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“Evaluation of the Financial Soundness of the Iraqi Private Banks”

Researchers:

- Hussein J.Kadhum

University Of Basrah \ Iraq

- Ameena Abdulelah Halboos

Middle Technical University

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Abstract:

This study aims to assess the financial soundness of the commercial banks listed on the Iraq Stock Exchange over a period of fifteen year from 2004 to 2018 for fourteen commercial banks. The study is based on a main hypothesis and six sub-hypotheses. The evaluation process was carried out using CAMELS model, in which the six elements represented were measured: capital adequacy, asset quality, management efficiency profitability, liquidity and sensitivity to market risks. The results showed that capital adequacy, liquidity and sensitivity to market risks obtained the first classification degree, while management efficiency and profits got the third classification degree, and the asset quality got the fifth classification degree. Therefore, the evaluation of the Iraqi commercial banks listed on the Iraqi Stock Exchange in the second degree of classification reflects an acceptable and relatively sound situation, with some shortcomings and negatives that need to be addressed.

Keywords: Financial Soundness, Commercial Banking, CAMELS Model, Bankometer S-Score model, Basel Committee, Financial Soundness Indicators (FSIs).

1- Introduction and Conceptual Framework

Banks play an important role in national and international economies, where the well-being of the economy is linked to the soundness of its banking system. An efficient and financially sound banking sector provides a basis for achieving stability in the financial system through proper allocation and optimal use of financial resources, thus helping to direct savings to investment (Makkar & Singh, 2015). As is the case in other companies, banks are exposed to financial distress from time to time that may lead to complete collapse, as happened with the collapse of the New York based Bank of the United States in December 1931; which caused a loss of more than 200 million dollars in deposits. It was the largest single banking failure in the history of the United States (Bordo & Lane, 2012).

Accordingly, there is a need to constantly assess and measure the financial soundness of banks through the use of reliable models to predict bankruptcy since the ability to accurately predict and detect weak banks in the country's banking system is crucial to all stake holders (the state, investors, creditors, depositors, and other stake holders) (Bolat, 2017). Schinasi (2004) explains that although financial shocks in a country can spread rapidly across national borders in the modern world, a sound financial system can improve countries economic performance as well as prevent the effects of unexpected disturbances.

In banking, the financial soundness means the ability of the bank to maintain its solvency position in order to meet its long-term fixed expenses and accomplish the long-term growth and expand plans (Kattel, 2015). In other words, financial soundness refers to the overall financial soundness of a bank, this includes the ability to meet short-term and long-term financial obligations as they fall due while complying with all regulatory requirements, and can also equate the absence of financial distress (Moses & Gabriel, 2019). Mishkin & Fakins (2000) identify it as the process through which banking operations and activities are evaluated through focused monitoring of risks. This is a clear indication of the importance of having a specialized risk department in each bank to identify and measure the risks associated with banking activity in order to develop proactive solutions to reduce their negative effects. Not only that, but it extends to systemic risks as the Asian Development Bank (ADB) noted that “financial soundness is important for financial stability, and monitoring the soundness of financial institutions will help detect any potential accumulation of systemic risks that could lead to a crisis.” (ADB, 2015).

According to AiGul (2017), financial soundness is a situation in which the indicators that characterize the adequacy of capital, the quality of assets and liquidity are within certain limits, and failure to achieve these limits leads to the conversion of the bank form a healthy state to an improperly state. Determining these limits is the most important stage in the process of assessing financial soundness in the banks sector. The definition of financial unsoundness is linked to changes in financial ratios that show a deterioration in the bank's financial condition and the bank becomes unsound when there is a deterioration in capital adequacy, asset quality, and profitability. Thus, financial unsoundness is a characteristic of a bank that has low indicators that characterize capital adequacy, asset quality, and liquidity. Accordingly, the Basel Committee I, II, III, and for the purpose of protecting banks from the risks of financial failure, set the capital adequacy ratio required to be maintained by banks at 8%, 8% and 10.5, respectively (Kadhum & Halboos, 2021).

2- Financial Soundness Indicators (FSIs)

Financial soundness indicators are measures of the soundness of the country's financial sector. It includes all information collected from financial and banking institutions and their counterparts from companies and individuals and the markets in which these institutions operate, and they form an integral and essential part of the set of macro-prudential monitoring tools for the regulatory authority (Sunduraajan et. al, 2002). The collection of these indicators dates back to 1999 when the international monetary fund and the World Bank launched the Financial Sector Assessment Program to monitor the weakness of the financial system. A subset of FSIs was collected as a part of the FSAP. After extensive consultations in the year 2000, the international monetary fund in cooperation with the International accounting Standards Board (IASP), the Bank for International Settlements (BIS), the Basel Committee on Banking Supervision (BCBS) and other international and regional organizations drafted a guide that includes concepts, definitions, data sources, and techniques of (FSI) clustering. Since then, a consistent set of guidelines was developed in the Financial soundness indicators Compilation Handbook in 2006 (FSI Compilation Guide) and its amendments (Ioana, 2017).

Financial soundness indicators are divided into two groups. The first is the core set indicators for banking institutions, which are capital adequacy, asset quality, profits, liquidity and sensitivity to market risks, and the second group is additional or support indicators. The encouraged set includes indicators devoted to financial companies, non-financial companies, families and real estate markets (IMF, 2019).

It should be noted that the efforts of the International Monetary Fund (IMF) have been accompanied by the discipline market measures, which are one of the main pillars in determining the adequacy of the capital owned and determined by the Basel Committee and the Banking supervision, which aims to enhance the activity and strength of the International Financial System (IMF, 2019). The primary value of financial soundness indicators lies in their characteristics that are likely to indicate Financial distress within the banking sector and in their ability to distinguish between strong and weak banks through comparison across through comparison across these indicators (IM, 2013).

3- Literature Review

Ensuring a strong, soundness and stable banking sector is of utmost importance to stakeholders and the economy as a whole as it works to grant credit to customers, and provides financial resources that are directed to finance projects that serve the economic and financial sectors in a way that contributes to supporting and accelerating the economic development in the country (Kadhum & Fatima, 2021). Based on this importance, international and supervisory bodies, as well as researchers and academics, have expanded their interest in evaluating and analyzing the soundness of the financial system in general and the banking sector in particular. Several studies were conducted on this topic and different models were used to measure financial soundness, such as Bankometer Score mode, Altman Z mode, CAMELS model, such as Onyema et. al. study (2018), in which the financial soundness of commercial banks in Nigeria was measured using the Bankometer S-Score model. The Bankometer S-Score model is a model that enables researchers to classify banks that are financially sound or not, through the standard score specified by the model, which is ($S > 70$) for banks that are in sound condition. Andrew et. al. (2013) used another method to quantitatively measure the financial soundness of companies during business cycles in the United States using data on equity and asset fluctuations and concluded that fluctuations in equity and assets lead to variation in the financial soundness of companies. Likewise, the study conducted by Nishi & Mayanka (2013) used the Altman Z model that was applied to the Indian banking industry and the results of a model were that the financial position of Indian banks was satisfactory, and the study suggested using the CAMELS model to make a conclusive note of the soundness of any company because this model is one of the most used models to assess the performance of the bank and its soundness, along with its use as a banking supervision tool by the regulatory authorities, was confirmed by Barr et. al. (1994) when evaluating CAMELS ratios to measure the soundness of banks. The result showed that these ratios have the ability to predict banking soundness. One of the studies conducted to assess financial soundness using the CAMELS model is the research conducted by Angela & Alina (2013) on the Romanian banking system, which came out with the conclusion that the CAMELS model shed light on the activity of strengths and points weakness in the banks that were analyzed. And an emphasis on the need to enhance the concerns of decision-makers in banks to improve and increase their soundness. In addition to the study conducted by Bastan et . al (2016) to find out the effect of the interaction between financial soundness variables on the soundness of Iranian commercial banks using the CAMELS model.

The results showed that capital adequacy, quality management, and asset quality are the most important issues for Iranian banks in managing banks' soundness, and developing these three factors is the way out of the problems that they may face.

In Bengladesh, Kabir & Dey (2012) examined the performance of private commercial banks using CAMELS model and found that central banks around the world have improved the quality and technology of their supervision with this model.

4-Study Methodology

4-1- The Study Problem

Many developed and developing countries have been exposed to financial crises that differed in severity and extent of their financial institutions, which caused the collapse of many of them, and called for continuous analysis and evaluation of their financial conditions to reduce the severity of these crises. Therefore, when studying the situation of Iraqi banks, attention is given to answering the following questions:

1- Are the Iraqi banks listed on the Iraq Stock Exchange sound in their financial condition?

2- Which of the financial soundness indicators represented by the adequacy of capital, quality of assets, efficiency of management, profitability, liquidity, and sensitivity to market risks is more important in achieving the financial soundness of Iraqi banks listed on the Iraq Stock Exchange?

4-2- Objective of the Study

The study aims at identifying the extent of the ability of commercial banks listed on the Iraq Stock Exchange to face financial crises when they occur, by evaluating the financial soundness indicators of these banks.

4-3- Study Importance

The importance of the research stems from the fact that financial soundness indicators are considered an early warning tool for the possibility of the banking system being exposed to financial crises that enable decision-makers or policy-makers to take the necessary policies and preventive measures to prevent the occurrence of a crisis or reduce its effects.

4-4- The Hypotheses of the study

The study is based on a main hypothesis and several sub-hypotheses as follows:

The Main Hypothesis: that the Iraqi commercial banks listed on the Iraqi Stock Exchange are in a financially acceptable position.

Sub-hypotheses:

1- Iraqi banks listed on the Iraqi stock exchange have the ability to meet the capital adequacy requirements established by the Basel Committee for banking supervision.

2- The assets owned by the real estate banks listed on the Iraq Stock Exchange are of high quality.

3- The Iraqi banks listed on the Iraq Stock Exchange are managed by an administrative body with administrative competence.

4- Iraqi banks listed on the Iraq Stock Exchange make satisfactory profits.

5- Iraqi banks listed on the Iraqi Stock Exchange have the liquidity that enables them to fulfill their obligations.

6- Iraqi banks listed on the Iraq Stock Exchange are characterized by low sensitivity to market risks.

4-5- Population and Sample Study

In order to achieve the goal of the study, the banks listed in the Iraq Stock Exchange were selected and were limited to 14 commercial banks. Islamic banks were excluded as well as the newly established commercial banks. The period of time extending from 2004 when the establishment of the Iraq Stock Exchange until 2018. The annual reports for the years of study were relied on.

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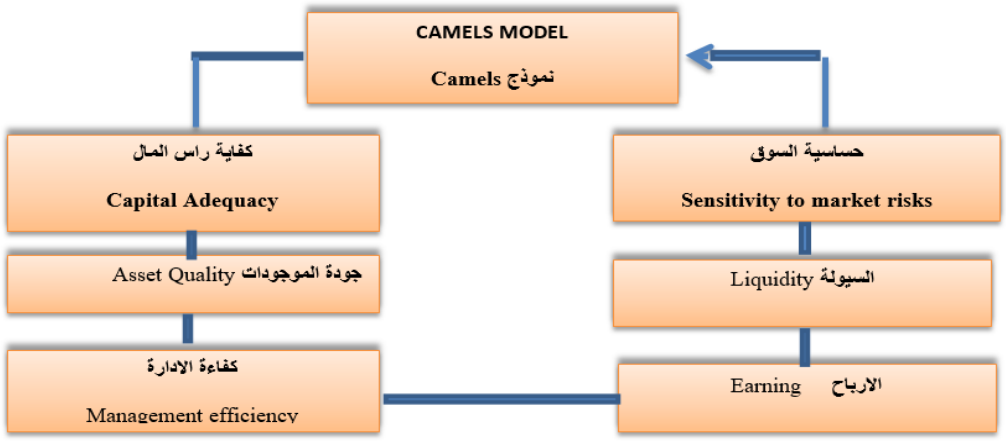
5- Evaluation Model

Due to the inclusion of the CAMELS model on financial and administrative indicators that contribute to showing the performance of banks in various aspects, it was used in the current study to measure the financial soundness of the listed commercial banks on the period from 2004 to 2018, similar to the study of Wahua (2015), Ioana (2019), Angela & Alina (2013). This Model is considered the most common method of analyzing and evaluating banking soundness, and it was applied for the first time in 1979 in the United States of America with the name of CAEI as a tool for office banking supervision, then after adding an efficient management component, the model is called Camel to be used in direct supervision that is done through inspection field.

In 1996, a financial update was made to the model by adding the sixth measure, sensitivity to market risks, to be called CAMELS to assess the financial performance, operational performance, and regulatory compliance of banking institutions. Each factor in the model is classified on a scale from 1 (best) to 5 (worst), then a composite rating is made, which is the main indicator of the bank's current financial position.

CAMELS model includes a rating system ranging from 1-5 for each of the six indicators that make up it. Capital adequacy, asset quality, management efficiency, profits (earnings), liquidity and sensitivity to market risks, as shown in Figure (1) and based on the results of the indicators, the overall result of the model is evaluated. If the bank gets a score of 1 or 2, it is considered a bank that works well with little risks, while a score of 3 is given to banks that have elements of strength and weakness. 4 or 5 are given to banks that are experiencing problems or even on the verge of bankruptcy.

Fig. (1) Components of CAMELS Model.



(The figure was prepared by the researchers)

According to CAMELS model, each of its six components is measured through financial ratios, and the ratios in Table (3) were used for the purposes of the current study and based on the results of the ratios. Each component will be sub-classified, which consists of five classifications starting from 1-5 as shown in Table (1) where the first rating expresses the best evaluation, and the fifth, the worst evaluation. After giving the sub-classification degree for each component, the composite classification is drawn up by summing the sub-classification degree for the six elements and obtaining a general evaluation of the bank, which also takes five classifications from 1-5, as shown in Table (2) .

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Table (1): The rates of the sub-classification of the elements of CAMELS

Form elements	Classification (1)	Classification (2)	Classification (3)	Classification (4)	Classification (5)
Capital adequacy	> 15%	12%-14.94%	8%-11.99%	7%-7.99%	6.99%
Asset quality	<1.25%	2.5%-1.26%	2.6%-3.5%	3.6-5.5%	5.62%
Management efficiency	< 25%	26%-30%	31%-38%	39%-45%	46.00%
Return on assets	>1%	0.8%-0.9%	0.7%-35%	0.25%-0.34%	24.00%
Return on equity	>22%	17%-21.99%	10%-16.99	7%-9.99%	6.99
Liquidity	>50%	45%-49.99%	38%-44.99%	33%-37.99%	32.00%
Market sensitivity	<25%	26%-30%	31%-37%	38%-42%	43.00%

Classification	Degree of classification	Bank position	Monitoring procedures
Strong	1- 1.4	A good position in all respects	No Correct Needed
Acceptable	1.5-2.4	Relatively healthy, with some deficiencies	Negatives need to be addressed
Exposed	2.5-3.4	It has the elements of strength and weakness	Need to be watched
Limit	3.5-4.4	Prone to failure	Establish a program for reform and field follow-up
Unacceptable	4.5-5	Too dangerous	Permanent control + supervision

Source (Georgios: 2019)

Table (2): Compound classification according to CAMELS model.

Source: Boateng (2019)

Table (3): The percentages adopted for measuring the components of the CAMELS model.

Model Components	The Ratio Used	Authorized Source	Rising ratio indicator	Descending ratio indicator
Capital Adequacy	Equity-to-Total Assets ratio	Zagherd &Barghi 2017	Positive	Negative
Asset Quality	Fixed Assets-to-Total Assets ratio	Rostam:2015	Negative	Positive
Management Efficiency	Administrative expenses / (revenues from commercial activity - revenues from the sale of a foreign operation(	Georglos2019	Negative	Positive
Earnings (Attributable to Assets)	Profit after tax-to-Total Assets ratio	Shiva &SALAMI2016	Positive	Negative
Earnings (Attributable to Property)				
Liquidity	Profit after tax-to-Equity ratio		Positive	Negative
Liquidity Market Sensitivity	Cash-to-Deposit ratio	Souir2016 Georglos2019	Positive	Negative
		Georglos2019		

(The Table was prepared by the researchers)

6- Financial soundness assessment of the banks in the sample study according to the CAMELS model and hypothesis testing

For the purpose of evaluating the financial soundness of the Iraqi private banks sector listed in the Iraq Stock Exchange, the capital adequacy, asset quality, management efficiency, profitability, liquidity and market risk sensitivity of change for all banks and for the period from 2004-2018 will be measured according to the ratios listed in Table (3). The results appeared in Table (4).

Table (4) Elements of the CAMELS model for total banks for the period from 2004-2018

Year	Capital Adequacy	Asset Quality	Management Efficiency Efficiency	Return-to-Assets	Return-to-Property	Liquidity	Market Sensitivity
2004	25.2109	7.7356	53.4771	1.2627	10.4987	92.9311	10.327
2005	33.9526	6.2834	34.8325	2.2804	11.6967	314.365	11.4499
2006	38.2374	9.1665	38.7231	1.3407	5.3793	196.1414	16.1067
2007	36.1246	10.0887	28.8023	3.1254	10.288	120.3132	18.5235
2008	32.9106	8.2923	32.3071	3.3479	13.7515	102.3532	20.7335
2009	33.494	9.1375	28.8751	2.2799	8.4724	73.5359	20.2295
2010	33.3854	8.8737	31.2499	2.858	9.7206	70.211	15.0979
2011	37.632	9.1774	31.4982	2.6073	8.7499	80.9182	13.2672
2012	34.7818	8.3749	28.4868	3.2306	11.34	82.613	10.6723
2013	37.8228	9.0209	23.7222	3.0265	10.2512	85.0716	10.8516
2014	47.5823	11.8912	30.1753	1.7132	4.2037	83.6975	12.9228
2015	49.9949	13.0669	28.3509	0.898	1.9976	107.454	9.09
2016	53.9592	13.8236	41.6436	0.8389	2.097	101.0483	10.9701
2017	54.799	14.2146	56.6562	0.32471	0.9647	96.292	9.6799
2018	50.2826	13.215	57.2885	-0.0344	-0.0376	108.0935	4.8758

(The Table was prepared by the researchers)

Based on the results of the table above, the degree of sub-classification will be determined for each of the capital adequacy, asset quality, management efficiency, profits, liquidity, and sensitivity to market risks for the total banks of the study sample in the period from 2004-2018 as in Table (5).

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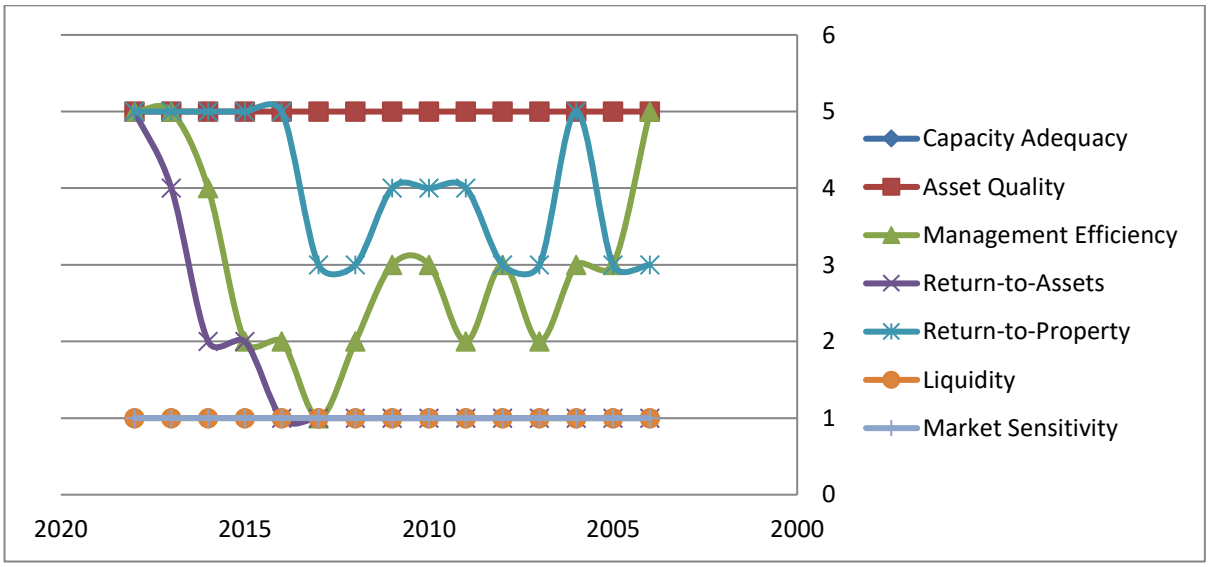
Table (5) the degree of sub-classification according to the CAMELS model for the Iraqi private banks sector listed in the Iraqi Stock Exchange for the period from 2004-2018

Market Sensitivity	Liquidity	Return-to-Property	Return-to-Assets	Management Efficiency	Asset Quality	Capital Adequacy	Year
1	1	3	1	5	5	1	2004
1	1	3	1	3	5	1	2005
1	1	5	1	3	5	1	2006
1	1	3	1	2	5	1	2007
1	1	3	1	3	5	1	2008
1	1	4	1	2	5	1	2009
1	1	4	1	3	5	1	2010
1	1	4	1	3	5	1	2011
1	1	3	1	2	5	1	2012
1	1	3	1	1	5	1	2013
1	1	5	1	2	5	1	2014
1	1	5	2	2	5	1	2015
1	1	5	2	4	5	1	2016
1	1	5	4	5	5	1	2017
1	1	5	5	5	5	1	2018
1	1	4	1.6	3	5	1	mean
		3					

(The Table was prepared by the researchers)

Table (5) can be represented by figure (2) which shows the classification obtained by each of capital adequacy, asset quality, management efficiency, profits, liquidity and sensitivity to market risks throughout the study period extending from 2004-2018.

Fig. (2): Sub-classification according to the CAMELS model for the total Iraqi private banks listed on the Iraq Stock Exchange for the period from 2004 – 2018



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After performing the sub-classification of capital adequacy, asset quality, management efficiency, profitability, liquidity and sensitivity to market risks, the composite classification will be calculated by finding the average ranks obtained by each element of the model and comparing the result with the final weights of the model specified in Table (2). Table (6) indicates the degree of composite classification obtained by the banks in the study sample.

Table (6): The degree and type of the composite classification according to the CAMELS model for banks, the study sample for the period from 2004-2018.

Year	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	Average
omposite Classification Degree	2.43	2.1	2.43	2	2.14	2.1	2.29	2.29	2	1.9	2.29	2.4	2.7	3.14	3.3	2.37
Classification type	Acceptable	Acceptable	Acceptable	Acceptable	Acceptable	Acceptable	Acceptable	Acceptable	Acceptable	Acceptable	Acceptable	Acceptable	Exposed	Exposed	Exposed	Acceptable

(The Table is prepared by the researchers)

7-Results

Tables (4) and (5) refer to the annual average of the six components' rates, and the evaluation achieved by each component of the sub-classification during the study period from 2004 to 2018. It is clear through the first component, represented by the capital adequacy ratio that the average rate achieved by all banks reached about 25% as a minimum in 2004, and approximately 55% as a maximum in 2007. These percentages exceed the standard rates set by the Basel Committee and the Central Bank of Iraq of 8% and 12% respectively. Therefore, it became the first classification degree, being greater than 15% as a specific standard according to the CAMELS model. This reflects the strength of the position of the Iraqi private banking sector in terms of capital adequacy and confirms the validity of the first sub-hypothesis that assumes the ability of the study sample banks to meet the capital adequacy requirements established by the Basel Committee on Banking Supervision (BCBS).

As for the quality of the assets, the two tables show an increase in the annual rate throughout the study period, as it reached approximately 6% in 2005 as a minimum and continued to rise until it reached approximately 14% in the year 2017. This is a negative indicator that shows that the percentage of fixed assets is increasing for total assets, which makes banks face difficulties converting them into cash in critical situations, in addition to the possibility of capital losses due to a decrease in their market value. Therefore, banks obtained the fifth classification during the study period, as they obtained a percentage less than 5.62%. This contradicts the second hypothesis which states that the assets owned by Iraqi banks listed in the Iraq Stock Exchange are high-quality assets.

As for management efficiency, according to the percentage used in the measurement - which is the administrative expenses/revenues of ongoing operations minus the foreign currency revenues, as they never express administrative competence, it is found that the rate of management efficiency fluctuated between high and low during the study years. It got the third and fifth degrees in the first years of study, then it soon got the first and second classification degrees in the years from 2013 to 2015 until it returned to the fourth and fifth classification degrees in recent years. Based on the above, it obtained the third classification as a general average for the years of study, which indicates that the administrative apparatus possesses the elements of strength and elements of weakness and needs Constant monitoring and follow-up. This is contrary to the third sub-hypothesis which states that Iraqi banks listed in the Iraq Stock Exchange are managed by an administrative body that enjoys administrative efficiency.

Regarding the profitability rate, it is found that the rate of return on assets continues to increase from 2004 to 2014, ranging between (1,26 - 3,3479). It obtained the first classification degree, but this rate has been declining since 2015 to end at negative rates in the year 2018 when it reached (- 0,0344) due to the misappropriation of money and the poor security conditions in the country since 2003. For these reasons, obtained the fifth classification degree and the average return for years of study is approximately (1.93), this is what makes it classified within the first degree. This result indicates the existence of good planning, strong control over income, improvement in investments and investment of funds, enabling

banks to meet their requirements, provision for loan losses, and allowing for internal growth of capital. On the other hand, the return on property rights declined throughout the study period, which made it away from the strong and acceptable degree of classification represented in the first and second degrees, respectively, and it remains within the third, fourth and fifth degrees. The reason for this is the high size of capital held by private banks. As for the general average for the years of study, it amounted to (7.29), which placed it in the fourth degree of classification. It is evident through the evaluation of the banks 'profitability that it obtained for both rates a rating of (2.5), which is approximately the third degree. This reflects the presence of weaknesses in the profitability of banks and the need for continuous monitoring and follow-up. It indicates also the rejection of the fourth sub-hypothesis which states that Iraqi banks listed in the market Iraq Stock Exchange have satisfactory profits.

As for the liquidity ratio[1], according to the ratio used to measure liquidity (cash/deposits), it is evident that there is a trend to avoid an increase in its rates, but this rate is declining, as it recorded approximately 314% in 2005 to reach 84% in 2014 and continued and at levels close to the last four years. Despite this decline, it deserved the first classification because the cash-from-deposits ratio is 84%, which is a high percentage. This gives an indication that the private banking sector has a high liquidity ratio that gives it a shield against the crises resulting from sudden withdrawals it may face and makes banks in no need to the Central Bank to request liquidity. It also enables banks to provide loans to others and ensures their ability to fulfill their obligations towards depositors. Thus, the risk of this kind is within its limits, which supports the validity of the fifth sub-hypothesis that states that Iraqi banks listed on the Iraq Stock Exchange possess the liquidity that enables them to perform their obligations towards others.

Finally, sensitivity rates to market risks recorded an increase during the years 2004-2009, ranging between 10% - 20% as an indicator of the increase in the ratio of investments in securities to current assets. However, this rate began to decrease from 2010 to 2018 to reach 5 % to reflect the non-impact of the bank's assets in the event of a change in the prices of securities, so it obtained the first classification degree because the rate in the two periods is less than the standard percentage specified in the CAMELS model, which reaches 25%. This proves the validity of the sub hypothesis that states that Iraqi banks listed on the Iraq Stock Exchange are characterized by their low sensitivity to market risks.

It is evident from the above that the capital adequacy was in the first classification degree as well as liquidity and sensitivity to market risks. As for the efficiency of management and profits, it obtained the third classification degree, while the quality of the assets was in the fifth class as shown in figure (3).

[1]It should be noted that the Basel III Committee developed a new framework for liquidity regulation, as it focused on high-**quality** capital (ordinary shares), as the new standard consists of the Liquidity Coverage Ratio (LCR), which requires banks to maintain a sufficient amount of liquid assets. It is of high quality, enabling it to face stressful situations for a period of not less than (30 days) as well as from the stable net financing ratio (NSFR), which is a structural monitoring tool to measure the level of liquidity, as the LCR (LIQUIDITY COVERGE RATIO) ratio is measured through the value of high liquid assets. Quality / Net Cash Outflow (30 days)> 100 The net stable funding ratio (NSFR) is measured by dividing it as Total Stable Funding Available / Total Stable Funding Required> 100.

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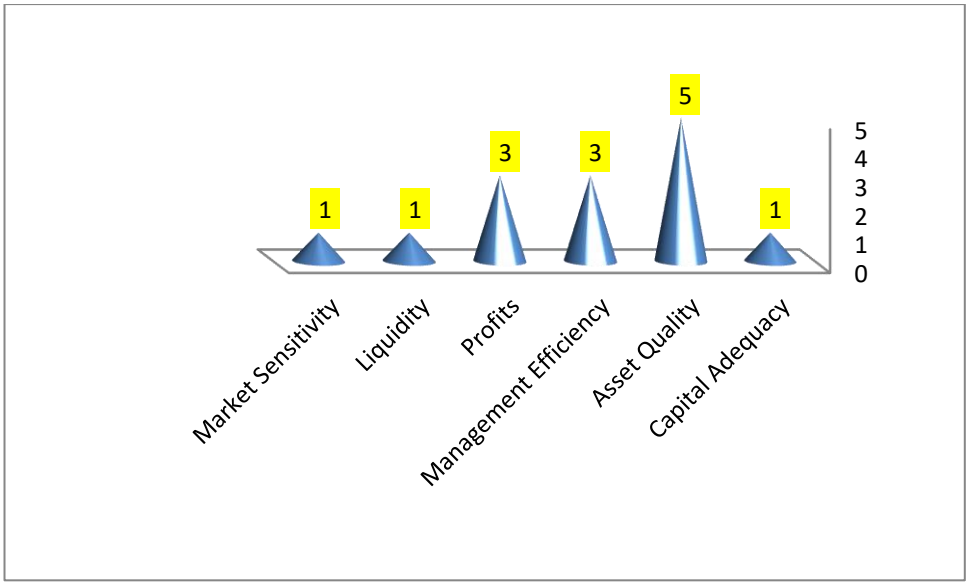
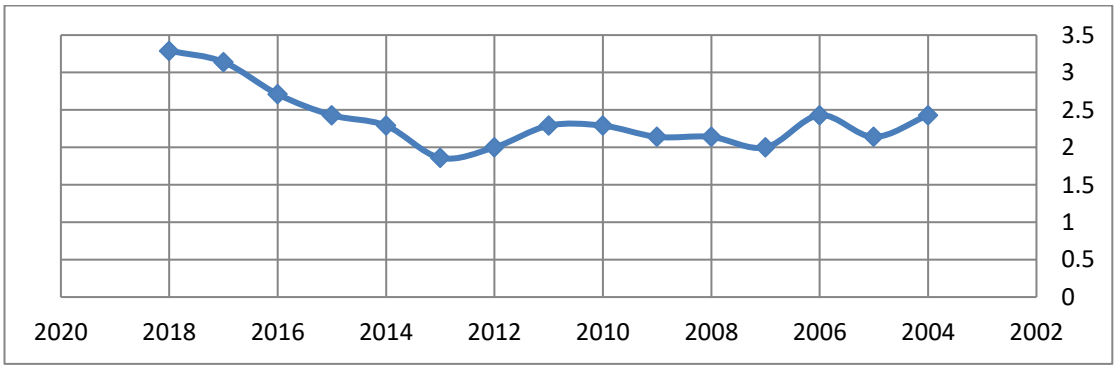
Fig. (3): The sub-classification degree of CAMELS elements



(The figure is prepared by the researchers)

As for the degree of the composite classification, the banks of the study sample obtained the second degree of classification for the years 2004-2015, as they fall within the criterion for the second degree specified for the CAMELS model of (1.5-2.4), which reflects a relatively sound situation in relation to the activity and risk of the bank, or there some of the deficiencies need to be properly addressed, but this result has changed during the last three years, as the level of classification fell to the third degree as shown in Figure (4), and it indicates a weakness in the ability of banks to perform their activities and face risks. It requires support with new private funds from the shareholders. It also requires improvement in management performance, and an increase in follow-up and control measures and this confirms the following main hypothesis:
The Iraqi commercial banks listed on the Iraq Stock Exchange are in a financially acceptable position.

Fig (4): The Composite classification degree of CAMELS elements



(The figure is prepared by the researchers)

Conclusions:

This study was conducted for the purpose of assessing the financial soundness of commercial banks listed on the Iraq Stock Exchange for the period from 2004-2018 according to the CAMELS classification system, as it covers the indicators required in our current study. The first step was to define the indicators required to measure the financial soundness of banks. The literature that dealt with the subject refers to the most important indicators: capital adequacy, asset quality, and management efficiency, as well as profitability, liquidity, and sensitivity to market risks. These indicators were measured using financial ratios that consist of 14 indicators within six dimensions, the results of which are classified into degrees. The classification was assessed by the International Monetary Fund. The results indicate that the capital adequacy index, liquidity, and sensitivity to market risks received the first classification degree, while profitability and management efficiency got the third classification degree, and finally the asset quality got the fifth classification which indicates that the most influential indicators are soundness. The financial adequacy of Iraqi banks is capital adequacy, liquidity and sensitivity to market risks, followed by profitability and efficiency of management, while the quality of assets did not have a clear impact. Therefore, the banks obtained the second degree of classification, which indicates an acceptable position in terms of financial soundness. However, some shortcomings require developing a plan for immediate corrections and solutions. Finally, the researchers recommend relying on the CAMELS model when evaluating the financial soundness of banks, as it gives a comprehensive vision of the financial and administrative situation of banking institutions.

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المستخلص:

تهدف الدراسة الى تقييم السلامة المالية للمصارف التجارية المدرجة في سوق العراق للأوراق المالية على مدى خمسة عشر عاماً ابتداءً من 2004 لغاية 2018 ولأربعة عشر مصرفاً تجارياً ، تقوم الدراسة على فرضية رئيسية وست فرضيات فرعية . جرت عملية التقييم باستخدام نموذج CAMELS حيث تم قياس عناصره الستة المتمثلة بكفاية راس المال وجودة الموجودات وكفاءة الادارة والربحية والسيولة والحساسية لمخاطر السوق وأظهرت النتائج حصول كلاً من كفاية راس المال والسيولة والحساسية لمخاطر السوق على درجة التصنيف الاول اما كفاءة الادارة والارباح فحصلت على درجة التصنيف الثالثة في حين حصل جودة الموجودات على درجة التصنيف الخامسة ولهذا كان تقييم المصارف العراقية التجارية المدرجة في سوق العراق للأوراق المالية في درجة التصنيف الثانية وهي تعكس وضع مقبول وسليم نسبياً مع وجود بعض النواقص والسلبيات التي تكون بحاجة لمعالجة.

الكلمات المفتاحية: السلامة المالية, المصارف التجارية , نموذجCAMELS , نموذجBankometer S-Score , لجنة بازل, مؤشرات السلامة المالية FSIs.