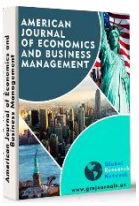

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The Impact of Financial Flexibility on Capital Structure Costs: An Analytical Study of Some Islamic Banks Listed on the Iraqi Stock Exchange

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Abstract:
The main objective of the study is to determine the impact of financial flexibility through its following indicators (cash assets, debt viability, and financial leverage) on capital structure costs (debt costs and equity costs) in Iraqi Islamic banks listed on the Iraqi Stock Exchange for the period (2016-2022). To achieve the objective of this study, the statistical methods model was relied upon as a multiple regression model, using the least squares method, as the study concluded that the relationship between financial flexibility indicators and capital structure costs is a negative linear relationship, meaning that the greater the financial flexibility, the lower the capital structure costs. The research also provided a set of recommendations that relevant parties can use.

Keywords: Financial flexibility, capital structure cost, Islamic banks.

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Introduction

The flexibility of management in adapting its future procedures in response to changing future market conditions expands the value of the investment opportunity by improving its capabilities while reducing downside losses compared to the initial expectations of management under negative management. Firms select financial policies to guarantee dependable and cost-effective access to capital, according to theories of capital structure that highlight financial flexibility. One important aspect of financial flexibility-based theories of capital structure is that companies should take on debt to fund short-term needs, with the goal of eventually paying it off so they can borrow again. Because of the lower margins on debt compared to equity, companies naturally choose to issue debt to satisfy their financing needs (DeAngelo et al., 2018:1). The capital structure literature has been slow to acknowledge financial flexibility as a possible critical component in explaining firms' capital structure decisions, despite managers' assertions that it is a crucial component in their decision-making process. I find the focus on financial flexibility intriguing, but it might be interpreted in different ways. As a result, some have argued that the consideration of financial flexibility is unrealistic and rests too heavily on assumptions about the company's capacity to deal with unanticipated circumstances. So, it should come as no surprise that the capital structure literature has

paid little attention to financial flexibility (Byoun, 2011:1). Consequently, the research on the effect of financial flexibility on costs of capital structure benefited from this study's scientific addition. The research was structured into four primary parts to accomplish this goal. Section one stated the problem, outlined the objectives, and discussed the research's scientific process, and basic hypothesis of the study. Then, the second section dealt with the theoretical framework of the research and defined the concepts of financial flexibility and capital structure costs and the most important indicators associated with them. The third section dealt with financial and statistical analysis and testing the study hypotheses, and finally, the fourth section dealt with the conclusions and recommendations.

1-Research Methodology

1-1- Research Problem

The markets of developing countries are generally characterized by limited development and low levels of liquidity, in addition to the presence of many obstacles that limit the ability of banks to access funding sources. Therefore, banks in such countries try to maintain a level of financial flexibility that enables them to attract profitable investment opportunities by keeping cash or financing with equity when the value of companies in the market is high, which reduces their need for financial liquidity in order to know the extent of the impact of financial flexibility on capital structure costs in Iraqi Islamic banks listed on the Iraq Stock Exchange. From this standpoint, the current study attempted to link financial flexibility with capital structure costs. Therefore, this relationship can be embodied through the following question: What is the extent of the impact of financial flexibility on capital structure costs in Islamic banks listed on the Iraq Stock Exchange? This is represented in the following questions:

1. What is the level of financial flexibility indicators in Islamic banks listed on the Iraq Stock Exchange?

2. What is the level of capital structure cost indicators in Islamic banks on the Iraq Stock Exchange?

3. What is the level of impact of financial flexibility indicators on debt costs?

4. What is the level of impact of financial flexibility indicators on equity costs?

5. What is the level of impact of financial flexibility indicators on capital structure costs?

1-2- The importance of the research

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

- **The theoretical aspect:**

On the theoretical aspect, the research addressed two variables that are of great importance in terms of financing, especially in the banking sector, as banks often suffer from liquidity risks and, therefore, are in constant need of funding. The research addressed financial flexibility and its indicators, which are the possession of cash assets, debt viability, and financial leverage, in addition to the costs of the capital structure, which addressed the costs of debt and the costs of equity.

- **The practical aspect:**

On the practical aspect, the importance of the research is evident in the results it reached related to the financing of Islamic banks and the study of financing decisions, whether at the level of debt financing or equity financing and knowing the extent of the impact of financial flexibility indicators on the costs of the capital structure, in addition to the recommendations reached by the research that are beneficial at the application level.

1-3- Research objectives

The current research aims to:

1. Know the extent of financial flexibility indicators in Islamic banks listed on the Iraq Stock Exchange.

2. Identify the levels of capital structure cost indicators in Islamic banks on the Iraq Stock Exchange.

3. Knowing the extent of the impact of financial flexibility indicators On the costs of debt?

4. Knowing the extent of the impact of financial flexibility indicators on the costs of equity.

5. Study and analyze the impact of financial flexibility indicators on the costs of capital structure.

1-4- Research hypotheses

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

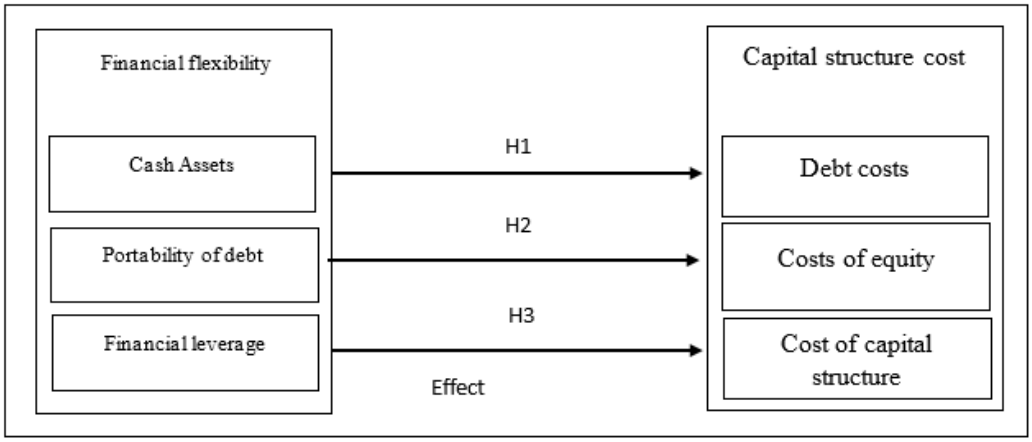
1. The first hypothesis: There is a statistically significant impact of financial flexibility (cash assets, debt viability, and financial leverage) on debt costs.

2. The second hypothesis: There is a statistically significant impact of financial flexibility (cash assets, debt viability, and financial leverage) on the costs of equity.

3. The third hypothesis: There is a statistically significant impact of financial flexibility (cash assets, debt viability, and financial leverage) on the cost of capital structure.

1-5- The hypothetical plan for the research

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



"Figure (1) Hypothetical scheme of the study"

"Source: Prepared by the researcher"

1-6- "Scope of the research"

"The current researcher focuses on Islamic banks, so the study community represents the Islamic banks listed in the Iraqi Stock Exchange. The study sample was a 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
Arab Islamic Bank	Iraq / Baghdad – Mansour
Asia Iraq Islamic Bank for Investment and Finance	Iraq / Baghdad – Yarmouk
Ilaf Islamic Bank	Iraq / Baghdad - Kahramana Square
Iraqi Islamic Bank	Iraq / Baghdad – Mansour
International Islamic Bank	Iraq / Baghdad – Karrada
Noor Iraq Islamic Bank	Iraq / Baghdad - Kahramana Square
Islamic Holding Bank	Iraq / Baghdad - Sheikh Omar Street
International Islamic Trust Bank	Iraq / Baghdad - Al-Wahda District

"The researcher prepared this source."

2- Theoretical Framework

2-1- The Concept of Financial Flexibility

Financial flexibility denotes a firm's capacity to obtain and reorganise its financing with minimal expense. Firms with financial flexibility can mitigate financial distress during adverse events and readily finance investments when profitable opportunities present themselves. A firm's financial flexibility is influenced by external financing costs, which may reflect characteristics such as size, as well as the firm's strategic decisions concerning capital structure, liquidity, and investment. Firms must optimally manage their financial flexibility in the face of different transaction costs and taxes, thus examining the value of financial flexibility under various circumstances (Gamba & Triantis, 2008:2263).

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

Financial flexibility is essential for managing uncertainties and fluctuations in both internal and external financial contexts (Byoun, 2011:6).

Most senior corporate managers globally regard financial flexibility as a critical factor influencing their capital structure decisions. Academic literature posits that motivations for attaining financial flexibility are linked to firms' capacity and future necessity to secure external funding and to restructure their financing at minimal cost. Companies possessing financial flexibility can more readily access external capital markets to address financing requirements stemming from unforeseen earnings deficits and emerging growth prospects, thereby circumventing scenarios that may result in suboptimal investments and diminished performance (Arslan et al., 2014:3).

2-2- Indicators for measuring financial flexibility:

The relationship between financial flexibility and firm value is positive. This result is influenced by the notion that elasticity quantifies the overall cost of external financing, allowing for a discussion of an additional impact of elasticity on banks. Less financially flexible firms have a stronger incentive to maintain liquid assets to enhance their protection against shocks from varying rates set by capital markets. Investing in liquid assets at a specific point in time conserves financial resources at that moment. Investing in

liquid assets mitigates the effects of future uncertainty by decreasing reliance on external financing. Liquid assets may incur significant costs due to tax implications or agency problems between managers and shareholders. This indicates that liquid assets, when considered independently, will exhibit a negative net present value. Firms will opt to maintain slack only if it mitigates uncertainty regarding future financing costs. The firm selects to invest in liquid assets to optimise expected profits at a specific time (Billett & Garfinkel, 2004:833). Financial flexibility indicators are categorised into liquidity and leverage indicators (Jabar and Sultan, 2024: 645-647).

A. Cash holdings

"In an optimal market, firms maintain a positive cash level without adverse consequences. Firms' cash holdings are significant because of various market frictions present in the real world. Existing literature indicates that firms maintain cash for various reasons, including transaction, precautionary, agency, tax, and predatory motives. The transaction motive posits that corporate cash reserves serve to mitigate transaction costs. When firms encounter inadequate internal financing, they can liquidate non-cash assets, issue new securities, and decrease dividends. Nonetheless, these methods result in transaction costs that firms are hesitant to bear. Firms with enhanced access to external funding, including larger firms and those with elevated credit ratings, typically maintain lower cash reserves due to reduced transaction costs. The cash holding ratio reflects this trend (Tran, 2020: 2-5)".

$$CH = \frac{CA + SI}{TA}$$

CH :Cash assets

CA :Cash

SI :Short-term investments

TA :Total assets

B. Debt Capacity

"Internal flexibility is characterised by two primary components: (1) liquid assets and cash holdings, and (2) lines of credit and debt capacity. Inflexibility arises from issuance costs, distress costs, and financing constraints, primarily due to internal factors such as debt capacity and cash holdings of tangible assets. These costs hinder firms' ability to obtain external funding when internal resources are inadequate during challenging periods or unexpected growth opportunities. Consequently, firms aim to preserve flexibility to mitigate high costs. Flexibility is hindered by the retention of substantial internal funds due to tax disincentives and agency costs associated with cash holdings. Both cash capacity and debt repayment capacity offer internal flexibility to firms; however, their significance varies based on the firms' current financial positions. The equation for debt capacity is presented as follows (Chua, 2012: 25-26)".

$$DC = \frac{ET}{TA}$$

DC :Portability of debt

ET: Tangible assets valuation

TA :Total assets

C. Financial Leverage

"Total debt is the sum of long-term and short-term debt, while financial leverage is calculated by dividing total debt by total assets. The financial leverage ratio is denoted as the difference between the ending and commencing leverage for a fiscal year, and the

change in financial leverage is quantified as: Dimitrov and Jain (2006)".

$$LEV = \frac{TD}{TA}$$

LEV: Financial leverage

TD :Total debt

TA :Total assets

2-3- The concept of capital structure costs:

The cost of capital for a firm is considered in a world where money is used to acquire assets whose returns are uncertain. What kind of capital can be obtained, ranging from pure debt instruments, which represent fixed claims, to pure stock issues, which give their holders only a proportional share in the uncertain project? It has become of interest to at least three classes of economists (Modigliani & Miller,1958:262)

(1) The corporate finance specialist is interested in the methods used to finance companies in order to guarantee their survival and expansion.

(2) Capital budgeting is the primary concern of the managerial economist.

(3) The economic theorist is interested in elucidating investment behaviour at both the micro and macro levels.

Fundamental to a variety of corporate decisions is the cost of capital. From setting the hurdle rate for investment projects to influencing the composition of a firm's capital structure, the cost of capital affects a firm's operations and subsequent profitability. It is unsurprising that a diverse array of policy prescriptions have been suggested to assist firms in reducing this cost, given its significance. For instance, Arthur Levitt, the former chairman of the Securities and Exchange Commission, posits that "high-quality accounting standards improve liquidity and reduce the cost of capital" (Easley & O'hara, 2004:2).

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2-4- Capital Structure Cost Indicators

"The cost of capital is the rate at which investors discount a company's prospective cash flows. The present value of a company's prospective cash flows decreases as the cost of capital increases. Consequently, companies with a lower cost of capital will be more valuable than those with a higher cost of capital, and, as a result, more appealing to investors, provided that all other factors remain constant. A firm's cost of capital is determined by investors' evaluation of the riskiness of its cash flows in comparison to other investment opportunities. Debt or equity capital are the primary sources of financing for businesses. Debt capital may originate from either private sources (such as banks) or public sources (debt markets). The interest rate implemented is the cost of debt in either scenario. (Investors trade debt securities in public debt markets in the same manner as they trade equities on a stock exchange.) The cost of equity is the return that investors anticipate in a company's stock, as evidenced by the stock price they are willing to pay in exchange for the anticipated future cash flows. The weighted average cost of capital (WACC) is the term used to describe the weighted average cost of debt and equity capital, which is the cost of capital that the majority of firms incur when they finance themselves with both debt and equity. The firm's after-tax weighted average cost of capital can be expressed as follows in the general case of a firm that has both equity and debt financing: (Sharfman & Fernando, 2008:572)".

$$WACC = (E/D + E) + (D/D + E) * (1 - T)$$

WACC :Weighted Cost of Capital

E :Equity capital

D :Debts

T :Tax

1) Cost of equity:

Practitioners routinely use the Capital Asset Pricing Model (CAPM) to obtain the cost of equity. To obtain the results, we need several pieces of information: (Frank & Shen,2016:18)

$$CAPM = RF + [\beta * rm]$$

CAPM :cost of equity

RF :risk-free return

β :Beta

Rm :Market risk premium

The Gordon growth model can also be implemented to measure the cost of equity as in the following equation: (Frank & Shen, 2016:18)

$$p0 = \frac{Dj}{(k - g)}$$

P0 :True value of the stock

DJ: Dividend distributions

K :Required rate of return on investment

G :Dividend Growth Rate

2) Cost of debt:

The cost of debt is frequently quantified using the interest rate, which serves as a proxy for default risk. The expected cost of debt is primarily measured by the one-year interest rate, which is determined by dividing a firm's annual interest expense by the average interest-bearing debt outstanding over the years. Agency costs for debt holders as a whole are likely to be included in this measure, which reflects the average cost of financing for both public and private debt. Nevertheless, the interest rate is also influenced by other characteristics of debt contracts, including maturity, covenant stringency, and seniority. In order to mitigate this issue, I employ credit ratings of new bond issues as a proxy measure of the cost of debt in robustness analyses, as this information is not accessible to global companies. Credit ratings are closely associated with the ultimate yield of interest and principal obligations, but they are unlikely to be associated with other debt features (Li, 2015:12). The subsequent equation can be employed to determine the cost of debt: (Aswad & Mahmood, 2023:16)

$$CODE = (IE/LV) * (1 - T)$$

CODE :cost of debt

IE :Represents interest expense

LV :Debt value

T: Tax rate

3- The practical aspect of the research

1) Financial analysis:

The financial analysis dealt with the indicators of the current study to know the position of the banks studied in terms of (possession of cash assets, debt capacity, and level of financial leverage) in relation to the independent variable. As for the dependent variable, which is the cost of capital structure, it dealt with the following indicators (debt costs, cost of equity in addition to capital structure costs) as follows:

Table (2) "Financial analysis of cash assets of the research sample banks for the period (2016-2022)"

Years	Banks								Average
	Arab Islamic	Asia Iraq Islamic	Ilaf Islamic	Iraqi Islamic	International Islamic	Noor Iraq Islamic	Islamic Holding	International Islamic Trust	
2016	0.958	0.988	0.301	0.427	0.497	0.881	0.342	0.185	0.572
2017	0.501	0.75	0.245	0.444	0.346	0.773	0.634	0.772	0.558
2018	0.447	0.235	0.272	0.421	0.37	0.717	0.516	0.474	0.432
2019	0.601	0.596	0.299	0.455	0.336	0.571	0.335	0.6	0.474
2020	0.419	0.495	0.167	0.26	0.202	0.338	0.334	0.538	0.344
2021	0.651	0.473	0.271	0.491	0.233	0.357	0.383	0.673	0.442
2022	0.652	0.336	0.213	0.382	0.244	0.195	0.181	0.658	0.358
M	0.604	0.553	0.253	0.411	0.318	0.547	0.389	0.557	——
SD	0.182	0.254	0.049	0.075	0.102	0.257	0.146	0.190	——
Overall average									0.454

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Table (2) shows that the general rate of cash assets reached (0.454), "which means that the position of the banks" in the study sample in terms of cash assets is good. We find that the banks that recorded rates of cash assets higher than the general market rate reached (4) banks out of (8) banks, while the rest of the banks achieved rates "less than the average rate". With regard to the time series, it shows (3) years that achieved "rates that exceed the general rate", while the rest of the years achieved rates "less than the average rate".

Table (3) "Financial analysis of the debt viability of the research sample banks for the period (2016-2022)"

Years	Banks								Average
	Arab Islamic	Asia Iraq Islamic	Ilaf Islamic	Iraqi Islamic	International Islamic	Noor Iraq Islamic	Islamic Holding	International Islamic Trust	
2016	0.954	0.779	0.919	0.934	0.708	0.904	0.911	0.899	0.876
2017	0.957	0.9	0.944	0.92	0.903	0.962	0.963	0.956	0.938
2018	0.965	0.954	0.914	0.92	0.89	0.966	0.962	0.956	0.941
2019	0.972	0.867	0.901	0.899	0.901	0.96	0.961	0.967	0.929
2020	0.97	0.906	0.904	0.85	0.913	0.959	0.96	0.957	0.927
2021	0.962	0.96	0.755	0.989	0.956	0.963	0.965	0.97	0.940
2022	0.958	0.95	0.758	0.992	0.964	0.971	0.977	0.973	0.943
M	0.963	0.902	0.871	0.929	0.891	0.955	0.957	0.954	——
SD	0.007	0.064	0.079	0.050	0.085	0.023	0.021	0.025	——
Overall average									0.928

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Table (3) shows that the general rate of debt adequacy reached (0.928), "which means that the position of the banks" in the study sample in terms of debt adequacy is very good. We find that the banks that recorded debt adequacy rates higher than the general market rate reached (5) banks out of (8) banks, while the rest of the banks achieved rates "less than the

average rate". As for the time series, it shows that (5) years achieved rates higher than the general rate, while the rest of the years achieved rates "less than the average rate".

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

Years	Banks								Average
	Arab Islamic	Asia Iraq Islamic	Ilaf Islamic	Iraqi Islamic	International Islamic	Noor Iraq Islamic	Islamic Holding	International Islamic Trust	
2016	0.27	0.251	0.357	0.416	0.134	0.512	0.114	0.582	0.330
2017	0.779	0.104	0.304	0.43	0.211	0.105	0.101	0.028	0.258
2018	0.272	0.107	0.381	0.48	0.397	0.169	0.068	0.064	0.242
2019	0.356	0.26	0.257	0.649	0.471	0.09	0.059	0.279	0.303
2020	0.264	0.218	0.878	0.641	0.542	0.032	0.019	0.192	0.348
2021	0.081	0.262	0.34	0.703	0.512	0.121	0.178	0.425	0.328
2022	0.069	0.227	0.3	0.782	0.561	0.311	0.447	0.464	0.395
M	0.299	0.204	0.402	0.586	0.404	0.191	0.141	0.291	——
SD	0.237	0.069	0.214	0.144	0.168	0.166	0.144	0.209	——
Overall average									0.315

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Table (4) shows that the general rate of cash assets reached (0.315), "which means that the position of the banks" in the study sample in terms of financial leverage is good. We find that the banks that recorded financial leverage rates higher than the general market rate reached (3) banks out of (8) banks, while the rest of the banks achieved rates "less than the average rate". As for the time series, it shows (4) years that achieved "rates that exceed the general rate", while the rest of the years achieved rates "less than the average rate".

Table (5) "Financial analysis of the cost of debt for banks in the research sample for the period (2016-2022)"

Years	Banks								Average
	Arab Islamic	Asia Iraq Islamic	Ilaf Islamic	Iraqi Islamic	International Islamic	Noor Iraq Islamic	Islamic Holding	International Islamic Trust	
2016	0.059	0.15	0.029	0.02	0.139	0.042	0.123	0.081	0.080
2017	0.016	0.162	0.012	0.011	0.034	0.119	0.037	0.238	0.079
2018	0.063	0.064	0.067	0.045	0.022	0.062	0.253	0.381	0.120
2019	0.065	0.036	0.013	0.001	0.016	0.348	0.084	0.039	0.075
2020	0.051	0.011	0.015	0.016	0.017	0.299	0.293	0.048	0.094
2021	0.019	0.012	0.029	0.004	0.011	0.115	0.016	0.024	0.029
2022	0.082	0.016	0.001	0.005	0.015	0.027	0.01	0.029	0.023
M	0.051	0.064	0.024	0.015	0.036	0.145	0.117	0.120	——
SD	0.025	0.065	0.021	0.015	0.046	0.128	0.114	0.137	——
Overall average									**0.071**

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Table (5) shows that the general average of the cost of debt reached (0.071), "which means that the position of the banks" in the study sample in terms of the cost of debt is good. We find that the banks that recorded rates of the cost of debt higher than the general market rate reached (5) banks out of (8) banks, while the rest of the banks achieved rates "less than the average rate". As for the time series, it shows (2) years that achieved rates higher than the general rate, while the rest of the years achieved rates "less than the average rate".

Table (6)" Financial analysis of the cost of equity for banks in the research sample for the period (2016-2022)"

Years	Banks								Average
	Arab Islamic	Asia Iraq Islamic	Ilaf Islamic	Iraqi Islamic	International Islamic	Noor Iraq Islamic	Islamic Holding	International Islamic Trust	
2016	0.057	0.009	0.325	0.723	0.189	0.109	0.154	0.134	0.213
2017	0.129	0.002	0.609	0.129	0.028	0.188	0.089	0.142	0.165
2018	0.014	0.032	0.243	0.277	0.059	0.171	0.19	0.621	0.201
2019	0.007	0.004	0.405	0.049	0.007	0.071	0.193	0.149	0.111
2020	0.007	0.022	0.158	0.121	0.012	0.044	0.171	0.363	0.112
2021	0.135	0.033	0.042	0.133	0.026	0.044	0.171	0.104	0.086
2022	0.22	0.035	0.167	0.173	0.031	0.081	0.254	0.092	0.132
M	0.081	0.020	0.278	0.229	0.050	0.101	0.175	0.229	——
SD	0.082	0.014	0.188	0.228	0.063	0.058	0.049	0.195	——
Overall average									**0.145**

"This report was compiled by the researcher using data collected from the Eviews program."

Table (6) shows that the general average cost of equity reached (0.145), "which means that the position of the banks" in the study sample in terms of cost of equity is good. We find that the banks that recorded rates of cost of equity higher than the general market rate reached (4) banks out of (8) banks, while the rest of the banks achieved rates "less than the average rate". As for the time series, it shows (3) years that achieved rates higher than the general rate, while the rest of the years achieved rates "less than the average rate".

Table (7) "Financial analysis of the cost of capital structure for banks in the research sample for the period (2016-2022)"

Years	Banks								Average
	Arab Islamic	Asia Iraq Islamic	Ilaf Islamic	Iraqi Islamic	International Islamic	Noor Iraq Islamic	Islamic Holding	International Islamic Trust	
2016	0.116	0.159	0.354	0.743	0.328	0.151	0.277	0.215	0.293
2017	0.145	0.164	0.621	0.14	0.062	0.307	0.126	0.38	0.243
2018	0.077	0.096	0.31	0.322	0.081	0.233	0.443	1.002	0.321
2019	0.072	0.04	0.418	0.05	0.023	0.419	0.277	0.188	0.186
2020	0.058	0.033	0.173	0.137	0.029	0.343	0.464	0.411	0.206
2021	0.154	0.045	0.071	0.137	0.037	0.159	0.187	0.128	0.115
2022	0.302	0.051	0.168	0.178	0.046	0.108	0.264	0.121	0.155
M	0.132	0.084	0.302	0.244	0.087	0.246	0.291	0.349	——
SD	0.084	0.057	0.185	0.235	0.108	0.115	0.124	0.310	——
Overall average									**0.217**

"This report was compiled by the researcher using data collected from the Eviews program."

Table (7) shows that the general average capital structure cost reached (0.217), "which means that the position of the banks" in the study sample in terms of capital structure cost is good. We find that the banks that recorded capital structure cost rates higher than the general market rate reached (5) banks out of (8) banks, while the rest of the banks achieved rates "less than the average rate". As for the time series, it shows (3) years that achieved rates higher than the general rate, while the rest of the years achieved rates "less than the average rate".

1) Statistical analysis:

The multiple regression model was used to test the hypotheses of the current research to verify the impact relationships between financial flexibility indicators and capital structure costs. The statistical program (Eviews-12) was also used for this purpose, and the analysis method was based on cross-sectional data analysis (Panel Data).

A. The first hypothesis:

The study assumes the existence of a statistically significant impact relationship of financial flexibility (cash assets, debt viability, and financial leverage) on the cost of debt, and according to the results of the program (Eviews-12), the results of the multiple regression analysis in Table (8) showed the acceptance of the first hypothesis.

Table (8) "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.
The constant	0.459148	0.04457	10.30181	0.000
Cash assets	-0.239232	0.343504	0.696447	0.4903
Debt portability	-0.069897	0.198601	-0.351946	0.7268
Financial leverage	-0.054665	0.174525	-0.313223	0.7558
Fixed effect (for banks)		Fixed effect (for periods)		
Arabic Islamic	0.14576	2016	0.124862	
Asia Islamic Iraq	0.084684	2017	0.104956	
Ilaf Islamic	-0.177519	2018	-0.024705	
Iraqi Islamic	-0.020601	2019	0.014868	
International Islamic	-0.141296	2020	-0.118344	
Nour Islamic Iraq	0.07668	2021	-0.012242	
Islamic Holding	-0.072116	2022	-0.089395	
International Islamic Trust	0.104407			
R-squared	0.537526			
Adjusted R-squared	0.347793			
F-statistic	2.833063			
Prob(F-statistic)	0.004035			
Dependent variable: cost of debt				

"The researcher prepared this source."In accordance with the courses (Eviews-12)

B.The second hypothesis:

The study assumes the existence of a statistically significant influence relationship of financial flexibility (cash assets, debt capacity, and leverage) on the cost of equity, and according to the results of the program (Eviews-12), the results of the multiple regression analysis in Table (9) showed the acceptance of the second hypothesis.

Table (9) "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.
The constant	0.953217	0.012989	73.38647	0.00
Cash assets	-0.00884	0.100108	-0.08828	0.9301
Debt portability	-0.13053	0.057879	-2.25525	0.0298
Financial leverage	-0.02729	0.050862	-0.53655	0.5946
The constant		The constant		
Arabic Islamic	-0.06784	2016	-0.04078	
Asia Islamic Iraq	0.014771	2017	0.01371	
Ilaf Islamic	-0.01263	2018	0.023682	
Iraqi Islamic	0.019134	2019	-0.00454	
International Islamic	-0.05326	2020	-0.00474	
Nour Islamic Iraq	0.024209	2021	0.001395	
Islamic Holding	0.034306	2022	0.011267	
International Islamic Trust	0.041305			
R-squared	0.539746			
Adjusted R-squared	0.350924			
F-statistic	2.858494			
Prob(F-statistic)	0.003769			
Dependent variable: Cost of equity				

"The researcher prepared this source." In accordance with the courses (Eviews-12)

C. The third hypothesis:

The study assumes the existence of a statistically significant influence relationship of financial flexibility (cash assets, debt capacity, and financial leverage) on the cost of capital structure, and according to the results of the program (Eviews-12), the results of the multiple regression analysis in Table (10) showed the acceptance of the third hypothesis.

Table (10) "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.
The constant	0.44984	0.042063	10.69447	0
Cash assets	-0.82174	0.324183	-2.53478	0.0154
Debt portability	-0.11884	0.187431	-0.63407	0.5297
Financial leverage	-0.27285	0.164709	-1.65653	0.1056
The constant		The constant		
Arabic Islamic	-0.06378	2016	0.050871	
Asia Islamic Iraq	0.030777	2017	-0.0416	
Ilaf Islamic	-0.12404	2018	0.00203	
Iraqi Islamic	0.255129	2019	-0.02152	
International Islamic	0.013574	2020	0.044994	
Nour Islamic Iraq	-0.04816	2021	-0.05694	
Islamic Holding	-0.1254	2022	0.022153	
International Islamic Trust	0.06189			
R-squared	0.631448			
Adjusted R-squared	0.480247			
F-statistic	4.176212			
Prob(F-statistic)	0.000133			
المتغير التابع : تكلفة هيكل رأس المال				

"The researcher prepared this source." In accordance with the courses (Eviews-12)

4- Conclusions and Recommendations

4-1- Conclusions

In light of the research results, the study reached the following:

1. The relationship between financial flexibility and capital structure costs is an inverse linear relationship, meaning that the higher the level of financial flexibility, the lower the capital structure costs represented by debt costs and equity costs.

2. Equity costs are greater than debt costs in Islamic banks, and therefore, banks tend to finance through debt.

3. The volume and level of cash liquidity are high in Islamic banks, which means that they have the readiness and ability to invest and seize investment opportunities.

4. The financial leverage ratio is acceptable in Islamic banks, and this is reflected in the low cost of debt costs compared to equity.

5. The level of cash retention and short-term investments is very high, as it is not only idle energy, but it also means that the Islamic bank has a high level of readiness for investment.

4-2- Recommendations

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

1. Islamic banks in Iraq should move towards enhancing their financial flexibility ratios, considering their role in reducing the costs of the capital structure due to the liquidity they provide.

2. The need for Islamic banks in Iraq to invest a large volume of their cash assets in

profitable investment opportunities.

3. The need for Islamic banks to use their freedom to choose capital sources by making well-considered decisions to reach a less expensive capital structure.

4. Avoid excessive reliance on borrowing by Islamic banks to avoid engaging in liquidity risks or default.

5. The researcher also recommends that the banks in the study sample pay attention to the results and recommendations of the current research in order to enhance their level of financial flexibility and reduce their financing costs.

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