

# Croatia

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## A brief overview of eurobond issues – a Croatian perspective

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In recent years Croatia has gradually adopted the international practices and models of financing. For example, mechanisms for raising state financing in Croatia have significantly improved. Particularly interesting has been the growing importance of eurobonds as an instrument of public debt. In this respect, the country follows recent international trends.

However, despite the fact that Croatian entities – or, to be more specific, the Croatian government – frequently issue eurobonds, the domestic legal market lacks the literature that enables lawyers to acquire specific knowledge in this field.

Although eurobond issues are relatively common in Croatia, the domestic legislation has not been changed to reflect or facilitate this. This has not, however, hindered the issuance process, as the principles and rules of placing bonds on the euromarket are not defined by any government or supranational institution. A liberal regulatory framework has been set up by the market participants, promoting openness to international investors and enabling issuers to raise funds from various parts of global economy.

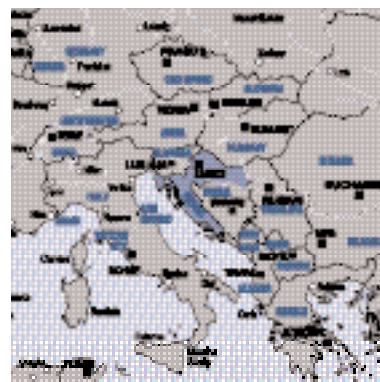
### Overview of the procedure of issuing a eurobond

Eurobonds are bonds denominated in a convertible currency that are placed simultaneously to a wide range of investors in diverse countries who have been approached by an international syndicate of banks who have underwritten the issue.

Once an investment bank has won the lead manager mandate from the issuer, that bank shall form the underwriting syndicate, which acts as an intermediary between the issuer and the end investors. The syndicate can be structured in various ways. It normally consists of the managers, underwriters and the selling group. Only the managers have a direct contractual relationship with the issuer. The others derive their commitments from the managers' obligations. Underwriters subscribe to part of the issue and, along with the managers, they are exposed to market risk and to the consequences of the potential lack of demand for the bonds.

The members of the selling group are not subscribers, which means that the managers cannot invite them to subscribe to any part of the issue they did not manage to place. The obligations of the selling group members are fulfilled when they pay for their tranche of bonds.

Signing the subscription agreement (between the managers and the issuer) represents the syndicate's underwriting commitments. It means that the issuer transfers the market risk – in other words, a potential lack of demand for the bonds shall not have, from the issuer's perspective, a negative impact on the issue proceeds.



The last stage of the procedure is the primary settlement of the issue, when issue proceeds are made available to the issuer in exchange for the bonds – temporarily represented by a global bond.

#### Documentation for eurobond issues

The **invitation telex** is the document on the basis of which the addressed institutions decide whether or not to join the syndicate. At this stage however, the decision is not binding – consent to join a syndicate may be withdrawn where the terms under which bonds are issued change.

The **offering circular** is the document published for the selling group and the stock exchange, and is prepared by the lead manager and the issuer. It contains the basic terms and conditions of the issue and relevant details regarding the issuer and its business. The extent to which the details are revealed depends on the rules of the stock exchange on which the bonds are to be listed and the informal standards of the euromarket.

The managers and the issuer enter into a **subscription agreement**. This agreement stipulates the terms under which the managers agree to underwrite the issue. It contains numerous provisions, but the most important ones are certainly the joint and several obligation clause for the managers, representations and warranties to the managers and the force majeure clause.

The **agreement among managers** determines what portion of the issue each manager agrees to subscribe to. This agreement is only effective if the subscription agreement has been signed.

The managers and the underwriters enter into an **underwriting agreement** in order to determine their underwriting commitments and an appropriate fee.

The parties to the **selling group agreement** are the managers and the selling group. Under this agreement the selling group members are obliged to pay for their part of the issue, but with a selling group discount. An important part of this agreement is the clause containing the selling restrictions, which mostly refer to bonds to be traded in the US.

Under the **fiscal agency agreement** the issuer authorizes a bank or other financial institution to undertake certain actions in relation to the new issue, such as making payments of principal and interest to the relevant parties.

#### Conclusion

Eurobonds and their placement represent an interesting development in Croatian legal and economic practice. However, such practice does not have a particular impact on the developments of the domestic regulatory environment. The need to apply methods which are not a part of a domestic legal system makes eurobond placement a challenging task for the lawyer. As stated previously, Croatia exercises the practice of eurobonds through government bond issues. In this respect, it is to be emphasized that the frequency and intensity with which government bonds are traded in the international market, represent the most realistic and objective indicator of the country's economic and political status in the international community.

## Banking

### Recommended firms

Bogdanovic Dolicki

Hanzekovic & Radakovic

Porobija & Porobija

Zuric i Partneri

Law Office Babic

Markovic & Pliso

Vukic Jelusic Sulina Stankovic Jurcan & Jabuka

Vukmir & Associates

Divjak Topic & Bahtijarevic

Law Office Dragicevic

Travas & Partners

Wolf Theiss

## Capital markets

### Recommended firms

Bogdanovic Dolicki

Porobija & Porobija

Hanzekovic & Radakovic

Markovic & Pliso

Vukic Jelusic Sulina Stankovic Jurcan & Jabuka

Zuric i Partneri

Vukmir & Associates

Wolf Theiss

## Mergers and acquisitions

### Recommended firms

Bogdanovic Dolicki

Hanzekovic & Radakovic

Porobija & Porobija

Zuric i Partneri

Markovic & Pliso

Vukic Jelusic Sulina Stankovic Jurcan & Jabuka

Vukmir & Associates

Cipic-Bragadin

Divjak Topic & Bahtijarevic

Wolf Theiss

## Project finance

### Recommended firms

Porobija & Porobija

Zuric i Partneri

Bogdanovic Dolicki

Hanzekovic & Radakovic

Markovic & Pliso

Vukic Jelusic Sulina Stankovic Jurcan & Jabuka

DLA Weiss-Tessbach

Divjak Topic & Bahtijarevic

### Bogdanovic Dolicki

Associated with UK law firm Lovells, Bogdanovic Dolicki is highly respected in Croatia for its strong banking, capital markets and mergers and acquisitions practice. The firm's client list includes large financial institutions, corporates and insurance companies. Mirko Bogdanovic is particularly recommended by the market for his expertise in both the legal and commercial aspects of banking deals, and Tin Dolicki is singled out for his mergers and acquisitions work.

#### Leading lawyers

Mirko Bogdanovic  
Tin Dolicki

### Cipic-Bragadin

Two-partner firm Cipic-Bragadin is best known for its corporate and private equity work, both domestic and international. Recent deals have included advising a UK investment fund on setting up a Croatian subsidiary, including handling the financing and corporate governance issues; acting for Korsnäs Packaging, a Croatian branch of one of the world's leading paper companies, on corporate governance and liquidation matters; representing the buyer on the management buyout of Tlos, one of Croatia's leading medical equipment companies; and advising the buyer in connection with the privatization of Medic, the leading producer of medical equipment in Bosnia and Herzegovina. The firm also advised the Croatian Employers' Union and the Croatian Banking Association on the setting up of the Croatian National Committee of the International Chamber of Commerce.

The firm boasts a strong list of clients in the construction industry. It advises a Croatian client on construction and financing issues connected with building a factory in China, and acts for Albin-Schreuer, a German construction company, in connection with its acquisition of Croatian company Eurokrov. The firm also has an active insolvency and debt recovery practice, advising German company Intermont, as well as acting for the lender in the Glumina Bank insolvency, and acting for the shareholders in the insolvency proceedings of Enco.

#### Key contact partner

Silvije Cipic-Bragadin

### Divjak Topic & Bahtijarevic

Based in Zagreb, Divjak Topic & Bahtijarevic makes its first appearance in the rankings this year, on the basis of its performance in banking, mergers and acquisitions and project finance.

The firm has a good client list, including Podravska Bank (the oldest Croatian bank) and US investment funds, and is particularly active in advertising and media acquisitions. In project finance, the firm represented the government on the reconstruction of the port in Rijeka, financed by the European Bank for Reconstruction and Development.

#### Key contact partners

Emir Bahtijarevic  
Sasa Divjak  
Damir Topic

### Hanzekovic & Radakovic

Hanzekovic & Radakovic offers advice in all areas of financial law. The firm is rated highly by the market, in particular for its banking and mergers and acquisitions practice, though its reputation is also growing in the area of project finance.

#### Key contact partner

Marijan Hanzekovic

### **Porobija & Porobija**

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Porobija & Porobija stands out from the rest of the market in Croatia as the only firm to appear in the top tier of every category of rankings. It has a particularly strong reputation, however, in capital markets and project finance, and partner Boris Porobija wins praise from the market for his project finance and banking work.

Clients for whom the firm has recently worked include Deutsche Bank, Credit Suisse First Boston, Bank Austria and the European Bank for Reconstruction and Development.

#### **Leading lawyer**

Boris Porobija

### **Vukic Jelusic Sulina Stankovic Jurcan & Jabuka**

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Based in Rijeka with partner offices in Zagreb, Varazdin and Osijek, Vukic Jelusic is well regarded in all areas of financial law, offering advice on banking, capital markets, corporate and project finance. The firm has recently strengthened its practice with the recruitment of two new associates.

Recent deals in project finance include advising on the building of the World Trade Centre in Rijeka, a shopping and trading centre, and advising Mercator Ljubljana, in Slovenia, on the building of a chain of shopping and trading centres.

#### **Key contact partner**

Hrvoje Vukic  
Zoran Vukic

### **Vukmir & Associates**

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Particularly well respected in mergers and acquisitions, Vukmir & Associates continues to win its share of the corporate and commercial work available, as well as offering advice in capital markets and banking.

Clients for which the firm has worked recently include Italian eyewear retailer Salmoiraghi & Vigano, Hewlett Packard and SEAF Croatia, the Croatian arm of an international fund manager.

#### **Key contact partners**

Sanja Tkalec Kovac  
Mladen Vukmir

### **Wolf Theiss**

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Austrian firm Wolf Theiss makes its first appearance in the Croatian rankings, a year of acting in significant transactions, particularly in banking, mergers and acquisitions and privatization. The firm benefits strongly from its Austrian client base.

Deals this year include advising Bank Austria Creditanstalt on its acquisition of Splitska Banka, including due diligence, contract negotiation, and the preparation of

the takeover bid for Splitska Banka's publicly owned shares, as well as subsequent advice on cartel proceedings and internal organization issues. The firm also advised Bank Austria Creditanstalt on its bid to privatize Croatia Banka.

After its acquisition by Bank Austria Creditanstalt, Splitska Banka then instructed Wolf Theiss on its cooperation agreement with Fina, the state-owned agency for payment transactions, in relation to the operation of 30 Splitska Banka branch offices. The firm also advised on the sale of Splitska Banka's stake in Adriatic Invest, a Croatian pension fund managing company, to a subsidiary of Erste Bank.

On the corporate side, the firm advised a large Austrian construction company on the €55 million (\$67 million) sale of its stake in a Zagreb building development, acted for a major European retail chain on its entry into the Croatian market, represented an Austrian provider of cleaning services on the restructuring of its Croatian subsidiary, and provided general corporate advice to Austrian Wind Power on its Croatian subsidiary.