



## The Importance of Liquidity and Profitability in Enhancing the Banking Value in Private Banks for the Period 2016 - 2019

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### Abstract:

The article aims to study the liquidity that is required to be provided optimally and the profitability that is required to be achieved by the bank, and the impact of both of them on the value of the bank, and their effect of both liquidity and profitability on the value of the bank. Hence, the research problem emerged, which indicates the extent of the effect of liquidity and profitability on the value of the bank. The importance of the research stems from the main role that commercial banks play in the economy of a country. This requires the need to identify liquidity in a broad way and its most important components, and how to measure it. For the purpose of avoiding liquidity risks, liquidity should be managed by urging the bank to adopt good liquidity management and to achieve the profits that the bank wants to achieve by employing the liquidity available to it. It represents an important factor for increasing profits and increasing the confidence of shareholders and depositors; thus, maximizing the wealth of shareholders and the bank's wealth and, hence, raising the bank value. Consequently, this article is based on a main hypothesis that "there is no effect of profitable and liquidity on the bank value". This in turn is divided into two sub-hypotheses as follows:

H1. There is no effect of quick liquidity on the bank value.

H2. There is no effect of the return on deposits on the bank value

In order to achieve the objectives and hypotheses of the study, the mathematical indicators were studied and analyzed to find the relationship between the variables and the effect according to statistical methods, where the research used the a simple regression statistical method, Is used by using the Statistical Package for Social Sciences (SPSS), and the quantitative measures, which included such indicators as the quick liquidity indicators to measure

liquidity, the return on deposits to measure profitability, and Tobin's Q bank value measurement. The research sample consisted of four private banks (Middle East Bank, Gulf Bank, Al-Ahli Bank and Bank of Baghdad) for the period from 2016 to 2019. The most important conclusions reached by the research were the lack of effect of both the liquidity and profitability on the value of the bank. The research gave a number of recommendations, the most important of which is to urge banks to reduce the excess liquidity ratios and exploit them in different investment fields, as well as to go towards resources that achieve higher profitability rates than others that are characterized by their low cost. The research also recommended not to keep excess liquidity ratios at a high rate because of their effect on the profitability that the bank seeks to achieve.

**Keywords:** Liquidity, Profitability, Bank Value, Quick Liquidity, Return on Deposits, Tobin's Q Measure

### **1. Introduction:**

The banking sector is an important basic pillar in building the economic sector and the business sector, given that commercial banks represent a main link for the task of developing these sectors, through a mediation between different parties accepting deposits and providing financing as well as providing other services. As a result, all commercial banks seek to manage their available liquidity well in order to cover the requirements of deposit withdrawals, fulfill obligations, and exploit investment opportunities and projects available to them that can generate a return and achieve profits, given that profitability is the main objective of banks. Commercial banks aim to achieve more profits and work to reduce the percentage of liquidity risks that they may be exposed to by providing the necessary liquidity for banking activities. Profitability represents one of the important indicators in evaluating institutional work and financial performance, and it represents more credibility on the institution's ability to succeed in implementing the projects that reflect the effectiveness of operational and investment policies. It also means an increase in the bank value as a result of the increase in the wealth of shareholders, where the bank value plays a very important role for it, because if its value is high, it will lead to the welfare of shareholders.

The idea of this research came from the need to manage liquidity in a way that preserves the banking institution from exposure to liquidity and bankruptcy risks and the pursuit of profits as the issue of liquidity and profitability is one of the important topics for many specialists and researchers because of its impact on the continuation of banking businesses. This research deals with the basic concepts of liquidity and the most important indicators by which the liquidity ratios is measured because they can affect the value of the bank.

The research addresses the basic concepts of profitability and the most important indicators through which the profitability of the bank can be measured, with a discussion of the concept of the bank value as a dependent variable and how it can be measured. This research focuses on quick liquidity as a measure of banking liquidity as it represents the necessary and effective ratio in the bank. It also focuses on the indicator of return on deposits as a measure of the bank's profitability, which shows the extent to which banks are able to achieve

profits from the most important resources available to them, as well as a revealing the impact of liquidity and profitability on the bank value using the data in the annual reports and financial statements of the banks included in the sample for the period from 2016 to 2019.

Liquidity and profitability are among the most important topics that banks are concerned with in order to avoid liquidity risks and achieve profits that they mainly seek, because these may affect the value of the bank directly.

The research population consists of commercial banks registered in the Iraq Stock Exchange, while the selected sample contained 4 banks. These banks are Middle East for Investment bank, Gulf Commercial Bank, Al-Ahly Commercial bank, and Baghdad Commercial Bank. The selected sample formed (%17) of the population. These banks were selected in the sample because they were among the most active banks in the banking arena and classified as ones of the best banks in compliance with international standards.

The article has been divided: Section 1 provides the article's Methodology, Section 2 provides Theoretical framework the most important elements of this study, which represents liquidity and profitability as independent variables and the value of the banking institution as a dependent variable, are formulated in Section 3. Data and The practical part of research, and the results are discussed with Recommendations in Section 4.

## **2. Theoretical framework**

This framework addresses the theoretical foundations and intellectual concepts of liquidity and profitability and their impact on the value of the bank.

### **2.1: Liquidity**

Bank liquidity and its effective management are critical to ensuring the survival and prosperity of institutions, including banks. They are also important in financial thought. In addition, they are ones of the main objectives that commercial banks seek to achieve and maintain.

#### **2.1.1- The concept of liquidity**

Liquidity refers to the level of cash and semi-cash assets held as well as the cash inflows and outflows from these assets (Botoe, 2012: 8). A bank is considered to have a high degree of liquidity as long as the funds outflows are less than or equal to the inflows and stock of funds and vice versa (Mošnová, 2014: 5). Banks work to maintain sufficient liquidity in order to efficiently perform their daily obligations such as meeting depositors' requests or withdrawals, settling obligations and providing funds when borrowers withdraw credit facilities.

Banks automatically convert short-term liquid liabilities into long-term illiquid assets. However, banks expose themselves to such risks that may be transferred to other banks. Therefore, liquidity is of paramount importance as it is a primary responsibility of banks (Sekoni & Abiola, 2105: 2-3).

#### **2.1.2- Definition of Liquidity**

Many writers and researchers have mentioned liquidity from different points of view, and among these definitions, the definition of liquidity will be given in line with this study.

Liquidity is defined as the ready cash, i.e. the net cash flow, and it is the bank's liquidity. In other words, it is the money owned by the bank, which is cash and quasi-cash available at the right time (Al-Mutairi and Al-Asadi, 2016: 104).

Or it means the possibility of converting the asset into cash with the least possible loss (Muktiyanto, 2015: 22).

Bank liquidity is also defined as the ability of the bank to finance the increase in assets and meet the obligations when they are due, without incurring unacceptable losses (El Khoury, 2015: 58).

Liquidity can be a measure of a bank's ability to provide cash and ease of converting assets into cash so that the bank can meet its obligations in time without unacceptable losses (Leykun, 2016: 47-50). Furthermore, liquidity is defined as current assets that should be managed efficiently to protect the bank from the risks of illiquidity, (Engida,2015:13) and (Girma,2018:20).

According to the researchers' opinion, liquidity can be defined as the ability of banks to provide the money they need at the right time for the purpose of fulfilling obligations and doing banking business.

This depends on the extent to which it is able to provide that money, whether through borrowing or through the ease of trading the securities it owns, namely how easy it is to obtain financing by offering the security. This means that liquid banks have funds when they specifically need it to meet the withdrawal needs of their customers.

#### 2.1.3- Liquidity Components

The components of bank liquidity can be classified according to the speed of their availability and according to their legal obligation into the following:

##### 2.1.3.1- Primary reserves

They are cash reserves owned by the bank and are divided into the following:

###### a. Cash in hand

It includes cash in local and foreign currency in addition to gold coins. Banks maintain this to meet customers' requests for withdrawals, in addition to covering other banking operations.

Often this type of liquidity is relatively low because banks do not want to keep excess funds without employing them to generate income, as well as the fact that its presence represents a risk due to the possibility of being exposed to theft (Zahir and Al-Khanisa, 2015: 339).

###### b. Bank deposits with the Central Bank

The laws relating to banking business require banks to keep a percentage of their monetary assets with the Central Bank, which is known as the mandatory or legal cash reserve (Tabi, 2017: 8).

###### c. Deposits with other banks

This type of deposits is considered part of the cash liquidity that the bank maintains with other local banks for the purpose of clearing checks, bank settlements, and transferring debts.

The size of this type of liquidity increases due to the inability of the bank to operate it or employ it with investment opportunities (Islam, 2017: 7)

###### d. Checks under collection

They are represented by the checks drawn on other banks and their values have not been received (Ahmed, 2013: 304). These primary reserves and parts of cash flow are divided into two types according to their legal obligation to the following:

### 2.1.3.2- Legal Reserves

These include cash and cash equivalents held by the bank in accordance with the laws issued by the Central Bank. Cash is one of these reserves and includes cash in the fund, cash with banks, and deposits with the Central Bank. As for the quasi-cash amounts, they constitute secondary reserves that represent short-term investments such as treasury transfers and government bonds. (Sonia, 2015: 9)

#### 2.1.3.3.1- General Reserves

These include money and quasi-money that the bank keeps not in implementation of the laws and regulations issued by the monetary authority, but rather keeps it based on its banking policy or desire to do so (Kazim, 2014: 61).

#### 2.1.3.3.2 Secondary reserves

These are the assets that generate a return for the bank and include discounted financial and commercial securities that can be converted into cash due to their convertibility to high liquidity.

These assets have several benefits, for example, to absorb the surplus of primary reserves as well as achieving profits (Khaled, et al, 2018: 17).

### 2.1.4- Importance of liquidity

There are many studies that mentioned the importance of bank liquidity, and among those studies are (Macharia, 2013: 6) (Al-Aqad, 2014: 70) (Kadhim, 2014: 58) and (Ashour, 2014: 28), which summarized the importance of liquidity as follows:

- a. It is one of the strategic banking objectives that seeks to achieve profit, continuity and growth for the bank.
- b. It helps the bank to gain trust among its customers and thus creates a good reputation.
- c. It works to provide the required financing, whether for borrowers or depositors, and thus lowering the cost of financing.
- d. It enables the bank to take advantage of all available investment opportunities and achieve profits and not lose them.
- e. Facing emergency situations and crises that require the presence of liquidity.
- f. Avoiding forced sale of assets.
- g. It enables the bank to avoid resorting to borrow from the Central Bank.

### 2.1.5- Dimensions of Liquidity

The liquidity of an asset depends on its dimensions so that an asset may not necessarily be liquid according to one dimension even if it is liquid according to another dimension. An asset that is traded frequently can be called a liquid asset but that asset may be traded in small quantities and thus has non-liquid properties. Therefore, liquidity measures of different dimensions are highly interrelated (Díaz &, Escribano 2020: 3). The most important of these dimensions can be summarized as follows:

#### A. Cost

Cost is the price to be paid in order to carry out the transaction, for example, the purchase of an asset. The trading cost of assets is found by determining the commissions and taxes, and the commissions and taxes expressly reflect the cost of trading. The difference between supply and demand represents the costs involved in entering the market in the simultaneous buying and selling of assets, that is, the difference between the price at which the buyer wants to buy

a security and the price that the seller wants to sell that security (Saman, 2016:10).

### **B. Market depth**

Depth measures the amount of assets that can be traded at the specified supply and demand prices. Market depth basically shows the level of supply and demand of the financial assets traded in the financial market. As a basic measure, this dimension is indicated by the number of assets readily available for spot trading at a particular buying or selling price. (Díaz & Escribano, 2020: 3).

### **C. Time**

This dimension refers to the speed at which a transaction of a given volume is executed at a given time. Trading volume and activity during a specified period can be used to measure this dimension. From this perspective, increased trading volume, value and frequency reflect better liquidity in the market (Trang, 2013: 6).

#### **2.1.6 -Liquidity Measurement**

Researches and scientific studies mentioned many indicators by which bank liquidity can be measured. In the current study, the focus is on the quick liquidity indicator that fits the requirements of this research.

#### **Quick ratio**

It is the best ratio to measure the ability of banks to respond quickly to their short-term requirements and the speed of converting assets into cash. It also shows the ability of liquid assets to cover current liabilities.

The optimum limit for it is (1:1), and the higher it is, the more it becomes a comfortable ratio for the bank, which enables it to pay deposits in a timely manner. It is calculated according to (Alrgaibat, 2016: 94) using the following equation:

$$QLR = \frac{LA}{CL}$$

Where:

LA= Liquid Assets (Cash + Short-Term Investments + Accounts Receivables)

CL= Current Liabilities (Customers' Deposits with Banks + Deposits of Financial Institutions)

### **2.2- Profitability**

#### **2.2.1- Concept of profitability**

Profitability is essential to the survival and continuity of a commercial bank, and it is a source of confidence for all current and prospective dealers and shareholders. It is the main goal that the bank's management seeks because it is an important indicator to measure its efficiency in using the resources available to it. Profitability is the measurement of the results of the bank's policies and operations in monetary terms and the reflection of those results in the return on assets, return on equity and net interest margin (Setiyorini, 2018: 22). While, changes in profitability can largely be attributed to changes in the risks to which the bank is exposed. As the increase in exposure to risks is usually related to the decrease in the profitability of the bank, not with respect to the volume of loans but with their quality, that is, the greater the exposure of banks to high risks, the lower their profitability is (Gremi, 2013:19). The success of the bank is determined by how well the bank achieves profits during a financial period. For banks to be profitable, they must bear a reasonable level of risk (Adeusi, 2014:

2). Profits are usually a reward for the entrepreneur for his investment. Profit is the main motive for the institutions that conduct business, so each bank needs to increase its customer base to increase its profits (Mukami, 2018:4-5).

### 2.2.2- Definition of profitability

Many writers and researchers have defined profitability from different points of view. Among the most important definitions that approach the objectives of this study are the following:

Profitability is defined as a relationship between the profits achieved by the institution and the investments that contributed to achieving these profits (Mohammed & Kanaan, 2014: 542).

Profitability refers to the funds that an organization can generate with the resources it has (Niresh & Thirunavukkarasu, 2014: 57) .

It is a measure of the effectiveness of management in managing the assets and capital owned by the institution to generate profits from the activities carried out by the institution during the accounting period (Mahdaleta, et al, 2016: 34).

In commercial banks, profit is defined as the difference between total revenues and total expenses (Mahbub, 2016:94).

Profitability represents the relationship between revenues and expenses that are created using the organization's current and fixed assets in operating activities, where profitability shows the ability of invested capital to generate profits (Tamrin, at el, 2017: 67).

According to the researchers' opinion, profitability can be defined as a measure of the success of the institution in achieving an increase in profits through the use of available resources, which leads to an increase in the economic value of the institution.

### 2.2.3- Importance of profitability

Importance of bank profitability in the economy comes at the micro and macro levels. At the micro level, it represents a specific and required factor for any competitive banking institution.

As every bank tries to achieve acceptable profits in order to conduct its own business and its ability to compete in the financial markets. On the macro level, the profitable banking sector should be able to absorb negative external shocks and achieve financial stability (Al-Homaidi, et al, 2018: 2).

There are many studies that addressed the importance of profitability, such as (Butigan & Benić, 2017:48), Njokoya, 2013: 25), (Abu Tawelah, 2020: 24), and (Dbek, 2015: 19-20). The importance of Profitability, according to these studies, is summarized as follows:

- a. Profitability is a key indicator of long-term performance and competitiveness.
- b. Profitability enables the bank to survive and continue while its losing peers are forced to leave the market.
- c. The importance of profitability also stems from the fact that the accumulation of resources enables the bank to lay the foundations for expansion and development without relying on external financing.
- d. It gives an idea of the relationship between capital and other factors.
- e. It is considered of relative importance in the decision-making regarding the rate and volume of profit, so profitability is an indicator of the efficiency in the use of the bank's resources

- f. It assists shareholders and creditors when making decisions about bank investment or partial lending
- g. Profitability is one of the most important financial indicators that provides information to the market about the performance of banks.
- h. Profitability is a primary objective of all banks.
- i. Profitability leads to maximizing the value of the bank by maximizing shareholder wealth.
- j. It gives strong indications to the regulating bodies that the bank is moving in the right direction.
- k. It increases the confidence of deposit holders, investors and stakeholders in the bank.
- l. It is important to face the risks that the bank is exposed to.
- m. Profitability is the primary driver of all bank operations.
- n. It represent the first element to reward investors for their exposure to risk and sacrifice of capital.

#### 2.2.4- Profitability theories

There are many theories that explain the banking efficiency in achieving profitability for a bank. These are as follows:

##### **Market power theory**

This theory states that the market affects the structure of the banking industry and the performance of banks. There are two aspects that are studied according to this theory, namely the performance of behavior and relative market strength. Accordingly, when the concentration of the bank in the banking market is high, the market power may lead to higher profits. This theory asserts that the increase in market power produces monopolistic profits, i.e. banks affect their profits through pricing behavior. In other words, banks set the rates they prefer rather than their customers, for example lower deposit rates and higher loan rates (Arif & Awwaliyah, 2018: 192).

##### **Efficiency theory**

According to the efficiency theory, banks are more efficient than others in earning more profits. This theory confirms that effective institutions with low costs are more profitable, and this explains that lower costs lead to improved efficiency and thus increase the profitability of the bank.

Efficiency also emphasizes size rather than differences in management or production techniques, and through a greater size a banking institution can achieve greater profits through lower costs (Mapororo, 2018: 17).

#### 2.2.5- Profitability measurement

There are many indicators that are used to measure profitability. In this research, we will limit ourselves to the return on deposits.

##### **Rate of return on deposits**

This indicator measures the rate of return on depositors' money and shows the extent of the bank's ability to produce profits by investing deposits in various fields. The increase in this ratio indicates the optimal exploitation of deposits in achieving profits. This indicator is calculated by dividing the net income by the total deposits through the following formula discussed by (Sehrish & Saleema, 2012: 189):

$$\frac{\text{Net Income}}{\text{Total Deposits}} \times 100 \text{ ROD=}$$



## **2.3- Bank value**

### **2.3.1- Concept of bank value**

The issue of value is one of the most important issues for financial and banking institutions in particular, especially after the development of the main objective of institutions, which was to maximize profit. However, in modern financial thought this objective became to maximize the value of the institution as well as to achieve profits in light of economic, political and social developments and changes. The bank value is considered by investors the main reason for investing in a particular institution, and stock prices are important indicators to measure the value of the institution. Therefore, the value associated with it is greatly important for both current and prospective investors in the stock market (Idris & Bala, 2015: 191). Given that the value of an enterprise is determined by the strength of its profits, the increase in profits or its strength leads to an increase in the value of the enterprise, regardless of its assets. Debt policy also affects the value of the institution, as the higher the debt, the higher the share price is (Cambarihan & Sucuahi, 2016: 149).

### **2.3.2- Bank value definition**

Many writers and researchers have defined the bank value from different points of view. The most important definitions that approach the objectives of this study are as follows:

The bank value is defined as the market value of its common shares plus the market value of its preferred shares the value of its debt. Since the value of an asset is the price paid by an informed and willing buyer to an informed and willing seller, so the market value is the price of the asset as determined in a competitive market.

As for the economic value, it is the present value of the expected future net cash flows discounted at the rate of return required by shareholders (Emmanuei, 2010: 30). The bank value is also defined as the purchase and sale value estimated by the dealers who have complete information about it.

Consequently, the value of the bank is a picture of its performance that can affect the investor's evaluation of the bank. It is known that the bank's goal is to achieve maximum prosperity for its owners by maximizing the share price.

Therefore, maximizing the bank value is an appropriate goal to guide financial management decisions, and maximizing the bank value thus maximizing profit or income by taking into account risk factors (Sedana & Sari, 2020: 117).

Accordingly, a value can be defined as "The price that can be determined in an active market in which it operates, based on the value of its shares offered for trading. This reflects the strength of its financial position and the result of its activity, which gives current and prospective stakeholders a clear perception of the amount of wealth it owns and thus shareholder wealth."

### **2.3.3- Bank value Measurement**

There are many indicators and metrics that measure the bank value which has been adopted in academic and scientific research and studies. But, in this study it will be limited to the (Tobin's Q) model, which is considered one of the best indicators in measuring the bank value due to the availability of the required data and its ease of application.

### **Tobin's Q measure**

This measure was proposed by James Tobin in 1969. It is the neoclassical investment model based on the assumption that the market value is affected by expected returns and interest rates (Bendle & Butt, 2018:2). It is widely used as a measure of the value of a banking institution in academic studies, because it measures the value of its future growth potential.

It is measured in theory as the ratio of the bank's market value to the cost of replacing assets. However, due to the difficulty of measuring asset replacement cost and the limited availability of accurate data in a timely manner, alternative measurements of book value are often used as a simpler method that relies on basic financial and accounting information that can replace more complex measurements (Khasawneh & Obeidat, 2016:193).

It is noted that if the value of the (Tobin's Q) model is greater than one, this means that the market value of assets is greater than the book value of the same assets. This means that the banking institution is valued at a value higher than or equal to its real value (Ali, 2014: 309).

Nevertheless, if the value of Tobin's Q drops below one, this indicates that the value of banking institution's assets is priced at a price lower than the market value, meaning that the book value of the assets is (lower) than their market value. This means that the institution is undervalued (below its cost) (Ali, et al, 2016:87). The value of Tobin's Q is calculated by the formula proposed by Bartlett & Partnoy (2020: 358), as follows:

Enterprise value = market value of owners' equity / total replacement value of assets.

However, a very different and simpler method was used because it is difficult to measure asset replacement cost and due to limited availability of accurate data (Al-Tai and Al-Jubouri, 2017:2017). This is:

Enterprise value = Market value of owners' equity / Book value of total assets

Market value of owners' equity = Ordinary share price at the end of the year × Number of ordinary shares subscribed

Book value of assets = Value of assets at the end of the year in the records of the institution

### **3. The practical aspects of article**

This section firstly gives a brief description of the research sample banks. Next, it describes the correlation and effect relationships between the independent variable (Liquidity , Profitability ) and the dependent variable (bank value) based on the data published in the financial statements and annual reports of the research sample banks. The simple regression analysis was used to obtain the result of the effect tests for the financial indicators under study, which are the coefficient of determination that measures the degree of relationship between the variables of the regression model, the square of the coefficient of determination that measures the extent of the effect of the independent variables on the dependent variable, the bank value, and the value of the beta coefficients that constitute the regression equation to predict the expected effect of the independent variables on the dependent variable, and the value of the t-test for the coefficients of the independent variables.

### **3.1- Descriptive statistics for independent and dependent research variables**

#### **3.1.1- Descriptive statistics of the quick liquidity indicator**

Table (1) shows the general descriptive statistics represented by the lowest value, highest value, arithmetic mean, standard deviation and dispersion coefficient for the quick liquidity indicators of the research sample banks for the period from 2016 to 2019.

**Table (1): Descriptive statistics of quick liquidity of the research sample banks for the period 2016-2019**

No.	Banks	Lowest Value	Highest Value	Arithmetic Mean	Standard Deviation	Coefficient of Variation
1	Middle East	0.9773	1.1477	1.0939	0.0790	0.16
2	Golf	0.8818	1.3609	1.1985	0.2240	0.19
3	National	1.0227	1.5995	1.3074	0.2863	0.22
4	Baghdad	0.9700	3.3644	1.5708	1.1958	0.67

Source: The table is prepared by the researchers based on the SPSS

The lowest value achieved by the Gulf Bank was (0.882) with an arithmetic mean (1.199), a standard deviation (0.224), and a dispersion coefficient (0.19). However, the highest value achieved by Bank of Baghdad was (3.364) with an arithmetic mean (1.571), a standard deviation (1.196) and a dispersion coefficient (0.67), which represents the highest dispersion coefficient achieved by the research sample banks.

#### **3.1.2 Descriptive statistics for the return on deposits indicator**

Table (2) shows the general descriptive statistics represented by the lowest value, highest value, arithmetic mean, standard deviation and dispersion coefficient for the return on deposits indicator of the research sample banks for the period from 2016 to 2019.

**Table (2) Descriptive statistics for the return on deposits for the research sample banks for the period 2016-2019**

No.	Banks	Lowest Value	Highest Value	Arithmetic Mean	Standard Deviation	Coefficient of Variation
1	Middle East	-0.0149	0.0753	0.0254	0.0428	1.67
2	Golf	-0.0189	0.0159	0.0033	0.0159	4.82
3	National	-0.0414	0.1450	0.0389	0.0780	2.01
4	Baghdad	0.0052	0.0567	0.0221	0.0236	1.06

Source: The table is prepared by the researchers based on the SPSS

As shown in Table (2) the lowest value achieved by Al-Ahly Bank was (-0.041) with an arithmetic mean (0.039), a standard deviation (0.078), and a dispersion coefficient (2.01). While, the highest value achieved by the same bank (Al-Ahly) for the research period was (0.145).

#### **3.1.3- Descriptive statistics of the bank value indicator**

Table (3) shows the general descriptive statistics represented by the lowest value, highest value, arithmetic mean, standard deviation, and dispersion coefficient for the bank value indicator for the research sample banks for the period from 2016 to 2019.

**Table (3): Descriptive statistics for the bank value for the research sample banks for the period from 2016-2019**

No.	Banks	Lowest Value	Highest Value	Arithmetic Mean	Standard Deviation	Coefficient of Variation
1	Middle East	0.0365	0.1696	0.0900	0.0638	0.71
2	Golf	0.0764	0.1939	0.1356	0.0547	0.40
3	National	0.0553	0.1943	0.1266	0.0629	0.71
4	Baghdad	0.0662	0.6386	0.2574	0.2591	1.00

Source: The table is prepared by the researchers based on the SPSS

It is noted from Table (3) that the lowest value achieved by the Middle East Bank was (0.0365) with an arithmetic mean (0.0900), a standard deviation (0.0638) and a dispersion coefficient (0.71). As for the highest value achieved by Bank of Baghdad was (0.6386) with an arithmetic mean (0.2574), a standard deviation (0.2591) and a dispersion coefficient (1.00).

### **3.2- The effect of liquidity on the bank value**

Table (4) shows the following aspects:

3.2.1- The coefficient of determination value that measures the degree of relationship between the variables of the regression model, the quick ratio and the bank value, was (0.672), which is somewhat strong. As for the square of the coefficient of determination value that measures the extent of the influence of the independent variable, the quick ratio on the dependent variable, the bank value, was (0.451), which is of moderate strength. This result indicates that the explanatory power of the independent variable on the future value of the bank is moderate.

Table (4): Simple regression analysis results of the quick ratio on the bank value based on the financial statements of the research sample banks for the period 2016 – 2019

R		0.672	
R Square		0.451	
F test	Sig.		
2.468	0.214		
Regression	Beta Coefficients	(t) Test	Sig.
Constant	0.332	2.626	0.079
Quick liquidity ratio	-0.146	-1.571	0.214

Source: The table is prepared by the researchers based on the SPSS

3.2.2- The values of each of the beta coefficients of the constant and the independent, which constitute the simple regression equation to predict the expected effect of the independent variable, the quick liquidity ratio on the dependent variable, the bank value are (0.332) and (-0.146), respectively. Since the value of the coefficient of the independent variable is negative, this means that when the value of the quick liquidity ratio decreases, the bank value tends to rise in an average manner. However, this result is not statistically significant.

3.2.3- The value of t-test for the constant coefficient is (2.626), which is not statistically significant at the calculated level of significance (0.079), which is greater than the level of the selected significance (0.05) .

This means that the value of the constant coefficient is (0.332) when the value of the independent variable is zero. The value of the t-test for the coefficient of the independent variable is (-1.571), which is not statistically significant at the calculated significance level (0.214) because it is greater than the selected significance level (0.05).

3.2.3- Finally, the result of the variance test (ANOVA) in Table (4) indicates the statistical significance of the simple regression analysis, as the value of the (F) test reached (2.468), which is not statistically significant at the calculated significance level (0.214), which is greater than the selected significance level.(0.05) . This result indicates the acceptance of the first null hypothesis that the independent variable has no effect on the bank value and the rejection of the alternative hypothesis which states that the independent variable has an effect on the dependent variable.

### **3.3 -The effect of profitability on the bank value**

Table (5) shows the following aspects:

3.3.1 - The coefficient of determination value that measures the degree of relationship between the two variables of the regression model, the ratio of return to total deposits and the value of the bank is (0.102), which is very weak. As for the square of the coefficient of determination value that measures the extent of the effect of the independent variable, the ratio of return to total deposits, on the dependent variable the bank value is (0.379) which is very weak. This result indicates that the explanatory power of the independent variable on the future value of the bank is very weak.

3.3.2 - The values of each of the beta coefficients of the constant and the independent, which constitute the simple regression equation to predict the expected effect of the independent variable, the ratio of return to total deposits on the dependent variable, the bank value are (0.107) and (0.496), respectively. Since the coefficient value of the independent variable is positive, this means that when the value of the return ratio to total deposits increases, the bank value tends to rise, but not significantly. However, this result is not statistically significant.

3.3.3 - The t-test value of the fixed coefficient amounting to (3.060) is not statistically significant at the calculated significance level (0.092), which is greater than the selected significance level (0.05). This means that the value of the constant coefficient is (0.107) when the value of the independent variable is zero. Also, the (t) test value of the coefficient of the independent variable is (0.104), which is not statistically significant at the calculated significance level (0.385), which is greater than the selected significance level (0.05).

**Table (5): Simple regression analysis results of the return to total deposits on the bank value based on the financial statements of the research sample banks for the period 2016 – 2019**

R			0.102
R Square			0.379
F test	Sig.		
1.219	0.385		
Regression	Beta Coefficients	(t) Test	Sig.
Constant	0.107	3.060	0.092
Return to total deposits ratio	0.496	0.104	0.385

Source: The table is prepared by the researchers based on the SPSS

3.3.4 - Finally, the result of the analysis of variance (ANOVA) in Table (5) indicates the statistical significance of the simple regression analysis. The value of the (F) test reaching (1.219) is statistically significant at the calculated level of significance (0.385), which is more than the selected significance level (0.05). This result indicates the acceptance of the second null hypothesis that the independent variable has no effect on the ratio of return to total deposits on the bank value and the rejection of the alternative hypothesis that there is an effect of the independent variable on the dependent variable.

#### **4-Conclusions and Recommendations**

The study reaches a number of conclusions and suggests some recommendations as follows:

##### **4.1- Conclusions**

The study reaches the following conclusions:

- a. All banks achieved comfortable quick liquidity ratio higher than the ratio (1:1). This means that all banks preferred to maintain liquidity ratios for the purpose of investing in various fields, which in turn may affect the profitability ratios.
- b. According to level of return on deposits, there is a relative disparity among banks in profitability for this indicator. This reflects the difference in the size of deposits to some extent and the ability of these banks to employ them and achieve the appropriate revenues in excess of the amount of costs paid on these deposits.
- c. There is a weak negative relationship between (quick liquidity and the bank value). This reflects the absence of an effect of quick liquidity on the value of the bank, and this indicates that the changes that occur in the volume of quick liquidity do not lead to a change in the value of the bank.
- d. A weak significant relationship between (return on deposits and the value of the bank). This shows that there is no significant effect of the return on deposits on the bank value, and this indicates that the change in the return on deposits does not lead to a change in the bank value.

##### **4.2- Recommendations**

The study suggests the following recommendations:

- a. The necessity of urging banks to provide comfortable rates of liquidity that enable them to fulfill obligations and face sudden deposit withdrawals by depositors.

b .The necessity of urging banks to exploit the excess liquidity in various investments in order to achieve returns and profits, not to keep high cash rates idle and encourage banks to exploit liquidity with more profitable, more secure and less risky investments.

c. It is desirable to achieve a balance in the liquidity to be kept and the percentage of liquidity to be used in different investments.

d. The need to work on some indicators that showed a wide and significant effect on the bank value and its profitability, such as the rate of return on deposits. These ratios show the possibility of using deposits in an optimal way and building a unified vision on how to determine these ratios in a way that maximizes the bank's profitability and the value of shareholders.

e . It is important to attract low-cost deposits and use them in profitable areas and investments.

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## أهمية السيولة والربحية في تعزيز القيمة المصرفية في المصارف الاهلية للفترة من 2016\_2019

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### المستخلص:

يهدف البحث الى دراسة السيولة المطلوب توفيرها بالشكل الأمثل والربحية المطلوب تحقيقها من قبل المصرف توفيرها, واثار كل من السيولة والربحية على قيمة المصرف, ومن هنا ظهرت مشكلة البحث التي تشير الى مدى تأثير السيولة والربحية على قيمة المصرف. تتبع أهمية البحث عن الدور الرئيسي الذي تلعبه البنوك التجارية في اقتصاد البلد. وهذا يتطلب الحاجة إلى تحديد السيولة بطريقة واسعة ومكوناتها الأكثر أهمية، وكيفية قياسها. لغرض تجنب مخاطر السيولة، يجب إدارة السيولة من خلال حث البنك على اعتماد إدارة سيولة جيدة، وتحقيق الأرباح التي يريدها البنك تحقيقها عن طريق استخدام السيولة المتاحة لها. إنه يمثل عاملاً مهماً لزيادة الأرباح وزيادة ثقة المساهمين والمودعين، وبالتالي تعظيم ثروة المساهمين وثروة البنك، وبالتالي ترفع القيمة المصرفية. وبالتالي، تستند هذه المقالة إلى فرضية رئيسية أن "لا يوجد أي تأثير للمربحة والسيولة على القيمة المصرفية". هذا بدوره ينقسم إلى اثنتين من الفرضيات الفرعية على النحو التالي:

H1. لا يوجد أي تأثير للسيولة السريعة على القيمة المصرفية.

H2. لا يوجد تأثير للعودة على الودائع على القيمة المصرفية

ولتحقيق اهداف وفرضيات الدراسة, تمت دراسة المؤشرات الرياضية وتحليلها وايجاد العلاقة والتأثير وفق اساليب احصائية, حيث استخدم البحث الاسلوب الاحصائي الانحدار البسيط, بواسطة برنامج (SPSS), والمقاييس الكمية والتي تضمنت مؤشرات السيولة السريعة لقياس السيولة ومؤشر العائد على الودائع لقياس الربحية ومؤشر قياس قيمة المصرف Tobin's Q. تم اختيار عينة مكونة من أربعة مصارف اهلية (مصرف الشرق الاوسط, مصرف الخليج, مصرف الاهلي ومصرف بغداد) وللفترة من 2016 لغاية 2019. وكانت أهم الاستنتاجات التي توصل اليها البحث عدم وجود اثر لكل من السيولة والربحية على قيمة المصرف, وقد اوصى البحث بمجموعة من التوصيات اهمها حث المصارف على تقليل من نسب السيولة المتعطله واستغلالها في مجالات استثمارية مختلفة وكذلك التوجه نحو الموارد التي تحقق نسب ربحية اعلى من غيرها التي تتصف بتكلفتها المنخفضة.

المصطلحات الرئيسية للبحث/ السيولة, الربحية, قيمة المصرف, السيولة السريعة, العائد على الودائع, مقياس توبن Tobin's Q.

\*البحث مستل من رسالة ماجستير