*University of Thi-Qar Journal*

ISSN (print): 2706- 6908, ISSN (online): 2706-6894

***Vol.20 No.2 June 2025***

# Analyzing the relationship between earnings quality and financial sustainability

**Lec. Husham AbdulKhudhur Sukkar Alothman[1], Dr. Alaa Mohsen Shham Alyasri[2], Lec. Ahmed Radhi Abd Ali[3]**

**Thi Qar University, Presidency University[1, 2, 3]**

husham@utq.edu.iq [1], alaamoh@utq.edu.iq [2], ahmedradi@utq.edu.iq [3]

https://doi.org/10.32792/utq/utj/vol**20**/**2**/**2**

## Abstract:

The aim of the research is to analyze the relationship between the quality of profits and indicators of financial sustainability of the banks listed in the Iraq Stock Exchange. The SPSS statistical program, and the research concluded that there is a correlation between the variables, and the Bank of Baghdad was distinguished by the approach of the average quality of its profits to the correct one, as it reached (1.15) times, while the results of the analysis showed a low quality of profits for the Iraqi Commercial and Commercial Gulf Banks, as it amounted to (-23.7), (1.93) Because the ratio is far from the correct one, and the research recommended the need to disclose the quality of profits within the financial reports of banks for the purpose of helping users of financial statements to predict future profits.

**Keywords:** banks, quality of profits, indicators of financial sustainability, Iraq Stock Exchange.

*University of Thi-Qar Journal*

ISSN (print): 2706- 6908, ISSN (online): 2706-6894

***Vol.20 No.2 June 2025***

## Introduction:

The interest in earnings quality has increased following the recent economic collapses witnessed globally, as earnings quality represents the true performance of a bank and reflects its ability to sustain and grow. This, in turn, strengthens its competitive position and enhances the value of its shares compared to other banks. Earnings are the ultimate outcome of various policies adopted by top management and reflect the efficiency of their investment and operational decisions.

Earnings quality should align with the primary purpose of preparing financial reports, thereby providing relevance and reliability to users of financial statements. Data can be considered high-quality when the reported earnings accurately reflect economic events and enable users to make better and more informed decisions. High-quality earnings are characterized by their sustainability and repeatability, making them preferred by analysts and investors for investment decision-making. They can also serve as an indicator of future performance, as they reflect financial sustainability. A set of indicators expressing the financial sustainability of the bank (asset turnover, financial leverage, liquidity, profitability) have been used. Earnings quality and sustainability are linked to the overall performance of the bank and the achievement of its objectives. Earnings sustainability is a measure of the impact of permanent earnings on expected future earnings, as financial reports reflect financial sustainability and performance, serving as a general measure of a company's financial capacity over a specific period.

## Research Methodology:

## 2.1 Research Problem:

The Iraq Stock Exchange includes a large number of financial institutions across various sectors. The market places significant importance on earnings quality, as it reflects the sustainability of earnings for these institutions, which in turn impacts financial sustainability indicators, representing the true performance of banks. Based on this, the research problem lies in answering the following main question:

**Is there a correlation between earnings quality and financial sustainability indicators for the banks listed on the Iraq Stock Exchange (the research sample)?**

## 2.2 Research Objectives:

a) To analyze the relationship between earnings quality and financial sustainability for the banks listed on the Iraq Stock Exchange (the research sample).

b) To understand the concept of earnings quality and financial sustainability indicators, as well as to identify the most important factors influencing them.

## 2.3 Research Importance:

The importance of the research is highlighted through the following points:

Earnings are a fundamental and critical element in measuring the success or failure of banks. They are one of the key components of financial statements that attract the attention of financial statement users. There is a significant focus on the earnings figures disclosed in financial statements and the extent to which they reflect the true performance of these banks.

The emphasis on earnings quality stems from its role as an indicator of the continuity of bank operations. Additionally, the success of any investment decision requires a comprehensive understanding of the company being invested in, including all its financial and non-financial details. Banks are among the institutions that contribute to improving the economic level of a country and developing its legal and regulatory environment.

## 2.4 Research Hypotheses:

Based on the research problem and objectives, the hypotheses were formulated as follows:

a. There is no correlation between earnings quality and asset turnover.
b. There is no correlation between earnings quality and financial leverage.
c. There is no correlation between earnings quality and liquidity.
d. There is no correlation between earnings quality and profitability.

## 2.5 Research Population and Sample:

The research population is represented by the Iraq Stock Exchange. The research sample included three banks within the banking sector. Data were obtained from published annual reports and the Iraq Stock Exchange website for the period (2016–2021). Table (1) shows the research sample.

**Table (1): Banks Included in the Study Sample**.

| No. | Bank Name | Symbol | Year of Establishment | Year of Listing |
|---|---|---|---|---|
| 1 | Bank of Baghdad | BBOB | 1992 | 2004 |
| 2 | Iraqi Commercial Bank | BCOI | 1992 | 2004 |
| 3 | Gulf Commercial Bank | BGUC | 1999 | 2004 |

**Source:** Prepared by the researchers.

---

This table provides a clear overview of the banks included in the study sample, along with their symbols, years of establishment, and years of listing on the Iraq Stock Exchange.

## 2.6 Statistical Methods Used:

To test the research hypotheses, the statistical software SPSS was used to extract the results. The research relied on simple linear regression to analyze the data, which illustrates the relationship between two or more variables, where one is independent and the other is dependent.

---

## 3. Theoretical Framework:

## 3.1 Concept of Earnings Quality:

Earnings quality is defined as the extent to which earnings can be sustained in the future. Earnings are considered high-quality when they are consistent and sustainable (Al-Maaini, 2011: 98). The continuity of earnings flow in the future is an indicator of the bank's current and future performance. The bank's ability to sustain earnings over the long term provides a good indicator of future earnings (Shaban and Dashli, 2021: 107).

The importance of earnings quality stems from the earnings themselves, as all parties rely on them for decision-making. Therefore, earnings quality is a fundamental and critical element in financial statements and in the process of rationalizing investment decisions. Relying on low-quality earnings can lead to poor wealth management, as investment decisions largely depend on the transparency and timing of financial statements. Thus, banks must disclose financial information that reflects their past performance, current status, and future prospects. Failure to disclose such financial information may mislead investors and erode their confidence in financial markets (Abdul Karim, 2017: 9).

Understanding earnings quality is part of financial analysis, as it helps analyze information across three dimensions: (1) the company's current operational performance, (2) future performance, and (3) the company's value (Shaban and Dashli, 2021: 108).

The concept of earnings quality varies depending on the users of financial reports, including current investors, lenders, and creditors. Additionally, accounting standardsetters and auditors believe that earnings quality is achieved when earnings are disclosed in accordance with generally accepted accounting principles (GAAP). Creditors view earnings quality as the ability to convert earnings into cash flows (Hameed and Hassan, 2020: 214).

## 3.2 Importance of Earnings Quality:

According to (Youssef and Abdullah, 2020: 28), the importance of earnings quality can be summarized as follows:

a. **Enhancing Market Value and Competitive Position:** Improving earnings quality for banks increases their market value and strengthens their competitive position relative to other banks.
b. **Key Financial Indicator:** Earnings quality is a crucial financial indicator for banks and investors in making investment decisions. Earnings are one of the most important sources of information for investors and analysts to evaluate performance, study the financial position of banks, and assess the risks they face.
c. **Reflecting Financial Health:** Earnings quality is a vital element that reflects the soundness of a bank's financial position.
d. **Predictive Power:** Earnings quality reflects the ability of reported earnings to express the true earnings of banks and their usefulness in predicting future earnings.

## 3.3 Factors Affecting Earnings Quality:

Earnings quality is influenced by a set of factors that can either increase or decrease it. These factors include (Abdul Karim, 2017: 12) (Obaid and Akbar, 2016: 254):

a. **Quality of Accounting Standards:** The stricter the accounting standards applied by banks, the less room there is for earnings management, leading to higher earnings quality.
b. **Differences in Applied Accounting Standards:** Some banks apply international standards, while others apply local standards. Banks that apply international standards have fewer opportunities for earnings manipulation.
c. **Board Composition:** The larger the number of board members, the lower the opportunity for earnings management in banks.
d. **Shareholder Control:** The lower the percentage of shareholders on the board (i.e., ownership of less than half of the company's assets), the lower the earnings quality.
e. **Internal Control:** The quality of internal control contributes to the quality of financial reports and statements, detecting attempts by management to manipulate accounting information. This adds value to stakeholders benefiting from internal control, reflected in earnings quality.

f. **Profitability Ratios:** These ratios serve as an overall indicator of a bank's funds and reflect its performance. The size of the bank and the return on investment also directly affect earnings quality.

This section highlights the significance of earnings quality and the factors that influence it, providing a comprehensive understanding of its role in financial decision-making and bank performance.

## 3.4 Concept of Financial Sustainability:

Research and studies on sustainability have focused on the sustainability of banks, which means preserving the resources, assets, and funds of banks, as these are part of society's resources in general and over the long term (Al-Khafaji, 2018: 25). Introducing the concept of bank sustainability has become essential because the long-term survival and continuity of a bank no longer depend solely on its financial performance and profitability. Instead, banks now need to incorporate non-financial indicators alongside financial ones.

The concept of sustainability revolves around ensuring the longevity of the bank and managing financial and operational processes without relying on external entities, as well as exchanging financing information among sustainable banks. Financial sustainability refers to the bank's ability to fully cover its costs, as well as the ability of financing institutions to survive and continue in the long term through income-generating activities, i.e., without external contributions. Financial sustainability also means the ability to replicate performance in the future, enabling continuity and the provision of financial services to customers. It is one of the key goals that lending institutions strive to achieve, as it measures the success of these institutions in managing their operations. It is also defined as sustainability that maximizes shareholder value by adopting opportunities and managing risks arising from financial and economic activities (Al-Hashemi, 2017: 208).

## 3.5 Indicators of Financial Sustainability:

### a. Asset Turnover:

This ratio measures the overall efficiency of the bank in managing its various assets (current and fixed) and using them to generate sales. It represents the amount of sales generated for every dinar invested by the bank in its total assets. A higher asset turnover ratio indicates improved management efficiency in utilizing its assets, and vice versa (Desai, 2019: 30).

e. **Financial Leverage Indicator:**

The financial leverage indicator reflects the extent to which the bank relies on debt to finance its investments, i.e., its dependence on borrowed capital rather than owned capital. One of the most important indicators is the debt-to-total-assets ratio. An increase in this ratio indicates a greater reliance on debt to finance assets, which can lead to higher returns on one hand and increased risks on the other, due to the additional burdens of debt servicing resulting from expanded borrowing. A lower leverage ratio indicates that the bank is not heavily reliant on debt to finance its investments (Matar, 2006: 222).

f. **Liquidity Indicator:**

Liquidity is one of the most important fundamental factors, as banks must be able to address both routine and unexpected shortfalls in cash flows. The liquidity indicator is one of the most critical indicators used to assess the credit position of banks. It reflects the bank's ability to meet its short-term obligations when they fall due or its ability to convert current assets into cash to meet all current liabilities (Kuraja, 2002: 184).

e. **Profitability Indicator:**

The profitability indicator is one of the most important economic and financial indicators used to evaluate the performance and operations of banks. Creating wealth for owners is one of the primary objectives of these banks. The profitability indicator provides a clear picture of the degree of success in achieving this goal, expressing the profits achieved relative to other key figures in financial statements or in relation to some of the bank's resources (Atrill, 2000: 51).

The profitability indicator focuses on estimating the actual or potential return, unlike the liquidity indicator, which focuses more on estimating risks. The former illustrates financial performance and what has actually been achieved. Therefore, the profitability indicator is one of the most important and widely used financial indicators for financial analysts, as it measures the efficiency of management in generating profits. Higher profitability compared to other banks in the same sector or above the industry average indicates efficient financial performance, and the higher the profitability ratios, the better (Dufera, 2010: 27).

## 4. Practical Section:

## 4.1 Research Variables:

This research uses two variables: the independent variable, represented by **earnings quality**, and the dependent variable, represented by **financial sustainability**, which includes the following indicators:

1. **Asset Turnover**

2. **Financial Leverage**
3. **Liquidity**
4. **Profitability**

Earnings sustainability is an indicator of their quality, and consistent growth in earnings at a stable rate is also an indicator of their continuity. Therefore, achieving sustainable earnings is evidence of their quality, as high-quality earnings reflect long-term sustainability. Earnings quality is achieved through the stability of earnings and their consistency over time, which is preferred by analysts and investors for making investment decisions. Stable earnings can be used as a predictor of a company's future performance, making them a good predictive tool for investments.

**Table (2): Earnings Quality and Financial Sustainability Indicators**.

| No | Indicator | Equation |
|---|---|---|
| 1 | **Earnings Quality (Independent Variable)** | Cash Flows from Operating Activities/Net Operating Income |
| Based on indicators used in (Wasilewski & Zabolotnyy, 2019: 4) | | |
| 2 | **Asset Turnover** | Net Sales/Total Assets |
| 3 | **Financial Leverage** | Total Liabilities/Total Assets |
| 4 | **Liquidity** | Current Ratio=Current Assets/Current Liabilities Current |
| 5 | **Profitability** | Return on Equity (ROE)=Net Income/Shareholders' Equity |

**Source:** Prepared by the researchers.

## 4.2. Analysis of the Relationship Between Earnings Quality and Financial Sustainability Indicators:

### a. Analysis of Bank of Baghdad Data:

Table (3) shows the financial ratios for earnings quality and financial sustainability based on the equations in Table (2).

**Table (3): Financial Ratios for Earnings Quality and Financial Sustainability for Bank of Baghdad**.

| Year | Operating Cash Flows / Operating Income | Revenues / Total Assets | Total Liabilities / Total Assets | Current Assets / Current Liabilities | Net Income / Shareholders' Equity |
|---|---|---|---|---|---|
| **2016** | -9.36147 | 0.06132838 | 0.76439852 | 1.259658518 | 0.001686 |
| **2017** | -2.77217 | 0.04140128 | 0.74596031 | 1.315394318 | 0.005616 |
| **2018** | 13.48063 | 0.03283946 | 0.76045489 | 0.623041698 | 0.003729 |
| **2019** | -4.59118 | 0.03521332 | 0.75842611 | 1.148777044 | 0.006443 |

| | | | | | |
|---|---|---|---|---|---|
| **2020** | 1.639709 | 0.04265647 | 0.80385325 | 1.230206814 | 0.072548 |
| **2021** | 8.476484 | 0.05387864 | 0.79924137 | 1.240634808 | 0.143358 |
| **Average** | 1.145333 | 0.04455293 | 0.77205574 | 1.136285533 | 0.038896 |
| **Max** | 13.48063 | 0.06132838 | 0.80385325 | 1.315394318 | 0.143358 |
| **Min** | -9.36147 | 0.03283946 | 0.74596031 | 0.623041698 | 0.001686 |
| **Stdev.p** | 7.797404 | 0.01005276 | 0.02164136 | 0.234728957 | 0.052957 |

**Source:** Prepared by the researchers based on Iraq Stock Exchange reports for the period (2016–2021).

**From Table (3), the following can be observed:**

## 1. Earnings Quality (Earning Quality):

- The average earnings quality for Bank of Baghdad during the period (2016–2021) was approximately **1.15 times**, meaning that operating cash flows were **1.15 times** higher than net operating income. This indicates **high earnings quality**, as the closer the ratio is to **1**, the higher the earnings quality.
- Earnings quality values ranged between **-9.4** and **8.5**, with a standard deviation of **7.8**, which is about six times the arithmetic mean. This indicates significant variability in earnings quality from year to year during the research period.

## 2. Asset Turnover (Total Assets Turnover):

- The average asset turnover was approximately **0.045 times**, indicating the revenue generated from investments in the bank's assets.
- Asset turnover ranged between **0.03** and **0.06**, with a standard deviation of **0.01**, showing minimal variability in asset turnover rates during the research period.

## 3. Financial Leverage (Financial Leverage):

- The average debt-to-total-assets ratio for Bank of Baghdad during the research period was **0.77%**, with values ranging between **0.7%** and **0.8%**.
- A standard deviation of **0.022** indicates low variability in the bank's debt levels. The higher the financial leverage, the lower the earnings quality, and vice versa, suggesting an **inverse relationship** between financial leverage and earnings quality.

## 4. Liquidity (Liquidity):

- The average current assets to current liabilities ratio was approximately **1.14 times**, meaning that the bank's current assets covered its current liabilities by **1.14 times**.
- The liquidity ratio ranged between **0.63** and **1.32**, with a standard deviation of **0.24**.

## 5. **Profitability (Profitability):**

- The average return on equity (ROE) for Bank of Baghdad during the research period was approximately **0.04%**, with values ranging between **0.002%** and **0.14%**.
- A standard deviation of **0.06** indicates significant variability in the bank's profitability over the research period.

**b. Analysis of Gulf Commercial Bank Data:**

Table (4) shows the financial ratios for earnings quality and financial sustainability based on the equations in Table (2).

This section provides a detailed analysis of the financial performance of Bank of Baghdad, focusing on earnings quality and financial sustainability indicators. The analysis highlights the variability in earnings quality, asset turnover, financial leverage, liquidity, and profitability over the research period.

**Table (4): Financial Ratios for Earnings Quality and Financial Sustainability for Gulf Commercial Bank.**

| Year | Operating Cash Flows / Operating Income | Revenues / Total Assets | Total Liabilities / Total Assets | Current Assets / Current Liabilities | Net Income / Shareholders' Equity |
|---|---|---|---|---|---|
| **2016** | 6.048768273 | 0.032538451 | 0.603834096 | 1.400102365 | 0.018477 |
| **2017** | 26.41992492 | 0.043012997 | 0.468124595 | 1.700686409 | 0.013183 |
| **2018** | 1.995693311 | 0.028733117 | 0.456245775 | 1.975104673 | 0.001882 |
| **2019** | -1.599274526 | 0.019884471 | 0.44147946 | 2.232812654 | -0.01282 |
| **2020** | -169.7965714 | 0.024471688 | 0.398643023 | 0.22126851 | -4.8E-06 |
| **2021** | -5.51013804 | 0.016696413 | 0.434854222 | 2.054410238 | -0.01656 |
| **Average** | -23.74026624 | 0.027556189 | 0.467196862 | 1.597397475 | 0.0006928 |
| **Max** | 26.41992492 | 0.043012997 | 0.603834096 | 2.232812654 | 0.018477 |
| **Min** | -169.7965714 | 0.016696413 | 0.398643023 | 0.22126851 | -0.01656 |
| **Stdev.p** | 66.10695416 | 0.008673957 | 0.064804296 | 0.670646546 | 0.0126124 |

**Source:** The table was prepared by the researchers based on Iraq Stock Exchange reports for the period (2016–2021).

**The results shown in Table (4) indicate the following:**

## 1. **Earnings Quality (Earning Quality):**

- The average earnings quality for Gulf Commercial Bank during the period (2016–2021) was approximately **-23.74 times**, indicating **low earnings quality**.

- Earnings quality values ranged between **26.42** and **-169.80**, with a standard deviation of **66.11**, indicating significant variability in earnings quality from year to year during the research period.

## 2. Asset Turnover (Total Assets Turnover):

- The average asset turnover was approximately **0.028 times**, indicating the revenue generated from investments in the bank's assets.
- Asset turnover ranged between **0.017** and **0.043**, with a standard deviation of **0.009**, showing minimal variability in asset turnover rates during the research period.

## 3. Financial Leverage (Financial Leverage):

- The average debt-to-total-assets ratio for Gulf Commercial Bank during the research period was **0.47%**, with values ranging between **0.40%** and **0.60%**.
- A standard deviation of **0.065** indicates low variability in the bank's debt levels.

## 4. Liquidity (Liquidity):

- The average current assets to current liabilities ratio was approximately **1.60 times**, meaning that the bank's current assets covered its current liabilities by **1.60 times**.
- The liquidity ratio ranged between **0.22** and **2.23**, with a standard deviation of **0.67**.

## 5. Profitability (Profitability):

- The average return on equity (ROE) for Gulf Commercial Bank during the research period was approximately **0.0006928%**, with values ranging between **0.018%** and **-0.016%**.
- A standard deviation of **0.013** indicates slight variability in the bank's profitability over the research period.

### c. Analysis of Iraqi Commercial Bank Data:

Table (5) shows the financial ratios for earnings quality and financial sustainability based on the equations in Table (2).

---

**Table (5): Financial Ratios for Earnings Quality and Financial Sustainability for Iraqi Commercial Bank.**

*University of Thi-Qar Journal*

ISSN (print): 2706- 6908, ISSN (online): 2706-6894

*Vol.20 No.2 June 2025*

| Year | Operating Cash Flows / Operating Income | Revenues / Total Assets | Total Liabilities / Total Assets | Current Assets / Current Liabilities | Net Income / Shareholders' Equity |
|---|---|---|---|---|---|
| **2016** | 3.511703486 | 3.386492283 | 0.04118423 | 1.054260406 | 0.0264 |
| **2017** | 2.23360547 | 3.379569835 | 0.051552116 | 1.011926625 | 0.034038 |
| **2018** | 0.649435398 | 1.019559971 | 0.044486675 | 0.322409294 | 0.381903 |
| **2019** | 3.270668282 | 1.743975985 | 0.04344889 | 1.759056071 | 0.237365 |
| **2020** | 2.196414124 | 0.99517445 | 0.092824617 | 2.272836442 | 0.11521 |
| **2021** | -8.726952794 | 1.079432461 | 0.057291762 | 2.966516814 | 0.041359 |
| **Average** | 0.522478994 | 1.934034164 | 0.055131382 | 1.564500942 | 0.139379 |
| **Max** | 3.511703486 | 3.386492283 | 0.092824617 | 2.966516814 | 0.381903 |
| **Min** | -8.726952794 | 0.99517445 | 0.04118423 | 0.322409294 | 0.0264 |
| **Stdev.p** | 4.238437731 | 1.055414197 | 0.017713327 | 0.876899351 | 0.130685 |

**Source:** The table was prepared by the researchers based on Iraq Stock Exchange reports for the period (2016–2021).

---

## The results shown in Table (5) indicate the following:

### 1. Earnings Quality (Earning Quality):

- The average earnings quality for Iraqi Commercial Bank during the period (2016–2021) was approximately **0.52 times**, indicating that operating cash flows were **0.52 times** higher than net operating income.
- Earnings quality values ranged between **3.51** and **-8.73**, with a standard deviation of **4.24**, indicating significant variability in earnings quality from year to year during the research period.

### 2. Asset Turnover (Total Assets Turnover):

- The average asset turnover was approximately **1.93 times**, indicating the revenue generated from investments in the bank's assets.
- Asset turnover ranged between **0.99** and **3.39**, with a standard deviation of **1.06**, showing noticeable variability in asset turnover rates during the research period.

### 3. Financial Leverage (Financial Leverage):

- The average debt-to-total-assets ratio for Iraqi Commercial Bank during the research period was **0.055%**, with values ranging between **0.041%** and **0.093%**.
- A standard deviation of **0.018** indicates slight variability in the bank's debt levels.

### 4. Liquidity (Liquidity):

*University of Thi-Qar Journal*

ISSN (print): 2706- 6908, ISSN (online): 2706-6894

*Vol.20 No.2 June 2025*

- The average current assets to current liabilities ratio was approximately **1.56 times**, meaning that the bank's current assets covered its current liabilities by **1.56 times**.
- The liquidity ratio ranged between **0.32** and **2.97**, with a standard deviation of **0.88**.

## 5. Profitability (Profitability):

- The average return on equity (ROE) for Iraqi Commercial Bank during the research period was approximately **0.14%**, with values ranging between **0.026%** and **0.38%**.
- A standard deviation of **0.13** indicates significant variability in the bank's profitability over the research period.

## 4.3. Testing Research Hypotheses:

### 1. Testing the First Main Hypothesis:

**"There is no correlation between earnings quality and asset turnover."**
To verify the validity of this hypothesis, the following statistical hypotheses are tested:

a. **Null Hypothesis (H0):** There is no correlation between earnings quality and asset turnover.
b. **Alternative Hypothesis (H1):** There is a correlation between earnings quality and asset turnover.

**Table (6): Estimation of Simple Linear Regression Parameters to Measure the Relationship Between Earnings Quality and Asset Turnover**.

| B | Estimate | Std Error | T | Sig | Beta | F | Sig | $R^2$ | R |
|---|---|---|---|---|---|---|---|---|---|
| Constant | 0.043 | 0.004 | 10.269 | 0.000 | | | | | |
| Earnings Quality | 0.000 | 0.000 | 1.026 | 0.320 | 0.248 | 1.052 | 0.320 | 0.062 | 0.248 |

**Source:** The table was prepared by the researchers based on the outputs of the SPSS statistical program.

**The results shown in Table (6) indicate the following:**

- The correlation coefficient (R) between earnings quality and asset turnover is **0.248**, indicating a **positive relationship** between the two variables. This means that an increase in revenue generated from investments in bank assets leads to an increase in earnings quality.

- The coefficient of determination ($R^2$) is **6.2%**, meaning that earnings quality explains **6.2%** of the changes in asset turnover, while the remaining **93.8%** is attributed to other variables.
- The beta value is **0.248**, the standard error is **0**, and the slope of the regression equation is also **0**.
- Based on the statistical analysis results, the **alternative hypothesis (H1) is accepted**, and the **null hypothesis (H0) is rejected**.

---

2. **Testing the Second Main Hypothesis:**
3. **There is no correlation between earnings quality and financial leverage.**
   To verify the validity of this hypothesis, the following statistical hypotheses are tested:

a. **Null Hypothesis (H0):** There is no correlation between earnings quality and financial leverage.

b. **Alternative Hypothesis (H1):** There is a correlation between earnings quality and financial leverage.

**Table (7): Estimation of Simple Linear Regression Parameters to Measure the Relationship Between Earnings Quality and Financial Leverage.**

| B | Estimate | Std Error | T | Sig | Beta | F | Sig | $R^2$ | R |
|---|---|---|---|---|---|---|---|---|---|
| **Constant** | 0.954 | 0.172 | 5.557 | 0.000 | | 0.464 | 0.506 | 0.028 | 0.168 |
| **Earnings Quality** | 0.003 | 0.004 | 0.681 | 0.506 | 0.168 | | | | |

**Source:** The table was prepared by the researchers based on the outputs of the SPSS statistical program.

---

**The results shown in Table (7) indicate the following:**

- The correlation coefficient (R) between earnings quality and financial leverage is **0.168**, indicating a **weak positive relationship** between the two variables. This means that an increase in financial leverage in the capital structure reduces the earnings quality of banks.

- The coefficient of determination ($R^2$) is **2.8%**, meaning that earnings quality explains **2.8%** of the changes in financial leverage, while the remaining **97.2%** is attributed to other variables.
- The beta value is **0.168**, the standard error is **0.004**, and the slope of the regression equation is **0.003**.
- Based on the statistical analysis results, the **alternative hypothesis (H1) is accepted**, and the **null hypothesis (H0) is rejected**.

---

## 3. Testing the Third Main Hypothesis:

**"There is no correlation between earnings quality and the liquidity indicator."** To verify the validity of this hypothesis, the following statistical hypotheses are tested:

a. **Null Hypothesis (H0):** There is no correlation between earnings quality and the liquidity indicator.
b. **Alternative Hypothesis (H1):** There is a correlation between earnings quality and the liquidity indicator.

**Table (8): Estimation of Simple Linear Regression Parameters to Measure the Relationship Between Earnings Quality and Liquidity Indicator.**

| B | Estimate | Std Error | T | Sig | Beta | F | Sig | $R^2$ | R |
|---|---|---|---|---|---|---|---|---|---|
| Constant | 1.123 | 0.637 | 1.763 | 0.079 | | 0.121 | 0.732 | 0.008 | 0.087 |
| Earnings Quality | 0.005 | 0.016 | 0.348 | 0.732 | 0.087 | | | | |

**Source:** The table was prepared by the researchers based on the outputs of the SPSS statistical program.

---

**The results shown in Table (8) indicate the following:**

- The correlation coefficient (R) between earnings quality and the liquidity ratio is **0.087**, indicating a **very weak positive relationship** between the two variables.
- The coefficient of determination ($R^2$) is **0.08%**, meaning that earnings quality explains **0.08%** of the changes in the liquidity ratio, while the remaining **99.2%** is attributed to other variables.
- The beta value is **0.087**, the standard error is **0.016**, and the slope of the regression equation is **0.005**.

- Based on the statistical analysis results, the **alternative hypothesis (H1) is accepted**, and the **null hypothesis (H0) is rejected**.

---

## 4. Testing the Fourth Main Hypothesis:

**"There is no correlation between earnings quality and the profitability indicator."**
To verify the validity of this hypothesis, the following statistical hypotheses are tested:

a. **Null Hypothesis (H0):** There is no correlation between earnings quality and the profitability indicator.
b. **Alternative Hypothesis (H1):** There is a correlation between earnings quality and the profitability indicator.

**Table (9): Estimation of Simple Linear Regression Parameters to Measure the Relationship Between Earnings Quality and Profitability Indicator.**

| B | Estimate | Std Error | T | Sig | Beta | F | Sig | $R^2$ | R |
|---|---|---|---|---|---|---|---|---|---|
| **Constant** | 0.062 | 0.025 | 2.463 | 0.026 | | 0.337 | 0.569 | 0.021 | 0.114 |
| **Earnings Quality** | 0.000 | 0.000 | 0.581 | 0.569 | 0.144 | | | | |

**Source:** The table was prepared by the researchers based on the outputs of the SPSS statistical program.

---

**The results shown in Table (9) indicate the following:**

- The correlation coefficient (R) between earnings quality and return on equity (ROE) is **0.114**, indicating a **positive relationship** between the two variables. This means that an increase in the return on equity leads to an increase in earnings quality for banks.
- The coefficient of determination ($R^2$) is **2.1%**, meaning that earnings quality explains **2.1%** of the changes in return on equity, while the remaining **97.9%** is attributed to other variables.
- The beta value is **0.144**, the standard error is **0**, and the slope of the regression equation is also **0**.
- Based on the statistical analysis results, the **alternative hypothesis (H1) is accepted**, and the **null hypothesis (H0) is rejected**.

## 5. Conclusions and Recommendations:

### a. Conclusions:

1. Earnings quality represents the ability to predict future earnings, the sustainability of earnings, and the fair and accurate representation of companies' profits.
2. Bank of Baghdad stood out with its earnings quality ratio close to **1**, averaging **1.15 times**, while Gulf Commercial Bank and Iraqi Commercial Bank showed lower earnings quality at **-23.7** and **1.93**, respectively, due to their ratios deviating from **1**.
3. All banks in the study sample had low asset turnover rates: Bank of Baghdad (**0.045 times**), Iraqi Commercial Bank (**0.03 times**), and Gulf Commercial Bank (**0.055 times**). The results also highlighted the importance of financial leverage as a key factor affecting earnings quality. Higher leverage increases reported earnings quality due to creditors' pressure and direct oversight of financial reports. Bank of Baghdad had the highest leverage ratio at **77%**, followed by Iraqi Commercial Bank at **47%** and Gulf Commercial Bank at **35%**.
4. The liquidity ratios of Iraqi Commercial Bank and Gulf Commercial Bank were **1.5 times**, while Bank of Baghdad's ratio was **1.14 times**, indicating that the banks maintained sufficient liquidity to cover their current liabilities. Gulf Commercial Bank had the highest profitability at **14%**, followed by Bank of Baghdad at **4%**, while Iraqi Commercial Bank had a very low profitability of **0.069%**. This confirms the low earnings quality of these banks, as their management practices profit reduction, possibly for tax evasion purposes.
5. The results of the simple linear regression test showed a **low positive correlation (25%)** between earnings quality and asset turnover, while the correlation between earnings quality and financial leverage was **weakly positive**. This confirms the analysis findings that higher financial leverage reduces earnings quality.
6. The test results revealed a **very weak positive correlation (0.087)** between earnings quality and liquidity, and a **very weak correlation (0.114)** between profitability and earnings quality.

### b. Recommendations:

1. **Disclosure of Earnings Quality:** Banks should disclose earnings quality in their financial reports to help users of financial statements predict future earnings. Standards and principles should be established to prevent banks from manipulating reported earnings.

2. **Investment Opportunities:** Banks with low earnings sustainability and quality should seek profitable investment opportunities to ensure continuous earnings flow.
3. **Awareness Among Analysts and Investors:** Financial analysts and stock traders in the Iraq Stock Exchange should deepen their understanding of earnings quality, its sustainability, and its impact on future earnings to improve forecasting.
4. **Development of Earnings Quality Metrics:** The Iraq Stock Exchange should adopt or develop a model for measuring earnings quality suitable for the local environment and include it in its publications to guide investment and attract capital.
5. **Focus on Operational Activities:** Iraqi banks should focus on activities that increase operational cash flows and reduce receivables, as this will improve earnings quality, enhance their reputation in financial markets, and increase demand for their shares, thereby maximizing their value.
6. **Enhancing Operational Earnings Quality:** Bank management should improve operational earnings quality by efficiently managing sales and credit operations, as these are directly linked to profit generation and cash flow.

## References:

1. **Hameed, Thaer Kamel, Hassan, Wafaa Abdul Amir (2020):** "The Impact of Accounting Earnings Quality Using the Sustainability Model (Earnings Continuity) and Predictive Ability on the Continuity of Banks: An Applied Study on a Sample of Commercial Banks Listed on the Iraq Stock Exchange," *Journal of Accounting and Financial Studies*, Volume 15, Issue 52.
2. **Al-Khafaji, Iman Jawad (2018):** "Measuring the Performance of Joint Stock Companies According to the S&P, ISX, and SEG Indicators and Examining Their Commitment to Reporting on Sustainability for the Application of GRE Standards," Master's Thesis, College of Administration and Economics, University of Karbala.
3. **Shaban, Ahmed Raed, Dashli, Kamal (2021):** "The Reflections of Earnings Quality on the Operational Performance of Companies Listed on the Damascus Securities Market: An Applied Study," *Journal of Al-Quds Open University for Administrative and Economic Research*, Volume 6, Issue 15.
4. **Abdul Karim, Musab Mohammed (2017):** "The Impact of Earnings Quality on Stock Returns: An Applied Study on Commercial Banks Listed on the Amman Financial Market," Master's Thesis, Zarqa University.
5. **Obaid, Fadaa Adnan, Akbar, Younis Abbas (2016):** "Earnings Quality and Its Impact on Financial Statements," *Journal of Baghdad College of Economic Sciences University*, Issue 48.
6. **Kuraja, Abdul Halim (2002):** "Financial Management and Analysis: Foundations, Concepts, and Applications," Safaa Publishing and Distribution, Amman, Jordan.
7. **Matar, Mohammed Attia (2006):** "Modern Trends in Financial and Credit Analysis," 2nd Edition, Wael Publishing and Distribution, Amman, Jordan.
8. **Al-Maaini, Saad Salman Awad (2011):** "Measuring Earnings Quality in Commercial Banks: An Analytical Study of a Sample of Iraqi Commercial Banks," *Journal of Economics and Administrative Sciences*, Volume 17, Issue 64.
9. **Al-Hashemi, Layla Abdul Karim Mohammed (2017):** "Banking Capital According to Basel III Requirements and Its Role in Achieving Financial Sustainability: An Applied Study on the Iraqi Banking Sector," *Journal of Economic Sciences*, Volume 2, Issue 18.
10. **Youssef, Rawa Ahmed, Abdullah, Raghad Riyadh (2020):** "Evaluating the Impact of Earnings Quality on Banking Safety: An Applied Study on a Sample of Banks Listed on the Iraq Stock Exchange for the Period (2014–2017)," *Journal of Money and Business Economics*, Volume 4, Issue 2.
11. **Atrill, Peter (2000):** *Financial Management for Non-Specialists*, 2nd Edition, Pearson Education Limited, London.

12. **Desai, Mihir (2019):** *How Finance Works: The HBR Guide to Thinking Smart About the Numbers*, Pasta Blanda, Harvard Business School Press.
13. **Dufera, Abdi (2010):** "Financial Performance Evaluation: A Case Study of Awash International Bank," Master's Thesis, Department of Accounting and Finance, Mekelle University, Ethiopia.
14. **Hasanuddin, R., Darman, D., Taufan, M. Y., Salim, A., Muslim, M., & Putra, A. H. P. K. (2021):** "The Effect of Firm Size, Debt, Current Ratio, and Investment Opportunity Set on Earnings Quality: An Empirical Study in Indonesia," *The Journal of Asian Finance, Economics and Business*, 8(6), 179–188.
15. **Zabolotnyy, S., & Wasilewski, M. (2019):** "The Concept of Financial Sustainability Measurement: A Case of Food Companies from Northern Europe," *Sustainability*, 11(18), 5139.
16. **Annual Reports of Bank of Baghdad, 2016–2021.**
17. **Annual Reports of Iraqi Commercial Bank, 2016–2021.**
18. **Annual Reports of Gulf Commercial Bank, 2016–2021.**
19. **www.isx-iq.net**