THE ROLE OF CASH FLOW STATEMENT INDICATORS PREPARED IN ACCORDANCE WITH IAS 7 IN ASSESSING FINANCIAL FAILURE RISK: A CASE STUDY OF THE INTERNATIONAL DEVELOPMENT BANK OF IRAQ

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Abstract. This study aims to examine the role of indicators derived from the Statement of Cash Flows, prepared in accordance with International Accounting Standard 7 (IAS 7), in assessing the risk of financial failure at the International Development Bank, a private bank listed on the Iraq Stock Exchange. The study emphasizes the importance of the Statement of Cash Flows as a fundamental financial report that provides information about the bank's ability to generate cash, maintain adequate liquidity, meet its financial obligations, and sustain its operating activities. The research problem arises from the limited use of cash flow indicators as analytical tools for evaluating financial performance and identifying early signs of financial distress. In addition, the absence of sufficiently detailed analysis of cash-flow-based financial ratios may limit the ability of management and other users of financial statements to assess the bank's financial position and future continuity accurately. The study relies on a descriptive and analytical approach, combining a review of the theoretical framework with an analysis of selected financial and cash flow indicators of the International Development Bank. The findings indicate a substantial improvement in the bank's operating cash flows and overall cash position in 2025, despite declining profitability and increasing leverage. However, the analysis also identifies discrepancies requiring further verification in the reported 2024 operating cash flow subtotal and the classification of property and equipment expenditures under IAS 7. The results should therefore be interpreted as a descriptive assessment of financial conditions and potential warning signs rather than a statistical prediction of financial failure. The study recommends that bank management give greater attention to cash flow statement indicators when evaluating financial performance, liquidity conditions, and future financial sustainability, and that these indicators be used alongside other financial and non-financial measures when assessing the risk of financial failure.

Keywords: Statement of Cash Flows, IAS 7, cash flow indicators, financial failure, financial distress, private banks.

РОЛЬ ПОКАЗАТЕЛЕЙ ОТЧЁТА О ДВИЖЕНИИ ДЕНЕЖНЫХ СРЕДСТВ, СОСТАВЛЕННОГО В СООТВЕТСТВИИ С IAS 7, В ОЦЕНКЕ РИСКА ФИНАНСОВОЙ НЕСОСТОЯТЕЛЬНОСТИ: НА ПРИМЕРЕ МЕЖДУНАРОДНОГО БАНКА РАЗВИТИЯ ИРАКА

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Аннотация. Целью настоящего исследования является изучение роли показателей, рассчитанных на основе отчёта о движении денежных средств, составленного в соответствии с Международным стандартом финансовой отчётности IAS 7, в оценке риска финансовой несостоятельности Международного банка развития — частного банка, акции которого обращаются на Иракской фондовой бирже. В исследовании подчёркивается значение отчёта о движении денежных средств как одного из основных элементов финансовой отчётности, предоставляющего информацию о способности банка генерировать денежные средства, поддерживать достаточный уровень ликвидности, выполнять свои финансовые обязательства и обеспечивать непрерывность операционной деятельности. Проблема исследования

обусловлена ограниченным использованием показателей денежных потоков в качестве аналитических инструментов для оценки финансовых результатов и выявления ранних признаков финансовых затруднений. Кроме того, отсутствие достаточно подробного анализа финансовых коэффициентов, основанных на денежных потоках, может ограничивать возможности руководства и других пользователей финансовой отчётности объективно оценивать финансовое положение банка и перспективы продолжения его деятельности. В исследовании используется описательно-аналитический подход, сочетающий обзор теоретических положений с анализом отдельных финансовых показателей и показателей денежных потоков Международного банка развития. Полученные результаты свидетельствуют о существенном увеличении денежных потоков от операционной деятельности и улучшении общего состояния денежных средств банка в 2025 году на фоне снижения рентабельности и роста долговой нагрузки. Вместе с тем в ходе анализа выявлены расхождения, требующие дополнительной проверки, в частности в отношении итогового показателя денежных потоков от операционной деятельности за 2024 год и классификации расходов на приобретение основных средств в соответствии с IAS 7. Таким образом, полученные результаты следует рассматривать как описательную оценку финансового состояния банка и потенциальных признаков финансовых затруднений, а не как статистический прогноз финансовой несостоятельности. В исследовании рекомендуется руководству банка уделять больше внимания показателям отчёта о движении денежных средств при оценке финансовых результатов, состояния ликвидности и будущей финансовой устойчивости, а также использовать данные показатели совместно с другими финансовыми и нефинансовыми критериями при оценке риска финансовой несостоятельности.

Ключевые слова: отчёт о движении денежных средств; IAS 7; показатели денежных потоков; финансовая несостоятельность; финансовые затруднения; частные банки.

Introduction

The Statement of Cash Flows is one of the principal financial statements used by economic entities to evaluate their financial performance, liquidity position, and ability to meet financial obligations. Its importance lies in presenting information about cash inflows and outflows during a specific financial period and identifying the sources and uses of cash arising from operating, investing, and financing activities. Unlike accrual-based accounting measures, the Statement of Cash Flows provides direct information about an entity's actual cash-generating capacity. This makes it particularly important for banks and other financial institutions, where maintaining adequate liquidity is essential for meeting obligations and ensuring operational continuity.

Cash flow information assists management, investors, creditors, and other users of financial statements in evaluating an entity's ability to generate liquidity, settle its obligations, finance future activities, and maintain financial stability. It also helps distinguish between accounting profitability and actual cash-generating performance. An entity may report accounting profits while simultaneously experiencing insufficient cash flows to meet its short-term obligations. Financial distress may therefore arise not only from persistent accounting losses or insufficient assets but also from weaknesses in liquidity and the timing of cash inflows and outflows. For this reason, indicators derived from the Statement of Cash Flows can provide important information for identifying potential financial difficulties at an early stage. Accordingly, this study examines selected cash flow statement indicators prepared in accordance with IAS 7 and analyzes their usefulness in assessing the risk of financial failure at the International Development Bank of Iraq. The study focuses on the relationship between cash-generating capacity, liquidity, financial obligations, and the bank's ability to maintain sustainable operations.

1. Research Methodology and Previous Studies

1.1 Research Methodology

The research methodology provides the systematic framework through which the research problem, objectives, variables, methods, and sources of data are defined. In accordance with the nature of the study, the methodological framework is presented as follows.

1.1.1 Research Problem

Early identification of financial distress is an important aspect of financial management, particularly in the banking sector, where liquidity and the ability to meet financial obligations are essential for operational continuity.

Traditional financial analysis often focuses heavily on accounting profitability and balance-sheet indicators, while insufficient attention may be given to indicators derived from the Statement of Cash Flows. However, a bank may report accounting profits while simultaneously experiencing weaknesses in its cash-generating capacity or liquidity position.

Therefore, the research problem focuses on the usefulness of cash flow statement indicators in assessing the financial condition of the International Development Bank and identifying potential signs of financial distress.

Accordingly, the main research question is formulated as follows:

To what extent can indicators derived from the Statement of Cash Flows, prepared in accordance with IAS 7, contribute to assessing the risk of financial failure at the International Development Bank?

1.1.2 Research Importance

The importance of the study can be summarized as follows:

1. Strengthening the theoretical understanding of cash flow statement indicators and financial failure risk.
2. Highlighting the importance of cash flow indicators in evaluating the financial performance and liquidity position of the bank under study.
3. Examining the usefulness of cash flow indicators as early-warning measures of potential financial distress.
4. Providing management and other users of financial statements with additional information that may support the assessment of the bank's financial sustainability and ability to meet its obligations.

1.1.3 Research Objectives

The study aims to examine the role of indicators derived from the Statement of Cash Flows in assessing the risk of financial failure at the International Development Bank.

More specifically, the study seeks to:

1. Present the theoretical foundations of the Statement of Cash Flows and financial failure.
2. Analyze selected financial and cash flow indicators of the International Development Bank.
3. Evaluate the bank's ability to generate operating cash flows and maintain adequate liquidity.
4. Examine changes in selected cash flow indicators and their implications for financial stability.
5. Assess the usefulness of cash flow statement indicators as early-warning measures of potential financial distress.
6. Provide recommendations that may assist bank management in strengthening financial performance and maintaining future operational continuity.

1.1.4 Research Hypothesis

The study is based on the following main hypothesis:

Cash flow statement indicators prepared in accordance with IAS 7 provide useful information for assessing the risk of financial failure at the International Development Bank.

The hypothesis is examined through descriptive and analytical evaluation of the bank's financial statements and selected cash-flow-based financial ratios rather than through an inferential statistical prediction model.

1.1.5 Research Population and Sample

The research population consists of private banks listed on the Iraq Stock Exchange.

The research sample consists of the **International Development Bank**, which was selected as a case study for analyzing the role of cash flow statement indicators in assessing financial failure risk.

1.1.6 Research Method

The study adopts both descriptive and analytical approaches.

The **descriptive approach** is used to present the theoretical framework related to the Statement of Cash Flows, IAS 7, financial performance, and financial failure.

The **analytical approach** is used to examine the financial statements of the International Development Bank, calculate selected financial and cash flow indicators, compare their values across the study periods, and interpret their implications for liquidity, financial performance, and financial failure risk.

1.1.7 Research Limitations

The study is subject to the following limitations:

Temporal limitation: The general financial performance analysis covers the period **2021–2025**, while the detailed comparative analysis of cash flow statement indicators focuses on **2024 and 2025**.

Spatial limitation: The study is limited to the **International Development Bank in Iraq**, which represents the case study selected from private banks listed on the Iraq Stock Exchange.

Subject limitation: The study focuses on financial and cash flow indicators derived from the bank's published financial statements, with particular emphasis on indicators associated with liquidity, cash-generating capacity, and financial failure risk.

Data and methodological limitations: The analysis relies on financial information reported by the International Development Bank of Iraq and on calculations derived from these data. A discrepancy was identified between the reported operating cash flow subtotal for 2024 and the amount recalculated from the underlying cash flow components. In addition, the classification of property and equipment expenditures raises a question concerning consistency with IAS 7. These issues are disclosed in the analysis, and the related operating and investing cash flows are analytically reclassified for a consistent comparison, with the resulting changes reflected in the calculated financial ratios. Furthermore, the study is limited to a descriptive comparison of financial indicators and does not employ a statistical bankruptcy prediction model or estimate the probability of financial failure. Consequently, the findings should not be interpreted as definitive predictions of the bank's future financial condition.

1.1.8 Data and Information Collection Methods

The theoretical framework is based on relevant books, academic studies, journal articles, accounting literature, and sources related to IAS 7 and financial failure.

The practical component of the study relies on the published annual financial reports and financial statements of the International Development Bank. These reports are used to extract the financial data required to calculate and analyze the selected indicators.

1.1.9 Research Hypothesis Framework

The research framework illustrates the conceptual relationship between the main variables examined in the study.

The **independent variable** is represented by:

Cash Flow Statement Indicators prepared in accordance with IAS 7

including indicators related to operating cash flows, liquidity, liabilities, assets, and cash-flow-based profitability.

The **dependent variable** is represented by:

Financial Failure Risk

which is assessed through the interpretation of the bank's liquidity position, ability to meet financial obligations, cash-generating capacity, and selected indicators of financial distress.

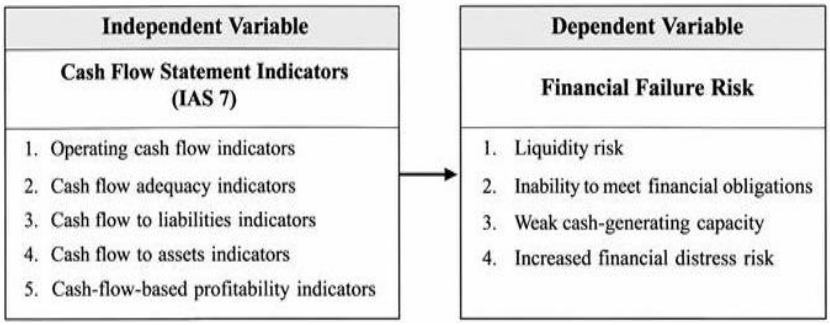


Figure 1. Hypothetical Research Framework

1.2 Previous Studies

Several previous studies have examined financial failure prediction, cash flow indicators, financial performance, and liquidity risk in banks and other financial institutions. The most relevant studies are summarized below.

1. Al-Bayati (2022), "Predicting Financial Failure in Iraqi Banks Using a Logistic Regression Model: An Applied Study on a Sample of Iraqi Banks Listed on the Iraq Stock Exchange (2014–2020)"

The study examined the prediction of financial failure in a sample of Iraqi banks listed on the Iraq Stock Exchange. Its main objective was to assess the ability of banks to withstand financial risks arising from fluctuations in the Iraqi economic environment.

The study applied a logistic regression model to a sample of 19 Iraqi banks, including 10 financially sound banks and 9 distressed banks. The findings indicated that Iraqi banks operate in a highly volatile and uncertain environment and therefore require appropriate early-warning models capable of identifying the risk of financial failure before it becomes severe.

The study also found that higher levels of equity, adequate liquidity, and stronger asset quality contribute to reducing the probability of financial failure. It recommended maintaining sufficient liquidity, strengthening capital adequacy, improving asset quality, and developing appropriate financial failure prediction models for Iraqi banks.

Relevance to the current study: This study is directly relevant because it focuses on Iraqi banks and emphasizes the importance of liquidity and financial indicators in identifying financial failure risk.

2. Al-Zamili and Al-Hassani (2021), "The Impact of Using Cash Flow Indicators on the Predictability of Financial Distress: An Applied Study on a Sample of Industrial Companies Listed on the Iraq Stock Exchange"

The study investigated the usefulness of indicators derived from the Statement of Cash Flows in the early identification of financial distress and sought to determine which indicators were most effective in distinguishing between distressed and non-distressed companies.

The sample consisted of eight industrial companies listed on the Iraq Stock Exchange, including four distressed and four non-distressed companies, over the period 2015–2018. The study used 16 cash flow indicators and applied multiple discriminant analysis.

The results led to the development of a predictive model based on five cash flow indicators. The model achieved an accuracy rate of 87.5% one year before financial distress and 62.5% two and three years before financial distress.

Relevance to the current study: This study is highly relevant because it demonstrates the usefulness of cash flow statement indicators as early-warning tools for identifying financial distress. Although it focuses on industrial companies, its analytical approach supports the use of cash-flow-based indicators in assessing financial failure risk in other sectors, including banking.

3. Astuti, Hilman, and Suryajaya (2025), "Rebuild the Trust: Predicting the Financial Well-Being of Indonesian Insurers"

The study examined the financial factors affecting the financial well-being and insolvency risk of insurance companies in Indonesia. It analyzed life and general insurance companies over the period 2012–2020 using logistic regression.

The results indicated that investment performance, profitability, liquidity, leverage, premium growth, and other financial indicators play an important role in determining financial stability and insolvency risk.

Relevance to the current study: Although the study focuses on insurance companies rather than banks, it provides supporting evidence that liquidity, leverage, profitability, and other financial indicators are important for assessing the financial stability and failure risk of financial institutions.

4. Wokeh (2024), "Cash Flow Accounting and Financial Performance of Quoted Insurance Companies in Nigeria"

The study examined the relationship between cash flow accounting and the financial performance of listed insurance companies in Nigeria. It covered 22 insurance companies over the period 2013–2016 and applied Pearson correlation analysis using SPSS.

The findings indicated a positive relationship between cash flow activities and financial performance. The study emphasized the importance of operating and financing cash flows in maintaining profitability and liquidity.

Relevance to the current study: Although conducted in the insurance sector, the study provides additional evidence that cash flow information is important in evaluating the financial condition, liquidity, and sustainability of financial institutions.

Comment on Previous Studies

The reviewed studies show that financial failure and financial distress can be assessed using a variety of financial indicators and statistical methods. Several studies emphasize the importance of liquidity, leverage, profitability, asset quality, and cash flow indicators in identifying financial weakness at an early stage.

However, previous studies differ in terms of sector, methodology, variables, and prediction techniques. Some focus on statistical prediction models, while others examine financial performance through accounting and cash flow indicators.

The present study differs from these studies by focusing specifically on the International Development Bank of Iraq and by examining the usefulness of cash flow statement indicators prepared in accordance with IAS 7 as analytical tools for assessing financial failure risk.

2.1 A Conceptual Introduction to the Statement of Cash Flows

2.1.1 The Concept of the Statement of Cash Flows

The Statement of Cash Flows is an important component of financial reporting because it provides users of financial statements with information that supports financial analysis and economic decision-making.

There are several definitions of the Statement of Cash Flows in the accounting literature. Al-Sabbagh (2023, p. 56) defines it as a financial report that provides users with a detailed summary of cash inflows during a specific period and explains how cash was used through operating, investing, and financing activities.

Ramadan and Al-Khalayleh (2013, p. 166) describe the Statement of Cash Flows as a record of an entity's cash receipts and payments during a financial period. Cash receipts include amounts collected from different sources, while cash payments represent amounts disbursed for various purposes during the same period.

The Algerian Accounting System defines the objective of the Statement of Cash Flows as providing users of financial statements with a basis for assessing an entity's ability to generate cash and cash equivalents, as well as information about the manner in which these liquid resources are used (Decree dated July 26, 2008, p. 26).

In general, the Statement of Cash Flows presents the cash inflows and outflows arising from three main categories of activities: operating, investing, and financing activities.

The principal concepts associated with cash flows include the following:

- **Cash:** Cash on hand and demand deposits available for immediate use.
- **Cash equivalents:** Short-term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value. **Cash flows:** Inflows and outflows of cash and cash equivalents **(Chouaib, Nigri, & Qallab, 2024)**.

2.1.2 Objectives of the Statement of Cash Flows

The Statement of Cash Flows provides users of financial statements with information about an economic entity's cash receipts and cash payments during a specific period. This information assists users in assessing several aspects of the entity's financial condition (Al-Hasnawi, 2018, p. 26), including:

1. The entity's ability to generate positive net cash flows in the future.
2. The entity's ability to meet its financial obligations, distribute dividends, and determine its need for external financing.
3. The reasons for differences between accounting profit, which is prepared on an accrual basis, and net cash flows generated from operating activities.
4. The effects of investing and financing activities, including relevant non-cash transactions, on the entity's financial position.
5. The entity's financial flexibility and liquidity position.

These objectives demonstrate that the Statement of Cash Flows complements the information provided by the Statement of Financial Position and the Income Statement by focusing specifically on the generation and use of cash resources.

2.1.3 The Importance of the Statement of Cash Flows

The Statement of Cash Flows is an essential component of financial reporting and an important tool in financial analysis. Under IAS 7, information about cash flows enables users to evaluate an entity's ability to generate cash and cash equivalents and to assess its liquidity requirements.

Cash flow information is particularly important when evaluating financial distress risk because an entity may report accounting profits while experiencing insufficient cash flows to meet its financial obligations. Analysis of cash flows from operating, investing, and financing activities therefore provides additional insight into the entity's liquidity, financial flexibility, and ability to maintain its operations.

The importance of the Statement of Cash Flows can be summarized as follows (Kafi, 2016, p. 8):

- It provides an important tool for financial management, planning, and forecasting.
- It assists banks and other financial institutions in evaluating financing requirements.
- It supports the assessment of liquidity, solvency, and financial flexibility.
- It helps evaluate an entity's ability to generate future cash flows.
- It complements the information provided by other financial statements and contributes to a more comprehensive assessment of financial performance and financial position.

2.1.4 Types of Cash Flows

In accordance with International Accounting Standard 7 (IAS 7), cash flows are classified into three main categories: operating, investing, and financing activities (Al-Hasnawi, 2018, pp. 28–30).

1. Cash Flows from Operating Activities

Operating activities represent the principal revenue-producing activities of an entity and other activities that are not classified as investing or financing activities. For banks and other financial institutions, operating cash flows reflect the cash consequences of their principal banking activities.

Operating cash inflows may include:

1. Cash receipts arising from the provision of banking and financial services.
2. Interest received from loans and other financial assets.
3. Fees, commissions, and other operating receipts.
4. Other cash receipts arising from ordinary operating activities.

Operating cash outflows may include:

1. Payments associated with banking and financial services.
2. Payments to employees.
3. Payments of operating and administrative expenses.
4. Interest payments arising from the ordinary activities of the bank, where classified as operating under the applicable accounting policy.

5. Income taxes paid, unless they are specifically attributable to investing or financing activities.
6. Other cash payments arising from operating activities.

For a financial institution, interest paid and interest and dividends received are generally classified as operating cash flows under IAS 7.

2. Cash Flows from Investing Activities

Investing activities relate to the acquisition and disposal of long-term assets and other investments that are not classified as cash equivalents.

Cash inflows from investing activities may include:

1. Proceeds from the sale of property, plant, and equipment.
2. Proceeds from the sale or maturity of investments and financial assets classified as investing activities.
3. Proceeds from the disposal of other long-term assets.

Cash outflows from investing activities may include:

1. Payments for the acquisition of property, plant, and equipment.
2. Payments for the acquisition of long-term investments and financial assets.
3. Other cash payments related to investing activities.

The classification of particular financial assets in a bank's Statement of Cash Flows should be based on the nature of the transaction and the accounting policies applied by the institution.

3. Cash Flows from Financing Activities

Financing activities are activities that result in changes in the size and composition of an entity's equity and borrowings.

Cash inflows from financing activities may include:

1. Proceeds from the issuance of shares or other equity instruments.
2. Proceeds from borrowings and other financing arrangements.

Cash outflows from financing activities may include:

1. Repayment of borrowed funds.
2. Payments to acquire or redeem the entity's own shares.
3. Payments of principal portions of lease liabilities.
4. Dividend payments when classified as financing activities in accordance with the entity's accounting policy.

Classification of cash flows into operating, investing, and financing activities provides information that assists users in evaluating the relationship between an entity's principal operations, investment decisions, financing structure, and overall cash position.

In accordance with IAS 7, cash flows are classified into operating, investing, and financing activities. For financial institutions, interest paid and interest and dividends received are generally classified as operating cash flows, given their relationship with the institution's principal revenue-generating activities. Payments for the acquisition of property and equipment are classified as investing activities, while dividends paid are generally classified as financing activities. These classifications should be applied consistently with the accounting policy and presentation adopted in the Bank's published financial statements.

2.1.5 Methods of Presenting Cash Flows from Operating Activities

IAS 7 permits entities to report cash flows from operating activities using either the direct method or the indirect method.

1. The Direct Method

Under the direct method, major classes of gross cash receipts and gross cash payments arising from operating activities are presented separately.

For a bank, these may include cash receipts and payments associated with banking services, interest, fees and commissions, operating expenses, employee costs, and other cash transactions arising from the bank's principal activities.

The direct method provides users with information about the actual sources and uses of operating cash during the reporting period.

2. The Indirect Method

Under the indirect method, operating cash flow is determined by adjusting accounting profit or loss for:

1. Non-cash items, such as depreciation, impairment provisions, and other accounting adjustments;
2. Changes in operating assets and liabilities during the period;
3. Accruals and deferrals affecting the timing of cash receipts and payments; and
4. Items whose cash effects are classified as investing or financing activities.

The indirect method therefore explains the reconciliation between accounting profit and net cash generated from operating activities.

Both methods are permitted under IAS 7. The selected method affects the presentation of operating cash flows but does not change the total net cash flow generated from operating activities.

2.1.6 Cash Flow Statement Indicators

Indicators derived from the Statement of Cash Flows can provide useful information about an entity's liquidity, cash-generating capacity, ability to meet financial obligations, and overall financial sustainability. These indicators are particularly relevant when assessing potential financial distress because accounting profitability alone may not accurately reflect the availability of cash required to meet obligations.

Several cash-flow-based indicators may be used in financial analysis (Sabir & Hussein, 2023, pp. 1084–1085).

1. Operating Cash Flow Adequacy Ratio

This ratio measures the extent to which cash generated from operating activities is sufficient to cover an entity's essential cash requirements, such as debt repayments, investment requirements, and dividend payments.

A higher value generally indicates a stronger ability to finance essential cash requirements from internally generated operating cash flows.

Operating Cash Flow Adequacy Ratio = Net Operating Cash Flow / Basic Cash Requirements

2. Operating Activity Index

The Operating Activity Index compares cash generated from operating activities with operating income and therefore provides information about the extent to which accounting earnings are supported by actual operating cash flows.

A higher value generally indicates stronger cash support for reported operating earnings.

Operating Activity Index = Net Operating Cash Flow / Operating Income

3. Operating Cash Indicator

This indicator compares net operating cash flow with net income and is used to assess the extent to which reported accounting profit is supported by actual cash generation.

Operating Cash Indicator = Net Operating Cash Flow / Net Income

A value above one indicates that operating cash flow exceeds reported net income, while a lower value may indicate weaker cash conversion of accounting earnings.

4. Cash Flow to Total Assets Ratio

This ratio measures the ability of an entity's asset base to generate operating cash flows.

Cash Flow to Total Assets Ratio = Net Operating Cash Flow / Total Assets

A higher ratio generally indicates greater efficiency in generating cash from the entity's assets. For banks, cash-flow-based indicators should be interpreted together with other measures of liquidity, liabilities, capital structure, profitability, and asset quality rather than being used as stand-alone evidence of financial failure.

2.1.7 Summary of International Accounting Standard 7 (IAS 7)

International Accounting Standard 7 (IAS 7) establishes the requirements for presenting information about an entity's cash flows. The Standard was originally developed by the International Accounting Standards Committee (IASC) and was subsequently adopted by the International Accounting Standards Board (IASB).

The principal stages in the development of IAS 7 are summarized below:

Date	Development
June 1976	Exposure Draft E7, *Statement of Source and Application of Funds*
October 1977	IAS 7, *Statement of Changes in Financial Position*, was issued
January 1979	The original IAS 7 became effective
July 1991	Exposure Draft E36, *Cash Flow Statements*, was issued
December 1992	Revised IAS 7, *Cash Flow Statements*, was issued
January 1, 1994	The revised IAS 7 became effective for annual periods beginning on or after this date
April 2001	IAS 7 was adopted by the International Accounting Standards Board (IASB)
September 2007	The title was changed from *Cash Flow Statements* to *Statement of Cash Flows*

Objective of the Standard

The objective of IAS 7 is to require entities to provide information about historical changes in cash and cash equivalents through a Statement of Cash Flows. The statement classifies cash flows during the reporting period into three categories:

1. Operating activities;
2. Investing activities; and
3. Financing activities.

This information enables users of financial statements to assess an entity's ability to generate cash and cash equivalents, determine its liquidity requirements, and evaluate the timing and certainty of future cash flows.

Scope of the Standard

IAS 7 requires an entity to prepare a Statement of Cash Flows and present it as an integral part of its financial statements for each period for which financial statements are presented.

The requirement applies to all entities regardless of the nature of their activities. This includes financial institutions, for which cash may represent a central element of their operating activities.

Users of financial statements need information about how an entity generates and uses cash and cash equivalents. All entities require cash to conduct their operations, meet their financial obligations, and provide returns to investors. Accordingly, IAS 7 requires the presentation of cash flow information by all reporting entities.

The Statement of Cash Flows, when considered together with the other financial statements, also assists users in evaluating changes in an entity's net assets, financial structure, liquidity, solvency, and ability to adapt the amount and timing of its cash flows to changing economic conditions.

2.2 A Theoretical Introduction to Financial Performance and Financial Failure in Private Banks

2.2.1 The Concept of Financial Performance

Financial performance plays an important role in ensuring the continuity and financial sustainability of an economic entity. Evaluating financial performance provides management and other stakeholders with information that supports decision-making, identifies strengths and weaknesses, and assists in assessing the entity's ability to achieve its financial objectives.

Researchers have approached the concept of financial performance from different perspectives. However, most definitions emphasize the evaluation of an entity's financial condition, efficiency, profitability, and ability to use its available resources effectively (Sassi & Boukerdid, 2021).

Financial performance can be understood as an assessment of an entity's financial condition and its ability to create value and maintain sustainable operations. Such an assessment generally relies on information obtained from the Statement of Financial Position, Income Statement, Statement of Cash Flows, and other relevant financial reports.

Financial analysis, in turn, involves the systematic examination and interpretation of financial information in order to evaluate past and current performance and support expectations regarding future financial conditions.

Financial performance evaluation therefore involves comparing actual or expected financial results with appropriate benchmarks and assessing how efficiently management uses the available financial and economic resources to achieve the objectives of the entity and meet the interests of its stakeholders.

In the banking sector, financial performance assessment is particularly important because banks must simultaneously maintain profitability, adequate liquidity, sufficient capital, asset quality, and the ability to meet their obligations. Consequently, financial performance indicators can also provide useful information for identifying emerging signs of financial weakness and potential financial distress.

2.2.2 Objectives of Financial Performance Evaluation

The evaluation of financial performance is an important component of financial management because it provides information about the efficiency of an entity's operations, the achievement of financial objectives, and the effectiveness of managerial decisions.

The main objectives of financial performance evaluation can be summarized as follows:

- Identifying weaknesses or deficiencies in the financial planning process and supporting the development of appropriate corrective measures.
- Assessing the efficiency with which organizational units and departments perform their assigned functions.
- Determining the extent to which the entity is achieving its financial and operational objectives.
- Providing decision-makers with information necessary to monitor, direct, and improve organizational activities.
- Supporting the internal control process by identifying deviations and areas requiring managerial attention.

In the banking sector, financial performance evaluation is particularly important because it assists management in monitoring profitability, liquidity, capital adequacy, asset quality, and the ability to meet financial obligations.

2.2.3 Factors Affecting Financial Performance

The financial performance of banks is influenced by a combination of external and internal factors. These factors may affect profitability, liquidity, operational efficiency, asset quality, and the ability of a bank to maintain financial stability.

The main factors affecting financial performance can be classified into two broad categories: external and internal factors.

A. External Factors Affecting Financial Performance

1. Economic and Political Conditions

The financial performance of banks is influenced by the stability of the economic and political environment. Economic growth, inflation, interest rates, exchange-rate movements, political stability, and general market conditions may affect lending activity, investment decisions, liquidity, and profitability.

2. Legal and Regulatory Environment

Banking legislation, regulatory requirements, accounting standards, and supervisory policies directly affect the operations and financial performance of banks. Compliance with regulatory requirements may influence capital structure, liquidity management, lending policies, and risk exposure.

3. Social and Religious Factors

Social preferences, banking habits, financial awareness, and religious considerations may influence customers' choices regarding financial institutions and banking products. In markets where Islamic banking is widely available, some customers may prefer Sharia-compliant financial services, which can influence the deposit base, customer behavior, and competitive position of conventional banks.

B. Internal Factors Affecting Financial Performance

1. Organizational Structure

Organizational structure affects the allocation of responsibilities, communication, decision-making, and coordination within a bank. An appropriate organizational structure can improve managerial efficiency, facilitate the implementation of strategic plans, and support effective control over banking operations.

2. Technology

Technology plays an increasingly important role in banking performance. The adoption of modern banking systems, digital services, electronic payment technologies, and information systems can improve operational efficiency, reduce costs, enhance customer service, strengthen risk management, and support competitiveness.

3. Credit Activity and Loan Quality

Lending is one of the principal activities of commercial banks and an important source of income. However, excessive credit risk, weak loan quality, and borrower default may negatively affect profitability and financial stability. Banks therefore monitor credit activity through indicators such as loan quality, non-performing loans, credit losses, and the loan-to-deposit ratio.

4. Liquidity

Liquidity represents a bank's ability to meet its financial obligations as they become due without incurring significant losses. Adequate liquidity helps protect the bank from financial distress and enables it to respond to withdrawal demands and other short-term funding requirements.
Insufficient liquidity may increase financial risk even when the bank remains profitable on an accounting basis.

5. Bank Size

Bank size may influence financial performance in different ways. Larger banks may benefit from economies of scale, broader market access, greater diversification, and stronger technological and analytical capabilities.

However, excessive organizational complexity may also increase administrative costs and make management and control more difficult. Therefore, the relationship between bank size and financial performance depends on how effectively available resources are managed.

6. Resource Allocation

The manner in which a bank allocates its financial resources among loans, securities, cash holdings, and other assets can significantly affect profitability and liquidity. Effective resource allocation requires maintaining an appropriate balance between return and risk. Excessive concentration of resources in high-risk or illiquid assets may increase financial vulnerability, while overly conservative allocation may reduce profitability. Overall, financial performance is determined by the interaction of these external and internal factors. Therefore, the assessment of a bank's financial condition should not rely on a single indicator but should consider profitability, liquidity, asset quality, capital structure, cash flows, and the broader economic and regulatory environment.

2.2.4 The Concept of Financial Failure

Financial failure is a broad concept that refers to a deterioration in an entity's financial condition to the extent that it experiences increasing difficulty in meeting its financial obligations and maintaining normal operations.

Financial failure should be distinguished from temporary financial weakness. An entity may experience short-term liquidity difficulties without necessarily becoming financially insolvent. However, persistent liquidity shortages, declining profitability, increasing indebtedness, weak cash generation, and deterioration in asset quality may represent warning signs of financial distress. In the banking sector, financial failure may arise when a bank becomes unable to generate sufficient cash flows, maintain adequate liquidity, absorb financial losses, or meet its obligations toward depositors, creditors, and other stakeholders. Accordingly, financial failure in the context of this study can be defined as:

A progressive deterioration in a bank's financial position and cash-generating capacity that increases its inability to meet financial obligations and threatens the continuity of its operations.

This definition is consistent with the focus of the present study, which uses cash flow statement indicators as analytical tools for identifying potential signs of financial distress and assessing financial failure risk.

2.2.5 The Importance of Identifying Financial Failure

Early identification of financial failure is important because it enables management and other stakeholders to detect signs of financial deterioration before they develop into severe financial distress, insolvency, or business discontinuity. The importance of identifying financial failure is reflected in the interests of several stakeholder groups (Abu Shihab, 2018, pp. 36–37):

1. **Management:** Early identification of financial weakness enables management to determine the causes of deterioration and implement appropriate corrective measures before the situation becomes critical.
2. **Lenders and Creditors:** Information about financial failure risk helps lenders evaluate the ability of an entity to repay existing and future obligations and supports more informed credit decisions.
3. **Investors:** Investors use information about financial distress risk when evaluating investment alternatives, estimating expected returns, and avoiding investments associated with excessive financial risk.
4. **Banks and Financial Institutions:** Banks are interested in identifying financial failure risk when evaluating borrowers, determining credit conditions, pricing loans, and monitoring the ability of customers to meet their obligations.
5. **Auditors:** Auditors consider indicators of financial distress when evaluating whether the going concern assumption remains appropriate in the preparation of financial statements.
6. **Government and Regulatory Authorities:** Early identification of financial weakness supports supervisory and regulatory functions and helps protect financial and economic stability.
7. **Employees:** Financial stability contributes to employment security and increases confidence in the entity's ability to meet salary, pension, and other employment-related obligations.

In the banking sector, the early identification of financial failure risk is particularly important because deterioration in liquidity, asset quality, capital adequacy, or cash-generating capacity may affect not only the bank itself but also depositors, creditors, investors, and the stability of the wider financial system.

2.2.6 Stages of Financial Failure

Financial failure generally develops gradually rather than occurring suddenly. It may pass through several stages, with warning signs becoming increasingly serious over time (Makhlouf & Bahchachi, 2022, p. 119).

1. Early Warning Stage

At this stage, the entity begins to show initial signs of financial weakness. These may include declining profitability, reduced cash generation, increasing operating costs, deterioration in asset quality, or growing dependence on external financing. In banks, early warning signs may also include declining liquidity, increasing non-performing loans, weaker capital indicators, or an imbalance between cash inflows and cash outflows.

2. Liquidity Shortage Stage

At this stage, the entity experiences increasing difficulty in meeting short-term financial obligations as they become due. Although the value of its total assets may still exceed its liabilities, insufficient liquid resources may create pressure on normal operations. In a bank, persistent liquidity shortages may affect its ability to meet depositor withdrawals, settlement obligations, and other short-term commitments.

3. Financial Deterioration Stage

At this stage, financial weakness becomes more pronounced. The entity may experience declining profitability, persistent liquidity pressure, rising indebtedness, deterioration in asset quality, and increasing difficulty in obtaining external financing. For banks, this stage may also involve higher credit losses, deterioration in capital adequacy, increasing funding costs, and greater reliance on emergency or short-term sources of liquidity.

4. Severe Financial Distress or Insolvency Stage

If financial deterioration continues and corrective measures are insufficient, the entity may become unable to meet its financial obligations on a sustainable basis. At this stage, liabilities, losses, liquidity shortages, and capital weakness may threaten the continuity of operations. In the banking sector, such a situation may lead to regulatory intervention, restructuring, recapitalization, resolution procedures, merger, or other corrective measures.

5. Failure or Formal Resolution Stage

This represents the most severe stage of financial deterioration. The entity may no longer be able to continue normal operations without external intervention.

Depending on the applicable legal and regulatory framework, the outcome may include restructuring, liquidation, regulatory resolution, or formal bankruptcy proceedings. These stages demonstrate the importance of identifying financial weakness at an early stage, before liquidity and solvency problems develop into severe financial distress.

2.2.7 Indicators and Elements of Financial Failure

Financial failure does not usually result from a single event. Instead, it is generally associated with a combination of financial, operational, and managerial weaknesses that develop over time (Abu Shihab, 2018, pp. 36–37).

The main indicators and elements of financial failure include:

1. **Imbalance in the financial structure:** An inappropriate relationship between assets, liabilities, equity, and financing sources may increase financial vulnerability.
2. **Declining profitability:** Persistent deterioration in profitability may weaken the entity's ability to generate internal financial resources and absorb losses.
3. **Weak liquidity management:** Insufficient control over cash flows and short-term obligations may lead to liquidity shortages and increasing dependence on external financing.
4. **Increasing indebtedness:** A continuous rise in financial obligations may increase financing costs and reduce financial flexibility.
5. **Weak financial and managerial efficiency:** Ineffective management of financial resources, operations, and risks may contribute to deteriorating financial performance.
6. **Declining cash inflows:** Persistent reductions in operating cash flows may indicate weaknesses in the entity's ability to generate sufficient cash to support its activities and meet obligations.
7. **Weak financial reporting and disclosure:** Delays in preparing financial statements or inadequate disclosure may reduce transparency and make it more difficult to identify emerging financial problems.
8. **Repeated requests to postpone financial obligations or obtain additional financing:** Frequent dependence on debt restructuring, payment extensions, or emergency financing may represent a warning sign of financial distress.

In the banking sector, these indicators should be evaluated together with liquidity, capital adequacy, asset quality, profitability, indebtedness, and cash flow measures. No single indicator should be considered sufficient on its own to establish the existence of financial failure.

3. Applied Aspect of the Study: Analysis of Cash Flow Statement Indicators for Assessing Financial Failure Risk at the International Development Bank

3.1 Brief Overview of the Research Sample

The International Development Bank (IDB) is a privately owned Iraqi commercial bank established in 2011. The bank provides a range of financial and banking services to individuals, businesses, and investors and operates through a network of branches and offices in Iraq and the United Arab Emirates.

The bank was listed on the Iraq Stock Exchange in 2018, representing an important stage in the development of its ownership structure and institutional presence in the Iraqi banking sector.

Over time, the International Development Bank has expanded its banking activities and developed its technological infrastructure, including electronic payment services, banking cards, trade finance services, and digital banking solutions.

As part of its regional expansion strategy, the bank opened its first branch in Dubai, United Arab Emirates, in November 2022 after obtaining authorization from the Central Bank of the UAE. This

made the International Development Bank the first Iraqi private bank to commence banking operations in the UAE.

The bank has also expanded its digital banking services. In 2025, it launched an integrated smart banking zone at its headquarters on Abu Nawas Street in Baghdad, enabling customers to perform a range of banking transactions through digital and self-service technologies.

The International Development Bank has also expanded its lending and financing activities. According to the financial data analyzed in the present study, loans and credit facilities reached approximately IQD 1.281 trillion in 2025.

The International Development Bank was selected as the research sample because it represents an active private bank listed on the Iraq Stock Exchange and provides published financial statements that allow the analysis of financial performance and cash flow statement indicators over the study period.

3.2 Comparative Financial Performance of the International Development Bank (2021–2025)

Financial performance reflects a bank's ability to manage its financial resources efficiently, generate profits, maintain adequate liquidity and capital, and meet its obligations toward depositors, creditors, and other stakeholders.

The evaluation of financial performance provides an important basis for assessing the bank's financial condition and identifying changes that may indicate improvement or deterioration over time. For the purposes of the present study, the comparative financial performance of the International Development Bank during the period 2021–2025 is evaluated using the following main dimensions:

1. **Profitability:** The bank's ability to generate profits from its banking and financial activities.
2. **Liquidity:** The bank's ability to meet short-term financial obligations and satisfy withdrawal and funding requirements.
3. **Operational Efficiency:** The efficiency with which the bank manages its resources, revenues, and operating expenses.
4. **Capital and Solvency Position:** The bank's ability to absorb losses, maintain an adequate capital base, and meet its financial obligations.
5. **Asset Quality and Credit Activity:** The quality and composition of the bank's loans, credit facilities, investments, and other financial assets.
6. **Financial Growth:** Changes in the bank's assets, deposits, loans, revenues, equity, and other key financial indicators over time.

Table 1 presents the key comparative financial indicators of the International Development Bank for the period 2021–2025.

Table 1. Comparative Financial Performance Indicators of the International Development Bank (2021–2025)

Amounts in thousands of Iraqi dinars, except ratios

Indicator	**2021**	**2022**	**2023**	**2024**	**2025**
Total Assets	1,507,924,651	1,798,952,163	2,568,694,700	2,966,109,228	3,735,373,976
Loans and Credit Facilities	602,342,281	842,834,314	995,346,070	1,104,116,109	1,281,239,196
Total Liabilities	1,209,190,692	1,487,469,291	2,204,431,397	2,423,531,771	3,189,904,558
Customer Deposits	914,553,215	1,175,649,839	1,678,005,051	1,910,221,110	2,547,215,872
Shareholders' Equity	298,733,959	311,482,872	364,263,303	542,577,456	545,469,418
Loan-to-Deposit Ratio	65.9%	71.7%	59.3%	57.80%	50.30%
Equity-to-Total-Assets Ratio	19.8%	17.3%	14.2%	18.29%	14.60%
Net Profit after Tax	17,284,009	13,406,604	53,049,280	69,812,544	52,561,322
Total Revenue	78,030,395	107,487,363	191,098,484	235,652,889	205,893,859
Total Expenses, Excluding Tax Provision	57,696,387	91,029,129	129,003,495	153,280,732	143,575,936
Return on Assets (ROA)	1.15%	0.75%	2.07%	2.35%	1.41%

Return on Equity (ROE)	5.79%	4.30%	14.56%	12.87%	9.64%
Total Expenses-to-Total Revenue Ratio	73.9%	84.7%	67.5%	65.05%	69.73%

Source: International Development Bank of Iraq, Annual Report 2025, Section 8.2, «Financial Performance for 2025» (comparative financial indicators for 2021–2025). Compiled by the researcher.

First: Analysis of the Financial Position

The financial data indicate a substantial expansion in the scale of the International Development Bank's operations during the period 2021–2025. Total assets increased from approximately IQD 1,507.9 billion in 2021 to IQD 3,735.4 billion in 2025, representing cumulative growth of approximately **147.7%**.

Total liabilities increased from approximately IQD 1,209.2 billion in 2021 to IQD 3,189.9 billion in 2025, representing growth of approximately **163.8%**. Customer deposits were a major component of this expansion, rising from approximately IQD 914.6 billion to IQD 2,547.2 billion, an increase of approximately **178.5%** over the study period. This indicates substantial growth in the bank's deposit base and funding resources.

Shareholders' equity also increased, from approximately IQD 298.7 billion in 2021 to IQD 545.5 billion in 2025, representing cumulative growth of approximately **82.6%**. However, equity grew more slowly than total assets and total liabilities.

Consequently, the Equity-to-Total-Assets Ratio declined from **19.8% in 2021 to 14.6% in 2025**, despite a temporary increase to 18.29% in 2024. This indicates that the expansion of the bank's asset base outpaced the growth of shareholders' equity during the overall study period.

The results therefore show that the bank experienced strong balance-sheet expansion between 2021 and 2025, particularly through growth in assets, liabilities, and customer deposits. At the same time, the slower growth of equity relative to assets indicates the importance of continuously monitoring the relationship between business expansion and the bank's capital position.

Second: Analysis of Credit Activity and Liquidity

Loans and credit facilities increased from approximately IQD 602.3 billion in 2021 to IQD 1,281.2 billion in 2025, representing cumulative growth of approximately **112.7%**. This increase reflects a substantial expansion in the bank's credit activity during the study period.

At the same time, customer deposits increased at a considerably faster rate than loans and credit facilities. Consequently, the Loan-to-Deposit Ratio declined from **65.9% in 2021 to 50.3% in 2025**, after reaching its highest level of **71.7% in 2022**.

The decline in the Loan-to-Deposit Ratio indicates that the growth of the deposit base outpaced the expansion of lending activities. From a liquidity perspective, this development may provide the bank with greater flexibility in meeting funding requirements and depositor obligations.

However, a lower Loan-to-Deposit Ratio should not be interpreted independently as either favorable or unfavorable. It should be assessed together with other indicators of liquidity, asset quality, profitability, capital adequacy, and credit risk. The declining ratio therefore indicates a change in the relationship between lending and deposit growth rather than, by itself, evidence of improved or deteriorating financial performance.

Third: Profitability Analysis

The bank's profitability fluctuated considerably during the period 2021–2025. Net profit after tax amounted to approximately **IQD 17.3 billion in 2021** and declined to **IQD 13.4 billion in 2022**. It subsequently increased substantially to approximately **IQD 53.0 billion in 2023** and reached its highest level during the study period at approximately **IQD 69.8 billion in 2024**.

In 2025, net profit after tax declined to approximately **IQD 52.6 billion**, representing a decrease of approximately **24.7%** compared with 2024. Despite this decline, the 2025 level of net profit remained substantially higher than the levels recorded in 2021 and 2022.

Total revenue increased from approximately **IQD 78.0 billion in 2021 to IQD 205.9 billion in 2025**, representing cumulative growth of approximately **163.9%**. Total expenses, excluding the

tax provision, increased from approximately **IQD 57.7 billion to IQD 143.6 billion** over the same period, representing cumulative growth of approximately **148.8%**.

The Total Expenses-to-Total Revenue Ratio increased from **73.9% in 2021 to 84.7% in 2022**, indicating weaker cost efficiency during that year. It subsequently improved to **67.5% in 2023** and **65.05% in 2024**, before increasing moderately to **69.73% in 2025**.

Return on Assets (ROA) followed a similar pattern. It declined from **1.15% in 2021 to 0.75% in 2022**, increased to **2.07% in 2023**, and reached **2.35% in 2024**, before declining to **1.41% in 2025**.

Return on Equity (ROE) decreased from **5.79% in 2021 to 4.30% in 2022**, then increased sharply to **14.56% in 2023**. It subsequently declined to **12.87% in 2024** and **9.64% in 2025**.

Overall, the profitability indicators show a substantial improvement after 2022, followed by some moderation in 2025. The decline in net profit, ROA, and ROE in 2025 indicates weaker profitability compared with 2024. However, these results should be interpreted together with changes in revenues, expenses, assets, equity, and cash flows before drawing conclusions regarding the bank's overall financial condition or financial failure risk.

3.3 Analysis of Capital Adequacy and Liquidity Ratios for 2025

In addition to the financial performance indicators discussed above, the financial position of the International Development Bank can also be assessed through key prudential indicators related to capital adequacy and liquidity.

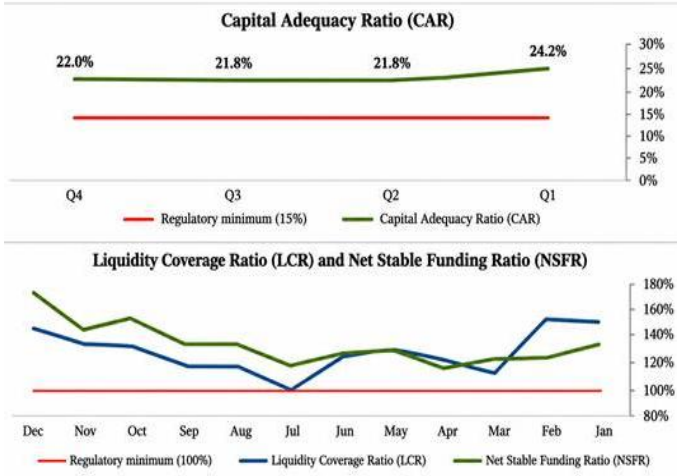


Figure 2. Capital Adequacy, Liquidity Coverage Ratio (LCR), and Net Stable Funding Ratio (NSFR) of the International Development Bank in 2025

According to the secondary research material presented in Figure 2, the International Development Bank's Capital Adequacy Ratio (CAR) ranged from approximately 21.8% to 24.2% across the four quarters of 2025. These values exceed the minimum threshold indicated in the figure. However, the underlying quarterly observations and the applicable regulatory threshold have not been independently verified against the bank's official regulatory disclosures. Therefore, the reported figures should be interpreted as indicative evidence of the bank's capital position rather than definitive confirmation of regulatory compliance.

According to the secondary research material presented in Figure 2, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) remained above the minimum thresholds indicated in the figure during the reported months of 2025. These observations suggest a relatively favorable liquidity and funding position. The LCR reflects a bank's ability to maintain sufficient high-quality liquid assets to withstand short-term liquidity pressures, while the NSFR measures the stability of its funding structure over a longer-term horizon. However, the underlying monthly observations and the applicable regulatory thresholds have not been independently verified against the bank's official disclosures. Consequently, these indicators should be interpreted as preliminary evidence of liquidity and funding stability rather than definitive confirmation of compliance with regulatory requirements.

Overall, the capital adequacy and liquidity indicators presented in Figure 2 suggest that the International Development Bank maintained relatively strong capital and liquidity positions during

2025, based on the values reported in the research material supplied by the author. However, because the underlying quarterly and monthly observations have not been independently reconciled with the bank's original regulatory disclosures or audited financial statements, these findings should be treated as indicative rather than independently verified evidence of regulatory compliance. A comprehensive assessment of the bank's financial condition and financial failure risk also requires consideration of profitability, asset quality, cash flow indicators, and other relevant financial measures.

Source: Reproduced from the research material supplied by the author, which attributes the underlying Capital Adequacy Ratio (CAR), Liquidity Coverage Ratio (LCR), and Net Stable Funding Ratio (NSFR) data to the International Development Bank of Iraq's financial reports for 2025.

3.4 Analysis of the Cash Flow Statement of the International Development Bank

The comparative cash-flow data for 2024 and 2025 provide the basis for analyzing the bank's cash-generating capacity. For consistency with the general classification requirements of IAS 7, this study presents an analytical reclassification of cash expenditures on property and equipment from operating to investing activities. The adjusted figures are used consistently in Tables 2 and 4 and do not represent a restatement issued by the bank.

Table 2. Comparative Cash Flows of the International Development Bank (IAS 7-Adjusted Analytical Presentation, 2024–2025)

Amounts in thousands of Iraqi dinars

Details	31/12/2025	31/12/2024	Change
Profit before tax	62,317,923	82,372,157	-24.3%
Non-cash financial transactions	456,476	0	n.m.
Depreciation and amortization	6,269,648	3,376,132	+85.7%
Expected credit loss allowance	0	0	0%
Losses from the sale of financial assets at fair value	0	0	0%
Miscellaneous provisions	0	0	0%
Cash flows before changes in assets and liabilities	69,044,047	85,748,289	-19.5%
Increase in net direct credit facilities	(177,123,086)	(108,770,040)	Outflow increased by 62.8%
Increase in other assets	(61,585,329)	9,963,285	Sign reversal
Increase in customer deposits	636,994,762	232,216,059	+174.3%
Increase (decrease) in cash deposits	19,218,835	(11,171,597)	Sign reversal
Increase (decrease) in other liabilities	99,946,105	(9,255,850)	Sign reversal
Change in provisions	13,016,094	3,797,862	+242.7%
Net cash flow from operating activities before taxes	599,511,429	202,528,005	+196.0%
Taxes paid	(12,559,613)	(9,045,708)	Outflow increased by 38.8%
Net cash flow from operating activities after taxes	586,951,816	193,482,297	+203.4%

Investing Activities

Details	31/12/2025	31/12/2024	Change
Assets at fair value through comprehensive income	(96,606,769)	(7,133,231)	Outflow increased substantially
Financial assets at fair value through other comprehensive income	0	0	0%
Financial assets at amortized cost	(2,556)	10,602	Sign reversal
Increase in property and equipment	(16,694,207)	(26,042,351)	Outflow decreased by 35.9%
Net cash flow from investing activities	(113,303,532)	(33,164,980)	Outflow increased by 241.6%

Financing Activities

Details	31/12/2025	31/12/2024	Change

Increase in borrowed funds	0	0	0%
Proceeds from capital increase	0	100,000,000	-100%
Tax settlements	(125,836)	(268,478)	Outflow decreased by 53.1%
Dividends distributed	(50,000,000)	(50,000,000)	0%
Currency difference adjustments after closing	0	0	0%
Net cash flow from/(used in) financing activities	**(50,125,836)**	**49,731,522**	**Changed from inflow to outflow**

Net Change in Cash and Cash Equivalents

Details	**31/12/2025**	**31/12/2024**	**Change**
Net increase in cash and cash equivalents	423,522,448	210,048,839	+101.6%
Cash and cash equivalents at the beginning of the year	1,542,519,547	1,332,470,705	+15.8%
Cash and cash equivalents at year-end	1,966,041,995	1,542,519,547	+27.5%

Source: Researcher's calculations using the International Development Bank of Iraq's comparative Statements of Cash Flows for 2024 and 2025. Cash expenditures on property and equipment have been reclassified analytically from operating to investing activities. The resulting presentation is not an officially restated Statement of Cash Flows issued by the bank.

Note: The bank's published 2024 Statement of Cash Flows presents net operating cash flow after tax of IQD 81,691,657 thousand, whereas the subtotal reconstructed from the cash-flow components and reconciled to the published net increase in cash is IQD 167,439,946 thousand. The IAS 7-adjusted figure in Table 2 is IQD 193,482,297 thousand after reclassifying IQD 26,042,351 thousand of property and equipment expenditures. The corresponding adjusted figure for 2025 is IQD 586,951,816 thousand. The difference between the bank's 2024 printed operating subtotal and the reconstructed amount requires confirmation against the audited comparative statements. Minor arithmetic differences of IQD 3 thousand (2024) and IQD 1 thousand (2025) remain when summing the displayed operating cash flow components; the reported individual source figures have not been arbitrarily altered. The 2024 opening cash balance plus the reported net increase also differs from the closing balance by IQD 3 thousand.

Classification note: Under IAS 7, paragraph 16(a), payments to acquire property, plant and equipment are ordinarily classified as investing activities. The original 2024 bank statement lists the item within operating activities. For the analytical presentation in Table 2, the expenditure has been moved to investing activities in both years, with equal and opposite adjustments to the operating and investing cash flow totals. Consequently, the net increase in cash and cash equivalents remains unchanged, and Table 4 uses the adjusted operating cash flows.

The comparative cash flow data show a substantial improvement in the bank's overall cash position in 2025.

First, IAS 7-adjusted net cash flow from operating activities after taxes increased from approximately IQD 193.5 billion in 2024 to IQD 587.0 billion in 2025, an increase of approximately 203.4%. This indicates a significant strengthening of the bank's analytically adjusted operating cash-flow position during the year.

A major contribution to this increase came from changes in operating assets and liabilities, particularly the substantial increase in customer deposits. Customer deposits generated a positive cash flow of approximately **IQD 637.0 billion in 2025**, compared with approximately IQD 232.2 billion in 2024.

However, the increase in operating cash flow should not be interpreted solely as evidence of improved operating efficiency, because a significant part of the increase resulted from changes in deposits, credit facilities, and other balance-sheet items. Therefore, the sustainability of this improvement should be assessed together with profitability, liquidity, asset quality, and liability management.

Second, on the adjusted basis, net cash outflows from investing activities increased from approximately IQD 33.2 billion in 2024 to IQD 113.3 billion in 2025. These figures include cash

expenditures on property and equipment reclassified from operating activities in accordance with IAS 7. Such outflows are not necessarily evidence of weakness; their implications depend on the nature, quality, and returns of the investments.

Third, financing cash flows changed from a net inflow of approximately **IQD 49.7 billion in 2024 to a net outflow of approximately IQD 50.1 billion in 2025**. This change was mainly attributable to the absence of new capital proceeds in 2025, compared with IQD 100 billion in capital proceeds during 2024, together with continued dividend distributions.

Importantly, the bank reported **no increase in borrowed funds in either 2024 or 2025**. Therefore, the financing cash flow data do not indicate increased dependence on external borrowing during 2025.

Overall, the net increase in cash and cash equivalents rose from approximately **IQD 210.0 billion in 2024 to IQD 423.5 billion in 2025**, while year-end cash and cash equivalents increased from approximately **IQD 1.543 trillion to IQD 1.966 trillion**.

These results indicate a stronger cash position in 2025. Nevertheless, cash flow indicators should be considered together with the decline in profitability observed in 2025 and with other measures of liquidity, capital adequacy, asset quality, and financial risk before drawing conclusions regarding the bank's overall financial condition or financial failure risk.

3.5 Cash Flow Statement Indicators for Assessing Financial Failure Risk

Cash flow statement indicators provide useful information for evaluating a bank's ability to generate cash, meet financial obligations, maintain adequate liquidity, and support the continuity of its operations. These indicators can therefore be used as analytical tools for identifying potential signs of financial distress and assessing financial failure risk.

For the purposes of this study, a selected set of cash-flow-based indicators is applied to the International Development Bank. The indicators focus on operating cash generation, cash flow adequacy, the relationship between operating cash flows and accounting earnings, the ability of assets to generate cash, liquidity support from operating activities, and dependence on financing activities.

The indicators and their calculation methods are presented in Table 3.

For the purposes of this study, financial failure risk is assessed through a descriptive comparison of selected financial and cash flow indicators. The assessment considers the bank's operating cash-generating capacity, ability to cover basic cash requirements, operating cash flows relative to liabilities and assets, cash flow support for reported profits, indebtedness, and reliance on financing activities. Deterioration in these indicators may signal increased financial vulnerability, whereas improvements may indicate a stronger financial position. However, the study does not apply a statistical bankruptcy prediction model, estimate a probability of failure, or establish a numerical threshold for classifying the bank as financially distressed. Its findings should therefore be interpreted as an assessment of observed financial conditions and potential warning signs rather than a forecast of financial failure.

Table 3. Cash Flow Statement Indicators and Their Calculation Methods

No.	Indicator	Calculation Formula
1	Net Operating Cash Flow	Net cash flow from operating activities after taxes
2	Operating Cash Flow Adequacy Ratio	Net Operating Cash Flow / Basic Cash Requirements
3	Operating Cash Flow to Total Liabilities Ratio	Net Operating Cash Flow / Total Liabilities × 100
4	Operating Cash Flow to Total Assets Ratio	Net Operating Cash Flow / Total Assets × 100
5	Operating Cash Flow to Net Profit Ratio	Net Operating Cash Flow / Net Profit After Tax
6	Indebtedness Ratio	Total Liabilities / Total Assets × 100
7	Financing Dependence Ratio	Net Cash Flow from Financing Activities / Net Operating Cash Flow × 100

Note: Basic Cash Requirements include capital expenditure, dividend payments, and repayments of borrowed funds, where applicable.

For the purposes of this study, Basic Cash Requirements are defined as the sum of capital expenditure, dividend payments, and repayments of borrowed funds, where applicable. Accordingly, the Operating Cash Flow Adequacy Ratio indicates the extent to which cash generated from operating activities is sufficient to cover these basic cash requirements during the reporting period.

Source: Prepared by the researcher based on the relevant accounting and financial analysis literature.

The indicators presented in Table 3 should be interpreted collectively rather than individually. A stronger ability to generate operating cash flows, cover essential cash requirements, support accounting profits with actual cash generation, and generate cash from the asset base generally indicates a stronger financial position.

By contrast, persistent weakness in operating cash generation, insufficient coverage of financial obligations, or excessive dependence on external financing may represent warning signs of financial distress.

These indicators do not, by themselves, establish that a bank is financially failed. Rather, they provide analytical evidence that can be used alongside profitability, liquidity, capital adequacy, asset quality, indebtedness, and other financial measures when assessing financial failure risk.

Accordingly, the following section applies these indicators to the financial data of the International Development Bank for 2024 and 2025 in order to compare changes in the bank's cash-generating capacity and financial condition over the two years.

3.6 Comparative Analysis of Cash Flow Statement Indicators

The cash flow indicators presented in the previous section are applied to the financial data of the International Development Bank for 2024 and 2025 in order to evaluate changes in the bank's cash-generating capacity, liquidity support, financial structure, and financial failure risk.

Table 4. Cash Flow Statement Indicators for Assessing Financial Failure Risk: Comparative Analysis for 2024–2025

No.	Indicator	2025	2024
1	Net Operating Cash Flow (IQD thousand)	586,951,816	193,482,297
2	Operating Cash Flow Adequacy Ratio	8.80 times	2.54 times
3	Operating Cash Flow to Total Liabilities Ratio	18.40%	7.98%
4	Operating Cash Flow to Total Assets Ratio	15.71%	6.52%
5	Operating Cash Flow to Net Profit Ratio	11.17 times	2.77 times
6	Indebtedness Ratio	85.40%	81.71%
7	Financing Dependence Ratio	-8.54%	25.70%

Source: Researcher's calculations from the bank financial data after the analytical IAS 7 reclassification described in Table 2. Ratios are based on adjusted operating cash flows; they are not the bank's officially published ratios.

Basis of the IAS 7-Adjusted Analysis. Table 4 applies the formulas in Table 3 to the operating cash flows analytically reclassified in Table 2. Compared with the source classification, operating cash flow increases by IQD 26,042,351 thousand in 2024 and IQD 16,694,207 thousand in 2025; investing cash flow decreases by the same amounts. Total cash movement is unaffected. These adjustments are analytical only; the unresolved difference in the bank's printed 2024 operating subtotal is separately disclosed in the note to Table 2.

Analysis of the Indicators

1. Net Operating Cash Flow

On the IAS 7-adjusted basis, net operating cash flow increased substantially from approximately IQD 193.5 billion in 2024 to IQD 587.0 billion in 2025. This represents an improvement of approximately 203.4% in the adjusted cash-generating position.

The increase provides greater capacity to meet financial obligations, support banking activities, and finance part of the bank's investment and distribution requirements from internally generated cash.

However, the increase should be interpreted carefully because a substantial part of the improvement resulted from changes in operating assets and liabilities, particularly the increase in customer deposits.

2. Operating Cash Flow Adequacy Ratio

The Operating Cash Flow Adequacy Ratio increased from approximately 2.54 times in 2024 to 8.80 times in 2025.

This indicates that operating cash flows provided substantially stronger coverage of the bank's principal cash requirements in 2025. A higher ratio generally reflects greater financial flexibility and a stronger ability to meet cash requirements using internally generated operating cash flows.

3. Operating Cash Flow to Total Liabilities Ratio

The ratio increased from approximately 7.98% in 2024 to 18.40% in 2025.

This improvement indicates that operating cash flows represented a substantially larger proportion of total liabilities in 2025. From the perspective of financial distress assessment, this is a favorable development because stronger operating cash generation improves the bank's capacity to support its financial obligations.

Nevertheless, this ratio should be interpreted together with the increase in the bank's overall indebtedness.

4. Operating Cash Flow to Total Assets Ratio

The ratio increased from approximately 6.52% in 2024 to 15.71% in 2025.

This indicates a substantial increase in the amount of operating cash flow generated relative to the bank's total asset base. The improvement suggests stronger cash-generating efficiency in 2025. However, the ratio should not be interpreted independently from profitability and asset-quality indicators.

5. Operating Cash Flow to Net Profit Ratio

The Operating Cash Flow to Net Profit Ratio increased from approximately 2.77 times in 2024 to 11.17 times in 2025.

This means that operating cash flows substantially exceeded accounting net profit in both years, with the difference becoming particularly large in 2025.

The increase indicates strong cash conversion relative to reported earnings. However, the exceptionally high ratio in 2025 should be interpreted cautiously because operating cash flows were strongly influenced by changes in customer deposits and other operating liabilities.

The simultaneous decline in net profit and increase in operating cash flow therefore requires consideration of the underlying sources of cash generation when assessing the sustainability of the improvement.

6. Indebtedness Ratio

The Indebtedness Ratio increased from approximately **81.71% in 2024 to 85.40% in 2025**.

This indicates that liabilities represented a larger proportion of the bank's total assets in 2025. The increase may represent a relative financial risk because greater reliance on liabilities can reduce financial flexibility and increase the importance of maintaining adequate liquidity and capital.

However, high leverage is characteristic of banking institutions because customer deposits constitute a major component of bank liabilities. Therefore, the ratio should not be interpreted as evidence of financial failure on its own.

7. Financing Dependence Ratio

The Financing Dependence Ratio changed from approximately 25.70% in 2024 to −8.54% in 2025.

In 2024, financing activities generated a net cash inflow, mainly due to the capital increase of IQD 100 billion. In 2025, financing activities instead produced a net cash outflow, primarily because no new capital proceeds were received while dividends of IQD 50 billion continued to be distributed. The negative ratio in 2025 therefore does not indicate financial weakness by itself. Rather, it shows that the bank's operating cash flows were sufficient to support its activities without a positive net contribution from financing activities.

Overall Assessment

The comparative indicators generally show a substantial strengthening of the International Development Bank's cash-generating capacity in 2025. Operating cash flow increased significantly, and the ratios of operating cash flow to liabilities, assets, and net profit improved compared with 2024. The bank also moved from a positive financing cash flow in 2024 to a financing cash outflow in 2025 while maintaining a strong overall increase in cash and cash equivalents. At the same time, the increase in the Indebtedness Ratio and the decline in profitability indicators observed in 2025

indicate that the bank's financial condition should not be assessed solely on the basis of operating cash flows.

Overall, the descriptive analysis of the available financial and cash flow indicators does not reveal clear signs of immediate financial distress at the International Development Bank during the period examined. The results indicate an improvement in operating cash generation and the bank's overall cash position in 2025, alongside declining profitability and increasing leverage. These findings describe the bank's observed financial condition and identify areas requiring continued monitoring, particularly profitability, asset quality, capital adequacy, liquidity, and the sustainability of operating cash flows. However, because the study does not employ a validated financial failure prediction model or estimate the probability of default, the results cannot be interpreted as a statistical forecast of financial failure or as definitive evidence that such risk is absent.

4. Conclusions and Recommendations

4.1 Conclusions

Based on the theoretical and applied analysis, the study reaches the following conclusions:

1. The Statement of Cash Flows provides important information for assessing a bank's cash-generating capacity, liquidity position, ability to meet financial obligations, and potential exposure to financial distress. Cash-flow-based indicators can therefore serve as useful early-warning tools when they are analyzed together with other financial indicators.
2. Indicators derived from the Statement of Cash Flows prepared in accordance with IAS 7 provide additional information beyond accounting profitability and balance-sheet measures and contribute to a more comprehensive assessment of financial performance and financial failure risk.
3. The International Development Bank demonstrated a substantial improvement in operating cash generation in 2025. After the analytical IAS 7 reclassification of property and equipment expenditures, net operating cash flow after taxes increased from approximately IQD 193.5 billion in 2024 to IQD 587.0 billion in 2025. These figures should not be confused with the operating cash flow subtotals printed in the source financial statements.
4. Cash and cash equivalents at year-end increased from approximately IQD 1.543 trillion in 2024 to IQD 1.966 trillion in 2025, indicating a substantial improvement in the bank's reported cash position. The capital adequacy and liquidity indicators presented in the study also suggest a relatively favorable financial position. However, these prudential indicators were obtained from secondary research material and have not been independently verified against the bank's original regulatory disclosures. Therefore, definitive conclusions regarding compliance with capital adequacy and liquidity requirements cannot be drawn solely from the available data.
5. The improvement in operating cash flow should nevertheless be interpreted cautiously because a substantial part of the increase resulted from changes in operating assets and liabilities, particularly the significant increase in customer deposits. Therefore, the sustainability of operating cash generation should continue to be monitored.
6. The bank's profitability weakened in 2025 compared with 2024. Net profit after tax declined by approximately 24.7%, while ROA decreased from 2.35% to 1.41% and ROE declined from 12.87% to 9.64%. This indicates that stronger cash generation in 2025 was accompanied by weaker accounting profitability.
7. The Indebtedness Ratio increased from approximately 81.71% in 2024 to 85.40% in 2025. Although a relatively high level of liabilities is characteristic of banking institutions because deposits represent a major source of funding, the increase highlights the importance of continued monitoring of leverage, capital adequacy, liquidity, and asset quality.
8. Financing activities changed from a net cash inflow in 2024 to a net cash outflow in 2025. This was mainly due to the absence of new capital proceeds in 2025 and continued dividend distributions rather than an increase in external borrowing.
9. The descriptive analysis of the available financial and cash flow indicators suggests that the International Development Bank maintained a relatively strong cash position in 2025, despite declining profitability and increasing leverage. However, these findings reflect the bank's observed financial condition rather than a statistical prediction of financial failure. Since the study

does not employ a validated bankruptcy prediction model or estimate the probability of default, its results cannot establish the absence of future financial distress. Continued monitoring of profitability, liquidity, capital adequacy, asset quality, and cash flow sustainability is therefore necessary.

10. The analysis identified a classification issue concerning cash expenditures on property and equipment, which were included in operating activities in the source cash-flow data. Under IAS 7, such expenditures are ordinarily classified as investing activities. Therefore, the study analytically reclassified these expenditures, resulting in adjusted operating and investing cash flows in Tables 2 and 4 while leaving total cash movement unchanged. The figures are researcher adjustments rather than an official restatement by the bank. The separate discrepancy in the 2024 published operating subtotal still requires confirmation against the audited comparative statements.

4.2 Recommendations

Based on the findings of the study, the following recommendations are proposed:

1. The International Development Bank should continue to give significant attention to the Statement of Cash Flows and cash-flow-based indicators when evaluating its financial position and financial sustainability.
2. Bank management should regularly monitor operating cash flows and distinguish between cash generated from sustainable operating performance and cash arising from changes in deposits, liabilities, and other working-capital-related items.
3. Cash flow indicators should be used together with profitability, liquidity, capital adequacy, asset quality, leverage, and other financial and non-financial indicators rather than being interpreted in isolation.
4. Particular attention should be given to the decline in profitability observed in 2025. Management should analyze the factors responsible for the reduction in net profit, ROA, and ROE and assess whether these changes are temporary or may affect future financial performance.
5. The bank should continue monitoring the relationship between liabilities and total assets, particularly as the Indebtedness Ratio increased in 2025. Adequate capital and liquidity buffers should be maintained in line with applicable regulatory requirements.
6. Management should regularly compare net profit with net operating cash flow. Significant differences between accounting earnings and operating cash flows should be analyzed to determine the underlying causes and assess the sustainability and quality of reported earnings.
7. The bank should maintain appropriate liquidity management policies to ensure its ability to meet depositor withdrawals and other financial obligations under both normal and stressed conditions.
8. Future studies should expand the analysis to a larger sample of Iraqi private banks and a longer time period and may employ statistical prediction models to test the ability of cash flow indicators to predict financial distress more formally.
9. The International Development Bank should reconcile the 2024 reported operating cash flow subtotal with the detailed components and the reported change in cash. The classification of property and equipment expenditures should also be confirmed against the audited financial statements and IAS 7. Any verified differences should be clearly disclosed, and cash-flow-based financial ratios recalculated consistently.

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