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THE IMPACT OF NARRATIVE DISCLOSURE ON MARKET VALUE: THE MEDIATING ROLE OF FINANCIAL PERFORMANCE

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***ABSTRACT*:**

Objective: This study examines the effect of narrative disclosures on market value and the mediating role of financial Performance in Iraq, based on a sample of listed banks in ISX from 2018 to 2024. In contrast to previous studies, which typically focus on a single side of narrative disclosures, this study explores multiple effects.

Design/methodology/approach: The research design is a quantitative approach. Using the content analysis method regarding narrative disclosure, which utilizes a structured checklist for data generation, on the other hand, using the financial ratio analysis method for Financial Performance and Market Value indicators. The study develops hypotheses using the agency, signaling and stakeholder theories.

Findings: Using regression analysis, the study examines the influence of narrative disclosures on market value and financial Performance. The results indicate that banks with more disclosure dimensions achieve higher market value. However, various models validate the explanatory power of narrative disclosures, highlighting their role in enhancing firm value by positively influencing overall financial performance.

Empirical implications: The findings provide insights into how narrative disclosures can help banks' stockholders overcome transparency and symmetry of information deficiencies in making more discretionary disclosure related to future earnings of shares and general bank performance.

Originality/value: This study analyses the influence of six aspects of narrative disclosure on market value and financial performance in Iraqi commercial banks.

Keywords*: Narrative disclosure, Market value, Financial Performance, Iraqi banks and content analysis.*

INTRODUCTION

A company's financial reporting is a comprehensive and broader concept than financial statements, it integrated both financial and non-financial information. Companies should also focus on non-financial information, which is also known as narrative information. It is not just numbers used to judge a company's financial performance; rather, non-financial information helps users form an opinion about the company. Narrative disclosure is an integral part of business reporting, without which reports are incomplete. According to Norton Rose Fulbright (2021), narrative reporting is non-financial information included in annual reports that provides a clear and meaningful picture of a company's business, market position, strategy, performance, and prospects. It includes the strategic report, the director's report, the chairman's statement, the director's remuneration report, and corporate governance disclosure. However, through narrative reports, a company communicates with stakeholders and investors. Therefore, it not only explains the current year's performance but also offers insight into past results and prospects.

Additionally, providing as much narrative information as possible also contributes to building a comprehensive picture of the company and, consequently, lowering the cost of capital. So, not only does a narrative report provide

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a clear view of a company's activities to its users, but it also helps the company build its reputation and enhance its market value, thus outperforming its competitors (Bąk, 2021). The Financial Accounting Standards Board (FASB) has recognized the importance of narrative information in corporate financial reports, clarifying the types of information useful in investment and credit decisions (FASB, 2021). Roy and Gitman (2012) argue that two factors motivate investors to pay attention to the integration of non-financial information. The first is achieving sustainability, as sustainable investing presents an opportunity for growth and differentiation, while also attracting investors and enhancing the company's reputation. The second factor is investors' view of non-financial information as being linked to financial performance and a good measure of risk management. Companies that disclose non-financial performance well are better able to adapt to changes in the business environment, especially in the commercial banking sector, which, like other business organizations, faces significant pressure from stakeholders to increase the level of non-financial disclosure. Therefore, investors require this information to inform their investment decisions (Merkl-Davies & Brennan, 2014).

Furthermore, users no longer need the historical information provided by financial reports. Instead, they need to interpret financial information and understand the current and future risks facing the company, which is available in narrative reports such as strategic reports, governance reports, and social responsibility reports (Al-Bassiouni, 2020; Mensah, B.K., 2017). Therefore, the level of disclosure has expanded through other channels, including narrative disclosure in companies' annual reports. This has become more complex despite its importance as a source of information. This complexity is evident in the differing results of studies in accounting thought regarding management's objective behind narrative disclosure, given the absence of an accounting standard that defines and regulates the content and form of such disclosure. While some have concluded that narrative reports convey management's impression and are a means of covering earnings management (Yeoh, 2010), as well as others have concluded that they are a channel for disseminating information that influences stock prices (Yekini et al., 2016), and a tool for reducing information asymmetry.

Finally, narrative disclosure includes non-financial information presented in corporate reports, providing a broader and more meaningful overview of a company's operations, strategic direction, and future prospects. It complements the quantitative data in financial statements by offering qualitative explanations of the figures and filling the information gap between management and stakeholders. Thus, narrative disclosure contributes to rational decision-making.

RESEARCH PROBLEM

As a result of the expansion of financial markets and the intense competition between financial institutions, there has been a pressing need for information from various sources to make sound decisions. Thus, the most important of these sources are financial and non-financial reports that provide a complete picture of the bank’s situation, especially in the long term. This requires banks to disclose all information to meet the needs of current and potential investors.

In recent years, especially after the 2008 crisis, there has been a lack of trust in the data contained in published financial reports reflecting their financial positions. So, companies have been under significant pressure to respond to users' scepticism about financial reports. Therefore, the firms have taken the initiative to achieve greater transparency and disclosure, as confirmed by a study (Madalina, 2017). Therefore, necessity to expand financial disclosure to include narrative disclosure, to address the shortcomings of financial reports in meeting the needs of stakeholders for non-financial information. In addition, this study will be narrowing down on narrative disclosure literature regarding the Iraqi environment, including the banking industry.

Objective of The Research

The main objective of the research is to study the impact of the narrative disclosure axes of banks (General Introduction, Strategy, and Objectives, Management Discussion and Performance Analysis (MD&A), Risk Management, Forward-Looking Information and Forecasts, Corporate Governance and Environmental and Social Sustainability Information) on financial performance as a mediating variable and the reflection of this impact on the market value of banks.

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LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Over time, the importance of narrative disclosure has grown. Early corporate reports in the mid-20th century were brief, containing basic financials and minimal commentary. Over the decades, increasing regulatory and stakeholder demands for transparency expanded the scope of corporate reporting. By the 1980s and 1990s, annual reports routinely included substantial narrative sections – e.g., the CEO’s letter and management discussions – aimed at providing shareholders with insight into management’s perspective.

Researchers like Adelberg (1979) and others began analyzing these narrative sections, questioning whether they were genuinely informative or potentially biased by management. Moreover, with initiatives such as the UK Operating and Financial Review in 2000s and the International Integrated Reporting Framework in 2010s, narrative reporting took on an even more prominent role. Modern best practices (e.g., the IFRS Practice Statement on Management Commentary) explicitly call for comprehensive narrative discussions of a company’s business model, strategy, risks, performance, and future outlook as an integral part of financial reporting (Phesa & Sibanda, 2023). This historical development reflects a recognition that numbers alone are insufficient – qualitative narrative adds value by conveying management’s explanations, credibility, and forward-looking views (Ibrahim & Hussainey, 2019).

Narrative disclosure is a crucial tool for minimizing information asymmetry and conflicts of interest among individuals involved in the bank's activities. It fosters an environment rich in information, leading to positive economic outcomes. Additionally, it is a key factor in enhancing the bank's overall value (Nekhili et al., 2016). Furthermore, unlike the purely quantitative figures in financial statements, narrative disclosures provide context, explanations, and forward-looking insights into a firm’s performance and strategies. Examples include management’s discussion and analysis (MD&A), chairman’s statements, operating and financial reviews, risk disclosures, and sustainability reports. These narratives offer stakeholders additional insights and context beyond the numbers, helping to explain what happened during the period and why.

Financial performance typically refers to a company's financial health and success. It measures the outcomes of a firm's strategies and operations in monetary terms. This broad concept includes aspects such as profitability, efficiency, liquidity, solvency, and overall financial stability (Lestari et al., 2024). Moreover, financial performance refers to how efficiently a company uses its resources to generate profits and create value for stakeholders. It reflects a company's efficiency, profitability, and financial health over a specific period of time (Fatihudin, 2018). In general, performance can be defined as the results of the outputs obtained from processes and products. It also provides the opportunity to conduct evaluation and comparison in relation to previous goals, standards, and results, as well as comparison with other organizations. It can be expressed in financial and non-financial indicators (Sharma, 2022). Moreover, the theoretical

framework for performance is based on the value-relevance theory, which assumes that accounting information—especially financial performance indicators—should have an explanatory impact on the market value of the company (Hameedi et al., 2021). Financial performance is typically assessed through several key dimensions, each with specific metrics:

- Profitability: Is the core of financial performance, i.e., and it reflect the company's ability to generate profits from its operations. Common indicators include net income, earnings per share (EPS), return on assets (ROA), and return on equity (ROE). According to Silaban (2017) both ROA and ROE summarize how effectively management uses assets or shareholders' equity to generate profit. High profitability metrics indicate strong financial performance. Studies such as Silaban (2017) and Andersen & Juelsrud (2024) testing Capital Adequacy Ratio (CAR) and Net Profit Margin (NPM) alongside as determinants of profitability.

- Revenue growth: Sales or revenue growth is an important aspect, particularly for assessing performance over time (Abozaid et al., 2020).

- Liquidity and solvency: Although liquidity (the ability to meet short-term obligations) and solvency (managing long-term debt) indicators are more closely related to financial stability than performance, they provide context for performance (Hamidah and Syukur, 2023). Market Value represents the value of a company/bank as perceived by investors in the capital market. It reflects the bank's future earnings prospects, risk profile, growth potential, and overall financial health. Bajic and Yurtoglu (2018) argue that market capitalization represents the

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value of a company as determined by the stock market (or investors). It is essentially the price that market participants are willing to pay for a company or its shares. Market capitalization, calculated by multiplying the share price by the number of outstanding shares, reflects the total value of the shares attributed to investors. Market capitalization can also refer to the value of a company (including debt) (Nguyen et al., 2025). However, bank's market value represents the current price of its assets as determined by the marketplace, reflecting investor perceptions of its prospects. Thus, for publicly traded entities, this is most commonly captured by market capitalization—the total value of a company's outstanding shares, calculated by multiplying the current share price by the number of shares. Market value is a forward-looking measure influenced by many factors, including profitability, growth potential, debt levels, industry dynamics, and the broader economic climate. It serves as a critical barometer for investors, representing the market's collective judgment of a company's worth (Saftiana et al; 2024). Beyond market capitalization, other metrics help to paint a fuller picture of market value:

- Tobin's Q: This ratio compares a company's market value to the replacement cost of its assets. A value greater than one suggests that the market sees value beyond the tangible assets, pointing to intangible strengths such as brand reputation or intellectual property.
- Price-to-Earnings (P/E) Ratio: This widely used valuation multiple compares a company's stock price to its earnings per share.

2.1 Theories Explaining Narrative Disclosure

Narrative disclosure can be used as a means to improve stakeholders' perceptions of managers' ability to anticipate future changes and achieve bank objectives. Disclosure theories are often used to explain what motivates managers to disclose or withhold non-financial information (El-Deeb et al., 2021). Agency theory, developed by Jensen and Meckling (1976), outlines the relationship between principals and agents. Nevertheless, in practice, when managers already have new information, they may provide narrative reporting, but after considering the associated costs of including it in annual reports. Agency theory states that, empirically, there are some reasons for managers to disclose additional voluntary information: reduce agency costs and achieve the interests and goals of the owners. Nevertheless, disclosing non-financial information also helps managers alleviate investors' uncertainty related to future performance and value. Furthermore, agency theory suggests that increased transparency and disclosure can mitigate agency problems (Almulhim, 2023).

However, signaling theory is closely related to agency theory, focusing on information asymmetries in markets and how better-informed parties disclose their quality. Building on the study of Spence (1973) in the labor market context, the signaling theory of corporate disclosure suggests that managers of high-quality firms have incentives to voluntarily disclose positive information to differentiate themselves from lower-quality (poor-performing) firms. So that if good firms do not disclose more, investors may categorize them with bad firms (adverse selection). Therefore, voluntary disclosure—including narrative reporting—can serve as a reliable signal of firm quality. Fries (2024) argued that credibility as an important aspect of signaling theory. For a signal to be effective, it must be credible—there is often a cost to sending signals that low-quality firms are unwilling to bear. Lastly, within the framework of stakeholder theory, narrative disclosures can be viewed as part of a company's efforts to communicate with and provide information to various stakeholder groups. Thus, narrative disclosure plays a role in demonstrating a company's commitment to accountability and transparency toward stakeholders (Phillips, 2019). Nguyen et al., (2025) argued that a company that practices good stakeholder management will voluntarily disclose a variety of information (financial and non-financial) to meet its information needs.

2.2 Narrative Disclosure and Market Value

The narrative reporting provided by banks in their annual reports positively impacts their market value by enhancing investor confidence and improving the bank's image in the financial market (Wachid & Yunita, 2019). According to Dinh et al., (2023), narrative disclosure of financial performance and future risks contributes to improving the market value of shares in Asian banks, as a result of improved transparency and reduced ambiguity. In essence, narrative reporting serves as a bridge between a company’s raw financial data and the broader story of its business, performance, and prospects (Nguyen et al., 2025). Thus, these disclosures are considered a comprehensive source of information for various parties and stakeholders. Most previous studies have indicated that these disclosures influence investor perceptions and, consequently, the market value of companies (Czajkowska et al., 2021). Saleh (2024) explained that narrative disclosure in Iraqi banks' annual reports has a positive impact on stock market value by increasing the clarity of information for local and foreign investors. It found a positive relationship between the level of narrative reporting and banks' market value, attributing this to increased investor confidence in corporate transparency and accountability. Therefore, it could be assumed that

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the premise that narrative reports—such as management's discussion and analysis (MD&A), risk disclosure, governance, and social responsibility—provide non-financial information that helps investors evaluate future performance and forecast potential earnings. Therefore, improving the quality of narrative reporting leads to increased market value by increasing demand for a bank's shares and strengthening market confidence in its efficiency and management. So, the following hypothesis is proposed:
H1: Narrative disclosure has a significant positive effect on market value

2.3 Narrative Disclosure and Financial performance

Narrative reports help users interpret future financial results and make more informed economic decisions. Abeysekera (2010) explained that the narrative content of annual reports contributes to building a company's reputation and attracting investors, leading to improved return on assets and increased overall financial performance. In Iraqi studies (e.g., Al-Khafaji, 2022; Hameedi, et al., 2021) highlight that the irregular application of narrative reporting, with disclosures often lacking depth or standardization. However, improvements are evident in regulated sectors such as banking. Therefore, internationally, Czajkowska et al., (2021) and Beattie et al., (2014) emphasize that narrative reporting enhances stakeholder decision-making and mitigates agency problems. Narrative reporting can also be used to manage impressions and shape perceptions through strategic formulation. According to Nguyen et al., (2025) and Brennan & Merkl-Davies (2013), narrative disclosures typically cover several key components that collectively provide a holistic view of the company such as (General Introduction, Strategy, and Objectives, Management Discussion and Performance Analysis (MD&A), Risk Management, Forward-Looking

Information and Forecasts, Corporate Governance and Environmental and Social Sustainability Information). In addition, according to the signaling theory, narrative disclosure can provide many signals represented by current and future information that banks aim to send to internal and external parties interested in the bank's performance (Abozaid et al., 2020). Additionally, other studies have confirmed that narrative disclosure enhances the quality of financial reports and would positively affect financial performance indicators such as return on equity and return on assets (Hassan & Marston, 2019). Therefore, previous literature demonstrates that narrative reporting is not merely a complement to financial reporting, but rather an effective tool for increasing transparency and improving corporate performance by enhancing trust and reputation. This supports the hypothesis that narrative reporting has a positive impact on Iraqi banks' financial performance (Almshabbak & Chouaibi, 2023). Refer to the discussion given above; the following hypothesis is proposed:

H2: Narrative disclosure has a significant positive effect on financial performance

2.4 Financial performance and Market Value

According to studies by Lestari et al., (2024) and Alduais et al., (2022) financial performance can act as a crucial mediator in the relationship between narrative disclosure and market value. So, the theoretical foundations for this mediating relationship are solid. Therefore, high-quality narrative disclosures—characterized by clarity, a positive tone, and forward-looking information—enhance stakeholder confidence, attract investment, and reduce information asymmetry. These factors can lead to improved financial performance. This suggests that the impact of a company's narrative on its market valuation is not only direct but is also significantly mediated by its impact on financial performance (Makhlouf et al., 2024). Moreover, financial performance provides a comprehensive assessment of a company's overall financial health over a specific period of time. It reflects a company's ability to generate revenue, manage its assets and liabilities, and ultimately create value for its shareholders. Financial performance analysis considers as cornerstone of internal strategic decision-making and external investment evaluation. Therefore, strong financial performance is an indicator of effective management and a strong financial position, while poor performance may indicate underlying operational or strategic issues. The relationship between financial performance and market value is a well-established principle in finance. Investors analyze financial performance metrics, such as return on assets (ROA), return on equity (ROE), and earnings per share, to assess a company's position and future potential, which directly impacts buy and sell decisions and, consequently, its market value (Jonnius & Marsudi, 2021). Therefore, strong financial results, manifested in strong profitability and growth, are typically rewarded with higher market valuations. Thus, the efficient market hypothesis assumes that information about a company's performance is reflected in its

stock price, meaning that positive financial results are expected to lead to increased market value (Phan and To, 2025). So, the following hypothesis is proposed:

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H3: There is a mediating role of financial performance to affecting market value

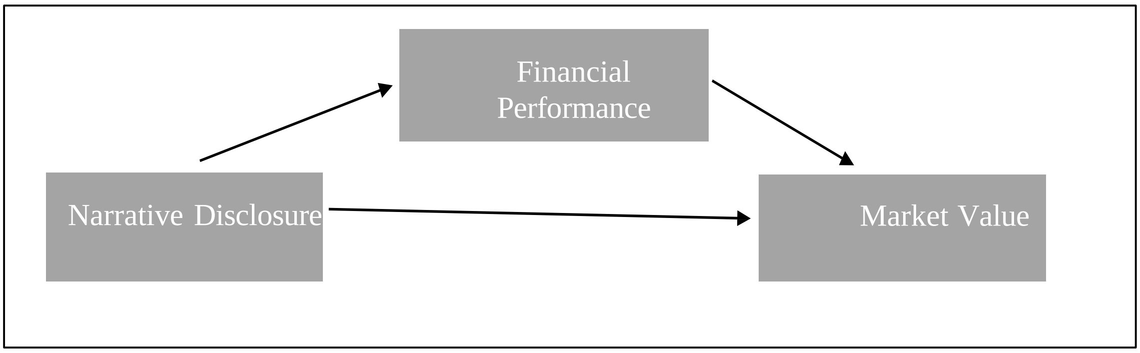

Figure1: Study model

METHODOLOGY

This study adopts a positivist research philosophy; therefore, it takes on a deductive approach. So, Positivism assumes that social reality is objective and can be measured by observable and quantifiable data. Thus, the deductive approach is suitable for testing existing theories and relationships between variables using empirical data.

3.1 Research Design

The research design is a quantitative approach, since we collected numerical data. The data collection and measurement of the variables are based on the content analysis method regarding Narrative Disclosure, using a content analysis. On the other hand, using the financial ratio analysis method for Financial Performance and Market Value indicators.

3.2 Data and Sample

The study uses secondary data extracted from the financial reports of ten Iraqi banks over seven years (2018–2024). Thus, examined banks that were listed in the banking sector either under the main market or the secondary market on the Iraqi Securities Commission (ISC). However, using purposive sampling, banks are chosen based on data availability and relevance, considering the bank's continuity in the market and the size of its market capitalization, as well as the widespread presence of bank branches, especially in the Kurdistan Region of Iraq. So that, selected banks represent a cross-section of the Iraqi banking sector and provide consistent disclosures over the study period.

3.3 Variables

1- Narrative Disclosure: Measured using a scoring checklist across components such as the (General Introduction, Strategy and Objectives, Management Discussion and Performance Analysis (MD&A), Risk Management, Forward-Looking Information and Forecasts, Corporate Governance, and Environmental and Social Sustainability Information). Furthermore, according to Abdalla, (2025), Bassyouny (2022) and Abozaid et al., (2020) each item within these components is scored as 1 (disclosed) or 0 (not disclosed).

2- Financial Performance: Based on literature Rodríguez Valencia, (2025), Almshabbak & Chouaibi, (2023), Sharma, (2022), as well as Dao and Nguyen (2020). We measured financial performance using Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin and Capital Adequacy Ratio (CAR). That testing by Silaban (2017) and Andersen & Juelsrud (2024).

3- Market Value: The researchers Abdullah et al. (2025), Willim (2025) and Su et al. (2025). Measured firm market value by using Tobin’s Q and Price to Book Value ratio.

3.4 Data Analysis Models

Statistical analysis conducted using EViews 12. Descriptive statistics summarized the data, while regression analysis tested the effects and relationships between variables. However, mediation analysis (Baron and Kenny

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approach) was used to examine the mediating role of financial performance. The regression models of the study are emphasized as follow:
Model 1: $MVit$ = B0 + B1 NDit + uit
Model 2: $FPit$ = B0 + B1 NDit + uit
Model 3: $MVit$ = B0 + B1 NDit + B2 FPit + uit

Where;
MV is market value, FP is Financial Performance and ND is Narrative Disclosure. i stands for a bank at time t. B is a parameter of the explanatory variable and u is a stochastic error term.

For the objectives of current study, we examine whether Narrative Disclosure increases market value. To precisely capture that effect, we include financial performance as a mediator variable in our multivariate regression model, aiming to increase for bank value. Thus, in order to examine the impact and relationship level between the variables, we undertake multiple regression analysis on the panel data. Generalized Methods of Moments (GMM) estimation approaches are frequently used methods for panel data estimation (see, for instance, Abdullah & Tursoy, 2021).

EMPIRICAL FINDINGS

4.1 Descriptive Statistic

Table 1 reports the descriptive statistics of the key variables in this study. The findings indicate that the average value of the Price-to-Book Ratio (0.701) and Tobin's Q (0.859) is near the median of the values, which implies that the distributions are relatively balanced throughout the sample. Narrative Disclosure (ND) is also stable with very low dispersion (SD = 0.065), and Financial Performance ratios (AFP) is volatile (SD = 0.460) and has a large range of -1.665 to 1.592, which shows that there is a significant variation in profitability across banks. The skewness and kurtosis values also indicate that PB and Tobin's Q are positively skewed and leptok urtic, whereas AFP is negatively skewed with extreme leptokurtosis, which shows the existence of outliers and performance shocks. However, the Jarque-Bera test shows that no variable has a significant non-normality ($p > 0.10$), which proves the appropriateness of parametric methods of estimation. In general, these findings indicate that ND is relatively stable among banks, AFP is able to capture a significant amount of heterogeneity in performance, and PB and Tobin's Q represent complementary views of firm value, with PB being more volatile and Tobin's Q being more stable, which enhances the quality of the empirical study.

Table 1. Descriptive Statistic

	PB	TOBIN	ND	AFP
Mean	0.701172	0.858617	0.722871	0.588847
Median	0.660915	0.871220	0.716500	0.464040
Maximum	2.331220	1.583170	0.867000	1.592400
Minimum	0.083360	0.480870	0.600000	-1.664830
Std. Dev.	0.551938	0.226877	0.064828	0.460238
Skewness	1.449108	0.855028	0.113465	-0.990747
Kurtosis	4.824388	4.517215	2.237438	10.11732
Jarque-Bera	0.742749	2.820411	1.846243	2.362934
Probability	0.689786	0.244032	0.397277	0.306828
Sum	49.08206	60.10322	50.60100	41.21931
Sum Sq. Dev.	21.01988	3.551647	0.289988	14.61550
Observations	70	70	70	70

4.2 Unit Root test

Table 2 shows the panel unit root analysis of PB, Tobin Q, ND, and AFP using Levin, Lin, and Chu (LLC), Im, Pesaran, and Shin (IPS), ADF-Fisher, and PP-Fisher tests. At the level form, the majority of series do not reject the null of a unit root in a series of tests, which is non-stationary. As an illustration, PB, Tobin Q, ND, and AFP

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are found to be stationary at level by LLC, but never by the IPS and Fisher tests, which results in the more conservative finding of non-stationarity.

Nevertheless, once the variables are converted into first differences, all series become stationary with the highly significant LLC statistics, and the null hypothesis of unit root is rejected in at least one more test (ADF–Fisher or PP–Fisher). The implication of this finding is that PB, Tobin Q, ND, and AFP are order one, I(1) integrated. It is important to establish I(1) integration for further analysis because it justifies the use of panel cointegration methods to test long-run relationships and the use of dynamic estimators like FMOLS or System GMM to overcome endogeneity and persistence in the modeling of firm values.

Table 2. Unit Root test

Series	**Levin, Lin & Chu (LLC)**	**Im, Pesaran & Shin (IPS)**	**ADF-Fisher**	**PP-Fisher**
PB	-2.842 (0.0022)	0.869 (0.8076)	19.34 (0.5000)	18.96 (0.5243)
D(PB)	-4.740 (0.0000)	-0.073 (0.4709)	19.97 (0.4599)	66.63 (0.0000)
LTOBIN	-4.493 (0.0000)	0.514 (0.6964)	15.96 (0.7191)	32.01 (0.0432)
D(LTOBIN)	-5.973 (0.0000)	-0.860 (0.1948)	20.05 (0.4549)	60.13 (0.0000)
ND	-2.185 (0.0144)	0.896 (0.8148)	11.55 (0.9308)	14.77 (0.7893)
D(ND)	-12.171 (0.0000)	-2.758 (0.0029)	42.80 (0.0022)	51.95 (0.0001)
AFP	-3.799 (0.0001)	0.893 (0.8140)	18.28 (0.5690)	33.57 (0.0292)
D(AFP)	-5.645 (0.0000)	-0.978 (0.1640)	31.99 (0.0433)	38.41 (0.0079)

4.3 Panel Cointegration Tests

Table 3 indicates the findings of Pedroni's (1999, 2004) and Kao's (1999) panel cointegration tests of PB, Tobin Q, ND, and AFP. Pedroni within-dimension statistics show mixed results: the panel v-and rho-statistics are not significant ($p > 0.95$), but the panel PP-statistic ($p = 0.0004$) and the panel ADF-statistic ($p < 0.001$) are significant and reject the null hypothesis of no cointegration. On the same note, the between-dimension statistics support this finding, as both the group PP-statistic and the group ADF-statistic are very significant ($p < 0.001$). These results are further supported by the Kao test, where the ADF (-3.136, $p = 0.0009$) statistic further supports the rejection of the null of no cointegration. All these findings support the fact that there is a stable long-run equilibrium relationship between the variables, which means that changes in Narrative

Disclosure (ND) and Financial Performance (AFP) are systematically associated with firm value, as indicated by PB and Tobin's Q. This fact warrants the latter application of Panel GMM EGLS estimation methods to capture both the direct and indirect impact of Narrative Disclosure (ND) on Market value.

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Table 3. Cointegration Tests

Test	Statistic	Prob.	Weighted Statistic	Weighted Prob.
Pedroni (within-dimension)				
Panel v-Statistic	-2.534	0.9944	-2.177	0.9852
Panel rho-Statistic	2.683	0.9964	1.888	0.9705
Panel PP-Statistic	-3.360	0.0004	-7.282	0.0000
Panel ADF-Statistic	-8.624	0.0000	-5.796	0.0000
Pedroni (between-dimension)				
Group rho-Statistic	3.273	0.9995	–	–
Group PP-Statistic	-11.937	0.0000	–	–
Group ADF-Statistic	-8.278	0.0000	–	–
Kao Test				
ADF	-3.136	0.0009	–	–

4.4 Correlation Matrix

Table 4 shows the correlation coefficients between the primary study variables, which are Price-to-Book ratio (PB), Tobin's Q, Narrative Disclosure (ND), and Financial Performance (AFP). The findings indicate that both Tobin's Q and ND have a high positive correlation ($r = 0.766$), which implies that the high Narrative Disclosure is associated with the high market value and leverage capacity. AFP has moderate positive relationships with ND ($r = 0.414$) and PB ($r = 0.365$) as well. Conversely, PB and the Q of Tobin show a weak correlation ($r = 0.127$), which is indicative of the two being complementary yet different in gauging the value of banks. All the correlations are less than the typical multicollinearity level ($r < 0.80$), and therefore each variable brings in different information to the regression models. These findings are some of the first indications that ND and AFP might have different effects on firm value when PB or Tobin's Q is the dependent variable, which is why the mediation analysis model was chosen in this research.

Table 4 Correlation Matrix

	PB (-6)	TOBIN	ND	AFP
PB (-6)	1.00			
TOBIN	0.127	1.00		
ND	0.102	0.766	1.00	
AFP	0.365	0.220	0.414	1.00

4.5 Panel GMM EGLS Results (Direct Effect ND on Tobin’s Q and PB Ratio)

Table 5 shows the Panel GMM EGLS findings of the direct impact of Narrative Disclosure on banks’ market value, which is the log of the Price-to-Book ratio and the Q of Tobin. The lagged ND variable (LND1) is positively and statistically significant (coefficient = 1.074, $p = 0.048$) in the LPB model, which means that the higher the Narrative Disclosure in the last period, the higher the market valuation of banks. Likewise, the contemporaneous ND variable is also positive and significant (coefficient = 0.190, $p = 0.049$) in the Tobin model of Q, indicating that Narrative Disclosure is a direct contributor to bank value. Both models have high explanatory power, as the weighted R^2 of both the LPB and the Q of the Tobin are 0.951 and 0.921, respectively, and the adjusted R^2 is high at 0.941 and 0.908, respectively, which confirms that the models explain a significant percentage of the change in the value of banks. Instrument validity is also justified because the J-statistic in the LPB model (0.044, $p = 0.833$) indicates that there is no over-identification problem, but the Tobin Q model indicates a rank problem with a near-zero J-statistic, which should be taken into consideration when interpreting the results. In general, these findings are good indications that ND has a strong and positive direct impact on both the PB ratio and the Q of Tobin, which supports its position as a major determinant of firm value in the Iraqi banking industry.

Table 5. GMM Direct Effect

Variable / Statistic	LPB (Log P/B Ratio)	Tobin's Q
LND	LND(-1) *(lagged)*	LND (no lag)
	Coef = 1.074	Coef = 0.190
	SE = 0.536	SE = 0.096
	p = 0.0482 **	p = 0.0493 **
Constant (C)	Coef = -0.340	Coef = 0.921
	SE = 0.174	SE = 0.125
	p = 0.0599 †	p = 0.0000 ***
R-squared (Weighted)	0.951	0.921
Adj. R-squared	0.941	0.908
Root MSE	0.312	0.127
S.E. of regression	0.345	0.138
Durbin–Watson stat	1.298	0.955
J-statistic	0.044	~0 (rank issue)
(p-value)	(p = 0.833) → valid instruments	
Instrument Rank	12	11
Observations	70	70
Cross-sections	10	10
Periods	7	7

4.6 Panel GMM EGLS Results (Indirect ND on Tobin's Q and P/B ratio by mediating role of FP)

Table 6 indicates the results of the estimation of the Panel GMM EGLS that evaluates the indirect impact of Narrative Disclosure (ND) on the Market value through the financial performance ratios AFP. The P/B ratio model indicates that AFP (non-lagged) is positive and significant (coefficient = 0.138, p = 0.030) and LND is strongly positive and highly significant (coefficient = 1.512, p = 0.0003), indicating that both financial performance and Narrative Disclosure have significant indirect impacts on firm value. Likewise, in the Q model of Tobin, lagged AFP (–1) is also positive and significant (coefficient = 0.060, p = 0.022), and lagged LND (–1) has a strong positive effect (coefficient = 0.644, p = 0.004). The two models have a high explanatory power with weighted R^2 values of 0.920 and 0.930, respectively, and adjusted R^2 values (0.905 and 0.914) indicating a good overall fit. The constants are also important, negative in the case of the P/B ratio and positive in the case of Tobin's Q, which implies model-specific baseline effects. Nevertheless, the J-statistics of both models are close to zero, which indicates that there are problems with the instrument rank that should be considered a drawback. Combined, these results indicate that ND influences the two indicators of banks' value indirectly by influencing AFP, with AFP playing a significant mediating role, which supports the significance of financial performance channels in determining valuation outcomes.

Table 6. GMM Indirect Effect

Variable / Statistic	**P/B Ratio**	**Tobin's Q**
AFP / AFP (-1)	AFP *(no lag)*	AFP(-1) *(lagged)*
	Coef = 0.138	Coef = 0.060
	SE = 0.063	SE = 0.026
	p = 0.0304 **	p = 0.0223 **
LND / LND (-1)	LND *(no lag)*	LND(-1) *(lagged)*

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	Coef = 1.512	Coef = 0.644
	SE = 0.388	SE = 0.210
	p = 0.0003 ***	p = 0.0036 ***
Constant (C)	*(no lag)*	*(no lag)*
	Coef = -0.253	Coef = 1.043
	SE = 0.099	SE = 0.175
	p = 0.0119 **	p = 0.0000 ***
R-squared (Weighted)	0.920	0.930
Adj. R-squared	0.905	0.914
Root MSE	0.340	0.108
S.E. of regression	0.374	0.121
Durbin–Watson stat	1.033	1.319
J-statistic (p-value)	~0 (rank issue)	~0 (rank issue)

4.7 Panel GMM Results (ND → AFP)

Table 7 shows the Panel GMM estimation of the impact of Narrative Disclosure on combined Financial Performance ratios (AFP). The findings indicate that ND positively and statistically significantly affects AFP (coefficient = 0.600, p = 0.042), which implies that an increase in leverage levels is linked to the improvement of financial performance in the sample banks. The constant term is not significant (p = 0.465), and this means that there is no significant baseline effect in the absence of ND. The model accounts for a significant part of the variation in AFP with an R^2 of 0.662 and an adjusted R^2 of 0.604, which validates high explanatory power due to the short panel (10 cross-sections and 7 years). Nevertheless, the Durbin-Watson (0.876) value shows that there is some positive autocorrelation, and the close-to-zero J-statistic value demonstrates that there may be problems with the rank of instruments, which is to be considered as a limitation. On the whole, these findings confirm the thesis that ND plays a significant role in the improvement of the financial performance, which proves its importance as a major determinant in the mediation process of market value of bank.

Table 7. GMM Independent Effect on FP

Variable / Statistic	Coefficient	Std. Error	p-value
ND	0.600	0.233	0.0423 **
Constant (C)	0.155	0.199	0.4651 (ns)
R-squared	0.662		
Adj. R-squared	0.604		
Root MSE	0.266		
S.E. of regression	0.289		
Durbin–Watson stat	0.876		
J-statistic (p-value)	2.43E-24		
Instrument Rank	11		
Observations	70		
Cross-sections	10		
Periods	7		

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DISCUSION AND CONCLUSION

This study is the first in Iraq to examine market value changes in response to changes in narrative disclosure. In addition, it investigates the effect of such a change in financial performance on the market value of a bank. The present paper uses a sample of 10 banks in Iraq, with a time span covering 2018 to 2024. Thus, in this study, we use panel data methodology with 70 observations. The explained variables of this study are the narrative disclosure and financial performance, and market value. The determinants of financial performance considered in this study are ROA, ROE, NPM, and capital adequacy. However, indicators of market value are Tobin’s Q and PB Ratio. Using a content analysis approach for narrative disclosure by extracting data into a structured checklist. Correlation and panel regression techniques are the main tools of analysis in this study.

Panel GMM EGLS model of this study is robust in terms of significant coefficients of the variables, R-squared, F-statistic and multicollinearity. However, other models have significant problems. Therefore, the researcher has based on a fit model to explain the effect relations between variables. The results of the estimation of the Panel GMM EGLS show the direct impact of Narrative Disclosure on banks’ market value, which is the Price-to-Book ratio and the Q of Tobin, which means that the higher the Narrative Disclosure in the last period, the higher the market valuation of banks. Furthermore, the findings indicate that the indirect impact of Narrative Disclosure on the Market value is through the financial performance ratios. Consequently, these findings confirm the thesis that ND plays a significant role in the improvement of the financial performance, which proves its importance as a major determinant in the mediation process of the market value of a bank.

Moreover, the findings indicate that both Tobin's Q and Narrative Disclosure have a high positive correlation, which implies that the high Narrative Disclosure is associated with the high market value. Financial performance has moderate positive relationships with Narrative Disclosure and Price to Book value as well. Conversely, Price to Book value and the Tobin's Q show a weak correlation, which is indicative of the two being complementary yet different in gauging the value of banks.

Recommendations

By analyzing the narrative disclosures used by banks in the Iraqi banking sector, this study contributes to the empirical literature. Banks can use the results from this study to boost their performance and value of banks. Therefore, to create effective corporate governance that compels managers to operate in the best interests of shareholders. Furthermore, it is recommended that future studies consider the possible effects of other indicators of variables.

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