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-RESEARCH ARTICLE-

THE IMPACT OF DISCLOSURE OF ARTIFICIAL INTELLIGENCE RISKS ACCORDING TO THE K-10 MODEL ON INVESTOR CONFIDENCE IN THE BANKING SECTOR

Jaafar Abdulhussein Hiloalkiabi

Ibn Sina University for Medical and Pharmaceutical Sciences
ORCID: https://orcid.org/0009-0003-5571-4617
Email: Jaafar.abdulhussien@ibnsina.edu.iq

Zahra Hasan Oleiwi

Department of Accounting, College of Administration and Economics Al-Mustansiriyah University
ORCID: https://orcid.org/0000-0003-3850-731X
Email: zahra_alamiri65@uomustansiriyah.edu.iq

Ibithaj Ismail Yaqoob

Department of Accounting, College of Administration and Economics Al-Mustansiriyah University
ORCID: https://orcid.org/0000-0001-8543-4112
Email: hussainalaa10000@uomustansiriyah.edu.iq

Muna Jabbar Mohammed

Department of Accounting, College of Administration and Economics Al-Mustansiriyah University
ORCID: https://orcid.org/0009-0005-6875-6167
Email: dr.muna.jabbar@uomustansiriyah.edu.iq

Ali Husam Mohammed

Imam Ja'afar Al-Sadiq University
ORCID: https://orcid.org/0009-0008-0238-1181
Email: ali_hissam@ijsu.edu.iq

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─Abstract─

The increasing adoption of artificial intelligence (AI) in the banking sector has enhanced operational efficiency while simultaneously introducing governance, cybersecurity, ethical, and regulatory risks that require transparent disclosure. This study examines the impact of AI risk disclosure, based on the Securities and Exchange Commission (SEC) K-10 disclosure framework, on investor confidence in the Iraqi banking sector. A quantitative research design was employed by integrating content analysis of annual reports from five banks listed on the Iraq Stock Exchange with questionnaire responses collected from 150 investors. A multidimensional AI Risk Disclosure Index comprising five dimensions and eighteen disclosure items was developed to evaluate disclosure practices. The findings reveal considerable variation in AI risk disclosure among the sampled banks, indicating the absence of standardized reporting practices. Furthermore, regression analysis demonstrates that AI risk disclosure has a positive and significant effect on investor confidence, suggesting that transparent disclosure reduces information asymmetry and enhances investors' trust in financial institutions. This study contributes to the literature by operationalizing the SEC K-10 framework in an emerging economy and providing a practical disclosure index that can assist banks and regulators in improving AI governance, disclosure quality, and market transparency while strengthening investor confidence.

Keywords: Artificial intelligence, risk disclosure, artificial intelligence, K-10 disclosure framework, investor confidence, banking sector, corporate disclosure, information asymmetry.

INTRODUCTION

Artificial Intelligence (AI) has revolutionized the banking sector in recent years (H. Jadah et al., 2026; H. M. Jadah et al., 2026) by providing financial institutions with improved efficiency and automation, advanced fraud protection, better credit analysis, and personalized services. It has brought in the era of machine learning, predictive analytics, NLP, and intelligent decision-making support (Chikeluba & Bello, 2026) to process vast amounts of financial data and navigate the evolving and complex financial landscapes. With the growing adoption of AI, the stakeholders are not only worried about the advantages of implementing AI technologies in financial services but also the risks involved. These risks include algorithmic bias, cybersecurity vulnerabilities, privacy breaches, operational failures, legal liabilities, lack of transparency, and governance challenges. This means that the effective communication and reporting of these risks play a significant role in corporate reporting (Kanakriyah et al., 2024), enabling investors and other stakeholders to have a clearer picture of how the financial institutions are identifying, managing, mitigating, and reporting the uncertainties.

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AI risk disclosure has garnered significant interest from global standard-setter and regulators (Alzeghoul & Alsharari, 2025). The SEC has noted the importance of technology-related risks being disclosed in Form 10-K, which requires publicly listed companies to communicate material risks, governance practices, management discussions and uncertainties that could affect organizational performance. The K-10 disclosure framework offers detailed disclosures on the risks that companies can face from emerging technologies, such as artificial intelligence. It encourages companies to disclose information on their governance and risk management systems, operational risks, regulatory compliance, cybersecurity, and strategic implications. This helps bridge the information gap between management and investors, giving them clear, timely information to make informed investment decisions. The banking industry relies heavily on trust and credibility, which are intangible assets, and with a higher level of disclosure.

The stability and sustainable growth of financial markets depend on investor confidence (Hussain et al., 2024), which is a basic prerequisite. Investors always evaluate the reliability, transparency and quality of information presented by companies prior to the investment. Disclosure is clear and increases transparency, builds trust and a degree of corporate accountability and conveys that management has the means to respond to the technological challenges that arise in an effective manner. On the other hand, lack of disclosure can lead to uncertainty (Johnstone, 2021), raise investor risk and diminish their interest in investing, especially in rapidly changing fields of technological innovation. Theories including signaling theory, agency theory and information asymmetry theory (Hidayat et al., 2019) all imply that a strong investor confidence can be fostered by voluntary disclosure of high quality information.

While there has been a growing focus on AI governance and disclosure practices around the world (Cordeiro et al., 2026; Primec et al., 2026; Shaban & Omoush, 2025), since, the digitalization is increasing in financial markets (Steven, 2025). There is still a dearth of evidence, especially in emerging economies, where the regulatory landscape for AI disclosure is still emerging. Current research has been mostly conducted in developed financial markets and has mainly investigated how the use of AI affects financial performance, operational efficiency, or corporate governance, with far less attention given to investigating the effects of AI risk disclosure on investor confidence. Moreover, there has been minimal research that applies a structured disclosure index based on the SEC K-10 disclosure framework to operationalize the AI risk disclosure and investigates its implementation into the emerging banking systems. The usage of AI technologies in banking sector of Iraq is increasingly growing, though there is a need for greater standardization in reporting this use. However, the lack of a robust disclosure framework means consistency in reporting is lacking, making it challenging for investors to assess banks' readiness to effectively manage the potential risks associated with AI.

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In this context, the current study aims to examine the role of AI risk disclosure in the context of the SEC K-10 disclosure framework in building investors' trust in the Iraqi banking sector. In particular, it proposes AI risk disclosure index that has four dimensions including disclosure requirements, disclosure timeliness and presentation, AI risk governance, bias and fairness compliance, and legal, regulatory, and financial risk disclosure. This study uses content analysis of banks' annual reports together with data from investor surveys to gain a comprehensive picture of existing disclosure practices and assess their impact on investor confidence. The findings will help expand the use of internationally accepted disclosure frameworks to an emerging economy and are expected to be part of the growing body of literature on AI governance and corporate disclosure.

LITERATURE REVIEW

Artificial Intelligence in the Banking Sector

The use of Artificial Intelligence (AI) in banking is playing an increasingly significant role (Pluskota et al., 2026). In the banking industry, the use of AI is becoming an increasingly vital asset (Rajpal & Rai, 2026). In the banking industry, Artificial Intelligence (AI) is emerging as a transformative force, enabling financial organizations to streamline their operations, improve customer experiences, and make better decisions. Artificial Intelligence (AI) is proving to be a gamechanger in the banking sector, as financial institutions leverage the technology to optimize operations, create better customer experiences, and improve decision-making. Currently, AI tools like machine learning, natural language processing, robotic process automation, and predictive analytics are being adopted in banking for various operations (Chikeluba & Bello, 2026), including fraud detection, credit risk analysis, anti-money laundering, customer service, and portfolio management. The technologies enable banks to process vast amounts of structured and unstructured data in real time, which leads to quicker and more precise financial decisions. Furthermore, AI can assist in providing personalized financial products and automated advisory services (Paramesha et al., 2024), which help to enhance customer satisfaction and make the company more competitive. Despite the positive potential, increasing impact of AI has placed a greater emphasis on the need to manage and control its usage of intelligent systems effectively. Consequently, banks globally are investing dollars in AI tools, but they are also investing dollars in AI governance frameworks which enable responsible, transparent and secure use of AI technologies and ensure trust and regulatory compliance.

Artificial Intelligence Risks

Despite the numerous innovations and efficiencies, it offers (Liu, 2026), AI also poses several risks that could affect the banking sector and its stakeholders. AI systems can be designed to discriminate against or favor certain groups, resulting in inequalities in

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lending or investment practices, if they are poorly trained. Lack of adequate training data can cause AI systems to make biased or discriminatory decisions, which can have adverse effects on lending or investment practices. This includes the extra risks of cybersecurity threats, information personal privacy concerns, model manipulation, and unauthorized access to monetary details. Moreover, transparency and explainability of AI algorithms is an issue that hinders the understanding of the algorithms used to make automated decisions (Morandini et al., 2023), which makes it more difficult to ensure transparency and accountability. Other critical risks are regulatory uncertainty and legal liabilities and damage to financial institutions' reputation (Adeniran, 2024). The principles of governance, fairness, transparency, security, and continuous monitoring are emphasized in international frameworks such as the National Institute of Standards and Technology (NIST) AI Risk Management Framework for managing the risks associated with AI. This means that risk identification and management have become a bank's top priority to ensure sustainable use of AI, while keeping investors, customers and other stakeholders safe.

Artificial Intelligence Risk Disclosure

Artificial intelligence risk disclosure entails the proactive and systematic sharing of information about the potential risks, governance, controls, and mitigation activities related to the use of AI technologies. Transparent disclosure can help stakeholders gain insights into how organizations are managing the uncertainties associated with AI (El Ali et al., 2024), which could have a significant impact on financial performance and sustainability. Both regulators and the U.S. Securities and Exchange Commission (SEC) are signaling a push for companies to share material risks relating to AI in their Form 10-K reports, covering governance structures, operational weaknesses, cyber risks, regulatory compliance, and future unknowns. Comprehensive AI risk disclosure helps to mitigate information asymmetry between the company's management and investors (Yu et al., 2026) through transparency and credibility in corporate reporting. Moreover, good disclosure is a positive sign of a good market, indicating the financial institutions have strong governance and proactive risk management capabilities. Therefore, AI risk disclosure has emerged as a strategic communication tool to foster investor trust, aid in investment decisions, and enhance transparency and accountability in the banking industry.

K-10 Model for AI Risk Disclosure

The K-10 model, which was introduced with the U.S. Securities and Exchange Commission (SEC) Form 10-K disclosure requirement (Alford et al., 1994), offers a detailed model for reporting material risks that could impact an organization's financial condition and results. Artificial intelligence (AI) has been rapidly adopted and with it the K-10 model has been increasingly used as a reference in corporate disclosures related to AI. The aims of framework to help organizations publish

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information on AI governance, operation and cybersecurity risks, legal and regulatory compliance, ethics and management's actions to address these risks. It also highlights the importance of the communication that must be performed according to time, transparency, and consistency, which is evident in the annual reports, management discussion and analysis (MD&A), and risk factor sections. The K-10 model offers a common disclosure framework (Dyer et al., 2017), which lowers information asymmetry between management and stakeholders and enhances corporate transparency and accountability. Therefore, it is an excellent reporting tool to assess the ability of financial institutions to identify, manage and report on financial risks associated with AI to investors and regulators.

Investor Confidence

The investor confidence is the level of trust that investors have in the organization's capacity to sustain its financial performance and to manage risks and perform on the corporate responsibilities (Vuong, 2022). It is heavily dependent on information that is disclosed by organizations, particularly as it relates to strategic decisions and emerging risks, in terms of quality, transparency and reliability. This is particularly crucial in the banking industry, where the trust of investors is vital for ensuring the success and stability of the financial sector (Adil et al., 2023). Clear disclosure allows investors to evaluate the performance of the organization, the quality of its governance, and to understand a business' potential for future development, thereby minimizing uncertainty in investment decision making. Lack of full or accurate disclosure, on the other hand, can raise fears of risk and deter investment. Prior research indicates that the timely, accurate and complete disclosure of business information has a positive effect on investor confidence (Chen et al., 2023; Li et al., 2023; Okpo et al., 2024), as it strengthens investors' perception of accountability and managerial competence of the company. As financial institutions are increasingly adopting AI technologies, transparent AI risk disclosure has also become a crucial factor in gaining investor trust.

Theoretical Foundation

The signaling theory, agency theory, and information asymmetry theory (Hidayat et al., 2019) can be used to explain the relationship between AI risk disclosure and investor confidence. Signaling theory proposes that companies are willing to provide information of a good quality to demonstrate their governance, transparency and strength to the outside world (Connelly et al., 2011). A thorough AI risk disclosure is a positive sign that management understands the new technological risks and has put in place suitable controls. Agency Theory suggests that disclosure is important in reducing any conflicts of interest between managers and shareholders because it brings in better monitoring and accountability (Eisenhardt, 1989). Clear disclosure helps investors assess risk management strategies and whether management is

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addressing AI risks and protecting investors' interests. Another theory is the information asymmetry theory (Afzal, 2015) which states that managers generally have more information available than do external investors, which lead to uncertainty during investment decisions. Good AI risk disclosure helps reduce this information gap by offering technology risk-related and reliable data and information regarding governance practices. These theories can be used to understand how widespread disclosure of AI risk could enhance investor confidence and aid in better investment choices.

HYPOTHESES DEVELOPMENT

Financial institutions have varying organizational resources, technological options, governance, and compliance frameworks (Oko-Odion & Omogbeme, 2025), and thus their use of artificial intelligence (AI) technologies is not uniform. Therefore, it is not likely that banks will follow uniform disclosure practices (Huang, 2006; Nicolò et al., 2024) related to the risks of AI. Institutions that have more robust digital transformation strategies, and more robust corporate governance mechanisms, are more likely to provide detailed information about AI governance, operational risks, cybersecurity threats, ethical concerns, and regulatory compliance. Banks that have less disclosure practices (Huang, 2006) and not as much AI implementation will offer less information about threats related to AI. According to previous studies, there are important differences between the technology-related risk disclosures of organizations in terms of institutional maturity, disclosure policies and the management commitment to disclosing risks (Alzeghoul & Alsharari, 2025; Buckby et al., 2015). Likewise, the SEC Form 10-K reporting system has helped to bring to light material risks associated with AI, but compliance in this area is far more dependent on corporate practices and governance quality. Thus, there is a reasonable expectation that there will be variations in the disclosure of the risks posed by AI among banks in the Iraqi banking sector. The level of AI risk disclosure is significantly different across banks based on the disclosure framework of K-10.

H1: *There is a significant variation in the level of artificial intelligence risk disclosure among banks according to the K-10 disclosure framework.*

The transparency of corporate disclosure is one of the important aspects of the solution to information asymmetry and the boost of investors' trust (El-Diftar et al., 2017). Voluntary disclosure of detail information about emerging risks conveys a positive signal to the market for organizations' governance quality, accountability, and transparency. Similarly, Agency Theory indicates that increased disclosure will decrease conflicts of interest between the management and stockholders (El-Ansary & Hamza, 2023); the investors will be able to better track the management's conduct. In the dominion of AI integration, investors can gain insights into the banks' approach to technological risks, cybersecurity protection, legal and regulatory adherence, ethical

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considerations, and governance structures. A higher level of disclosure helps to raise investors' perceptions of the preparedness of the organization and its risk management abilities, which lowers uncertainties about future organizational performance. Prior empirical research has found that investors' trust and investment decisions are positively affected by the transparency of technological and non-financial risks disclosures (Healy & Palepu, 2001; Jani & Iqbal, 2025). As a result, banks that offer greater disclosure in relation to the risks of AI are likely to see greater confidence from investors. According to the results, the disclosure of artificial intelligence risk (K-10 disclosure framework) has a positive and significant effect on investor confidence.

H2: *Artificial intelligence risk disclosure based on the K-10 disclosure framework has a positive and significant effect on investor confidence.*

RESEARCH METHODOLOGY

The study used a quantitative research design to study the role of artificial intelligence (AI) risk disclosure as per the disclosure framework of the Securities and Exchange Commission (SEC) K-10, and its impact on investor confidence in the Iraqi banking sector. A mixed method was used in this study, which involved content analysis of banks' annual reports and a questionnaire survey of investors. The content analysis was employed to assess the extent of the disclosure of AI risk by commercial and Islamic banks, while a questionnaire was used to examine investors' perceptions of the impact of the disclosure of AI risk on their confidence. Combining these two is a comprehensive approach to understanding both the disclosure of organizations and investor's reaction to disclosure.

The study group comprised of banks that are listed on Iraq Stock Exchange (ISX). The official records of the Iraq Stock Exchange show that there are 25-30 commercial and Islamic banks listed on the exchange. For this analysis, however, only banks that showed evidence of using AI and released public data on digital transformation, cybersecurity, or any AI banking service were selected. According to these criteria, five banks were selected purposively for content analysis; they are Bank of Baghdad, Al-Mansour Bank, National Bank of Iraq, Gulf Bank and Al-Nasik Islamic Bank. These institutions are the initial adopters of AI-related technologies in the Iraqi banking sector, and there are enough publicly available reports to assess AI risk disclosure practices.

The study created a disclosure index using the SEC Form 10-K disclosure framework that measures the extent of AI risk disclosure. The index is based on five main areas: (1) disclosure requirements, (2) timeliness and presentation of disclosure, (3) AI risk management governance, (4) compliance with bias and fairness disclosure requirements, and (5) disclosure of legal, regulatory, and financial risks. Together,

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these dimensions include eighteen disclosure items that are based on the SEC K-10 reporting requirements and have been drawn from recent AI governance literature. An unweighted binary scoring system was used to determine the score for each disclosure item, with a score of one (1) given if the information appeared in the annual report, and a score of zero (0) given if the information did not appear. The overall level of disclosure for each bank was computed as follows:

$$\text{AI Risk Disclosure Level} = (\text{Number of Disclosed Items} \div \text{Total Disclosure Items}) \times 100$$

This method has been used in several disclosure studies of corporate firms as it is an objective measure of the quality of disclosure and comparison between firms is easy. Furthermore, investor confidence was assessed using a structured questionnaire based on existing investor confidence literature and tailored to the context of AI risk disclosure. The questionnaire included five statements representing investors' perspectives on disclosure transparency, disclosure timeliness, governance over AI risks, quality of AI products and outputs, and the ability to reduce future uncertainties related to AI. A three-point Likert scale was used to measure responses (Low Confidence, High Confidence). A questionnaire was sent to 150 investors who are active in the Iraq Stock Exchange. Investors were chosen because they are the main users of corporate disclosures and are directly affected by the quality of the information provided by financial institutions.

Two sources of data were used. The selected banks' annual reports, management discussion and analysis (MD&A) reports, governance reports, and other publicly available financial disclosures were analyzed for level of AI risk disclosure by content analysis. Second, the primary data were collected by administering questionnaires to the investors to assess investors' confidence in AI risk disclosure practices of the selected banks. Documentation evidence was used in conjunction with responses to the survey to increase the validity of the results of the study by getting both organizational and stakeholder perspectives.

Descriptive and inferential statistical techniques were used to analyze the collected data. Frequencies, percentages, arithmetic mean scores and standard deviation scores are used to summarize disclosure levels and investor confidence scores. A linear regression analysis then proceeded to analyze the impact of AI Risk disclosure on investors' confidence. The coefficient of determination (R2) was used to determine the explanatory power of the regression model, and the F-test was used to test the overall significance of the regression model. Furthermore, regression coefficients were estimated to determine the magnitude and direction of the relationship between AI risk disclosure and investor confidence. For the evaluation of statistical significance was used at the level of 0.05 ($p < 0.05$).

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Table 1: Artificial Intelligence Risk Disclosure Index according to the requirements of the (K-10) model

What has been relied on	Paragraph	Dimensions
Item-8 K-lo Financial statement))	1- Artificial intelligence risks are disclosed periodically and in a specific format. 2. Risks related to AI are specifically framed. 3- The financial implications of AI risks are disclosed in financial reports. 4. Disclosure of potential risk recovery strategies for AI is evaluated.	Disclosure Requirements
Item-8 K-lo (Financial Statement)	1- The risks of artificial intelligence are disclosed in the annual and interim reports. 2. Any material risks will be disclosed as soon as they occur. 3- AI risks are disclosed in the management comments report or margins.	Temporality and Supply
Item 1A K-lo	1. The Bank shall have an integrated framework for the governance of the management of artificial intelligence risks, which shall be disclosed. 2. The responsibilities of the Board of Directors towards the risks of AI are disclosed. 3- The mechanism for disclosing the risks of artificial intelligence is represented by the bank's efforts to deal with the risks. 4- AI risks are evaluated periodically.	Artificial Intelligence Risk Management Governance
Item- 7 Managements Discussion And Analysis (MD & A)	1. Disclosure shall be made in accordance with local and international laws, instructions and guidelines. 2. Biases are disclosed in the approved activity training forms. 3- Accuracy in the use of AI models is disclosed. 4- There are limits when relying on AI models.	Compliance with bias and fairness disclosure requirements
Item-l (K-lo)	1- Financial losses related to AI shall be disclosed as soon as they occur. 2- Disclosing current or potential legal lawsuits as a result of the use of artificial intelligence. 3- Disclosing the Bank's liability governed by laws towards the risks of artificial intelligence	Disclosure of legal, regulatory and financial risks

The method developed in this research provides a systematic approach to understanding the risks and their disclosure in the banking industry and the effect this disclosure has on investor confidence. The study seeks to fill the gap between the disclosure principles adopted currently (those in the International Financial Disclosure Standards) and investors' perceptions to assess the impact of disclosure on the perception of AI risks through an evidence-based approach. This study adopts a disclosure approach, like the international standards (IFDS), while also incorporating investors' perception, to assess the impact on investor confidence in the emerging financial markets when AI risks are clearly disclosed. The methodology also offers a

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practical approach which can be transferred to future research focusing on AI governance, corporate disclosure, and stakeholder trust in other sectors and countries.

This study created a AI risk disclosure index using disclosure requirements outlined in the SEC Form 10-K disclosure framework to evaluate the degree of AI risk disclosure, as shown in Table 1. It is composed of five dimensions and eighteen disclosure items, including disclosure requirements, disclosure timeliness and presentation, AI risk governance, bias and fairness compliance, legal, regulatory and financial risks. The items of disclosure were assessed by a binary scoring system, with a score of 1 (one) representing disclosure and a score of 0 (zero) representing no disclosure. Overall disclosure score was shown as the percentage of disclosure items disclosed in relation to the total disclosure items. Table 1 gives an overview of the AI Risk Disclosure Index for this study.

DATA ANALYSIS

Table 2 shows the extent of artificial intelligence (AI) risk disclosure for the five sampled banks and their disclosures on each of the five dimensions of the proposed disclosure framework of K-10. The results show that disclosure practice among the banks are varying, which supports the presence of inconsistent AI disclosure among the Iraqi banking sectors. As for the first dimension, Disclosure Requirements, Gulf Bank had the highest level of disclosure (75%) while Al-Nasik Islamic Bank had the lowest level of disclosure (25%). This discovery indicates that not all banks offer full information on the key disclosure requirements for AI. In the second dimension – Timeliness, and Presentation – Bank of Baghdad, National Bank and Gulf Bank each had a disclosure score of 100% meaning that they disclosed information on AI in a timely fashion. Al-Nasik Islamic Bank, on the other hand, reported just 25%, which was due to the deficiency in disclosure timing and presentation. Similar variations were noted in AI Risk Governance, with Bank of Baghdad having a disclosure score of 75%, and the National Bank a score of 25%. In addition, disclosure of Bias and Fairness was fairly limited in all banks, at most of which it was no higher than 40%. Lastly, Legal, Regulatory, and Financial Risk Disclosure had the lowest disclosure (33%) across all sampled banks, highlighting that the legal and regulatory risks of AI are significantly underreported. Table 2 shows that, overall, the level of AI risk disclosure is inconsistent and is at a nascent stage of development amongst the Iraqi banking industry.

Table 3 shows the AI Risk Disclosure Index and the Investor Confidence Questionnaire are linked as suggested. As table shows, every disclosure dimension relates to a particular aspect of investor confidence supported by the available literature. In particular, it is expected that the compliance of disclosure requirements will enhance investors' trust by increasing the transparency of the organization. The timely and proper disclosure diminishes uncertainty and allows investors to make

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informed decisions. Similarly, good AI risk governance demonstrates the ability of management to identify, monitor, and control AI risks, and thus confidence in corporate governance. Disclosure of bias, fairness, and AI output quality equates to a sense of accountability and responsibility in AI systems, enabling organizations to operate responsibly and ethically. Disclosure of legal, regulatory, and financial risks diminishes uncertainty about future liabilities of the organization.

Table 2: The level of disclosure according to the indicators that are binding on the banks of the research sample

Banks					Secondary paragraphs	Dimensions
Al-Nasik Islamic Bank	Gulf Bank	National Bank of Iraq	Al-Mansour Bank	Bank of Baghdad		
1	1	1	1	1	1	1. Disclosure Requirements Item8
0	1	1	1	1	2	
0	1	0	0	0	3	
0	0	0	0	0	4	
25	75	50	50	50	Total %	
1	1	1	1	1	1	2. Temporality and Supply Item8
0	1	1	1	1	2	
0	1	1	0	1	3	
25	100	100	66.6	100	Total %	
1	1	1	1	1	1	3. Artificial Intelligence Risk Management Governance Item 1A
0	0	0	0	0	2	
0	1	0	0	1	3	
1	0	0	1	1	4	
50	50	25	50	75	Total %	
0	0	0	0	0	1	4.Compliance with bias and fairness disclosure requirements (MD&A)(Item7)
0	0	0	0	0	2	
0	0	0	0	0	3	
1	1	1	1	1	4	
0	0	1	1	1	5	
20	20	40	40	40	Total %	
0	0	0	0	0	1	5. Disclosure of legal, regulatory and financial risks (Item 1)
0	0	0	0	0	2	
1	1	1	1	1	3	
33	33	33	33	33	Total %	

Source: Prepared by researchers according to the content analysis of relevant reports

Table 3 sets the conceptual framework between the disclosure practices of AI risks and investor confidence and theoretically justifies the research of the proposed relationship. In addition, Table 4 shows the descriptive statistics of investor confidence on the banks' disclosure practices for AI risk. The analysis shows that the average Investor Confidence Index (ICI) came out to 2.40 or 79.9% showing high level of investor confidence. The highest mean score (2.51; 83.6%) is on the question,

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'Disclosure of the risks of AI is clear, understandable, timely and increases investors' willingness to invest.

Table 3: Proposed Indicator for Disclosure of Artificial Intelligence Risks

Approved Measurement	Linkage Logic	Questionnaire Axis	Artificial Intelligence Risk Disclosure Index
(Healy & Palepu, 2001)	Commitment to transparency of disclosure enhances trust in management	Compliance with Disclosure Requirements (1-3)	1. Disclosure Requirements Item8)
(Botosan, 1997)	Timely disclosure and with the right offer reduce ambiguity and cognitive volatility for the investor	The right timing and the right offer	2. Temporal and item8 display
(PWC, 2023)	Quality Governance Boosts Investors' Confidence in Management	Quality AI Risk Management Governance	3. Governance of AI Risk Management Item 1A
(National Institute of Standards and Technology, 2023)	Enhancing investor reassurance	Quality of AI results	4. Comply with bias and fairness disclosure requirements (MD&A) (Item7)
(SEC,2022)	Enhancing Technological Confidence	Reduce future risks	5. Disclosure of legal, regulatory and financial risks Item 1)

The results indicate that disclosure quality and communication transparency are especially significant factors that contribute to investor confidence. The same was true with respect to compliance with international disclosure requirements (Mean = 2.41) and appropriate disclosure timing (Mean = 2.39), which were also rated high for investors' confidence. Comparatively lower mean values for AI governance (Mean = 2.21) and bias disclosure (Mean = 2.26) were reported, but both were within acceptable confidence levels. Such modest results suggest that investors continue to be skeptical of the efficiency of the AI governance frameworks and banks' capacity to effectively control algorithmic bias. Thus, Table 4 shows that an AI risk disclosure that is comprehensive and includes information that is clear, easily accessible, and timely helps build investor confidence.

The results of the linear regression model on the relationship between investor confidence and AI risk disclosure are presented in Table 5. The correlation coefficient ($R = 0.57$) shows a moderate positive relationship between the variables. Moreover, the coefficient of determination ($R^2 = 0.34$) indicates that investor confidence can be explained by around 34% of the variance explained by the AI risk disclosure. The sample size adjusted R^2 value is 0.33, which shows the explanatory power of the

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model is relatively stable. The standard error of estimate (0.27) also indicates that the regression model has reasonably accurate predictions of investor confidence.

Table 4: Descriptive statistics of investor confidence on the banks' disclosure practices for AI risk

Confidence level	%	Standard Deviation	Arithmetic mean	Themes
High	80.3	53.0	2.41	1. Adherence to international disclosure requirements makes us feel that the bank's management can manage the risks of artificial intelligence.
High	79.5	55.0	2.39	2- I trust the bank's management and am ready to invest in it, because the disclosure of the risks of artificial intelligence comes at the right time and with the easiest and clearest offer.
Medium	73.7	51.0	2.21	3. The bank's having the will to govern AI risks gives me confidence in it.
High	83.6	49.0	2.51	4. Disclosing the risks of AI increases my desire to invest in the bank and a more accurate forecast.
Medium	75.2	59.0	2.26	5. Disclosing the risks of AI reduces my concerns about AI-related bias.
High	79.9	38.0	2.40	Overall Investor Confidence Index

The statistical results of the overall analysis of Table 5 indicate that the disclosure of AI risks is an important explanatory variable affecting investors' confidence but other organizational and market related factors might also impact investors' perceptions.

Table 5: Linear Regression Analysis

Std. Error Estimate	Adjusted R^2	R^2	R
27.0	33.0	34.0	57.0

The results of the Analysis of Variance (ANOVA) for the regression model are shown in Table 6. The results show that the regression model is statistically significant with F value of 76.90 and significance level of $p < 0.001$. This result validates that the regression equation has a significant predictive power of investor confidence compared to the model without AI risk disclosure as a predictor. The relatively high regression sums of squares compared to the residual sum of squares also suggests that a fair amount of the overall variation in investor confidence can be accounted for by AI Risk Disclosure. Thus, Table 6 confirms that the overall regression is suitable, and that AI risk disclosure in a significant contribution to explain the differences in investor confidence among investors in the Iraqi banking sector. Similarly, Table 7 estimates the regression coefficients to the relationship between investor confidence and AI risk disclosure. The regression coefficient for AI risk disclosure ($B = 0.93$) is positive and significant statistically ($t = 8.77$, $p < 0.001$), suggesting that the better the

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disclosure of AI risks, the higher the investors' confidence will be. An increase in the AI risk disclosure index score of one is likely to lead to an increase in Investor Confidence Index score of about 0.93.

Table 6: ANOVA variance analysis

Sig	F	MS Squares Average	D f	Total SS Squares	Contrast
0.000	76.9	5.21 0.067	1 147	5.23 10.00	Regression Residual
			149	15.23	Total

The statistically significant constant term (B = 1.72; p < 0.001) also supports the notion that there is a baseline level of investor confidence that is not linked to AI risk disclosure. In general, the results of Table 7 validate the positive effect of transparency of AI risk disclosure on investor confidence and further show that disclosure practices are an important factor in investors' perceptions.

Table 7: Regression coefficients

Sig	T	Beta	Std. Error	Variant B	
0.00	22.14		0.07	1-7	Constant
0.00	8.77	0.57	0.12	0.93	Independent (Disclosure) AID

Table 8 presents a summary of the overall AI Risk Disclosure Index and the banks' overall disclosure performance, ranked from highest to lowest. The results show that there are significant variations in the amount of disclosure across the five banks. Bank of Baghdad had the highest overall disclosure score (59.6%), indicating relatively highest compliance with the proposed disclosure framework (K-10) and higher transparency in the disclosure of the risks associated with the use of AI. The National Bank (49.6%) and Al-Mansour Bank (47.94%) were the next two with disclosure rates of 55.6% and 49.6%, respectively. Additionally, Al-Nasik Islamic Bank had the lowest disclosure score (30.6%), indicating lower levels of disclosure of AI governance, operational risks, and regulatory information. While Bank of Baghdad performed best in terms of disclosure practices of the sample banks, none of the banks fully complied with the proposed disclosure framework. Table 8 indicates, therefore, that AI risk disclosure is moderately developed in the Iraqi banking sector, with a need for more detailed guidelines for the disclosure and its consistency and transparency among banks.

Table 8: Percentage of total disclosure according to the dimensions of disclosure of artificial intelligence

Disclosure Level Order	Average Total Disclosure Index	Banks
1	59.6	Bank of Baghdad
4	47.94	Al-Mansour Bank

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3	49.6	National Bank of Iraq
2	55.6	Gulf Bank
5	30.6	Al-Nasik Islamic Bank

DISCUSSION

The present study is applied to the effect of disclosure of artificial intelligence (AI) after the SEC K-10 framework disclosure on investors' confidence in the banking industry in Iraq. The findings provide empirical evidence that the transparency of disclosure has a positive impact on investors' confidence in the bank, and also that there is a significant difference in disclosing AI risks among banks. The findings add to the existing body of literature on AI governance by showing that disclosing risks associated with AI is not just a regulatory requirement, but an effective way to enhance stakeholders' confidence in new financial markets.

The H1 suggested that there would be an AI risk disclosure gap between banks. These findings corroborate this theory, since there were significant differences across the sampled banks on all five disclosure dimensions. There were some banks that were fairly advanced in their governance of AI, functional risks, legal obligations, and what they were doing about algorithmic fairness, and others were less advanced. This difference is most likely due to the differences in technological maturity, governance capacity, organizational preparedness and managerial openness to transparency. The findings are aligned with the findings of Buckby et al. (2015), that there are variations in disclosure policies in disclosure regimes of corporations, which in turn are dependent on institutional governance. Similarly, Alzeghoul and Alsharari (2025) found significant variations in AI disclosure across U.S. banks, indicating that firms might choose different disclosure strategies based on their technological maturity and readiness. The present results show that the Iraqi banking sector is still at an early stage in the process of adopting standardized frameworks for disclosure of AI and requires further development in this area.

The H2 was based on to investigate the relationship between investor confidence and the disclosure of AI risk, which was found significant and the results were positive. The regression results show that increased investor confidence, as measured by the proportion of investors who consider the information provided on AI risks to be very complete or very accurate. It is correlated with increased disclosure of AI risks, though the relationship is weak. The regression results suggest that investors' confidence in the information on AI risks, based on the percentage of investors who reported that the information on AI risks was accurate, is positively correlated with increased disclosure of AI risk, though the relationship is weak. Investors seem to appreciate banks' information regarding how they are managing AI systems, cybersecurity risks, algorithmic bias, and legal and regulatory compliance. The results are in line with the Signaling Theory (Connelly et al., 2011), which suggests that the

organizations support the trust of its stakeholders with the voluntary disclosure of credible information that indicates appropriate governance and organizational quality (Spence, 1978). The findings also consistent with Agency Theory (Eisenhardt, 1989) which states that if the disclosure is transparent, the conflicts of interest between managers and investors will be reduced because of increased accountability and monitoring (Jensen & Meckling, 1976). In addition, the results support the Information Asymmetry Theory which posits that better disclosure reduces information gap between management and outsiders and thus, helps in the informed investment decision making process (Healy & Palepu, 2001).

The findings are also in line with previous empirical studies that have highlighted the role of risk disclosure transparency in financial markets. The identification and communication of AI-related threats in this study fosters investor trust, signaling the organization's preparedness and proactive risk management strategies (Jani & Iqbal, 2025). Likewise, Gunawan (2019) discovered that voluntary corporate disclosure generates stakeholder trust by enhancing transparency and decreasing uncertainty. Investors' expectation of AI risk disclosure as a sign of responsible governance has been noted in the present study, which indicates a relatively high level of investor confidence in the disclosure. AI is being incorporated into financial institutions' strategic and operational functions, and investors are looking for these roles to provide both the advantages of AI application and information on the potential risks and mitigations. Finally, the results illustrate that a thorough AI risk disclosure is a strategic governance approach that improves the transparency of the market and supports investor confidence. While the level of disclosure is not uniform throughout the Iraqi banking system, this study suggests that an improvement in the level of disclosure of AI risk can lead to increased trust in financial institutions and help create a more transparent and resilient banking system.

CONCLUSION

The purpose of this study was to investigate the influence of artificial intelligence risk disclosure that follows the SEC disclosure approach of K-10 on investor confidence in the Iraqi banking sector. The results showed significant differences in AI risk disclosure among the banks sampled, suggesting that there is a lack of uniformity in reporting practices for AI risk. Moreover, the empirical findings support that the full disclosure of AI risks is indeed statistically significant to boost investors' confidence as it improves transparency, mitigates information asymmetry, and showcases good governance of AI-related risks. By offering a multi-dimensional disclosure index that can be used to assess the extent of reporting of AI risks in financial institutions, the study builds on existing research in AI governance. It further emphasizes the need for clear disclosure of AI to enhance trust with stakeholders and aid in decision-making. In summary, better disclosure of AI risks can help make banking institutions more

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transparent, accountable, and resilient, and drive sustainable development of the financial sector in emerging markets.

IMPLICATIONS OF THE STUDY

The results of this study have important implications for theory, practice and policy. Theoretically, it builds on the growing body of the literature on the governance of artificial intelligence (AI) and incorporates the SEC K-10 framework into the discussion of investor confidence in an emerging market. The results corroborate the three signaling theories (Signaling Theory, Agency Theory, Information Asymmetry Theory) in that, the transparency of AI risk disclosure is a credible signal of effective governance practices, lowers the information asymmetry, and enhances investors' trust in financial institutions. This study offers a structure of structured Banking Manager's Index of AI risks that can be used to assess and enhance disclosure regarding governance, operational, cyber, bias and regulatory risks. More transparency improves the transparency of companies, allows for better communication between stakeholders, and helps create trust among investors in AI-driven financial services. The results also pointed out the necessity of development of reporting guidelines on AI that would be aligned with and harmonized with the internationally accepted reporting frameworks like the SEC's K-10 model, in addition to the policy and regulatory guidance on AI in financial reporting. Such regulatory actions could contribute to greater uniformity in the financial sector, increased transparency, more responsible AI governance and, hopefully, a better investor protection and confidence in the banking system.

Limitations and Future Research Directions

This study has few limitations that could be improved in future studies. The study assessed only five banks quoted on Iraq Stock Exchange, and the results might not be generalizable. A larger sample of banks and the analysis to be extended to multiple countries are recommended for future research to enhance external generalizations. Secondly, the research was conducted in the banking sector. Further studies could explore disclosure practices in other sectors of the economy, such as insurance, healthcare, telecom, manufacturing, etc., and compare them. Third, the outcome variable was investigated without regard to investor confidence. Further research might focus on other implications of AI risk disclosure such as investment intent, corporate reputation, firm value, market performance, trust of stakeholders, and organizational legitimacy. Lastly, this study used a cross-sectional approach. Future research should explore the change and development of investor confidence in AI risk disclosure practices and techniques with the help of longitudinal studies, as AI technologies and regulatory frameworks also evolve.

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