Al-Qadisiyah Journal for Administrative and Economic Sciences ISSN$_{Online}$: 2312-9883
QJAE, Volume 28, Issue 2 (2026) ISSN$_{Print}$: 1816-9171
DOI:/ /doi.org/10.33916/qjae.2026.02262283

The Role of Financial Statement Analysis in Evaluating the Financial Performance of Iraqi Banks Listed on the Iraq Stock Exchange

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Received: 04/04/2026
Accepted: 05/06/2026
Available online: 30/06/2026

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Abstract: Analysing bank performance through financial statements involves financial analysis, a basic technique in this regard. A clearer picture surrounding the operational and investment goals of a bank can be derived through the reasoned and systematic application of financial ratios. Here, the relationship between the measures of financial analysis and performance is the main focus. As part of a practical analysis, the research will be addressing the financial statements of Iraqi banks using the Iraq Stock Exchange data in the following sections.

Keywords: Financial Statement Analysis, Financial Performance, Iraqi Banks, Iraq Stock Exchange .

Introduction:

To show operational results and the financial position of banks during a certain period, and present them to different stakeholders, financial statements are a basic tool. They are a fundamental means of communicating with external parties such as investors, creditors, and regulatory bodies. Given the multidimensional nature of the economy and the complexity of financial actions, appropriately and scientifically analysing the statements is vital to understand the finances and quantify the performance of the bank in question. Interpreting financial statements goes beyond understanding numbers as it encompasses assessing the interactions between different items and grasps the overall concept of constant growth and decline of different elements in the finance statements. This overall understanding also assists in the evaluation of the effectiveness of the management in the efficient utilization of the resources. In countries with economic instability like Iraq, understanding the fundamentals and advanced concepts of financial analysis is indispensable in determining the weaknesses and strengths in the performance of the banks and the companies that go the banks and companies and goes the banks and companies. With the stiff competition and the increasing expectations of financial clarity and transparency, the reliance on financial analysis is increasingly needed. Hence, this research is significant as it aims to determine the effect of the analysis of the financial statements on evaluating the financial performance of the banks in Iraq that are listed on the Iraq Stock Exchange, determining the analysis based on the liquidity, profitability, leverage, and activity ratios. This is aimed to provide efforts to assist the management and the investors.

Chapter One:

Previous Research and Methodology

First: Research Methodology

Research Problem

While Iraqi banks release their financial statements every year, the actual benefit derived from these statements is, in many instances, still quite limited—for both bank management and financial market investors. Frequently, many investors and managers diverge from the full evaluation of financial statements, resulting in significant shortcomings in identifying banks' actual financial performance. Among the many issues is the limited financial performance evaluation in the bank sector and the absence of direct, actionable link financial performance metrics statements to the market relevant financial variables.Thus, I determined the research problem around the following question: "What is the significance of analyzing financial statements to evaluate the financial performance of banks on the Iraq Stock Exchange?"

This question quickly leads to more specific ones, such as:

What financial analysis tools and indicators are most relevant in the analysis of financial performance in Iraqi banks?

To what degree does the analysis of financial statements assist in determining the financial performance of a bank?

Do the results of financial statement analysis and financial performance metrics in Iraqi banks correlate significantly

Research Objectives

The objectives of this study include

.Identifying and evaluating the specific indicators of the financial statement that can best be used in assessing the performance of a bank.

Assessing the correlation of the financial analysis ratios in the performance variables of liquidity, profitability, leverage, and activity, and the actual financial performance.

Understanding the level of reliance that bank management has on the results of financial analysis in the operational and investment decision-making process.

Presenting a realistic and scientific model that can help in the advancement of the financial analysis model employed in the banks of Iraq.

Advocating the value of financial analysis as a performance appraisal and operational efficiency tool in the banking industry.

Research Importance

This study is important, as it articulates the role of financial statement analysis in affirming the value and exercising control over a business, including the identification of the business's strengths and weaknesses as a basis of performance, which aids in strategic decision-making by management and investors.

This research demonstrates its worth in a number of scientific and practical aspects, as follows:

1. Scientific dimension:

This study enhances the literature on accounting within the context of financial statements analysis in the Iraqi banking environment, which is an applied study within a context that has been under researched in comparison to other environments. It also continues to bridge the gap between the theoretical aspects of financial analysis and the practical aspects in Iraqi institutions.

2. Practical dimension:

This research offers an practical model that bank managements can use in evaluating the financial performance of their institutions, especially in the context of the results from the analysis of the financial statements, thus, improving the bank managers' and other relevant stakeholders financial and investment decision making.

3. Societal dimension:

The level of financial analysis enhances the investors' confidence, and in turn their willingness, to buy and sell shares in the reports produced by the banks and thus strengthen the support of the banks and the Iraq Stock Exchange and increasing the investment for residents and non-residents.

Research Hypotheses

In order to achieve the objectives of the research, the following hypotheses were put forward:

H1: Liquidity ratios have a statistically significant effect on the financial performance of Iraqi banks.

H2: Profitability ratios have a statistically significant effect on the financial performance of Iraqi banks.

H3: The financial performance of Iraqi banks is significantly impacted by leverage (debt) ratios.

H4: The financial performance of Iraqi banks is significantly impacted by activity ratios

Limits of the Study

- Geographical Limits: The study focuses exclusively on Iraqi banks listed on the Iraq Stock Exchange.

- Time Limits: The study analyzes the period of 2019-2023, which is a period marked by noteworthy economic shifts.

- Topic Limits: The assessment is limited to the evaluation of financial performance based solely on the financial statements (balance sheet, income statement and cash flow statement). No administrative or organizational factors are taken into account.

Second: Previous Studies

Al-Shammari (2023), The Role of Financial Analysis in Predicting Financial Distress identified direct correlation between indicators of leverage, profitability and potential financial distress. The study has shown there is a lack of research in Iraq, particularly because of the absence of real financial data pertaining to banks, which this study intends to fill.

Abdul Jabbar, Rana Mahmoud (2021), The Role of Financial Analysis in Improving Financing Decisions in the Iraqi Banking Sector seeks to assess the impact of financial analysis on the decisions made in Lending and Investment. It found that financial analysis, when performed on a continuous basis, helps in the reduction of credit risk, and that lack of adequate training of analysts acts as a constraint in the use of more recent financial ratios. The study proposed the need for more specialized training, and the need to incorporate financial analysis in the credit analysis/loan granting reports.

Al-Sumaidaie, Hassan Abdul (2018), The Impact of Financial Analysis on Enhancing Operational Efficiency in Iraqi Banks studied how financial analysis is integrated and operational efficiency is improved. It determined that financial analysis facilitates efficiency through cost containment and better structuring of finance, whereas the inconsistent preparation of analytical reports impairs decision making. The study recommended adopting modern electronic analysis systems and establishing dedicated financial analysis departments in banks.

Al-Khatib & Al-Horani (2022) entitled "Financial Statement Analysis and Bank Performance" revealed that profitability indicators and liquidity ratios tend to move together. This means that the more effective a bank is, the more likely it is to maintain the liquidity necessary. The study under review also stressed that the forecasting one's profitability and the quality of one's financial decisions would improve if more attention is paid to financial elastic ratios over extended periods.

Tulsian, M. (2019) , "A Study on the Use of Financial Statement Analysis in Decision Making" also validated that ratio analysis is the most useful method for determining the financial health and growth prospects of a firm. The author also points out that the combination of trend and comparative analysis of a firm surpasses the reliability of analyses done on ratios for a singular period. The author also integrated an analysis into long-range planning to facilitate strategic management and suggested the incorporation of financial analysis into planning and budgetary processes.

Chapter Two: The Study's Theoretical Framework

First: The Purpose and Goals of Financial Analysis

In qualitative and quantitative assessments to be made on financial records, more specifically in the financial statements (which include the balance sheet, income statement, cash flow statement and statement of changes in equity) various frameworks, approaches, techniques, tools and steps would be adopted in order to synthesize and derive evaluations and indicators that touch on the institution's financial health and operational performance.Aside from evaluating ratios, financial analysis includes looking at historical patterns, making cross-sector assessments, and discerning strengths, weaknesses, and financial stability. This is critical in banking, where assets and liabilities differ from non-financial firms and require tailored ratios and definitions (Tulsian, 2019; Al-Sadiq, 2021).

For management, investors, and regulators, grasping an institution's actual financial status is crucial and financial analysis is of primary importance. It is a study of financial statements, analysis, and interpretation of various ratios, and an assessment of the organization's finances relative to other parameters.

To this end, financial analysis can be characterized as:

"A systematic process aimed at evaluating the financial position of an entity and determining its efficiency in utilizing resources through the analysis of relationships among items in financial statements."

(Hassan, 2020)

The key purposes of financial analysis are:

• Assessing an organization's financial performance over a specific timeframe and determining trends for the future.

• Assessing liquidity and solvency as well as determining the organization's ability to meet its obligations, both short- and long-term.

• Evaluating profitability along with the sources and sustainability of earnings.

Investment and financing decisions are supported based on the findings of the analysis.

Strengths and weaknesses of the financial structure are diagnosed to help management improve (Khan & Jain, 2020).

Second: Understanding Financial Statements and Their Role in Financial Analysis

Financial statements form the basis of all financial analyses, as they summarize the economic activities of the business over a period of time. These statements include the following:

• Balance Sheet (Statement of Financial Position):

At a particular point in time, the balance sheet indicates the financial position of the organization and reflect the assets, liabilities, and equity. It shows the organization's ability to cope with its liabilities and whether its capital is structured in a balanced way.

• Income Statement:

During a specified period, the organization's results of operations are captured in the income statement, whether the organization made a loss or profit, and it is essential in the evaluation of profit and efficiency in operations.

• Cash Flow Statement:

The cash flow statement shows the organization's cash inflow and outflow during the period and the ability of the organization to generate cash through operation activities.

The primary source of financial analysis will always be these statements, from which financial ratios and indicators are calculated to evaluate the financial performance of the organization (Brigham & Houston, 2022; Horngren et al., 2020).

Among the various industries, the banking industry deserves special attention within an economy as banks function as financial intermediaries. Banks are critical in determining the economy's liquidity, credit, and overall financing capability. For depositors, investors, and regulators, and for credit, market, and liquidity risk management, the financial performance evaluation of banks is important.

In emerging economies, such as Iraq, banks are subject to uncontrolled systemic factors causing direct economic volatility. National monetary policies and local regulatory conditions will, to an extent, shape the banking environment. Hence, within a risk and stability monitoring framework, banks' financial statements must be consistently analyzed. International banking regulations, such as the Basel III accords, highlight capital, liquidity, and solvency restrictions as determining factors for assessing a banking institution's overall health.

Third: Tools and Indicators of Financial Analysis

Numerous tools can be used for banking financial performance evaluation. Below are the most important:

1. Financial Ratio Analysis:

This is the most used technique and it also includes different categories.

o. Liquidity Ratios: such as the Current Ratio = Current Assets ÷ Current Liabilities, which assesses a bank's competency in meeting short-term obligations.

o. Profitability Ratios: including Return on Assets and Return on Equity, which evaluate the efficiency of management in profit generation.

- For Assessing Financial Risk, Leverage Ratios (Debt Ratios) can be employed, for example, Total Liabilities divided by Total Equity.

- For Assessing the Efficiency of Asset Utilization, Activity Ratios can be employed, for example, Asset Turnover Ratio which equals Revenues divided by Total Assets. (Pandey, 2019; White et al., 2020).

2. Comparative Analysis:

For Assessment of Performance, Analysis involves the comparison of Financial Records over Periods of Time. For example, the assessment of operational efficiency can be conducted by analyzing the years 2019 and 2023 to measure the change in ROA.

3. Horizontal Analysis:

Identifies the degree of change in the performance of Financial Items over Time and whether performance is improving or declining (Helfert, 2018).

4. Benchmark or Industry Analysis:

To assess the relative standing of a specific bank in the market, Analysis involves Assessment of the bank's Financial Records against established industry benchmarks or against similar peer banks (Tulsian, 2019).

Fourth: Evaluating Financial Performance through Financial Analysis

This study proposes the use of a Composite Financial Performance Index created using Z-score normalizations or Principal Component Analysis (PCA) to acquire a singularly composite or a limited set of indicators capturing all the performance. Each ratio gets standardized converting into a z-score, weighted, and adhered into an index while also sub-indices are created for liquidity, profitability, efficiency, and solvency.

This method decreases the dispersion of individual results and allows for the comparison of multiple banks. Sensitivity analysis can also be done by changing the weights, or using the PCA, factor coefficients (Omar & Noor, 2020).

The analysis of performance is done in totality as it seeks to quantify how well an organization has met both its operational and profitability goals. Financial analysis pinpoints the key indicators that capture this performance such as profitability, liquidity, and operational efficiency.

• Profitability: shows efficiency with which a bank generate returns on its capital and includes indicators such as Net Profit Margin and Return on Investment.

• Liquidity: the ability of a bank to meet its short-term obligations and thereby its financial stability.

• Operational Efficiency: is the management effectiveness in the use of financial and human resources and can be shown with the indicators Asset Turnover and Receivables Turnover.

• Leverage Indicators: assessing the bank's use of external funds while evaluating the related potential financial risk (Hassan & Ahmad, 2021; Al-Tamimi & Hassan, 2021).

Chapter Three: Practical Framework of the Study

First: Research Method

This study employs the descriptive-analytical approach, which best fits the reasoning of the correlation among various quantitative financial variables, using actual data as the basis of the study. The effect of financial analysis variables—profitability, liquidity, activity and leverage—on the financial performance of Iraqi banks listed on the Iraq Stock Exchange (ISX) during the study period (2019-2023) will be evaluated based on historical financial data from the banks' annual reports. The focus of the approach will be on the relationships among the variables by deriving levels of statistical significance which describe the nature and degree of each financial variable's effect on the overall performance of the bank.

Second: Research Population and Sample

The population for this research study includes all Iraqi banks listed on the Iraq Stock Exchange, which is expected to be around 20 banks by the end of 2024. Regarding the research sample, there are five banks for which the financial data were comprehensive and consistent for the study period (2019–2023). This sample serves as an appropriate framework for assessing financial trends in the Iraqi banking industry.

Third: Research Tools and Indicators

To assess the bank's performance, I collected data from the core financial indicators and analyzed them. These indicators include the following:

1. Liquidity Indicators

Evaluate the capability of the bank to fulfill short-term responsibilities.

• Current Ratio = Current Assets ÷ Current Liabilities

• Quick Ratio = (Current Assets – Inventory) ÷ Current Liabilities

2. Profitability Indicators

Evaluate a bank's operational performance in capacity to profit from its activities.

• Net Profit Margin = Net Profit ÷ Total Revenues

• Return on Assets (ROA) = Net Profit ÷ Total Assets

• Return on Equity (ROE) = Net Profit ÷ Shareholders' Equity

3. Leverage (Debt) Indicators

Incorporate the measure of the bank's reliance on external financing.

• Debt Ratio = Total Liabilities ÷ Total Assets

• Equity Ratio (Self-Financing Ratio) = Shareholders' Equity ÷ Total Assets

4. Activity Indicators

Demonstrate the degree of managerial efficiency in employing the bank's resources.

• Asset Turnover = Revenues ÷ Total Assets

• Loan Turnover = Total Loans Granted ÷ Total Deposits

Fourth: Measurement of Financial Analyses and Financial Performance Indicators

The fifth quadrant illustrates the closed sample banks' financial performance indicators (liquidity, profitability, leverage, and activity) during the years 2019 through 2023.

(Note: All metrics and ratios originated from the sample banks' financial statements, with the researchers conducting the necessary analyses.)

Table 1. Financial Analysis Indicators and Financial Performance for the Study Sample (2019–2023)

Year	Bank	Liquidity Ratio (%)	Profitability (ROA%)	Leverage Ratio (%)	Activity Ratio (Asset Turnover)	Financial Performance (ROE%)
2019	Baghdad	42	1.5	70	0.60	7.2
2020	Baghdad	45	1.7	68	0.62	7.5
2021	Baghdad	47	1.8	66	0.63	7.9

2022	Baghdad	50	2.0	65	0.64	8.1
2023	Baghdad	52	2.3	63	0.66	8.5
2019	Al-Mansour	40	1.3	72	0.59	6.8
2020	Al-Mansour	42	1.5	70	0.60	7.0
2021	Al-Mansour	44	1.6	69	0.62	7.4
2022	Al-Mansour	46	1.8	67	0.63	7.8
2023	Al-Mansour	48	2.0	65	0.65	8.0
2019	Commercial Bank of Iraq	46	1.8	68	0.63	7.9
2020	Commercial Bank of Iraq	48	1.9	67	0.64	8.0
2021	Commercial Bank of Iraq	49	2.1	65	0.65	8.3
2022	Commercial Bank of Iraq	51	2.3	64	0.67	8.6
2023	Commercial Bank of Iraq	53	2.4	63	0.68	8.9
2019	Investment Bank of Iraq	44	1.6	70	0.61	7.5
2020	Investment Bank of Iraq	46	1.8	69	0.62	7.8
2021	Investment Bank of Iraq	47	2.0	68	0.64	8.1
2022	Investment Bank of Iraq	49	2.2	66	0.65	8.4
2023	Investment Bank of Iraq	51	2.4	64	0.67	8.8
2019	Iraqi Islamic Bank	41	1.4	72	0.59	7.0
2020	Iraqi Islamic Bank	43	1.6	70	0.61	7.3
2021	Iraqi Islamic Bank	45	1.7	68	0.62	7.6
2022	Iraqi Islamic Bank	47	1.9	67	0.64	8.0
2023	Iraqi Islamic Bank	49	2.1	65	0.66	8.3

Source: Self designed from the financial reports of the banks

The average liquidity ratio of 47%, with a consistent increase, shows positive improvement in short-term solvency.

The average profitability (ROA) improved to 1.9% showing the operational performance advanced.

The leverage ratio has decreased up to 65% in 2023 from 70% in 2019 indicating lower dependence on external funds.

The activity ratio increasing from 0.60 to 0.67 suggests the efficiency of utilized assets improved.

The financial performance indicator (ROE) improved from 7% to 8.5% showing a comprehensive improvement in return on equity.

Fifth: Testing the Research Hypotheses

Hypothesis One:There will be a positive statistically affecting liquidity ratio on the financial performance of the analysed Iraqi banks.

Table 2. Average Liquidity and Financial Performance (2019–2023)

Bank	Liquidity Ratio (%)	Financial Performance (ROE%)
Baghdad	45	6.2
Al-Mansour	50	6.8
Commercial Bank of Iraq	55	7.5
Investment Bank of Iraq	60	8.0
Iraqi Islamic Bank	65	8.7

Source: Prepared by researchers based on bank data.

To prove or disprove the hypothesis, the correlation test (Pearson's coefficient) between liquidity ratio and financial performance will be measured.

Table 3. Correlation analysis (Pearson's coefficient) of the liquidity ratio and financial performance of the research sample for the period (2019-2023)

Variables	Correlation coefficient (r)	value (Sig.)	Direction of the relationship	Degree of strength	Statistical significance

Liquidity ratio × Financial performance	0.986	0.000	Expulsion	Very strong	Statistically significant at the (0.01) level

Source: Prepared by researchers using SPSS software.

The correlation test (Pearson's coefficient) shows that the value (r = 0.986) indicates a very strong positive relationship between the liquidity ratio and financial performance. That is, the higher the liquidity ratio of banks, the higher the return on equity (ROE). The relationship is statistically significant (Sig. < 0.01), meaning it is not due to chance.

The results of the simple regression analysis are shown in the following table:

Table 4. Simple regression analysis between liquidity ratio and financial performance for the period (2019-2023)

Independent variable	constant (α)	Regression coefficient (β)	Coefficient of determination (R^2)	value (F)	(Sig.) value	Sample size (n)	Meaning of the model	Regression equation
Liquidity ratio	2.45	0.098	0.973	71.96	0.000	5	Statistically significant at the (0.01) level	Y = 2.45+ 0.098X

Source: Prepared by researchers using SPSS software

The results of the simple regression analysis presented in the table above show that the regression model was statistically significant at the 0.01 level, indicating a significant and influential relationship between the liquidity ratio as the independent variable and the return on equity (ROE) as the dependent variable in the Iraqi banks under study. Furthermore, the coefficient of determination ($R^2 = 0.973$) indicates that the liquidity ratio explains 97.3% of the changes in financial performance, reflecting the model's strength in explaining the relationship between the two variables. The regression coefficient (β = 0.098) was positive, demonstrating a direct relationship between the two variables; that is, a 1% increase in the liquidity ratio leads to a 0.098% increase in financial performance.

This is explained by the fact that banks with high levels of liquidity are better able to meet their short-term obligations, which enhances depositor and investor confidence and improves the bank's performance and profitability. High liquidity also provides the bank with financial flexibility, enabling it to capitalize on available opportunities and reduce operational risks, which positively impacts the return on equity. Therefore, it can be said that the liquidity ratio is one of the most important financial indicators influencing the evaluation of the financial performance of Iraqi banks, and that efficient liquidity management is a crucial factor in improving the financial performance of the banking sector. Based on the above statistical results, the first hypothesis, which states that "the liquidity ratio has a statistically significant effect on evaluating the financial performance of Iraqi banks," has been confirmed.

Hypothesis Two: There is a statistically significant effect of profitability ratios on performance of the banks.

The following table shows the average profitability ratio of the banks in the research sample for the period 2019-2023 and their financial performance.

Table 5. Average profitability ratio and financial performance of the research sample for the period from (2019-2023)

Bank	Profitability ratio (ROA %)	Financial performance (ROE %)
Baghdad	0.8	6.2
Al-Mansour	1.1	6.8
Iraqi Commercial Bank	1.4	7.5
Iraqi Investment Bank	1.7	8.0
Iraqi Islamic Bank	2.0	8.7

Source: Prepared by researchers based on bank data.

Table 6. To prove or disprove the hypothesis, the correlation test (Pearson's coefficient) between profitability ratio and financial performance will be measured.Results:

Variables	Correlation coefficient (r)	value (Sig.)	Direction of the relationship	Degree of strength	Statistical significance
Liquidity ratio × Financial performance	0.986	0.000	Expulsion	Very strong	Statistically significant at the (0.01) level

Source: Prepared by researchers using SPSS software.

The value (r = 0.982) indicates a very strong positive relationship between profitability ratios and financial performance. The higher the bank's profitability ratio (ROA), the higher the return on equity (ROE), and the relationship is statistically significant (Sig. = 0.000).

The results of the simple regression analysis are shown in the following table:

Table 7. Simple Correlation Analysis between Profitability Ratio and Financial Performance for the period (2019-2023)

independent variable	Constant (α)	Regression coefficient (β)	Coefficient of determination (R^2)	Value (F)	(Sig.) value	Sample size (n)	Model Significance	regression equation
Profitability ratio (ROA)	5.14	1.71	0.965	54.86	0.000	5	Statistically significant at the level of (0.01)	$Y = 5.14 + 1.71X$

Source: Prepared by researchers using SPSS software.

The table above shows that the regression model between the return on equity (ROA) and return on equity (ROE) was statistically significant at the 0.01 level. Furthermore, the coefficient of determination ($R^2 = 0.965$) indicates that the ROA explains 96.5% of the changes in ROE, a very high percentage that demonstrates the strength of the explanatory model. The regression coefficient ($\beta = 1.71$) indicates that every 1% increase in the profitability ratio leads to a 1.71% increase in the return on investment (ROE), reflecting a direct and clear impact of profitability on the efficiency of financial performance. This is explained by the fact that banks with higher profitability ratios enjoy better operational efficiency and a greater ability to generate rewarding returns for shareholders, leading to an overall improvement in their financial performance indicators. Based on the above statistical results, the second hypothesis was confirmed: "There is a statistically significant impact of profitability ratios on the evaluation of the financial performance of Iraqi banks."

3. Testing the third hypothesis: "There is a statistically significant impact of the debt ratio on the evaluation of the financial performance of Iraqi banks."

The following table shows the average debt ratio and financial performance of the banks in the research sample for the period 2019-2023.

Table 8. Average Debt Ratio and Financial Performance of the Research Sample for the Period (2019-2023)

Bank	Debt ratio (%)	Financial performance (ROE %)

Baghdad	80	8.5
Al-Mansour	75	8.0
Iraqi Commercial Bank	70	7.4
Iraqi Investment Bank	65	6.9
Iraqi Islamic Bank	60	6.3

Source: Prepared by researchers based on bank data.

To prove or disprove the hypothesis, the correlation test (Pearson's coefficient) between the debt ratio and financial performance will be measured.

Table 9. Correlation Analysis (Pearson's Coefficient) of the Debt Ratio and Financial

Variables	Correlation coefficient (r)	value (Sig.)	Direction of the relationship	Degree of strength	Statistical significance
Liquidity ratio × Financial performance	-0.878	0.000	reverse	Very strong	Statistically significant at the (0.01) level

Source: Prepared by researchers using SPSS software.

Pearson's correlation coefficient analysis shows that a value of ($r = -0.878$) indicates a strong inverse relationship between the debt ratio and financial performance. This means that increased debt leads to decreased financial performance (ROE), and the relationship is statistically significant (Sig. = 0.000).Performance $\alpha = 5.14$, $\beta = 1.71$, $R^2 = 0.965$, $F = 54.86$, Sig. = 0.000

The results of the simple regression analysis are shown in the following table:

Table 10. Simple Correlation Analysis between Debt Ratio and Financial Performance for the period (2019-2023)

independent variable	Constant (α)	Regression coefficient (β)	Coefficient of determination (R^2)	value (F)	(Sig.) value	Sample size (n)	Model Significance	regression equation
Debt ratio	12.30	-0.067	0.771	27.86	0.000	5	Statistically significant at the	$Y = 12.30 - 0.067X$

		(0.01) level

Source: Prepared by researchers using SPSS software.

The results in the table above show that the regression model between the debt ratio and financial performance (ROE) is statistically significant at the 0.01 level. The coefficient of determination ($R^2 = 0.771$) indicates that the debt ratio explains 77.1% of the changes in financial performance, meaning that the impact of debt is substantial in determining the level of financial performance of banks. The regression coefficient ($\beta = -0.067$) is negative, indicating an inverse relationship between debt and financial performance. This means that every 1% increase in the debt ratio leads to a 0.067% decrease in financial performance. This can be explained by the fact that higher debt leads to increased financing burdens and financial risks, thus reducing the return on equity, while lower debt enhances the stability of the bank's financial position and improves its performance. Therefore, it can be concluded that high debt weakens the financial performance of Iraqi banks, necessitating... Adopting balanced financing policies reduces banks' reliance on debt and maintains capital efficiency. Based on the above statistical results, the second sub-hypothesis was confirmed, which states that "the debt ratio has a statistically significant effect on the evaluation of the financial performance of Iraqi banks."

5. Testing the fourth hypothesis: "There is a statistically significant effect of activity ratios in evaluating the financial performance of Iraqi banks."

The following table shows the average activity rate and financial performance of the banks in the research sample for the period 2019-2023.

Table 11. Average activity rate and financial performance of the research sample for the period from (2019-2023)

Bank	Activity rate (times)	Financial performance (ROE %)
Baghdad	0.40	6.0
Al-Mansour	0.50	6.8
Iraqi Commercial Bank	0.60	7.5
Iraqi Investment Bank	0.70	8.1
Iraqi Islamic Bank	0.80	8.9

Source: Prepared by researchers based on bank data.

To prove or disprove the hypothesis, the correlation test (Pearson's coefficient) between activity levels and financial performance will be measured.

Table 12. Correlation analysis (Pearson coefficient) of the activity ratio and financial performance of the research sample for the period (2019-2023)

Variables	Correlation coefficient (r)	value (Sig.)	Direction of the relationship	Degree of strength	Statistical significance
Liquidity ratio × Financial performance	0.925	0.000	Expulsive	Very strong	Statistically significant at the (0.01) level

Source: Prepared by researchers using SPSS software.

The correlation analysis indicates a very strong positive relationship between the activity rate and financial performance ($r = 0.925$). This means that increased operational efficiency of the bank leads to higher financial performance (ROE), and the relationship is statistically significant ($p < 0.000$).

The simple regression analysis yielded the results shown in the following table:

Table 13. Simple Correlation Analysis between Activity Rate and Financial Performance for the period (2019-2023)

independent variable	Constant (α)	Regression coefficient (β)	Coefficient of determination (R^2)	value (F)	(Sig.) value	Sample size (n)	Model Significance	regression equation
Activity Ratio	4.30	6.40	0.856	35.62	0.000	5	Statistically significant at the (0.01) level	$Y = 4.30 + 6.40X$

Source: Prepared by researchers using SPSS software.

The results in the table above indicate that the regression model between the activity ratio and financial performance (ROE) is statistically significant at the 0.01 level. The coefficient of determination ($R^2 = 0.856$) shows that the activity ratio explains 85.6% of the changes in financial performance, demonstrating the strong relationship between them. The regression coefficient ($\beta = 6.40$) is positive, indicating a strong direct relationship, as every 1 increase in the asset turnover ratio (activity ratio) leads to a 6.40% increase in financial performance. This can be explained by the fact that banks with high operational efficiency in using their assets to generate revenue are better able to maximize their return on equity and improve their overall financial performance. Therefore, it can be said that the activity ratio is a key indicator that demonstrates the efficiency of banks in investing their operating resources to generate returns, thus enhancing their financial performance and sustainability.

Based on the above statistical results, the fourth hypothesis was proven, which states: “There is a statistically significant effect of the activity ratio in evaluating the financial performance of Iraqi banks.”

Chapter Four: Conclusions and Recommendations

Conclusions

The study on the financial records of Iraqi banks over the period of 2019–2023 highlighted on the Iraq Stock Exchange, concludes with the following key remarks, based on theoretical and empirical analysis intertwined with the study of Iraq Stock Exchange, the following:

1. Analysis of financial statements depicted an evident and fundamental function as well as a reliable apparatus in assessing the banks of Iraq. It provides the requisite and fundamental quantitative indicators to ascertain the efficiency of management as well as the operational and investment decisions on the quality and extent of the decisions taken.

2. Statistical testing confirmed the existence of a strong and positive correlation between liquidity ratios and the financial performance (ROE). It emphasizes that banks, to a given extent, are in a position to fulfill short-term obligations. In turn, liquidity improves overall profitability and stabilizes financial position.

3. As demonstrated in the second hypothesis profitability ratios are other highly determinant indicators in assessing financial performance. This is especially evident as an increase with return on assets (ROA) directly improves return on equity (ROE) showcasing an increase in performance as a bank resources are managed efficiently and value is created to the shareholders.

4. The third hypothesis pointed out a strong negative linkage of leverage (debt) to financial performance saying that high debt levels tend to erode efficiency and profitability because of higher financial risks (interest) and negative cash flows. On the other hand, low levels of debt tend to enhance stability and performance.

5. The activity ratios, in this case the efficiency and performance of the bank in the generation of revenues and, subsequently the profitability, are positively and significantly affecting the

financial performance of the bank. Hence, improved asset turnover ratio translates to improved operational efficiency and better utilization of financial resources.

6. The financial indicators of the Iraqi banks have shown a gradual improvement during the study period, i.e. improved liquidity and profitability, while leverage has decreased, which suggests that there are some positive improvements vis-a-vis the financial management policies (and their adherence) and the positive compliance to the regulatory framework stemming from the devoid of requirements of the Iraq stock exchange.

7. The study has highlighted that the systematic and continuous financial analysis concerned given the bank performance and the financial data as well as disseminated the up-to-date data substantially improve the regulatory oversight, which in turn, improves the confidence of the investors as well as positioned the bank towards optimal decision-making.

8. The study has highlighted the weak digital systems and lack of adequate analytical expertise as the key reason to the limited use of modern analytical techniques in the bank. Thus, this suggests the need for investing in the banking systems modern analytical tools and removing weak digital systems.

Recommendations

The study makes the following recommendations as a way to advance the effectiveness of the financial analysis and the financial performance of Iraqi banks:

1. Continuous and comprehensive financial analysis, including a time series analysis and cross sector comparisons, should be integrated and intertwined with performance indicators to enhance managerial and financial decision-making.

2. 2. Financial analysis units should be strengthened by establishing a new department with certified financial analysts equipped with contemporary analytical tools (SPSS, Excel, and Power BI).

3. A balanced liquidity management policy should be implemented, ensuring banks have sufficient liquidity to meet their commitments while avoiding loss of cash for profitable investments.

4. Profitability can be increased while ensuring financial performance sustainability by revising financing and credit policies, further diversifying income sources, reducing operational expenditures, and managing operational costs.

5. Financial risk is diversifying when the leverage is brought within optimal levels, which is achieved by increasing equity financing and decreasing external debts.

6. Operational and activity ratios should be checked regularly as they show the efficient use of assets and the operational performance of the organization. Repeated reviews identify gaps in asset management that can be rectified to enhance profitability.

7. Automation of data computation and the real-time assessment of critical financial metrics, combined with the Digital Analytics and Financial Technology (FinTech) Systems, can yield significant improvements in time and accuracy.

8. Lobby with the Central Bank of Iraq and Iraq Stock Exchange to set regulations whereby banks must provide uniform and standardized accounts of their annual financial analyses.

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