

# *Interest Rates on Deposits in Banks in Croatia<sup>1</sup>*

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*Banks are the most important financial institutions in Croatia. They issue loans based on deposits received from citizens and companies. On the other side, depositors are interested in the interest rates on the deposits in banks.*

*Interest rates on bank deposits in Croatia differ regarding the bank size. Taking this into account, small banks usually deal with higher risks and savings interest rates than large banks. All Croatian banks are participating in the deposit insurance system and pay the same premiums in fund of deposit insurance scheme, although the premiums differ according to the bank risk levels. Because the deposit insurance and security protection is fixed at the amount of 100,000 euro, the deposits are safe no matter in which bank they are deposited. To make small banks in Croatia more attractive to depositors, they give higher interest rates on savings.*

*In this article we aim to analyze deposits interest rates between different banks based on their size.*

*Keywords: Bank, Croatia, deposit, interest rate*

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## **1 Introduction**

Banks are the major financial institutions in Croatia. They are distinguished by ownership structure and size. Ownership structure of the banks in Croatia may be private, domestic private ownership and state ownership. Most Croatian banks are in foreign ownership. Looking at the size of banks in Croatia they are divided into small, medium and large. One of the differences in the size of banks in Croatia is evident in the case of interest rates on deposits. In the following parts of this article it will be shown that small banks in Croatia have higher interest rates than larger banks. One of the reasons for this is a cheaper way of raising funds for small banks, but also striving to attract depositors.

## **2 Characteristics of banks in Croatia**

Banks play a dominant role in the financial system of the Republic of Croatia. They are the most active of all financial institutions in the country, both in terms of the payment system and their presence in all the three financial markets: money, foreign exchange and the capital markets.

The share of banks in total financial system has decreased during the thirteen years that are compared in this article, but banks are still the most important and dominate financial institutions in Croatia. In 2002 the share of banks in financial system of Croatia was 90%, but in June 2014 it was 73%. The impact of the crisis has reduced the asset and share of banks in Croatia, but it hasn't significantly affected the banks' position in Croatian financial system. Asset and share of financial institutions in Croatia during the period 2002 - 2014 is shown in Table 1.

Table 1. Assets of financial institutions in Republic of Croatia, 2002 - 2014

<i>Assets of Financial institutions</i>		2002		2003		2004		2005	
At the end of a period, in thousand of HRK and percentage		Amount	%	Amount	%	Amount	%	Amount	%
1	Banks	174,139.20	90.16	204,115.00	89.15	229,305.20	87.28	260,277.20	79.92
2	Housing savings	2,186.31	1.13	3,520.43	1.54	5,351.29	2.04	6,138.35	1.88
3	Insurance companies	11,096.82	5.75	12,688.56	5.54	14,406.54	5.48	16,563.15	5.1
4	Investment funds	3,671.69	1.9	3,918.80	1.71	5,656.01	2.15	10,371.82	3.18
5	Pension funds	2,040.12	1.06	4,706.93	2.06	8,010.16	3.05	11,928.17	3.66
6	Leasing companies							20,403.60	6.26
7	Factoring companies								
	Total	193,134.14	100	228,949.72	100	262,729.20	100	325,682.29	100
<i>Assets of Financial institutions</i>		2006		2007		2008		2009	
At the end of a period, in thousand of HRK and percentage		Amount	%	Amount	%	Amount	%	Amount	%
1	Banks	304,605.30	77.61	345,081.40	74.22	370,093.00	77.19	378,370.60	75.95
2	Housing savings	6,371.41	1.62	6,544.81	1.41	6,957.35	1.45	6,738.46	1.35
3	Insurance companies	19,662.80	5.02	23,245.87	5	25,690.10	5.38	27,919.63	5.6
4	Investment funds	18,482.42	4.71	33,738.61	7.26	11,785.81	2.46	13,875.71	2.79
5	Pension funds	16,377.06	4.17	21,813.78	4.69	23,538.98	4.91	30,627.79	6.15
6	Leasing companies	26,968.59	6.87	30,303.87	6.52	35,067.94	7.31	33,665.81	6.76
7	Factoring companies			4,219.27	0.91	6,342.89	1.32	7,006.83	1.41
	Total	392,467.58	100	464,947.61	100	479,476.07	100	498,204.23	100
<i>Assets of Financial institutions</i>		2010		2011		2012		2013	
At the end of a period, in thousand of HRK and percentage		Amount	%	Amount	%	Amount	%	Amount	%
1	Banks	391,071.20	75.95	406,937.60	76.06	399,919.80	74.19	398,118.20	73.19
2	Housing savings	6,880.60	1.34	7,846.50	1.47	7,456.10	1.38	7,560.90	1.49
3	Insurance companies	30,114.67	5.85	31,922.65	5.70	34,049.93	6.32	34,510.69	6.34
4	Investment funds	15,591.92	3.02	13,599.71	2.54	14,595.54	2.71	15,111.06	2.78
5	Pension funds	36,486.27	7.10	43,035.83	8.04	53,563.00	9.94	60,940.44	11.2
6	Leasing companies	28,987.99	5.63	25,885.72	4.84	22,236.54	4.13	19,731.92	3.63
7	Factoring companies	5,748.13	1.11	5,801.27	1.08	7,212.17	1.34	7,986.58	1.47
	Total	514,880.78	100	535,029.28	100	539,033.08	100	543,959.79	100

Source: Authors (data of Croatian National Bank, Croatian Financial Services Supervisory Agency)

Reduction of assets and shares of banks in Croatia has been associated with reducing the number of banks. During the period 2002 - 2014, banking system in Croatia has been characterized by a decreasing number of banks. Data about numbers of Croatian banks follow in Table 2.

Table 2. Number of banks in Croatia, 2002-2014

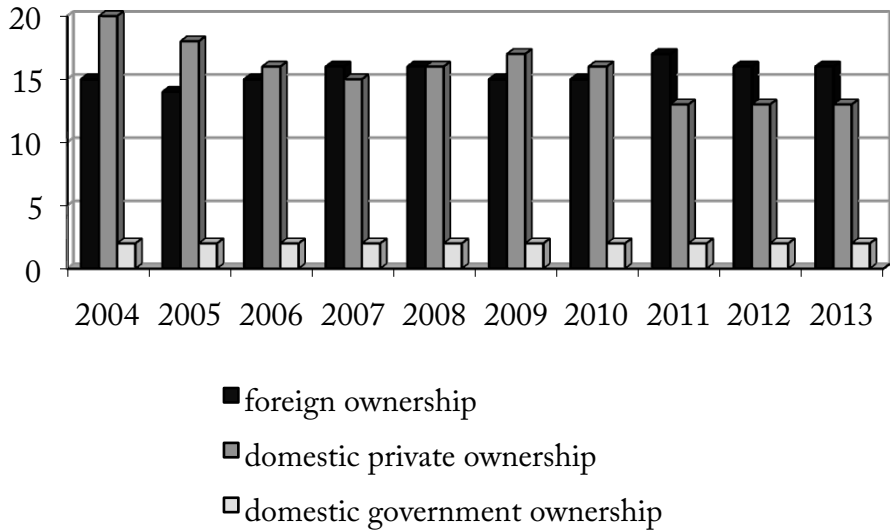
<i>Year, the end of period</i>	2002	2003	2004	2005	2006	2007	2008	2009
Number of banks	46	41	37	34	33	33	34	34
<i>Year, the end of period</i>	2010	2011	2012	2013	2014* June			
Number of banks	33	32	31	29	29			

Source: Croatian National Bank

According the statistics of Croatian National Bank, the total number of Croatian banks decreased from 46 to 29 banks in period 2002 – 2014. In 2003 there were 41 banks in Croatia, the next year that number decreased to 39. In 2005 the number of banks in Croatia was 34 and the next five years there were 34 or 33 banks. From 2010 until today, the numbers of banks in Croatia has been reduced annually by one.

Beside the number of banks, the Croatian banking system is characterized by the change in the ownership structure through the period from 2002 to 2013. The ownership structure of Croatian banking system has consisted of foreign ownership, domestic private ownership and domestic government ownership since 2004. Figure 1 shows the ownership structure of Croatian banking system in period of 2004 to 2013.

Figure 1. Ownership structure of banks in Croatia, 2004-2013



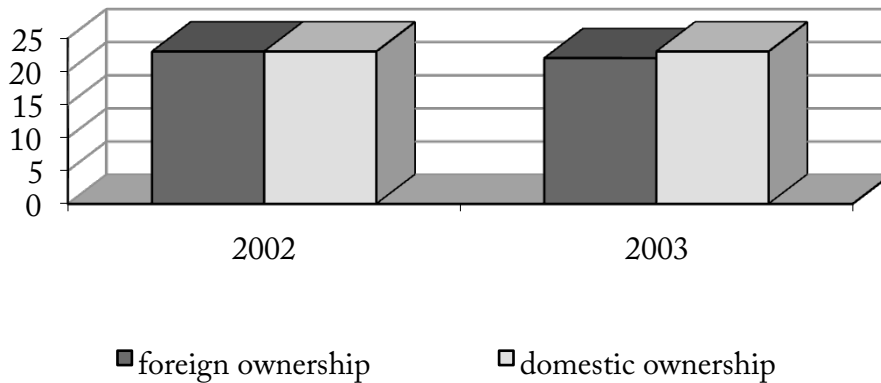
Source: Authors (data of Croatian National Bank)

Most banks in Croatia have foreign ownership and domestic private ownership and less domestic government ownership. In the period from 2004 to 2006 most banks in Croatia had domestic private ownership. In 2007 there were more banks in foreign ownership and one year later there was the same number of banks in foreign and domestic private ownership. The largest number of banks in domestic private ownership was in 2009 and 2010. The last three years, Croatian banks have been characterized by the highest number of foreign ownerships. Before 2004 the ownership structure of banks in Croatia was different than now. In that period there were both foreign and domestic ownerships of banks. The ownership structure of banks in Croatia in 2002 and 2003 can be seen in the next Figure.

In 2002 the number of banks in foreign and domestic ownership was the same, but in 2003 the number of banks in domestic

ownership was higher than the number of banks in foreign ownership.

Figure 2. Ownership structure of banks in Croatia, 2002-2003



Source: Authors' calculation (data of Croatian National Bank)

### 3 The structure of banks in Croatia

It is known in theory that the size of banks affects the type of activity and the financial performance of banks. Large banks' access to purchased funds and capital markets compared to small banks' access is the reason for many of these differences. For example, large banks with easier access to capital markets operate with lower amounts of equity capital than small banks do. Also, large banks tend to use more purchased funds and have fewer core deposits (deposits such as demand deposits that are stable over short period of time) than small banks do. At the same time, large banks lend to large corporations. This means that their interest rate spreads (difference between their lending rates and deposit rates) have usually been narrower than those of smaller regional banks, which are more sheltered from competition in highly localized markets and lend to smaller, less sophisticated customers (Saunders and Cornett 2001).

According to the Law (NN, 57/1999, 3/2001) of banks in Croatia from 1999 and 2001, the banks were structured by following characteristics:

- Asset > 5,000.000
- 1,000.000 < Asset < 5,000.000
- 500.000 < Asset < 1,000.000
- Asset < 500,000

For easier comparison, until the beginning of 2004 banks in Croatia were divided into four groups according to the size of their assets. The first group consisted of banks with the assets of more than 5 billion HRK. The second group included banks with the assets between 1 billion and 5 billion HRK. The third was a group of banks with the assets between 500 million and 1 billion HRK, and the last group included banks with the assets less than 500 million HRK. By these characteristics which distinguish banks in Croatia, the next table shows structure of the banks according to their assets for the period from 2002 and 2003.

Table 3. Group of banks in Croatia by comparable features and proportion of their assets in total banking system assets, 2002-2003

Group of banks	2002	2003
Assets > 5,000.000	9	9
1.000.000 < Assets < 5,000.000	12	11
500.000 < Assets < 1,000.000	7	8
Assets < 500,000	18	17

Source: Authors (data of Croatian National Bank)

The previous table shows that in 2002 and 2003 most banks in Croatia belonged to the third group, with assets between 500 million and 1 billion HRK, and the smallest number of banks had assets less than 500 million HRK. Since 2003, banks in Croatia have been redivided by size into small, medium and large. In the next table there are data of banks numbered by size from 2003 to 2012.

In the period 2003 - 2012 the largest number of Croatian banks was in the category of small banks, but that number decreased from 29 in 2003 to 22 in 2012. The number of 6 medium-sized banks in 2003 gradually dropped to 3 in 2012.

Table 4. Group of banks in Croatia by comparable features and share of their assets in total banking system assets, 2002-2012

End of the year	2003		2004	
	Number of banks	Assets, %	Number of banks	Assets, %
Large banks	6	77.6	6	81.7
Medium-sized banks	6	12.5	4	9.9
Small banks	29	9.9	27	8.4
Total	41	100.0	37	100.0
End of the year	2005		2006	
	Number of banks	Assets, %	Number of banks	Assets, %
Large banks	6	81.9	6	80.2
Medium-sized banks	4	10.4	4	12.0
Small banks	24	7.7	23	7.8
Total	34	100.0	33	100.0
End of the year	2007		2008	
	Number of banks	Assets, %	Number of banks	Assets, %
Large banks	6	79.0	6	79.4
Medium-sized banks	4	12.9	4	12.4
Small banks	23	8.1	24	8.2
Total	33	100.0	34	100.0
End of the year	2009		2010	
	Number of banks	Assets, %	Number of banks	Assets, %
Large banks	6	82.7	6	82.1
Medium-sized banks	3	9.1	3	9.0
Small banks	25	8.2	24	8.9
Total	34	100.0	33	100.0
End of the year	2011		2012	
	Number of banks	Assets, %	Number of banks	Assets, %
Large banks	6	82.6	6	82.2
Medium-sized banks	3	9.0	3	9.7
Small banks	23	8.4	22	8.2
Total	32	100.0	31	100.0

Source: Authors (data of Croatian National Bank)



In the observed period, the number of large banks in Croatia did not change. From 2003 to 2012 there were 6 large banks in Croatia. In Table 5 there is a list of Croatian banks in 2013 with their total assets and the share in the total assets.

Table 5. Data of total assets and share in total assets for all Croatian banks in 2013

	Name of bank	Total assets	Share in total assets
1	BANCO POPLARE CROATIA d.d.	2,238,523	0.55
2	BANKA KOVANICA d.d.*	1,209,863	0.30
3	BANKA SPLITSKO-DALMATINSKA*	414,846	0.10
4	BKS BANK d.d.*	1,243,474	0.31
6	CROATIA BANKA d.d.*	2,628,553	0.65
7	ERSTE&STEIRMARKISCHE BANK***	60,124,986	14.83
8	HRVATSKA POŠTANSKA BANKA d.d.**	18,368,782	4.53
9	HYPO ALPE-ADRIA-BANK d.d.***	30,062,005	7.41
10	IMEX BANKA d.d.*	2,248,829	0.55
11	ISTARSKA KREDITNA BNKA UMAG*	2,806,596	0.69
12	JADRANSKA BANKA d.d.*	2,945,984	0.73
13	KARLOVAČKA BANKA d.d.*	1,555,870	0.38
14	KENTBANKA d.d.*	884,135	0.22
15	KREDITNA BANKA ZAGREB d.d.*	4,096,720	1.01
16	NAVA BANKA d.d.*	301,582	0.07
17	OTP BANKA HRVATSKA**	13,738,654	3.39
18	PARTNER BANKA d.d.*	1,430,508	0.35
19	PODRAVSKA BANKA d.d.*	3,103,127	0.77
20	PRIMORSKA BANKA d.d.*	257,511	0.06
21	PRIVREDNA BANKA ZAGREB d.d.***	65,835,830	16.24
22	RAIFFEISENBANK AUSTRIA d.d.***	33,004,865	8.14
23	SAMOBORSKA BANKA d.d.*	485,071	0.12
24	SBERBANK d.d.*	9,264,062	2.29
25	SLATINSKA BANKA*	1,514,957	0.37
26	SOCIETE GENERALE-SPLITSKA BANKA***	27,337,625	6.74
27	ŠTEDBANKA d.d.*	1,093,153	0.27
28	TESLA ŠTEDNA BANKA d.d.*	16,216	0.00
29	VABA d.d. BANKA VARAŽDIN*	1,214,144	0.30
30	VENETO BANKA d.d.**	1,533,146	0.38
31	ZAGREBAČKA BANKA d.d.***	106,884,064	26.36
	Total	400,257,192	100.00

Note: \* small bank, \*\* medium-sized bank, \*\*\* large bank.

Source: Authors (data of Croatian National Bank)

According to the data of 2013, there were 30 banks in Croatia, 21 small banks, 3 medium-sized, and 6 large banks. Comparing the data from Table 4, it is evident that the number of small banks decreased by 1 in 2013.

#### **4 The difference of interest rates on deposits in Croatian banks**

The fundamental function of banks is concentration and allocation of available funds by collecting deposits and giving loans (Živko, 2006). Considering that loans and deposits are the basic method of banks' financing, it is necessary to mention the impact of interest rates. Rising interest rates on deposits, population seen as a positive phenomenon (especially in years of higher inflationary pressures and thus lower interest rates), but high nominal interest rates on bank loans are always subject to criticism and disapproval. The reason for this opinion is that increase of interest rates on loans comes solely because banks want to increase their income. This attitude is present even when the interest spread of banks fall (Ivanov, Rončević and Šimurina, 2013). The simplest to say is that, for depositors, the safety of their deposits and the interest rate they get from banks are most important. Adequate deposit insurance system protects depositors, banks, but also the whole financial system because the banks, especially in Croatia, present the most important financial institutions (Table 1). Looking at the present situation with regard to the deposit insurance system in the European Union, depositors are protected up to the amount of 100,000.00 EUR regardless of the risk of banks (Suljić, Vidmar and Prohaska, 2014). As the depositors are protected by the deposit insurance system, they are most interested in interest rate on deposits. While it is expected that interest rates on loans are as low as possible, interest rates on deposits are expected to be higher. The following tables provide information about interest rates on HRK deposit not indexed and indexed to foreign currency during the period 2002 - 2013. In the period 2002-

2013 interest rates on HRK deposits not indexed to foreign currency have changed (Table 6). It may be noted that long-term deposits have double times higher interest rate than short-term deposits. Also, the interest rates for short and long-term deposits are higher for households than for the enterprises. Looking at the interest rates of households' deposits on the short-term, it is evident that the values decreased over the years.

Table 6. Banks' interest rates on HRK deposits not indexed to foreign currency, weighted averages in % on annual basis, 2002 - 2013

Year (end of period)	Interest rates on HRK deposits not indexed to foreign currency								
	Total average	In giro and current accounts	Total average	On time deposits					
				On short-term deposits			On long-term deposits		
				Total average	House- holds	Enter- prises	Total average	House- holds	Enter- prises
1	2	3	4	5	6	7	8	9	10
2002	1.55	0.94	3.64	3.53	4.39	2.86	6.05	7.24	3.23
2003	1.66	0.75	4.46	4.46	3.62	4.69	4.58	4.90	2.82
2004	1.83	0.74	4.11	4.11	3.93	4.13	4.10	4.65	3.30
2005	1.58	0.61	3.36	3.34	3.89	3.23	4.12	5.04	3.49
2006	1.91	0.56	2.98	2.94	4.10	2.69	4.32	4.98	3.11
2007	2.67	0.49	5.42	5.34	4.47	5.48	6.28	5.45	6.45
2008	2.92	0.43	5.65	5.60	5.34	5.64	6.58	5.88	6.85
2009	2.22	0.43	2.52	2.49	4.89	2.04	2.76	6.12	2.07
2010	1.61	0.34	1.93	1.85	3.66	1.41	4.26	4.76	3.03
2011	1.88	0.36	2.46	2.33	3.55	1.88	2.98	4.58	2.78
2012	1.76	0.34	2.09	1.95	3.37	1.37	4.36	4.33	4.46
2013	1.36	0.25	1.79	1.58	2.78	0.92	3.36	3.69	2.85

Source: Croatian National Bank, [http://www.hnb.hr/dsbb/biltenske\\_tablice/g3.xls](http://www.hnb.hr/dsbb/biltenske_tablice/g3.xls)

In 2002 interest rate was 4.39 % and in 2013 it was 2.78 %. The highest rate was recorded in 2008, and then, because of the crisis, it began to fall. Interest rate of enterprises deposits on the short-term in 2002 was 2.86 % and in 2013 it was 0.92 %. The greater increase was recorded in 2007 and in 2008, then the values began to decline. The interest rate of households' deposits on the long-term was 7.24 % in 2002 and 3.69% in 2013. The highest growth was recorded in 2007, in 2008 and in 2009 and

then the values began to fall. The lowest value was recorded in 2013. The interest rate of enterprises deposits on the long-term was 3.23 % in 2002 and it was 2.85 % in 2013. The highest rates were in 2007 and 2008. The interest rates in giro and current accounts were lower and did not change significantly throughout the period. The interest rates on HRK deposits indexed to foreign currency and on foreign currency deposits are shown in the Table 7.

Table 7. Banks' interest rates on HRK deposits indexed to foreign currency and on foreign currency deposits, weighted averages in % on annual basis

Year, end of period	Interest rates on savings and time deposits indexed to f/c			Interest rates on foreign currency deposits					
	Total average	On short-term deposits	On long-term deposits	Total average	Total average	Savings deposits			
						Households		Enterprises	
						EUR	USD	EUR	USD
1	2	3	4	5	6	7	8	9	10
2002	2.92	3.45	1.48	2.55	0.50	0.52	0.41	0.52	0.38
2003	3.48	3.74	5.55	2.22	0.31	0.35	0.23	0.23	0.15
2004	4.17	3.61	5.19	2.65	0.31	0.34	0.22	0.22	0.21
2005	3.99	3.63	4.77	2.61	0.27	0.27	0.17	0.27	0.76
2006	3.67	3.30	4.07	2.94	0.25	0.23	0.17	0.32	0.44
2007	3.98	3.76	4.35	3.44	0.25	0.22	0.15	0.36	0.43
2008	4.09	4.05	4.42	3.97	0.21	0.20	0.15	0.26	0.13
2009	3.01	3.12	3.31	3.98	0.18	0.22	0.16	0.10	0.07
2010	2.91	2.75	3.46	3.09	0.19	0.21	0.14	0.18	0.07
2011	2.86	2.75	3.62	2.90	0.19	0.21	0.14	0.13	0.08
2012	2.38	3.42	2.10	2.84	0.16	0.22	0.11	0.05	0.04
2013	2.68	2.86	3.52	2.24	0.15	0.21	0.11	0.05	0.02

Source: Croatian National Bank, [http://www.hnb.hr/dsbb/biltenske\\_tablice/g4a.xls](http://www.hnb.hr/dsbb/biltenske_tablice/g4a.xls)

Interest rates on HRK deposits indexed to foreign currency and on foreign currency deposits were lower than interest rates on HRK deposits not indexed to foreign currency during 2002 to 2013. In 2002 the interest rate on short-time deposit indexed to foreign currency was 3.45 % and in 2013 it was 2.86 %. The

highest rate of 4.09 % was recorded in 2008. The interest rate on long-term deposits indexed to foreign currency was 1.48 % in 2002 and 3.52 % in 2013. Looking at the interest rates on foreign currency deposits, it can be noted that higher interest rates of households' than enterprises' deposits were represented. Households' deposits in EUR had higher interest rate than deposits in USD. In 2002 interest rate of households EUR deposit was 0.52 %, then constant declined and in 2013 was 0.21 %. Deposits in USD had interest rate of 0.41 % in 2002 and 0.11 % in 2012. Enterprises deposits in EUR and USD recorded a decline of interest rates during the period. In 2002 EUR deposits had interest rate of 0.52 % and USD deposit had 0.38 %.

In 2013 EUR deposits had interest rate of 0.05 % and USD deposits' interest rate was 0.02 %. Last data show that the interest rates fall from 2009. The financial crisis affected the risk of banks. In Croatia, smaller banks are riskier than large banks. To be more attractive to depositors, small banks have higher interest rates on deposits. This statement has been shown in the case of an arbitrarily selected three large and three small banks in Croatia. Next table shows the amount of interest rate of three large banks in Croatia: "Zagrebačka banka", "Privredna banka" and "Erste & Steiermarkische banka".

Table 8. Interest rates on HRK and EUR deposits in three large banks in Croatia, July 2014

The name of a large bank in Croatia	Term of deposits	Interest rates on HRK deposits, %	Term of deposits	Interest rates on EUR deposits, %
Zagrebačka banka d.d.	1 – 48 months	1.60 – 2.40	1 - 48 months Interest rate depends on the amount	0.40 – 1.95
Privredna banka d.d.	1-60 months Interest rate depends on the amount	1.55 – 3.55	1 - 60 months Interest rate depends on the amount	0.75 – 2.90
Erste & Steiermarkische banka	1-24 months	1.85 – 3.40	1 - 24 months Interest rate depends on the amount	1.00 – 2.70

Source: Authors (data of “Zagrebačka banka d.d.”, “Privredna banka d.d.” and “Erste & Steiermarkische banka”)

The data about the three large banks in Croatia show that, depending on the term, the interest rates on HRK deposits range from 1.55 % to 3.55 %. For the same group of banks interest rates for the different term on EUR deposits range from 0.40 % to 2.90 %. Table 9 shows the interest rate on deposits of three small banks in Croatia: “Imex banka”, “Veneto banka” and “Primorska banka”.

Table 9. Interest rates on HRK and EUR deposits in three small banks in Croatia, July 2014

The name of a small bank in Croatia	Term of deposits	Interest rates on HRK deposits, %	Term of deposits	Interest rates on EUR deposits, %
Imex banka d.d.	1 - 36 months	2.20 – 4.00	1 - 36 months Interest rate depends on the amount	1.20 – 3.30
Veneto banka d.d.	1 - 36 months Interest rate depends on the amount	2.25 – 4.20	1 - 36 months Interest rate depends on the amount	1.75 – 3.70
Primorska banka d.d.	1 - 24 months	2.50 – 4.00	1 - 24 months	1.50 – 3.75

Source: Authors (data of “Imex banka d.d.,” Veneto banka d.d.” and “Primorska banka”)

Interest rates on HRK and EUR deposits of the three small banks in Croatia range from 2.20% to 4.20% for HRK deposits with different terms, and from 1.20 % to 3.75 % for EUR deposits. Based on the data, it can be concluded that small banks in Croatia have higher interest rates than large banks that are safer, that way small banks try to attract depositors. The depositors are protected by deposit insurance system and despite the higher risk for small banks, they prefer higher interest rates on deposits.

## 5 Conclusion

Banks are the most important financial institutions in Croatia. Although the share of banks in the financial system of Croatia decreased in the period 2002-2014, banks are still the major financial institutions. In the observed period, the number of the banks and the ownership structure changed. Banks in Croatia are of foreign ownership, domestic private ownership and domestic

government ownership. Most banks have foreign ownership and domestic private ownership. Banks in Croatia differ in size and they are divided into small, medium-sized and large banks. Large and small banks in Croatia are distinguished by interest rates on deposits. Small banks are riskier in their business but they offer higher interest rates on deposits and thus attract depositors. As the system of deposit insurance exists in Croatia, deposits are safe up to the amount of 100,000.00 EUR, so higher interest rates on deposits attract depositors.

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