tier 2 Hanzekovic Radakovic & Partners
Tier 3 Babic & Partners Divjak Topic & Bahtijarevic Markovic & Pliso Savoric & Partners Travas & Partners Vukic Jelusic Sulina Stankovic Jurcan & Jabuka Vukmir & Associates

Mergers and acquisitions

Recommended firms
Tier 1 Bogdanovic Dolicki & Partners Porobija & Porobija Zuric i Partneri
Tier 2 Divjak Topic & Bahtijarevic Hanzekovic Radakovic & Partners Markovic & Pliso Savoric & Partners Vukic Jelusic Sulina Stankovic Jurcan & Jabuka
Tier 3 Babic & Partners Cipic-Bragadin Nikolina Golubic in association with Schönherr Vukmir & Associates

Project finance

Recommended firms
Tier 1 Bogdanovic Dolicki & Partners Porobija & Porobija Zuric i Partneri
Tier 2 Divjak Topic & Bahtijarevic Hanzekovic Radakovic & Partners Markovic & Pliso Savoric & Partners Vukic Jelusic Sulina Stankovic Jurcan & Jabuka

In recent years a drive for consolidation in the banking market has spurred the M&A market. Banks have been diversifying and attempting to combine their core business with insurance and credit card products, which is why, for example, Erste Bank acquired Diners Club Adriatic. The market has also seen a huge expansion in loan placements to individuals, as the banks seek to take advantage of interest rates that are still relatively high compared to those in neighbouring jurisdictions. They have been more reluctant to lend to companies however, where risk exposure is seen as higher and this has seen many companies exploring alternative financing routes such as those of the capital markets.

Local companies, now exposed to greater international competition, are seeking either to expand regionally or to sell to a strategic investor. The four largest and most notable acquisitions over the last year were of Pliva, Splitska Banka, DCA and Dukat. The real-estate sector has proven to be a particularly reliable source of work, with investors profiting by setting up special-purpose vehicles for real-estate developments and then selling to developers.

The inauguration of the country's first public-private partnership, to develop the Zagreb Arena, suggests that more such projects will follow in the future, and because the perception is that no national jewels are being sold off these structures are politically popular. The same can be said of the purchase of shares by Croatian citizens, thousands of whom have made such investments, because they are not taxed on their investments. This was witnessed with the privatization of INA, the national oil company, via an initial public offering (IPO). The deal also signalled that further privatizations, possibly through the IPO route, are on the horizon although they will probably not take place before Croatia's general election in November.

Capital markets activity is likely to pick up further in the future as a result of the merger of the country's two stock markets at the beginning of 2007. Trading in derivatives is set to commence by the end of 2007 and a new

Securitization Act is expected to be enacted in the last quarter of the year, placing additional requirements on the country's capital markets to step in line with the rest of the EU.

Austrian law firms have been steadily setting up shop in Croatia. The newcomers are working as limited companies – meaning they do not list on the commercial register as law firms – allowing them to circumvent restrictive rules that would otherwise restrict advertising and even forbid law firms to have a website. This piques many at the indigenous practices, as some perceive the recent start-ups to be flouting Croatian regulations and operating at an unfair advantage. The Croatian Bar is opposing the exploitation of this loophole, but a legal barrier to the practice is yet to be set down.

Babic & Partners

Founded in 1994 by the charismatic Boris Babic, the firm changed its name from Law Office Babic in December 2006 when three associates were promoted to partner level. The team now comprises four partners with a further four lawyers in support and this competent unit is increasingly making its presence felt in the market. With more than 95% of its clients being foreign or foreign-based companies, the firm can claim to be truly international and continues to benefit from referrals from Baker & McKenzie.

The firm's strength lies in its M&A work. The two highlights of the last year came in the form of attempted acquisitions. In one, the firm represented a major international corporation in its bid for eastern Europe's largest pharmaceuticals company, Pliva, the first significant attempt at a hostile takeover in Croatia under the new takeover laws – the bid failed when the target responded with a white knight strategy. In the other, the team advised an international bank on its unsuccessful bid in the €1 billion sale by auction of Splitska Banka.

The firm has also been making inroads into project finance. Recently it has been supporting an international corporation in its participation in a public-private partnership (PPP) to construct and operate of the sports arena for the Handball World Championship. Babic has also been providing strategic advice to one of the world's two largest environmental companies on its business framework regulation, concessions, PPP structures and financing. In other work his team has been giving counsel to an international bank in a shopping mall financing project in Croatia on issues including those related to creating and executing securities.

Leading lawyers

Boris Babic

Bogdanovic Dolicki & Partners

There is a consensus in Croatia that “Mirko Bogdanovic and Tin Dolicki without doubt comprise one of the most competent legal units in the country”. The pair commands an enormous amount of respect in the market and this reputation has attracted a number of high-profile clients such as UniCredito Italiano, JPMorgan, and Dresdner Bank. The duo has presided over another year’s top-tier performance in which the firm has given advice on many of the most important transactions to take place in the jurisdiction.

In particular Tin Dolicki is consistently singled out as “a really exceptional lawyer”. One client said: “He has an ability to see through the problem straight away and always knows the best way to achieve the desired outcome.”

Reflecting the general trend in the market, the firm’s M&A department has been kept particularly busy this year. In many prominent cases this was on the sellers’ side, such as the advice it gave on the sale of Diners Club Adriatic, the leading credit card provider in Croatia, UniCredito’s disposal of Splitska Banka to Société Générale, and the takeover of insurance company Osiguranje Zagreb by Basler Versicherungen. On the bidders’ side, the firm most notably represented Banco Popolare Di Verona i Novara in its acquisition of Banka Sonic, subsequently renamed Banco Popolare Croatia.

At the time of writing Bogdanovic Dolicki & Partners was also representing JPMorgan in the much talked-about pending IPO of Croatian telecoms company T-Hrvatski Telekom. At the same time the firm was advising Croatia’s largest bank, Zagrebacka Banka, on the financing of two large shopping centres being constructed in Zagreb.

Leading lawyers

Mirko Bogdanovic
Tin Dolicki
Mladen Markoc

Divjak Topic & Bahtijarevic

Divjak Topic Bahtijarevic – which now consists of three partners, six senior associates and seven junior associates and trainees – has seen steady growth for some time, culminating in “quite a boost in the last few years”, according to one interviewee. The firm has decided to grow organically and not by acquisition. After all, as one partner said: “In Croatia it’s very rare for leading partners to move around like football players as they do in London.” This ratcheting-up of capacity has seen the firm become increasingly active in the market and it has advised on an impressive number of transactions over the last year.

The practice’s growing presence in banking is a case in point, an area where it represents a number of leading financial institutions. In September 2006 the firm advised UBS, HSBC and JPMorgan concerning an impressive €3.4 billion syndicated loan to Actavis Group for the acquisition of Pliva. In the event Actavis was pipped at the post by Barr Pharmaceuticals, and kept the money for financial restructuring and other acquisitions in Croatia.

The following month the practice advised ING Bank on a €135 million loan for Euromedic, Europe’s largest drugs wholesaler. The team frequently represents borrowers as well, as it most conspicuously did for GTC, a member of the Kardan Group, in the procurement of a €42 million syndicated loan from MKB Bank and Zagrebacka Bank. The firm also offers advice on regulatory matters to an impressive client list which includes Calyon, Allianz, and JPMorgan Chase.

The capital markets practice of Divjak Topic Bahtijarevic has been particularly active in the last 12 months. In December 2006, it acted for Citibank as arranger of a €200 million issue of global depository receipts on the London Stock Exchange by Croatia’s largest company, INA. So far in 2007 the firm has also given counsel to UniCredit Bank Mobilare, in connection with a €10 million issuance of debt securities, and to Calyon regarding a €22 million placement of structured debt products. At the time of writing, the team was giving advice to Meisl Bank in the pending €40 million first listing of a foreign company on the Zagreb Stock Exchange, and to Podravka on a €50 million issue of preferred shares.

Divjak Topic Bahtijarevic also continues to be busy in the field of M&A. In September 2006 Damir Topic led a team that represented Sanpaolo in the €80 million acquisition of a leading Croatian bank. In January 2007 the same individuals were hired by Allianz to give advice on the tender procedure for the €120 million acquisition of insurance company Zagreb Osiguranje. The firm has also been called upon this year to give guidance on acquisitions by Woolseley and Federa Signal Corporation.

This year has seen a notable increase in project finance. Among the highlight contracts, Emir Bahtijarevic led a team advising GTC on the €85 million construction and development of the largest shopping centre in Croatia. Four months later the same client rehired the team’s tried-and-tested expertise in conjunction with the development of a large golf and recreation resort. At the time of writing the firm had also been selected to advise Trigranit Ingra on the €180 million development of a sports dome and shopping centre.

Leading lawyers

Damir Topic

Hanzekovic Radakovic & Partners

Lex Mundi member Hanzekovic Radakovic & Partners has nine partners and seven associates across two offices in Zagreb.

The M&A department had another big year giving advice in connection with two of the most talked-about transactions of the year: the €153 million sale of credit card company Diners Club and the acquisition of HVB Splitska Bank. In other highlights the firm gave counsel in respect of the €16.7 million acquisition of Jadrantrans Novi and Immobiliare Univero, and the €10 million acquisition of Istra Commerce.

The firm had a quieter year in banking. Most of its business involved providing advice on a \$200 million arrangement of senior credit facilities, a €50 million financing acquisition of high-end value assets, and a €10 million securities agreement. However, the team did get stuck into some equity capital markets work with the IPO of Magma.

The project finance practice benefits from a solid reputation. At the time of writing it was advising on three separate motorway projects.

Porobija & Porobija

Market participants are united in their admiration of Boris Porobija, who is seen as having “a good balance between being a managing partner and a true practising lawyer”. Competitors praise his technical skills as well as his understanding of the law’s application – “he is in command and gets things done in minutes”. Many see him as Croatia’s leading corporate lawyer, so it was hardly surprising that Croatia’s largest pharmaceuticals company, Pliva, sought out his counsel when it found itself the target of a takeover bid by two competing bidders – eventually Pliva was bought in October 2006 by Barr Pharmaceuticals for \$2.5 billion.

The reputable M&A team has certainly been well positioned to benefit from the acquisitions boom and played a leading role in a number of other standout transactions. In June 2006 the firm acted both for Mid Europa Partners in its €26 million acquisition of a majority stake in a Croatian cement production company and Veneto Banca in its \$14 million acquisition of a majority stake in a mid-sized Croatian bank. The following month the practice advised the leading Slovenian retail chain Mercator on its acquisition of 100% of the shares of Presoflex, a Croatian grocery business.

The firm's work is not limited to M&A however and the practice has a strong reputation among those leading the field in banking and project finance. In recognition of her work in these areas, Zeljaka Rostas-Blazekovic was promoted to partner level at the end of 2006. This means that Porobija & Porobija now has four partners and they are assisted by a further 10 lawyers.

The practice is also active in capital markets and is one of the only firms in the country involved in Eurobonds. The team's reputation is such that both Croatian stock exchanges, in Zagreb and Varazdin respectively, sought its expertise in relation to their merger which was finally realized on March 16 2007. The firm was also selected to act as Croatian counsel for Merrill Lynch and Raiffeisen Centrobank in the highest-profile capital markets transaction of the last year, the \$540 million IPO of INA, the Croatian national oil company, on the Zagreb and London Stock Exchanges in December 2006.

In other capital markets work a team advised on the €13 million capital increase of Veneto Banca's recently acquired Croatian bank through a private placement. In a similar transaction the practice gave counsel on the €18 million capital increase of Erste&Steiermarkische Bank, also through a private placement. Erste was obviously happy with the service Porobija & Porobija had provided as evidenced by the firm's recent recall to give advice on a further increase for €95 million.

Leading lawyers

Drazen Grubisic Cabo
Boris Porobija
Zeljaka Rostas-Blazekovic

Savoric & Partners

The team at Savoric & Partners advises a number of international clients in corporate and financial transactions and is well respected in the market, particular for its work in M&A. "Boris Savoric has really built up a good reputation in recent years because of the high quality of his work and the contacts he has built up," said a competitor. The firm's practice is seen as a strong option for clients seeking an Anglo-Saxon model for transactions, although some see this as a limitation.

There are many heavyweight internationals on the firm's client list including the European Bank for Reconstruction and Development, ABN Amro, Morgan Stanley and Deutsche Bank. The practice also has informal referral relationships with White & Case and Weil Gotshal.

Zuric i Partneri

Since the firm was founded in 1992 by Ratko Zuric, Zuric i Partneri has grown steadily and is now one of the largest law firms in the country. Having recruited three new associates in the past year, the firm employs 22 lawyers including five partners.

The firm is particularly proud of its standing in M&A and privatization and justifiably so – its track record and feedback from competitors suggest considerable expertise in the acquisition of local companies and banks.

Many other firms see Zuric i Partneri as the biggest competition, with both Rasko and Dusko Zuric frequently praised along with the "very capable" Bojan Fras. Clients and competitors also single out Tomislav Tus because "he covers the crucial points effectively and you know that deals will be closed quickly". Due to the firm's leading position in the market, it boasts a star-studded international client list including Erste Bank, the Croatian National Bank, Bloomberg, Colgate Palmolive, Commerzbank, Deutsche Bank, Dresdner Bank, General Motors, Merrill Lynch, and Morgan Stanley.

Among its highest-profile transactions of 2007, the firm acted for Lactalis Groupe in the €270 million acquisition of Dukat, and for Erste bank in the €150 million acquisition of Diners Club Adriatic. Zuric i Partneri also advised on the €120 million takeover of a construction company in the biggest ever hostile takeover in Croatia's history.

Leading lawyers

Dusko Zuric
Ratko Zuric

Other notable firms

Markovic & Pliso has been a partnership since 1995, although its roots go back to 1987 when name partners Zoran Markovic and Miroslav Pliso first set up law firms in Croatia. The resultant wealth of experience at the firm is recognized by the market, especially with regard to M&A. However, Markovic & Pliso does have many banking clients and is active in corporate work and project finance.

Nikolina Golubic works in association with Austrian firm Schönherr and is also well respected in M&A. In the past, it has been part of transactions involving clients such as Farmacija, Medifarm-Velebit, Nova Banka and OTP Bank.

Vukic Jelusic Sulina Stankovic Jurcan & Jabuka was established in 1969 and is traditionally known for its work in shipping. However, the firm has grown substantially in recent years and now comprises 10 partners and 12 associates. This growth has enabled the firm to focus more on corporate and com-

mercial work. In the past year, the firm has acted on the takeover of a Croatian newspaper company and the sale of a Croatian bank. It has also given legal opinion on the restructuring of Croatian shipyards and the biggest residential construction project in Rijeka.