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## **NON-PERFORMING LOANS, INTEREST ARREARS AND FISIM ESTIMATES**

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## **Introduction**

This short paper analyzes the implications on the measurement of the Financial Intermediation Services Indirectly Measured (FISIM) of the accounting treatment of non-performing loans (NPLs) and interest in the SNA1993.

The first section covers conceptual aspects of the accounting treatment of NPLs and interest in the SNA1993 and their implications for FISIM estimates. It concludes that FISIM estimates will be overvalued, if the accounting rules of the SNA1993 are applied and the financial intermediaries include a risk premium in the interest rate they charge on loans in order to cover expected losses due to NPLs and interest. The FISIM overvaluation implies that the output, added value and operating surplus of the financial corporations will be overvalued.

The second and third sections describe an exercise on estimating total FISIM using Israel's basic data. It follows the approach adopted by EUROSTAT, but adding some Israel's national accounts features (e.g. incorporation of real interest as an income flow instead of nominal interest). The second section covers some conceptual issues, and the third describes the implication of using banking corporations financial statements as data sources. This section concludes that because data-sources do not fit the SNA1993 recommendations, the estimated FISIM are only partially overvalued. It also describes a possible adjustment that might be applied to avoid the remaining overvaluation

### **1. Financial intermediation services indirectly measured (FISIM) and Non-performing loans (NPLs).**

Non-performing loans (NPLs) are in many cases not recognized in the 1993 SNA. NPLs only originate entries in the national accounts, when it becomes clear that the debt will not be repaid under the agreed conditions: Entries are registered in the accounts, if the debt is renegotiated, forgiven by mutual agreement, or if the creditor accepts writing off the debt. Unilateral repudiation of debts by the debtors is not recognized by the System. Also provisions for bad debts are not recorded in the SNA. "Provisions for bad debts are treated as book-keeping entries that are internal to the enterprise and do not appear anywhere in the System" 1993 SNA para. 10.140.

Interest should be recorded on an accrual basis, including interest on NPLs, even if they are not paid, as long as the loans remain in the balance sheets.

The application of the SNA1993 rules of recording loans and interest payable on them implies that NPLs, that are neither written off nor cancelled by mutual agreement between the creditor and the debtor, should be recorded as being performed through new credits provided to the debtor. Because payable interest is recorded on accrual basis “i.e., interest is recorded as accruing continuously to the creditor on the amount of principal outstanding” (SNA1993 para. 7.94) and NPLs are maintained in the balance-sheet of the creditor as part of the “outstanding principal”, payable interest should be recorded as property income entries of the creditor, even if the loans and corresponding interest are not being paid.

If the interest spread fixed by the banking corporations includes a risk premium to cover expected defaults on payable interest and outstanding loans (meaning that they expect a lower one in practice) the “price” registered for FISIM in the national accounts (the spread between the weighted average interest rate charged on debtors and the one paid to depositors) will be overvalued, since the System neither recognizes loans nor interest defaults (except when written off or cancelled by mutual agreement). If this is the case, and FISIM are calculated without adjusting the interest rates implicit in the accrual interest flows and the recorded value of outstanding loans, the output, value added and operating surplus of financial intermediaries will be overvalued.

An IMF working paper (also posted on the IMF’s EDG on Non-Performing Loans), written by Adriaan M. Bloem and Cornelis N. Gorter, The treatment of Nonperforming Loans in Macroeconomic Statistics, notes in paragraph 8 that: “ A more or less predictable level of not performing loans, though it may vary slightly from year to year, is caused by an inevitable number of wrong economic decisions... Enterprises may well be able to pass a large proportion of these costs to customers in the form of higher prices. For instance, the interest margin applied by financial institutions will include a premium for the risk of nonperformance on granted loans”. It insists in paragraph 31 “..it is very likely that the rates financial intermediaries set include a risk premium, the 1993 SNA may well cause recording of overstated values for output and operating surplus of banks and other financial intermediaries.” Paragraph 38 stresses that FISIM “as recorded in the national accounts...can be deemed as overstated if in reality imputed interest on impaired loans is never paid”.

It has been argued that the financial services covered by the estimated FISIM have been provided by the banking corporations to their customers, whether paid for or not, for which reason FISIM should not be adjusted.

It is true that financial services have been produced and provided to debtors, but the price that is registered is higher than the effective average price paid by the debtors since part of them do not perform their loans and

do not pay the accrued interest recorded in the accounts. Because financial intermediaries expected this situation to occur, and have included a risk premium in their interest rates to cover expected defaults, the average expected price and also the price effectively received will be lower than the implicit “price” recorded in the national accounts.

Is this situation different for producers of other products, which may sell part of their output on a cash basis and part on installments? The price taken into account to value the sales in this case is the cash price charged by the producers. Of course, the interest rate charged on the credit provided to the buyer may contain a risk premium, but it does not necessarily affect the cash price charged. FISIM are not calculated for them and interest flows are recorded in the allocation of income account. In this way, defaults do not affect the value of output, value added and operating surplus of these producers.

An adjustment could be made to FISIM, in order to avoid the mentioned overvaluation. The adjustment should eliminate the excess spread charged by them, to cover the risk of losses due to borrowers defaults. The adjustment should in principle cover not only the defaulted loans, but also the interest not paid, since both are taken into account by the financial intermediaries when fixing the spread between the interest rates charged and paid by the banks (the price of the services indirectly measured). The adjustment will also affect the series at constant prices, e.g. by changing the previous year spread (if chaining is applied) or the reference year spread.

It is worth mentioning that the proposed adjustment does not intend to eliminate the risks incurred by financial corporations, as risk management is central to their activities. It is the excess spread in interest rates that results from the accounting rules of the SNA 1993 that might have to be eliminated in order to not overvalue FISIM estimates.

## **2. Measuring FISIM: Some conceptual aspects**

This section describes an exercise on FISIM estimation by using Israel’s basic data.

The production account for financial intermediaries records the services for which an explicit charge is made plus the value of FISIM as output. Gross added value is obtained as a difference between output and Intermediate consumption.

Estimates are published at current prices, at previous year prices and at chained constant reference year 2000 prices.

The estimates at current prices are based on the financial statements of financial intermediaries. They provide data on services directly charged for, intermediate consumption costs and the value of flows that allow

estimating FISIM. The volume estimates are based on aggregates at previous year prices and reference year 2000 prices, the last ones obtained by chain-linking the annual estimates at previous year prices.

FISIM at current prices is estimated in the national accounts on the basis of data from financial statements of the financial intermediaries, collected by the Bank of Israel.

FISIM is measured as equal to the difference between interest received and interest paid by financial intermediaries, on financial corporations' assets and liabilities that are assumed to carry services that must be indirectly measured, because they are not explicitly charged for.

## **2.1 Assets and liabilities carrying services indirectly measured**

There are various important departures from the 1993 SNA recording of FISIM that are worth mentioning. They result mainly from the approach adopted by taking only loans and deposits as financial instruments carrying services that must be indirectly measured. However, in some specific aspects additional differences exist (e.g. real interest instead of nominal interest).

### ***a. Treatment of the Central Bank***

No FISIM is estimated for the Central Bank. The SNA1993 explains that: "The services of financial intermediation provided by central banks should be measured in the same way as those of other financial intermediaries. Because of the unique functions which may be performed by central banks, the value of their output may sometimes appear exceptionally large in relation to the resources employed."

However, these estimated FISIM do not result from property income receivable and interest payable including a payment for services effectively provided by the Central Bank to specific customers. They result mainly from monetary policies adopted in the framework of the Central Bank's economic role. In this sense, the Central Bank acts in the monetary policy area in the same way that the Finance Ministry acts in the fiscal policy area. In the Israel's national accounts the Central Bank is treated, since the 70's, as a non-market producer, i.e. output is estimated through production costs. Nevertheless, the Bank of Israel is classified as part of the Financial Corporations sector.

### ***b. Forms of property income and FISIM.***

The SNA1993 measures the total value of FISIM by "the total property income receivable by financial intermediaries minus their total interest payable, excluding the value of any property income receivable from investment of their own funds, as such income does not arise from financial intermediation." (SNA 1993, paragraph 6.125). EUROSTAT has

adopted a different approach and only interest respectively receivable and payable on some specific assets and liabilities are taken into account when measuring and allocating FISIM to users, "FISIM output is generated by the management by financial intermediaries of loans and deposits whose rates they control, in contrast there is no intermediation services for securities other than shares" (see the FISIM measurement and allocation method adopted by the European Community in: Council regulation (EC) No 448/98, in Official Journal of the European Communities, L 58/5).

Also in Israel only property income in the form of interest received by financial corporations is taken into account when estimating FISIM (with the exceptions mentioned below).

***c. Interest gained on deposits maintained by financial corporations at the Central Bank***

In addition, interest payments to financial corporations on deposits maintained by them at the Central Bank are not included in their estimated FISIM. The main reasons for excluding them are that interest rates are fixed by the Bank of Israel on deposits maintained as mandatory reserves and the interest received are not linked to financial intermediation services provided by them to the Bank. In fact, one of the main objectives of the Central Bank policy on fixing reserve deposits and attracting banking deposits to limit the banking corporations capacity of lending money to their customers, when possible inflationary pressures are developing. The Bank used them as monetary instruments to offset changes in the monetary base. Of course, interest gained by financial corporations on these deposits, even if not included in the FISIM estimates, are recorded as entries in the their SNA 1993 's allocation of primary income account.

As a result of the mentioned treatment, the Central Banks' intermediate consumption will not contain financial services indirectly measured when allocating FISIM to users.

***d. Income from derivatives.***

Interest flows gained on derivatives are not included in FISIM. Even if called interest, they are not paid for the right to use funds provided by a creditor to a debtor for a given period of time. In the case of interest rates swaps, e.g., the net cash settlement payments associated with them should be recorded as a transaction in financial derivatives, in the financial account, and not as property income. However, fees and commissions charged by financial corporations on transactions linked to derivatives are included as services directly charged for.

***e. Nominal versus real interest.***

The nominal rates of interest charged by creditors may be seen as composed by two elements: one that should permit the creditor to recover the purchasing power of the principal outstanding, and another that corresponds to an effective rate of interest received on return of providing funds for a given period of time to debtors. Only the second component is recorded in Israel's national accounts as property income measured at current prices.

The SNA1993 notes that in inflationary situations it is possible to view an actual payment of nominal interest as consisting of the two mentioned elements. However, it states "In practice, the interest recorded in the allocation of primary income account ...is always the amount of nominal interest receivable or payable..." (SNA 1993, paragraph 7.111)

The introduction of real interest was adopted in the 80's, due to the high rates of inflation experimented by the Israeli economy (the consumer price index reached an annual increase of over 400 percent in 1984). The use of real interest instead of nominal ones was important in order to not distort aggregates such as national income, disposable income, savings and net lending. In effect, recording nominal interest payable, e.g., to households would increase their disposable income allowing them to increase consumption expenditure that will be partially financed by a decrease in the purchasing power of their banking deposits. Most of the financial instruments bearing interest were index linked during the periods of high inflation, making clear for economic agents that the linkage repayment should not be treated as current income, since it permits to maintain the purchasing power of the financial asset.

When nominal interest and interest on index-linked loans and deposits coexist in the market, it is obviously not possible to add these two types of interest flows directly and the nominal flows must be converted to real interest ones. The Bank of Israel converts the interest flows reported by banking corporations into real interest flows, taking into account the different indexation basis of loans and deposits.

#### ***f. Constant price estimates***

Once the FISIM at current prices are measured, estimates at previous year prices are obtained by calculating at previous year prices the different components that explain FISIM at current prices:

In effect, FISIM at current period t prices is equal to:

FISIM(t)=Interest received (t) minus interest paid (t)

Making explicit the variables on which interest flows are obtained:

FISIM(t) = $\Sigma$  Loan(t)\*interest rate on loan(t) minus  $\Sigma$  Deposit(t)\* interest rate on deposit(t)



For FISIM in period t, at previous period (t-1) prices:

$$\text{FISIM}(t \text{ at } t-1 \text{ prices}) = \Sigma \text{Loan}(t \text{ at } t-1 \text{ prices}) * \text{interest rate on loan}(t-1) \\ \text{minus } \Sigma \text{Deposit}(t \text{ at } t-1 \text{ prices}) * \text{interest rate} \\ \text{on deposit}(t-1)$$

The annual average values of loans and deposits are estimated at their purchasing power at previous year prices by deflating current price values by a general price index. The implicit price deflator of the domestic final demand is used for this purpose. The values of the different types of loans and deposits in period t, at previous period purchasing power values are then multiplied by the corresponding previous period rates of interest.

Estimates at reference year 2000 prices are obtained by chain linking the time series of data at previous year prices.

## **2.2 Implications of selecting assets and liabilities on FISIM estimates.**

It should be noted that narrowing the scope of coverage of the financial assets whose returns enter in FISIM calculation might introduce wide fluctuations in the value of annually generated FISIM. In effect, financial corporations manage all their assets and liabilities in order to reach their goals, and significant changes in their composition may be adopted in the short run. Since only loans and deposits are assumed to carry financial intermediation services, changes in their relative importance and rates of interest may originate wide fluctuations in the FISIM estimates at current and previous year prices.

Also chaining will generate wider fluctuation on volume and price changes, since annual changing weights are incorporate in the constant price estimates. Results at constant prices will be more stable if, e.g., the reference period FISIM value would be extrapolated by an index of loans and deposits deflated by a general price index. However, this option maintains implicitly fixed the base year interest rates that may have become obsoletes.

The fact that wide fluctuations on FISIM estimates may occur does not imply that the indirect measurement of financial services is necessarily wrong. It has been assumed that only loans and deposits are carriers of financial services which value may be only indirectly measured. If this assumption is correct, the basic statistics are the adequate ones and proper estimation methods are applied, wide fluctuations in the value of the services should not be a sufficient reason to doubt neither on the conceptual grounds nor on the quality of the estimated FISIM data.

It should be mentioned that the Progress report of the OECD Task Force on Financial Services (Banking Services) in National Account, presented in year 2002, pointed out “ ... measurement is often narrowly defined around the traditional deposit/loans business, thereby leaving out other

financial instruments that may be carriers of financial services with implicit prices”, adding that “the central idea...is not to modify the notion of FISIM but to extend the use of output indirectly measured so as to obtain as complete as possible a measure of the services produced by financial corporations”. (see P. Schreyer and P. Stauffer, Measuring the production of financial corporations. Progress report by the OECD Task Force on Financial Services (Banking Services) in National Accounts, doc. STD/NA(2002)19., page 3.

The OECD Task Force concluded in its Draft Final Report (2003) that “...there are implicitly-priced financial services attached to assets and liabilities other than deposits and loans. In particular, there is agreement among members of the Task Force that interest bearing securities are such carriers of financial services”. Measuring the production of financial corporations. Draft final report OECD Task Force on Financial Services (Banking Services) in National Accounts, doc. STD/NAES(2003)8, page 9.

### **3. Measuring FISIM on the basis of the banking corporations' financial statements.**

#### **3.1. Treatment of doubtful debts and interest in banking corporations financial statements**

As noted above FISIM estimates are based on Banking Corporations financial statements.

The Bank of Israel's Supervisor of Banks has instructed the banking corporations on how to record doubtful debts and interest on them (Bank of Israel, “Dealing with Problem Debts”, in Proper Conduct of Banking Business (5/98)).

Two types of provisions shall be recorded: one on doubtful debts and another on interest on doubtful debts

“When the management of a banking corporation has determined that a debt is doubtful, provisions for doubtful debts shall be recorded” (Bank of Israel's mentioned doc., page 314-7, section 6).

“The amount of the doubtful debt shall include the interest accrued on the debt up to the time it is defined as doubtful, subject to the provisions in section 8 below”.

”As long as a banking corporation has not waived the receipt of interest on a debt defined as doubtful, the corporation shall continue to charge the interest against the debtor account, at the rate set in agreement with the customer. This interest shall not be credited to income in the profit and loss statement, but shall be credited to the “provision for interest on

doubtful debts” account (our underlying) (Bank of Israel’s quoted doc., sections 7 and 8).

It adds “Interest accrued on debts that do not accrue income shall be recorded as income to the profit and loss statement only when actually collected. Until collection, the customer’s account shall be charged as a credit to ”provision for interest on debts not accruing income”...Interest on arrears in the payments of borrowers who are mortgagors shall be credited to income upon collection” (Bank of Israel’s quoted doc., section 10).

The application of these instructions by the banking corporations implies that their recording of non-collected interest differ from the 1993 SNA. The application of the 1993 SNA rules would record the not collected interest, on an accrual basis, as part of the receivable interest of financial intermediaries.

As said before, the adjustment proposed above should in principle cover defaults in interest and also in the repayment of the principal. Since Israel’s national accounts estimates of FISIM are based on the data from the banking corporations, and they exclude the non-collected interest from income, the possible overvaluation due to the risk premium charge for non-performing interest is in practice eliminated. However, the charge for defaults in repayment of the principal needs to be deducted

The annual addition to provisions for loan-loss could be taken as an approximation to the adjustment that should be made to FISIM when eliminating the risk premium incorporated into the interest rate charged by financial corporations to cover possible defaults on the loans lent to borrowers. Alternatively, it could be argued that only the effective losses should be taken into account when making the adjustment, as the lending financial institutions may recover part of the potential losses for which provisions are made.

An exercise was prepared for period 1996-2002. It covers the commercial banks. FISIM is estimated by taking different combinations of the assets and liabilities bearing interest. It shows, as expected, wide fluctuations on the annual values of FISIM at current and previous year prices. They are explained by changes in the relative importance of the assets and liabilities that are selected as generating services indirectly measured and their corresponding rates of interest. The results are shown in the annexed tables.

### **3.2 Measuring loans as assets of financial corporations**

The total loans provided each period, independently of being paid or not to lenders, should in principle be taken into account when measuring FISIM. In effect, the fact that the loans have been provided means that the financial services have been effectively delivered, even if at a lower “price” than the one obtained by following the SNA 1993 recording rules.

Taking into account the total value of loans provided to debtors when estimating FISIM does not imply that this value should be recorded as loans in the SNA 1993' balance sheets, because by including loans that are not being repaid it provides a distorted picture of the effective value of the assets maintained by the financial corporations in the form of loans, particularly when NPLs become relatively important. The Bank of Israel publishes data on loans with and without provisions for loan-losses. There is an ongoing discussion on the valuation of financial assets and liabilities in the national accounts.

## **Summary and conclusions.**

The measurement of FISIM on the assumption that the services indirectly measured are provided only through loans and deposits might generate wide annual fluctuations on its value at current, previous year and constant reference year prices.

Fluctuations in FISIM values are explained by changes in the composition of assets and liabilities and corresponding rates of return. Financial corporations manage all their available set of financial instruments in order to reach their goals, but only some of them are included in the FISIM estimation.

Nevertheless, the measured FISIM will reflect the effective production of services that are indirectly measured, if the assumptions adopted, basic statistics used and valuation methods applied are correct.

However, OECD task force on Financial Services in the National Accounts reached the conclusion that the selection of loans and deposits as the only financial instruments carrying financial services that have to be measured indirectly is to a narrow approach.

The SNA 1993 recording rules on financial assets, liabilities and interest flows might lead to an overvaluation of FISIM, that implies an overvaluation of financial corporations output, value added and operating surplus. This will be the case if it would be valid to assume that financial corporations have the power to include a risk premium in their lending rates of interest that covers them from expected defaults - defaults that the SNA1993 does not recognize, neither on loans nor on interest, except in special circumstances. This assumption might be valid in periods in which a predictable and more or less stable level of NPLs, as percentage of total loans, exists.

An adjustment is proposed to eliminate the mentioned overvaluation of FISIM. The adjustment should take into account that the risk premium covers, in principle, the risk of interest and principal not being paid to lenders, in circumstances that these defaults are not recognized by the SNA1993, except in circumstances mentioned above.

The use of data from the banking corporations' financial statements in FISIM estimates partially eliminates the overvaluation as only collected interest payments are recorded as income. The overvaluation due to defaults on repayment of the outstanding principal could be eliminated by adjusting FISIM by the annual additional provisions for loan-loss, taken as a measurement of the risk incurred by the lenders, risk that the SNA1993 does not recognize.

However, the risk is not equal in all periods. During periods of economic recession, NPLs and corresponding provisions may be growing significantly, and to use the latter as a proxy for the risk premium charged on the spread would be wrong, since the financial corporations will probably not have the possibility of widening the spread to cover the potential losses. In cases like these, the adjustment could be based on average rates of adjustment obtained for more stable periods or on moving average rates of adjustment. Alternatively, only the recognized losses and not the potential ones could be used in the adjustment, as the provisions for potential losses could overvalue or undervalue, at the end, the effective losses incurred. For periods of financial crisis, what was mentioned for the adjustment through additional provisions, apply to the adjustment through losses. More research work is needed to reach final conclusions.

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## Annex

The first table shows the value of FISIM measured by selecting different combination of assets and liabilities bearing interest.

The second table shows the result of adjusting the FISIM estimates in order to eliminate the overvaluation due to the excess spread charged to cover potential loan defaults. The annual additions to loan-loss provisions was used to make the adjustment. It represented 0.4 percent of the loans in 1999 and 2000, increased to 0.7 in 2001 and reached a 1.2 percent in 2002. GDP annual growth rates at constant 2000 prices were negative in the last two years of the series: -0.9 in 2001 and -0.8 in 2002. For reasons mentioned in the text, an average of the annual additional provision/ loan coefficients for period 1998-2000 was applied to the last two years.

The third table contains the annual average value of assets and liabilities bearing interest, the annual corresponding interest flows and the resulting rates of interest. They are based on data published by the Bank of Israel. The Bank publishes the loans in two versions, including and excluding loan-loss provisions. The former are here included, for reasons mentioned in the text.

**Table 1. FISIM based on different combinations of assets and liabilities bearing interest and services explicitly charged for**

	1995	1996	1997	1998	1999	2000	2001	2002
<b>FISIM based on total loans, deposits and securities other than shares</b>								
At current prices	7171	8277	9426	10875	10714	8392	10236	11601
At previous year's prices		7603	8467	10387	11271	11679	8989	10375
<b>FISIM excluding securities other than shares</b>								
At current prices	5660	6380	5780	6988	7402	5872	5491	8952
At previous year's prices		5596	6645	7123	7165	8938	6668	5199
<b>FISIM excluding securities other than shares and commercial banking corporations deposits in the Bank of Israel</b>								
At current prices	6135	7156	4068	4978	2606	1370	1955	9239
At previous year's prices		6351	6774	4438	4955	3547	1943	2616
<b>Services explicitly charged for</b>								
At current prices	5152	5271	6110	6434	7221	8068	7989	8357
At previous year's prices		5086	5603	5886	6583	7924	7756	7741

**Table 2. Adjusted FISIM based on different combinations of assets and liabilities bearing interest and services explicitly charged for**

	1995	1996	1997	1998	1999	2000	2001	2002
<b>Adjusted FISIM based on total loans, deposits and securities other than shares</b>								
At current prices	4941	5913	7309	8798	8690	6200	7829	8954
At previous year's prices		5255	6063	8071	9104	9479	6631	7946
<b>Adjusted FISIM based on total loans and deposits excluding Commercial Banking Corporations deposits in the Bank of Israel</b>								
At current prices	5416	6689	5597	6788	3894	1698	4293	9241
At previous year's prices		5974	6289	5415	6889	3991	1897	5354
<b>Adjusted FISIM based on total loans and deposits</b>								
At current prices	3430	4016	3663	4911	5378	3680	3084	6305
At previous year's prices		3305	4214	4741	5008	6690	4293	2798
<b>Services explicitly charged for</b>								
At current prices	5152	5271	6110	6434	7221	8068	7989	8357
At previous year's prices		5086	5603	5886	6583	7924	7756	7741



**Table 3. Commercial banking corporations Assets and Liabilities bearing Interest**

At NIS Millions

	1995			1996			1997			1998		
	Balance	Interest rate	Interest	Balance	Interest rate	Interest	Balance	Interest rate	Interest	Balance	Interest rate	Interest
<b>Assets</b>												
Loans to the public	174676	6.4	11161	205487	4.2	8541	228102	7.5	17165	273499	9.7	26393
Securities other than shares	42067	3.7	1538	56356	3.4	1930	57906	6.5	3739	55919	7.2	4032
Credit to the government	40917	5.0	2057	33812	5.2	1770	29505	6.3	1847	23801	5.7	1358
Deposits with bank of Israel	17830	0.7	117	15163	-3.9	-594	35676	5.1	1829	53943	3.8	2049
Deposits in banks	42369	5.0	2123	54916	-0.2	-116	49268	3.3	1647	62672	9.6	5997
<b>Total</b>	<b>317859</b>	<b>5.3</b>	<b>16996</b>	<b>365734</b>	<b>3.2</b>	<b>11531</b>	<b>400457</b>	<b>6.5</b>	<b>26227</b>	<b>469834</b>	<b>8.5</b>	<b>39829</b>
<b>Composition of assets</b>												
	Percentages											
Credit to the public	55		66	56		74	57		65	58		66
Securities other than shares	13		9	15		17	14		14	12		10
Credit to the government	13		12	9		15	7		7	5		3
Deposits with bank of Israel	6		1	4		-5	9		7	11		5
Deposits in banks	13		12	15		-1	12		6	13		15
<b>Total</b>	<b>100</b>		<b>100</b>	<b>100</b>		<b>100</b>	<b>100</b>		<b>100</b>	<b>100</b>		<b>100</b>
<b>Liabilities</b>												
Deposits of the public	258136	3.1	8026	302914	0.8	2353	345858	4.2	14570	408855	6.2	25324
Government deposits	26032	2.1	535	29096	1.3	386	19883	5.3	1046	20580	7.7	1591
Deposits from bank of Israel	7625	7.8	592	8307	2.2	182	1808	6.5	117	985	4.0	39
Deposits from banks	15688	4.1	645	16779	2.1	350	16701	5.8	976	20542	9.0	1857
Securities other than shares	667	4.0	27	741	4.5	33	1481	6.3	93	2236	6.5	145
<b>Total</b>	<b>308148</b>	<b>3.2</b>	<b>9825</b>	<b>357837</b>	<b>0.9</b>	<b>3304</b>	<b>385731</b>	<b>4.4</b>	<b>16802</b>	<b>453198</b>	<b>6.4</b>	<b>28956</b>
<b>Composition of liabilities</b>												
	Percentages											
Deposits of the public	84		82	85		71	90		87	90		87
Government deposits	8		5	8		12	5		6	5		5
Deposits from bank of Israel	2		6	2		6	0		1	0		0
Deposits from banks	5		7	5		11	4		6	5		6
Securities other than shares	0		0	0		1	0		1	0		1
<b>Total</b>	<b>100</b>		<b>100</b>	<b>100</b>		<b>98</b>	<b>100</b>		<b>100</b>	<b>100</b>		<b>100</b>

Table 3. Cont'd

At NIS Millions

	1999			2000			2001			2002		
	Balance	Interest rate	Interest	Balance	Interest rate	Interest	Balance	Interest rate	Interest	Balance	Interest rate	Interest
<b>Assets</b>												
Loans to the public	309411	7.3	22641	352642	6.6	23218	404182	8.2	33232	454105	4.8	21780
Securities other than shares	64841	5.5	3591	59546	5.0	2949	60754	8.9	5381	73022	4.7	3466
Credit to the government	18935	5.1	970	14995	5.0	755	10066	6.7	671	8093	4.9	396
Deposits with bank of Israel	61274	8.0	4880	65153	7.0	4573	67391	5.3	3576	56897	-0.3	-192
Deposits in banks	73173	3.7	2672	86874	4.4	3852	91282	7.5	6850	90487	6.2	5613
<b>Total</b>	<b>527634</b>	<b>6.6</b>	<b>34754</b>	<b>579210</b>	<b>6.1</b>	<b>35347</b>	<b>633675</b>	<b>7.8</b>	<b>49710</b>	<b>682604</b>	<b>4.6</b>	<b>31063</b>
<b>Composition of assets</b>	<b>Percentages</b>											
Credit to the public	97		133	96		201	101		127	97		55
Securities other than shares	20		21	16		26	15		21	16		9
Credit to the government	6		6	4		7	3		3	2		1
Deposits with bank of Israel	19		29	18		40	17		14	12		0
Deposits in banks	23		16	24		33	23		26	19		14
<b>Total</b>	<b>166</b>		<b>204</b>	<b>158</b>		<b>307</b>	<b>158</b>		<b>190</b>	<b>145</b>		<b>78</b>
<b>Liabilities</b>												
Deposits of the public	464962	4.7	21924	516450	4.9	25117	565930	6.3	35866	606331	2.7	16235
Government deposits	21052	4.0	835	19080	3.1	596	16876	8.5	1430	17216	6.4	1095
Deposits from bank of Israel	839	10.0	84	839	8.5	71	810	4.9	40	1548	6.1	95
Deposits from banks	20213	4.5	917	17873	4.2	743	21058	7.1	1502	22697	5.4	1220
Securities other than shares	5162	5.4	279	7507	5.7	429	10783	5.9	636	14188	5.8	817
<b>Total</b>	<b>512228</b>	<b>4.7</b>	<b>24039</b>	<b>561749</b>	<b>4.8</b>	<b>26956</b>	<b>615457</b>	<b>6.4</b>	<b>39474</b>	<b>661980</b>	<b>2.9</b>	<b>19462</b>
<b>Composition of liabilities</b>	<b>Percentages</b>											
Deposits of the public	151		223	144		760	147		213	134		56
Government deposits	7		8	5		18	4		9	4		4
Deposits from bank of Israel	0		1	0		2	0		0	0		0
Deposits from banks	7		9	5		22	5		9	5		4
Securities other than shares	2		3	2		13	3		4	3		3
<b>Total</b>	<b>166</b>		<b>245</b>	<b>157</b>		<b>815</b>	<b>160</b>		<b>235</b>	<b>146</b>		<b>67</b>