

Finding the Impact of Asset Quality on Achieving Banking Flexibility Applied Research into Some "Banks Listed on the Iraqi Stock" Exchange

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Abstract: The study's main objective is to determine the impact of asset quality through its indicators on banking flexibility (financial leverage, actual cost of holding cash, external financing costs) in Islamic banks listed on the Iraq Stock Exchange for the period (2015-2022). To achieve the objective of the study, ready-made statistical models and quantitative methods for financial analysis were relied upon, as well as the multiple regression model using the least squares method, where the study concluded that the relationship between asset quality indicators and banking flexibility is a negative linear relationship, meaning that the higher the asset quality indicators, the lower the banking flexibility and vice versa. The research also presented a set of recommendations that can be used at the level of banking and financial institutions.

Key words: Asset quality, banking flexibility, Islamic banks.



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Introduction

The recent rise in bankruptcies can be attributed to a decline in the quality of banking assets; however, assessments of this deterioration differ. Numerous interpretations characterise banks as passive victims of a progressively hostile environment. Deregulation consequently reduced interest rate spreads and diminished banks' capacity to absorb loan losses. The downturn resulted in a significant decline in asset values within real estate and agriculture, concurrently impairing the capacity of foreign debtors to meet their obligations. The narrative is occasionally framed as a governmental crisis, characterised by excessive fiscal policy or politicised and indecisive monetary policy. These explanations share a narrative quality and suggest the banks' implied innocence (Chan et al., 1986:1). Risk management and payout decisions influence a firm's financial flexibility, which is essential for preventing costly financial distress and underinvestment. Financial flexibility, defined as the capacity to avert underinvestment and mitigate financial distress, is a critical concern for managers. Payout policy and risk management are two essential components of financial flexibility. The magnitude and structure of payouts influence financial flexibility; opting for lower payouts or a greater proportion of buybacks compared to dividends enhances financial flexibility.

Risk management is crucial for preventing underinvestment and financial distress. Companies engage in hedging to prevent the need for expensive external capital, and effective hedging minimizes financial constraints. This paper investigates the relationship between hedging and payment policies, as both influence financial flexibility. A straightforward relationship exists between hedging and payment, contingent upon risk management activities mitigating cash flow volatility and firms with low volatility maintaining regular payment schedules (Bonaimé et al., 2014:1). The study was organised into four primary sections to fulfil its objectives. The first section dealt with the scientific methodology of the research and defined the problem, objectives and primary hypothesis of the study. Then, the second section dealt with the theoretical framework of the research and defined the concepts of asset quality and financial flexibility and the most critical associated indicators, while the third section dealt with financial and statistical analysis and testing of the study hypotheses. Finally, the fourth section dealt with conclusions and recommendations.

The first section - Research methodology

First - Research problem

Banking and financial institutions alike face many risks. Banks are often exposed to banking crises because they operate in an unstable environment. The economic fluctuations that banks and the economy in general are exposed to directly or indirectly affect the financial capacity of individuals and groups, which leads to the inability of these parties to pay their financial obligations, which is negatively reflected in the quality of banking assets. Thus, the increase in the rates of non-performing loans for the bank or what is called bad loans, based on that and to know the extent of the impact of the quality of banking assets in enhancing the financial flexibility of the bank, the problem of the current study was identified, which can be formulated through the following question: What is the role of the quality of banking assets in enhancing banking flexibility?

1. What is the level of asset quality indicators in Islamic banks in the Iraqi Stock Exchange?
2. What is the level of banking flexibility indicators in Iraqi Islamic banks?
3. What is the type and direction of the relationship between asset quality and banking flexibility?
4. What is the impact of asset quality indicators on banking flexibility?

Second - The importance of the research

The importance of the study is highlighted in two directions: the theoretical aspect and the practical aspect:

➤ Theoretical aspect:

The research addressed the quality of assets and banking flexibility, as they are important to the bank's work. The quality of banking assets is of utmost importance to the bank because it is related to the occurrence of banking crises that may lead to the failure of the banking system in general. Banking flexibility is also related to the variables of financial leverage, cash retention, turnover ratio, and banking liquidity, which are among the most important indicators of the safety and stability of the bank.

➤ Practical aspect:

On the practical side, the importance of the study is highlighted by the results reached by the research related to the safety of the bank and the quality of its assets and the study of liquidity levels and cash retention with it, which provides information of utmost benefit to banks operating in Iraq and researchers.

Third - Research objectives

The current research aims to:

1. Know the level of asset quality indicators in Islamic banks in Iraq.
2. Determine the level of banking flexibility indicators in Iraqi Islamic banks.
3. Study the type and direction of the relationship between asset quality and banking flexibility.
4. Know the impact of asset quality indicators on banking flexibility.

Fourth - Research hypotheses

After reviewing the study problem and its sub-questions and after determining the objectives that the current research seeks, the research addressed three main hypotheses represented in the following:

1. The first hypothesis: There is a statistically significant impact of the quality of banking assets on financial leverage.
2. The second hypothesis: There is a statistically significant impact of the quality of banking assets on the Turnover ratio.
3. The third hypothesis: There is a statistically significant impact of the quality of banking assets on quick liquidity.

Fifth - The hypothetical plan for the research

Based on the research variables and to clarify the relationships of influence between them, a hypothetical plan for the research was developed as follows:

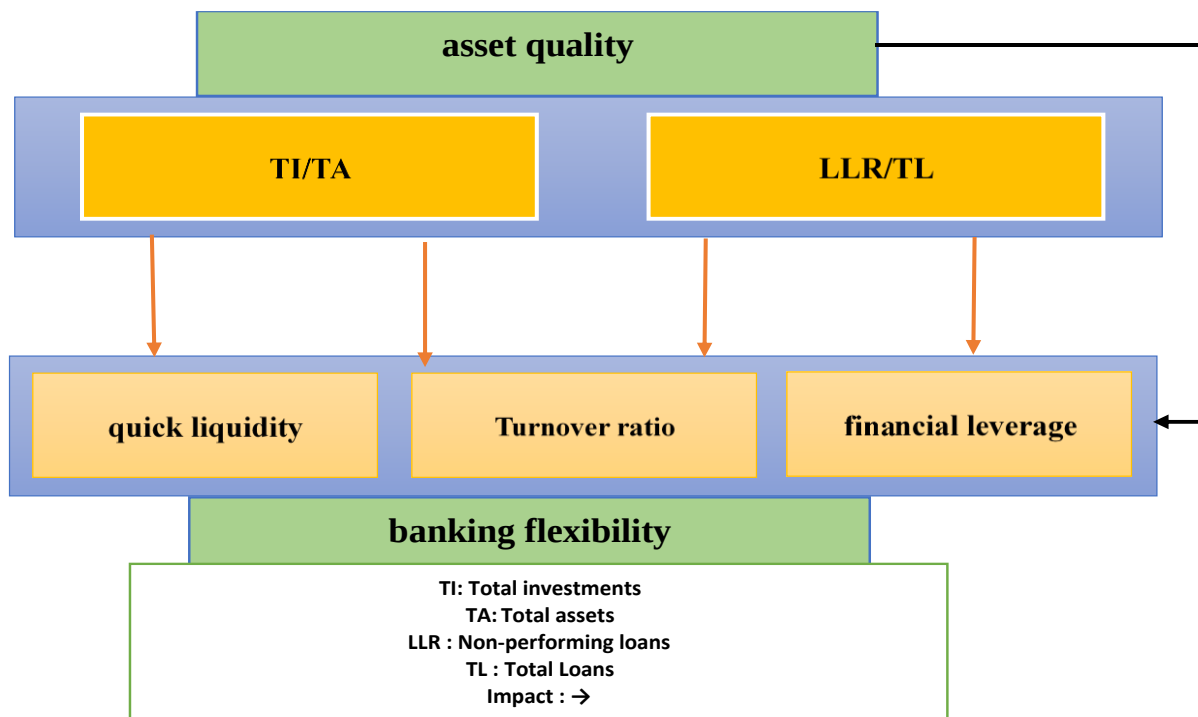


Figure (1) Hypothetical diagram of the study

Source: "Prepared by the researcher"

Sixth - Scope of the research

The current researcher focuses on Islamic banks, so the study community represents the Islamic banks listed on the Iraqi Stock Exchange. As for the study sample, it is the group of Islamic banks

that have complete data that contributes to achieving the purpose of the research, as in the following table:

Table (1) Islamic banks, study sample

Bank	Location
Asia Iraq Islamic Bank for Investment and Finance	Iraq / Baghdad - Yarmouk
Islamic holding Bank	Iraq / Baghdad - Sheikh Omar Street
Noor Iraq Islamic Bank	Iraq / Baghdad - Kahramana Square
Arabia Islamic Bank	Iraq / Baghdad - Mansour
International Islamic Trust Bank	Iraq / Baghdad - Al-Wahda District
Elaph Islamic Bank	Iraq / Baghdad - Kahramana Square
Iraqi Islamic Bank	Iraq / Baghdad - Mansour
International Islamic Bank	Iraq / Baghdad - Karrada

Source: "Prepared by the researcher"

Section Two - Theoretical Framework of the Research

➤ Asset Quality:

Asset quality, or loan quality, is defined as the total risk linked to the diverse assets owned by an individual or institution (Nzoka, 2015:4). Banks utilise this term to assess the volume of their assets subject to financial risk and the potential losses they may face. Loans and advances are the primary banking assets necessitating rigorous assessment of asset quality. Enhancing loan quality will elevate the return on bank loans and diminish failure costs; however, this improvement necessitates careful management by banks due to associated expenses.

Banks are financial institutions engaged in the management of assets and liabilities. In contrast to other business entities, such as manufacturing firms that maintain physical goods as inventory, the banking sector's inventory consists of monetary assets. Banks engage in the trading of money (Cheruiyot, 2016:1). Banks inherently encounter numerous challenges in both internal and external business environments. Central to banking operations are various risks, including credit risk, market risk, interest rate risk, default risk, operational risk, and exchange rate risk. Banks function with three main objectives: profitability, asset expansion, and customer acquisition. Asset quality refers to the evaluation of a financial institution's assets to determine the extent and severity of credit risk inherent in its operations. Asset quality serves as a partial prudential determinant of the soundness and profitability of commercial banks. Ensuring robust asset quality requires the meticulous evaluation of loan applications to ensure adherence to regulatory standards. Poor asset quality serves as a partial determinant of profitability, influencing the financial performance and stability of the banking system (Lucky & Nwosi, 2015:26). Asset quality is crucial for all businesses, but it holds particular significance for the profitability of banks, which are essential to financial markets, the effective functioning of banking operations, and the overall stability of the financial system and national economy. The asset quality of banks is associated with the quality of loans they extend. The quality of loans is assessed through non-performing loans (NPL), which include both delinquent loans and follow-up loans. In bank-based financial systems experiencing a "credit crunch," non-performing loans (NPLs) or deteriorating asset quality can hinder economic recovery by diminishing operating profit margins or depleting the capital base necessary for new loans. NPLs affect the profitability of banks, which is their main source of profit and, ultimately, the economy's financial stability. A decline in asset quality or NPLs reaching a large amount may lead to bankruptcy of banks and economic slowdown (Kadioglu & Ocal, 2017:60). Asset quality indicators: The degree of credibility of the capital ratio depends on the degree of reliability of asset quality indicators, as the risks of insolvency and failure in banking institutions mostly come from the quality of assets and the difficulty of

liquidating them. Hence, it is important to monitor indicators that indicate asset quality and consider the credit risks involved in off-balance sheet operations, such as trading in derivatives, bets, and agencies. The main objective of asset quality is to measure loans and non-performing assets from the total of each of them. Asset quality can be calculated according to several equations that have been used in the practical aspect of the research, namely (Al-Mutairi and Al-Khamas, 2022: 36), (1) (Investments / Total Assets), and Equation (2) (Past Due Debts / Total Cash Credit). The weights of this indicator, as in the table, are calculated to calculate the percentage of non-performing loans (share of non-performing loans as a share of total loans) (Bock & Demyanets, 2012: 8).

$$\text{Asset Quality} = (\text{Investments})/(\text{Total Assets})$$

$$\text{Asset quality} = \frac{\text{Non - performing loans ratio}}{\text{Total loans}}$$

➤ **Banking flexibility:**

Financial flexibility, defined as the capacity to prevent underinvestment and financial distress, is a significant concern for managers. The two primary elements of financial flexibility are payout policy and risk management. The magnitude and structure of payouts influence financial flexibility; opting for reduced payouts or a greater proportion of buybacks compared to dividends enhances financial flexibility. Risk management is crucial to prevent underinvestment and financial distress. Companies engage in hedging to prevent the need for expensive external capital, and effective hedging minimises financial constraints (Bonaimé et al., 2014:1).

Recent research indicates that the primary factor influencing corporate capital structure decisions among financial managers is the pursuit of financial flexibility. Financial flexibility denotes a firm's capacity to obtain and reorganise its financing with minimal expense. Firms exhibiting financial resilience can mitigate financial distress during adverse shocks and readily secure funding for investments when lucrative opportunities present themselves. A firm's financial flexibility is influenced by external financing costs, which may be indicative of firm characteristics like size. Additionally, it results from strategic decisions related to capital structure, liquidity, and investment. In corporate financial policy, the majority of firms utilising debt financing concurrently maintain cash balances. Although equivalent borrowing and lending positions are tax-neutral, various combinations of debt and cash positions that yield the same net debt value may not constitute neutral transfers (Gamba & Triantis, 2008:1). Financial flexibility is essential for alleviating cash flow deficiencies in firms and their adverse impacts on investment during crises (Arslan et al, 2014:24). In capital structure theories prioritising financial flexibility, firms select financial policies to secure dependable and economical access to capital. A fundamental aspect of capital structure theories emphasising financial flexibility is that firms utilise debt for short-term financing, with the expectation that debt issuance will be succeeded by deleveraging to regain borrowing capacity. Companies typically prefer to issue debt rather than equity to satisfy financing requirements, primarily due to lower margins (DeAngelo et al., 2018: 2).

➤ **Financial flexibility indicators:**

The research addressed four indicators of financial flexibility (Mansour et al., 2022: 110).

1. Financial leverage

It represents the ratio of total debt to total assets or the facility's total value and can be calculated using the following equation.

2. Actual cost of holding cash

The relationship between the actual cost of holding cash and the value of financial flexibility appears negatively as taxes determine it. If taxes are high, they will negatively affect the financial position of the institution and vice versa.

3. External financing costs

External financing costs affect the value of financial flexibility and vice versa, meaning that high external financing costs cause the value of financial flexibility to increase.

4. Asset conversion

Asset conversion negatively affects the value of financial flexibility. If the institution converts its assets into liquidity through sale, it reduces the value of financial flexibility and vice versa

$$\text{Financial Leverage} = \frac{\text{Total Debts}}{\text{Total Assets}}$$

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Quick Liquidity} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

The third section // The practical aspect of the research

1) Financial analysis:

The researcher used financial indicators in the financial analysis to know the position of the banks studied by measuring (asset quality using two indicators) the independent variable. As for the dependent variable, which is banking flexibility, the following indicators were used (financial leverage, turnover ratio, quick liquidity) as follows:

Table (2) Financial analysis of the first indicator of asset quality for the banks of "the research sample for the period (2015-2022)"

Years	Banks								Average
	Islamic Arabic	Asia Islamic Iraq	Elaph Islamic	Iraqi Islamic	International Islamic	Noor Iraq Islamic	Islamic holding	International Islamic Trust	
2015	0.0884	0.0582	0.0511	0.0529	0.0494	0.0338	0.0333	0.0261	0.049
2016	0.068	0.059	0.0532	0.0499	0.059	0.0447	0.043	0.0295	0.051
2017	0.0876	0.073	0.0719	0.0494	0.0642	0.0743	0.0559	0.0811	0.070
2018	0.0583	0.0399	0.0823	0.0644	0.0686	0.019	0.0565	0.0531	0.055
2019	0.036	0.0474	0.0543	0.0767	0.0773	0.0263	0.0544	0.0705	0.055
2020	0.0584	0.0347	0.0557	0.0644	0.037	0.0374	0.0349	0.0533	0.047
2021	0.0724	0.0855	0.0655	0.038	0.0306	0.0868	0.0706	0.0273	0.060
2022	0.045	0.0735	0.0916	0.0275	0.0403	0.093	0.0654	0.0378	0.059
M	0.064	0.059	0.066	0.053	0.053	0.052	0.052	0.047	—
SD	0.019	0.018	0.015	0.016	0.017	0.029	0.014	0.021	—
Overall average									0.056

Source "prepared by the researcher with the help of Eviews-12 program."

Table (2) shows that the general rate of cash assets reached (0.056), which means that the position of the banks in the study sample in terms of asset quality is weak. We find that the banks that recorded asset quality "rates higher than the general market rate reached". (3) banks out of (8) banks, while the rest achieved "rates lower than the general rate".. The time series shows that (4)

years achieved rates greater than the general rate, while the rest achieved "rates lower than the general rate"..

Table (3) Financial analysis of the second indicator, asset quality, for "the research sample for the period (2015-2022)"

Years	Banks								Average
	Islamic Arabic	Asia Islamic Iraq	Elaph Islamic	Iraqi Islamic	International Islamic	Noor Iraq Islamic	Islamic holding	International Islamic Trust	
2015	0.0784	0.038	0.0694	0.0567	0.0662	0.067	0.041	0.064	0.060
2016	0.0531	0.0365	0.0378	0.075	0.0741	0.0623	0.0227	0.0498	0.051
2017	0.0776	0.0635	0.0378	0.0357	0.0743	0.0185	0.0409	0.0655	0.052
2018	0.0776	0.0505	0.0268	0.0675	0.0153	0.069	0.0685	0.0751	0.056
2019	0.0369	0.0676	0.0383	0.0134	0.0714	0.0134	0.0645	0.0237	0.041
2020	0.0551	0.0706	0.0328	0.0362	0.0743	0.0349	0.0563	0.0349	0.049
2021	0.0293	0.0448	0.0125	0.0343	0.0283	0.0587	0.0331	0.0625	0.038
2022	0.0665	0.0665	0.0149	0.0593	0.0519	0.0239	0.0219	0.0392	0.043
M	0.059	0.055	0.034	0.047	0.057	0.043	0.044	0.052	—
SD	0.019	0.014	0.018	0.021	0.023	0.023	0.018	0.018	—
Overall average									0.049

Source "prepared by the researcher with the help of Eviews-12 program."

Table (3) shows that the general rate of debt solvency reached (049.0), which means that the position of the banks in the study sample in terms of asset quality is weak. We find that the banks that recorded asset quality "rates higher than the general market rate reached". (5) banks out of (8) banks, while the rest achieved "rates lower than the general rate".. The time series shows that (5) years achieved rates higher than the general rate, while the rest achieved "rates lower than the general rate"..

Table (4) Financial analysis of the financial leverage of the research "sample banks for the period (2016-2022)"

Years	Banks								Average
	Islamic Arabic	Asia Islamic Iraq	Elaph Islamic	Iraqi Islamic	International Islamic	Noor Iraq Islamic	Islamic holding	International Islamic Trust	
2015	27.050	23.800	30.500	33.560	31.440	23.250	30.770	25.060	28.179
2016	30.390	32.600	34.330	24.890	29.530	29.040	25.000	28.780	29.320
2017	26.980	33.090	22.680	32.790	26.740	33.560	25.960	28.380	28.773
2018	34.000	23.100	25.790	25.750	27.320	32.680	23.420	23.400	26.933
2019	30.120	29.300	34.240	33.090	32.720	26.040	30.140	29.030	30.585
2020	22.600	29.000	30.510	29.730	33.170	33.880	23.530	32.200	29.328
2021	25.140	27.730	31.720	25.880	27.560	25.040	24.160	22.770	26.250
2022	32.850	25.900	32.330	24.240	30.960	32.880	28.800	28.630	29.574
M	28.641	28.065	30.263	28.741	29.930	29.546	26.473	27.281	—
SD	3.886	3.701	4.077	3.995	2.518	4.282	3.002	3.227	—
Overall average									28.618

Source "prepared by the researcher with the help of Eviews-12 program."

Table (4) shows that the general average financial leverage reached (28.618), which means that the position of the study sample banks in terms of financial leverage is good. We find that the banks that recorded financial leverage "rates higher than the general market rate reached". (5) banks out of (8), while the rest achieved rates lower than the general average. The time series shows that (4) years achieved rates greater than the general average, while the rest achieved rates lower than the general average.

Table (5) Financial analysis of the turnover ratio of "the research sample banks for the period (2015-2022)"

Years	Banks								Average
	Islamic Arabic	Asia Islamic Iraq	Elaph Islamic	Iraqi Islamic	International Islamic	Noor Iraq Islamic	Islamic holding	International Islamic Trust	
2015	1.990	1.510	2.010	2.470	1.380	1.930	2.330	2.500	2.015
2016	1.910	2.210	1.540	2.520	2.500	2.200	1.790	2.430	2.138
2017	2.010	1.710	2.190	1.370	2.130	1.730	1.670	2.490	1.913
2018	2.550	2.250	1.980	2.500	1.380	1.660	1.670	2.120	2.014
2019	1.430	1.770	2.250	1.680	1.580	1.340	1.760	1.950	1.720
2020	1.750	2.140	2.390	2.200	2.620	1.720	1.920	2.500	2.155
2021	1.610	1.510	2.590	1.820	2.280	1.580	1.480	2.260	1.891
2022	1.890	1.540	1.390	1.820	2.180	2.350	1.700	1.340	1.776
M	1.893	1.830	2.043	2.048	2.006	1.814	1.790	2.199	—
SD	0.332	0.322	0.409	0.435	0.494	0.331	0.251	0.402	—
Overall average									1.953

Source "prepared by the researcher with the help of Eviews-12 program."

From Table (5), it appears that the general average of the turnover ratio reached (1.953), which means that the position of the banks in the study sample in terms of the turnover ratio is good. We find that the banks that recorded turnover ratio "rates higher than the general market rate reached". (4) banks out of (8) banks, while the rest achieved rates lower than the general average. About the time series, it appears that (4) years achieved rates greater than the general average, while the rest achieved rates lower than the general average.

Table (6) Financial analysis of quick liquidity of "banks in "the research sample for the period (2015-2022)"

Years	Banks								Average
	Islamic Arabic	Asia Islamic Iraq	Elaph Islamic	Iraqi Islamic	International Islamic	Noor Iraq Islamic	Islamic holding	International Islamic Trust	
2015	1.93	2.5	2.09	3.14	3.21	2.21	2.63	2.36	2.509
2016	3.11	1.84	2.09	2.33	2.26	2.43	2.32	1.96	2.293
2017	1.94	2.27	1.91	2.62	2.51	2.58	1.93	2.42	2.273
2018	3.17	2.39	1.86	2.58	2.02	1.97	2.25	2.75	2.374
2019	3.21	2.95	2.22	1.95	2.52	2	2.31	2	2.395
2020	3.05	2.12	3.06	2.7	3	3.21	2.51	2.73	2.798
2021	2.4	2.59	2.22	2.71	2.32	3.1	2.66	3.2	2.650
2022	2.71	2.13	2.29	2.44	2.61	2.9	3.13	2.65	2.608
M	2.690	2.349	2.218	2.559	2.556	2.550	2.468	2.509	—
SD	0.539	0.340	0.372	0.343	0.389	0.483	0.356	0.413	—
Overall average									2.487

Source "prepared by the researcher with the help of Eviews-12 program."

From Table (6), it appears that the general rate of quick liquidity reached (2.487), which means that the position of the banks in the study sample in terms of quick liquidity is good. We find that the banks that recorded quick liquidity "rates higher than the general market rate reached". (4) banks out of (8), while the rest achieved "rates lower than the general rate".. About the time series, it appears that (4) years achieved rates greater than the general rate, while the rest achieved "rates lower than the general rate".

Statistical analysis:

The multiple regression model was used to test the study hypotheses and verify the impact relationships between asset quality indicators and banking flexibility. The statistical program (Eviews-12-12) was also used for this purpose, and the analysis method was according to the cross-sectional data analysis (Panel Data).

➤ The first hypothesis:

The study assumes the existence of a statistically significant impact relationship between asset quality (the first and second indicators) and financial leverage, and according to the results of the program (Eviews-12-12), the results of the multiple regression analysis in Table (7) showed the acceptance of the first hypothesis.

Table (7) "Statistical analysis of the first hypothesis for the banks in the study sample for the period (2016-2022)"

Variables	Estimates	Std. Error	t-Statistic	Prob.
Constant	0.088	0.025	3.533	0.001
Asset Quality	0.154	0.161	0.954	0.345
Asset Quality	0.004	0.167	0.024	0.981
Fixed effect (for banks)		Fixed effect (for periods)		
Arabic Islamic	-0.105	2015	0.007	
Asia Islamic Iraq	-0.075	2016	-0.002	
Ilaf Islamic	-0.047	2017	-0.002	
Iraqi Islamic	-0.024	2018	-0.004	
International Islamic	-0.003	2019	-0.002	
Nour Islamic Iraq	0.034	2020	0.001	
Islamic holding	0.089	2021	0.003	
International Islamic Trust	0.130	2022	-0.002	
R-squared	0.971			
Adjusted R-squared	0.962			
F-statistic	99.680			
Prob(F-statistic)	0.000			
Dependent variable: financial leverage				

"Source: Based on the programs (Eviews-12-12), the researcher prepared the document".

➤ The second hypothesis:

The study assumes the existence of a statistically significant influence relationship between the quality of assets (according to the first and second indicators) and the turnover ratio. According to the program's results (Eviews-12-12), the results of the multiple regression analysis in Table (8) showed the acceptance of the second hypothesis.

Table (8) "Statistical analysis of the second hypothesis for the banks in the study sample for the period (2016-2022)"

Variables	Estimates	Std. Error	t-Statistic	Prob.
Constant	0.102	0.023	4.442	0.000
Asset Quality	0.094	0.149	0.634	0.529
Asset Quality	-0.054	0.154	-0.349	0.729
Fixed effect (for banks)		Fixed effect (for periods)		

Arabic Islamic	-0.098	2015	-0.001	
Asia Islamic Iraq	-0.065	2016	0.002	
Ilaf Islamic	-0.046	2017	-0.001	
Iraqi Islamic	-0.020	2018	-0.004	
International Islamic	-0.003	2019	0.006	
Nour Islamic Iraq	0.032	2020	-0.004	
Islamic holding	0.068	2021	0.001	
International Islamic Trust	0.131	2022	0.002	
R-squared	0.977			
Adjusted R-squared	0.969			
F-statistic	123.015			
Prob(F-statistic)	0.000			
Dependent variable: Turnover ratio				

"Source: Based on the programs (Eviews-12-12), the researcher prepared the document".

➤ **The third hypothesis:**

The study assumes the existence of a statistically significant influence relationship between the quality of assets (according to the first and second indicators) on the quick liquidity ratio, and according to the results of the program (Eviews-12-12), the results of the multiple regression analysis in Table (9) showed the acceptance of the third hypothesis.

Table (9) "Statistical analysis of the third hypothesis for the banks in the study sample for the period (2016-2022)"

Variables	Estimates	Std. Error	t-Statistic	Prob.
Fixed	0.069	0.020	3.392	0.001
Cash Assets	0.106	0.133	0.802	0.427
Debt Capacity	0.227	0.138	1.652	0.105
Fixed effect (for banks)		Fixed effect (for periods)		
Arabic Islamic	-0.119	2015	0.003	
Asia Islamic Iraq	-0.085	2016	-0.001	
Ilaf Islamic	-0.057	2017	-0.004	
Iraqi Islamic	-0.024	2018	0.005	
International Islamic	0.013	2019	-0.003	
Nour Islamic Iraq	0.046	2020	-0.003	
Islamic holding	0.092	2021	0.007	
International Islamic Trust	0.134	2022	-0.003	
R-squared	0.978			
Adjusted R-squared	0.971			
F-statistic	131.135			
Prob(F-statistic)	0.000			
Dependent variable: Quick liquidity				

"Source: Based on the programs (Eviews-12-12), the researcher prepared the document".

Section Four - Conclusions and Recommendations

➤ Conclusions

In light of the research results, the study reached:

1. The relationship between asset quality and financial flexibility is an inverse linear relationship, meaning that the higher the level of financial flexibility, the lower the risks of asset quality represented by the costs of bad debts.
2. Asset quality affects the level of financial leverage, meaning that Islamic banks that rely heavily on debt tend to be more risky.
3. The volume and level of cash liquidity are high in Islamic banks, which means they have the readiness and ability to invest and seize investment opportunities, reducing reliance on loans.
4. The financial leverage ratio is acceptable for Islamic banks, which is reflected in the low cost of debt compared to equity.
5. The level of cash retention and short-term investments is very high. In addition to being idle energy, the Islamic bank has a high level of readiness for investment.

➤ Recommendations

In light of the conclusions mentioned above reached by the research, the researcher recommended the following:

1. Islamic banks in Iraq should enhance their financial flexibility ratios, considering their role in avoiding reliance on loans and reducing the risk of bad loans.
2. Islamic banks in Iraq must invest much of their cash assets in profitable investment opportunities.
3. Islamic banks must use their freedom to choose capital sources by making well-considered decisions to enhance their financial flexibility.
4. Islamic banks need to avoid relying on some types of borrowing to avoid engaging in liquidity risks or default.
5. The researcher also recommends that Islamic banks operating in Iraq pay attention to the results and recommendations of the current research to enhance their financial flexibility and avoid the risk of engaging in bad loans.

Sources and References

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