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GUVERNER

Pursuant to Article 8, paragraph (21) and Article 42, paragraph (4) of the Act on the Resolution of Credit Institutions and Investment Firms (Official Gazette 19/2015) and Article 43, paragraph (2), item (9) of the Act on the Croatian National Bank (Official Gazette 75/2008 and 54/2013), the Governor of the Croatian National Bank hereby issues the

Decision
on actions in exercising the power to write down and convert capital instruments

I GENERAL PROVISIONS

Subject matter
Article 1

(1) This Decision governs in detail:

- 1) the carrying out of a simplified share capital reduction or cancellation of existing shares or other instruments of ownership;
- 2) dilution of the shareholder structure;
- 3) the conditions for determining the conversion rates of relevant capital instruments into common equity tier 1 instruments.

(2) The provisions of this Decision shall apply to the exercise of the power of the Croatian National Bank to write down capital instruments and convert relevant capital instruments in accordance with Title VI of the Act on the Resolution of Credit Institutions and Investment Firms (hereinafter referred to as 'write-down and conversion power') of a credit institution which has its head office in the Republic of Croatia and which has been authorised by the Croatian National Bank.

(3) The provisions of this Decision, to the extent applicable, shall apply *mutatis mutandis* to the exercise of the write-down and conversion power of the Croatian National Bank in relation to a branch of a third-country credit institution that has been authorised by the Croatian National Bank to establish a branch of a third-country credit institution.

Compliance with the guidelines of the European Banking Authority
Article 2

This Decision brings the legal system of the Republic of Croatia into compliance with the Guidelines of the European Banking Authority of 11 July 2017: Final Guidelines on the rate of conversion of debt to equity in bail-in (EBA/GL/2017/03) and Final Guidelines on the treatment

of shareholders in bail-in or the write-down and conversion of capital instruments (EBA/GL/2017/04).

Terms and definitions
Article 3

The terms used in this Decision shall have the following meaning:

1. '*instruments of ownership*' shall have the meaning as defined in Article 4, paragraph (2), item (59) of the Act on the Resolution of Credit Institutions and Investment Firms (hereinafter referred to as 'the Act');
2. '*shareholder*' shall have the meaning as defined in Article 4, paragraph (2), item (60) of the Act;
3. '*dilution of the shareholder structure*' means the issuance of new shares or other instruments of ownership where the existing shareholders' future rights are reduced while property and management rights are retained proportionately;
4. '*relevant capital instruments*' shall have the meaning as defined in Article 4, paragraph (2), item (71) of the Act;
5. '*conversion rate*' shall have the meaning as defined in Article 4, paragraph (2), item (72) of the Act;
6. '*affected creditor*' shall have the meaning as defined in Article 4, paragraph (2), item (73) of the Act;
7. '*resolution objectives*' shall have the meaning as defined in Article 6 of the Act;
8. '*general principles governing resolution*' shall have the meaning as defined in Article 7 of the Act.

II VALUATION OF ASSETS AND LIABILITIES

Article 4

(1) The Croatian National Bank may, in accordance with Article 37, paragraph (1) of the Act, write down capital instruments and convert relevant capital instruments into common equity tier 1 instruments.

(2) In accordance with Article 38, paragraph (1) of the Act, before exercising the write-down and conversion power, the Croatian National Bank shall ensure that a valuation of assets and liabilities of a credit institution is carried out in accordance with Article 35 of the Act (hereinafter referred to as 'valuation').

(3) The valuation shall be the basis for comparison of the outcome for shareholders and creditors of the exercise of the write-down and conversion power and the outcome for shareholders and creditors of bankruptcy proceedings.

III TREATMENT OF SHAREHOLDERS

Simplified share capital reduction and cancellation of instruments of ownership

Article 5

(1) In accordance with Article 41, paragraph (1) of the Act, when exercising the write-down and conversion power, the Croatian National Bank shall, in respect of shareholders, have the power to carry out a simplified share capital reduction or cancel existing shares or other instruments of ownership.

(2) Where the Croatian National Bank, in accordance with Article 37, paragraph (1) of the Act, exercises the write-down and conversion power and where, in accordance with the valuation, the assets of the credit institution are less than or equal to its liabilities, the measure referred to in paragraph (1) of this Article shall be implemented in whole.

(3) Where the Croatian National Bank, in accordance with Article 37, paragraph (1) of the Act, exercises the write-down and conversion power and where, in accordance with the valuation, the assets of the credit institution exceed its liabilities, the measure referred to in paragraph (1) of this Article shall be implemented in part, in such a way as to ensure to shareholders the value of assets that is at least the same as the estimated outcome for shareholders if bankruptcy proceedings had been carried out against the credit institution.

(4) By way of derogation from paragraph (3) of this Article, where, in accordance with the valuation, the assets of the credit institution exceed its liabilities but, in accordance with the estimated outcome if bankruptcy proceedings had been carried out against the credit institution, it is not necessary to ensure to shareholders a specific value of assets, the measure referred to in paragraph (1) of this Article may be implemented in whole in order to achieve the resolution objectives.

Dilution of the shareholder structure

Article 6

(1) Provided that, in accordance with the valuation, the assets of the credit institution exceed its liabilities, in accordance with Article 41, paragraph (1) of the Act, when exercising the write-down and conversion power, the Croatian National Bank shall have the power to dilute the existing shareholder structure by converting the relevant capital instruments issued by the credit institution into common equity tier 1 instruments.

(2) Where the Croatian National Bank, in accordance with Article 37, paragraph (1) of the Act, exercises the write-down and conversion power, the dilution referred to in paragraph (1) of this Article shall be implemented individually or in combination with the measure referred to in Article 5, paragraph (3) of this Decision, taking into account the achievement of the resolution objectives.

(3) The dilution referred to in paragraph (1) of this Article shall be carried out at the conversion rate that severely dilutes the existing shareholder structure.

(4) The severe dilution referred to in paragraph (3) of this Article means a reduction of a shareholder's percentage in the share capital of the credit institution with the reduction of the nominal value of shares or other instruments of ownership. Such dilution shall not put shareholders to a position less favourable relative to the estimated outcome if bankruptcy proceedings had been carried out against the credit institution.

IV CONVERSION RATE OF RELEVANT CAPITAL INSTRUMENTS

Determining a conversion rate Article 7

(1) When converting relevant capital instruments into common equity tier 1 instruments, the Croatian National Bank shall apply the same conversion rate to all classes of relevant capital instruments.

(2) By way of derogation from paragraph (1) of this Article, in accordance with Article 42, paragraphs (1) and (2) of the Act, when converting relevant capital instruments into common equity tier 1 instruments in accordance with Article 37, paragraph (1) of the Act, the Croatian National Bank may apply different conversion rates to different classes of relevant capital instruments, where the conversion rate shall represent appropriate compensation to the affected creditor for any loss incurred due to the exercise of the write-down and conversion power.

(3) The Croatian National Bank shall apply different conversion rates to different classes of relevant capital instruments to the extent necessary to achieve the resolution objectives or the general principles governing resolution.

Application of general principles Article 8

(1) When ensuring the application of the general principles governing resolution, the Croatian National Bank shall determine the conversion rate primarily taking into account the following principles:

1) the shareholders of the credit institution bear first losses;

2) the creditors of the credit institution under resolution bear losses after the shareholders in accordance with the order of priority of their claims in accordance with the law governing bankruptcy proceedings;

3) except where otherwise prescribed in the Act, creditors who fall within the same class in the case of the opening of bankruptcy proceedings are treated in an equitable manner;

4) no shareholder or creditor shall incur greater losses than would have been incurred if bankruptcy proceedings had been opened against the credit institution in accordance with the safeguards referred to in Title XII of the Act.

(2) The valuation shall include the valuation of common equity tier 1 instruments issued to affected creditors in the exercise of the write-down and conversion power.

(3) The Croatian National Bank may determine different conversion rates for different classes of relevant capital instruments if the estimated value of common equity tier 1 instruments issued to affected creditors is less than the value of all claims related to liabilities in relation to which the write-down and conversion power has been exercised.

Creditor hierarchy

Article 9

(1) Common equity tier 1 instruments may be issued pursuant to the conversion of liabilities related to claims that are classified into different priority levels in bankruptcy proceedings when, after the conversion of liabilities related to lower priority claims, the conversion of liabilities related to higher priority claims is carried out.

(2) In accordance with Article 42, paragraph (3) of the Act, where the Croatian National Bank applies different conversion rates, the conversion rate applicable to liabilities related to claims that are classified into higher priority claims in bankruptcy proceedings and have seniority in settlement shall be higher than the conversion rate applicable to liabilities related to lower priority claims.

(3) When converting liabilities related to claims that are classified into different priority levels in bankruptcy proceedings, the value of common equity tier 1 instruments issued to affected creditors with higher priority claims shall not be less than the value of their claims related to liabilities in relation to which the write-down and conversion power has been exercised.

(4) Where the condition referred to in paragraph (3) of this Article is not met, the conversion rate applicable to liabilities related to lower priority claims shall be equal to or close to zero.

Safeguards for shareholders and creditors

Article 10

(1) The Croatian National Bank shall determine the conversion rate in such a way that the exercise of the write-down and conversion power does not represent for shareholders and creditors a worse outcome than would be the outcome for shareholders and creditors of bankruptcy proceedings.

(2) Actions in accordance with paragraph (1) of this Article shall imply that the conversion rate applicable to liabilities related to higher priority claims shall not represent disproportionate benefit to affected creditors with higher priority claims compared with the value of their claims related to liabilities in relation to which the write-down and conversion power has been exercised.

V FINAL PROVISION

Article 11

This Decision shall enter into force on the eighth day after the day of its publication in the Official Gazette.

No.: 62-020/02-18/BV
Zagreb, 27 February 2018

Croatian National Bank
Governor
Boris Vujčić