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NON-PERFORMING LOANS AND THEIR REFLECTION ON CASH FLOWS

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ABSTRACT

This research aims to identify financial default, its causes, and ways to control it, and to show evaluating the financial performance of banks, as most banks suffer from the problem of the inability to fulfill the obligations they owe as a result of the management's misbehavior resulting from its opportunistic behavior, as the research sample bank is facing The risk of bankruptcy and the financial default has become evident in the clear decrease in the cash flow. Financial default has become a risk facing the bank's management with the weakness of the measures taken, as the list of cash flow and knowledge of non-performing loans is especially important as it is very useful in assessing the availability of financial liquidity in the economic unit. The non-performing loans are caused by several reasons that are due to inefficient management by deciding to grant credit to customers without the presence of a sufficient scientific and objective study of the credit applicant, which results in the emergence of defaulting customers.

Keywords: non-performing loans, cash flow, discontinuity.

INTRODUCTION

The prepared financial statements include financial statements for the current and previous period, and their analysis provides information on the performance of these banks about their ability to continue or not and their ability to pay the obligations they owe, as the analysis of the cash flow of the banks provides more accurate information about cash flow and to determine the strengths and weaknesses because that Financial insolvency is likely to occur in a highly competitive environment, At any moment, Banks may expose their financial position to a critical situation as a result of bankruptcy and failure of individuals to pay, and companies in financial distress may respond to problems such as lack of continued financing by lenders, delays in projects, or potential bankruptcy. Therefore, researching financial hardship is important. Relevant cash flow and financial distress Revenue and profits are essential, but cash flow is more important to a business. Mobilization of external sources of financing, ability to repay obligations, ability to divide interest to owners, ability to be self-sufficient.

RESEARCH METHODOLOGY

Research Problem :

Since the financial statements are prepared according to the basis of accrual and accounting reservation, therefore, the financial statements are subjective in terms of showing profits that

are not related to reality, so the result of the intervention list will be affected by the statement of cash flows in terms of showing the available cash liquidity and its sources, because it ignored the cash flows and cash flow indicators It may make the banks lose control of their financial position, as the weakness of reliance on cash flow for the purposes of evaluating financial operations may make the banks in an embarrassing position in front of the creditors. The default in the payment of financial obligations is the result of mismanagement, slow growth of operations, low conversion rate, and misuse of opportunities and there will be many factors that affect the survival of the bank in the future. For example, the global financial crisis may affect interest, especially the financial aspect. When there is a financial problem, especially when debt obligations cannot be redeemed for
short or long periods. Therefore, it is very important for banks to anticipate financial hardship in order to protect the business in the future

The importance of the research: Cash flow is one of the most important tools or indicators to assess and show financial failure in terms of providing information that can be used to show how to avoid financial failure in terms of identifying the current financial and the statement of cash receipts.

Research Objectives: The research aims to

1- Recognizing the financial stumbling, its causes, and ways to control it
2- Show the role of cash flow statements in evaluating banks.

Research Hypotheses:

The first hypothesis: is that continuous financial stumbling may lead to the collapse of banks and their inability to fulfill the obligations they owe.
The second hypothesis: The use of cash flow indicators may be an early indicator for the bank in determining the effectiveness of financial management. It is possible that the bank will be in financial distress and then bankruptcy will follow.

The Theory of the Research

First: The concept of non-performing loans: The multiplicity of nomenclature that indicates the concept of a bad loan led to a multiplicity of definitions between one writer and another, according to each writer's point of view. The financial failure was considered from the point of view of the borrower as facing emergency conditions that lead to its inability to generate an economic return, surplus, or sufficient activity to pay its obligations within the specified time. From the point of view of the lending party, the loan is defined as the debt prepared by the bank or the lending institution after studying the financial situation of the customer and the guarantees of the debt itself, as being of a dangerous degree that cannot be collected within a reasonable period. Non-performing or non-performing loans are defined as loans that no longer bring the bank interest income or loans that the donor finds itself obliged to schedule following the current conditions of the borrower, The issue of default has been linked to the probability that the lender will be unable to collect, as it is defined as loans with a probability of not recovering more than 51%. Although the definition of non-performing loans differs from the point of view of the lender and the borrower, they agree that a non-performing loan is an abnormal or exceptional situation that negatively affects both parties, and the essence of its impact is on the financial position of both parties. (Rabi, 2019: 18).

Non-performing loans are a source of financing by which individuals, financial institutions, and establishments in society are provided with the necessary funds, as they are resorted to when the necessary resources are not sufficient to carry out various activities. Outstanding, and doubtful debts, (Ben Madani, 2017: 15).

These are those loans whose principal amount or interest has not been paid for a period of 90 days, loans that have become due and not paid or are not expected to be repaid due to bankruptcy or voluntary liquidation or restructured, or loans granted to troubled or losing companies. (Al-Khafaji and Abbas, 2020: 364).

The lending process entails many risks, the most dangerous of which is bank default, which is a special case that appears through several indicators, as the bank can predict the occurrence of problems in collecting loans, and early detection of a bad loan is one of the most important operations of the bank. (Boabdallah, 2010: 26)

Non-performing loans are one of the main problems facing banks, as they expose the banks to the eight problems, which would expose the bank to losing confidence in its currencies, so it is necessary to pay attention to this phenomenon and define its concept accurately to determine how to face it in the future. of a liquidity crisis in the bank due to the existence of a gap between total liabilities and total assets, and default leads to capital erosion, and bad loans are known as "failure." The customer pays his obligations on time, whether that is acceptable or not, or because of the customer's procrastination or things outside his will. (Al-Shabib, 2012: 269).

Granting credit is one of the basic functions of financial institutions. Financial intermediaries provide the financial resources needed by borrowers. In light of this relationship, financial intermediaries must use loans to generate income from their activities to fulfill the obligations associated with it. As for banks, they seek to facilitate financial investments. And thus increases their ability to grant new loans, and when the economy falls into a recession, individuals and institutions face difficulty in providing financial liquidity and thus difficulty in repaying contracted loans, which leads to excessive indebtedness and non-performing loans, which causes negative effects on the economy (Saputra, 2020: 104).

Doubtful loans: They are the ones that have not been fully hoped to be collected due to the failure to pay them promptly due to the debtor's inability to pay due to his bad financial and commercial conditions, which calls for doubt in the collection of all or some of these debts and entails a potential burden on them, and they are between ordinary and bad loans. Bad Loans: These are loans that have finally lost hope of collecting despite the bank's use of all means and methods to recover them but to no avail. Non-performing loans: are those loans whose principal amount or interest has not been paid for 90 days, or loans that have matured and were not paid or not expected to be repaid due to bankruptcy, probationary liquidation, restructured or loans and then granted to troubled or losing companies. (Al-Dhabawi and Tawaj, 2021: 21).

Second: the reasons for loan defaults: There are many reasons for defaulting on loans that both banks and customers participate in, as well as some other economic variables. The reasons for default may be due to the circumstances and nature of the customer, or they may have nothing to do with the banks. In some cases, the reasons are due to the policies and performance of the bank itself. The non-performing loans are caused by some reasons that are due to inefficient management by taking a decision to grant credit to customers without the presence of a sufficient scientific and objective study of the credit applicant, which results in the emergence of non-performing customers. Attention to the production process and careful study of credit: (Al-Khafaji and Abbas, 2020: 335).

1-Reasons related to the customer: The customer is one of the main reasons that lead to loan defaults. Therefore, the loan grantor should take caution and caution when making any decision regarding the process of granting credit facilities to customers.

2- Reasons related to the bank: They are reasons resulting from the lack of objective study of the credit decision and the identification of potential risks, which are management risks, market risks, capital risks, and real estate guarantee risks. These facilities are disbursed at once without monitoring and follow-up.

3-Causes outside the scope of the customer and the bank: These reasons exacerbate the problem and exacerbate it. These factors may be permanently changing and characterized by instability, which may sometimes affect the ability of customers to pay their obligations to banks. The most important reasons can be summarized in the unstable political conditions that affect the Economic conditions and then on the results of the borrowers' work and natural conditions, including natural disasters related to floods, earthquakes, fires, diseases, technological and economic conditions, including the emergence of advanced alternative goods that lose the customer's share of the market. General, which leads to a decrease in the volume of customer sales and a weak ability to service his debts and legislative and legal reasons The weakness of laws and legislations, their absence or lack of coverage and coverage of regulatory, legal, and control aspects indirectly help in the collapse or failure of the bank. (Karima, 2020: 23)

Third: Dealing with Bad Loans: The methods of dealing with non-performing loans differ in different times, customers and countries, according to the specific circumstances of the customer and the reasons that led to his default. The most important methods and procedures through which non-performing loans can be dealt with are in three basic stages: (Bahi, 2015: 32):

1- The method of floating the customer (the defaulting company): the bank faces the problem of the default of one of the customers as a result of an exceptional, emergency, and not permanent circumstances, which have an impact on the customer's ability to pay, and then there becomes difficulty to get out of this crisis without obtaining the support or support of the bank to save the customer and the continuation of his activity and then return to the ability to pay. The process of flotation of the customer is one of the first and most important stages of dealing with non-performing loans.

2- The method of eliciting the customer: at this stage, the bank performs a set of procedures through which direct and indirect intervention which It results in more revenue than costs. At this stage, he provides the appropriate management advice to the client, which deals with increasing non-cash revenues by selling some of the assets he owns and does not need, especially production units that do not make profits, but rather realize losses and exploit idle energies by renting them to others as work aids, or as storage or transportation tools. transportation; Activate the demand for the goods produced by the customer and the services he provides by persuading the creditors of the project to obtain part of their debts as goods and services shares. At the same time, the bank provides advice and advice to the customer in the field of stimulating sales and finding new customers and new markets that are convenient for him. Accordingly, this stage ends with a balance between the project's revenues and its expenses, i.e. between the inflows and outflows.

3- Customer recovery method: It is a set of procedures by which the customer or the project is transferred from a defaulting customer to a non-failed customer, i.e. it regains its activity and operates at its full capacity. To achieve this stage, a set of conditions must be met, the most important of which are: (Othman, 2013: 397):

- That future and present conditions indicate the availability of a market for the customer to absorb his products from the goods and services he offers.
- That the customer has the desire and determination to overcome the crisis and has the ambition and full readiness to bear the effort, cost and risks involved in the decision to expand, and that the bank's past transactions have supported these facts.
- The size of the new credit that is required to be granted is appropriate and does not exceed the original amount, the assets of the current borrowing company, or the rights of the owners of the project.

Fourth: The concept of the statement of cash flows: The cash flow statement is one of the important financial statements that accounting standards stipulate the need to prepare and publish within the financial statements published for the unit at the end of each financial period in order to provide appropriate accounting information for decision-making as well as to benefit from that information in evaluating the performance of the economic unit. The gap between the statement of financial position and the income statement and giving more accurate details of the sources and uses of funds across the three main operational, investment, and financing sources.. (Najm, 2016: 447).

From this it turns out that the main objective of preparing the cash flow statement is to assist investors,. Its importance can be clarified by the following most important points: (Al-Khatib, 2010: 221).

1- The cash flow information of the economic unit is useful in providing the users of the financial statements with the ability of the economic unit to generate cash and the needs of the economic unit in using this cash, as well as how to generate and use the monetary unit and its equivalent.

2- Determining the sources of difference income and net cash flows, as well as enhancing the ability to compare the operational performance of various economic units because it excludes the effects of using different accounting treatments for the same and newer operations.

3- The cash flow statement provides useful information about investment activities, as it thus reflects the performance policy of the economic unit, whether expansionary or contractionary Investment

The cash flow statement is also of special importance: (Al-Saadi, 2012: 74)
1- A good indicator of the sincerity of the profitability of the economic unit.
2- Providing information on cash receipts and cash payments for a limited period.
3- Providing information on the basis of activities (operating, investment, financing).
4- Assessing the ability of the economic unit to generate cash flows in the future
The cash flow statement is characterized by a set of objectives that seek to provide information related to cash inflows and outflows classified according to the main activities for an accounting period, and this information should help users: (Jafar, 2020: 188)
1- Estimate the ability of the economic unit to achieve positive net cash flows in the future
2- Estimating the ability of the economic unit to meet its obligations and its need for external financing and payment of distributions
3- Understand the difference between the net income of an economic unit and its net cash flow.
4- Determining the effects on the financial position of the economic unit resulting from investment.

Five: Classification of the statement of cash flows: The budget refers to the cash balance at the end of the period, but it does not provide details about the reason for the increase or decrease in the cash account, and the income statement shows the results on an accrual basis, while the cash flow statement presents a summary of cash flows on a cash basis, and the statement of cash flows can be classified According to the accounting standard (No.7), (Abdullah et al., 2020: 491).
1- Cash flow from operating activities: The net cash flow from operating activities is the flow related to all those activities that are included in access to operating profit and is calculated by reference to the cash effects of all transactions related to operating or trading activities and is usually included in the profit and loss account in access To operating profit,. Cash flows also include interests and profits distributed on loans and investments, and cash outflows include payments Cash for wages, inventory, expenses, interest, taxes, and the purchase of commercial securities.
2- Cash flows from investing activities: includes cash flows from investing activities, transactions, and events involving the purchase and sale of securities (other than commercial securities), property, buildings, equipment, and other assets that are not generally held for resale, and all loans that are classified as Investment activities.
3- Cash flows from financing activities: the cash inflows and outflows related to external sources of financing, as the economic unit obtains cash from borrowing and from issuing ordinary or preferred shares. The cash is used to pay dividends to shareholders,

Search method:
The practical aspect was conducted to research the Tigris and Euphrates Bank, which is one of the banks that suffer from financial stumbling, which led the Securities Commission to write off the bank from circulation for the period in question to study the case of financial stumbling with the bank. to pay its required obligations, and therefore it is a situation in which the bank is unable to generate sufficient funds to meet its financial obligations as they become due.

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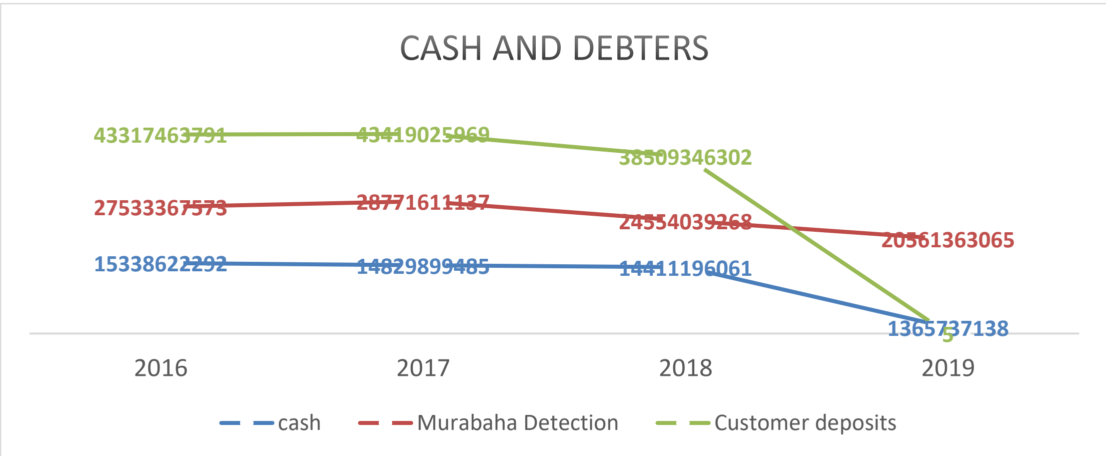
The following is the list of the bank's financial position for the period from 2016 to 2019
Daljit and furat Bank - a private joint stock company

	2016	2017	2018	2019
Assets				
Cash and cash balances with other banks	15338622292	14829899485	14411196061	**1365737138**
Murabaha Detection	27533367573	28771611137	24554039268	**20561363065**
accounts receivable	157880234472	32546679563	28278197313	**26320622559**
property and equipment at book value)(	21027307057	26179700751	20516757294	**20234602979**
Total Assets	**221779531394**	**102327890937**	**87760189935**	**80773959741**
Liabilities and Equity				
Li abilities and sources of short-term financing				
Customer deposits	43317463791	43419025969	38509346302	**33019969250**
Customer insurances	15407875236	13476482775	10136685031	**9869598797**
Other credit accounts	87894444796	90163597852	89942000099	**89916084385**
Income tax provision	29121133361	2587691916	2587691916	**2475431485**
Miscellaneous allowances	1787573428	19110464923	1854113863	**1699158887**
Total liabilities and sources of short-term financing	151328490612	151557863434	143029837211	**136980242805**
Owner's Equity and capital				
Capital	112000000000	112000000000	112000000000	**112000000000**
statutory reserve	1408506825	1408506826	1408506826	**1403516201**
Miscellaneous precautions	5197137395	5507137396	5507137396	**5496159896**
undistributed profits	3251005854	3251005855	3251005855	**3170972511**
accumulated deficit	51405609292	176748781633	177436297352	**178276931671**
Total Equity	**70451040782**	54582131558	55269647276	**56206283064**
Total Liabilities and Equity	**221779531394**	96975731877	87760189935	**80773959741**

From the statement of financial position data, we note that the bank was suffering from a decrease in cash flow, which is clear from the statements, as it was during the period from 2016 to 2019 (15338622292, 14829899485, 14411196061) 1365737138 On the other hand, we also note the decrease in the realized profits, as it formed a clear and gradual decrease over the years of research.

This can be illustrated by the following diagram:



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We note from the above scheme that the financial stumble is a clear beginning with the bank in terms of cash decline and the inability to pay obligations, and the bank has also faced problems of customer distrust and demand for deposits

The cash decline recorded between 2018 and 2017 by (2.81%), and the bank began to realize losses due to the decline in revenues. During 2019, it recorded a significant decrease in revenues, which amounted to 22%, and the revenues of the Sulaymaniyah branch constituted 99% of the total revenues of the bank

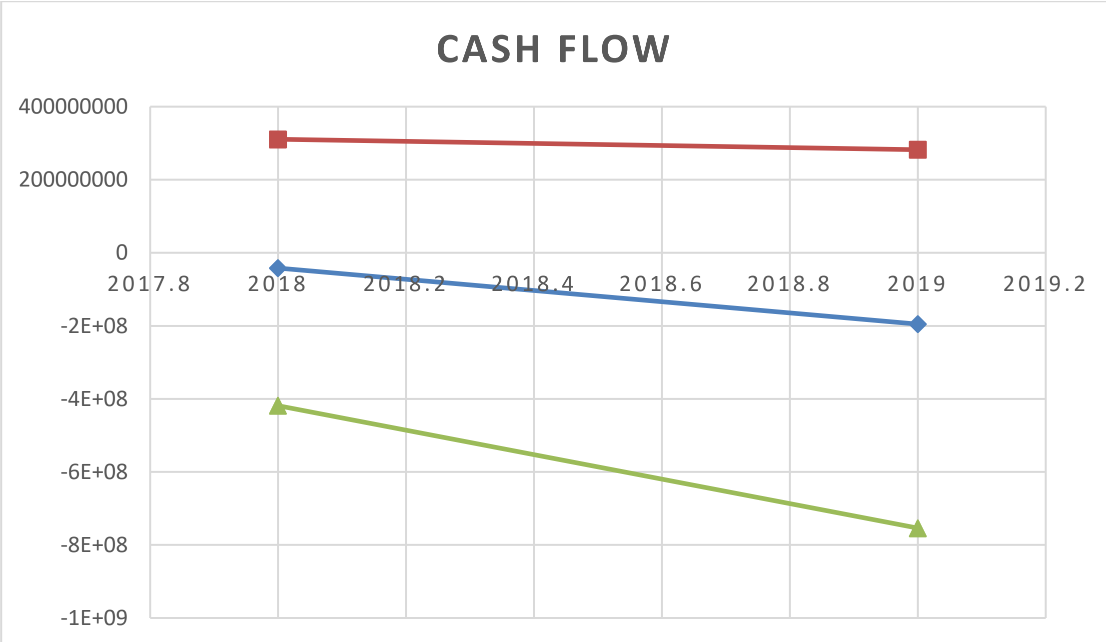
As the bank was suffering from a clear weakness in the financial position, especially cash, as the cash in the fund during 2019 amounted to (1365737138) compared to customers' deposits amounting to (20561363065), which constitutes a percentage of about 41%.

A negative balance amounted to (753824924) and this decrease is due to the large withdrawal of deposits and the lack of confidence in the ability to pay obligations, as cash compared to assets constitutes 11%, which indicates the apparent inability of the bank's management to pay the obligations owed by the bank. Rather, the bank became unable to pay customers' deposits.

The bank's cash flow statement appeared. The cash flow result of the bank for the two years during which negative cash flow occurred was as follows:

the details	2018	2019
Operation cash flow	)41972104(	195344919)(
Investment cash flow	310784398	282154315
Financing cash flow	(418703423)	753824923)(

We note from the above table the clear decrease in the operating cash flow, as it continued to be negative, which is the basis for the results of the bank's activity, and this indicates the bank's inability to carry out its activity normally. This can be clarified through the following scheme.



CONCLUSIONS

1- The inability of the customer to repay the loan on time is called a bad loan, and this affects the cash flows of the economic unit.

2- The cash flow statement and the knowledge of non-performing loans are of special importance as it is very useful in evaluating the availability of financial liquidity in the economic unit.

3- The non-performing loans are caused by a number of reasons due to inefficient management by taking a decision to grant credit to customers without the existence of a sufficient scientific and objective study of the credit applicant, which results in the emergence of defaulting customers.

4- The essence of the credit process is to reduce the losses from bad loans and advances in order to maintain the balance of the total cash incoming transactions and the sum of the cash outgoing transactions.

RECOMMENDATIONS

1- The customer's financial ability should be studied before giving him the loan in order to know his ability to repay the loan on time and this avoids us from accessing non-performing loans that affect the cash flows of the economic unit.

2- The availability of financial liquidity in the economic unit should be evaluated through the cash flow statement and knowledge of non-performing loans.

3- The economic units should study and determine the reasons that lead to the non-payment of loans and the non-grant of credit to customers without a sufficient scientific and objective study of the credit applicant, with the aim of getting rid of defaulting customers.

4- To achieve the essence of the credit process, the economic units must balance the total cash incoming transactions and the total cash transactions outgoing by reducing losses from bad loans and advances.

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