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THE IMPACT OF THE CREDIT CAPACITY OF BANKS IN ACHIEVING ADDED ECONOMIC VALUE: A SAMPLE OF PRIVATE COMMERCIAL BANKS LISTED IN THE IRAQ STOCK EXCHANGE

Ameer Ali Ghazi [1]
1 Jinan University / College of Business Administration
10213885@students.jinan.edu.lb

Safwan Eldanaoui [2]
[2] Jinan University / College of Business Administration,
Safwandennaoui@hotmail.com

ABSTRACT

Credit in banks is considered one of the basic functions of the work of banks, and the possession of banks of sufficient credit capacity can contribute to the improvement of banking activity. Therefore, our study entitled / The impact of the credit capacity of banks in achieving added economic value (a sample of private commercial banks listed in the Iraq Stock Exchange)/ With the aim of diagnosing the level of application of bank credits and analyzing their theoretical and practical relationship to private commercial banks, while drawing theoretical and practical conclusions based on two theoretical frameworks and a practical analysis of the problems and hypotheses of the study. And to identify the concept of credit capacity and added economic value in private Iraqi commercial banks, with a diagnosis of the reality of indicators of credit capacity in private commercial banks, in addition to measuring and determining the impact of credit capacity in private commercial banks in achieving added economic value, and to identify the achievement of economic added value for commercial banks. Iraqi Special

In this study, the descriptive approach and the analytical approach were relied upon, and the relevant statistical and measurement programs were used in order to reach the required results.

Where the study population consisted of the Iraqi private commercial banks listed in the Iraq Stock Exchange in the capital, Baghdad, which numbered (41) commercial banks.

The research ended with a conclusion that includes a brief and intensive presentation of the results it reached with a number of recommendations. This is followed by a list of sources and references on which the research was based.

Where we mention from the recommendations of the research, that banks must continuously assess risks and update credit policies, to maintain a strong and stable credit capacity, and banks must direct the use of loans granted by virtue of obtaining a strong credit capacity to activities that contribute to improving economic value added.

Keywords: credit capacity of banks, added economic value, commercial banks, Iraq Stock Exchange.

INTRODUCTION

The credit function is one of the most important banking functions that achieve revenue, and the greater the credit capacity of banks, this leads to increasing market share and strengthening the bank's position in the market, and credit capacity is measured and evaluated through indicators (total loans to total deposits, total loans to total assets, capital adequacy ratio, loan loss provision ratio). Recently, many banks have moved towards what was launched by (Stewart – Stern)) under the name of economic added value, and management performance is among the advanced indicators that depend on creating higher value for shareholders instead of focusing on the concept of profitability only, so this study came as an attempt to identify and know the impact of credit capacity in achieving economic added value. Bank credit performs an important work in supporting economic development, acting as a financial intermediary between savers and investors, transferring money received from banks in the form of bank deposits from those with cash surpluses to those with cash surpluses. Bank credit also helps guide economic activity. Investment projects in general, and strategic investment projects in particular, the state is poor because of its urgent need for better investment of available resources, in addition to the fact that bank credit is The most important source of income that banks receive and increase their profitability.

part One: the methodology of study

The problem of study

The economic sectors in general and the banking sector in particular suffer from a clear decline in their market value, and what indicates the continued decline in the indicators of economic added value is that banks have sufficient credit capacity can help improve banking activity, and achieve the basic objectives, and here the problem of study appears, which is the impact of credit capacity in achieving economic added value.

Therefore, study came to answer the following questions:

1. Is there an impact of credit capacity in achieving economic added value?
2. The availability of credit capacity indicators in Iraqi private commercial banks?
3. Do Iraqi private commercial banks suffer from a decline in credit capacity indicators?
4. Can the added economic value be measured in Iraqi private commercial banks?

Importance of research

The importance of this study is twofold, the first is of scientific importance, and is reflected in the development of a practical empirical model of the relationship between credit capacity and the added economic value of a sample of private commercial banks.

The second practical aspect

1- Applying the conclusions of study that the researcher seeks to achieve in the practical life of Iraqi private commercial banks.

2- This research achieves an increase in the experience of employees, increases their knowledge and helps them to come up with new and useful facts.

3- This research presents a set of important variables to help the management of banks to take appropriate decisions to maximize the status of shareholders

Objectives of Research

Study aims to diagnose the level of application of bank credits and study their theoretical and practical relationship to private commercial banks while drawing theoretical and practical conclusions based on two theoretical frameworks and a practical analysis of the problems and hypotheses of the research.

The current study seeks several objectives, including:

1. Identify the concept of credit capacity and economic value added in Iraqi private commercial banks.
2. Depicting the reality of credit capacity indicators in private commercial banks.
3. Determine the impact of credit capacity in private commercial banks in achieving economic added value.
4. Identify the achievement of added economic value for Iraqi private commercial banks.

population and sample of study

The research community consists of private Iraqi commercial banks listed on the Iraq Stock Exchange in the capital, Baghdad, which numbered (41) commercial banks. The selection of a sample of banks was based on the availability of their data within study period as in Table (1).

Table (1) study sample sinks

Bank Branches	Bank Name	t
21Branches	Business Bay	1
11 Branches	Iraqi National Bank	2
16 branches	Iraqi Investment	3
22 Branches	United Investment	4
22 Branches	Middle East	5
45branches	Baghdad	6

Research Hypothesis

The first main hypothesis: the correlation hypothesis

1. Null hypothesis (H0): There is no statistically significant correlation for credit capacity in achieving economic value added.
2. Alternative hypothesis (H1): There is a statistically significant correlation for credit capacity in achieving economic value added.

The second main hypothesis: the effect hypothesis

1. Null hypothesis (H0): There is a statistically significant impact relationship for credit capacity in achieving economic added value.
2. Alternative hypothesis (H1): There is no statistically significant effect relationship for credit capacity in achieving economic value added.

Study Variables

The researcher designed a hypothetical chart that shows the relationship of influence between the independent variable (credit capacity) and the dependent variable (economic added value),

and he relied in preparing the hypothetical scheme on the conceptual and intellectual framework of the literature of credit capacity and economic added value.
They are as follows:

Independent variable: Credit Capacity.
Dependent variable: Economic Value Added.

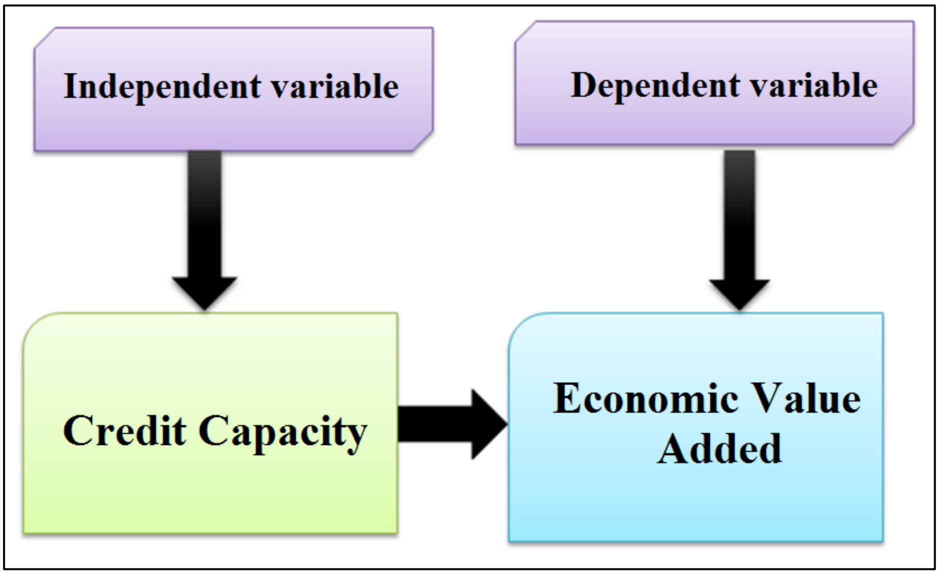

Figure 1 study Form

PART TWO: THE THEORETICAL SIDE

First: Credit Ability

Definition Of Credit Ability

Credit in banks is one of the basic functions of the work of banks, so the bank's ability to grant loans and take care of them and draw up credit policies must be analyzed and measured competently; in order to achieve the bank's goals, taking into account that the loan is one of the most interest-bearing investments, and despite that, the increase in competition between banks according to economic conditions, and political conditions, banks may find themselves falling short in the amount of credit they grant or not studying credit in a good way, and then this results in losses. Due to the default of borrowers or their non-commitment to repayment, all this will negatively affect the prosperity and growth of banks, and also negatively affect the growth of the entire economic system; due to the bank's inability to create credit, accordingly, the credit process must be compatible with the requirements of economic activity.

The word credit represents trust and security, and they document contracts between creditors and debtors, and this results in paying the value in cash in the present and future payment, as facilities generally mean giving an amount of money for a period of time by a creditor to a debtor and the latter must pay the debt due at the end of the period.

Credit can be defined as all facilities in their direct and indirect form that are provided to customers, or the payment of cash amounts to customers in exchange for the obligation of these customers to pay the amount disbursed, as well as the accrued interest agreed upon or any other fees resulting from this amount, whether the facilities are guaranteed or unsecured. (Moussawi, 2022)

It is also defined as the method of obtaining financial supply in a specified period of time with the obligation to repay the amount with its interest in the future, according to the agreed terms and conditions of credit. ((Adetunji & Adenugba, 2015)

Credit capacity in general represents the ability of an organization or individual to acquire economic value based on mutual trust between the creditor and the debtor against expected future payments. (Moussawi, 2022)

The credit capacity of banks is embodied in the bank's financial and information supplies to raise the efficiency and quality of the credit that is granted, and is based on building its credit capacity on its capital, which is the most important determinant of credit expansion and improving credit capacity, as well as credit capacity is provided as the ability of banks to provide bank loans to all sectors of the economy and it relies heavily on sufficient capital. When bank capital is large enough, the bank's ability to lend is greater. It has the ability to counter banking risks, especially credit risk (Berrospide, Jose M.& Edge, Rochelle M, 2010)

The Emergence And Development Of Credit Ability

The origins of bank credit date back to the Middle Ages since 1850 BC, where the origin of the word "credit" goes back to Latin, and "credere" means trust, and during this period, lending was intended for consumption in the first place and the imposition of interest was considered exploitation, and one of the first laws and vigor for bank lending is the Hebrew law that approves lending but does not accept taking interest. Credit has also been part of the human existence for a very long time, where there is continuity in the level of development and progress in the use and control of credit, as an example of this is the traditional financial intermediary, which represents a large source of credit for economic activities before the advent of commercial banks officially and the various saving, investment and credit services they provide.

Reliance on credit and use as the most important source of business financing increased in the 18th and 19th centuries when commercial expansion came to help grant loans from banks to companies, and during that period barter appeared directly and was the widespread means, and the sale process was without any credit checks, but it was an exchange of goods or services directly between the seller and the buyer, and many changes have occurred since that time, where credit is one of the most important changes, in addition to the use of credit in the Arab countries For more than 3,000 years in the civilizations (Assyria, Babylon and Egypt), which recognized lending activities and forbade interest and its use, however, bank lending developed for the activities of goldsmiths who dealt in business that formed the basis of formal banking. (Al-Jubouri, 2020)

The Importance Of Credit Ability

Credit management is one of the main functions of a commercial bank; because of its heavy dependence on this activity to generate revenue, the basic function of credit is from the parties that have surplus financial savings to those who have a financial deficit and need these financial savings to use them, as in the case of granting loans to individuals and organizations who want to start or expand their business projects and credit performs an important work in the economy of developed and developing countries, credit in the private sectors is a good driver of economic growth in those countries. Countries Also, increasing difficulties in granting credit can cause problems in the investment process as it reduces the important monetary mass, and here we find the calendar and wise management of the credit process are of great importance, from reducing costs and increasing profits, and the continuation of financial organizations in good financial health. (Al-Kaabi and Ashour, 2021)

Credit as an industry is an important part of the financial services industry in general, which also covers savings, investment and insurance, and the volume of credit granted by banks to customers in order to finance productive activities, as it leads to rapid economic growth in countries and their long-term sustainability, as the credit function and works to enhance the ability of investors to invest in profitable projects, as well as that granting credit is the main activity that brings income to commercial banks.On the other hand, the profitability of banks has a significant impact on credit expansions, so the relationship between credit growth and profitability is expected to be bidirectional. (Al-Jubouri, 2021)

Kaitibi et al. (2018) argues that the power of credit management to build a high-quality loan portfolio is critical to the effective performance of commercial banks and the economy at large.

Second: Economic Added Value

The Concept Of Economic Added Value

In 1998, Ehrabar distinguished between economic value added as a value and the rest of the traditional measures after the economic value added, including all debt and ownership, plus the gains of the cost of capital in general, and it means the achievement and achievement of greater and multiplier production within the same costs and with the presence of the best resources and with the same surrounding conditions, and it means estimating and measuring the actual value of the organization in light of The return on investment required by the investor in that organization, which is calculated by calculating the net profit that results from operations after taxes are deducted, the invested capital is deducted from it and multiplied by the weighted average cost of capital, and it also represents a measure of the most successful performance and is used by the organizations and consultants in it; But it can be the main part of an integrated financial management system (Al-Hourani, 2018).

Simply put, an organization's economic value added is a measure of the additional return that an investment generates over the market rate of return, it can be said that economic value added measures the net profitability of the cost of capital, and therefore, it can be counted as net operating profit minus the cost of suitability to the opportunity cost of all the capital invested in the organization.

As such, economic value added is an estimate of real economic profit or the amount at which profits exceed or fall below the minimum required rate of return that shareholders and lenders can obtain by investing in other securities with similar risks (Sharma & Kumar, 2010).

Stern Stewart & Co provided a definition of economic value added as a measure of financial achievement, and it is better than other measures in estimating residual profits as this measure is related to maximizing shareholder wealth over time, and this was mathematically defined as net operating profit after tax (NOPAT) minus the product of capital multiplied by the cost of capital (Juwaihan, 2015).

The Emergence Of Economic Added Value

The process of separating management from ownership made it necessary to search for a means or measure that can help evaluate the performance of managers and the extent to which they achieve the goal of maximizing value for shareholders by maximizing the value of shares, as it was previously found from many measures that measure the profitability of the organization, the most important of which are returns on investment, returns on assets and remaining profits, which can be calculated through accounting information that can be subject to distortion fromBefore the managers, Alfred Marshall was one of the first to address the concept of profit (income) remaining in 1890, and provided a definition of it after the total net profit minus interest on the invested capital, and the General Electric Foundation in the fifties of the last century evaluated performance through the concept of residual income, which was a measure of that, and then as a result of the inadequacy of this concept made accounting adjustments around it, and then based on the economic model of the value of the organization, which was presented by Modigliani and Miller 1961 in the field of behavior The regulatory economic value added index came (Ayman, 2021).

The added economic value is one of the important modern indicators in terms of evaluating the financial performance of the organization based on accounting information, this indicator appeared as a result of the adjustments made by Stern-Stewart & Co on the remaining income and then issued it with an updated name as a brand (Economic-Value-Added) EVA in the late eighties, during the first decade,Stern-Stewart & Co. Attention to a simple valuation model based on a concept called free cash flow FCF, which represents an organization's operating profits minus net new investments in working capital, after many years of advising organizations on free cash flow FCF, and in At the end of the eighties, the Stern-Stewart & Co management team developed a new alternative indicator that can be used to provide incentives to the management team, called the EVA (Bouhafs, 2013), as well as one of the things that contributed to the emergence of the concept of economic added value as a result of the shortcomings in the concept of internal opportunity cost at the beginning of the The nineties by creating the concept of residual profit again in a modern style resulted in a better economic concept, in an attempt to remedy the shortcomings, so it represented a natural development and extension of the remaining profits index, which calculates the internal opportunity cost, which in itself was criticized, while the concept of economic added value came to depend on the cost of capital in response to the reality of the transformation of organizations from methods of measuring the result to measuring surplus (Saber et al., 2018).

The Importance of EVA:

The economic value added (EVA) approach is unique from other financial instruments in that it shows the real profit of the company or institution, i.e. economic profit, which means accounting profit and comparing it with costs, in other words, clarifying the institution's ability to achieve returns that exceed the costs of invested capital.

There are many reasons that explain the importance of the value-added approach, including (Zeitouni & Misbah, 2022):

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It is an accurate way to calculate the dividends of shareholders or shareholders: The essence of economic value added lies in the fact that it is based on the inclusion of capital costs in the calculation of the institution's profit, and this is what distinguishes it from traditional indicators that are based on accounting profit only, which is a hundred percent inaccurate indicator of decision-making for management.

Some institutions may appear as a result of profitable business, but in fact, in practice they have not achieved any profits that would maximize their value and financial position, we may see some institutions winning from the accounting point of view, but losing from the economic point of view. Hence the importance of economic added value in its ability to reveal the real financial position of the institution, as it does not care mainly about whether the institution is profitable or not, but rather focuses on the adequacy of the resulting profits to compensate the invested capital, and whether these profits can be used in other alternative opportunities or not.

PART THREE: THE PRACTICAL SIDE

Tool stability:

It is a method that requires calculating the correlation of items with each other and the following table shows the stability coefficients of the questionnaire and each of its sections using the Cronbach alpha coefficient.

Table (2) Tool Stability

NO.	Coefficient of stability	Honesty coefficient	Number of ferries
Credit Ability	0.798	.863**0	10
Economic value added	0.865	.901**0	11
Honesty andstability of the year	0.831	0.882	21

Source: Field study with the assistance of the statistical programme SPSS.25

The result of the analysis gives the amount of stability of study variables, and these values are acceptable because they are higher than 75%, and accordingly, the researcher can say: that the questions of the form are valid for study, and therefore the tool can be trusted in the practical side of study.

Statistical description

Credit Ability: In the following, we will analyze the axis to identify the opinions of the respondents

Table (3) Mean, deviation and degree of verification of the axes questions

Credit Capacity Pillar		mean	Std. Deviation	Verification
1	The Bank's management is efficient in managing the Bank's asset structure, and credit management in particular.	3.9	.82	High
2	The Bank's assets are effective in generating returns.	4.0	.78	High
3	The Bank's management seeks to diversify its investment portfolio, deposits and maturities..	3.9	.87	High
4	The bank follows a defensive policy in order to reduce credit threats	3.9	.86	High

5	The bank pursues an aggressive lending policy in order to increase revenues	3.6	1.1	High
6	The bank's management inquires about the previous biography of the potential borrower customer, his financial position, and his previous financial dealings.	3.9	.94	High
7	The guarantees provided by the customer are an important condition in granting credit to the bank.	4.0	1.0	High
8	The bank's management relies on deposits to grant credit.	3.7	.89	High
9	The Bank has sufficient capital to cover assets weighted or weighted by its risks.	3.7	.93	High
10	Decrease in the amount of convicted funds suspected of being collected by the bank.	3.8	.78	High
Overall mean		3.8		High

Source: Field study with the assistance of the statistical programme SPSS.25

The previous analysis and the table show that all arithmetic mean have a high degree of verification. This indicates that the respondents' answers were positive to all questions, this leads us to say that the respondents positively evaluated the axis of credit ability, and the researcher studied the independent variable (credit ability) through 10 questions with a total average of 3.8 with a high degree of verification. Careful analysis, we note that question No. 2 (The bank's assets are effective in generating returns.) and the seventh question (guarantees provided by the customer are an important condition in granting the bank
. for credit) came first in the axis with an average of 4.0 and a high verification score. The fifth question (the bank pursues an aggressive lending policy in order to increase revenues) came in last place with an average of 3.6, while all the other questions came with a close average of about 3.9. This indicates the high credit capacity of Iraqi banks.

- **Economic added** value: We will now analyze the axis to find out the opinion of the respondents:

Table 4) Mean, deviation and degree of verification for the appropriateness axis questions

Value Added Pillar		mean	Std. Deviation	Verification
1	The Bank applies an economic value added approach to demonstrate the entity's ability to reap returns in excess of the cost of the invested assets.	3.8	.90	High
2	The bank's management relies on the economic value added index in the planning and decision-making process within the bank.	3.7	.78	High
3	Bank management uses the value-added metric to predict potential volatility in the stock market.	3.7	.95	High
4	Toreach the added value, the bank's management makes some adjustments to	3.9	.94	High

	the accounting profit to comply with its components.			
5	The Bank's management makes adjustments to reach economic operational performance based on the capital used.	3.8	1.0	High
6	The bank's management revalues inventories.	3.7	.90	High
7	The guarantee provision with net tax impacts is added to the assets invested in the balance sheet.	3.5	1.0	High
8	All extraordinary or extraordinary income and losses are excluded from income.	3.8	.90	High
9	Making adjustments leads to an improvement in the managerial context, in terms of increasing the ability to create value.	3.8	.93	High
10	The benefits arising from the development of managerial behavior are more than the costs resulting from adjustment in accounting practices.	3.9	.87	High
11	The application of modifications carries greater efficiency in reaching the desired goals of alternative methods.	5.0		High
Overall mean		3.8		High

The researcher found that all the questions of the economic value added axis came within a high degree of verification, which indicates that the answers of the sample members were positive to the questions of this axis, which contained 11 questions, and the overall average was 3.8 with a high degree of verification, and this indicates that the sample members give a high appreciation to the questions of this axis.

Upon careful analysis, we note that the sample members gave the last question (The application of modifications carries greater efficiency in achieving the desired objectives of alternative methods.) the highest estimate with an arithmetic average of 5 and a high verification score, while the seventh question came (in the balance sheet, the assets invested through the guarantee provision with net tax effects.) ranked last in this axis with an average of 3.5, while most of the other questions came with a close average of about 3.8 and a high degree of verification, and this indicates that the respondents give a high appreciation to the questions of this axis as mentioned earlier.

Hypothesis Testing

Hypothetical effect

Hypothesisof$_{\text{no-}H\ 0}$: There is no statistically significant effect relationship for credit capacity in achieving economic added value.

Alternative hypothesis H$_1$: There is a statistically significant effect relationship for credit capacity in achieving economic added value.
We use simple regression to determine the statistical significance of the independent variable with respect to the dependent variable of the impact test, and arrive at the following model:

$$y = c + \beta x + \varepsilon$$

The symbols indicate the following:
y: Dependent variable.
x: independent variable.
ε: Residues.
c:Hard.
The following table shows the extracts resulting from the testing of this hypothesis using the statistical program SPSS.25.

Table (5) Simple linear regression test for the role of credit capacity on economic value added

Credit Ability	Model indicators						Levels		
	R	R Square	Adjusted R Square	F	Sig.	Durbin-Watson	B	t	Sig.
Constant	0.85	0.65	0.46	12.567	0.00	2.3	3.564	2.993	0.00
Economic value added							0.401	2.876	0.00

Source: Field study with the assistance of the statistical programme SPSS.25

a. Through the previous procedures, we see that there is a strong influence between the two variables, as the value of the coefficient (R = .85).

b. The significance level is (.000 = Sig.) and this indicates the acceptance of the alternative hypothesis, which indicates that there is a significant effect at the level of significance of 5% of credit capacity on value added.

c. The level of the coefficient of determination reached (R^2 = 0.65) and this figure indicates that credit capacity contributes about 65% of the value added.

d. There is no autocorrelation problem between the residual values of the model, according to the autocorrelation test value (DW = 2.3), which is approximately 2.

e. With the test result, as shown in the table, we decide to accept the alternative hypothesis and acknowledge that there is a significant impactof credit capacity on value added. We derive the following equation:

$$y = 3.564 + 0.401x + \varepsilon$$

The equation shows that a change in its value by one unit in credit capacity results in an increase of about 0.399 in economic value added. and an increase of about 0.401 depending on other factors.

The researcher makes sure that the residues are distributed naturally by graphing the residues according to the Q-Q plots to produce the following figure:

PART FOUR: CONCLUSIONS AND RECOMMENDATIONS

First: Conclusions

1. The average of the economic value added axis reached 3.8, which indicates a high and positive estimate by the respondents for the economic added value axis.
2. It was found through statistical tests that there is a significant relationship between the role of credit capacity and added value, which indicates an effective role of credit capacity in activating value added.
3. Statistical testing shows that there is no substantial difference between individuals' responses to the role of credit capacity by gender. That is, respondents of both sexes agree on the role of credit capacity in achieving added economic value.
4. 4- The statistical test shows that there is no fundamental difference between the respondents' answers about the role of credit capacity according to educational attainment. That is, respondents at different scientific levels agree on the role of credit capacity in achieving added economic value.
5. 5- The statistical test shows that there are no fundamental differences between the respondents' answers about the role of credit capacity according to practical experience. That is, the respondents agree on the role of credit capacity in achieving added economic value despite their different years of experience.
6. 6- Statistical tests indicate that there is a significant impact of credit ability on the added value.

Second: Recommendations

1. Banks must continuously assess risks and update credit policies, to maintain a strong and stable credit capacity.
2. Banks must direct the use of loans granted by virtue of their strong credit capacity to activities that improve value added.
3. 3- Stable level of debt and liquidity to ensure the achievement of economic added value.
4. 4- Banks must improve capital management to achieve a higher percentage of value added.
5. 5- Working on developing financial strategies to improve credit capacity and increase revenues.
6. 6- Banks should review debts used to finance activities and investments and restructure debt periodically to improve credit capacity.

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