



Do The Profits and Losses of Ready-To-Sell Bonds of Banks Affect Their Lending?

Fereshteh Rashidfard*

Department of Accounting, Bandar Lengeh Branch, Islamic Azad University, Bandar Lengeh, Iran.

ABSTRACT

In this study, we addressed the issue of whether the profits and losses of banks' past maturities affect their lending or not. Seven banks surveyed over 10 years to determine the effect of past maturity gains and losses on bank lending. The research model was a statistical model that showed that the profit and loss of ready-to-sell securities explain 77.2% of banks' lending, ready-to-sell securities. The specific profit and loss of the bank directly affect the lending rate of banks. It seems that the profit and loss of ready-to-sell bonds is a good indicator for predicting the level of bank lending in Iran.

Keywords: Profit and Loss, Participation Bonds, Bank Lending, Tehran Stock Exchange.

INTRODUCTION

Investors to better understand the value of corporate assets in order to reduce the complexities of the financial reporting structure (Barlev & Haddad, 2003; Chychyla, Leone, & Minutti-Meza, 2019; Paminto, Ulfah, Ikbal, Irwansyah, & Darma, 2020; Roychowdhury, Shroff, & Verdi, 2019), along with the discussion of transparency and relevance of financial information contained in financial statements (Adwan, Alhaj-Ismael, & Girardone, 2020; Georgescu, Păvăloaia, & Robu, 2014); Produced producers, users, and auditors to develop rules and standards related to useful and relevant reports (Haswell & Evans, 2018; Song, 2014). Recently, well-known developers of accounting standards such as the International Accounting Committee, with a new topic in accounting about the advantages and disadvantages of its application in financial instruments, have raised issues that are mainly based on the comprehensive introduction of value accounting. Fair value accounting and the role of securities, debts, and financial assets are centralized.

On the other hand, it should be noted that the use of securities backed by bank facilities is one of the methods of financing banks (Danyali, 2018; Malali & Gopalakrishnan, 2020), and banks that have provided their resources to applicants through lending and credit, Be able to convert their claims into securities marketable in the financial markets, renew their resources and provide facilities to other customers (Chi & Li, 2017; Shekhar & Lekshmy, 2005; Win, 2018). The Central Bank of Iran defines participation bonds as securities issued by the current organization with the permission of the Central Bank to provide part of the required financial resources, profitable production, and service plans (excluding commercial affairs) within the

*Corresponding Author: Rashidfard. F.

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framework of a civil partnership contract(Mirjalili, 2009). In each of these bonds, the amount of its holder and the maturity of the bonds is specified(Musa, Bahari, & Aziz, 2020; Wee, Ryu, & Binh, 2018).

Therefore, in the present study, by emphasizing the importance of ready-to-sell securities and also the planning of banks through securities for lending, to evaluate the effect of profit and loss of ready-to-sell securities of banks on periodic lending (In the context of economic growth/recession), has been addressed. In other words, the present study seeks to answer the question of whether the profit and loss of ready-to-sell securities cause a gradual increase in bank lending behavior?

METHODOLOGY

The aim of this study was to "evaluate the effect of profit and loss of ready-to-sell securities in accelerating bank lending." The study's statistical population included private Iranian banks that had been operating on the Tehran Stock Exchange for at least the past 10 years. These banks were evaluated by census; because the number of these banks was small and limited (7 banks), all were evaluated.

Data collection in this study was done in a field method. In order to collect the information required for the research, the financial statements of the banks and the conditions governing their financial system in the stock exchange were also collected. Information in this study, a checklist based on the measurement of research indicators were used. In other words, a checklist related to basic and primary information was prepared to calculate each index, and their information was collected through statistical and accounting databases.

Research Hypothesis Evaluation Model:

$$Loan_{it} = \beta_0 + \beta_1 HTM_URGL_{it-1} + \beta_2 HTM_URGL_{it-1} \times Dummy_HTM_Loss_{it-1} + \beta_3 Tier1_Levr_{it} + \beta_4 Bank_Size_{it} + \varepsilon_{it}$$

In this model:

HTM_URGL = Profit and Loss ready for sale calculated on total assets

H_U×D_H_L = Profit and Loss Management Ready to Sell

Tier1_Levr = Natural logarithm of total assets

Bank_Size = Bank size

RESULTS

The details of the descriptive statistics of the indicators involved in the research are reported in Table 1. In this table, the name of the variable and the symbol used for it are provided along with descriptive statistics information.

Table 1. Statistics and descriptive information of the studied study variables

Variables	N	Mean	Std. Deviation	skewness	kurtosis
Loan	70	0.04	0.06	1.4558	4.207
HTM_URGL	70	0.00003	0.00129	2.427	58.711
H_U×D_H_L	70	0.000093	0.0082	0.5624	2.7651
Tier1_Levr	70	8.87	1.99	0.8734	1.1492
Bank_Size	70	4.81	0.831	-0.5371	2.4341

According to the research observations, the average lending is equal to 0.04, mean profit and loss on sale equal to 0.00003, mean profit and loss management on sale equal to 0.000093 the mean logarithm of total assets is equal to 8.87, and the mean size of the bank is equal to 4.81.

Table 2. Test results of the relationship between profit and loss of ready-to-sell securities with lending to banks listed on the Tehran Stock Exchange
$$Loan_{it} = \beta_0 + \beta_1 HTM_URGL_{it-1} + \beta_2 HTM_URGL_{it-1} \times Dummy_HTM_Loss_{it-1} + \beta_3 Tier1_Levr_{it} + \beta_4 Bank_Size_{it} + \varepsilon_{it}$$

General results of the regression model of the research hypothesis			
R			
R ²			0.772
F			20.814
p			0.001
Durbin Watson			2.118
Details of the regression model of the research hypothesis			
Variables	Beta	t	p
HTM_URGL	0.249	5.669	0.001
H_UxD_H_L	0.303	8.628	0.001
Tier1_Levr	0.332	9.265	0.001
Bank_Size	-0.046	-9.923	0.001

In the regression model of the second research hypothesis, the coefficient of determination of the model (R²) was equal to 0.772, and the confidence level (p) of the model was equal to 0.001. As a result, 77.2% of banks' lending is explained by the amount of profit and loss of ready-to-sell securities. Considering the Watson coefficient related to the model, it should be said that the assumption of residual independence is acceptable and the results of the model are reliable.

CONCLUSION

In this study, the relationship between profit and loss of ready-to-sell securities and bank lending was evaluated. According to estimates, the profit and loss of ready-to-sell bonds affect 77.2% on bank lending. The first hypothesis argued that the relationship is due to consistent data in accounting reports. However, in this hypothesis, the results result from responses to the extent to which banks owe money from the market. Moreover, it receives investor behavior (economic impact). Banks adjust their lending conditions based on the responses they receive from the market. According to the results of this hypothesis, banks' lending is affected by commercial assets and securities ready for sale. Banks lend according to the capital they attract from the market and the support they receive from their securities. Therefore, it must be acknowledged that banks operate on a market basis, which is a good sign for long-term and transparent plans for private banks in Iran.

Bond lending is a good experience in a housing bank, a model for other banks. Through these bonds, banks can make ready-to-sell profits and make stray deposits after Attract deposit reduction rates; because many small and medium enterprises seek to receive facilities without queuing.

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