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Analysis of Banking Risks According to IFRS 7 and its Impacts of Financial Failure Forecasting in Iraqi Private Banks

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ABSTRACT

Understanding the relationship between financial risks and the likelihood of financial failure is crucial for both practitioners and academics. A proper comprehension of these issues helps the banking sector avoid the consequences of failure and enhances risk management practices. The purpose of the current paper is to determine the impact of financial risk analysis according to IFRS 7 in predicting financial failure. A sample of six well-established Iraqi banks was selected, and their financial statements were analyzed for the period from 2019 to 2023. Using a quantitative approach, financial risks were measured through a set of appropriate financial ratios and methods. Financial failure was assessed using the Sherrod model. The results indicated that the financial risks associated with the operations of Iraqi banks ranged from moderate to high, and that risk management practices varied significantly between banks. The findings revealed that the surveyed banks fell within the zone of non-failure indicators. Additionally, the results showed a positive impact of the three types of risks in contributing to financial failure within the sector's banks.

Keywords: Banking Risk, Financial Failure, Credit Risk, Business Ongoing, Z-Score

INTRODUCTION

Amidst the complexity, technological advancements, and dynamic changes in the business environment, particularly within the banking sector, the increasing magnitude and diversity of risks faced by banks, along with their negative impacts on bank activities, profitability, and reputation, as well as their survival in the competitive market, the issue of banking risks has garnered significant attention from bank management, regulatory and supervisory authorities such as central banks, and international organizations like the Basel Committee and other relevant entities. The Global Financial Crisis (GFC) of 2007-2009 significantly impacted risk behavior in banking institutions. In an effort to combat the ensuing economic downturn, monetary authorities drastically reduced interest rates, maintaining them near or below zero for an extended period (Leo & Maddulety, 2019:1).

The cause of banking risk can be attributed to certain competitive behaviors or specific market forces affecting banks. According to banking literature, there are two primary causes of banking risks (Badarau & Lapteacru, 2019:6). Firstly, according to the competition-fragility

paradigm, in a highly competitive environment, banks seek additional income sources and thus adopt more aggressive risk-taking behaviors by investing in riskier assets. They engage in activities promising higher returns either to compensate for the loss of franchise value (Keeley, 1990) or to maintain or increase their capital reserves (Boyd et al., 2004:488). Secondly, the risks to banks may be exacerbated by the unwillingness of banking institutions to provide liquidity to their weaker counterparts (Allen & Gale, 2000) and, more broadly, to support cooperation and assistance among banks (Saez and Shi, 2004). Additionally, increased competition reduces the amount of information banks can gather (Hauswald and Marquez, 2006), which heightens the risk of loan defaults. These various theoretical findings have been empirically confirmed in both advanced and emerging banking markets.

In a related context, banking risks can lead to financial failure. To avoid potential failure, a large number of indicators allow banks to identify areas of deficiency in their performance and address them in a timely manner by taking the necessary corrective actions. Moreover, these indicators provide early warning guidance to banks, enabling them to minimize potential losses by predicting financial failure (Al-Mashhadani & Al-Shather, 2014: 501). The emergence of this approach is attributed to the efforts of researchers in the United States since the beginning of the last century, who conducted studies aimed at identifying indicators that could be used to predict the likelihood of failure. This was encouraged by the American Institute of Certified Public Accountants (AICPA) and the Securities and Exchange Commission (Al-Badri, 2022: 20). According to International Financial Reporting Standard 7 (IFRS 7) which pertains to disclosures about financial instruments and aims to enhance the transparency of disclosures related to financial risks, companies should disclosure of the following risks: (1) Credit Risk: The company's exposure to credit risk associated with financial instruments. Policies and procedures for managing credit risk. Distribution of credit risk across different asset categories. Information about financial assets that have deteriorated in value. (2) Liquidity Risk: The company's ability to meet its financial obligations as they come due. Maturity analysis of financial liabilities. Liquidity management strategies employed by the company. (3) Market Risk: Exposure to market risk related to fluctuations in market prices. Breakdown of market risk into interest rate risk, currency risk, and equity price risk. Sensitivity analysis for market changes.

IFRS 7 imposes disclosure requirements that help investors and stakeholders understand the nature and extent of the financial risks faced by the company, and how the company manages those risks. Thus, The current paper focuses on investigating banking risks that are expected to have a direct impact on predicting financial failure in Iraqi private banks listed on the Iraq Stock Exchange. The paper emphasizes widely recognized risks as well as those approved by global standards. Since the Iraqi banking sector includes various categories of banks, the current paper concentrates solely on commercial banks to represent the study sample.

Literature Review

Banking Risk Analysis

Risks refer to the possibility of an unplanned event occurring, implying a variance or fluctuation in unexpected outcomes (Eid & Asutay, 2019). Similarly, risks are defined as uncertainty regarding the occurrence of a loss (Rejda et al., 2021). In the context of banking, the term "risk" is generally associated with financial losses. Therefore, it is more precisely

described as the uncertainty about the returns that can be achieved. According to (Bessis, 2002) banking risks is the negative impacts on the profitability of a set of sources characterized by uncertainty. Additionally, the Banking Regulation and Risk Management Committee, part of the United States banking sector authority, defines banking risks as the likelihood of incurring a loss, either directly through operational losses or capital losses, or indirectly through constraints that limit the bank's ability to achieve its objectives and goals (Barr 2023). Such constraints weaken the bank's ability to continue providing services and conducting its activities on one hand, and limit its capacity to exploit opportunities in the banking environment on the other" (Al-Rumaihi, 2017: 387).

Banks face a wide range of risks in their operations. According to (Greuning & Bratanovic 2019), banking risks are categorized into three groups: financial, operational, and environmental risks. Financial risks encompass two types of risks: traditional banking risks, which include balance sheet and income statement structure, credit, and solvency, and treasury risks, which involve liquidity, interest rates, currency, and market risks (including counterparty risk) (Bessis, 2011). Operational risks are linked to the bank's overall business operations and their potential impact on compliance with the bank's policies and procedures, internal systems and technology, information security, measures against mismanagement and fraud, and business continuity concerns (Greuning & Bratanovic, 2020). Environmental risks are associated with the bank's business environment, including concerns related to macroeconomics and policies, legal and regulatory factors, the overall infrastructure of the financial sector, and payment systems in the jurisdictions where it operates (BCBS, 2020). Environmental risks encompass all types of external risks that, if they occur, can jeopardize the bank's operations or diminish its ability to continue functioning.

(Karamoy & Tulung 2020) identified eight types of risks that need to be reviewed: credit, market, operational, liquidity, legal, strategic, compliance, and reputational risks. (Milojević and Redzepagic 2021) pointed out that some relatively newer risks, such as information security risks, are playing an increasingly important role. Additionally, some traditional risks are evolving in their form and characteristics and are closely linked to new risks. These observations are closely related to new trends in the contemporary economy (Fabris, 2020) and finance (Grubišić et al., 2021), such as digitization, new financial technologies, and the era of cryptocurrencies (Panagiotis et al., 2020), among others. However, this paper highlights three major banking risks that need to be assessed using ratios: credit risk, market risk, and liquidity risk.

According to (Leo and Maddulety 2019), credit risk is traditionally the greatest risk faced by banks and typically requires the largest amount of capital. Credit risk refers to the potential negative impact on a bank's financial outcome and capital due to the failure of a borrower to meet their obligations to the financial institution (Basel Committee on Banking Supervision - BCBS, 2000; BCBS, 2019c). Liquidity risks, which are managed separately from other risks, are categorized into two forms: asset liquidity risk and funding liquidity risk. A bank faces asset liquidity risk when a transaction cannot be executed at prevailing market prices, which may be due to the size of the position relative to the usual trading volume. Funding liquidity risk refers to the inability to meet cash flow obligations and is also known as cash flow risk (Drehmann, & Nikolaou, 2013). According to the Basel Committee on Banking Supervision's 2022 monitoring report, Basel III reforms introduced two additional standards: the Liquidity Coverage Ratio (LCR), which enhances short-term resilience against potential liquidity disruptions, and the Net Stable Funding Ratio (NSFR), a long-term structural ratio designed to reduce funding risk over an extended period (Martiarena et al., 2022). Market risk arises from sudden changes in the market, affecting banks through fluctuations in interest rates, securities prices, foreign exchange rates, and stock prices, as well as the volatility of these prices. It has been defined as "the risk to a bank’s earnings and capital

arising from changes in market levels of interest rates, security prices, foreign exchange rates, and equities, as well as fluctuations in these prices" (Risal & Campus, 2018). It is also described as "the risk of losses in a liquid portfolio due to market price movements, encompassing primarily foreign exchange risk, interest rate risk, commodity price risk, and equity price risk, with reference to adverse changes in exchange rates, interest rates, and stock prices" (Pathak, 2020).

Forecasting Financial Failure

In the past century, researchers have actively engaged in studies aimed at identifying indicators that can be used to predict the likelihood of financial failure, with encouragement from the American Institute of Certified Public Accountants (AICPA) and the Securities and Exchange Commission (SEC). Financial failure refers to a complete cessation of debt repayment, leading to bankruptcy and the cessation of operations (Alsomaidaee et al., 2023; Shaheen & Matar, 2011), or it can mean the inability of an organization to meet its debt obligations and return funds to its rightful shareholders (Halim et al., 2014). It is important to distinguish between financial failure and "bankruptcy." The latter is a legal term that denotes an organization's inability to meet its debt obligations as they come due, with bankruptcy being declared by a court to facilitate the liquidation and settlement of the organization's debts (Niresh & Pratheepan, 2015).

According to (Altman & Hotchkiss 2016), four primary causes of financial failure are identified: managerial causes, which occur when management fails to provide adequate support to employees and when there is a poor selection of the company's executive manager; financial causes, including an imbalance between capital and debt, leading to an accumulation of debt that negatively impacts performance and results in significant problems such as liquidity loss and inability to meet obligations to various creditors; and additionally, marketing and production causes.

There are numerous predictive models for financial failure that are formulated based on financial ratios, either individually or collectively. The accuracy of these predictive models in forecasting failure varies, depending on the organization's reality, age, debt level, the type of analytical data subject to prediction, as well as the statistical methods employed in adapting the results of financial ratios and the conditions under which each model is applied. The first attempts to develop a statistical model for predicting financial failure were made by (Tamari 1964), which is considered one of the pioneering studies in this field. This was followed by the models developed by (Beaver 1966) and (Altman 1968), which have served as the primary drivers for subsequent research. The model proposed by (Sherrord 1987) has been selected for application to the research sample, which will be detailed in the practical section of the study. This model is considered one of the most important for predicting financial failure and relies on six independent financial indicators, as well as the relative weights assigned to the discriminant function coefficients for these variables. Based on the number of scores (Z), this model utilizes six principal ratios, as outlined by (Renas & Islam 2016). The model equation was as follows:

$$\mathbf{Z}\text{-Score} = 17X1+9X2+3.5X3+20X4+1.2X5+0.1X6$$

Table 1. Sherrord model ratios

Variable	Ratio	Type	Relative Weight
X1	Net Working Capital to Total Assets	Liquidity Indicator	17
X2	Liquid Assets to Total Assets	Liquidity Indicator	9
X3	Shareholders' Equity to Total Assets	Leverage Indicator	3.5
X4	Net Profit Before Tax to Total Assets	Profitability Indicator	20
X5	Total Assets to Total Liabilities	Leverage Indicator	1.2
X6	Shareholders' Equity to Fixed Assets	Leverage Indicator	0.1

Organizations are categorized into five classifications based on their capacity for continuity. These classifications are:

Table 2. Sherrord model classifications

Category	Risk Level	(Z)
First	The organization is not exposed to bankruptcy risk	$Z > 25$
Second	Low probability of exposure to bankruptcy risk	$20 < Z \leq 25$
Third	Difficulty in predicting bankruptcy risk	$5 < Z \leq 20$
Fourth	The organization is exposed to bankruptcy risk	$-5 < Z \leq 5$
Fifth	The organization is highly exposed to bankruptcy risk	$Z \leq -5$

Relationship between banking risks and financial failure prediction

The relationship between banking risks and financial failure prediction is a central topic in contemporary financial and economic studies, playing a crucial role in determining the stability and integrity of the global financial system. Recent research indicates a strong correlation between various levels of banking risks and the ability of financial institutions to survive and thrive under volatile economic conditions. A study conducted by (Maaka 2013) demonstrated that banks exposed to high levels of credit and liquidity risks are more susceptible to financial failure, emphasizing the importance of effective risk management in maintaining financial stability. In a similar way, (Petropoulos et al., 2020) presented an integrated model for predicting bank failure that combines traditional financial indicators with advanced risk metrics, providing a more comprehensive framework for assessing the financial health of banking institutions. (Barboza et al., 2017) highlighted the importance of incorporating intelligence and machine learning techniques into financial failure prediction models, with their results showing a significant improvement in prediction accuracy compared to traditional models. In a recent study, (Hu et al., 2012) proposed using social network analysis alongside deep learning techniques to enhance understanding of the interconnectedness between financial institutions and its impact on systemic risk propagation. (Helleiner 2011) emphasized the importance of considering macroeconomic and geopolitical factors in financial failure prediction models, finding that these factors play a significant role in determining banks' ability to withstand financial crises. (Chang et al., 2020) presented a

multidimensional framework for assessing banking risks, combining traditional financial indicators with behavioral and operational risk metrics, providing a more holistic view of banking institutions' financial health. (Barroso, & Laborda 2022) pointed out the importance of considering structural changes in the banking sector, such as digital transformation and the emergence of new financial technologies, when developing financial failure prediction models. (Sandin & Porporato 2008) highlighted the importance of adapting financial failure prediction models to the characteristics of each financial market, finding significant differences in the performance of these models between advanced and emerging markets. In a comprehensive study, (Barua, & Barua, 2020) analyzed the impact of the COVID-19 pandemic on the relationship between banking risks and financial failure prediction, finding that the pandemic increased the importance of liquidity and market risks in determining the probability of bank failure. (Yonggang, 2017) emphasized the importance of developing dynamic models for financial failure prediction that take into account rapid changes in the business and technology environment, helping to improve these models' ability to adapt to changing conditions.

Methodology

Research Design

The quantitative method was adopted in the current paper because it is the most suitable for the nature of the study. The study primarily relied on data from the banks included in the sample, as disclosed in their financial reports and stock market data. The selecting of the quantitative approach was for several appropriate reasons such as (1) nature of the data where banking risks and financial failure can be quantitatively measured using specific financial indicators and ratios. (2) Potential for statistical analysis, as the quantitative method allows for the use of advanced statistical tools to analyze the relationships between variables and determine their impact. (3) Predictive capability, whereas quantitative models assist in building accurate predictive models for financial failure based on banking risk data. (4) Comparability where quantitative results can be compared across different banking institutions or over different time periods and provides precise and specific results that can be relied upon for decision-making. As well as results can be generalized to a wider population if the sample is correctly chosen.

Data Collection

The primary sources of data for the current paper are annual financial reports, final accounts Banks financial statements, and the statements from the Iraq Stock Exchange and the Securities Commission. In several instances, raw data has been relied upon to derive the financial ratios necessary for use in the current paper. Regarding banking risk data, it was obtained from the financial statements and the final accounts of the banks. Additionally, data from the Iraq Stock Exchange was used to directly obtain some financial ratios. The financial failure prediction model ratios were calculated based on the aforementioned financial data using MS Excel software.

The research period has been defined as five years, spanning from 2019 to 2023. During this period, there have been no significant events likely to cause financial failure, with the

exception of the COVID-19 pandemic, which has impacted the entire sector as a case of systemic risk. Given that the banks in the study sample are not uniform in terms of activity size and capital increase, the current paper focuses on banks that have experienced a prolonged period of stability in their banking performance. This selection represents the research sample of 6 banks, all of which have clearly disclosed the required data. It is worth noting that the aforementioned banks did not undergo any regulatory actions during the specified period. Table 3 presents the banks included in the study sample along with additional data about them.

Table 3 Banks Included in the Study

n	Bank	Code	Capital	Establishment date
1	Baghdad	BBOB	250IQB	1992
2	Iraqi commercial	BCOI	250 IQB	1992
3	United Investment	BUND	300 IQB	1994
4	Commercial gulf	BGUC	300 IQB	2000
5	Al Mansour Investment	BMNS	250 IQB	2006
6	International development for investment and finance	BIDB	250 IQB	2011

Variables and Measures

Given that the research variables are diverse, it is evident that they should be measured using different methods or models. Table 4 illustrates the measurement methods for each of the research variables. Liquidity risk will be measured through liquidity ratios, specifically the current ratio and the quick ratio. Regarding credit risks, the following financial ratios will be utilized: Loan-to-Deposit Ratio, Debt-to-Equity Ratio. Market risks will be measured using beta coefficients (β). Finally, financial failure will be assessed using the Sherrord Z-score model as in table 4 below.

Table 4. Measurement Methods

Variable		Measurement	Formula
Independent variable	Liquidity risk	Current ratio	CA/CL
			Current assets/ Current liabilities
		Quick ratio	LA/CL
			Liquid assets/ Current liabilities
	Credit risk	Loan-to-Deposit Ratio	(TL/TD) × 100
			(Total Loans/ Total Deposits) *100
		Debt-to-equity	TD / TA
			Total Debt / Total Assets
	Market risk	Beta	$\beta i = \mathrm{Var}(Rm)/\mathrm{Cov}(Ri,Rm)$
			βi is the beta of the asset i Var(Rm) is the variance of the returns of the market m.

			Cov(R*i*,R*m*) is the covariance between the returns of the asset *i* and the returns of the market *m*.
Dependent variable	Financial Failure	Sherrord Z-score	**Z**-Score = 17*X*1+9*X*2+3.5*X*3+*20X4*+1.2*X*5+0.1*X*6
			X1: Net Working Capital to Total Assets X2; Liquid Assets to Total Assets X3: Shareholders' Equity to Total Assets X4: Net Profit Before Tax to Total Assets X5: Total Assets to Total Liabilities X6: Shareholders' Equity to Fixed Assets

Results and Discussion

The first tests conducted are the tests describing the research variables to determine the levels of each variable over the years covered in the current paper. The table 5 shows the descriptive statistics of the research variables. The variables were divided into sub-variables according to the proportions and selected measurement tools. The risks have been categorized into three types, as outlined in the literature review: liquidity, credit, and market risks

Table 5. Describing the Research Variables

Years	Liquidity risk		Credit risk		Market Risk	Financial Failure
	Current ratio	Quick ratio	Loan-to-Deposit Ratio	Debt-to-equity	Beta	Sherrord Z-score
2019	1.828	0.996	0.312	0.634	0.514	21.88
2020	1.687	0.485	0.416	0.597	0.816	32.35
2021	1.597	0.861	0.367	0.499	0.412	26.56
2022	1.981	0.987	0.516	0.688	0.710	22.46
2023	2.156	1.056	0.489	0.599	0.691	28.14
Mean	1.849	0.877	0.425	0.603	0.628	26.27
SD	0.224	0.230	0.084	0.069	0.162	4.310

According to table 5 outcomes, there is a slight fluctuation in the movement of risks of all three types over the period. However, liquidity ratios indicate a problem with the liquidity of the sample banks. The banks have not achieved the standard trading ratio (2:1), which means that the assets of the banks are still insufficient to meet short-term obligations in the event of a problem. The same applies to the quick ratios, which were also below the acceptable financial levels. The results also indicate a relative stability concerning credit risk, as the low standard deviation (0.084) suggests a relatively stable debt-to-deposit ratio across the sample. While there is some variation among banks, most cluster around the average of 42%. Additionally, there is some disparity among banks regarding exposure to credit risk, with a broad range (from 31.2% to 51.6%) demonstrating significant differences in how banks manage funding risks. However, this variation is not substantial enough to be concerning. The average ratio and the narrow dispersion around risk management may suggest that banks adhere to similar risk management practices, despite some differences.

The results of the debt-to-equity ratios show a range from 0.499 to 0.688, with a mean of 0.60 and a standard deviation of 0.07. The wide range of these ratios indicates significant variation in how banks finance their assets through debt compared to equity, reflecting notable differences in financing strategies among banks. The mean of 0.60 suggests that, on average, the debt-to-equity ratio is 60%, indicating a moderate level of debt utilization in asset financing. The low standard deviation of 0.07 implies that the ratios are closely clustered around the mean, indicating a relatively stable approach by banks in managing debt risk compared to equity. The results of the beta coefficient (β) range from 0.422 to 0.816. This range indicates that the banks in the sample exhibit varying levels of market risk. Values below 1, such as 0.422, suggest a lower exposure to market fluctuations compared to the market as a whole, indicating more conservative risk management. Conversely, values closer to 1, such as 0.816, reflect a higher exposure to market risks and their volatility. This variability illustrates that different banks in the sample are exposed to different levels of market risk, reflecting a diversity in their risk management strategies.

The broad range indicates a moderate variance in the banks' ability to avoid financial failure, with most banks demonstrating a high level of financial security. The mean score of 26.2 suggests that, overall, the banks are in a financially acceptable position and reflects their capability to handle financial pressures adequately, as they fall within a range where indicators of financial failure are not apparent. The standard deviation of 4.3 represents a reasonable dispersion around this average, indicating that some banks may be in slightly stronger or weaker financial positions compared to others. However, all are generally considered to be relatively secure from financial failure.

Table 6 presents the results of the multiple regression test. The table includes additional data regarding the regression model at both the macro and micro levels. It is evident that there is an impact relationship between financial risks and the ability to predict financial failure. At the whole level of the model, the R^2 value indicates that the regression model explains approximately 68% of the variance in predicting financial failure, which is a good explanatory ratio. While the model was statistically significant

Table 6. Regression Test

	Variables	β	t	*P.* value	Impact
Financial Failure Sherrord Z-score	Current ratio	0.235	3.085	0.000	+
	Quick ratio	0.536	7.630	0.000	+
	Loan-to-Deposit Ratio	0.414	6.301	0.000	+
	Debt-to-equity	0.115	2.196	0.000	+
	Beta	0.277	6.324	0.000	+
	R2	0.689			
	Adj R2	0.481			
	P value	0.000			

Table 6 summarize the regression test. The results related to financial institution failure using the Sherrord Z-score model showed that there are several statistically significant findings emerge. All variables included in the model—the current ratio, the quick ratio, the loan-to-deposit ratio, the debt-to-equity ratio, and the beta coefficient—exhibit a positive and significant impact on the measurement of financial failure, as evidenced by the probability values (P-values) of 0.000 for all variables, indicating that these effects are not coincidental. The percentages of impact vary among the variables, with the quick ratio contributing the most ($\beta = 0.536$) compared to the other variables. The coefficient of determination (R^2) is 0.689, meaning that the model explains approximately 68.9% of the variance in financial failure, while the adjusted R^2 is 0.481, indicating that the model is good but there is room for improvement in the model's explanatory power. Overall, the model indicates a strong and

significant relationship between the studied financial variables and financial institution failure, highlighting the importance of these indicators in predicting financial problems.

The results indicate that the liquidity ratio has a positive and significant impact on the assessment of financial failure according to the Sherrord Z-score model. Specifically, it is shown that an increase in the liquidity ratio leads to an improvement in the model's calculated value, reflecting a decrease in the likelihood of financial failure. This strong correlation between the liquidity ratio and reduced financial risk suggests that banks maintaining a high level of liquidity are better positioned to withstand financial crises and avoid failure. Practically, this means that banks focusing on enhancing their liquidity ratio may achieve more stable and secure financial performance. Such banks are better able to meet their financial obligations during times of crisis, thereby enhancing their competitive position and reducing the likelihood of encountering financial problems that could lead to failure. Consequently, improving the liquidity ratio can be an effective strategy for increasing financial security and achieving stability in bank performance.

The results of the loan-to-deposit ratio and the debt-to-equity ratio indicate a significant positive impact on the likelihood of financial failure. A higher loan-to-deposit ratio means that banks relying more on loans compared to deposits face an increased probability of financial failure, as excessive use of loans may expose the bank to higher credit risks and challenges in managing financial crises. As for the debt-to-equity ratio, it suggests that banks with a higher reliance on debt compared to equity are more susceptible to financial failure, since the use of debt increases financial pressure on the bank and reduces its ability to cope with economic stresses.

Beta represents market risk in this context. A positive Beta value indicates that an increase in the market risk associated with the bank is linked to a higher probability of financial failure. Practically, these findings imply that banks experiencing higher volatility in financial markets need to be more cautious in managing their market risks. Effective market risk management strategies can help banks reduce their exposure to economic pressures and decrease the likelihood of financial failure. Therefore, improving market risk mitigation strategies and enhancing financial stability can have a significantly positive impact on overall bank performance and strengthen their ability to effectively handle economic challenges.

Conclusion

The current paper investigates the analysis of financial risks according to IFRS 7 and their impact on predicting financial failure within the Iraqi banking sector. Principally, the study considered banks that have been operating their financial activities for a long time and have not been subject to any legal consequences or punitive measures. Based on the specified time period (2019-2023), the selected Iraqi banks in the study demonstrated acceptable financial performance. The impact of the COVID-19 pandemic did not appear to be significantly detrimental to the performance of these banks. However, it was evident that risk management policies varied from one bank to another. It was observed that banks that favored aggressive risk policies by maintaining lower liquidity levels, which means less able to avoid unexpected urgent obligations. It is evident that the impact of these policies has significantly influenced the quick ratio, which has generally appeared to be below its standard levels. This indicates a weakness in short-time assets to meet the current liabilities of the banks.

Regarding credit risk, it can be generally stated that credit risk management was the best among the three types of risks. This is evidenced by the acceptable levels of debt to deposits and debt to equity ratios. For the most part, the surveyed banks were not exposed to high credit risk. Compared to the total equity, the debt ratio was the lowest, indicating that the banks' reliance on external financing was within planned limits. Regarding market risk, it was found that the sensitivity of banks to market risks varied significantly. Although the values of beta—a measure of market risk—were generally less than 1, this indicates the overall investment policy in the banking sector on one hand, and its handling of market risks on the other. Systematic risks tend to have a lesser impact on the Iraqi financial sector, as the actions and decisions of policymakers concerning fiscal and monetary policy are sporadic and are unlikely to have an immediate negative effect on the banks.

In response to the above, it appears that the previous indicators were sufficient to significantly reduce the likelihood of financial failure. The results showed that the banking sector, in general, falls within the zone where there are no indicators of financial failure according to the Sherrord model. Additionally, regression models revealed a positive relationship between the three types of risks and financial failure. In terms of ranking, liquidity risk had the greatest impact on financial failure, followed by credit risk, and then market risk.

Implicates

From an academic perspective, the variables in this paper are limited to liquidity, market, and credit risks. It is important to extend research to include other types of risks, such as operational and environmental risks, among others. Additionally, due to the difficulty in obtaining sufficient data, this paper does not include control variables such as bank size and governance level. Including control variables could provide a clearer picture of the potential impact of risks on financial failure. From a practical perspective, practitioners in Iraqi banks can benefit from the findings of this paper in analyzing financial risks and understanding their impact on financial failure. The favorable results within this paper can serve as a suitable guide for improving financial performance and enhancing risk management.

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