

FINANCIAL DISTRESS OF COMMERCIAL BANKS IN IRAQ AN APPLIED STUDY ON SUMAR COMMERCIAL BANK

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Abstract

The evaluation of the banking performance of some Iraqi private commercial banks listed on the Iraq Stock Exchange using the Sherrod and Springate models and that the sample included three Iraqi commercial banks, namely Baghdad Bank, Sumar Bank, and Ashur Bank, by reviewing the liquidity and profitability indicators and the extent of differences between these banks, the study recommends applying financial distress indicators in banks to avoid their exposure to risks and in general, the sample banks all suffer from weakness in their financial position and based on the above, the study recommends raising the performance of banks by the management of these banks investing in projects less susceptible to be able to fund ongoing operations and fulfill obligations to avoid the risk of financial distress.

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Introduction

The central bank is the apex of a country's banking system, often referred to as the "bank of banks." It oversees the guidance and supervision of these institutions, ensuring the stability of the monetary and financial systems. As the authority responsible for issuing currency and monitoring inflation, the central bank also bears the critical role of maintaining financial stability for banks and financial institutions, protecting them from financial distress.

Financial distress poses a significant challenge for most business entities, including banks, as it can lead to substantial financial losses. Bank distress, in particular, represents a key threat to the banking sector, especially amid the challenges posed by global economic developments to this vital sector. Banking distress is one of the phenomena that has a profound impact on bank performance, as no bank experiencing such a crisis can avoid the associated severe risks and losses, which sometimes lead to bankruptcy, consequently affecting its commercial reputation.

The ongoing effort to develop the banking system and financial institutions, ensure financial and banking security, reinforce the integrity of banking operations, utilize modern technologies, and enhance banking efficiency is essential. Furthermore, finding effective solutions to address financial and banking problems, and overcoming the challenges that banks face, remains a priority for ensuring the resilience of the banking sector.

The problem of the study:

The issue of the study is centered on the seriousness of the financial default of banks and its negative

effects as it weakens their financing structures and whether Iraq has commercial banks that are not financially distressed. The question will be answered by using the Sherrod model and the Springate model to predict financial default in some private commercial banks in Iraq by calculating the value of Z calculated according to these two models.

The hypothesis of the study:

The study starts from the hypothesis that banks play a vital and influential role in economic activity, so there must be clear methods to protect these banks to avoid financial distress.

- 1 - Is the sample bank financially distressed?
- 2 - Is the sample bank not financially distressed?
- 3 - Does the sample bank suffer from a weak financial position?

The importance of the study:

The importance of the research lies in dealing with the very important topic of developing the banking system by strengthening and enhancing the capital management of banks, increasing the size of their assets, adopting best practices to achieve their objectives, and guiding decision-makers to solve their financial issues and stay away from risks to ensure the financial stability of banks.

Objectives of the study:

The objectives of the study are as follows:

- 1- Recognizing the financial distress, the causes leading to it, and the negative effects on it, and trying to reach appropriate solutions to treat it.
- 2 - Good capital management avoids the risks of financial distress.
- 3- Identifying preventive and therapeutic methods for financial distress.

Limitations of the study:

1. Spatial boundaries: Iraq (Sumar Commercial Bank).
2. Temporal Limits: The study was limited to the time period between (2023-2014).

Structure of the study:

The study includes two sections, the first includes the concept of financial distress and the second includes evaluating the performance of Sumar Commercial Bank according to the Sherrod and Springate models.

The concept of financial distress

4 - The concept of financial distress:

There is no general agreement on the definition of the term financial distress, some of them defined it as the state of bankruptcy and some of them linked it to insolvency, and we will review a number of definitions by some researchers:

Rose defined financial distress in 1996 as the inability to fulfill debts with the absence of any means of repayment, such as insufficient assets to cover liabilities (Arkan, 2015, 234).

Mohsen Ahmed Al-Khudairi defined financial distress as “a financial imbalance facing the project as a result of the inability of its resources and capabilities to fulfill its obligations in the short term, and that this imbalance is mainly caused by an imbalance between the project's various resources (internal/external) and its short-term obligations that are due or due for payment, And that this imbalance between internal resources and external obligations ranges from temporary temporary

imbalance to real permanent imbalance, and the more this imbalance is structural or close to structural, the more difficult it is for the project to overcome the crisis caused by this imbalance “(Al-Khudairi, 1996, 33).

Olivier Ferrier defined) Financial distress is defined as “a serious disruption to the ability to continue activities for various reasons” (Ferrier, 2002, 75).

III: Causes of financial distress

There are many differences in the researchers' division of the causes of financial default, some of them divided them into direct and indirect causes and others divided them into internal and external causes, and these divisions remain the only ways to recognize the main cause of financial default and to reach methods of prevention from it, and among the most important divisions are:

1- Internal causes and external causes:

A - Internal Causes:

The financial distress of banks can be linked to two ideas, the first is that low liquidity, asset, and profit ratios are a warning bell of potential financial distress, while the second is the failure of depositors to distinguish between liquidity shocks and a weak financial position. (Fungacova *et al.*, 2015,4)

- 1 - Weak management and lack of scientific competence.
- 2 - Inadequate operational policies such as production, pricing, and sales policies.
- 3 - Choosing the wrong location and poor internal equipment
- 4 - Lack of efficiency in collecting dues from customers.
- 5 - Accumulation of losses.
- 6 - Making unnecessary expansions and using unsophisticated technology.
- 7 - Poor inventory control.

B - External Causes:

- 1 - Existence of great competition between organizations.
- 2 - Government decisions.
- 3 - Pessimistic expectations of buyers.
- 4 - Difficult economic conditions, as default rates increase under these conditions.
- 5 - Change in demand.
- 6 - The availability and cost of credit, as the restriction of credit and its high cost increases the likelihood of failure(Jabal, 2004, 188-189).

2 - Direct Causes and Indirect Causes

A - Direct Causes

1 - Administrative Causes: It is one of the common causes in most of troubled organizations, whether in the top management, leadership, or executive positions or in the general administrative policies that are applied in all sectors of the organization.

2- Financial Causes: It is an expression of an imbalance in the financing structure of the institution due to insufficient capital to meet all investment requirements, insufficient financial surpluses remaining for the institution to finance capital expansions, poor liquidity, insufficient provisions for depreciation of the institution's capital assets, as well as the use of credit for purposes other than those for which it was

granted, which has a negative impact on liquidity to continue the production process, purchase raw materials and pay workers' wages.

3 - Technical reasons include poor investment planning from the beginning, as well as errors in economic feasibility studies, lack of natural characteristics of suitable materials, choice of technology, and construction method (Al-Naami, 2006, 39).

B - Indirect causes:

1 - Inflationary trends prevailing at the level of the local and global economy: The prices of raw materials, as well as production inputs and energy prices, all result in loading production costs with additional burdens that were not taken into account when studies were prepared regarding production costs and pricing of the final product, which leads to a decrease in the rate of profitability or increase the loss.

2- Sharp fluctuations in exchange rates and their multiplicity: Sharp fluctuations in exchange rates lead to an increase in the value of the debts of many borrowing institutions, which leads to an uncorrectable misalignment of their financing structure.

3- Constant changes in the decisions governing economic activity: The conflict often has an impact on the economic performance of the organization, such as spreading distrust and instability (Al-Naami, previous reference, 39-40).

Methods of treating financial distress:

Many methods can be used to treat financial default, and this requires a careful study to know the causes of the default and choose the optimal method of treatment:

1- Deposit insurance system:

The guarantee of bank deposits represents a type of application of insurance contracts, the aim of which is usually to compensate the guaranteed depositor for the losses he suffers in the funds, what characterizes this system is that it is not directed to protect an individual or a specific institution, i.e. it is directed towards society in general, that is, it does not necessarily aim to profit from the guarantor but rather enhances the general confidence of the public depositors, and this system is defined as a type of insurance system in which banking institutions meet with each other for the purpose of establishing an insurance institution and this banking institution sets the policy for the system since they pay and finance the system and when one member of this system is exposed to the loss of the bank's deposits.

2 - Restructuring of distressed banks:

The method of restructuring aims to try to save the bank from the issue of bank financial default and to complete this process successfully, we must look at the treatment of the issue of default and push it from three angles, namely that the management, owners and creditors have the desire to continue the work of the bank and the ability to succeed and support the proposed treatment methods, which is restructuring, in addition to that the restructuring includes the administrative and financial field to achieve effective results and overcome the issue of default and reduce the possibility of its occurrence in the future through:

A. The formula for restructuring banks.

B. Procedural methods for restructuring banks.

In order for restructuring to be an effective change, it must be characterized by the following:

1 - The change is fundamental, as it must be a qualitative change in the performance of banking work, as well as a change in banking thought to be in line with the developments in the banking industry to help raise the efficiency of banking services to the customer.

2 - The change has value, the change should be substantial in performance standards.

3 - Change has significant results, i.e. it is not limited to relative and formal development and improvement in performance.

4 - Adopting inductive thinking restructuring is concerned with searching for opportunities for change before the emergence of issues that would call for change and development and rejects deductive thinking, which is waiting for the emergence of the issue and then working to find solutions (Abdulnabi, 2016:4).

Summary of the methods and procedures for restructuring the distressed bank:

- Dissolve the board of directors and form a management committee.
- Preparing a restructuring plan.
- The financial means of restructuring aim to help the troubled bank resume its activity within limits because banks in financing their assets are based on the funds of others and their absence means the cessation of their activity and they rely heavily at the beginning of the activity on their capital in employment, so the treatment of indebtedness or increasing capital are only means that provide appropriate sources of financing to restore activity and sometimes the cause of the bank's failure is large in size when compared to the absorption capacity of the banking ceiling, so it resorts to reducing its capital.

A - Addressing the debt of the troubled bank: The accumulated bank debts resulting from the decline in profits and the increase in losses during the years of the bank's activity leads to the bank's failure and its failure to pay its obligations, and therefore the chances of success in restructuring the troubled bank depend on the treatment of its indebtedness according to the following: -

1 - Redeeming the bank's debts: Any waiver of the right holder unless otherwise prevented

2- Rescheduling the bank's debts: This is done by rearranging the terms of creditors to agree to postpone payment

3- Capitalization of debts: This is done by converting the bank's creditors into shareholders, each according to the proportion of its debts, and this leads to an increase in its capital the capitalization process is established by a decision of the Extraordinary General Assembly and this is done after taking the written consent of the creditors and the approval of the guardian body, and is registered and published following the Companies Law.

B. Financing: Struggling banks are difficult to obtain funding sources under the situation they are going through due to the obvious decrease in their capabilities that can be included in the restructuring plan.

C - Increasing the bank's capital: This is done by subscribing to the entire capital of the bank, that is, its authorized capital is paid in full by the shareholders, as it is not logical to increase the capital while it is still credited with the unpaid portion of the shareholders' liabilities.

3- Forced merger of the troubled bank

It is one of the remedial methods that the competent authorities resort to it by purifying the banking system from troubled banks, and this is done taking into account the rights of stakeholders in the troubled bank such as uninsured depositors under the deposit insurance system who are greatly affected by the liquidation of troubled banks and the need for the method of forced merger increases in the event that other financial restructuring methods are unable to achieve their objectives to return troubled banks to engage in their activities and resulting in most cases from creditors' opposition to these methods and the failure of negotiations with them.

The merger involves the transfer of a certain competitive situation to a better competitive situation that

results in: -

A - Increasing the competitiveness of the new bank, investment opportunities, and managing new resources and income more efficiently, effectively and creatively

B - Replacement by a new, more experienced management entity to perform the bank's functions with a higher degree of efficiency, and thus the new banking entity acquires its own personality.

C - More confidence, reassurance, and security among the public and customers (Abish, 2015, 13)

4 - Liquidation and sale

One of the ways and methods of treating financial distress is liquidation and sale, and the following is an explanation of each of them:

A - Liquidation: The four methods mentioned above, where the degrees are light and not difficult, meaning that the value of the continuity of the institution is higher than the value of the bankruptcy or liquidation institution, but in the case of liquidation, the failure is intractable and serious, meaning that the liquidation value of the institution is higher than the value of its continuation, and here it is necessary to conduct the liquidation process and achieve Bankruptcy and legal procedures are taken to pay the institution's obligations to third parties, and the order to liquidate the institution is optional or compulsory, i.e. when the owner does it himself without compulsion, it is of the first type, but if the owner is unable to pay his obligations to third parties and does not reach a solution with his creditors, it is of the second type.

B - Sale: Sometimes the owners of institutions do not find a solution in front of them except to end their ownership of the institutions by selling and the owners decide in the case of sale to transfer the failed or unsatisfactory institution to new owners to take over the management of the institution when they could not cure it from the diseases it suffers from, and the sale is to one of the individuals working in it or to customers and creditors or the public (Bokhdouni, 2006, 34).

Evaluation of commercial banks based on a model Sherrod, Springate.

Bank performance evaluation models

1- Sherrod's model

This model is used in predicting financial distress and is a tool for assessing the risks to which the banks' loan portfolio is exposed, Sherrod's efforts are an extension of those who preceded him, as well as the model predicts whether or not the economic unit can continue in the future, and this model is based on six ratios, as follows: -

Table (1) Financial ratios are used in the Sherrod model.

Variable	The ratio	Type	Relative weight
X1	Net working capital / total assets	Profitability index	17
X2	Liquid Assets / Total Assets	Money Flow Index	9
X3	Total Shareholders' Equity / Total Assets	Lifting index	3.5
X4	Net profit before tax / total assets	Profitability index	20
X5	Total Assets / Total Liabilities	Lifting index	1.2
X6	Total Shareholders' Equity / Total Fixed Assets	Lifting index	0.1

*Source: The researcher's work is based on Mustafa, Fahmi Al-Sheikh, 2008, Financial analysis, 1st

edition, 102, Alexandria, Egypt.

The model can be represented in mathematical form as follows: -

$$Z = 17X_1 + 9X_2 + 3.5X_3 + 20X_4 + 1.2X_5 + 0.1X_6$$

This model serves credit in commercial banks in particular from many angles, the most important of which are: -

- Evaluate the organization's credit position when applying for loans or credit facilities, i.e. it is the credit manager to decide to grant loans or facilities.
- Evaluate the risks surrounding the loan portfolio as well as estimate the provisions for non-performing loans that must be formed in relation to that portfolio, as well as utilized in determining the interest rate for loans and making schedules for follow-up and examination of loans.

Table (2) Risk score according to Sherrod's model.

Category	Degree of risk	Quality Index Z
First	The company is not exposed to distress risk	$25 \leq Z$
Second	Low exposure to distress risk	$20 \leq Z \leq 25$
Third	Difficult to predict default risk	$5 \leq Z \leq 20$
Fourth	The company is exposed to distress risk	$-5 \leq Z \leq 5$
Fifth	The company is highly exposed to distress risk	$Z < -5$

*Source: The researcher's work is based on Mustafa, Fahmi Al-Sheikh, 2008, Financial analysis, 1st edition, 102, Alexandria, Egypt.

This model works according to a specific system and has a clear and specific goal as follows:

- The largest weight of the ratios that make up the model is to test the ability of the business to pay, as the main purpose of the model is to analyze credit, which is done through liquidity and suitability ratios or leverage.
- The quality index that is used to classify the facility requesting a loan goes in the opposite direction to the direction of risk, that is, the high value of that index indicates the quality of the loan or the strength of the financial center of the facility, that is, the degree of risk is low and vice versa (Lutfi, 2006, 714-715).

2- Model (Springate 1978)

The Canadian researcher (Gordan Springate) used the method of multiple discriminant analysis to select the best four financial ratios, which obtained 92.5% for its ability to distinguish between (20) successful companies and (20) companies that declared bankruptcy or were liquidated.

$$Z = 1.03X_1 + 3.07X_2 + 0.66X_3 + 0.4X_4$$

Table (3) Financial ratios used in the Springate model.

Variable	The ratio	Relative weight
X1	Working Capital / Total Assets	1.03
X2	Earnings before tax and interest / total assets	3.07

X3	Earnings before tax and interest / Current liabilities	0.66
X4	Sales / Total Assets	0.4

*Source: The researcher's work is based on Mustafa, Fahmi Al-Sheikh, 2008, Financial analysis, 1st edition, 102, Alexandria, Egypt.

- In other words, the higher the value of (Z), the healthier the organization's financial position, but if the value of (Z) falls below (0.862), the organization is classified as at risk of bankruptcy.
- If the value of (Z) is between (0.862) and (1.062), the organization's management must be cautious to avoid bankruptcy.
- If the value of (Z) is greater than (1.062), the organization is in a sound financial condition (Al-Sheikh, 2008: 89).

Evaluation of Sumar Commercial Bank according to the Sherrod, Springate model

Table (4) Data from the statement of financial position of Sumar Bank according to Sherrod and Springate indicators for the period (2014-2023).

Statement	Net working capital	Current assets	Liquid assets	Fixed assets	Total assets
2014	239802010	399909659	249151661	20705813	420615472
2015	236276268	342143490	208233221	27073027	369216517
2016	245769355	330386964	213978814	21310636	351697600
2017	242736251	365399151	262377317	24777032	390176183
2018	241318017	382417120	299802652	27064583	409481703
2019	237028161	317947851	238055855	32439601	350387452
2020	230019677	300257231	249868038	32854913	333112144
2021	229377196	337769627	300081514	34715761	372485388
2022	228897725	291496757	258349913	36360599	327857365
2023	205614109	245595480	197048513	50085019	295680499
Statement	Current liabilities	Total liabilities	Total Equity	Sales	Net Profit Before Taxes
2014	160107649	160107649	260507823	4037789	2318205
2015	105867222	105867222	263349295	3490294	4249958
2016	84617609	84617609	267079991	2769750	4424023
2017	122662900	122662900	267513283	2324193	471357
2018	141099103	141099103	268382600	3763124	1074069
2019	80919690	80919690	269467762	1243594	1136803
2020	70237554	70237554	262874590	2820028	1251341
2021	108392431	108392431	264092957	3334929	1373583
2022	62599032	62599032	265258324	2708560	1239834
2023	39981371	39981371	255699128	1319769	-6938334

Source: Prepared by the researcher based on Sumar Bank's financial statements (2014-2023).

Table (5) Calculation of Sumar Bank's Z value according to Sherrod's model for the period (2014-2023).

Year	X1 = net working capital / total assets	X2 = liquid assets / total assets	X3 = shareholders' equity / total assets	X4 = net profit before tax / total assets	X5 = total assets / total liabilities	X6 = shareholders' equity / fixed assets
2014	0.570	0.592	0.619	0.005	2.627	12.581
2015	0.639	0.563	0.713	0.011	3.487	9.727
2016	0.698	0.608	0.759	0.012	4.156	12.532
2017	0.622	0.627	0.685	0.001	3.180	10.796
2018	0.589	0.732	0.655	0.002	2.902	9.916
2019	0.676	0.679	0.769	0.003	4.330	8.306
2020	0.960	0.750	0.789	0.003	4.742	8.001
2021	0.615	0.805	0.709	0.003	3.436	7.607
2022	0.698	0.787	0.809	0.003	5.237	7.295
2023	0.695	0.666	0.864	-0.023	7.395	5.105

Source: Researcher's work based on the data in Table 4 for the period (2014-2023).

Table (6) Applying the mathematical equation.

Year	X1 Liquidity Index	X2 Liquidity Index	X3 Liquidity Index	X4 Liquidity Index	X5 Liquidity Index	X6 Liquidity Index	Total Z value
2014	9.69	5.328	2.166	0.1	3.152	1.258	21.694
2015	10.863	5.067	2.495	0.22	4.184	0.972	23.801
2016	11.866	5.472	2.656	0.24	4.987	1.253	26.474
2017	10.574	6.048	2.397	0.02	3.816	1.079	23.934
2018	10.013	6.588	2.292	0.04	3.482	0.991	23.406
2019	11.492	6.111	2.691	0.06	5.196	0.830	26.38
2020	11.73	6.75	2.761	0.06	5.690	0.800	27.791
2021	10.455	7.245	2.481	0.06	4.123	0.760	25.124
2022	11.866	7.083	2.831	0.06	6.284	0.729	28.853
2023	11.815	5.994	3.024	-0.46	8.874	0.510	29.757

Source: Researcher's work based on the data in Table 5 for the period (2014-2023).

The Sherrod model was applied to evaluate Sumar Bank and the model consists of six liquidity indicators that depend on the bank's financial statements for the period from (2014 to 2023) through these indicators we can extract the calculated Z value and recognize the financial situation of the bank and the effectiveness of this indicator, where the results were extracted and were as follows:

The calculated Z value was greater than (20) and less than (25) for the years 2014, 2015, 2017, and 2018, meaning that in these years it falls within the second category, which means according to the model (low probability of exposure to the risk of financial default) and was greater than (25) for the years 2016, 2019, 2020, 2021, 2022 and 2023, meaning that it falls within the first category, which means (the bank is not exposed to the risk of financial distress). The bank is not exposed to the risk of financial default), meaning that the bank was suffering from financial issues that may expose the bank to the risk of financial default and the bank's management should invest in less risky projects. It is also noted that the value of Z during the study period was close and the results of the variables were as follows:

X1 - It is working capital over total assets, which was low throughout the study period, which means that the bank's activity declined and its ability to finance current operations and fulfill short-term obligations weakened.

X2 - This indicator reflects the availability of the bank's liquidity, as the results during the study period were low as a result of the weak financial position.

X3 and X6 - These two indicators reflect shareholders' equity over total assets and fixed assets, and X6 was good and better than X3.

X4 - It is the profit on total assets and its results were low during the study period as a result of weak banking activity, crises, and the deterioration of the security situation.

X5 - which is the total assets over total liabilities, i.e. the capital solvency index, and its results were high during the study period as well as converging.

Table (7) Springate's Z-value calculation table for the period (2014-2023).

Year	X1 = Net working capital / total assets	X2 = Net profit before tax / total assets	X3 = Net profit before tax / current liabilities	X4 = Sales / Total Assets
2014	0.570	0.005	0.014	0.009
2015	0.639	0.011	0.040	0.009
2016	0.698	0.012	0.052	0.007
2017	0.622	0.001	0.003	0.005
2018	0.589	0.002	0.007	0.009
2019	0.676	0.003	0.014	0.003
2020	0.960	0.003	0.017	0.008
2021	0.615	0.003	0.012	0.008
2022	0.698	0.003	0.019	0.008
2023	0.695	-0.023	-0.173	0.004

Source: Researcher's work based on the data in Table 4 for the period (2014-2023).

Table (8) Applying the mathematical equation.

$$Z = 1.03X1 + 3.07X2 + 0.66X3 + 0.4X4$$

Year	X1 Profitability index	X2 Profitability index	X3 Profitability index	X4 Profitability index	X5 Profitability index	X6 Profitability index	Total Z value
2014	0.587	0.015	0.009	0.003	0.614	0.587	21.694
2015	0.658	0.033	0.026	0.003	0.720	0.658	23.801
2016	0.718	0.036	0.034	0.002	0.790	0.718	26.474
2017	0.640	0.003	0.001	0.002	0.646	0.640	23.934
2018	0.606	0.006	0.004	0.003	0.619	0.606	23.406
2019	0.696	0.009	0.009	0.001	0.715	0.696	26.38
2020	0.710	0.009	0.011	0.003	0.733	0.710	27.791
2021	0.633	0.009	0.007	0.003	0.652	0.633	25.124
2022	0.718	0.009	0.012	0.003	0.742	0.718	28.853
2023	0.715	-0.070	-0.114	0.001	0.532	0.715	29.757

Source: Researcher's work based on the data in Table 7 for the period (2014-2023).

Through the financial statements of Sumar Bank, the Springate model was applied to find the calculated Z value, which consists of four indicators of profitability, liquidity, and leverage indicators and showed during the study period for the years (2014 - 2023) and when applying the Z formula, it was found that the Z value was less than (0.862). According to this model, the bank is at risk of being exposed to the risk of financial distress, that is, the bank suffers from financial troubles and is inability to pay its financial obligations, and the bank's management must know the defect and address it by diversifying investments and entering into profitable investment projects that are less vulnerable to risks and the results of the variables were as follows:

X1 - A liquidity indicator whose results were low during the study period, which means that the bank's ability to finance current operations and fulfill short-term obligations is weak.

X2 - A profitability indicator that reflects the availability of the bank's liquidity, and the results were low during the study period, which means the bank's inability to pay its obligations.

X3 - The profitability indicator and its results during the study period were also low.

X4 - leverage index, and its results were also low during the study period.

When comparing the Sherrod and Springate models, we notice that the results are similar in assessing the bank as it suffers from financial issues during the study period and that the bank's management must work to address the imbalance to avoid the risk of financial distress.

Conclusions and recommendations

I. Conclusions:

1. Both the Sherrod and Springate models contribute to explaining the level of financial soundness through the value of (Z), as the higher its value, the greater the chances of success for the bank, and the lower it is, the lower the chances of success.
2. Through the application of the two models above, it was found that the sample banks all suffer from issues in their financial position and are exposed to the risk of financial distress.
3. Financial distress does not occur suddenly but gradually, so if the bank has a good supervisory system, it can predict financial distress before it occurs.
4. Financial insolvency of banks is the situation in which the bank is unable to meet large withdrawal requests due to low liquidity, which leads to large losses and liquidation.
5. Opening up to the outside world will always lead to new loopholes that may be the reason for the possibility of financial distress.
6. Banks in Iraq operate in a volatile and high-risk environment, which has a negative impact on their work and may lead to the occurrence of financial distress.

Recommendations:

1. The occurrence of distress during the bank's life cycle emphasizes the need to take preventive measures and necessary reforms that enable the bank to avoid the risk of financial distress and the resulting losses.
2. Banks should pay more attention to analyzing liquidity and profitability ratios on an ongoing basis because of their ability to clarify the real picture of the bank's financial situation to prevent the occurrence of financial distress
3. Preparing accurate economic feasibility studies for investment projects by collecting and analyzing data and selecting the most profitable and least risky projects.
4. Bank management should think about how to raise the level of efficiency and how to recognize

financial distress in its early stages to face and overcome its risks.

5. Banks should take into account economic, financial, and other factors affecting financial default when granting loans.
6. Banks should study the solvency of customers and follow up on their activities to ensure the possibility of repayment.

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