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The Impact of Banking Revenue Structure on Maximizing Bank Value and Its Reflection in Safety Indicators: An applied study of a number of Iraqi Banks listed in the Iraqi Stock Exchange

Abbas Abduldayem Mahdi Al-Hmerawee[1], Dr. Rahab Bedoui Ben Slim[2]

Abstract

This study aims to examine the impact of the banking revenue structure on maximizing the bank's value and its reflection in safety indicators. The study sample consists of ten Iraqi banks from various regions, investigating how banks generate funds and identifying factors that can make the bank more valuable while maintaining its safety. To achieve satisfactory results, the researcher employed a methodology based on analyzing financial data and banking indicators for the study sample banks, using various statistical models to analyse the relationships between revenue structure and market value. The study concluded several recommendations, including the crucial role of the banking revenue structure in maximizing the bank's value. The study relies on its findings to provide recommendations to banks regarding their revenue structure and how to improve it for value maximization and enhanced safety indicators. Recommendations may include guiding banks towards diversifying revenue sources, improving the performance of financial products and services, enhancing financial risk management, and adopting suitable investment strategies. The study provides useful information for banks and those monitoring banks for improvement, helping them to increase profitability and enhance safety. Suggestions may assist banks in making more informed choices and improving long-term financial performance.

Keywords: *Banking Revenue Structure, Financial Performance of Banks, Banking Safety Indicators, Bank Profitability, Maximizing Bank Value.*

Introduction

1. Research Context

Banks are pivotal structures for economic development in every country, as they play a vital role in expanding financial services within the nation. Banks serve as financial intermediaries providing a platform to connect capital seekers and suppliers. The banking system may arguably be the most crucial element in the economic system of any country, playing a key role in mobilizing financial resources for investment by providing credit to various companies and investors (Mokaya & Jagongo, 2014). An economy can function optimally in terms of performance only with a stable and consistent banking system. Commercial banks, being financial institutions that receive funds from the public, provide loans and advances, and base their core activities on profit, including lending, accepting

[1] University of Sousse / Higher Institute of Business Studies in Sousse
[2] University of Sousse / Higher Institute of Business Studies in Sousse

deposits, and other financial services such as electronic fund transfers, overdraft facilities, and foreign exchange.

Commercial banks incur commitment costs and generate revenues from their investments. Consequently, the bank's profitability is significantly influenced by managing its liabilities and assets. Furthermore, various banking operations and macroeconomic factors also impact the ability of banks to generate profits. There are several dimensions of bank performance that can be evaluated; this research focuses on the impact of the banking revenue structure on maximizing the bank's value for commercial banks in Iraq. The profitability of banks provides crucial information about their stability in a competitive financial environment. The financial performance of institutions is not only vital for their stability but also for the overall productive growth of the economy, contributing to its development. On the other hand, poor performance of financial institutions can lead to financial disasters, as witnessed globally in the financial crises of 1997 and 2008 (Ahmed & Bourzak,2021).

2. Research Problem

The banking sector serves as the bedrock of any nation's economy. A stable and consistent banking system is crucial for an economy to function effectively, as it connects diverse economic activities like agriculture, trade, industry, energy, and services to overall development. Consequently, enhancing the financial performance of banks has become a growing concern. As such, the revenue structure holds significant weight in the investment strategies adopted by banks. Traditionally, banks primarily relied on income generated from interest. However, interest income exhibits greater sensitivity to fluctuations in interest rates and economic downturns. Competition within the banking sector could potentially lead to a decrease in total profits. Therefore, banks must identify alternative income sources. This has prompted banks to expand their operations and develop new lines of business alongside their traditional activities.

With economic openness and the intensifying competition stemming from financial liberalization, banks embarked on diversifying their activities, making the revenue structure a key concern for them. Consequently, non-interest income has acquired greater significance globally and particularly in Iraq. Numerous researchers have delved into the relationships between non-interest income, business strategies, market conditions, technological advancements, and risk-adjusted financial performance. A robust, profitable, and more resilient banking sector, capable of withstanding adverse economic shocks and contributing to the stability of the financial system, hinges on a diversified, flexible, and shock-resistant revenue structure.

3. Research objectives

The primary objective of this study is to examine whether the revenue structure in Iraqi banks was in the best interests of the bank's financial performance and to demonstrate its impact on the bank's profitability. The following are the objectives that the researcher sought to achieve in this research:

1. To analyse the impact of revenue structure on the financial performance of Iraqi commercial banks listed on the Iraqi financial market on market value.

2. To analyse and study the relationship between the study variables and how to benefit from the results obtained and to extract recommendations that contribute to raising the market value of the banks in the sample study.

3. To focus on the scientific aspect by highlighting the importance of the banking sector and its role in raising economic growth in the country.

4. To open the doors for future research that deals with banking work, which would contribute to the development of the Iraqi banking sector.

4. Research Hypotheses

After identifying the research problem and defining the dependent and independent variables, the researcher has identified the hypotheses that he will test using different methods in order to prove their validity or reject them. The negative hypotheses that the researcher put forward are as follows :

Main Hypothesis 1 (H1) : Iraqi banks are suffering from a clear decline in market value.

Main Hypothesis 2 (H2) : There is no statistically significant effect of bank revenue structure on market value. This hypothesis is further divided into four subsidiary hypotheses :

Sub-Hypothesis 1 (H21) : There is no statistically significant effect of interest revenue on market value.

Sub-Hypothesis 2 (H22) : There is no statistically significant effect of banking commission revenue on market value.

Sub-Hypothesis 3 (H23) : There is no statistically significant effect of investment revenue on market value.

Sub-Hypothesis 4 (H24) : There is no statistically significant effect of foreign exchange conversion revenue on market value.

Main Hypothesis 3 (H3) : There is no statistically significant effect of bank revenue structure on bank profitability. This hypothesis is further divided into four subsidiary hypotheses :

Sub-Hypothesis 1 (H31) : There is no statistically significant effect of interest revenue on bank profitability.

Sub-Hypothesis 2 (H32) : There is no statistically significant effect of banking commission revenue on bank profitability.

Sub-Hypothesis 3 (H33) : There is no statistically significant effect of investment revenue on bank profitability.

Sub-Hypothesis 4 (H34) : There is no statistically significant effect of foreign exchange conversion revenue on bank profitability.

Main Hypothesis 4 (H4) : There is no statistically significant correlation between bank revenue and market value at the level of Iraqi banks in the study sample.

5. Research methodology

The main source of data for the analysis was the financial statements of the Iraqi banks in the study sample and the report on trends and progress in the banking sector in Iraq. According to Saunders et al. (2008), studies that establish causal relationships between variables can be called explanatory studies. The focus here is on studying a case or problem in order to explain the relationships between variables. Hence, the study chose explanatory research because the study aims to examine the impact of revenue structure on market value.

The researcher relied on the following sources in the theoretical framework:

- Literature reviews
- Books in Arabic and foreign languages on the banking sector
- Previous university studies
- Articles in Arabic and foreign languages
- Financial reports

- Arab and foreign conferences on the banking sector
- The internet

All of these sources helped the researcher to establish the general theoretical framework of the study.

As for the practical side, the researcher relied on the financial statements of the Iraqi banks in the study sample, which were obtained from the Iraqi financial market, in order to analyze those lists. In addition, the researcher conducted interviews with banking officials within the banks in the study sample and specialists in the banking field in order to obtain an applied aspect that contributed to testing the hypotheses that were set.

Bank Revenue Structure

Firstly: Definition of Bank Revenue Structure

The bank's revenue structure refers to the sources of income it earns from its various activities. The revenue structure varies among banks depending on their business strategy and the service areas they provide. However, there are some fundamental sources of banking income, including (Perera et al., 2006):

1. Interest and Loan Products: This encompasses the interest and returns the bank obtains from loans and credits extended to individuals, institutions, and companies. Loans and credits offer numerous benefits and returns to individuals and companies as financial tools. Key benefits and returns of loans and credits include (Ibrahim & Khamees ,2017).

2. Personal and Professional Financing: Loans and credits can provide individuals and companies with funds to meet personal and professional needs. Borrowed funds can be utilized for purchasing homes and cars, business development, funding new projects, and other purposes (Brahmana& Kontesa & Gilbert, 2018).

3. Development and Increased Productivity: Loans and credits can collaborate with companies to develop their activities and enhance productivity. With additional funding, companies can, for example, acquire modern equipment and technologies, hire more personnel, open new branches, thereby increasing their revenue and growth (Berger et al., 1996).

4. Cash Flow Management: Loans and savings can be useful tools for managing cash flow. Individuals and companies may face delays in revenue generation or difficulties in meeting current financial obligations. In such circumstances, loans and credits can be used to cover temporary financial shortfalls and meet necessary financial needs (Grinath III et al., 1997).

5. Building Credit History: By responsibly using loans and savings and repaying them on time, individuals and companies can build an excellent credit history (Hahm, 2008). A good credit history is essential for obtaining future financing, such as large loans or mortgages, to secure better terms and lower interest rates.

6. Investment Opportunities: Loans and credits can be utilized to take advantage of investment opportunities. There might be a lucrative investment option requiring immediate funding (Abramova et al., 2019), where credit can be used to seize the opportunity before it slips away.

However, the use of loans and credits must be approached cautiously, considering the personal and financial situation of each individual. Prior to borrowing, it is imperative to assess the ability to repay the debt and cover associated costs, including interest and fees. Furthermore, before signing any contract, it is advisable to engage with reputable financial institutions and have a comprehensive understanding of the loan or credit terms.

Interest and Returns on Credit: The bank receives interest and returns on the deposits made by customers, whether regular or investment deposits. Deposits refer to funds deposited by individuals or entities in banks or other financial institutions (Laeven & Levine, 2009). Deposits offer various advantages and returns to depositors, including:

1. Financial Benefits: Depositors gain financial benefits from the deposits they place in banks. Interest is typically calculated as a small percentage of the deposit amount, depending on the bank's interest rate and deposit period (Rakshit, 2022). Interest serves as a reward for deposited funds, contributing to the increase of the depositor's capital.

2. Security and Protection: Deposits in a bank or financial institution serve as a secure means of preserving funds. Legal protection for deposits is provided through banking guarantees, ensuring that in case of issues with the bank, such as bankruptcy, a portion or the entire deposit amount is refunded (Tebi, 2012).

3. Ease of Access to Funds: Depositors can easily withdraw funds from the bank, either in person at a bank branch or using electronic payment methods such as ATM cards or bank transfers (Hajjaj & Hamed, 2022).

4. Potential Use of Deposits as Collateral: Deposits can be utilized as collateral to obtain bank loans or finance projects or personal investments. The ability to use shared funds in addition to investing or meeting other financial purposes (Fares& Hassan, 2015).

5. Peace of Mind and Financial Management: With funds deposited in the bank, managing finances becomes much easier and more convenient. There is no need to constantly carry large amounts of cash or worry about the risks of theft or loss.

Notwithstanding, it should be noted that the interest rate on deposits can be influenced by economic and political conditions and varies from one bank to another based on the type and duration of the deposit. Before opening a credit account, it is beneficial to check the terms of different banks and understand the benefits and conditions of the deposit.

Banking Investment: These activities encompass the buying and selling of securities, asset management, advisory services, and foreign currency trading. Banking investment represents a specialized segment of banking operations that assists individuals or organizations in increasing capital and provides financial consultation services. Acting as intermediaries between securities issuers and investors, they aid new companies in going public (Bromwich & Walker, 1998). They either purchase all available stocks at an assessed price, reselling them to the public, or sell stocks on behalf of the issuer, earning a commission per share (Ahmed & Al-Bashir, 2007).

Secondly: Factors Influencing Banking Revenue Structure:

Numerous factors impact the structure of banking revenues. In this paragraph, the researcher will elaborate on key factors:

Interest Rate Spreads: These involve the differences between interest rates banks offer depositors and those earned on loans and financing. These disparities are influenced by central bank policies, changes in interest rate markets, and competition in the banking sector (Buch et al., 2011). Interest rate spreads significantly affect a bank's results, with interest margins reflecting the difference between the interest rate the bank charges on loans and the rate paid to depositors for credit and current accounts. Providing interest rate spreads is a crucial income source for banks, forming the primary structure of their income (Ter Wengel, 1995). When a bank can impose higher interest on loans and credits compared to the interest rate paid to depositors, it gains an interest surplus contributing to revenue growth. The bank's ability to earn interest margins depends on various factors, including:

- Prime Interest Rate: The central bank's main interest rate is influenced by economic and financial policies adopted by the country. For instance, a high prime interest rate is likely to result in higher interest margins for banks, and vice versa if the prime interest rate is low.

- Borrowing Fees: If borrowing fees at the bank are low, such as acquiring funds at low-interest rates from the financial market or other banks, the bank can provide loans at higher interest rates to customers, thus raising interest margins.

- Market Competition: Competition in the banking market affects interest margin spreads. For example, strong competition among banks may lead a bank to offer loans at lower interest rates to entice customers and retain its market share, and vice versa.

- Demand for Loans and Credits: In cases of high demand for loans and credits from customers, the bank can provide higher interest margins due to increased banking activity and investments.

While achieving substantial interest margins enhances bank revenues and profits, it must also be balanced, accessible to customers, and avoid anticipated pitfalls such as debt crises or financial imbalances.

Firstly, the definition of the banking revenue structure is the sources of income that the bank accrues from its various activities. The revenue structure varies among banks depending on their business strategies and the service areas they provide. However, there are fundamental sources of banking income, including (Carosso, 2013):

Interest and returns from loans and credits: This encompasses the benefits and returns obtained by the bank from loans and credits extended to both individuals and institutions and companies. Loans and credits offer numerous benefits and returns to individuals and companies as financial instruments. Key benefits and returns from loans and credits include (C.-C. Lee et al., 2014).

Personal and professional needs financing: Loans and credits can provide individuals and companies with funds to meet their personal and professional needs. Borrowed funds can be used for purchasing homes and vehicles, business development, financing new projects, and other purposes (Gilbert, 1984).

Development and increased productivity: Loans and credits can contribute to a company's development and increased productivity. With additional financing, companies can acquire modern equipment and technologies, hire more personnel, open new branches, and consequently increase their revenues and growth (Bradbury ,2011).

Cash flow management: Loans and savings can be useful tools for managing cash flow. Individuals and companies may face delays in revenue generation or difficulties in meeting current financial obligations. In such circumstances, loans and credits can be used to cover temporary financial shortfalls and meet necessary financial needs (Boot & Schmeits ,2006).

Building a credit history: By responsibly using loans and savings and repaying them on time, individuals and companies can build an excellent credit history (Hahm, 2008). A good credit history is essential for obtaining future financing, such as large loans or mortgages, to secure better terms and lower interest rates.

Investment opportunities: Loans and credits can be utilized to take advantage of investment opportunities. There may be a lucrative investment option requiring immediate funding (Al-Bakri ,2011), where credit can be used to seize the opportunity before it slips away.

It is noteworthy that imposing excessive or unreasonable fees can negatively impact customer satisfaction and the relationship with them. Therefore, the bank must thoroughly study the market, determine fees in a balanced, fair, and proportionate manner to the value It adds to customers.

Other business operations: In addition to traditional banking activities, such as investing in securities, banks engage in various operations contributing to revenue growth (L. L. C. Lee, 1998).

Thirdly: Challenges Facing the Banking Revenue Structure

The emergence of financial technology companies and non-banking startups has altered the competitive landscape in financial services, compelling traditional institutions to reconsider their business practices. Due to the proliferation of data breaches and increasing privacy concerns, regulatory requirements and compliance have become more stringent as a result. Moreover, customer demands evolve as consumers seek personalized service around the clock (Berkman & et al., 2000). These challenges, among others in the banking industry, can be addressed through the very technology causing this disruption. However, transitioning from old systems to innovative solutions has not always been straightforward. Nevertheless, banks and credit unions need to embrace digital transformation not only to survive but also to thrive in the current landscape. The following are challenges facing the banking sector that directly impact the revenue structure.

1. Increased Competition:

The fundamental threat that may confront the banking revenue structure is the intense competition faced by any bank from another, typically targeting the most profitable areas in financial services. Furthermore, numerous non-banking financial institutions have ventured into banking activities, prevalent in the Arab region. In response, banks find themselves in fierce competition, each striving to gain customer trust and attract new clients (Al-Bakri ,2011),

2. Cultural Transformation:

Cultural transformation has evolved significantly, with technology deeply rooted in our culture, extending to the banking industry. In the digital world, there is no room for manual operations and systems. Banks and credit unions need to consider technology-driven decisions to address banking industry challenges. Therefore, financial institutions must foster an innovative culture, enhancing technology to improve current processes for maximum efficiency. This cultural shift towards a technological stance reflects industry-wide acceptance of digital transformation (Berkman & et al., 2000).

3. Regulatory Compliance:

Regulatory compliance has become one of the foremost challenges in the banking industry directly due to the massive increase in regulatory fees compared to profits and credit losses since the 2008 financial crisis. From Basel risk-weighted capital requirements to Dodd-Frank Act, and from the expected current credit loss for the Current Expected Credit Loss (CECL) to Allowance for Loan and Lease Losses (ALLL), there is a growing number of regulations banks must comply with. Compliance can significantly strain resources and often relies on the ability to link data from various sources (Chen& Shimerda, 1981).

4. Business Model Changes:

The cost associated with compliance management is just one of many challenges in the banking industry forcing financial institutions to change how they conduct business. Rising capital costs alongside continuous low-interest rates, decreasing return on equity, and declining property trading, all contribute to pressures on traditional sources of banking profitability (Chen& Shimerda, 1981).Despite these challenges, shareholder expectations remain unchanged. Many institutions have responded by creating new competitive service offerings, streamlining business lines, and seeking sustainable improvements in operational efficiency to maintain profitability. Failure to adapt to changing demands is not an option. Therefore, financial institutions must be organized for flexibility and be prepared to focus when necessary (Fares & Hassan 2015).

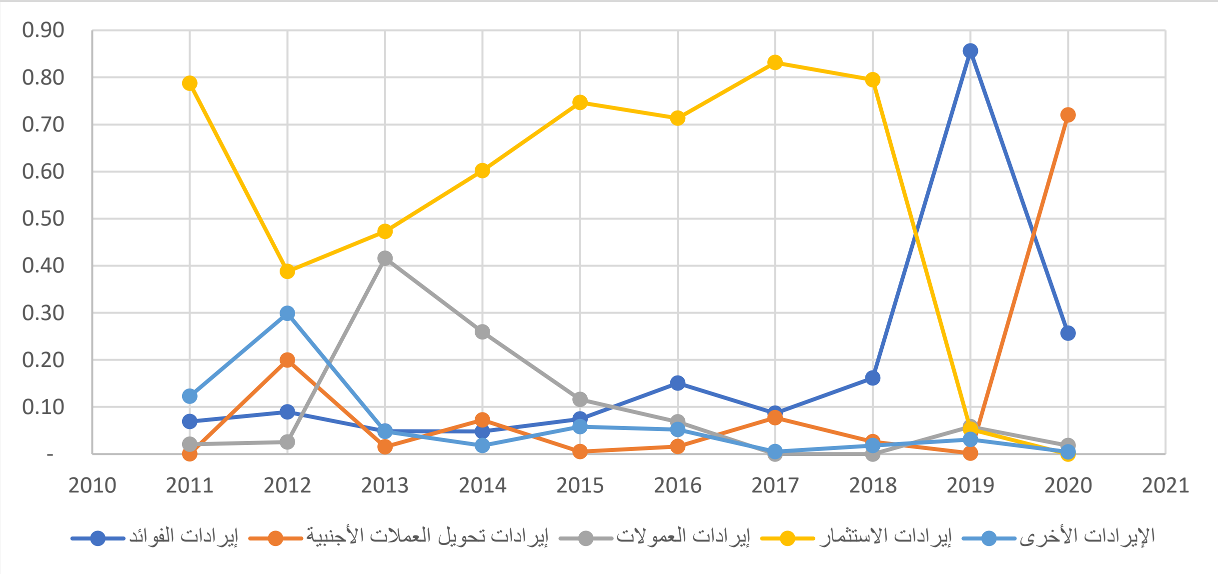
1- Iraqi Commercial Bank :

Table 1 : Relative Importance of Banking Revenues in the Iraqi Commercial Bank Study Sample

Statement	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	Average
Interest income	0.26	0.86	0.16	0.09	0.15	0.07	0.05	0.05	0.09	0.07	0.19
Foreign currency translation revenues	0.72	0.00	0.03	0.08	0.02	0.00	0.07	0.02	0.20	0.00	0.21
Commission income	0.02	0.06	-	-	0.07	0.12	0.26	0.42	0.03	0.02	0.09
Investment income	-	0.05	0.79	0.83	0.71	0.75	0.60	0.47	0.39	0.79	0.45
Other revenues	0.00	0.03	0.02	0.00	0.05	0.06	0.02	0.05	0.30	0.12	0.06

Source : Prepared by the researcher based on the financial statements of the Iraqi Commercial Bank for the period (2011-2020).

Figure 1: Relative Importance of Banking Revenues in the Iraqi Commercial Bank Study Sample



The source of the information is the researcher's compilation based on the financial statements of the Iraqi Commercial Bank for the period (2011-2020). The above figure illustrates that the relative significance of interest revenues was at its lowest in 2013 and 2014, reaching 5%, which is below the overall average of 19%. Conversely, the highest percentage occurred in 2019, reaching 86%, attributed to increased loan demand and a decline in investment revenues obtained by the bank.

Regarding the relative importance of foreign currency revenues to total revenues, it reached a minimum threshold of 2% in 2013, less than the overall average of 21%. In contrast, the highest percentage was in 2020, amounting to 72%, driven by increased demand for foreign currencies following the appreciation of the Iraqi currency. Concerning commission revenues, the relative significance was 2% in 2011, gradually increasing to its peak of 42% in 2013 due to the expansion of banking services offered by the bank.

As for investment revenues, they were high from 2011 to 2018, reaching 79%, indicating the bank's reliance on investments. However, the percentage started a significant decline in 2019, plummeting to 5% due to a downturn in the bank's investments, and continued to decrease in 2020 until it became almost negligible.

Market Value Analysis

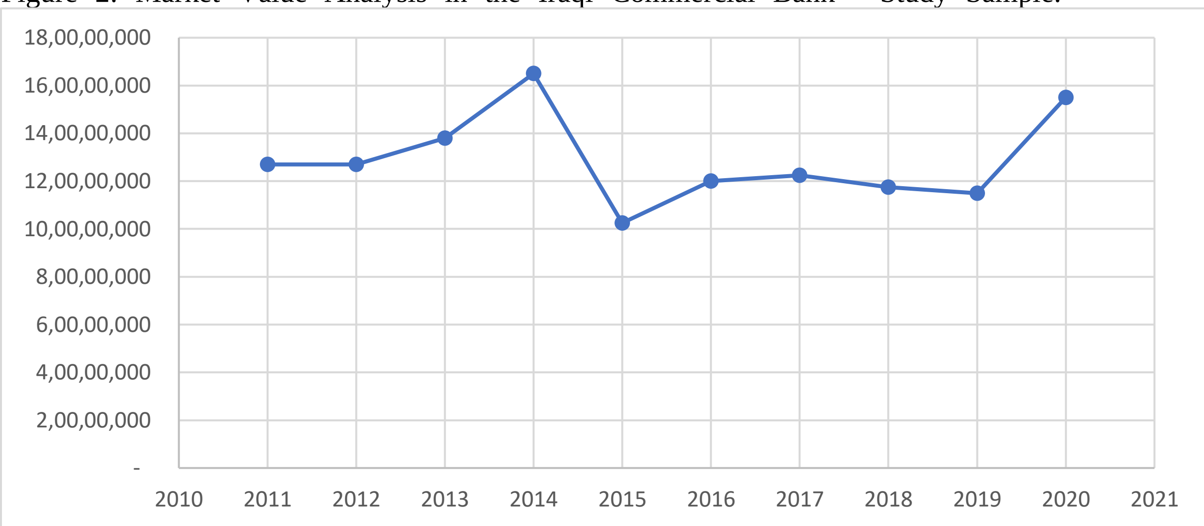
Iraqi Commercial Bank:

Table 2: presents the market value analysis of the Iraqi Commercial Bank, serving as the study's sample.

Year	Market value	Annual closing price	Number of Shares
2011	127,000,000	1.27	100,000,000
2012	127,000,000	1.27	100,000,000
2013	138,000,000	0.92	150,000,000
2014	165,000,000	0.66	250,000,000
2015	102,500,000	0.41	250,000,000
2016	120,000,000	0.48	250,000,000
2017	122,500,000	0.49	250,000,000
2018	117,500,000	0.47	250,000,000
2019	115,000,000	0.46	250,000,000
2020 Arithmetic mean	155,000,000	0.62	250,000,000
			128,950,000

The source is the researcher's compilation based on the financial statements of the Iraqi Commercial Bank for the period (2011-2020).

Figure 2: Market Value Analysis in the Iraqi Commercial Bank - Study Sample.



The source is the researcher’s compilation based on the financial statements of the Iraqi Commercial Bank for the period (2011-2020).

The table and figure above illustrate that the Iraqi Commercial Bank achieved its highest market value in 2014, reaching (165,000,000). This indicates that the market value surpasses the bank's assets, attributed to an increase in the bank's stocks. Conversely, the Iraqi Commercial Bank attained its lowest market value in 2015, amounting to (102,500,000), which is below the median value of (128,950,000).

Profitability Indicators Analysis

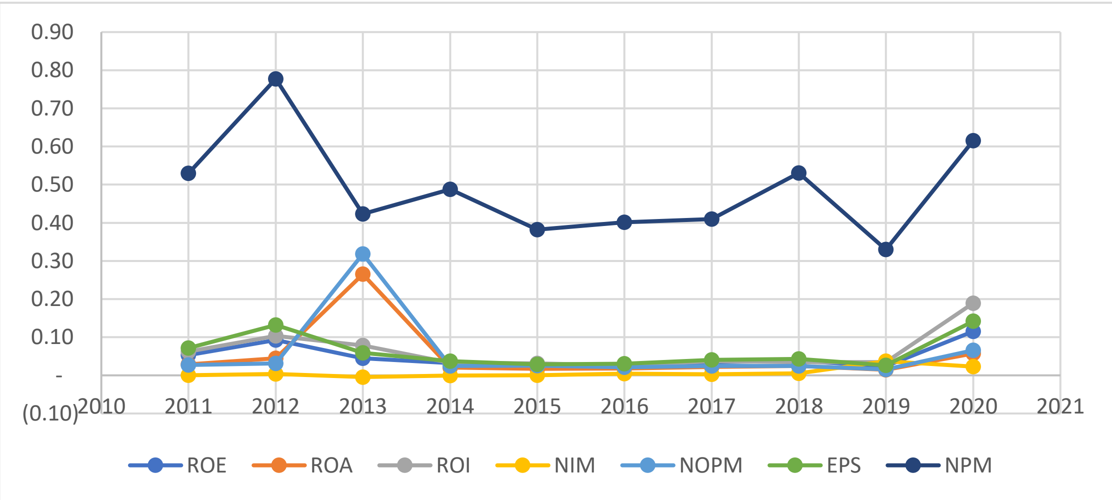
Iraqi Commercial Bank:

Table 3: the analysis of profitability indicators in the Iraqi Commercial Bank – Study Sample.

Year	NPM	EPS	NOPM	NIM	ROI	ROA	ROE
2011	0.5294	0.0718	0.0268	(0.0000)	0.0622	0.0290	0.0531
2012	0.7774	0.1322	0.0314	0.0036	0.1033	0.0450	0.0923
2013	0.4234	0.0592	0.3183	(0.0044)	0.0787	0.2651	0.0452
2014	0.4877	0.0369	0.0249	(0.0005)	0.0329	0.0205	0.0324
2015	0.3822	0.0290	0.0256	0.0006	0.0313	0.0175	0.0264
2016	0.4015	0.0303	0.0217	0.0047	0.0260	0.0179	0.0269
2017	0.4093	0.0402	0.0244	0.0027	0.0376	0.0218	0.0344
2018	0.5309	0.0435	0.0242	0.0054	0.0343	0.0245	0.0383
2019	0.3297	0.0262	0.0156	0.0372	0.0346	0.0146	0.0241
2020	0.6156	0.1418	0.0655	0.0231	0.1893	0.0575	0.1152
Arithmetic mean	0.4887	0.0611	0.0578	0.0072	0.0630	0.0513	0.0488

The source is the researcher's compilation based on the financial statements of the Iraqi Commercial Bank for the period (2011-2020).

Figure 3: Analysis of Profitability Indicators in the Iraqi Commercial Bank – Study Sample.



The source is the researcher's compilation based on the financial statements of the Iraqi Commercial Bank for the period (2011-2020).

ROE: The Iraqi Commercial Bank achieved its highest return on equity rate in 2020, reaching 11.52%, whereas the lowest rate was in 2019, amounting to 2.41%, below the average of 4.88%. The decrease is attributed to economic conditions and a slowdown in economic growth in the country.

ROA: The Iraqi Commercial Bank attained the highest return on assets rate in 2013, reaching 26.51%, while the lowest rate was in 2019 at 1.46%, below the average of 5.13%.

ROI: The Iraqi Commercial Bank achieved its highest return on investment rate in 2019, reaching 18.93%, indicating gains from the bank's investments. The lowest rate was in 2016 at 2.06%, below the overall average of 6.3%.

NIM: The Iraqi Commercial Bank recorded its highest net interest margin rate in 2019 at 3.72%, while the lowest rate was in 2013 at -0.44%, naturally below the average of 0.72%. The significant decrease in interest margin is due to a decline in interest revenues.

NOPM: The Iraqi Commercial Bank achieved its highest operating profit margin rate in 2013 at 31.83%, while the lowest rate was in 2019 at 1.56%, below the average of 5.78%, due to a decrease in the bank's operating revenues during that period.

EPS: The Iraqi Commercial Bank recorded its highest earnings per share rate in 2020 at 14.18%, while the lowest rate was in 2019 at 2.62%, below the average of 6.11%.

NPM: The Iraqi Commercial Bank achieved its highest net profit margin rate in 2012 at 77.74%, while the lowest rate was in 2019 at 32.97%, with the overall average being 48.87%. The decline is attributed to the economic downturn negatively impacting the bank's profits.

Conclusions

The primary objective of this study was to examine the impact of the banking revenue structure on the profitability of commercial banks in Iraq. Considering the nature and aim of the research, a quantitative research approach was adopted. To collect necessary data, the study employed document analysis (a systematic review of financial records). The data collected from a sample of six private commercial banks during the period from 2011 to 2020 were analyzed using descriptive statistics, correlation matrix, and multiple linear regression analysis. The analyses were conducted based on the formulated hypotheses in the study.

The study aimed to provide insightful perspectives on whether the bank revenue structure contributes to improving financial performance and reducing risks. To integrate the effects of various other factors, the study utilized external and internal factors impacting financial performance and bank risks over time. Variables such as total assets representing size, operating efficiency represented by the cost-to-income ratio, managerial efficiency measured by operating costs to total assets, banks' equity represented by the equity-to-assets ratio, and credit quality represented by non-performing loans to total loans were used as internal control variables and external control variables. Economic indicators such as inflation and economic growth were also used.

The Iraqi commercial banks were found to be moderately diverse and average in terms of income sources. Moreover, evidence suggests that foreign banks are more diverse than local banks. The study revealed that diversified income sources had a strong positive impact on the financial performance of commercial banks and a negative impact on bank risks. Banks can enhance their financial performance, investor value, and risk reduction by diversifying their revenues from different sources.

For the empirical analysis, one dependent variable (profitability measured by return on assets) and four independent variables—interest income, commission income, investment income, and foreign exchange transfer income—were selected. The variables were chosen through a review of various theories and empirical studies conducted on bank profitability, asset management, and liabilities. Consequently, the empirical results of this study specifically suggested the following conclusions:

- The constant term coefficient is positive and statistically insignificant. The positive coefficient for the constant term, representing size economies, indicates that commercial banks in Iraq during the study period achieved positive net income from off-balance sheet activities. This implies that these banks enjoy increasing returns in their operations.

- The empirical results of this study provide evidence that the profitability of commercial banks in Iraq is positively influenced by asset management, excluding total investments. Specifically, loans and advances have a significant impact on the profitability of commercial banks. Other asset variables have less influence on the profitability of commercial banks, indicating their inability to generate income from alternative sources. In particular, other investment activities are not as significant as in other countries. Despite other asset variables not contributing significantly to the income generation for commercial banks, loans and advances make substantial contributions to profitability.

Recommendations

Based on the results, the following recommendations are offered for policymakers, bank managers, shareholders, and directors. Overall, these empirical findings provide evidence that the profitability of banks in Iraq is influenced by bank-specific factors such as non-interest income, commission income, investment income, foreign exchange transfer income, bank size, and credit risks (which are influenced by management at the bank level), in addition to various other factors affecting bank profitability. However, macroeconomic variables do not seem to have a significant impact on bank profitability but show a positive sign. Therefore, bank managers, policymakers, shareholders, and directors should pay strong attention to managing and maintaining both bank-specific and industry-specific variables, which are crucial and contribute significantly to bank profitability. Regarding less significant variables, stakeholders should make some efforts to improve these variables to maximize profits.

- To enhance the profitability of commercial banks, owners of commercial banks in Iraq should focus on increasing equity capital to meet the capital requirements of the Basel Committee regulations by reducing expenses and doubling other capital costs.

- Owners of banks in Iraq should manage the impact of loans more effectively to generate interest margins and profitability by deploying and improving their loan inspection techniques to assess loan quality for borrowers. Enhancing the internal audit system for lending functions, monitoring the process after granting the loan, to determine whether the borrower complies with the loan agreement terms. This will lead to improving the bad debt recovery practices and enhancing the legal business environment to avoid bank insolvency and strengthen the country's economy.

- Regarding savings and fixed deposits, which are considered the primary sources of bank financing with the lowest cost, owners of commercial banks in Iraq should pay more attention to increasing depositors. The higher the deposit levels, the greater their impact on bank profitability.

- For overall revenues, bank owners should diversify revenues in a secure and efficient manner, such as engaging in investment projects that generate high-income sources compared to the associated risks. Moreover, conducting periodic studies to increase various revenues that directly impact bank profitability.

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