



The Effect of Employing Funds on Banking Performance / An Applied Study on a Sample of Commercial Banks Listed in the Iraq Stock Exchange

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Abstract

The research aims to understand the concept of in Employing Funds commercial banks and to examine their banking performance. The research problem was represented by commercial banks' preference for maintaining liquidity at the expense of profitability. The research was based on the hypothesis that there is a significant influence of capital investment and banking performance on the rate of return on assets. The research relied on the descriptive approach based on studying scientific phenomena or problems through a scientific description. The researcher reached the following results: Banks achieved low profits, which is explained by these banks' preference to retain liquidity. The Corona pandemic also had a negative impact on bank activities, which led to a decline in investment activity due to the measures taken at the time, which represented the imposition of a health quarantine to prevent infections and transmission of infection.

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Introduction

Employing funds in commercial banks is one of their main tasks, as they accept various types of deposits from customers and then return their loans to customers (individuals, companies, and projects) for the purpose of employing cash balances and achieving returns for the bank. Commercial banks also measure performance through the use of available funds and return on investment and in various fields through the commercial bank's endeavor to direct investment to the sources that achieve the maximum possible profit so that it can pay the interest due to depositors and meet other obligations towards customers and achieve appropriate profit rates sufficient to form the necessary reserves to support the bank's finances and to distribute appropriate profits to the owners of the commercial bank's capital.

First Topic

The research Methodology

First: The research problem

Iraqi commercial banks face the problem of Employing funds due to the unstable economic environment, the deteriorating political and security situation, as well as the public's lack of trust in banks, and customers prefer hoarding at home due to the lack of effective strategies that focus on innovation and expansion.

Second: The importance of the research

The importance of the research comes through the role of Employing funds in banking performance by collecting data and information to beneficiaries for the purpose of decision-making.

Third: Research Objectives

The research aims to achieve a set of the following objectives:

1. Learn about the use of Employing in commercial banks
2. Identify the theoretical concepts of banking performance.
3. Analyze the relationship between money Employing and banking performance.

Fourth: Research Hypothesis

The research is based on the hypothesis that there is a significant effect between the Employing funds in commercial banks and banking performance.

Fifth: Research Methodology

The research relied on the descriptive approach based on the study of scientific phenomena or problems by describing in a scientific way.

Sixth: Measuring the indicators of the two research variables:

Table (1) shows the indicators for measuring the two research variables:

Table 1: Indicators for measuring the two research variables

Mathematical formula	Variables
$\frac{\text{Total Credit}}{\text{Total Deposits}}$	Cash Credit to Deposit Ratio
$\frac{\text{Net profit after tax}}{\text{Total Deposits}}$	Rate of return on assets

Seventh: Research Limits

1. Spatial boundaries: Bank of Baghdad, Bank of Economy, and Bank of Sumer.
2. Temporal Limits: Represented for the period (2016-2024).

Eighth: Procedural Definition

1. Employment Ratios: Refers to how commercial banks distribute their savings (deposits) and investments to achieve profits and are important tools for investors and financial controllers.
2. Banking Performance: Banking performance refers to the effectiveness and efficiency of banks in achieving their financial and operational goals.

Second Topic

The Theoretical Framework of the Research Variables

The First Requirement: The Concept and Types of Employment

First: The Concept of: Employment

There are two main forms in which the Commercial Bank Employ money (Abdel Baqi, 2015: 88):

1. Cash Employment: These investments are as follows

Cash: "Banks keep part of their money in the form of cash in their vaults or with the bank in the form of accounts as a reserve to counter the movement of withdrawal of deposits, and the amount of money they hold depends on other things:

- The mandatory cash reserve rate required by the Central Bank Law, and this value constitutes the minimum amount of the Bank's assets held in the form of balances in the Central Bank.
- Deposit Movement Pattern: A bank increases the amount of cash in its coffers when it expects heavy withdrawals of deposits, as is the case with the seasons, holidays, and the end of each month.

- The economic and political situation of the country: the more security prevails and the economic situation flourishes, the less the bank needs to keep a large percentage of its assets in the form of cash in the fund and vice versa.
- The ease or difficulty of obtaining ready-made liquid funds from other sources: the more difficulties the bank has in obtaining these funds upon request, the more it will have to increase the amount of cash it holds with the Central Bank.
- Public confidence in the bank: the more the depositors have confidence in the bank's ability to meet its obligations, the more it needs to keep large amounts of cash in its coffers."

2. Quasi-Cash Holding

The bank maintains a large part of its reserves in this form of asset after it keeps the mandatory cash reserves in the form of ready cash, balances with the central bank, and semi-money. It is the second line of defense, so it is called the secondary reserve against the risk of illiquidity, as the bank employs part of its funds in commercial securities that mature in the very short term, provided that the liquidity of these securities is very high, or in very short-term loans that banks can recover at any moment (Abdul Baqi, 2015: 89).

Second: Sources of Loans and Considerations to Be Taken into Consideration When Granting a Loan

Credit operations require funds to lend them, and therefore there are several sources that the bank can rely on in its various activities, which are:

1. Deposits: "These are the various funds that the bank obtains from individuals, bodies, various projects, and deposits, or they are debts owed to their owners pending commercial expenses.

Deposits in their various forms, whether they are current or term deposits, savings deposits or credit deposits, are the main source of components of commercial banks. A deposit is also important in many ways, whether from the point of view of individuals, banks or the economy as a whole. They open wide horizons for all parties and provide each of them with an opportunity to achieve its goals in terms of security, liquidity and profitability, and deposits represent prospects for the employment of some people's money and contribute to covering the deficits of others, and behind new possibilities that allow for the expansion of economic activity, and the development of permanent dynamism through continuous financial flows that help business development.

Deposits open up vast opportunities for the banking system to expand the loan by remobilizing existing funds without resorting to inflationary financing for economic activity, and they can not only do so, but they can also concentrate their efforts on efficient, thoughtful financing and with often inexpensive financial resources.

2. External borrowing: It is one of the most important funds in addition to deposits, as commercial banks can resort to borrowing from the Central Bank as their last resort when needed, within certain conditions specified by the latter, as well as the commercial bank can resort to other banks when it needs funds for employment or when it faces a liquidity deficit, and the bank can also resort to borrowing from the financial and monetary markets."

Third: The risks to which the Commercial Bank is exposed when employing its funds:

1. **Interest Rate Risks:** There is no doubt that the fluctuations and changes in interest rates have an impact on investors' profits, and if we assume that a person has invested his money in the market, it will negatively affect the amount of return that investors will hold, so it is clear whether the interest rate will increase significantly or not until the investor's situation stabilizes (Al-Maghrabi, 2020: 89)^[5].
2. **Market Risks:** Market risks arise from sudden changes in market conditions, as banks are affected by this change, and governments may take action to lift subsidies on certain commodities such as rice or barley, or the entry of products may benefit from the protection of the local product.
3. **Operating Risks:** Operational risks arise when the bank does not have sufficient and trained human resources to carry out financial operations, intentionally or wrongly, which negatively affects the level of profits achieved (Adam & Mawla, 2015: 97).
4. **Credit Risk:** Credit risk is defined as the possibility that the borrowing customers of the bank fail to meet their obligations to the bank, when these obligations are due or afterwards or do not to pay according to the agreed terms, i.e., these risks are related to the counterparty in the contract in terms of their ability to repay their obligations to the bank on the specified and agreed date (Al-Fawaz *et al.*, 2016: 291)^[4].
5. **Liquidity Risks:** Banks play the role of mediation between depositors, who constitute the supply side of money in the banking system, and borrowers, who form the demand side of these funds, and this important role has helped to separate the decision to save from the investment decision at the micro level, and in addition to this role of intermediation, commercial banks play another role that is no less important than the first role, and the role of transfer of maturity, as short-term customers' deposits are converted into long-term loans, thus reconciling the desires of savers in the right to withdraw Their deposits when needed, and the desires of borrowers to obtain loans that coincide with the dates of their repayment and the dates of realization of returns from the financed project, these contradictory roles in their objectives can only be fulfilled by consolidating the conviction of the parties of the banks' ability to actually carry them out, hence the role of liquidity and its importance for the banking system.
Liquidity risk arises from the Bank's inability to meet the shortfall of liabilities or to finance the increase in assets, and when the Bank's liquidity is insufficient it is unable to obtain sufficient funds, either by increasing its liabilities or incurring a reasonable cost by rapidly converting its assets into liquid assets, affecting the profits, and in extreme cases, insufficient liquidity can lead to a lack of financial solvency of the bank (Ahmed, 2013: 306).
6. **Legal Risks:** These are the risks that the bank may be exposed to due to a lack or deficiency in its documents, which makes it illegal, and this deficiency may occur inadvertently when accepting guarantee documents from customers, which later turns out to be inadmissible to the courts.

The Second Requirement: The Concept of Banking Performance

First: Definition of Banking Performance

Performance is a relative concept, for example, the performance of a particular bank may be better if compared to the performance of Bank A while that same performance may be weak if the comparison is between it and the performance of Bank B and the effort exerted to achieve it (Al-Rubaie and Radi, 2020: 145)^[6].

Second: The Importance of Banking Performance

The performance appraisal process in commercial banks is of great importance in many aspects and levels, as follows (Litimi *et al.*, 2024: 228):

1. It is used to identify specific indicators that can measure how well a commercial bank is generating profits.
2. Measure the Bank's success through the growth of the commercial bank's profits.
3. It helps in the process of forecasting the financial condition of the Commercial Bank for the coming period.
4. It is a way to help management detect imbalances and deficiencies in the performance of departments, and this helps address deficiencies by giving all levels of management a framework for engagement, communication, and collaboration.
5. It is one of the most important factors that contribute to decision-making in banking.

Third: Factors Affecting Banking Performance

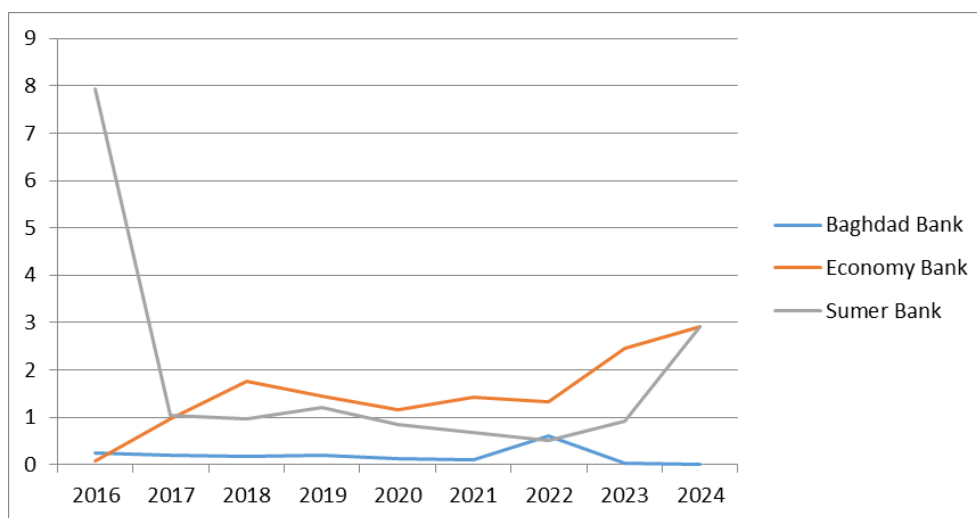
1. **The bank's location:** The location has had an impact on the bank's ability to attract deposits due to the difficulty of moving most of the population from one place to another and the increase in traffic, so the borrower may not be interested in the bank's location. Ready to move and long distances to obtain loans, but the depositor may be as interested in the location of the bank as much as its proximity to it and the availability of parking in it or close to it (Al-Barzanji, 2018: 56)^[3].
2. **Internal Control:** The internal control function in commercial banks is of great importance through the important role it plays in achieving banking security and soundness, the integrity and credibility of financial information, and those related to management and accounting, as well as respect for legislation, regulations, policies, and internal procedures (Sheikha, 2024: 62-63)^[13].
3. **Deposits:** Bank deposits are the total money that entities and individuals place in commercial banks, and deposits are the main source of funds of those banks and then they employ them in the field of loans to customers (individuals and companies) in exchange for obtaining interest and returns from these loans, which are the sources of profitability of banks, and that deposits are the main source of profits and have a positive impact on the profitability of banks (Sultan *et al.*, 2020: 635)^[14].
4. **Credit Volume:** The ratio of cash credit refers to total loans, loans lent compared to total deposits and capital, and it directly affects the profitability of banks by influencing the income earned from loans (interest). The credit-to-deposit ratio of banks plays a major role in determining interest income relative to their total assets (Ramchandani and Jethwani, 2017: 183)^[10].
5. **Fiscal Policy:** Fiscal policy is defined as an economic

policy tool and includes a set of measures taken by the government to achieve economic goals through its tools (changing government spending, taxes, and public borrowing), and such tools affect growth, employment, and the general level of prices, thus reaching macroeconomic stability (Tan, 2016: 1).

6. **Unemployment:** It may negatively affect the profitability of banks the number of employees employed as a percentage of the forces can be considered as a measure of unemployment, and we have used this measure in this analysis, and the impact of unemployment rates as an independent variable on banking performance can be analyzed through three elements as dependent variables that express the performance of commercial banks Sarkar and Rakshit, 2023)^[12].
7. **Loan Quality:** The ratio of non-performing loans (non-performing loans) to total loans was used as an indicator of credit quality (Sarkar and Rashit, 2024: 2)^[11] and this was rounded as a percentage of loan loss provisions to total loans, increasing the amount of non-performing loans may have some negative impact on banking performance (Ghosh, 2015: 50) For this reason, commercial banks always try to maintain credit quality by reducing the burden of stressed assets (Pramahender, 2022: 136)^[9].
8. **Exchange Rate Fluctuations:** It is the rate at which the value of one country's currency is exchanged for the currency of another country, which affects international trade. It also affects banks' profits by influencing currency assets and liabilities foreign exchange rate, which leads to an impact on international transactions and increases credit risks, and that the exchange rate has a significant negative impact on the profitability of the banking sector (Noorani, 2020: 71)^[8].

Third Topic

Practical Aspect Analysis of Indicators of Employment of Money and Banking Performance in Banks Research Sample



Source: Prepared by the researcher based on the data of Table 2

First: The Development of Employment Indicators for Banks Research Sample for the Period (2016-2024)

Table (2) shows that the ratio of cash credit to deposits of Bank of Baghdad reached the highest ratio of (0.60) in (2022) and the lowest ratio of (0.018) in (2024) and achieved an average duration of (0.209), which is the lowest ratio set by the Central Bank of Iraq of (0.70), and the reason is due to the preference of commercial banks to retain liquidity. The Bank of Economy also achieved the highest percentage of (2.91) in (2024) due to the bank's endeavor to grant loans and advances and employ its surplus cash balances, and the lowest percentage reached (0.07) in (2016) due to the deterioration of the security and economic situation for this year, which reflected negatively on the economic situation in general and banks in particular, and achieved an average of (1.498), while Sumer Bank achieved the highest percentage of (7.94) in (2016) due to the bank's efficiency in employing cash balances and grants Credit to achieve high returns, while the lowest percentage reached (0.50), which is very low than the rate set by the Central Bank, and the reason for this is due to the bank's credit policy to reduce the granting of loans to reduce the risks resulting from granting credit.

Table 2: Evolution of the Ratio of Cash Credit to Deposits of Banks Study Sample for the Period (2016-2024)

Sumer Bank	Economy Bank	Baghdad Bank	Years
7.94	0.07	0.24	2016
1.05	0.98	0.20	2017
0.97	1.76	0.18	2018
1.22	1.44	0.20	2019
0.84	1.15	0.13	2020
0.68	1.42	0.10	2021
0.50	1.32	0.60	2022
0.91	2.45	0.02	2023
2.91	2.91	0.018	2024
7.94	2.91	0.6	Max
0.5	0.07	0.018	Min
2.314	1.498	0.209	Average

Source: Iraqi Securities Commission 'Annual Reports of Private Banks' for the Period (2016-2024)

Second: The Development of Banks' Banking Performance Research Sample

An asset ratio has been adopted as an indicator of banking performance, which is a measure of a bank's ability to

generate profits through the employment of its assets. Table (3) shows that Bank of Baghdad achieved the highest percentage of return on assets (0.086) in (2024) and the lowest percentage reached (0.003) in (2018) and achieved an

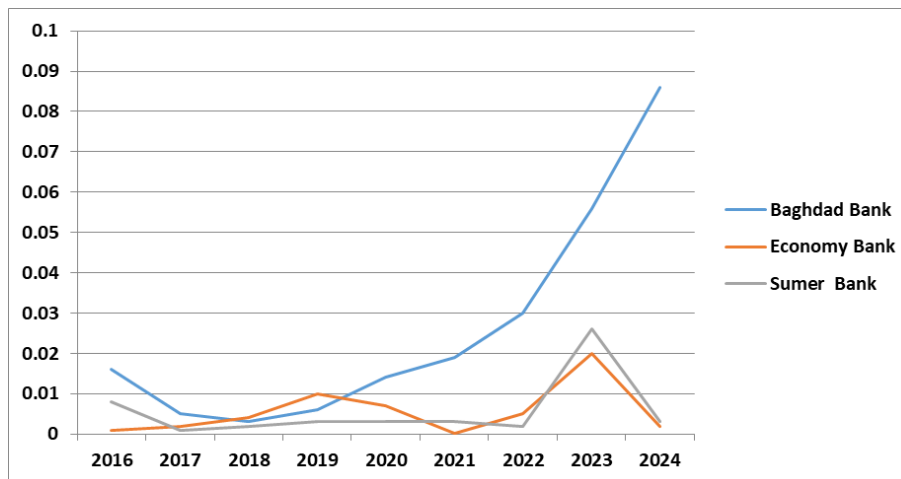
average duration of (0.029), and Bank of Economy achieved the highest percentage of (0.02) in (2023), while it achieved the lowest percentage of (0.0001) in (2021), and achieved the average duration of (0.0056), while Sumer Bank achieved the highest percentage of (0.008) in (2016) and the reason for this

is due to In 2023, it achieved the lowest percentage of (-0.026) and is due to the bank's poor policy, which led to the bank's poor performance and achieved an average period of (0.0031)

Table 3: Evolution of the Rate of Return on Assets for Banks Study Sample for the Period (2016-2024)

Sumer Bank	Economy Bank	Baghdad Bank	Years
0.008	0.0009	0.016	2016
0.001	0.002	0.005	2017
0.002	0.004	0.003	2018
0.003	0.010	0.006	2019
0.003	0.007	0.014	2020
0.003	0.0001	0.019	2021
0.002	0.005	0.030	2022
-0.026	0.02	0.056	2023
0.003	0.002	0.086	2024
0.003	0.02	0.086	MAX
0.003	0.0001	0.003	Min
0.0031	0.0056	0.029	Average

Source: Iraqi Securities Commission ' Annual Reports of Private Banks ' for the Period (2016-2024)



Source: Prepared by the researcher based on the data of Table (3)

Fourth Topic

Measuring and testing the impact of the use of funds on the banking performance of the banks in the study sample

First: Description of the statistical model: The study included two variables, one of which is independent

(employment percentage) and the other is dependent on (ROA) which measures the banking performance of commercial banks in the research sample, and can be clarified through Table (4):

Table 4: The Research Variables

Variable Type	Variable	Symbol
Independent	Credit to Deposit	CD
Dependent	Return on Assets ratio	ROA

Second: Testing the Effect of the Independent Variable on the Dependent Variable

The relationship between the independent variable and the variable was tested statistically based on the simple linear

regression method and the cross-sectional least squares method using cross-sectional data (Panel data), as shown in Table (5):

Table 5: Testing the relationship between efficiency and performance of commercial banks.

Dependent Variable: ROA				
Method: Panel Least Squares				
Date: 08/27/25 Time: 19:18				
Sample: 2016 2024				
Periods included: 9				
Cross-sections included: 3				
Total panel (balanced) observations: 27				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-6.03120	2.3091	-2.6118	0.0155
CD	0.00071	0.0021	0.3343	0.7411
$Y = C + \beta_1 X_1$ $CD = - 6.031207 + .0000711 ROA$				
R-squared	0.4268			
Adjusted R-squared	0.3521			
S.E. of regression	0.0152			
Sum squared resid	0.0053			
Log likelihood	76.7213			
F-statistic	5.7108			
Prob (F-statistic)	0.0044			
Differentiation between periods by fixed effect Fixed effects (Period)		Differentiation between banks by fixed impact Fixed effects (Cross)		
0.00305	2016-C		-0.99999	
-0.01080	2017-C		-6.7452	
-0.00954	2018-C		0.999999	
-0.0062	2019-C			
-0.0056	2020-C			
-0.0061	2021-C			
-0.0008	2022-C			
0.0143	2023-C			
0.0217	2024-C			

Source: Prepared by the researcher based on the outputs of the Statistical Analysis Program (Eviews 13)

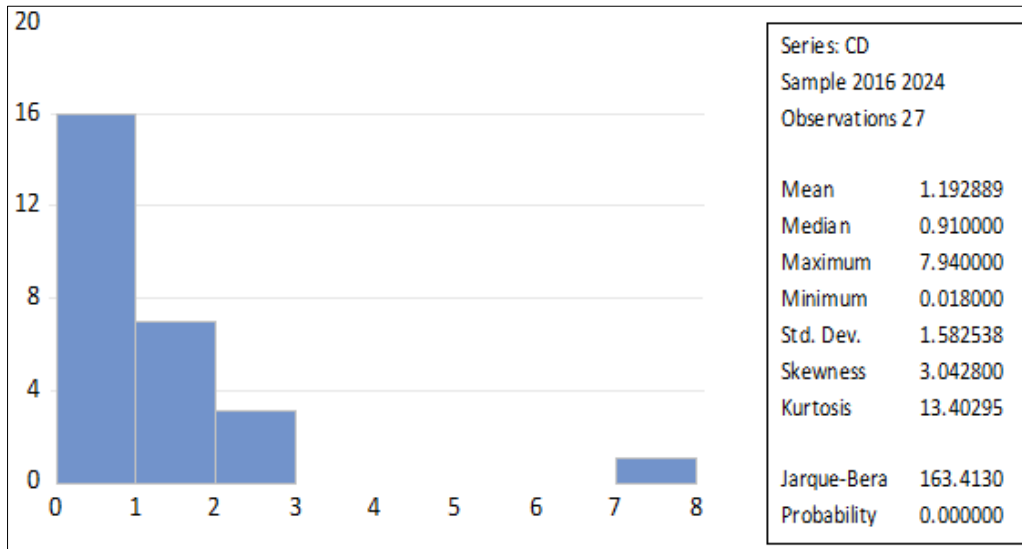
It is clear from the results of Table (5) in the light of the simple linear regression equation that the constant limit is (C = -6.03120), which means that there is the existence of the dependent variable of the rate of return on assets (ROA) of (6.03120) billion dinars when the value of the independent variable (the ratio of cash credit to deposit) is equal to zero, and the results of Table (5) also indicate) indicated that the value of the explanatory power factor (R-Squared) reached (0.4268), which means that the independent variable (the ratio of cash credit to deposits) explains about (0.4268) of the change in the dependent variable (ROA), while the remaining percentage of (0.5732) is due to other factors that were not included in the estimated model, which is an acceptable

indicator when comparing the calculated value of (F) which is (5.71.) and is greater than its tabular value (3.59) At the level of significance (5%), we reject the null hypothesis and accept the alternative hypothesis that there is a significant effect of the independent variable (the ratio of cash credit to deposits) in the dependent variable (ROA).

The value of the marginal slope of the independent variable parameter was (0.00071), which means that there is a direct relationship between the ratio of cash credit to deposits and the rate of return on assets, which is consistent with the theory of commercial banks, meaning that if the ratio of employment (cash credit to deposits) increases by (0.00071), it will lead to an increase in the rate of return on assets by one unit.

Third: Jarque – Bera Natural Distribution Test

1. Results of the Independent Variable Normal Distribution Test:



Shape 3: Results of the Independent Variable Normal Distribution Test

It is clear from the results of Figure (3) that the value of (Jarque-Bera) for the independent variable reached

(16.34130) and the significant value reached (0.000000), which is less than the significance level (0.05), we accept the hypothesis of nullity and reject the alternative hypothesis that states that the data do not follow the natural distribution.

2. Results of the test of the normal distribution of the dependent variable

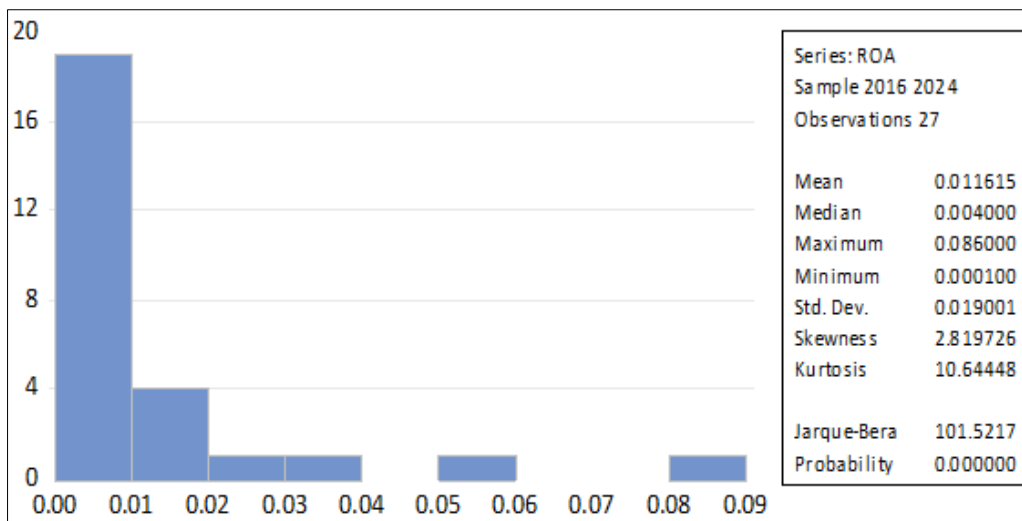


Fig 4: Test results of the normal distribution of the dependent variable

It is clear from the results of Figure (4) that the value of (Jarque-Bera) reached (101.5217) and the value (Probability) reached (0.0000), which is less than the level of significance (0.05), so we accept the hypothesis of nothingness, and reject the alternative hypothesis.

Conclusions and Recommendations

First: Conclusions

1. The results of the statistical analysis of the research variables showed that the percentage of explanatory power was (40%), which reflects the reticence of commercial banks and their ability to face credit risks and control credit activity.
2. The Iraqi commercial banks in the research sample witnessed low profits during the research period, due to

- the efforts of commercial banks to apply a conservative credit policy to avoid credit risks that may reflect negatively on the financial performance of Iraqi banks.
3. The results of the financial analysis showed that the employment indicators were acceptable, which reflects the success of commercial banks in employing and operating their funds, and they achieved a higher percentage than the percentage set by the Central Bank of Iraq.
4. The results of the research showed that the services provided by Sumer Bank were good and explain the efficiency and ability of the bank in managing its operations. It performs its function towards customers, which explains its role in achieving a balance between profitability and liquidity and avoiding high risks, as

well as its role in following up on borrowing customers.

5. The Corona pandemic had a negative impact on the bank's activities, which led to a decline in investment activity due to the measures taken at the time, which were the imposition of the health ban to avoid infections and transmission of infections.

Second: Recommendations

1. Applying financial technology when employing money, which leads to improving the efficiency of banking operations, reducing costs, and increasing returns (profits) and thus contributing to enhancing banking performance.
2. Diversify sources of investments in various sectors, reducing the risks associated with a single sector, thereby enhancing the financial stability of commercial banks.
3. Seeking to develop the capital markets because of their effective and important role in investing funds in commercial banks in the fields of stocks and bonds, which helps to increase the returns of commercial banks.

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