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The Impact of Financing Structure on Increasing Profitability in Iraqi Islamic Banks: an Analytical Study for the Period (2014–2020)

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Citation: Abdullah K. N., Fahad M. O. The Impact of Financing Structure on Increasing Profitability in Iraqi Islamic Banks: an Analytical Study for the Period (2014–2020). International Journal on Economics, Finance and Sustainable Development (IJEFS) 2026, 8(1), 172-188.

Received: 20th Nov 2025Revised: 30th Nov 2025Accepted: 21st Dec 2025Published: 28th Dec 2025

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Abstract: The study seeks to clarify the construct of capital system, its major determinants as well as internal and external finance sources to examine its connection with the profitability in Islamic banking. The study is based on a number of samples which consist of Kurdistan International Islamic Bank for investment and development and the relative Iraqi Bank for Investment and development during the projected period of (2014 -2020). Financial analysis apparatuses were deployed to assess the capital composition through ratios of equity-to-assets, loans and liabilities and deposits-to-liabilities in addition to profitable indicators (ROA, ROE, ROI) which obtained the financial statements. The findings strikingly exhibited that the capital structure is dependent on balancing return risk and a sole reliance on short-term liquidation in comparison with long-term financing which leads to limited profitability as a result of higher cost. This study consequently suggests the need for the adoption of effective approach to diversify the capital sources between equity and debt to realize optimum motive that reduces cost and enhances returns. The banks should be careful in implementing their financial projects that have direct impact on return, profitability, liquidity and risk management.

Keywords: Financing Role, Capital Structure, Investment Decisions, Profitability, Islamic Banks

1. Introduction

Funding is the springboard of every economy and is the major driver of any fundamental institution in order to sustain their smooth operations and achieve their objectives. Therefore, examining the financial structure and identifying the optimal composition and role of financial institutions in terms of efficiency and stability, especially for banks is necessary to strengthen their competitiveness and enlarge their investment opportunities and services.

The structure of the financial set up can be considered as one of the tricky issues in financial dealings. Profitability is one of the key objectives for commercial institutions as it serves as the main tools for wealth management, business sustenance and achieving financial obligations. The banking system is essential and it can be compared as the main role of the financial institutions. No functional and modern economy that can function efficiently without an effective banking sector.

However, the reliance of the banking institutions on interest-inclined transactions has made so many people to move away from transaction with them. This very situation led to the existence of Islamic banks as financial institutions that mixes sharia-compliant with the need for economic development and sustainability. Through accumulation of savings and providing free interest facility and financial services. Islamic banks may

achieve both economic and financial motives that can contribute to the welfare and sustenance of steady society.

2 Problem Statement

All economic components seek to realize tangible profits and conventional banks cannot be exempted from this motivation. Achieving profit depends on the engagements of operational activities and investments of available funds. These financial sources may include internally generated revenues and externally borrowed funds and banks must ensure they invest these finances efficiently.

Although banks may aim to achieve financial goals and increase profitability, these financial institutions face numerous challenges. These may include determining the optimum financing system that can maximize profitability and increase market value. The complexity lies in choosing the most efficient mixture of equity and liabilities that can balance risk, cost and liquidity.

In the same vein, the research problem can be determined through the following essential questions:

- What is the optimum financial structure of the conventional Islamic banks that can contribute to enhance their profitability and financial function?

3 Research Importance

The financial structure of conventional profit-making banks listed on the Iraq Stock market typically involves loans, equity-based financing and deposits. The vitality of this study lies in the following:

1. Investigating the extent of which banks can utilize their available financial sources in form of investment activities.
2. Evaluating how efficient the banks comply with the central bank of Iraq's regulatory rules which are essential towards influencing the number of investments and liquidity.
3. Explaining the effect of different financial sources on profitability and financial solidity.
4. Providing perceptions that can support the potential decision makers in Islamic banks to enhance the efficacy of their financial systems.

4 Research Objectives

The study aims to reveal the financial system of the chosen commercial banks and to analyse the stance where banks utilize their available internal and external financial sources in the potential investments to generate profits. In addition, the study will determine the number of investments sponsored through the borrowed finances and equity-based sources.

5 Research Questions

Main Question:

- How does the financial system can influence the improvement of profitability in Iraqi Islamic Banks?

Sub-questions:

1. How does the financial system impact on the investment decisions?
2. How do potential decisions can contribute to the banks' profitability?
3. To what extent has the financial system can influence profitability in Iraqi Islamic banks?

2. Methodology

2.1 Research Hypotheses

Based on the proposed research problem, the study set out the following hypothesis:

The financial system has a significant impact towards enhancing profitability and improving the financial function of Islamic banks mentioned on Iraqi stock market.

From the main hypothesis presented above, the below mentioned sub-hypotheses are derived:

- The optimal financing structure has a significant impact on rationalizing investment decisions.
- Investment decisions significantly influence financial performance, which in turn contributes to increasing profitability.
- There is a significant relationship between the financing structure and profitability in Islamic banks.
- There is a significant relationship between the financing structure—through its impact on investment decisions—and increased profitability in Iraqi Islamic banks.

Alternative and Null Hypotheses

Equity-inclined Financing

- **H1 (Alternative):** Equity finance supply may have significant impacts on financial function and can increase profitability in Islamic banks mentioned in Iraqi Stock exchange.
- **H0 (Null):** the equity financing has no significant impact on financial role in Islamic banks.

Deposits

- **H1 (Alternative):** Deposits significantly affect financial function and as well, increase profit in Islamic banks.
- **H0 (Null):** Deposits may not significantly affect financial function or profit margin in Islamic banks.

Debt-to-Equity Ratio

- **H1 (Alternative):** The debt-to-equity ratio significantly increases profitability in Islamic banks.
- **H0 (Null):** The debt-to-equity ratio does not significantly influence profitability in Islamic banks.

Profitability Indicators

- **H1 (Alternative):** Profit indicators may have significant effect on the efficiency and can contribute to the increase of profit in Islamic banks.
- **H0 (Null):** Profit indicators may not have significant effect on the financial profit in Islamic banks.

2.2 Research Limits

Spatial Limits

This study is projected on two selected banks of Islamic pedigree as mentioned on Iraq Stock Exchange.

- Kurdistan International Islamic Bank for Investment and Development.
- Iraqi Islamic Bank for Investment and Development.

Temporal Limits

The sequential scope of the study covered the years 2014–2020.

2.3 Research Population and Sample, and Data Collection Methods

Population and Sample

The sample of the study may include:

- Kurdistan International Islamic Bank for Investment and Development.
- Iraqi Islamic Bank for Investment and Development for the period 2014–2020.

Practical Component

A. Theoretical Model

The theoretical model for this study was grounded on the scientific sources and other related peer-reviewed journals as well as authentic online sources.

B. Applied Module

The applied part of this study is in consonance with the descriptive, analytic and inductive approaches in order to examine the financial base of the selected banks

through the use of financial ratios, indicators to assess the financial system and profitability.

Theoretical Framework (Beginning)

1. Concept of Funding Structure

The financing system may determine how a firm may acquire its funds either through equity or through other sources of fund which include a combination of equity and debt. This is also known as the financing or funding structure which is appropriate for future projects. According to Brealey et al. (2007:6) capital structure can be viewed as the mixture of long-term debt and equity funding used by a company [1]. This system showcases the balance between risk and return and the firm's capability to realize its financial aims.

2. Importance of Financing Structure

The financing system has a fundamental role towards ensuring the stability of banks and to enable them to realize their developmental and economic aims. Its essence is to reflect on several key roles:

1. To provide the needed capital for the implementation of potential investment projects.
2. To enhance societal welfare through the support of employment, housing and new economic agenda.
3. To maintain liquidity and to reduce the risk of insolvency, hence it will reduce the risk of insolvency and protect the banks from financial problems [2], [3], [4].

3. Objectives of the Financing Structure

Banks main aim is to diversify their financing base to realize the following goals:

1. To maximize profit: achieving high-return of investments as well as to maximize financial costs to improve financial stability and reduce potential risk [5].
2. To ensure adequate liquidity: to avoid the risk of failure to meet short term obligations [6].
3. Financing investments: To generate returns that is sufficient to cover financing demands for additional funds from the major shareholders [7].

4. Factors Influencing the Financing Structure

Financing choices are determined by a set of internal and external forces, some of the recognised factors may include:

1. **Bank profitability:** Banks may choose financial investment through earnings [8].
2. **Business risk:** Higher executional risk may entice banks to decrease reliance on debt and turn to internal financing to avoid bankruptcy [9].
3. **Asset structure:** A higher quantity of fixed assets encourages firms to depend on self-financing to counter profit volatility [10].
4. **Bank size:** Larger banks can embrace higher levels of debt owing to better access to financial markets [11].
5. **Liquidity:** It may affect the bank's ability to achieve short-term engagements and its link with debt levels which may be negative or positive [12].

5. Determinants of the Financing system

1. **Profitability:** the ability to improve profits that is sufficient to meet both owners and creditors' demand [13].
2. **Control:** to minimize risks in relation to loss of control over management choices and to ensure that the required funds are invested in such a way that will allow the financial institutions to achieve their obligations without any issue in relation to solvency and prudence [14], [15].

6. Theories of Financing Structure

1. **Trade-off Theory:** this theory recommends that a company's value may increase with higher debts levels owing to tax advantages connected with interest deduction [16].

2. **Modigliani and Miller Theory (1958):** states that under some instances there is no connection between capital system and firm's value [17].
3. **Signaling Theory:** Based on the information of asymmetry between management and the potential investors, where financial decisions may serve as a strong signal to investors understanding [18], [19].

7. Financing Sources

A. Short-Term Financing Sources

1. **Trade Credit:** to purchase goods on credit from the major suppliers.
2. **Short term Bank Credit:** loans with several maturities of less than one year and interest terms.
3. **Accrued Liabilities:** to postpone payments owed to external partners based on the agreed timelines.
4. **Commercial papers:** there should be negotiation on the promissory notes and bills of exchange.

B. Long-Term Financing Sources

1. **Owners' Equity:** This may include some common and best shares that are retained based on earnings, provisions and reserves.
2. **Long term Debt Financing:** these include long-term loans and bonds
3. **Other Sources:** Including mergers, lease financing, and related long-term arrangements.

8. Financing Indicators

1. **Permanent Financing Ratio:** Procedures to the extent of which funds may cover fixed assets.
2. **Equity Financing Ratio:** This shows the institution's capability to self-finance its activities.
3. **External Financing Ratio:** This reflects the extent of reliance on debt.

9. Investment Decisions and Their Impact on Profitability

A. Effect of Investment Decisions

Financing sources are classified into internal sources (retained earnings) and external sources (loans and bonds). They are also categorized into short-term and long-term financing, depending on the institution's needs and acceptable risk levels [20], [21].

B. Financial Performance Indicators

- a. **Return on Assets (ROA):** $\text{Net Profit} \div \text{Total Assets}$.
- b. **Return on Equity (ROE) :** $\text{Net Profit} \div \text{Average Equity}$.
- c. **Earnings per Share (EPS):** $\text{Net Income} \div \text{Number of Shares Outstanding}$.
- d. **Price-to-Earnings Ratio:** Used to assess earnings capitalization.
- e. **Market Capitalization-to-Equity Ratio:** An indicator of shareholder confidence and firm size [22].

3. Results And Discussion

Overview of the Islamic Banks Under Study in Iraq

This Below is an overview of the Islamic banks listed on the Iraq Stock Exchange and included in the study sample:

1. Kurdistan International Islamic Bank for Investment and Development

Kurdistan International Islamic Bank for Investment and Development is a private joint-stock Iraqi company that engages in specialized banking and investment activities under the supervision of the Central Bank of Iraq. All its operations comply with Banking Law No. 94 of 2004, Islamic Banking Law No. 43 of 2015, and Companies Law No. 21 of 1997 (amended).

The bank was established on **March 13, 2005**, with a capital of **400 billion Iraqi dinars**. License number and date: **957/3/9 on 29/5/2005**.

2. Iraqi Islamic Bank for Investment and Development

The Iraqi Islamic Bank for Investment and Development is a private bank headquartered in Baghdad. It was established on 19/12/1992 and granted its license No. T.S/6893 on 20/4/1993.

Its capital has been increased to 250 billion Iraqi dinars. The bank began full operations under the authorization of the Central Bank of Iraq on 23/2/1993, contributing to national economic development and growth.

Banking Activities of the Sampled Islamic Banks

The Islamic banks under study engage in all banking operations in accordance with applicable laws, regulations, and the principles of Islamic Sharia. Each bank is authorized to conduct the following activities:

1. Opening current accounts.
2. Opening unrestricted investment accounts and mixing them with the bank's own funds in accordance with the instructions of the Sharia Supervisory Board.
3. Opening restricted off-balance-sheet investment accounts and investing such funds in transactions approved by the Sharia Supervisory Board.
4. Managing investment accounts through *mudarabah* or *agency-based investment*.
5. Providing financing, leasing, and direct investment by establishing productive projects, forming companies, and engaging in financial investments such as securities purchases.
6. Offering banking services permitted by the Sharia Supervisory Board.
7. Providing *qard hasan* (benevolent loans) from the bank's own funds or other designated funds, individually or through specific funds.
8. Conducting any additional banking activities permitted by law, regulations, and approved by the Sharia Supervisory Board.

These banks employ a wide range of investment tools depending on their financial capacity and the availability of internal and external financing sources.

Testing the Research Hypothesis

This section presents the analysis of the study variables, where the independent variable (financing structure) is examined in order to verify or reject the main research hypothesis after determining its effect on the dependent variable (bank profitability).

Financing Structure Indicators

This study will analyse the financing procedure of Islamic banks with the use of some financial ratios. Some of the indicators applied to examine the structure may include the following:

- Equity to Total Assets Ratio $\times 100$
- Deposits to Total Liabilities Ratio $\times 100$
- Loans to Total Assets Ratio $\times 100$
- Total Debt to Equity Ratio $\times 100$

Profitability Indicators

Profitability is examined with the use of standard financial function ratios for each bank as mentioned in the study.

- Return on Assets (ROA) $\times 100$
- Return on Equity (ROE) $\times 100$
- Return on Investment (ROI) $\times 100$

First: Kurdistan International Islamic Bank for Investment and Development Financing Structure Indicators

The financing system of Kurdistan International Islamic Bank for Investment and Development is denoted through a number of financial ratios as stated below:

1. Equity-to-Total Assets Ratio $\times 100$

The bank's financing system may include short- and long-term sources of finance. Total properties consist of the bank's present and fixed assets.

Table (1) highlights the Equity-to-Total Assets Ratio, that represents the number of complete investments funded through owners' equity.

In 2014, the ratio was at 16%, which gives the lowest level during the complete study period. The ratio had risen in 2015 to 17.32% and it moved to improve until 2017, at its highest level of 25.40%. This tendency indicates that there is a significant number of total investments was funded through other sources externally as total liabilities accounted for 58.78% of the banks funding structure. While the internal funding structure was averaged at 21.42% across the period of the study, which illustrate a structure that is dependent on external liabilities as against owned funds.

Table 1. Equity to Total Assets Ratio.

Ratio	Total Assets	Equity	years
%16.00	1,827,505,325,000	292,419,198,000	2014
%17.32	1,549,536,698,000	268,488,373,000	2015
%23.56	1,200,424,117,000	282,821,705,000	2016
%25.40	1,090,152,647,000	276,942,042,000	2017
%23.95	1,113,538,558,000	266,742,720,000	2018
%24.15	1,132,744,205,000	273,641,424,000	2019
%19.61	1,419,528,237,000	278,435,852,000	2020
%21.42	المعدل Overall Average		

Source: Prepared by the researcher-inclined published financial reports of Kurdistan.

International Islamic Bank for Investment and Development and the outputs was created using Excel 2010.

The ratios illustrated in Table (1) show that Kurdistan International Islamic Bank is dependent on equity (owned funds) to service its investments, at a relative low level in comparison with financing through borrowed or external based funds. This sort of reliance vindicates the depositors' position on higher status of risk, which may differ the provident guidelines of the Central Bank of Iraq to provide stable and safe financial practice.

2. Deposits-to-Total Liabilities Ratio $\times 100$

Table (2) indicates the ratio of deposit and total liabilities. In 2014, the highest ratio was confirmed at 97.16% indicating a large portion of the bank's liabilities which consists of deposits. The ratio then will decline in 2015 to 70.04%, before it moves to 90.22% in 2016 and extended to 94.05% in 2020. The total average ratio for this study was 89.38%, which indicates that the deposits realized a major part of the bank's financing structure. Based on Table (2), it illustrates the ratio of investing in deposits that reflects the extent to which the bank used the deposited funds that can be ideally be invested to enhance returns.

Table 2. Ratio of total deposits to total liabilities.

Ratio	Total Assets	Total deposits	years
%97.16	1,535,086,127,000	1,491,599,288,000	2014
%70.04	1,281,048,325,000	897,310,898,000	2015
%90.22	917,602,412,000	827,926,225,000	2016
%87.86	813,210,605,000	714,522,882,000	2017
%92.86	846,795,838,000	786,385,703,000	2018
%93.41	859,102,781,000	803,012,079,000	2019
%94.05	1,141,092,385,000	1,073,265,508,000	2020
%89.3	المعدل Overall Average		

Source :Prepared by the researcher based on the published financial reports of Kurdistan International Islamic Bank for Investment and Development and the outputs generated using Excel 2010.

2-Investment-to-Total Deposits Ratio

With regards to the Investment-to-Total Deposits Ratio, Table (2) shows that the volume of investments in relation to deposits. The highest ratio was calculated in 2014 and reaches 30.50%, this shows a higher usage of deposited funds for investing during the stated year. The proportion then **degenerated in 2015 to 28.84%** and continuous to decrease at a steady level of 0.53% in 2020.

The **total average ratio** of the study period then amounted to 15.68% which reflects a general slow investment usage of the bank's deposit position. This reflects that despite having a high volume of deposits, conversely, the bank failed to invest an essential number of these funds and the ability to enhance profitability.

Table 3. Ratio of investments to total bank deposits.

Ratio	Total deposits	Short-term investment	years
%30.50	1,491,599,288,000	455,021,749,000	2014
%28.84	897,310,898,000	258,837,884,000	2015
%12.47	827,926,225,000	103,264,313,000	2016
%13.13	714,522,882,000	93,864,483,000	2017
%11.58	786,385,703,000	91,059,609,000	2018
%12.75	803,012,079,000	102,423,041,000	2019
%0.53	1,073,265,508,000	5,783,687,000	2020
%15.68	المعدل Overall Average		

Source: Organized by the researcher as obtained from the published financial reports of Kurdistan International Islamic Bank for Investment and Development and the outputs was produced using Excel 2010.

Table (3) shows the total volume of investments as funded by the banks deposited funds. The proportion often fluctuate between the high and low ratio over the stated period. The highest level of fluctuation was in 2014, where it reaches 30.50%, while the lowest level seemed in 2020, which amounts to only 0.53%. this shows the sharp decline and the depositors looked reluctant.

3. Loans-to-Total Assets Ratio × 100

This proportion assures credit risk through the division of total loans by the total assets. A higher proportion shows an increment on the bank's credit risk exposure. A higher proportion indicates an increment in the bank's credit risk exposure, as such the ratio reflected lower credit risk.

According to **Table (4)**, the finding of the Loans-to-Total-Assets Ratio on the study period indicate the highest as recorded in 2017 which reached 0.70% and indicates that the bank shows the highest exposure to credit. The lowest value was recorded in **2019**, amounting to **0.22%**, which suggests a decline in the bank's credit risk for that year. At the same time, these ratios indicate that the bank did **not rely significantly on loans to finance its total assets**, reflecting a conservative lending policy or limited exposure to credit-based financing.

Table 4. Loans to Total Assets Ratio.

Ratio	Total Assets	Loans	years
0	1,827,505,325,000	0	2014
0	1,549,536,698,000	0	2015
0	1,200,424,117,000	0	2016
%0.70	1,090,152,647,000	7,696,489,000	2017
%0.43	1,113,538,558,000	4,864,363,000	2018
%0.22	1,132,744,205,000	2,507,408,000	2019
%0.26	1,419,528,237,000	3,811,138,000	2020
%0.16	المعدل Overall Average		

Source :Prepared by the researcher based on the published financial reports of Kurdistan International Islamic Bank for Investment and Development and the outputs generated using Excel 2010.

4. Total Debt-to-Equity Ratio $\times 100$

This proportion is one of the generally used pointers in financial analysis. It illustrates the extent to which the bank be contingent on **peripheral funds** in its banking, investment, and other processes compared to **owners' equity**. It is known as the **Debt-to-Equity Ratio**, and it actions the quantity of external financing in relation to internal funding.

The banks' reliance on debt and borrowing service its assets can be more limited to obtain future credit, as some lenders may set stricter conditions for borrowing. The proportion can be calculated by dividing the total debt by the total equity and it seems to be essential for assessing the efficacy of the bank's management and its major finance policies. A high ratio may mean the bank's capability to attract external investors while a low proportion what indicate a weak capacity to mobilize financing. Based on table (5), the Total Debt-to-Equity Ratio gotten its highest level at **524.96%**, which indicates the lowest number recorded proportion at 293.63% in 2017, this suggests a reduction in risk levels and that the year under review show a greater dependance on shareholders' equity in sponsoring the bank's assets.

Table 5. Total Debt to Equity Ratio.

Ratio	Ownership rights	Total debt	years
%524.96	292,419,198,000	1,535,086,127,000	2014
%477.13	268,488,373,000	1,281,048,325,000	2015
%324.44	282,821,705,000	917,602,412,000	2016
%293.63	276,942,042,000	813,210,605,000	2017
%317.45	266,742,720,000	846,795,838,000	2018
%313.95	273,641,424,000	859,102,781,000	2019
%409.82	278,435,852,000	1,141,092,385,000	2020
%380.19	المعدل Overall Average		

Source: Organized by the researcher based on the obtained financial reports of Kurdistan International Islamic Bank for Investment and Development and the outputs created using Excel 2010.

Profitability Indicators: Profit indicators are signified through a set of financial proportions, which include a Return on Assets (ROA), Return on Equity (ROE), and Return on Investment (ROI).

1. Return on Assets (ROA)

Return on assets = Net profit after tax / Total assets $\times 100$

The Return on Assets proportion affirms the banks capability to use the asset to get profits. Table (6) indicates the ROA values in the study period and it shows how efficient the bank turned its assets to net income.

Table 6. Return on Assets Rate.

Return on Assets	Total Assets	Net Income After Tax	years
%1.520	1,827,505,325,000	27,780,658,000	2014
%0.369	1,549,536,698,000	5,716,622,000	2015
%1.686	1,200,424,117,000	20,245,029,000	2016
%0.561	1,090,152,647,000	6,122,480,000	2017
%0.372	1,113,538,558,000	4,152,102,000	2018
%0.644	1,132,744,205,000	7,298,604,000	2019
%1.423	1,419,528,237,000	20,200,071,000	2020

%1.272

المعدل Overall Average

Source: Prepared by the researcher based on the available financial reports of Kurdistan International Islamic Bank for Investment and Development.

Table (6) displays the difference in the Return on Assets (ROA) proportion on the years of the study. This instability reflects the bank's capability to capitalize its assets from one year to the other. The highest ROA was verified in 2016, and it reaches 68.1%, while the lowest ratio was seen in 2015, and it amounted to 0.369%.

This sharp reduction reflects the banks failure during the year stated to utilize its funds efficiently. The ROA throughout the time indicates a reduction in the bank's operation and its available assets to realize profit. The researcher agreed that despite the increment in all assets after the year 2014, the bank failed to leverage its developing asset position to enhance returns, where the ROA fluctuates between 1.68% and 0.36%. The weakening in this ratio clearly shows signals in the deterioration in the performance of the bank.

2-Return on Equity (ROE)

$$\text{ROE} = \text{Net Profit After Tax} / \text{Equity} * 100$$

The return on equity signifies the bank's capability to employ and use shareholders' assets to obtain profit. Naturally, the bank's efficacy and success are in the management of the shareholders' profitability. Table (7) offers the return on equity in the study period.

Table 7. Return on Equity Rate.

Return on equity	Equity	Net income after tax	years
%9.5	292,419,198,000	27,780,658,000	2014
%2.12	268,488,373,000	5,716,622,000	2015
%7.15	282,821,705,000	20,245,029,000	2016
%2.21	276,942,042,000	6,122,480,000	2017
%1.55	266,742,720,000	4,152,102,000	2018
%2.66	273,641,424,000	7,298,604,000	2019
%7.25	278,435,852,000	20,200,071,000	2020
%7.06	المعدل Overall Average		

Source: Organized by the researcher based on the available financial reports of Kurdistan International Islamic Bank for Investment and Development, and excel generated 2010.

It can be seen from Table (7) that the maximum return on equity was calculated in 2014, where the ratio was at 9.5%. the fluctuation in the return was around **1.55% and 9.5%**. the variation of the bank was inconsistent to utilize and invest its possession of the funds with almost the same level of efficacy at the time under examination.

3-Return on Investment (ROI)

$$\text{ROI} = \text{Net Profit After Tax} / \text{Total Reserves} * 100$$

The return on investment characterizes the net profit after tax, which replicates the distributable net income. It is measured against the total financial investments, such as investments in subsidiary or affiliated companies. The return on investment expresses the efficiency of the bank's investments and serves as an indicator for evaluating the profitability of the bank's investment activities. Table (8) presents the results of the analysis of the return on investment for Kurdistan International Islamic Bank for Investment and Development over the time series covered in the study. The table also shows the overall average of the return on investment for the years included in the analysis for the same bank, as follows:

Table 8. Rate of Return on Investment.

Return on Investment (ROI)	Total Investments	Net income after tax	years
%6.10	455,021,749,000	27,780,658,000	2014
%2.20	258,837,884,000	5,716,622,000	2015
%19.60	103,264,313,000	20,245,029,000	2016
%6.52	93,864,483,000	6,122,480,000	2017
%4.56	91,059,609,000	4,152,102,000	2018
%7.12	102,423,041,000	7,298,604,000	2019
%349.25	5,783,687,000	20,200,071,000	2020
%43.50	المعدل Overall Average		

Source: Prepared by the researcher based on the published financial reports of Kurdistan International Islamic Bank for Investment and Development and the outputs generated using Excel 2010.

The analysis results showed that the return on investment varied from one year to another. The highest rate was recorded in 2020, reaching **349.25%**, representing a significant jump compared with the other years of the study. The lowest rate was recorded in 2015, amounting to **2.20%**.

Second // Iraqi Islamic Bank for Investment and Development

Financing Structure Indicators: The financing structure indicators are represented by a set of ratios below:

1. Equity-to-Total Assets Ratio $\times 100$

The bank's financing structure consists of short-term and long-term financing sources. Short-term financing sources include various types of deposits, provisions, and creditors, while long-term financing sources consist of paid-in capital and reserves. Total assets comprise the bank's current assets and fixed assets. Table (9) shows the Equity-to-Total Assets Ratio, which indicates the extent to which total investments are financed through shareholders' equity only. The highest ratio was recorded in 2020, reaching **60.13%**, meaning that the remaining **39.87%** of total investments were financed through external sources. In other words, the financing structure represented by total liabilities was used to finance **39.87%** of the bank's investments in 2020.

Table 9. Equity to Total Assets Ratio.

Ratio	Total Assets	Equity	years
%42.374	816,478,697,199	345,974,012,631	2014
%39.65	810,971,493,477	321,625,505,884	2015
%39.61	802,022,034,419	317,733,784,273	2016
%53.18	603,312,989,740	320,887,340,766	2017
%54.37	57,833,6518,931	314,472,925,906	2018
%55.85	549,145,530,701	306,709,058,201	2019
%60.13	510,798,283,631	307,172,111,451	2020
%49.30	Overall Average		

Source: Prepared by the researcher based on the published financial reports of the Iraqi Islamic Bank for Investment and Development and the outputs of the Excel program.

while the lowest ratio was registered in 2015 at **39.61%**. The overall average for all the years of the study was **49.30%**.

2. Total Deposits-to-Total Liabilities Ratio $\times 100$

Table (10) shows the ratio of deposits to total liabilities in the bank, through which the increases and decreases in deposit volumes over the study years can be

observed. An increase in the annual volume of deposits enables the bank to conduct its operations more flexibly and to invest more effectively. Accordingly, the table below illustrates the ratio of investments to deposits, which reflects the extent to which the bank utilized the deposited funds—funds that are expected to be invested to generate profit. The bank relies on the size of the deposits it receives to provide its banking services and meet its obligations, such as loans and banking facilities. Therefore, the higher the volume of loans granted to customers and clients, the higher the revenues and, consequently, the profits earned.

Table 10. Ratio of Total Deposits to Total Liabilities.

Ratio	Total Liabilities	Total Deposits	years
%97.024	469,176,977,902	455,212,133,539	2014
%83.859	487,988,540,927	409,220,684,788	2015
%88.212	484,288,250,146	427,200,844,364	2016
%94.115	282,425,648,974	265,803,562,818	2017
%88.279	263,863,593,025	232,934,933,496	2018
%83.148	242,436,472,500	201,579,972,579	2019
%88.774	203,626,172,180	180,767,475,870	2020
%89.846	Overall Average		

Source: Organized by the researcher as published in the financial reports of the Iraqi Islamic Bank for Investment and Development and the outputs of the Excel program.

As for the proportion of the investments to complete deposits, as indicated in table (10) the number of investments to the number of total deposits. In 2015, the highest ratio as recorded in 2015 was **40.83%**, indicating an increment in the ratio of the total investment as equivalent to the deposits. The lowest proportion was counted in 2014 which amounts to **17.11%**. After the increment in 2015. The proportion keep on fluctuating until it was raised to **25.06%** in the year **2020**. The total average of the investment -to -deposit for the bank stood at 27.15%.

Table 11. Ratio of short-term investments to total deposits.

Ratio	Total Deposits	Total short-term investments	years
%17.11	455,212,133,539	77,925,472,377	2014
%40.83	409,220,684,788	167,113,347,120	2015
%19.41	427,200,844,364	82,959,660,402	2016
%18.88	265,803,562,818	50,200,000,000	2017
%21.55	232,934,933,496	50,200,000,000	2018
%22.47	201,579,972,579	45,300,000,000	2019
%25.06	180,767,475,870	45,300,000,000	2020
%27.15	Overall Average		

Source: Organized by the researcher as published in the financial reports of the Iraqi Islamic Bank for Investment and Development and the outputs of the Excel program.

3. Loans-to-Total Assets Ratio $\times 100$

This proportion assesses the credit risk by dividing the whole loans by the complete assets. It indicates a direct connection between the number of loans and the credits earns by the bank and credit exposure. This means they may increase the loan ratio and it indicates the advanced credit risk, where a decrease in the proportion may reflect the lower credit risk for the institution.

Table 12. Loans to Total Assets Ratio.

Ratio	Total Assets	Total Loans	years
%0.16	816,478,697,199	1,327,706,666	2014
%0.16	810,971,493,477	1,347,446,666	2015
%0.22	802,022,034,419	1,775,266,666	2016
%0.28	603,312,989,740	1,675,266,666	2017
%0.35	57,833,6518,931	2,075,266,666	2018
%0.36	549,145,530,701	2,008,628,615	2019
%0.63	510,798,283,631	3,258,628,615	2020
%0.34	Overall Average		

Source: Prepared by the researcher based on the published financial reports.

It is clear from Table (12) that the maximum loans-to-total assets proportion during the period under study was calculated in 2020 and it reached 0.63%, and the minimum ratio was considered in 2014 at **0.16%**, and the decrease in that year shows a decrease in the bank's credit risks. This ratio is recorded by dividing the total debt against the total equity. The high rate exhibits the banks capability to draw external investment of different types while the lower values indicate weak capability to draw the same financing.

When examining the debt-to-equity ratio, Table (13) indicates the maximum proportion at the time of the study to **152.42%**, and given the maximum level of this proportion, it also maintains that the bank is dependent upon borrowing of fund to settle its assets and this clearly show credit risk and the possibility of defaulting and creating window for lower credit. The minimum ratio was calculated at 66.29% to indicate a weak capability of the bank to draw deposits. The total ratio was then **108.26%**.

Table 13. Total Debt to Equity.

Ratio	Equity	Total Debt	years
%135.61	345,974,012,631	469,176,977,902	2014
%151.72	321,625,505,884	487,988,540,927	2015
%152.42	317,733,784,273	484,288,250,146	2016
%88.01	320,887,340,766	282,425,648,974	2017
%83.90	314,472,925,906	263,863,593,025	2018
%79.04	306,709,058,201	242,436,472,500	2019
%66.29	307,172,111,451	203,626,172,180	2020
%108.26	Overall Average		

Source: Organized by the researcher as published in the financial reports of the Iraqi Islamic Bank for Investment and Development and the outputs of the Excel program.

Profit pointers are displayed through a set of ratios, which include the return on assets, the return on equity, and the return on investment.

1. Return on Assets (ROA)

$$\text{Return on assets} = \text{Net profit after tax} / \text{Total assets} * 100$$

The return on assets proportion reflects the banks' capability to use its assets effectively and to achieve financial efficiency and as a result, to generate profits. The more it exhibits the efficacy of the banks, financial role the better the ability to deploy its assets in an optimum manner that can lead to maximum efficacy and eventually an increase in profitability. Table (14) indicates the assets return and the growth ratio during the study time.

Table 14. Return on Assets Rate.

Return on Assets	Total Assets	Net Profit After Tax	years
%4.42	816,478,697,199	36,146,585,353	2014
%1.21	810,971,493,477	9,859,903,430	2015
%0.73	802,022,034,419	5,870,759,034	2016
%0.70	603,312,989,740	4,230,107,006	2017
%0.10	57,833,6518,931	591,789,500	2018
% - 0.71	549,145,530,701	- 3,931,357,837	2019
% - 2.89	510,798,283,631	-1,477,089	2020
%2.97	Overall Average		

Source: Organized by the researcher as published in the financial reports of the Iraqi Islamic Bank for Investment and Development and the outputs of the Excel program.

It is clear from Table (14) that the return on assets differ in the study years. This difference highlights the banks' capability to invest their assets from one year to the other. The maximum return on assets was obtained in 2014, and it reaches **4.42%**, and followed by a decrease in the following years to reach a decline **-2.89%** in 2020.

2. Return on Equity (ROE)

Return on equity = Net profit after tax / Equity * 100

The return on equity (ROE) signifies a bank's ability to use and handle shareholders' funds and gain profit. Naturally, the maximum the ROE, the greater the banks' capability to manage shareholders' funds and create profits as it is presented in table 15.

Table 15. Return on Equity Rate.

Return on equity	Equity	Net profit after tax	years
%10.44	345,974,012,631	36,146,585,353	2014
%3.06	321,625,505,884	9,859,903,430	2015
%1.84	317,733,784,273	5,870,759,034	2016
%1.31	320,887,340,766	4,230,107,006	2017
%0.18	314,472,925,906	591,789,500	2018
% - 1.28	306,709,058,201	-3,931,357,837	2019
% -4.80	307,172,111,451	-1,477,089	2020
%7.50	Overall Average		

Source: Organized by the researcher based as published in the financial reports of the Iraqi Islamic Bank for Investment and Development and the outputs of the Excel program.

It is clear from Table (15) that the maximum return on equity was obtained in 2014, and it reached **44.10%**. The values seem to fluctuate throughout the period of the study and shows the increase and decrease around the year. The minimum ratio was observed in the year 2020 at **-80.4%**, indicating the banks weak output in the management of stakeholders' funds.

Return on Investment (ROI): Return on Investment = Net Profit After Tax / Total Investments * 100

The return on investment highlights the net profit after the tax deduction reflecting the distributional net income. It is evaluated at the total financial investment including subsidiary and affiliated firms. The return on investment shows the efficacy of the bank and the potential investment to assess profitability of the bank's investment actions. Table (16) presents the analysis results of the return on investment for the Iraqi Islamic Bank for Investment and Development over the time series covered in the study. The

table also shows the overall average of the return on investment for the selected and adopted years for the same bank, as follows:

Table 16. Rate of Return on Investment.

Return on investment (ROI) %	Total Investment	Net Profit After Tax	Years
%46.386	77,925,472,377	36,146,585,353	2014
%5.900	167,113,347,120	9,859,903,430	2015
%7.077	82,959,660,402	5,870,759,034	2016
%8.427	50,200,000,000	4,230,107,006	2017
%1.179	50,200,000,000	591,789,500	2018
% -8.698	45,300,000,000	-3,931,357,837	2019
% -0.003	45,300,000,000	-1,477,089	2020
%40.393	Overall Average		

Source: Prepared by the researcher based on the published financial reports of the Iraqi Islamic Bank for Investment and Development and the outputs of the Excel program.

The analysis results showed that the return on investment varied from one year to another, with the highest rate representing a significant jump compared to the rest of the years in 2014, reaching **38.46%**. The lowest rate was recorded in 2020 at **-0.003%**. It is evident from the above that the Iraqi Islamic Bank for Investment and Development achieved profits of **254.7%** in 2020 from investing internal financing sources, as shown in Table (16), while the profits generated from investing external financing sources reached **30.5%**, and the bank achieved **28%** in profits from investing deposits alone. Based on this, the study hypothesis regarding the influence of financing sources on bank profitability has been confirmed.

Testing the hypotheses:

From the above, it becomes clear that the dependent variable—financing structure—represented by (the equity-to-total assets ratio, the deposits-to-total liabilities ratio, the loans-to-total assets ratio, and the debt-to-equity ratio) and the independent variable—profitability ratios—represented by (the return on assets ratio, the return on equity ratio, and the return on investment ratio) in the banks under study (Kurdistan International Islamic Bank for Investment and Development and the Iraqi Islamic Bank for Investment and Development) during the research years demonstrate that, according to Table (), the equity-to-total assets ratio in Kurdistan International Islamic Bank ranged between 16.00% and 25.40%.

First hypothesis: Based on the forgone results, the alternative hypothesis was confirmed that the equity-to-total assets contributes to the increment in profitability in Islamic banks, meaning the greater the profit in the banks under study, therefore, the alternative hypothesis is agreed and the null hypothesis is rejected, because of the presence of a relationship between equity-to-total assets and increment in profitability in the Islamic banks.

With regards to deposit-to-liabilities proportion in Kurdistan International Islamic Bank for Investment and Development, Table () shows that the deposit of the total liabilities may differ from 97.16% and 70.04%, which indicates the heavy reliance on the deposits and their usage. The investment ratio, on the other hand may be between 30.50% and 0.53%, and the decline in investment proportion which serves as a sign of great concern for the banks

As for the Iraqi Islamic Bank for Investment and Development, Table () displays the fluctuations in the number of deposits over the study years, which range from 97.02% and 83.14%. which is an increase in the profit as maximum deposit volumes may enable the banks to carry out its service and generate profits in the investment ratio of

40.83% and 17.11%, so, this decline can be attributed to the banks concerns with regard to depositors.

Second hypothesis: Based on the findings, the alternative hypothesis is maintained which indicates that the deposits-to-total liabilities can contribute to the increment in profit in Islamic banks; that is the maximum ratio, in Islamic banks. The higher the ratio, the greater the profit in the banks. Thus, the alternative hypothesis is then accepted while the null hypothesis is rejected owing to the link between the deposits and the profit in the Islamic banks. With regards to the loans-to-total properties proportion in Kurdistan International Islamic Bank, which assesses credit risk, the higher the ratio, the higher the credit risk, then the proportion ranged around **0.70% and 0.22%**. as at 2014 and 2016, the credit risk was zero owing to the nonappearance of loans during that period. These proportions indicate that the bank did not depend on loans to service its total assets.

Third hypothesis: The alternative hypothesis is established, states that the debt-to-equity proportion may influence the profit in Islamic Banks in their ability to draw finance; that is the maximum ratio and the ability of the banks to convince investors and as a result, they may achieve maximum profit. Thereby, the alternative hypothesis was accepted and the null hypothesis as well, was rejected because of a connection between the debt-to-equity ratio and increased profit.

Fourth hypothesis: Based on this, the alternative hypothesis is established, and it connotes that the indicators may influence the efficacy of financial role and increase the profit in the banks. Consequently, the alternative hypothesis is recognized, indicating a association between these indicators and financial performance efficacy, as well as the banks' improved ability to optimally use the available resources.

4. Conclusions

- The financing system is one of the main responsibilities of the financial manager in any bank and numerous studies establish its significance in maximizing profit.
 - The financing structure affects the stability of banks, as some banks may be exposed to insolvency.
1. The investment choice may influence the profit through the optimum diversification of the available resources in different types in such a way that it will balance the appropriate investment to achieve the best return without failing in the bank liquidity.
 2. The financing structure seems to be one of the vital tasks of the financial managers in most banks and there is the need to enhance profitability.
 3. The financial structure in most banks may depend on the trade-off between return and major risks and the extent to which these financial management may prefer one over the other.
 4. The high demand for fund is one of the among the banks can be attributed to the maintenance of liquidity. This is because of the traditional nature of the investment policies maintained by some banks. So, the banks need to retain policies driven by political, economic and security situations which may lead banks to maintain maximum level of cash flow.

Recommendations

These are some of the recommendations as offered by the researcher:

1. Banks should implement a policy that will create the chance invest surplus of funds in effective liquidity management so as to generate profit.
2. Banks should establish efficient strategies for their financing system to balance between borrowed and personal funds to achieve optimum financial mix and maximize the total cost of finance.

3. Suitable and constant liquidity must be affirmed for Iraqi banks to monitor customer cash withdrawals and meet the basic requirements, in line with the regulations issued by the Central Bank of Iraq.
4. It is important for banks to maintain policies that will ensure the efficacy of the investment of excess funds through proper fluidity management to assist in generating profits from these investments.
5. Banks should depend on experts and specialists in the related field of finance to assess the most suitable financing structure for the bank.

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