

Evaluating the Financial Performance of Commercial Banks in Iraq under the Corona Pandemic using the CAMELS Criterion

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Due to environmental factors such as the Corona pandemic and capital adequacy and liquidity requirements, the financial performance of commercial banks has been poor. Researchers and policymakers are required to focus on this phenomenon. Consequently, this article examines the effect of CAMELS criteria such as capital adequacy, asset quality, management, earnings, liquidity, and sensitivity on the return on equity in Iraqi commercial banks. Using twenty commercial bank databases, the study compiled secondary data from 2011 to 2020. The Moments-Quantile-Regression (MMQR) methods were also used to investigate the relationship between variables. Capital sufficiency, asset quality, management, earnings, liquidity, and sensitivity correlate positively with return on equity in Iraqi commercial banks. Using the CAMELS criterion, the study guides regulators in developing bank profitability regulations during and after the Corona pandemic.

Key words: Financial performance, Corona pandemic, capital adequacy, liquidity, CAMELS criterion, assets quality, sensitivity, return on equity.

1. INTRODUCTION

The Covid-19 pandemic has been one of the world's most pressing problems in the past decade. From the point at which it freezes every part of society in the shape of a lockdown, its terrible effects can be determined. It is a challenge affecting the entire planet's social and financial sectors. The Covid-19 epidemic threatens the global economy, sends a significant financial shock wave across the economy, and significantly influences the financial market (Demirgüç-Kunt et al., 2021). Financial institutions, notably the banking sector, experienced an immediate external shock. The economic slowdown caused by Covid-19 jeopardizes bank profitability, reduces bank income, and results in debtor default losses. International institutions and banks were compelled to lower their growth forecasts (Marcu, 2021). The assets of the Islamic banking business in Iraq will likely continue to rise over time. This will be supported by the government's aim of promoting Islamic finance and financial inclusion in light of Iraq's low banking penetration. Overall, the Iraqi financial industry is weak and underdeveloped. The Iraqi Banking System consists of 77 banks, of which 18 are private banks with external and internal backing and 7 are state-owned banks, 24 commercial banks, and 11 Participation Banks based on Islamic banking operate in Iraq (Falih et al., 2020).

Recovery from the effects of the Covid-19 outbreak is the greatest challenge (Altameemi et al., 2021; Ibrahim, 2022). Various reasons include a lack of trust in the banking system and limited awareness of the Islamic finance industry, which may hinder the sector's growth trajectory. As a result of Covid-19, the Iraqi banking system's overall share stands at 8.1%, with a market share of 3.7% of the whole banking system's deposits by the end of 2021. (Eidan, 2022; Hashem, 2019). In contrast, the total assets

in 2020 amounted to USD 8.8 billion. Despite some growth, the banking system's total assets will reach USD109.2 billion by the end of 2021. Despite this, the Iraqi banking system faces several significant obstacles, including recovery from the Covid-19 pandemic phase, political instability, low profitability issues (ROE), people's lack of confidence in the banking system, poor management, low return on investment (ROI), and liquidity issues (Alalie et al., 2018; Hashem, 2019). To improve the overall operation of the financial system, the Iraqi government should devote special attention to resolving the issue mentioned above.

The present study will address the following gaps in the prior literature: 1) although firms' profitability has been studied extensively from a variety of perspectives and at various times, it has not yet reached its zenith, as a number of its aspects remain to be investigated from an Iraq economy perspective; 2) Al-Homaidi et al. (2020) examined the relationship between the quality of the firm's assets and its profitability; however, the present study will also examine this relationship (in the presence of Covid) along with the addition of capital adequacy, management, earnings, liquidity, and sensitivity in Iraq using a new data set. 3) The profitability, capital sufficiency, assets quality, management, profits, liquidity, and sensitivity equation has not been tested in Iraq in recent years. 4) Mendoza et al. (2017) worked on the relationship between capital adequacy and the firm's profitability; however, the current investigation will also work on capital adequacy and the firm's profitability, in addition to the addition of assets quality, management, earnings, liquidity, and sensitivity by taking into account the Covid pandemic effect with a new data set. 5) Edem (2017) examined the relationship between liquidity and the firm's profitability; however, the current study will also examine the relationship between

liquidity and the firm's profitability, with the addition of assets quality, capital adequacy management, earnings, liquidity, and sensitivity by taking into account the Covid effect. 1) It will shed light on the importance of profitability even in the presence of the Covid pandemic for any firm and all of its stakeholders, 2) It will be helpful for finance-related professionals to review and comprehend the factors that affect the firm's profitability in the presence of the Covid pandemic, particularly in Qatar, and 3) It will allow researchers to explore additional aspects of firm profitability.

The investigation's format is broken into five chapters. The introduction is provided in the first chapter. The second chapter presents a survey of the literature on variables. The methodology is provided in the third chapter. The analysis is presented in the fourth chapter. The conclusion, implications, and recommendations are presented in the final chapter.

2. Literature Review

Improving a company's financial stability through boosting its capital sufficiency. When the capital adequacy is excessively high, however, enterprises are inefficient with the capital they currently have, which reduces profitability and may lead to financial instability. The Covid epidemic is one of the financial system's most significant concerns regarding its effect on stability. In this connection, [Mendoza et al. \(2017\)](#) evaluated if business capital adequacy affects its profitability. The inquiry was done on the Philippine financial system. The research included a sample of 567 banks from 2009 to 2013. The collected sample was evaluated using an AB estimator. According to the study's findings, capital sufficiency did not significantly impact the profitability of rural banks in the Philippines. Therefore, it is vital for rural banks to carefully examine whether increased capital will lead to improved profitability or higher debt levels. The report further proposed that rural banks should implement credit risk management that specifies the method from loan request to approval, considering the trustworthy credit risk management recommendations issued by regulatory organizations. Governance during the Covid epidemic was one of these businesses' greatest obstacles. In this context, [Irawati et al. \(2019\)](#) examined the impact of capital sufficiency and corporate governance on the firm's financial performance and profitability. The inquiry was undertaken on Indonesian banks. From 2011 to 2015, the data from 30 banks served as a sample for the research. With the aid of Eviews, the collected data was evaluated. The analysis indicated a significant correlation between adequate capitalization and firm profitability. In addition, [T. H. Nguyen \(2020\)](#) examined the impact of capital adequacy (using ratios) on banks' profitability. The examination was done on Vietnam's financial system. The study utilized a sample of 22 banks from 2010 to 2018. The collected sample was evaluated using panel data regression. According to the study's findings, bank profitability indicators are strongly and positively

correlated with measures of capital adequacy, net interest margin, and non-interest revenue, but negatively correlated with measures of non-performing loans and state ownership.

Asset quality is essential for all businesses, but especially for the profitability of banks, which is the linchpin of any nation's financial markets. Asset quality in banks is affected by the quality of loans made available by the bank. The quality of loans can be evaluated using non-performing loans (NPL), including delinquent and follow-up loans. The covid epidemic has significantly impacted the profitability of the enterprises' assets. Due to low profitability caused by the Covid epidemic, enterprises can no longer improve the quality of their assets. In this regard, [Kadioglu et al. \(2017\)](#) examined whether the quality of a company's assets influences its profitability. The inquiry was done on the Turkish banking system.

The study utilized a sample of 55 financial institutions from 2005 to 2006. The collected sample was evaluated using panel data regression. According to the study's findings, the link between non-performing loans and bank profitability, as measured by return on equity and return on assets, is robust and inversely proportional. The Covid pandemic has consequences all around the world, regardless of locale. It also harmed the banking system in Asia. In this context, [Salike et al. \(2018\)](#) studied whether the quality of an organization's assets significantly impacts its profitability. The research was conducted on the Asian banking system. The research utilized a sample of twelve Asian banks from 2001 to 2015. The collected sample was evaluated using fixed effect estimation. The study demonstrated a significant relationship between the asset quality of a company and its profitability. The quality of the firm's assets increases its profitability. In addition, [Alqahtani et al. \(2022\)](#) investigated the relationship between business profitability and asset quality.

Regarding the banking system, an investigation was conducted. The collected sample was evaluated using the GMM method. According to the study's findings, the asset's quality has a beneficial effect on the banking system's profitability.

Return on investment is one of the most influential variables on a business's profitability (ROI). As a result of the global lockdowns caused by the Covid epidemic, business operations all over the world have ceased. This cessation of operations also discourages investors from investing because there is no return on investment. All of this is a result of the Covid epidemic. In this regard, [Jahangirnia \(2017\)](#) examined the relationship between return on equity (ROE) and returned on investment (ROI). In Iran, the investigation was conducted. The investigation utilized a sample size of 77 businesses. The sample spans the years 2008 through 2012. The investigation's findings demonstrated that enhancing audit quality has prevented clients from mismanaging earnings in general and has been advantageous in preventing earnings management. In addition, the impact of earnings management is diminished

when the size and tenure of component auditors are considered. In addition, the research revealed that there is no relationship between earnings management and auditor specialization. Likewise, [Shapiro et al. \(2021\)](#) examined if the ROI affected profitability. The study included a sample of 288 company brands. The analysis found that the ROI has a substantial relationship with profitability.

When evaluating a potential investment, these investors evaluate a variety of criteria. Earnings per share are one of the most significant indicators of a company's profitability (EPS). The firms' sales determine the earnings per share. Since the Covid epidemic has halted business operations because of the lockdown, there has been no revenue or profit. In this regard, [Alarussi et al. \(2018\)](#) explored whether or not the EPS is related to the firm's profitability. The investigation took place in Malaysia. The analysis utilized a sample of 120 Malaysian public firms. The selected sample spans the years 2012 through 2014. The analysis indicated a positive correlation between profitability, working capital, assets turnover ratio, and business size (total sales). In addition, the results suggest a negative association between profitability, leverage, and debt-equity ratios. There is no significant correlation between profitability and liquidity (current ratio).

Similarly, [Alarussi et al. \(2021\)](#) investigated the variables that influence the profitability of a business. In China, the investigation was conducted. The investigation utilized a sample of one hundred Chinese enterprises. The obtained sample spans the years 2017 through 2019. The analysis indicated that EPS is one of the predictors of profitability in selected Chinese enterprises. In addition, [Lim et al. \(2021\)](#) examined if EPS affects profitability. The investigation took place in Malaysia. The analysis utilized a representative sample of Malaysian pharmaceutical businesses from 2014 to 2018. The analysis indicated a positive correlation between earnings per share (EPS) and profitability.

The ability of a financial system to survive, expand, maintain itself, and function effectively is primarily based on liquidity and bank performance. Correctly planning and implementing liquidity helps prevent errors from having long-term effects on banking operations and the economy. The cessation of activities due to the lockdown caused by the Covid epidemic leads to increased expenses and a decline in profitability. This results in a rise in liquidity possibilities. In this context, [Wuave et al. \(2020\)](#) studied whether a firm's profitability, as measured by its performance, is impacted by liquidity. The investigation took place in Nigeria. The study utilized a sample of eight years spanning 2010 to 2018. The collected sample was evaluated using the Hausman and other tests. The study's results demonstrated that liquidity positively affects profitability by enhancing its performance.

In addition, the research suggested that Nigerian banks tighten their governance system by implementing stringent policies. The companies exert their greatest efforts to increase their value. The increase in the firm's worth is

directly proportional to its profitability. In this context, [Sukmawardini et al. \(2018\)](#) examined whether liquidity, in addition to return on assets, return on equity, dividend payout ratio, and debt to equity ratio affects the firm's value in terms of profitability. The investigation was undertaken in Indonesia's manufacturing sector. The study utilized a five-year sample spanning from 2010 to 2016. The collected sample was evaluated using multiple regression analysis. The study indicated that institutional ownership, ROA, and DPR do not affect the value of a company. However, ROE has a positive effect, and CR and DER have a negative effect. While the Covid pandemic posed the greatest difficulty, cash management posed the greatest obstacle. Liquidity outcomes affect investors.

Similarly, [Edem \(2017\)](#) investigated whether liquidity management has an impact on the performance of banks in terms of deposit money. The investigation took place in Nigeria. The study utilized a sample of twenty-four banks from 1986 to 2011. The collected sample was evaluated using SPSS. The study indicated a significant association between the performance of deposit money banks in Nigeria and their liquidity management. Additionally, liquidity and cash reserve ratios positively impact return on equity, whereas the loan-to-deposit ratio has a negative impact. Moreover, only banks with the highest liquidity could generate the greatest profits.

Numerous elements influence the profitability of any business or undertaking. The sensitivity is the change in the firm's input and output financial flows. The ratio of the proportional change in output to the proportional change in input. This disparity between input and output percentages impacts the firm's profitability. Using sensitivity analysis, [Lee et al. \(2017\)](#) explored the economic evaluation in this setting. In Korea, the investigation was conducted. A sensitivity analysis can be used to analyze the economic state of any company or project according to the research findings. In addition, [Gräfe et al. \(2020\)](#) researched the sensitivity of economic profitability. In Indonesia, the investigation was carried out. According to the inquiry's findings, economic profitability can be determined using sensitivity analysis.

Similarly, [Fuess et al. \(2018\)](#) evaluated if the sensitivity analysis increases the profitability of the process. The investigation took place in Brazil. The examination indicated a significant relationship between the profitability of a process and sensitivity analysis. The sensitivity analysis increases the profitability of the process. Similarly, [Yuan et al. \(2017\)](#) investigated whether economic profitability can be evaluated using sensitivity analysis. In China, the investigation was conducted. The investigation revealed that the economic profitability of any given project could be affected by sensitivity analysis.

3. Research Methodology

This article examines the influence of capital adequacy, asset quality, management, earnings, liquidity, and sensitivity on the return on equity in Iraqi commercial banks. Using twenty commercial bank databases, the study

compiled secondary data from 2011 to 2020. Utilizing understudy constructs, this article developed the following equation:

$$ROE_{it} = \alpha_0 + \beta_1 CA_{it} + \beta_2 AQ_{it} + \beta_3 MNG_{it} + \beta_4 ER_{it} + \beta_5 LQ_{it} + \beta_6 SNT_{it} + e_{it} \quad (1)$$

Where;

- ROE = Return on Equity
- t = Period
- i = Banks
- CA = Capital Adequacy
- AQ = Assets Quality
- MNG = Management
- ER = Earnings
- LQ = Liquidity

Table 1: Variables with Measurements

S#	Variables	Measurement	Sources
01	Profitability	Return on equity	Commercial Banks
02	Capital Adequacy	The ratio of a bank's capital to its risk-weighted assets.	Commercial Banks
03	Assets Quality	The probability of default against the assets.	Commercial Banks
04	Management	Return on investment	Commercial Banks
05	Earnings	Earnings per share (net income divided by the number of common shares)	Commercial Banks
06	Liquidity	The ratio of current assets and current liabilities	Commercial Banks
07	Sensitivity	The ratio of percentage change in output by the percentage change in input.	Commercial Banks

The researchers applied descriptive statistics that show the variables' details. Moreover, the researchers also applied the correlation matrix that highlights the correlation among variables. In addition, the researchers applied the variance inflation factor (VIF) that highlights the multicollinearity among predictors. The equations are given below:

$$R^2_Y \rightarrow Y_{it} = \alpha_0 + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + e_{it} \quad (2)$$

$$j = R^2_Y, R^2_{X_1}, R^2_{X_2}, R^2_{X_3}, R^2_{X_4}, R^2_{X_5} \quad (3)$$

$$Tolerance = 1 - R^2_j VIF = \frac{1}{Tolerance} \quad (4)$$

The article also utilized the MMQR method to investigate the relationship between variables. Machado and Silva elucidate this strategy. It efficiently handles outliers. In addition, it provides dynamic assessments under various conditions; the model itself has nonlinear properties. In addition, it addresses heterogeneity and endogeneity.

So, $Q\tau(\tau/X)$ shows the conditional quantile, and the "locational-scale alternate model" is developed as below:

$$A_{it} = \alpha_i + B_{it}\beta + (\delta_i + C_{it}\lambda)U_{it} \quad (5)$$

In equation (5), the probability represents by $P\{\delta_i + C_{it}\lambda > 0\} = 1$, while the k-vector of component B is represented by C, and the components are transformed with component l, which is given below:

$$Zl = Zl(Y), l = 1, \dots, k \quad (6)$$

In equation (6), orthogonal to B_{it} represents by U_{it} that is consistent with attaining the moment conditions. So, in equation (5), the conditional quantile of A is developed as under:

$$Q\tau(\tau/B_{it}) = (\alpha_i + \delta_i q(\tau)) + B_{it}\beta + C_{it} \lambda q(\tau) \quad (7)$$

In equation (7), B_{it} represents the predictors such as CA,

SNT = Sensitivity

Profitability served as the dependent variable in the study, which was quantified by return on equity. In addition, the study utilized six independent variables, including capital adequacy, measured by the ratio of a bank's capital to its risk-weighted assets, assets quality, measured by the probability of default against the assets, management, measured by return on investment, earnings, measured by earnings per share, liquidity, measured by the ratio of current assets to current liabilities, and sensitivity, measured by the ratio of percentage change in output by the percentage change in input. Table 1 lists the variables and measures in question.

AQ, MNG, ER, LQ, and SNT and A_{it} is the predictive variable, such as ROE. So, $Q(\tau)$ is developed as under:

$$Min_q = \sum_t \sum_i p\tau (R_{it} - (\delta_i + Z_{it}\lambda)q) \quad (8)$$

4. Research Findings

The researchers employed descriptive statistics to illustrate the details of the variables. ROE average value was 12,783, CA mean value was 9,081, AQ average value was 0.392, and MNG mean value was 8.019. In addition, the output revealed that the mean value of ER was 12,379, while the mean value of LQ was 2,833, and the mean value of SNT was 5,893. Table 2 displays these results.

In addition, the researchers utilized the correlation matrix, which displays the relationship between variables. The findings revealed a favorable relationship between capital adequacy, management, earnings, liquidity, sensitivity, and return on equity in Iraqi commercial banks. In contrast, asset default probability is negative, indicating that asset quality also positively correlates with return on equity.

In addition, the researchers utilized VIF, which emphasizes the multicollinearity of predictors. The output revealed that the VIF values are less than five and that there are no predictor multicollinearity issues. Table 4 displays these results.

The article also utilized the MMQR method to analyze the relationship between variables. The findings revealed a favorable relationship between capital adequacy, management, earnings, liquidity, sensitivity, and return on equity in Iraqi commercial banks. In contrast, asset default probability is negative, indicating that asset quality also positively correlates with return on equity. Table 5 displays these results.

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ROE	200	12.783	1.291	8.093	18.292
CA	200	9.081	1.875	6.029	15.283
AQ	200	0.392	0.281	0.291	0.522
MNG	200	8.019	0.382	7.201	17.402
ER	200	12.379	2.086	9.801	17.231
LQ	200	2.833	0.330	1.460	3.729
SNT	200	5.893	0.809	2.732	11.477

Table 3: Correlation Matrix

Variables	ROE	CA	AQ	MNG	ER	LQ	SNT
ROE	1.000						
CA	0.548	1.000					
AQ	-0.304	0.594	1.000				
MNG	0.730	0.463	0.739	1.000			
ER	0.392	0.903	-0.692	0.404	1.000		
LQ	0.107	-0.684	0.281	0.557	0.726	1.000	
SNT	0.329	-0.783	0.779	-0.903	0.543	0.365	1.000

Table 4: Variance inflation factor

	VIF	1/VIF
CA	2.893	0.346
AQ	2.721	0.368
MNG	2.632	0.379
ER	2.577	0.388
LQ	2.102	0.476
SNT	2.095	0.477
Mean VIF	2.503	.

Table 5: Panel Quartile Estimation (MMQR)

Variables	Method of Moments Quantile Regression (MMQR)										
	Location	Scale	Grid of Quartiles								
			0.10	0.20	0.30	0.40	0.50	0.60	0.70	0.80	0.90
CA	0.784***	0.756*	0.653**	0.827**	0.745*	0.675**	0.645*	0.553*	0.453*	0.153*	0.048
AQ	0.689**	0.682*	-0.789*	-0.374*	-0.654*	-0.844**	-0.894*	-0.782*	-0.643*	-0.212	-0.038
MNG	0.594***	0.711**	0.902**	0.483**	0.839*	0.739*	0.872*	0.718*	0.735*	0.732*	0.087
ER	0.886*	0.650**	0.209*	0.874*	0.394**	0.574*	0.594*	0.102	0.038	0.222	0.339*
LQ	0.744**	0.821**	0.674**	0.647**	0.483**	0.784*	0.093*	0.122	0.931*	0.011	0.983*
SNT	0.095*	0.093**	0.908*	0.528**	0.487**	0.773**	0.654*	0.143	0.192	0.732*	0.755*

***, **, and * represent significant level at 1%, 5%, and 10%, respectively

5. DISCUSSIONS

The results indicated that adequate capital has a positive relationship with banks' return on equity. These findings are confirmed by [Ichsan et al. \(2021\)](#), demonstrating that banks with appropriate capital and the capacity to manage the risks they fear can engage in profitable commercial transactions and increase their returns on equity. According to [Fakhri et al. \(2021\)](#), the availability of capital sufficient to manage the business and limit the financial risks enables banks and other financial institutions to operate their businesses efficiently and earn more profits. The findings revealed a positive relationship between asset quality and banks' return on equity. These results concur with [Ledhem et al. \(2020\)](#)'s conclusion that banks offer loans secured by certain securities, sometimes known as assets. If there are no hazards associated with the default behavior of clients, then the institutions have high-quality assets. With high-quality assets, institutions can make sound decisions and generate greater returns on equity. These findings are reinforced by [Zhou et al. \(2021\)](#), who report that banks with high-quality assets have greater

equity returns.

The findings revealed a positive relationship between management and banks' return on equity. These outcomes are also consistent with [Sathyamoorthi et al. \(2020\)](#)'s assertion that effective investment management delivers greater returns on the same amount of investment. In this case, bank returns on equity can be increased. [Al Zaidanin \(2020\)](#) confirms that investment is a significant source of income for banks and other financial organizations. Banks with effective investment management can generate greater profits, resulting in greater returns on equity. The findings revealed a positive relationship between bank earnings and returned on equity. These findings are corroborated by [Chaturvedi et al. \(2021\)](#). They argue that financial organizations with greater direct earnings from sales of products and services and indirect earnings can have greater profitability. Consequently, they generate returns on equity. These results are also consistent with [Singh et al. \(2020\)](#)'s assertion that banking firms with higher earnings can achieve greater returns on equity.

The findings revealed a positive relationship between

liquidity and banks' return on equity. These findings are corroborated by Rasli et al. (2020), who assert that liquidity enables banking institutions to make unbiased financial decisions. The increased liquidity enables them to create greater revenues by capitalizing on opportunities. These findings are consistent with (A. H. Nguyen et al., 2020)'s assertion that the higher liquidity of assets enables financial institutions to buffer the negative effects of risk exposures and capitalize on present opportunities. These companies can provide significant returns on equity. The findings revealed a favorable relationship between sensitivity and banks' return on equity. These findings are reinforced by Yadav et al. (2021), who demonstrate that banking firms may produce more with the same or fewer inputs if they have a higher sensitivity. This boosts equity returns.

6. IMPLICATIONS

This study serves as a guide for researchers and academics due to its contribution to the body of knowledge. It focuses mostly on the financial performance of commercial banks. It examines the role of CAMEL, such as capital adequacy, asset quality, management, earnings, liquidity, and sensitivity in return on equity in Iraq in the context of the coronavirus. This study is of great importance to emerging nations such as Iraq, as it provides guidelines for improving the financial performance of commercial banks. According to the report, commercial bank management must boost capital adequacy to increase returns on equity. The study also indicates that bank management must prioritize preserving asset quality to obtain higher returns on equity. It is proposed that banks manage their investment portfolios effectively to earn higher returns on equity.

Similarly, it suggests that banking institutions must generate bigger earnings per share to achieve higher returns on equity. Using the CAMELS criterion, the study guides regulators in drafting policies regarding banks' profitability during and after the Corona pandemic. The article recommends that bank management acquire highly liquid assets to maintain returns on equity. Similarly, banking policies should be designed to increase sensitivity and, thus, must increase equity returns.

7. CONCLUSION

During the coronavirus pandemic, the authors intended to investigate the role of CAMEL, including capital adequacy, assets quality, management, earnings, liquidity, and sensitivity in return on equity. The authors gathered empirical data from Iraq during the coronavirus pandemic and discovered a positive correlation between capital adequacy, assets quality, management, earnings, liquidity, sensitivity, and return on equity. Banks and other financial institutions can run their businesses efficiently and generate greater profits with adequate capital for risk management. The results also indicated that banks with high-quality assets have higher returns on equity, which promotes financial growth. When the same investment is made, the study revealed that competent investment management results in a higher return on equity.

Similarly, it demonstrated that larger profits enable banks to achieve higher returns on equity. In addition, the results

indicated that greater asset liquidity enables banking institutions to reduce losses from risk exposures and capitalize on current opportunities. For these businesses, high returns on equity are feasible. The study also concluded that financial institutions could produce more with the same or fewer inputs if they were more sensitive. Consequently, returns on equity are increased.

8. LIMITATIONS

There are still some limitations that make it difficult to apply the results. However, the limitations may be eliminated in the future relevant literature. First, the present study evaluates the financial performance of banks based on limiting factors such as capital adequacy, asset quality, management, earnings, liquidity, and sensitivity; thus, the study is limited. Future authors are advised to add to these factors for a more accurate evaluation of the financial performance of banks. Furthermore, the results are based solely on evidence from Iraqi commercial banks, making them less general. Future authors will evaluate the financial performance of banks using evidence from multiple economies.

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