

## **Study of Impact of the Capital Structure in Improving the Market Value of the Banks and Increasing their Profitability An Analytical Study of the Iraqi Banks Listed on Iraq Stock Exchange**

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**Abstract:** The study is an attempt to show the relationship between capital structure ratios and market capitalization (market cap). The researcher's study sample included 17 banking sectors, listed on the Iraq Stock Exchange. The researchers relied on a number of quotations to measure study variables. To achieve study objectives, they relied on the then current stock market statements published between 2006 and 2014 and the Simple Linear Regression. After analyzing the data and the process of choosing hypotheses, the researchers reached the following findings: there is no relationship between the independent variable of the structure of capital and market value which is indeed a weak value, almost non-existent. Also, the study shows that, the relationship between capital structure and profitability were negative and weak, stressing the weakness of the Iraqi banking sector and lack of its dependence on precise strategies regarding the study variables and low efficiency among departments of banks in terms of knowledge of the financial indexes. The banks should also reduce the cost of capital used to finance projects to the lowest possible proportion in order to reach an appropriate capita model.

**Key words:** Capital structure, market value, profitability, knowledge, financial indexes, projects

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### **INTRODUCTION**

The subject of the capital structure is one of the important topics in the area of financial management which gained importance through its influence and its link with the objectives of financial management related to maximize market value for the stocks or maximizing profit and this is the objective sought by the banks.

To achieve these goals, it requires the existence of investment projects in the banks and also existence of sources of financing for these projects, therefore, the tasks of the management of the bank is taking investment decisions and resolutions of the appropriate funding, hence launched this research to identify the nature of the relationship between the capital of the market value and the profitability of the bank.

#### **The theoretical side and the hypotheses development**

**Capital structure:** The term capital structure is called on the way which the company financed its assets through a combination of the property rights and indebtedness, its described by calculating the ratio of both the property rights and the indebtedness to the capital and it can be described also by calculating the rate of financial lifting of

the company, the structure of the capital, directly linked to the cost ratio of the capital which is one of the elements of companies evaluation by changing the capital the average is change consequently the value of the company is changed.

Jadiyappa *et al.* (2016) states that the new financial innovations and fiscal reforms occur through the freedom choosing debt instruments that meet the requirements of the company which lead to changes in the maturity of debt and capital structure.

Rastad confirmed that companies determine optimal goal in components between debt and stocks in order to achieve the balance in the conflict between the lenders and shareholders and also to take advantage of the debt which achieved tax benefit. One of the most important reasons of the capital changes is a result of the internal financing deficit and stock duties weakness, Oino and Ukaegbu (2015) has defined company's capital structure that its financing of company activities using a combination of debt and stocks to enhance the value of the company. Borochn and Yang (2016) added that the companies should make changes in the capital as a result of market risks which affecting the rights of shareholders and the capital should be dynamic capacity to respond to

investor's expectations and to avoid the falling in stock prices risks. The main measure of changes in the capital is the increasing of proportion of net leverage which is defined as the issuance of new debt plus the net share to purchase most of the total assets and this variable is splendidly dept, property rights which lead to the holding of a net changes in the capital structure. These changes are summarized in increasing company's influence and the most important is proportion of net leverage cancels mechanical impacts for the paid leverage of the changes in the value of the property rights and the isolation of administrative decisions regarding the leverage. Vo and Ellis (2016) view that investors look to the composition of the capital structure of the company and they found through their study that Vietnamese companies tend often to be owes where debt rates is higher than the assets which may reach to more than 0.5 where the capital creates the value of the company compared with the proceeds. Li *et al.* (2017) added that the capital can be found in several ways, including two ways: the leverage method based on the Book Value (BLVE) and the leverage way based on the Market Value (MLVE). An *et al.* (2016) referred to that companies environments have a role in the restructuring the relationship between profits administration and capital structure decisions where the strong companies environments provide and impose investors rights in mitigating the impact of profits administration on company decisions which make profits administration less sensitive to the decisions of the capital structure. While, Oliveira *et al.* (2017) view that much of bargaining can be achieved with suppliers through changing capital strategy through responsiveness to change in the seriousness of the intensity of the customer and seeking to develop the relationship with clients and suppliers in order to determine the capital. In addition to a group of factors affecting the capital structure of the company and including: market characteristics, the company's competitive position, the nature of the strategy followed in dealing with its partners and others such as financial staff, competitors, customers, suppliers. Temimi *et al.* (2016) indicated the tax effect on the leverage is one of the important political purports, especially in the wake of the financial crisis where the taxes are largely affected. The tax treatment of debt had contributed to the recent financial crisis through stimulating companies take the increase of leverage and this is what necessitated calls for overhauling the reforms of the tax treatment of debt and property rights. Pacheco (2016) view that, the international company's activity is one of the determinants of the capital, according to the theory of finance, leverage should be to these companies highest

compared with other least active firms because of the large size and stability in the generation of cash flow and increasing the opportunities in finding cheap, alternative resources compared to domestic firms, this reverts the benefit of their shareholders. And he proved that all work through the partial interdependence of cash flows provide mutual insurance and create more capacity to debt while diversification may destroy the value and profitability and may offset partially increasing in the capacity of religion withholding taxes fluctuation.

Matia and Serrasqueiro (2016) confirmed that one of the most important factors affecting financial terms on the decisions of the capital are: profitability, size, tangible assets, growth, age. He was suggested in his study insertion of the variables related to the administration and property structure as well as those relating to the personal characteristics and the strategic objectives and preferences of business owners and managers financing to analyze capital decisions of small and medium-sized companies in order to verify of the applicability of the expectations with financial theories. Bandyopadhyay and Barua (2016) added that monetary expansion policy of in the lost time may encourage companies to borrow more, this in turn enhance their performance and that the central bank can be used monetary policy strategically so it can affect the growth of companies by channel the interest rate. Belkhir *et al.* (2016) added through his study of a number of firms in the Middle East which work in different financial leverage rates and determinants of the capital which differ from country to country and It has found that the best quality for the company is to use more debt specifically companies working in countries with financial systems and sophisticated and the rule of law is very strong. Zhang *et al.* (2017) added that the scientist companies in the field of renewable energy tend to adoption of the capital of the short-term debt which requires them to longer periods of time to achieve their full potential and may be on the company abandoning projects more profitable. Zeitun *et al.* (2016) referred to the optimal capital structure can be achieved in the case of achieving a balance between the benefits of debt which achieved through savings taxes and reducing tax of the costs of the administrative agency or resort company to internal resources and then issues the debt if the internal resources are insufficient or resort to issuing stocks which it expensive to it. Tian (2016) view the preferences administrative could affect the finance leverage options, where, it can be affected by of company manager's personal decisions, the reports have reached that the use of optimistic director and have self-confidence can benefit from it. On the other hand Schepens (2016) view that, the increasing the taxes on the bank capital can give impetus

to the banks to reduce the levels of the capital. Doukas *et al.* (2011) confirmed that market conditions, timing, costs and consistency of information is one of the important factors that affect the process of issuing debt. Danis *et al.* (2014) referred that companies resort to urge the capital and transferred it from the deadlock through the issuance of debt and at the same time to buy back stock or pay cash dividends. Prasad *et al.* (2001) added that information ambivalence between the company and the market means that the company prefers funding using retained earnings followed by debt and finally by stocks. Nhung and Okuda (2015) has reached that the companies which is controlled by state tend to be more dependent on the external debt of other companies and it has the highest rate of fixed assets compared to other foreign companies.

**Market value:** The price which the circulation of one of the assets in the competitive auction framework, it represents the estimated amount which can be exchange certain property on valuation date between the buyer and the seller within deal framework between the independent parties of interests after the appropriate marketing. Economakis (2010) referred that the market value is based on the volatility in the market prices thus the supply and demand regulating the market price and the market value of its governing the relationship between the supply and demand. Kocho *et al.* (2011) view one of the matters affecting the market value of the company is the lack of information about the price and infrastructure difficult financial market. Cooke *et al.* (2009) classified the book value in its ability to explain the behavior of the time series of market value of the company and the book value is relevant to market value. Nicolau and Santa-Maria (2013) defined the market value as a theoretical value for Exporting Stocks in the market for circulation where the total amount which the investor should paid if he wants to buy full stocks in a single package. Yang *et al.* (2014) Found that company implemented quality management in a holistic manner usually attracts positive reactions of investors as well as the acquisition deals it findings would lead to the lifting of the stock and market values of the company as well as in the case of declaring sales contracts, the findings shows that the companies that low ratio of debt to property rights have positive reactions in the market.

Herm *et al.* (2014) and Serrano *et al.* (2015) both of View that providing experts and quality administration for the company may increase of its market value. Pham (2015) found that company adoption on the quality system ISO 50001 had a role in the achievement of energy consumption and to reduce costs and improve

business. Varga (2011) confirmed that investors wanting to know the company market value because it allows them to determine the performance of the company and its ability to obtain more debt. Lee and Ghiselli (2011) found through his study that the book value of the assets is a significant indicator of market value of the company as well as the tangible and intangible financial value that increase the market value. Rahko (2014) view that researchers have begun in recent years to attend increasingly in the organizational capital position and its impact on company's performance, reducing organizational expenditures and increase the profits of the company to increase the market value in similar way for investment in physical capital. Therefore, organizational expenditures described as investments and should receive the same treatment and concrete investment. The organizational capital position assimilates to: economic efficiencies, annexation of administrative functions, staff training, trademarks and marketing skills and managerial efficiencies. Lin and Liang (2010) found through his study that investment in research and development areas has a negative impact on the financial performance and this may lead to reduce the profits at a short-term and depressed the market value of the company.

Abbas and Khali (2016) added that the importance of staff training to raise the levels of their empowerment and upgrading thinking skills for them , consequently it leads to rise in the value of the company. Kajander *et al.* (2012) view that investment in the field of sustainability would lead to creation of economic value in environment company and increase its market value. Sanner and Block (2011) referred that trade mark value and patent reflected its value on increasing in the market value of the company. Li *et al.* (2012) added that the rule of law in the State contribute in the creation of the company market value for the company in terms of the protection of the property rights and the patents to the company.

Xiangying *et al.* (2015) found that investment in research and development areas of the company contribute to increased its market value. Clo and D'Adamo (2015) confirmed in their study that stimulate innovation and adoption of technology contributes in reducing the costs and increasing its market value. Mothlagh *et al.* (2016) added that accounting information is the most popular in the financial markets because investors looking for accounting data more than anything else to take their own decisions about investment, one of the factors affecting the stock Value is: financial figures in the financial accounts and the content of the information for accounting figures, this means that the financial reports carry new, appropriate data to the market and this is what change the expectations and the reactions of

investors, Cupal (2015) referred to the identification of stock price in the exchange market and providing information about the company contributes to increase the market value of the company. Silva *et al.* (2016) and Lee and Kwon (2017) confirmed to extent possible to use modern technology in the field of production and its contribution in increasing market value per stock and reduction of the fluctuations in the price of stocks in the financial market and increase the duties to shareholder. Kanapeckiene *et al.* (2011) view that the special data of market value help the companies in taking the special decisions on the support and construction of the projects, it also help in identifying priorities and degrees of mutual benefit for each project. Silveira *et al.* (2012) and Robert (2013) added that the market value of the company would help in the precaution of financial risks and enhance its performance.

**Profitability of the company:** Profitability is the amount which seeks any company, whether individual or other, to achieve through the financial business or service to offer to the target market in order to achieve its interests by achieving profit and increase the duties to cover their costs and what is more than that is the profit. Hamid *et al.* (2015) view that the profitability or as well known financial performance are closely linked to the capital structure of the company where the company uses debt financing to improve their financial performance. Darabjerdi and Joybary (2014) referred that financing through loans, long-term and short-term has an impact on company profits and the profitability of the stock as well as the investment through the retained earnings. And the investment through the retained earnings has a positive impact in increase the profitability of the company. Fazzini and Russo (2014) added that applying of quality standards would increase the profitability of the company, he pointed out that the liquid cash have a positive impact on the profitability of the company. Vaklifard and Shahmoradi (2014) reached through his study that increasing stock profitability would raise the market value for the company and increases the cash flows within the company, thus, making them more dependent on domestic investment instead of loans that may entail high benefits. Almunani (2013) view that profitability is one of the greatest challenges facing the banks in order to enhance its financial position and face the risks associated with globalization, the profitability is affected of administrative decisions by bank administration. Hosen and Warninda (2014) referred to the lack of efficiency in the company leads to falling in profitability. Odetayo (2014) and Folajin *et al.* (2014) found through their study that the

companies which disburse the funds on social responsibility achieve profits in the long term and have a positive impact on the profitability of the company.

Tabatabaei and Saeedi (2014) confirmed to the impact of the administrative corruption in the low efficiency of the company which lead to lower their profitability and their investments and the reduction of foreign investment. Hoseini *et al.* (2013) found that the bank credit granting short-term clients who deal with them continuously and be in high degree of reliability contribute to increase profits and ensure the reduction of financial risks through classification of customers to several layers on the basis of granting credit and achieve profits. Chu *et al.* (2008) stated that most of the studies mentioned a positive relationship between market share and profitability in all fields as well as reached a positive relationship between profitability and efficiency through the accumulated experience as well as volume of the company play an important role in extending its control over the market and managing the prices, negotiation in more effective way to increase the earnings as well as a brand of the company which operates as an indicator of high quality and offer widespread acceptance of their products and increase their profitability. Jiang and Ktuman (2012) view that hard competition for other companies lead to decline in the creativity of the company which will lead to a decline in profits. Jiang and Ktumanm (2010) added that hard competition lead to decline profitability of the company which require returning capital structure again. Maudos (2017) reached through his study that the diversity in income sources of bank reduce the effects of liquid cash risk and reduced profitability. Chronopoulos *et al.* (2015) stated that the American banks tend to prevent forgery of services provided to the customs, thereby it reducing the intensity of competition and achieving profits or delaying competitors entry and he concluded that the banks which have high growth in the assets and decreasing in rights of shareholders and the criteria for lending to less stringent and high liquid cash and less diversified in income sources tend to have high profitability. Mun and Jang (2015) confirmed that companies which facing falling in profits should invest and the reduce of expenses or obtain loans to avoid the negative effects of the cash deficit. Natrass (2014) added that increasing profitability lead to increased growth opportunities and high rate of investments positively and increasing capital intensity. Al-Abduljader and Al-Muraikhi (2011) view that limited profits based on the basis of duties ratios of stock and he referred to the existence of a relationship between changes of stocks prices such as the distribution of profits and their impact on the capital and he concluded

that access a positive relationship between stocks prices and distributions profits. Francis (2013) referred that profitability of banks is the function of internal and external factors, the internal factors for the banks limited, the external factors include both of determinants of industry and microeconomics factors. Apergis and Sorros (2014) confirmed that profitability usually measured through the market value, research and development expenses associated with the profitability of the company, the high expenses associated with research and development related to the negative impact with profitability in the rapid market growth as well as research and development expenses have a positive impact on the performance of the company. Akoto and Nabieu (2014) view that countries with effective financial regulations grow faster in while the ineffective financial regulations of the represent danger to bank profitability and caused it to fail and it could be lagging behind in economic growth and development and increased efficiency and clear financial intermediation lead to achieve profitability of the bank. Ali and Abbas (2015) confirmed that the absence of adequate efficiency in bank management lead to exit the Bank from the control and be stuck and unable to plan for the future and unable to solve and address the problems which leading to a low profitability. Dagogo and Okorie (2014) concluded that the integration of the banks to reduce financial leverage might not stimulate efficiency of assets and it doesn't achieve enough profitability to settle fears in this area. Osuagwu (2014) view that profitability of banks is an important element in financial development and stability of the economy and it reduces the weakness of the bank and make the banking sector sustainable. Bayyoud and Sayyad referred to existence of a negative relationship between credit risk and profitability and also referred to the existence of a positive relationship between the faltering loans and levels of profitability of banks in rural areas. Kocho (2015) confirmed that good credit information has a positive impact on profitability. Malik *et al.* reached that there is back relationship between profitability and liquid cash ratios and the increase in liquid cash can be on cost of profitability, they serve as two of different objectives. Kadioglu and Ocal view that changes in profits convey the information about the profitability of the company in the future. Nguyen *et al.* added that many of studies which indicate the positive role of working capital to increase profitability. Reda *et al.* see that profitability move in the same direction either up or down, the determinants of profitability differ from country to another and from bank to another because of the rules and the regulations working by the banks due to the strategies of the

administration of each bank. Akintoye and Skitmore added that large banks in size achieved more stability and profitability.

## MATERIALS AND METHODS

**Research problem:** Banks aim generally to improve their financial performance but the problem lies in determining the best capital which lead either to increase the market value or to maximize their profitability in the end maximizing shareholders wealth, banks trying to take a decision on financing the capital structure to find the appropriate combination of private funds or borrowing to allow it to achieve its objectives and maximize its market value and increase profits, the use of debt in the composition of the capital structure achieve tax procure with the fact that the usefulness of the borrowing cut before tax but debt had been expected in the problem of financial hardship, the question arises here: is there a relationship between the capital structures and maximize its value and increased profitability? On the basis of this problem can be raised some subcommittee questions:

- Is there a relationship between the compositions of the capital structure and maximizes its market value?
- Is there a relationship between the composition of the capital structure and increase its profitability?

**Research objectives:** The research aims to:

- Identify mixture of capital structure of banks search sample
- Determine the type of relationship between capital structure and the market value of banks search sample
- Determine the type of relationship between capital structure and profitability of banks search sample

**Search variables and its measurements:** Research includes three basic variables. Represents the independent variable with the adoption of scale:

**Capital structure:** Matias and Serrasqueir (2016), An *et al.* (2016) and Keefe and Yaghoubi (2016):

- Total aggregate debt = total liabilities\total assets
- Medium and long-term rate = liabilities as non-traded \total assets
- The rate of the market value of debt = total debt\the market value of the property rights and the book value of debt

The rate of times of acquisition interest = profit sbefore tax interest\Interest the first variable:

**The market value:** Was the adoption of a scale (Omura, 2005):

- The profit margin to sales = Net Profit available stocks campaign\sales
- A main core profit = profit before tax, interest\total assets
- The rate of return to total assets = Net Profit available stocks campaign\total assets
- The rate of return to the property rights of the = Net Profit available stocks campaign\ property rights

**Profitability:** Of the company has been the adoption of a scale (Alipour and Pejman, 2015). The price to profitability = price per stock\profitability for each stock. The ratio of market value to the book value = market price per stock\book value per stock the book value per stock = total property rights\traded shares.

**Search hypotheses:** This current search includes two hypotheses:

- The first hypothesis: there is no relation of statistical significance impact between the composition of the capital structure and the market value of the company
- The second hypothesis: there is no relation of statistical significance impact between the composition of the capital structure and profitability of the company

**Sample search:** It has selected a sample of 17 bank listed in Iraq stock exchange and was exclusion five banks due to the lack of information in the stock exchange or turned off trading in stocks during the duration of the study including the duration of study of 9 years from 2014-2016, the reason for choosing this period because there are a number of years where the data is incomplete and not existed in the annual reports. And it is taking the arithmetic average of study indicators for 9 years for each bank within a sample study and then taking the average for each indicator of all banks sample study in order to discuss the findings of the study indicators and statistical operations on the period (2006-2014) to interpretation of the type of relationship between indicators for study.

**RESULTS AND DISCUSSION**

**Capital structure indexes**

**The overall debt (X1):** Noted from Table 1 that the banking sector in Iraq during the period of 9 years, adopted by (63%) to the financing needs of debt and this proportion considered good, whenever the proportion increases financial lifting of the banking sector rises.

Table 1: The total rate of capital structure indexes of the banking sector from (2006-2014)

Measures/Banks	X1	X2	X3	X4
BMNS	1.46	1.34	0.43	2386.46
BASH	0.39	0.32	0.48	36.9700
BBOB	0.83	0.70	0.68	124.850
BCOI	0.53	0.38	0.56	36.9100
BROI	0.71	0.65	0.55	49.4300
BGU	0.64	0.64	0.65	53.4800
BIBI	0.66	0.57	0.67	12.5200
BIIB	0.46	0.43	0.48	11.6500
BIME	0.80	0.74	0.78	23.1000
BKUI	0.64	0.48	0.53	76.0000
BMFI	0.62	0.61	0.64	27.4200
BNOI	0.51	0.47	0.52	8.89000
BSUC	0.38	0.33	0.41	187.700
BUOI	0.46	0.39	0.49	82.0700
BUND	0.61	0.48	0.68	0.24000
BELF	0.50	0.29	0.83	73.3400
BBAY	0.56	0.50	0.57	193.550
Average (%)*	63.0	55.0	59.0	19909.0

**The average debt medium-term and long-term (X2):** This proportion clarified the adoption of the assets for the banking sector to finance funds with not a long-term, where the degree of safety of the financial structure appears, whenever this proportion increases it indicates that the most of the assets are funded through long-term loans. Where the proportion is about (55%) and this indicates that dependence are limited and weak indicator indicates that banking sector in Iraq depends on the funding and short-term.

**The rate of the market value of debt (X3):** This represents the financial solvency of the banking sector and the extent of its ability to meet its debts, the ratio of the banking sector is (59%) and this indicates that the value of the banking sector is less than the value of the total debt in a very large proportion and this is actually a strong weak point for banking sector and the banking sector in Iraq in uncomfortable solvency and constitutes a danger in the future if the proportion did not decrease.

**The rate of times of interest acquisition (X4):** Provides an opportunity of the bank's ability to pay interest on debt an indication to the safety margin which helps the bank in payment of interest during the period to maturity, this case on the ability of the management of the bank in the management levels of the current lending and non-recourse to borrowing capacity.

As can be noted from Table 2 that the bank (BMNS) had a major role over 9 years to raise this proportion to the highest levels with the knowledge that the rest of the banks were attributed in different intensity. The average numbers of times the acquisition of interests in the 9 years is about (19909%) and it is a very high proportion. x1-x4 = each one representing the average

Table 2: Total rate of the indexes of the market value for banking sector from (2006-2014)

Measures/Banks	Y1	Y2	Y3	Y4
BMNS	0.63	0.12	0.12	0.08
BASH	0.58	0.06	0.05	0.16
BBOB	0.49	0.03	0.02	0.17
BCOI	0.45	0.02	0.02	0.06
BROI	1.25	0.03	0.08	0.30
BGU	0.53	0.04	0.04	0.17
BIBI	0.40	0.05	0.04	0.12
BIIB	0.28	0.02	0.02	0.04
BIME	0.35	0.02	0.02	0.15
BKUI	0.43	0.03	0.03	0.10
BMFI	0.60	0.04	0.04	0.13
BNOI	0.24	0.03	0.02	0.05
BSUC	0.38	0.02	0.01	0.02
BUOI	0.47	0.05	0.04	0.10
BUND	0.20	0.03	0.02	0.07
BELF	0.15	0.04	0.03	0.10
BBAY	0.39	0.04	0.03	0.08
Average (%)*	46.0	4.00	4.11	-

indexes of capital structure for 9 years. Average = represents the average for each indicator all banks study sample.

**Market value indexes**

**The profit margin to sales (Y1):** This index measures of the success of the bank in the collection of profits and it is considered as a sign of the bank’s ability to control and control over the cost of the ratio (46%) and it’s a weak index which demonstrates the inability of the banking sector in Iraq to control the costs as shown in Table 3 and it is very weak which demonstrates the weakness of the banks in this aspect and the manual on incurred high costs during the period of 9 years that could not solve it.

**Main profit forces (Y2):** This index measures the rate of return of investment and shows the extent of the bank’s ability to invest its owned assets by the proportion (4%) and it is very weak indicate a lack of capacity of the banking sector to invest in its assets, this is due to the unstable economic conditions and the deterioration in the security situation which limited banking investment in Iraq.

**The rate of return to total assets (Y3):** It shows the rate of return on investment in assets owned by the bank from the point of view of the shareholders is represents the amount of profits obtained by the shareholders of the investment of the assets of the banking sector has reached over 9 years of the banking sector (4%) which is a very low proportion compared to all global standards, this is proof that the banking sector in Iraq is undergoing of recession and slide and it may be a reason for the bankruptcy of a number of banks in the future.

Table 3: The total rate of profitability indexes of the banking sector (2006-2014)

Measures/Banks	Z1	Z2	Z3
BMNS	17.790	1.11	25.8900
BASH	9.1000	0.77	31.7600
BBOB	12.810	1.82	1479.69
BCOI	26.610	0.94	15.7900
BROI	21.620	2.56	115.590
BGU	7.6200	0.99	13.5300
BIBI	159.39	0.97	7.12000
BIIB	87.290	0.92	10.6600
BIME	13.960	1.25	6.58000
BKUI	53.650	1.74	2248300
BMFI	16.540	0.93	10.7500
BNOI	27.730	0.80	56.9400
BSUC	98.270	0.89	24.4400
BUOI	10.980	0.78	23.5500
BUND	100.07	1.29	8.63000
BELF	39.500	0.50	170.700
BBAY	14.410	1.00	10.9300
Average*	42.200	1.13	1440.89

**The rate of return to the property rights (Y4):** These proportion are used to measure the achieved profit in relation to the rights of shareholders as well as the rate of profit that investors get from their investments as a consequence of the risking in recruitment of their money and it indicate the degree of efficiency of the administration in recruiting the shareholder’s money ratio (11%) and it is very weak and indicate the lack of efficiency of the administrative machinery of the Iraqi banks and lack the capacity to achieve profits to shareholders. Y1-Y4 = each one representing the average indexes of market value for 9 years. Average = represents the average for each indexes for all banks study sample.

**Profitability indexes**

**The price of the arrow to profitability (Z1):** This proportion tell us about the attractiveness of the stock compared with other stocks, it helps to know whether the stocks of the bank overpriced or less than its true value. If the proportion is suggest more than (20) we can expect declining for stock price in the near future and if the stock price <(15) we can expect rising in the price in the near future. From the scale (3) we note the high average for stock price of the banking sector to (42.20) in this case the stocks for banking sector set to raise, it’s ahead of its real value (Table 4-9).

**The proportion of market value to the book value of the stock (Z2):** When the proportion price to the book value is <(1) indicates that the market assess the bank value with the least developed of the total value of its assets, this means that the bank’s stocks cheap thus procurement good opportunities and that the reason for the assessment at least is that the bank may yield weak on its

Table 4: Findings of the statistical analysis in SPSS program (model summary)

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	SE of the estimate
1	0.241	0.058	-0.005	0.08114

Table 5: Findings of the statistical analysis in SPSS program (ANOVA)

Model 1	Sum of squares	df	Mean square	F-value	Sig.
Regression	0.006	1	0.006	0.928	0.351
Residual	0.099	15	0.007		
Total	0.105	16			

Table 6: Findings of the statistical analysis in SPSS program (coefficients)

Model	Unstandardized coefficients (B)	Standardized coefficients (β)	SE	t-test	Sig.
Constant	0.160	0.241	0.021	7.652	0.000
X	0.000		0.000	0.963	0.351

Table 7: The results of the statistical analysis in SPSS program (model summary)

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	SE of the estimate
1	0.060	0.004	-0.063	1868.23980

Table 8: The results of the statistical analysis in SPSS program (ANOVA)

Model 1	Sum of squares	df	Mean square	F-value	Sig.
Regression	188747.188	1	188747.188	0.054	0.0819
Residual	52354799.15	15	3490319.943		
total	52543546.34	16			

Table 9: The results of the statistical analysis in SPSS program (coefficients)

Model	Unstandardized coefficients (B)	Standardized coefficients (β)	SE	t-test	Sig.
Constant	533.224	-0.060	482.383	1.105	0.286
X	-0.766		3.295	-0.233	0.819

assets or yield negative leading to avoid buying stock and the proportion of the Iraqi banking sector have reached (1.13) and it considered few and this is evidence that the Iraqi banks returns very weak duties as noted from the scale (3) where there is a few number of banks have contributed to raising the rate of the banking sector over the past 9 years. If the proportion is over than (4) it indicates that the bank is highest of its value.

**The proportion of book value for each stock (Z3):** The achievement of bank profits and to maintain them without distribution lead to the increase of the book value of the bank and this is useful because the market value will rise accordingly. As can be noted from the scale (3) that the banking sector achieve high rate which indicates that most banks maintains high profits without routed in other investment fields where the proportion have reached (1440.89) and it is very high proportion. Z1-Z3 = each one representing the average profitability indexes for 9 years average = represents the average for each indexes for all banks study sample.

**Testing the hypothesis:** Testing the first main hypothesis researchers used the method of regression analysis for

the purpose of testing the particular hypothesis for research and found that the value of the correlation between the capital structure and the market value (0.241) which is a positive value and non intangible value and the coefficient of determination R<sup>2</sup>. About (0.058) have reached which means that the capital structure explains (5.8%) of changes which intervene in the market value which is a very small, the results of the statistical analysis of the transactions of the linear simple indicate that a parameter value the impact of the slope of the capital structure of the market value (0.000) which is zero value which means that the profitability is not affected when the increase in capital structure. The regression equation was:

$$Y = 0.160+0.00X \tag{1}$$

The value of the capital structure for the coefficient of regression was (9.63) while its intangible value (0.35) which means the weak in intangible value. Accordingly, based on the researcher accept the full hypotheses for the first main hypotheses. As indicated in the scale below.

**Testing the second main hypotheses:** Researchers used the method of regression analysis for the purpose of testing the particular hypothesis for research and found that the value of the correlation between the capital structure and the profitability (0.06) which is a positive value and non-intangible and the coefficient of determination R<sup>2</sup> (0.004) which means that the capital structure explains (0.4%) of changes which intervene in the profitability which is a very small, the findings of the statistical analysis of the Transactions of the linear simple indicate that a parameter value the impact of the slope of the capital structure of the profitability (-0.77) which is zero and negative value which means that the profitability will be reduced in the banks study sample by (0.77) when the increase in capital structure by one unit, the regression equation was:

$$Y = 533.2-0.77X \tag{2}$$

The value of the capital structure for the coefficient of regression was (-2.33) while its intangible value (0.82) which means the weak in intangible value. Accordingly, based on the researcher accept the full hypotheses for the first main hypotheses. As indicated in the scale below:

Through the study researchers concluded that the Iraqi banks study sample does not follow the global quality standards in the performance of its work. This is confirmed in many previous studies in Iraq as well as the



lack of competence and experience in the field of banking work to many banks and non-possessing a clear strategy in the area of investment of medium-term and long-term. As well as other matters affecting the Iraqi banks is the lack of foreign investment which may be lacking in many of them, with the exception of some of the banks which are in stable areas in the north of Iraq, especially in the region of Kurdistan, the rest of the central and southern areas suffers from the lack of security and stability, thus, it affected on banking work activity.

One of the most issues affect the work of the banking sector in Iraq is the migration of funds to the banks of the neighboring states as finding of increasing in the rates of interest on deposits in the banks which is more than what compensation for Iraqi banks to their clients. And the decline in the level of services provided by the Iraqi banks of the desire of customers in dealing with these banks especially in recent years, a few number of banks that provide good services for clients. As well as the entry of competitive products for domestic products affected negatively on the profits of industrial enterprises which in the past have balance of deposits in Iraqi banks as well as the decline in operations of borrowing these industries from banks as a findings of closure of the most and settlement of its work because of bankruptcy, it affected the work in banking sector as well as the rules and regulations that work by the Iraqi banks where there is no development for the purpose of consistency with the current variables.

The other issues is the lack of reliability and increased cost of granting loans and boring routine accompanying the process of obtaining a loan from the bank because of the lack of credit information correctly. All these issues have affected strongly on the Iraqi banking sector and made it retreat significantly.

### **CONCLUSION**

The Iraqi banks should depend on debt financing for its impact in increasing the profitability of the stock, where it reduce the taxable income. It was noted that most of the Iraqi banks pay a few profits to stockholders although, some of them achieve good profits and this was one of the reasons that led to lack of circulating stocks. It should also reconsideration of the legal legislation of the Iraqi banking system and there should be a corporate governance of banks. Among the issues which be observed is the disparity between the values of the indicators of capital structure and the market value and profitability in the sample of banks and this shows the difference in the field of banking sector work in the area of funding activities and investment, therefore, quality

standards should be applied to the work of banks and the need to emphasize the transition is compulsory for all banks in the use of electronic systems in the field of financial transfers and there should be cooperation between banks and governmental services with respect to the payment of salaries to staff through credit cards which lead to stability of the banking liquidity and increases the chances of granting loans to banks instead of relying on traditional methods of paper circulation which could lead to the frequent withdrawal monthly funds from banks. As well as banks should develop strategies to increase its market value and there should be cooperation between researchers at universities and banks administration to clarify the importance of indicators used to measure the capital structure of the market value and profitability and reliance on the most important indicators banks should provide quarterly reports on the achieved proportions accruing from the application of these indicators to Iraq securities market to help banks to take proper decisions.

### **RECOMMENDATIONS**

This study was complementary to many studies conducted on the banking sector in Iraq, those previous studies take most or some of the indicators used in the current study and it emphasized the weakness in influence relations or deprivation of it in the banking sector in Iraq. But despite these numerous studies, we did not note the existence of joint cooperation between researchers and departments of the banks. The important thing which Iraq stock exchange recommended was: full and electronic availability of data within the clear database, where the exclusion of a number of banks of the sample study as a findings of lack of information or unreasonably disputing, Such as the profitability and price of stock but the current ratio is unknown for the same year or the presence of net profit after tax of some banks and the absence of information on assets or the gross profit of the same year.

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