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Measuring The Cost Of The Financing Structure For The Banking Sector In Iraq

An Empirical Study For A Sample Of Banks Which Are Listed In Iraqi Market For Financial Securities

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Abstract

A financing structure is a combination of the proprietary finance and the borrowed finance. There is a wide range of available options in front of the companies to increase their capital. A set of special models have been developed to estimate the optimal debt ratio of the institution. The research examines how institutions can use the available information to them to choose the suitable mixture of proprietary finance and the borrowed finance that the companies use to finance investments, and illustrate what are the financing tools that can be used to reach to the intended mixture. To be more specific, it has been tested whether the institutions should determine the percentage of ownership that it sees as optimal one and then to move to the debt ratio until the financing structure is completed and the funds would be available for investment and performing the tasks. The process of forming the necessary financing has been accompanied with a set of risks, the most important of which is the excessive reliance of the institution on the borrowed finance and thus leads to the stumbling in paying its obligations towards others. Consequently, it may be exposed to the financial difficulty, then to bankruptcy and exit from competition. The institution which decides to move from the current debt level to a combination of optimal financing has two decisions must it makes. First, it has to think in the speed at which it wants to move. In this case, the degree of determination will vary greatly between institutions, depending on the amount of threat that it expected from the fact that the borrowed finance is less (or exaggerated). The second decision is that whether it is necessary to increase (or decrease) the debt ratio by recapitalizing investments, stripping assets and using cash money to reduce the debt or property rights, and investing in new projects financed by debt or stocks, or changing the politics of profits distribution.

Medición del costo de la estructura de financiamiento para el sector bancario en Iraq.

Un estudio empírico para una muestra de bancos que cotizan en el mercado iraquí de valores financieros

Resumen

Una estructura de financiación es una combinación de la financiación patentada y la financiación prestada. Hay una amplia gama de opciones disponibles frente a las empresas para aumentar su capital. Se ha desarrollado un conjunto de modelos especiales para estimar el índice de endeudamiento óptimo de la institución. La investigación examina cómo las instituciones pueden utilizar la información disponible para elegir la combinación adecuada de financiación propia y la financiación prestada que utilizan las empresas para financiar inversiones, e ilustran cuáles son las herramientas de financiación que pueden utilizarse para llegar a la combinación deseada. Para ser más específicos, se ha probado si las instituciones deben determinar el porcentaje de propiedad que consideran óptimo y luego pasar al índice de endeudamiento hasta que se complete la estructura de financiamiento y los fondos estén disponibles para la inversión y para realizar las tareas. . El proceso de formación de la financiación necesaria ha estado acompañado de una serie de riesgos, el más importante de los cuales es la dependencia excesiva de la institución en la financiación prestada y, por lo tanto, lleva a tropezar en el pago de sus obligaciones hacia los demás. En consecuencia, puede estar expuesto a la dificultad financiera, luego a la bancarrota y salir de la competencia. La institución que decide pasar del nivel de deuda actual a una combinación de financiamiento óptimo tiene dos decisiones que debe tomar. Primero, tiene que pensar en la velocidad a la que quiere moverse. En este caso, el grado de determinación variará mucho entre las instituciones, dependiendo de la cantidad de amenaza que se espera del hecho de que el financiamiento prestado es menor (o exagerado). La segunda decisión es si es necesario aumentar (o disminuir) el índice de deuda recapitalizando inversiones, despojando activos y utilizando dinero en efectivo para reducir la deuda o los derechos de propiedad, e invirtiendo en nuevos proyectos financiados por deuda o acciones, o cambiando el política de distribución de utilidades.

There is a test also on how to choose Iraqi banks as appropriate means of financing to collect the capital for their investments. In our view, the choice of financing of the institution must be determined to a large extent with the nature of the cash flows on its assets. Financing options that match the characteristics of assets reduce the risks of default for any particular level of debt and they allow the institution to borrow more, because of that its financial position is not threatened by bankruptcy and blackout. As it revealed it is clear that most Iraqi banks tend to follow the borrowed finance because it is less expensive, additionally, it is considered to be of little risk because it depends on long time ranges that can help the bank to control over its maintenance towards others.

Introduction

Financing structure is considered as one of the main foundations which the institutions are based on generally and the banks particularly, for what this important joint represents of utmost importance for the sake of the survival and continuity of the entire institution. There are several options in front of the bank to perform the financing structure. These options give an ample space in front of the existing administration on the bank to follow the style and the financing policy which is suitable for its aims and aspirations.

Generally, the financing structures consist of two main parts they are (the owner and the borrower), the banks are working on creating the suitable combination for them from these two parts to reach to higher possible return at the lowest costs. So for the specialists in the banks, they must work on determining the optimal ratios that constitute their optimal financing structures. However, there are some concerns that accompanied the administrations of the banks in depending on the borrowed finance even higher than the proprietary finance. These concerns represented with stumbling in fulfilling their maintenance towards debtors and subsequently facing the financial difficulty which might threaten the survival of the bank and its continuity in performing its tasks and duties towards its customers.

Methodology

First: Aims of the research

The current research aims at the following points:

1. Testing the financing structures of the banks which are consisted of the Iraqi banking sector to know the optimal financing structure that can achieve higher returns at the possible lower cost.
2. Helping the depositors and investors in knowing the sources of financing banks the sample of the research to find out the extent of the bank's

ability to survive and continue in the competition,

3. Spreading the financial awareness culture among investors for the purpose of analysing and extrapolating the reality of the bank and its future.

4. Shading the light on the banks that suffer from increasing the costs of their financing structures for the purpose of protecting the depositors and investors from entering in dealings with this type of banks.

Second: Significance of the research

Significance of this research lies on shading light on the financial structures for a sample of the Iraqi banks that make up the banking sector which are listed in Iraqi market for securities, because of its impact on the investment decision for the investors who are dealing in the financial markets and this in turns effects on the national economy as a whole. Therefore, the testing of financial structures for the banks helps in drawing attention on the financial risks before they happen, this will back advantage on the all users of the financial lists of the banks from investors in the financial assets for these banks or the dealers in the financial securities, this will strengthen the trust on them and this will lead to decisions that can serve the financial, economical, and national banking sector.

Third: Problem of the Research

Most of the banks suffer from the problem of building an optimal financial structure that can help them in facing the maintenance of the depositors from one side, and to give signs of contentment for the investors in the markets of the financial securities for the other side. The financial structure is considered as a gate to enter in a competition and to achieve successes and attract the investors to invest in the assets of the financial bank. That is to say, whenever the financing structure is carefully planned, whenever it gave indications that the bank is proceeding according to a well- studied strategy like achieving profits and obtaining the largest possible market share by raising the trading volume in the market of financial securities, because the stumbling and failure of the listed banks push the investors to refrain from entering to the financial markets and this in turns leads to negative effects on the financial and banking sector from one side, and on the national economy from the other side. The financial markets and the banks are considered as a major component of the economy.

From here we can state the problem of the research with following question: Is the financing structure considered as a strategy developed for the sake of the survival and continuity of the bank?

Fourth: Hypotheses of the Research

The current research hypothesized the following:

- Cost of financing structure has no effect on attracting the investors to invest in the assets of the financial bank.

Fifth: Limitations of the Research

1. Limitations of the Time

The research is performed within the period of time lasted from (2010-2017). This means analysing the financial lists for (8) years subsequently for some banks which are listed in the market of financial securities.

2. Limitations of the Place

The current research is performed over a sample of banks which are listed in Iraqi market for financial securities, they are (10) banks from all banks which are listed Iraqi market for financial securities, they are (20) banks by describing the sample of the research as following:

No.	The Name of the Banks
1	Ashur Commercial Bank
2	Iraqi Union Bank
3	Iraqi Investment Bank
4	Al- Ahly Iraqi Bank
5	Iraqi Trade Bank
6	Al-Khaleej Commercial Bank
7	Iraqi Middle East Bank
8	Al- Mansour Investment Bank
9	Baghdad Commercial Bank
10	Sumer Commercial Bank

Sixth: Styles of collecting Data

1. The Theoretical Side

The research intends to enrich the theoretical side by using the contributions of the authors and researchers which are collected from different sources which are represented with scientific references like books, magazines, scientific periodicals, and researches and studies that related with English language. In addition, using the international information network (the internet) and all what it has as electronic books and researches that have rich information and from the finest libraries and international uni-

versities.

2. The Practical Side

The current research is depended on the financial lists which are obtained from Iraqi market for financial securities and particularly belong to the banks of the sample of the research for the purpose of performing necessary applications to reach the aim of the research.

Theoretical Side

The financing structure is considered as a combination between the proprietary finance and the borrowed finance. There is a wide set of available options in front of the institutions to change the structure of their finance. The most important options summarized as following: First, it is a must to determine whether it is going to move towards the optimal situation or to keep the current situation. Second, as soon as its decision concerning its moving towards the optimal level, the institution should choose between changing the financial leverage quickly and this decision might be subjected to a pressure of foreign sources like the owners of the stocks or the fears of the bond rating agency. Third, if the institution decided to move gradually towards the optimal level, then, it is a must to decide whether it is going to use a new finance for investment in new projects, or transfer its finance of the mixture towards the existing projects.

First: The Financing by Property

It is the finance through which funds are accumulated through offering stocks in the financial markets and selling them and creating new contributors (stuff) for the institution. There are two kinds of stocks; they are ordinary stocks which are considered as the most common ones in financing projects, and excellent stocks (Edward, 2008, p. 47).

1. Ordinary Stocks:

It is the most common and frequent face in the markets of financial securities, it is defined it is a tool of property used by investors, the one who bear it is considered as the ownership of these stocks in the institution which exported them. In addition, that person has the right to get the profits which are distributed over the contributors by the institution. Concerning the holders of the ordinary stocks, they are enjoying with a group of advantages most of them: (Peter & Keith, 2000, p. 102)

1. They have the right to vote in choosing the administrative board of the institution, in addition to their right in voting on the decisions which have taken by the administrative board of the institution.
2. They have the right to get the distributed profits from the administration

of the institution with the same amount that they possess in the ordinary stocks.

3. They have the priority to buy the new issue of the stocks in case that the institution decided to increase the number of its contributors to increase the finance of the institution.

Δ Important Ordinary Stocks According to their Issue:

There is a group of ordinary stocks which is being traded (used) in the markets of the financial securities, this group is classified into types according to the method of their issue by the institution which issued them, and the most important ones are:

1. Nominal Ordinary Stocks/ They are the stocks which are issued by the institution with its owner and they are not used (traded) unless the possession of them transferred from the seller to the buyer and this possession is confirmed in the records of the institution which issued them.

2. The Ordinary Stocks with Permission or Command/ They are the stocks on which the name of the owner of the intended stock is confirmed with the confirmation of that permission or command which is given to him.

3. The Ordinary Stocks for their Holders/ They are the stocks which are issued without mentioning the name of their owner but the name of the stockholder is mentioned on them for the easiness of trading them among investors. This type of the stocks is considered the most common and frequent type among investors.

Δ Important Ordinary Stocks According to their Performance:

1. Speculative Stocks/ They are the stocks which are traded (used) by investors for the purpose of speculation which is hoped from them to increase the prices of their stocks then resell again and get benefits from the differences of the prices. This means this type of stocks characterized with many fluctuations in prices and this allows the chance of speculation with them.

2. Income Stocks/ They are the most stable stocks and they give the stockholders the possibility to predict with their prices with possibility to get the distributed profits would be almost periodically, and commonly the investors who dislike the speculation and the fluctuations of the prices tend to this type of stocks.

3. Defended Stocks/ They are the stocks which almost be stable and not fluctuated in their prices during the period of economic decline because of the deterioration and stagnation that may affect the financial markets.

4. The Periodic Stocks/ They are the stocks which are considered to be

connected greatly with the economic status of the country. This indicates that any deterioration may affect the economy; this type of stocks will be affected. On the other hand, we find this type of the stocks refreshed when the economy recovers and thrives.

5. The Successful Stocks/ These stocks are considered as the leader to other types of the stocks and they belong to institutions which have an effect on the level of the economy in general. Therefore, investing with this type of the stocks is considered as a success before achieving the actual success due to the fact that this type of the stocks control the movement of the economy and the money of the country to which it belongs.

Δ Important Values of the Ordinary Stocks:

Based on the fact that the stock is an instrument of ownership (property), it allows the stockholder to possess share in the institution which issuing it. To be more specific, this stock has a group of values on their bases it is evaluated and dealt with. The most important of these values are: (Ross & Jaff, 1996, p. 178)

1. The Market Value/ It is the value of the stock in the financial market, it is going to deal with it in selling and buying the stock. The value may be bigger or lesser than or equal to the nominal or book value. If the performance of the institution is good, successful, and expressing the extent of its development, this means the value of the market stock will be bigger than the nominal value. Whereas, if the performance of the institution is deteriorating and there is a failure, the market value for its stock will be lower than the nominal value of it.

2. The Nominal Value/ It referring to the value which is confirmed on the document of the stock when it is issued for the first time. There is no connection between the nominal value and the market value because the nominal value is set for the purpose of covering the capital which is legally stipulated.

3. The Real Value/ It referring to the value that is determined by the profits which is expected to be achieved when investing in the intended stock. As well as, the gainful represented by distributed cash and capital profits which are gained through this investment.

4. The Liquidation Value/ It referring to the value of the stock from the assets of the institution, there is no effect of this value on the market value of the stock in the financial market.

5. The Book Value/ It referring to the value of the stock which is confirmed in the copybooks of the institution, such value almost counted through the division of the possession right on the number of the stocks.

6. The Fair Value/ It referring to the value of the stock that must be in the financial market at which the nominal value is equal with the market value.

2. The Excellent Stocks: (Ulku & Demiric, 2012, 89)

They are the other face of the faces of the financing by property; they are different from the ordinary stocks in several characteristics. The most important characteristics of the excellent stocks are:

1. The excellent stocks are considered as a mixture of the ordinary stocks and the debentures. They are considered as an instrument of property but they are at the same time characterized with limited age and fixed profits.

2. Concerning security, all the stocks come after the debentures when the institution is liquidated whether it comes with paying the distributions of the profits or advantages or what it comes with paying with origin in the liquidation/ filtering status.

3. The basic determination for the price of the excellent stock is the level of the prices of the interest. If the prices of the interest is decreased, the price of the excellent stock must be risen and vice versa. As well as, when the prices of the interest are raised, the price of the excellent stock must be decreased.

4. It is possible to add some characteristics to the excellent stocks to make investing with them as a factor of attraction, like the participation in the profits or convertibility (the ability to transfer) to the ordinary stocks and other characteristics.

5. Under the United States tax law, distributed dividends of revenue (profits) which are gained by investing in the excellent stocks will be (70%) some of them are tax free. This is considered as an available advantage for the investor for the sake of investment in the excellent stocks, additionally, such characteristic is not available when investing in the debentures.

Second: The Borrowed Finance (the debentures)

The debenture is a negotiable cheque represents a loan which is contracted on it by the initial public offering (IPO), such debenture is issuing by governments, companies, and institutions. The holder of the debenture is considered as a creditor to the issuing party and he shall not be considered as an owner in it. The holder of the debenture is taking a limited fixed interest whether the issuing party won or lost. Additionally, the holder of the debenture has the right to redeem the nominal value of the debenture at the end of the life of the debenture at maturity. (Saunders & Cornet, 2009, p. 271)

Important Characteristics of the Debentures:

The debentures have a unique set of characteristics, most important of them are: (Bhatti & Nguyen, 2012, p. 79)

1. The debenture represents a credit in the custody of issuing party of it, and the holder of the debenture will be a creditor to that party.
2. The debentures are considered to be negotiable like stocks in the market of financial securities.
3. The debentures are considered to be cheques with equal value issuing with nominal value and do not accept partition in front of issuing party of them. The holders of the debentures have the right in interpolation their values before the holders of the ordinary stocks.
4. The debentures have a limited date to interpolate the nominal value.
5. The debenture gives its holder two basic rights, firstly, the right of obtaining a fix interest from the side that issuing it, secondly, the right of redeeming the value of nominal debenture for the sake of merit.

Important Types of the Debentures

There is a number of debentures will be classified as following: (Valclez, 2008, p. 61)

1. The debentures according to their issuing/ are divided into the following: (Ritz, 1994, p. 94)

1. The governmental debentures: they are cheques with equal values which represented a guaranteed credit in the custody of the government, almost considered to be of fix interests, and they are offered for the public subscription and traded in commercial methods and they will be either permanent (the debentures which government does not specify the date of repayment) or consumer (the debentures which government specifies the date to pay their value). The governmental debentures are characterized with being free of risks and they are enjoyed with high degree of liquidity (money) and they will enjoy with tax exemption. They are classified into several types like the debentures of the state which are issuing to finance public spending or the debentures of the international casts like the International Bank for Reconstruction and Immortalization for the purpose of financing its projects.

2. The debentures of the private sector: They are the debentures which are issued by the institutions, contribution companies which are working in the private sector or industrial, commercial, and service companies due to financing their projects. The debentures of the private sector are characterized than the governmental debentures in that they are issued with rates of interest higher than the governmental debentures because of the fact that their risks are higher than the governmental debentures. This type of

the debentures is divided according to a group of considerations, the most important ones are:

- Consideration of Merit/ According to this consideration the debentures divided into the following: (Rohinsan, 1991, p. 101)

1. Debentures with a fix merit/ Debentures with a fix merit refer to the debentures with one value on them there is a fix interest is given as well as to the value of the debenture at the end life of it.

2. Debentures with merit of issuing premium/ Debentures with merit of issuing premium refer to the debentures which are issuing with a nominal value that is higher than the cash value during the subscription. The difference between the two values is called issuing premium.

- Consider the Guarantee/ According to this consideration, the debentures are divided into the following: (Ross & Jaff, 1999, p. 88)

1. Secured debentures: They refer to the ordinary debentures which are issued with a nominal value paid by the subscriber during the subscription and on the basis of that value the interests are counted and they are accompanied with a personal guarantee like government guarantee or one of the banks or concrete guarantee. Additionally, because of the guarantee and the decreased of the risks, the rates of the interest will be low in comparison with the unsecured debentures.

2. Unsecured debentures: They are debentures which are not followed with guarantee; therefore, they are in need to relative care from the investor.

- Consideration of the Share/ According to this consideration, the debentures are divided into the following: (Richard, 2000, p. 112)

1. The debentures of the share: They are the debentures which are issued with a nominal value and the institution which is responsible in issuing them the limitation of the specific interest with a particular merit date. In addition, the matter of drawing is performed by lottery at the end of the year to take out number of the debentures and turn them off (extinguish them) with paying to their owners their value with reward. Moreover, the lottery is performed to determine the debentures which are going to be extinguished without interest and their values cannot be redeemed during the loss.

2. The debentures of the share without interest/ Means the debentures whose holder can redeem his finance in the case of the loss, on the contrary to the debentures of the share.

- Consideration of the Transformation/ According to this consideration the debentures are divided into the following: (Valclez, 1997, p. 96)

1. The debentures that have the ability to be transformed/ Means the debentures that give their holder the right to request their transforming to stocks or debentures or both of them. They are issued by the governments and the private sector.

2. The debentures that have no ability to be transformed/ Refers to the debentures that cannot give their holder the right of transformation. They are issued with a higher interest than the debentures that have the ability to be transformed.

Third: The Cost of the Weighted Capital

The cost of the weighted capital is defined as the financial charges that the institution should bear as a result of providing the necessary financing to perform its investments. Moreover, multiple sources for financing is considered as one of the important matter that can help the institution to create the necessary financing for it with a lower possible cost. To be more specific, such multiplicity in the sources of the financing faces a group of limitations that are standing in front of the selection of the suitable alternative. Most important of them: (Ross & Milton, 2008, 241)

1. Profitability of the institution.
2. Suitability of the financial institution.

Thus, the cost of the weighted capital defined as (the weighted average for each component of the financing structure (debentures, ordinary stocks, excellent stocks). However, the financing structure might be affected with group of factors that the institution can control. They are:

1. The size of the institution.
2. The profitability.
3. The growth.

The institutions that have big size characterized with high level of financial leverage, whereas, the institutions with a low profitability characterized with high level of financial leverage, however, the cash flow of them is not stable. Concerning the institutions that have a high level of growth are characterized with a high rate of financial leverage against the low profitability. (Keith, 2010, p. 139)

1. The important reasons that paid the institutions to follow the style of the cost of the weighted capital: (Eiteman, 2002, p. 124)

1. When using one component of the financing structure and considered it as a criterion (standard) for evaluating the projects, and subsequently, one component does not express the extent of usefulness of the project from inadequacy of it.

2. The projects that can achieve high returning (gainful) from the cost of

the capital they are accepted by the institutions because of that there is a secured profit and they can't accept the loss. Therefore, the cost of the capital is considered as indicator can help the institutions to determine the level of the achieved profit.

2. Most Important Ways to Change the Mixture of Financing Structure

There are four basic paths available for the institution which desires to change the mixture of the private financing in it. First, the changing of the mixture of the current financing by using the new rights of possession and increasing the capital. This is what called recapitalization. The second path, is the selling the assets and using the returns to pay the liability (debts), whether the aim is to decrease the ratio of the debts or buyback the stocks or pay the profits or reduce the stocks, if the goal was to increase the ratio of the debts. The third, is using the ratio of the debts or high stocks disproportionately, according to the current ratios of the institution for financing the new investments. With the passage of time, the value of the institution will increase, but the ratio of the debt will change also in the operation. The fourth choice is to change the ratio of the profits which are distributed by the institution to its contributors in a form of profits or by the way of buy backing the stocks. With the changing of this ratio, the ratio of the debts changes with the passing of time. (Hui & Chen, 2012, p. 78)

1. Recapitalization

It is considered as a simple and quick way in changing the financial mixture of the institution in changing financing way of the current investments. Subsequently, it is possible for the unstable institution to increase the ratio of its debts by borrowing money and buy backing the stocks or replacing the stocks with debt with an equal market value.

Borrowing money and buying the stocks (or paying big profits) lead to increasing the ratio of the debts due to borrowing increases the debts, whereas, buy backing the stocks or paying the profits decreases at the same time from the capital, this matter can be achieved through reducing the number of the stocks which are existing by lowering the price of the stock. Many institutions have been used this approach to increase the financial leverage quickly, greatly in responding to the obsession attempts. For example, in the year 1985 to avoid a hostile takeover, Atlantic Richfield Institution borrowed (4) milliards dollar and it bought back the stocks to increase the ratio of debt to capital from (12%) to (34%). (Saunders & Cornet, 2009, p. 271)

In debt swap opposite to the rights of the contributors, the institution is going to replace the rights of property with debts with a similar market

value by exchanging securities. The simultaneous increasing in debt and reducing the rights of the property lead to increase the ratio of the debts greatly. In several cases, the institutions present to the investors in the stocks a mixture of cash and debts instead of the stocks. In the year 1986, for instance, Oiner Korneng gave his contributors (52) dollar as cash money and debts with a nominal value counted as (35) dollar for each hanging stock. This leads to the increasing in his debts and reducing the rights of the property.

In all these cases, it is possible to limit the institution under the covenants of the debentures that explicitly prohibit these procedures or great penalties are imposed on the institution. These bonds are represented opposite to interests of higher financial leverage and the increasing value that flow out of it. The recapitalization that is designed to increase the ratio of debts in great form is called as leverage refinancing and several of operations of this recapitalization stimulates it to prevent hostile appropriation. (Saunders & Cornet, 2009, p. 273)

2. The Liquidation and Using of Returns

It is possible for the institutions to change the ratios of their debts by selling the assets and using the money that obtained from liquidation to reduce the debt. Thus, a non-invested institution can sell some of its assets and use the returns to buyback the stocks or pay big gainful. In spite of that, this procedure will reduce from the existing stocks in the institution, but it will increase the ratio of the debts of the institution, only if the institution actually has some of worthy debts. It is possible to choose the institution which is gaining its power in selling the assets and using returns to reduce some of the worthy debts and lower the ratio of the debts. If the institution chooses this path, choosing the required selling of assets will be a matter of big importance. Almost, the institutions desire in dismantling themselves from investments that earn less than the required returns, but it is not possible for this to be the important consideration in this decision. (Richard, 2000, p. 173)

3. Financing the New Investments

It is possible for the institutions to change the ratio of the debts by financing the new investments disproportionately with the debts or the rights of the property if they use a much higher rate of the debts in financing the new investments from the rate of the current debts, this indicates that they will increase the ratios of the debts. On the contrary, if a much higher ratio from the rights of the property which are used in financing the new investments from its current ratio, this will reduce the ratio of the debts.

There are two basic differences between this path and the two previous paths. First, because of that the new investments are spreading with the passage of the time, the ratio of the debts will be adjusted gradually during the period. Second, the operation of the investments will be increased in the new assets of each of the value of the institution and the dollar debts which are walking with each ratio of the debts. For example, if Disney decided to increase the ratio of the debts to (30%). Then, it suggested executing this by investment in a new park, the value of the institution will increase the current level to reflect the new assets which are performed by investment. (Tasi, 2012, p. 45)

4. Changing Returning of the Profits

It is possible for the institution to change the ratio of its debt with the passage of time by changing the ratio of its profits which belong to the contributors in every period. The increasing of the ratio of the paid profits in the profits distribution (ratio of profits distribution) or buy backing the stocks each period will increase the ratio of the debts for two reasons. First, paying the profits of the stocks or buy backing the stocks will lead to decrease the rights of the property in the institution with the stability of the debts, and this will increase the ratio of the debts. Second, paying lots of profits to the contributors will increase the need to the external financing to finance the new investments. If the institutions have been filled with this necessity a new debt, this will lead to the increasing of the ratio of the debts to a further extent than this. (The decreasing of the profits ratio which belongs to the contributors will have adverse effects). (Ross & Milton, 2008, p. 269)

3. Components of the Cost of the Weighted Capital and How It is Calculated

The cost of the weighted capital is consisted of three basic centres; it is possible to depend on them to calculate the cost of the capital. These components are:

1. The debentures.
2. The ordinary stocks.
3. The excellent stocks.

To calculate the cost of the weighted capital it is a must to follow the following: (Ross & Jaff, 1999, p. 316)

1. Calculating the cost of the debentures/ It refers to the using the cost of the borrowing after taxes which are represented with the rate of paid profits on the borrowing reduced of it tax invoices which are produced because of cutting the return (gainful)from taxes. The borrowing is considered a

less cost from other components of financing structure due to the owners of the debt ask for rate of return which is lesser than the rate of required return by the contributors. Thus, the risk of it will be so less.

2. Calculating the cost of the ordinary stocks/ Referring to the cost which the institution is bearing as a result for financing its investments from the ordinary stocks. This cost is calculated with the following methods: (Ross & Milton, 2008, p. 118)

- Capital assets pricing model

$$R = R_F + B (R_M - R_F)$$

- Discounted cash flow method

$$R = (D_1 / P_0) + g$$

- Debenture output method and risk premium

Some of the analysts use some of the procedures to estimate the cost of the ordinary stocks through adding risk premium getting between (3-5) percent to the rate of the return on the long term debentures. Therefore, the cost of the stocks represents the cost of the long term debentures + risk premium.

Practical Side

This section presents the analysis of the financial structures of the samples of the banks of the current research. The analysis will help to identify the component proportions for each financial structure. In addition, to identify the truth of the basic hypothesis of the research which states that (Cost of financing structure has no effect on attracting the investors to invest in the assets of the financial bank). Table (1) illustrates the private results of the analysis of the financial structure for Ashur Commercial Bank.

Table (1)
Analysis of the Financial Structure for Ashur Commercial Bank

Ashur Commercial Bank	Liabilities	Right of Property	Assets	The Percentage of Borrowed Money	The Percentage of Owned Money	Cost of the Weighted Capital	Revenue of One Stock	Number of Using stocks
2010	10155252730	5956144727 0	1611140 00000	36.97%	63.03%	5.79%	0.1577684 5	5000000 139
2011	91132446029	6930255397 1	1604350 00000	43.20%	56.80%	6.06%	0.1678043 39	57500000 170
2012	62809287622	7656171237 8	1393710 00000	54.93%	45.07%	6.56%	0.1033913 12	66699999 793
2013	84686607505	8460839249 5	1692950 00000	49.98%	50.02%	6.35%	0.1126050 67	66700000 187
2014	97369000000	1705240000 00	2678930 00000	63.65%	36.35%	6.94%	0.1052766 92	15000000 0000
2015	1248904000000	2309260000 00	3558300 00000	64.90%	35.10%	6.99%	0.0712748 9	21000000 0000
2016	163926000000	2692740000 00	4332000 00000	62.16%	37.84%	6.87%	0.0366878 2	25000000 0000
2017	181640000000	2701900000 00	4518300 00000	59.80%	40.20%	6.77%	0.0409842 48	25000000 0000

The Source/ Prepared by the researcher depending on the outcome of the electronic calculator.

Table (1) illustrates the following:

1. The bank is depending greatly on the possessed money in performing its financial structure.
2. The cost of the weighted capital ranging between (6- 7) percent and this cost is considered to be moderate in comparison to the size of the assets.
3. The more the bank relies on the owned money the lower is being the revenue of one stock.
4. The higher the revenue of one stock, the more accompanied by an increase in the volume of the traded stock considering the profit as an attractive factor for the investors in the market of financial securities.

Table (2)

Analysis of the Financial Structure for Iraqi Trade Bank

Iraqi Trade Bank	Liabilities	Right of Property	Assets	The Percentage of Owned Money	The Percentage of Borrowed Money	Cost of the Weighted Capital	Revenue of One Stock	Number of Using stocks
2010	137920911879	67053088121	204974000000	32.71%	67.29%	5.61%	0.02332	60001041467
2011	124153354936	84150645064	208304000000	40.40%	59.60%	5.94%	0.051088	59999643008
2012	109635106933	94528893067	204164000000	46.30%	53.70%	6.19%	0.176877	59999928176
2013	112261000000	135185000000	247446000000	54.63%	45.37%	6.55%	0.057447	99999790468
2014	150237000000	143200000000	293437000000	48.80%	51.20%	6.30%	0.105733	27000000000
2015	138264000000	196579000000	334843000000	58.71%	41.29%	6.72%	0.053262	25009000000
2016	164888000000	284385000000	449273000000	63.30%	36.70%	6.92%	0.033172	25000200000
2017	140688000000	274201000000	414889000000	66.09%	33.91%	7.04%	0.026082	24999500000

The Source/ Prepared by the researcher depending on the outcome of the electronic calculator.

Table (2) illustrates the following:

1. The bank is depending in a balanced form on the possessed and borrowed money in performing its financial structure.
2. The cost of the weighted capital ranging between (6- 7) percent and this cost is considered to be moderate in comparison to the size of the assets.
3. The more the bank relies on the owned money the lower is be the revenue of one stock because of that increasing the owned money will increase the number of the contributors and subsequently lowering the revenue of

the one stock.

4. The higher the revenue of one stock, the more accompanied by an increase in the volume of the traded stocks considering the profit as an attractive factor for the investors in the market of financial securities.

Table (3)

Analysis of the Financial Structure for Iraqi Middle East Bank

Iraqi Middle East Bank	Liabilities	Right of Property	Assets	The Percentage of Owned Money	The Percentage of Borrowed Money	Cost of the Weighted Capital	Revenue of One Stock	Number of Using stocks
2010	505827874344	63840125656	569668000000	11.21%	88.79%	4.68%	0.315585543	4200000003
2011	481992775285	75547224715	557540000000	13.55%	86.45%	4.78%	0.2	5500000000
2012	496027647760	84098352240	580126000000	14.50%	85.50%	4.82%	0.152658498	66000000183
2013	530118000000	137899000000	668017000000	20.64%	79.36%	5.09%	0.216258052	99999999991
2014	631224000000	187746000000	818970000000	22.92%	77.08%	5.19%	0.190589411	150000000000
2015	571400000000	202780000000	774180000000	26.19%	73.81%	5.33%	0.163117563	150000000000
2016	376002000000	307074000000	683076000000	44.95%	55.05%	6.13%	0.017164235	250000000000
2017	398156000000	276968000000	675124000000	41.02%	58.98%	5.96%	0.026482906	250000000000

The Source/ Prepared by the researcher depending on the outcome of the electronic calculator.

Table (3) illustrates the following:

1. The bank is depending greatly on the borrowed money in performing its financial structure.
2. The cost of the weighted capital ranging between (5- 6) percent and this cost is considered to be moderate in comparison to the size of the assets.
3. The more the bank relies on the borrowed money the more increase the revenue of one stock and this because the increasing of the borrowed money means that the bank should bear the returns with staying on the number of the contributors and subsequently achieve high profits covering the cost of borrowing and rise the one contributor share of profits.
4. The higher the revenue of one stock, the more accompanied by an increase in the volume of the traded stock considering the profit as an attractive factor for the investors in the market of financial securities.

Table (4)
Analysis of the Financial Structure for Al- Ahly Iraqi Bank

Al- Ahly Iraqi Bank	Liabilities	Right of Property	Assets	The Percentage of Owned Money	The Percentage of Borrowed Money	Cost of the Weighted Capital	Revenue of One Stock	Number of Using stocks
2010	39483175000	3108059800 0	705637 73000	44.05%	55.95%	6.09%	0.140435	25000064 087
2011	42280940000	5177197000 0	940529 10000	55.05%	44.95%	6.57%	0.013931	50000789 606
2012	54644526000	5291347400 0	107558 000000	49.20%	50.80%	6.32%	0.027031	50000295 956
2013	79248000000	1054170000 00	184665 000000	57.09%	42.91%	6.65%	0.029045	99999793 424
2014	182685000000	1545640000 00	337249 000000	45.83%	54.17%	6.17%	0.181957	99999852 641
2015	373912000000	1685410000 00	542453 000000	31.07%	68.93%	5.54%	0.109277	15200100 0000
2016	352549000000	2633870000 00	615936 000000	42.76%	57.24%	6.04%	0.035825	24999900 0000
2017	275369000000	2603960000 00	535765 000000	48.60%	51.40%	6.29%	0.016664	25000600 0000

The Source/ Prepared by the researcher depending on the outcome of the electronic calculator.

Table (4) illustrates the following:

1. The bank is depending greatly on the borrowed money in performing its financial structure.
2. The cost of the weighted capital ranging between (5- 6) percent and this cost is considered to be moderate in comparison to the size of the assets.
3. The more the bank relies on the borrowed money the more increase the revenue of one stock and this because the increasing of the borrowed money means that the bank should bear the returns with staying on the number of the contributors and subsequently achieve high profits covering the cost of borrowing and rise the one contributor share of profits.
4. The higher the revenue of one stock, the more accompanied by an increase in the volume of the traded stock considering the profit as an attractive factor for the investors in the market of financial securities.

Table (5)

Analysis of the Financial Structure for Iraqi Union Bank

Iraqi Union Bank	Liabilities	Right of Property	Assets	The Percentage of Owned Money	The Percentage of Borrowed Money	Cost of the Weighted Capital	Revenue of One Stock	Number of Using stocks
2010	13536516711	2795942117 8	414959 37889	67.38%	32.62%	7.10%	0.064062	24999904 280
2011	65635264563	5325473543 7	118890 000000	44.79%	55.21%	6.13%	0.710019	49999991 45
2012	44984089305	6057891069 5	105563 000000	57.39%	42.61%	6.67%	1.750973	50000013 94
2013	80236564502	6440643549 8	144643 000000	44.53%	55.47%	6.11%	9.0682	50000002 62
2014	494577000000	1204050000 00	614982 000000	19.58%	80.42%	5.04%	2.200805	10000000 642
2015	278909000000	2154260000 00	494335 000000	43.58%	56.42%	6.07%	0.348308	15200000 0000
2016	429643000000	2716910000 00	701334 000000	38.74%	61.26%	5.87%	0.073951	25199900 0000
2017	370545000000	2608750000 00	631420 000000	41.32%	58.68%	5.98%	0.001086	25194300 0000

The Source/ Prepared by the researcher depending on the outcome of the electronic calculator.

Table (5) illustrates the following:

1. The bank is depending greatly on the borrowed money in performing its financial structure.
2. The cost of the weighted capital ranging between (6- 7) percent and this cost is considered to be moderate in comparison to the size of the assets.
3. The more the bank relies on the borrowed money the more increase the revenue of one stock and this because the increasing of the borrowed money means that the bank should bear the returns with staying on the number of the contributors and subsequently achieve high profits covering the cost of borrowing and rise the one contributor share of profits.
4. The higher the revenue of one stock, the more accompanied by an increase in the volume of the traded stock considering the profit as an attractive factor for the investors in the market of financial securities.

Table (6)

Analysis of the Financial Structure for Iraqi Investment Bank

Iraqi Investment Bank	Liabilities	Right of Property	Assets	The Percentage of Owned Money	The Percentage of Borrowed Money	Cost of the Weighted Capital	Revenue of One Stock	Number of Using stocks
2010	111125562000	4704643800 0	158172 000000	29.74%	70.26%	5.48%	0.0002455 52	3750000 0000
2011	129035557000	6252244300 0	191558 000000	32.64%	67.36%	5.60%	0.1075205 75	5040000 186
2012	157636804000	8845519600 0	246092 000000	35.94%	64.06%	5.75%	0.2076729 17	50399999 919
2013	210611000000	1171080000 00	327719 000000	35.73%	64.27%	5.74%	0.1167886 2	1000000 0000
2014	259719000000	1185580000 00	378277 000000	31.34%	68.66%	5.55%	0.0341695	1000000 0000
2015	334239000000	1863570000 00	520596 000000	35.80%	64.20%	5.74%	0.2034835 03	1550000 000
2016	274907000000	2837490000 00	558656 000000	50.79%	49.21%	6.38%	1.3936662 4	2508700 000
2017	269872000000	2812620000 00	551134 000000	51.03%	48.97%	6.39%	0.8345956 8	2500000 000

The Source/ Prepared by the researcher depending on the outcome of the electronic calculator.

Table (6) illustrates the following:

1. The bank is depending greatly on the borrowed money in performing its financial structure.
2. The cost of the weighted capital ranging between (5- 6) percent and this cost is considered to be moderate in comparison to the size of the assets.
3. The more the bank relies on the borrowed money the more increase the revenue of one stock and this because the increasing of the borrowed money means that the bank should bear the returns with staying on the number of the contributors and subsequently achieve high profits covering the cost of borrowing and rise the one contributor share of profits.
4. The higher the revenue of one stock, the more accompanied by an increase in the volume of the traded stock considering the profit as an attractive factor for the investors in the market of financial securities.

Table (7)

Analysis of the Financial Structure for Al-Khaleej Commercial Bank

Al-Khaleej Commercial Bank	Liabilities	Right of Property	Assets	The Percentage of Owned Money	The Percentage of Borrowed Money	Cost of the Weighted Capital	Revenue of One Stock	Number of Using stocks
2010	198934720994	4105027900 6	239985 000000	17.11%	82.89%	4.94%	0.6164653 79	24999999 997
2011	199449042895	5920095710 5	258650 000000	22.89%	77.11%	5.18%	0.1603832 03	50000000 012
2012	208488717547	6354828245 3	272037 000000	23.36%	76.64%	5.20%	0.1081200 39	56989999 791
2013	3319826000000	1181840000 00	343801 000000 0	3.44%	96.56%	4.35%	0.2188162 31	56989999 979
2014	275678000000	1490880000 00	424766 000000	35.10%	64.90%	5.71%	0.3496194 1	10395000 0000
2015	477495000000	3039840000 00	781479 000000	38.90%	61.10%	5.87%	0.2241067 81	25000000 0000
2016	470505000000	3459740000 00	816479 000000	42.37%	57.63%	6.02%	0.1425111 7	30000000 0000
2017	489345000000	3216260000 00	810971 000000	39.66%	60.34%	5.91%	0.0463763 58	30000000 0000

The Source/ Prepared by the researcher depending on the outcome of the electronic calculator.

Table (7) illustrates the following:

1. The bank is depending greatly on the borrowed money in performing its financial structure.
2. The cost of the weighted capital ranging between (4- 6) percent and this cost is considered to be moderate in comparison to the size of the assets.
3. The more the bank relies on the borrowed money the more increase the revenue of one stock and this because the increasing of the borrowed money means that the bank should bear the returns with staying on the number of the contributors and subsequently achieve high profits covering the cost of borrowing and rise the one contributor share of profits.
4. The higher the revenue of one stock, the more accompanied by an increase in the volume of the traded stock considering the profit as an attractive factor for the investors in the market of financial securities.

Table (8)

Analysis of the Financial Structure for Al- Mansour Investment Bank

Al- Mansour Investment Bank	Liabilities	Right of Property	Assets	The Percentage of Owned Money	The Percentage of Borrowed Money	Cost of the Weighted Capital	Revenue of One Stock	Number of Using stocks
2010	51480496787	7625450321 3	127735 000000	59.70%	40.30%	6.77%	0.2265226 22	55000000 000
2011	60257951581	8100604841 9	141264 000000	57.34%	42.66%	6.67%	0.0725858 54	74999999 959
2012	87699850160	8471114984 0	172411 000000	49.13%	50.87%	6.31%	0.0608959 02	75000000 049
2013	162417000000	1094800000 00	271897 000000	40.27%	59.73%	5.93%	0.0958265 23	10000000 0000
2014	157123000000	2504200000 00	407543 000000	61.45%	38.55%	6.84%	0.0588663 04	23600000 0000
2015	508982000000	2801060000 00	789088 000000	35.50%	64.50%	5.73%	0.1200021 03	28900000 0000
2016	7075133862	5759084764 8	646659 81510	89.06%	10.94%	8.03%	0.0823824 37	25000000 0000
2017	13509489318	6548966958 1	789991 58899	82.90%	17.10%	7.76%	0.0968134 1	25000000 0000

The Source/ Prepared by the researcher depending on the outcome of the electronic calculator.

Table (8) illustrates the following:

1. The bank is depending greatly on the possessed money in performing its financial structure.
2. The cost of the weighted capital ranging between (7- 8) percent and this cost is considered to be moderate in comparison to the size of the assets.
3. The more the bank relies on the owned money the lower is being the revenue of one stock and this because the increasing of the owned (pos- sessed) money means the increasing of the number of the contributors and subsequently decreasing the revenue of the single stock.
4. The higher the revenue of one stock, the more accompanied by an in- crease in the volume of the traded stock considering the profit as an attrac- tive factor for the investors in the market of financial securities.

Table (9)

Analysis of the Financial Structure for Baghdad Commercial Bank

Baghdad Commercial Bank	Liabilities	Right of Property	Assets	The Percentage of Owned Money	The Percentage of Borrowed Money	Cost of the Weighted Capital	Revenue of One Stock	Number of Using stocks
2010	449654062000	9334193800 0	542996 000000	17.19%	82.81%	4.94%	0.3135568 19	70000000 003
2011	693025000000	1091690000 00	802194 000000	13.61%	86.39%	4.79%	0.2190296 12	84999999 909
2012	842275000000	1187880000 00	961063 000000	12.36%	87.64%	4.73%	0.1621120 9	10000000 0000
2013	735647000000	1396200000 00	875267 000000	15.95%	84.05%	4.89%	0.2211892 38	11290000 0000
2014	1093397000000	2072530000 00	130065 000000	15.93%	84.07%	4.89%	0.2625110 89	11290000 0000
2015	1473638000000	2912620000 00	176490 000000	16.50%	83.50%	4.91%	0.2216975 49	17500000 0000
2016	1824585810000	2924190000 0	182751 000000	0.16%	99.84%	4.21%	0.131388	25000000 0000
2017	1281052000000	2684880000 00	154954 000000	17.33%	82.67%	4.95%	0.0530426 92	25000000 0000

The Source/ Prepared by the researcher depending on the outcome of the electronic calculator.

Table (9) illustrates the following:

1. The bank is depending greatly on the borrowed money in performing its financial structure.
2. The cost of the weighted capital ranging between (4- 5) percent and this cost is considered to be moderate in comparison to the size of the assets.
3. The more the bank relies on the borrowed money the more increase the revenue of one stock and this because the increasing of the borrowed money means that the bank should bear the returns with staying on the number of the contributors and subsequently achieve high profits covering the cost of borrowing and rise the one contributor share of profits.
4. The higher the revenue of one stock, the more accompanied by an increase in the volume of the traded stock considering the profit as an attractive factor for the investors in the market of financial securities.

Table (10)
Analysis of the Financial Structure for Sumer Commercial Bank

Sumer Commercial Bank	Liabilities	Right of Property	Assets	The Percentage of Owned Money	The Percentage of Borrowed Money	Cost of the Weighted Capital	Revenue of One Stock	Number of Using stocks
2010	27779948137	4975175389 7	775317 02034	64.17%	35.83%	6.96%	0.0405262 5	25125000 142
2011	35733549473	5924865091 0	949822 00383	62.38%	37.62%	6.88%	0.1033637 15	49999999 836
2012	44186248000	7574975200 0	119936 000000	63.16%	36.84%	6.92%	0.0081535 43	69999998 774
2013	62098000000	1060000000 00	168098 000000	63.06%	36.94%	6.91%	0.0028189 3	10000000 0000
2014	111455000000	1586870000 00	270142 000000	58.74%	41.26%	6.73%	0.0121050 09	11600000 0000
2015	114233000000	1968010000 00	311034 000000	63.27%	36.73%	6.92%	0.0083655 74	18730000 0000
2016	159908000000	2598530000 00	419761 000000	61.90%	38.10%	6.86%	0.0131338 84	25000000 0000
2017	105868000000	2633490000 00	369217 000000	71.33%	28.67%	7.27%	0.0183701 12	25120000 0000

The Source/ Prepared by the researcher depending on the outcome of the electronic calculator.

Table (10) illustrates the following:

1. The bank is depending greatly on the owned money in performing its financial structure.
2. The cost of the weighted capital ranging between (6- 7) percent and this cost is considered to be moderate in comparison to the size of the assets.
3. The more the bank relies on the owned money the lower is being the revenue of one stock and this because the increasing of the owned (pos- sessed) money means the increasing of the number of the contributors and subsequently decreasing the revenue of the single stock.
4. The higher the revenue of one stock, the more accompanied by an in- crease in the volume of the traded stock considering the profit as an attrac- tive factor for the investors in the market of financial securities.

Results and Recommendations

First: Results

During the current research, particularly in its theoretical and practical sides certain group of results are achieved. The most important results are:

1. The financial structure is the basic rule on which the bank is depended on for the sake of starting its tasks and achieving its goals.
2. Most of the banks in the sample of the current research depended on the borrowed money in comparison with the possessed (owned) financing.
3. The results illustrate that the cost of borrowed financing is lower than the cost of possessed financing.
4. The results illustrate that the more increasing the borrowed financing, the more accompanied by an increase in the volume of the traded stock and this is indicator for attracting the investors to invest in the assets of the bank.
5. The results illustrate that all the banks in the sample of the current research do not exceed the cost of the weighted capital (9%), and this is considered as accepted indicator, and this means that the levels of the prices of the charged interest from the central bank additionally to the rate of the required return for the holders of the stocks within the desired limits.

Second: Recommendations

1. The necessity of hiring efficient financial analysts to benefit from them in analysing the financial structure continuously and according to the circumstances of the economy for the sake of adjusting the structure according to the requirements of this.
2. The necessity for continuous evaluation of the position of the bank from the rest of the competitors to identify the last developments that may need prompt intervention by the administration to deal with the situation and remedy it.
3. Tendency to the borrowed financing, but without overheating in using it because of that it is considered as a lower cost financing than the possessed financing but it is necessary to avoid its risks that surrounded it.
4. Benefitting from the great interest on the stocks of the bank by investors and going to make new stocks according to the increased prices, subsequently, achieving the necessary financing with possible new contributors.

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