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# The Impact of Funding Sources on Banking Stability A Comparative Study of Two Commercial Banks in Iraq for the Period (2015-2020)

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***Abstract* :** The research aims to determine the impact of the financing structure (common stock, debt, and retained earnings) on banking stability. The research problem included the extent to which the financing structure and its various components contribute to achieving banking stability. A sample was selected from two commercial banks listed on the Iraq Stock Exchange, namely the Bank of Baghdad and the Trans-Iraq Bank. An important indication of the components of the financing structure on banking stability. Several financial and statistical equations were adopted using the statistical programs (Eviews) and (Excel).
The research reached conclusions, the most important of which is that banks' heavy reliance on debt in their financing structure leads to a decrease in the rate of banking stability, that their reliance on debt may expose them to liquidity risks, and that these banks may be exposed to financial distress and instability, while banks that rely on stocks are characterised by with a high rate of banking stability, it has a low-profit rate.
The research recommends that banks that rely heavily on debt financing should reduce their reliance on this source and try to diversify their sources to achieve stability and avoid financial distress and instability resulting from reliance on debt financing sources, which results in financial increases. Risks for the bank

**INTRODUCTION**: The financing structure is considered one of the important topics that occupies part of financial theory because of its strategic importance in making financial decisions in institutions. These financial decisions are affected by their size, activity, or financing structure. The issue of financing is considered one of the most important strategic problems facing the development of companies in general and banks in particular. The financing structure affects the financial stability of institutions in general and banks in particular.
Therefore, it is necessary to choose the optimal and appropriate financing structure to achieve financial stability in banks. Financial stability is achieved when the financial sector in general and the banking sector, in particular, are able to play their basic roles in meeting the needs of economic and social development. In order for banks to play an effective and important role in economic life, it was necessary to create a strong banking sector that would help provide the various sectors with the necessary financing to carry out their activities and provide banking services of all kinds.
The research was divided into several sections (the first section is the research methodology, the second section is the theoretical side of the research, the third section is the practical side of the research, and the fourth section is the conclusions and recommendations(

## The first topic: research methodology and some previous studies:
## Research Methodology(
## The first topic: the necessity of research:
## Research Methodology

**Research problem: 1:1**

Banks diversify their sources of financing. Some rely on internal financing and, others rely on external financing to finance their investments. Each financing source has its own advantages and disadvantages that may affect the financial position of the bank, which is reflected in the extent of the bank's stability or not. The following (To what extent do the financing structure and its various components contribute to achieving banking stability(

Importance of research1:2 :

Putting the importance of the research in explaining the importance of the financing structure, as it is one of the topics that guarantees a wide place in the field of various institutions, represented in how to search for cost-effective sources of financing, identify them, and entitlement to them, in addition to highlighting the importance of deciding to become an important target for the banks sampled for the research. Especially after the end of the financial crisis that the world witnessed recently, and its importance in managing these elements, including creating a state of everything related to financial matters

**1:3 research objectives**

The research aims to shed light on a cognitive and academic aspect of banking work at the local level, namely, the financing structure and its impact on creating banking stability through a statement of the relationship and impact of the financing structure and its components in creating banking stability or not in commercial banks, the research sample

**1:4 research hypotheses1**

Based on the research problem, the hypothesis was as follows:

There is a significant impact of the financing structure on banking stability in the commercial banks, the research sample," from which two sub-hypotheses emerge, which are the following:

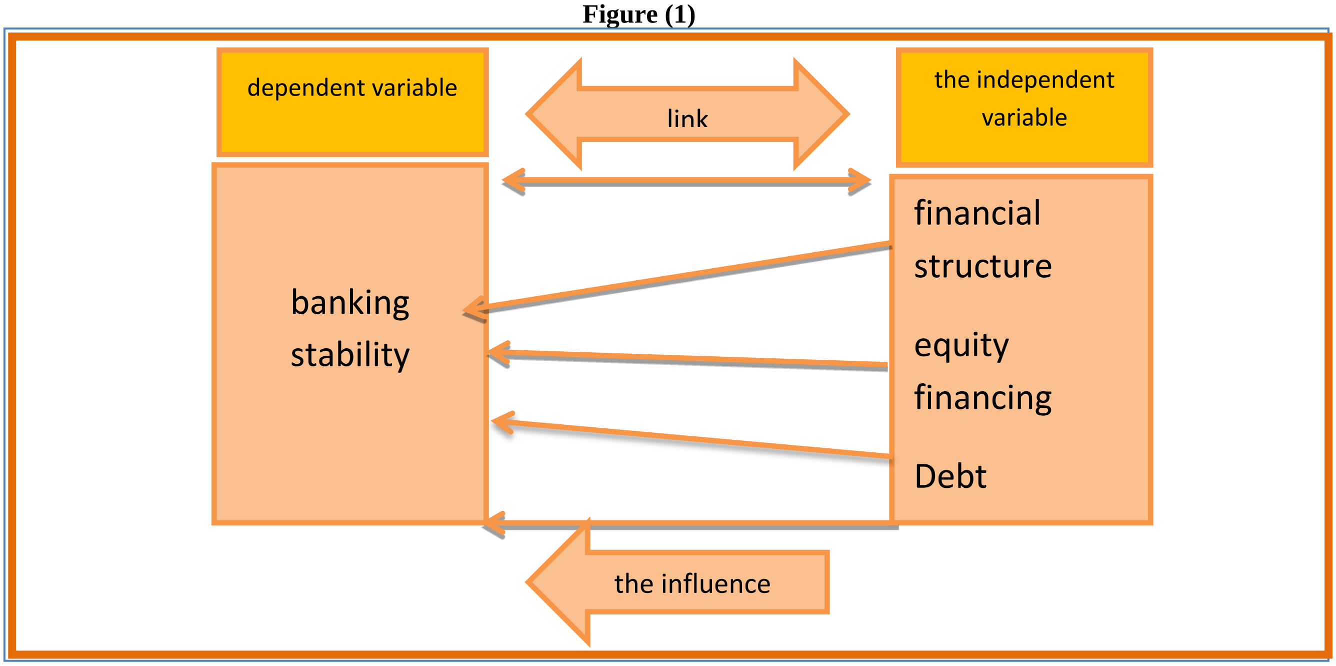
a. There is a significant effect of financing by ordinary shares on the banking stability of the commercial banks in the research sample.

B. There is a significant effect of debt financing on banking stability in commercial banks, the research sample.

C . There is a significant effect of financing with retained earnings on banking stability in commercial banks, the research sample.

**5:1 The hypothetical scheme of the research:**

**Figure (1)**




Source: prepared by the two researchers

**The hypothetical scheme of the research**

## The second topic: the theoretical framework of the financing structure and banking stability

**:1: financing structure**

The concept of the financing structure emerged as a result of the multiplicity of financing sources for the institution and the different sources in terms of cost and risk. The cost of debt financing sources is represented by the presence of a financial burden on the institution represented by fixed and final periodic obligations upon amortization. As for the cost of financing from financing sources by ownership, it is represented by high opportunity costs, but they are easier for the institution as a result of the lack of fixed obligations on the institution, but in terms of risk, the debt instruments are fixed obligations linked to sources of funding as well as the results resulting from non-fulfilment of obligations that may reach the bankruptcy of the institution (Al Shabib, 155: 2010.(

**1:1 The concept of financing structure**

The financing structure is defined as the sum of the funds that finance the assets of the institution and constitutes the left side of the balance sheet. It consists of both sides of owned financing and borrowed financing (Al-Amiri 2010), as defined by (Chen, Y, Migliaro, D & et al: 2021) as It is the method that is done by the method of financing the assets of the institution and represents a combination of funding sources that are determined by the management of the institution to finance its investments.

**2:1 Characteristics of the financing structure in the institution** (Al-Saeed, 253.252: 2000)

A. Providing the financial needs of the organisation at the lowest possible cost, the least risk, and the easiest conditions.

B. Achieving a balance between the internal and external sources of the financing structure in the institution, and the necessity of coordination between the components of the financing structure and the investment structure.
C. Attempting to reduce the percentage of financial risks and their impact on business risks and the growth rate of the enterprise.
D. Maximising the profitability of the institution and the returns achieved from the invested funds.
G. The ability of the institution to fulfil the debt, meaning that the institution should not exaggerate in borrowing so as not to threaten its ability to fulfil the obligations of these loans, as well as to avoid the owners of the institution from any additional financial risks.
c. Control: The financing structure must include the least possible risks to avoid oversight and control of the institution, to maintain the stability of the adopted policies.
Dr.. Flexibility: that is, the financing structure is not rigid, but the sources of funds are required according to the large changes in the need for funds at the lowest possible cost.
(Chen, Y, Migliaro, D & et al: 2021) **1:3 Sources of the financing structure**
All institutions seek to identify the sources of available funds and to determine the distinctive characteristics of each type of source, to make comparisons and selections among the best of these sources and on the best terms and the possibility of reaching the goal of financial management represented by maximising the value of the institution. Funding sources can be divided according to the following bases
First: according to the nature of the funding source:
.1 . Internal sources:
It consists of paid-up capital, retained earnings, and reserves.
.2. External sources
It consists of ordinary shares, preferred shares and debt.
This division looks at the corporation as a legal entity, i.e. separating ownership and management, meaning that the shareholders are external parties to the corporation.
**Second: According to the duration of the funding source**
. (Al-Hasnawi, 62: 2014)**:**
.1. Short-term financing sources, which are commercial credit, bank credit, receivables, and deposits.
.Long-term sources of financing, including:2.
A. Ownership rights, which are represented in shares, retained earnings, and reserves.
B. Credit accounts, including long-term loans and bonds
**2:banking stability**
Banking stability is one of the important pillars of sustainable development, as it contributes to raising the ability of banks to perform their tasks, which are to provide banking services represented by providing liquidity and providing financial credit, through which the financial system in the country can face internal and external shocks.
**:.2:1 The concept of banking stability**
It is the ability of the bank to face the disturbances that occur in the internal and external environment of the bank, i.e. the case in which it is able to carry out the process of mediating between units of financial deficit and units of financial surplus and the ability to distribute risks satisfactorily (Shinasi: 2004), as defined by (Al-Shazly: 2014) It is the situation in which banking and financial institutions enjoy a great deal of confidence in their ability to carry out their tasks without the need for government interventions and foreign aid. Banking stability is also defined as the ability of banks to identify the risks they are exposed to and then hedge against potential crises by facing shocks. internal and external, without its reflection on the banking system, as well as its ability to fulfil their obligations to customers when withdrawing a deposit or requesting credit easily and without obstacles, as well as making payments quickly, efficiently, and at the appropriate time, meaning that its liquid assets are greater than their short-term liabilities (Al-Araji 2020)(
**2:2 The importance of banking stability**
The banking sector is of great importance in the economy, so any defect affecting the banking system will lead to the collapse of the economy, and this has led to the interest of the monetary authority in most countries' economies greatly in banking stability, as it contributes to creating a healthy economy and achieving sustainable economic development. And the interest in issues of banking stability increased after the financial crisis that occurred in 2008 and the resulting events and effects on the economic and financial sectors and their repercussions on economic growth (Al-Sabawi et al., BS: 8). The importance of banking stability is highlighted by several points, the most important of which are: (Khalaf,3, 2017). :
. .1. Banking stability is of great importance for the stability of the exchange rate and the stability of the general level of prices
.Contribute to the application of best banking practices.2

.Banking stability is of great importance to contribute to economic development.3
.It is a necessary factor for the development of the financial system.4
.It contributes to the stability of the public finances of countries.5
.6. Banking stability is an important factor in easily transferring the effects of monetary policy to the real sector.
.It is an important factor in achieving the political stability of countries.7

**2:3 Mechanisms to achieve banking stability**

Banking stability can be achieved by analysing and monitoring the risks that the bank may be exposed to and revealing the centre of weakness in the banking system, whether related to the main components of the system such as financial markets and institutions, as well as liquidity risks and credit granting, as well as macroeconomic risks related to the banking sector. Banking stability through the financial safety net, which is represented by a set of measures and policies that have been taken to protect capital and financial intermediation of banks and avoid collapse (Aktug, 2013:224). He also defined it (Saeed, 73: 2016) as a set of procedures that take several forms to maintain the integrity of the banking system, and stability can be achieved by following several procedures, which are as follows. (Macdonah & Koch, 2006: 4(

**.1. Banking supervision and prudential regulation:**

Prudential regulation and banking supervision establish a set of appropriate and reliable banking foundations that are characterized by dialogue between the supervisory authorities on control problems to achieve banking stability. The banking system can bear the effects resulting from crises, as these crises result from weak supervision of banks that leads to excessive financial intermediaries in taking risks that result in financial crises on the banking bottom (Miskin, 2000: 13), and often the central bank assumes the task of supervision And supervising the banking system, and the goal of supervision is: (Macdonahd & Koch, 2006:4)

a. Building an effective financial system and achieving real growth in the domestic product and reducing the rate of inflation.
B. Achieving monetary stability, i.e. adjusting the amount of cash in circulation.
c. Achieving financial and banking stability.
Dr.. Protect customers and those dealing with the bank from mistreatment by banks and institutions when granting loans and focus on projects that support the community.

.2: The role of capital in achieving banking stability

The capital in banks is considered one of the most important tools of precautionary regulation, as it is a preventive tool to achieve the stability of the banking system at the macro and micro levels, it urges banks to increase the retention of capital to achieve banking stability, as it is an important tool for banking safety and avoiding financial failure in banks as it is an important tool for absorbing losses. Capital can perform three functions: (Macdonahd & Koch, 2006: 4)

a. Investment financing.
B. Coverage of expected and unexpected losses.
c. Granting confidence to small depositors and other donors.

Commitment to high levels of capital reduces the risk ratio of banks, and this in turn reduces the ratio of systemic risk.

The ability to control the causes of the fragility of the banking sector:3

Many reasons lead to the fragility of the banking sector, which is represented by the fluctuation of interest rates, the imbalance in financing sources, as well as external shocks that negatively affect the volume of flows, which in turn leads to the inability to pay outstanding obligations that increase the risks, which leads to This leads to instability in the banking sector, and these causes can be controlled by taking several measures, including restructuring the merger and receiving assistance from the authorities concerned with intervention, which leads to maintaining financial and banking stability (Shobha, 2012:15)

Deposit insurance:4

Deposit insurance has a major role in maintaining the integrity of the banking system through the following:

a. Deposit insurance protects customers and deposit holders to avoid social pressures from the monetary authorities, as it gives greater confidence to depositors and dealers with the bank.
B. The existence of the economic justification in reducing systemic risks and reduces the occurrence of collapse in the banking system, as insurance is a major factor in the continuation of the bank in performing its functions and reduces the banking panic represented by depositors withdrawing their deposits, which creates a state of financial hardship for the bank as a result of depositors withdrawing their deposits suddenly (Saeed, 2016 : 101)

.Determine the areas of activity of the banking system:5

The supervisory authorities must clarify the areas that banks should explore, such as the possibility of owning stakes and shares in non-banking companies and institutions or carrying out non-banking activities and businesses if that is permitted. Here, measures must be taken to avoid exposure to risks that may cause banks to lag behind (Abd Al-Qader, 2015: 99.(

.Forming provisions and reserves to face emergency losses:6

Banks must place part of their assets according to specific criteria to face potential losses. (Imran, 2017: 55.56

**2:4 Indicators measuring banking stability**

)Strobel, 2010: 2576) indicated that there are many indicators measuring financial stability, especially banks, including the following:

a. Determine the value at risk

B. stress tests

c. Altman model or (Z.Score) model

The first and second indicators are used to measure the liquidity problem, while the third indicator (Z.Score) measures the financial insolvency of the bank, which means that the value of the bank's assets is less than its liabilities, so the (Z.Score) model is considered one of the most important of these measures because the problem of financial insolvency is more serious More severe than the banking liquidity crisis. It is considered as one aggregate indicator that reflects the strength or fragility of the banking system using selected ratios for some indicators

Whereas //

$$ROA = \frac{NI}{TA}.$$

The International Monetary Fund considers that banking instability is based on the probability of default for each bank (Swamy, 2014:28), and the study (Gadanecz & Jayaram, 2009:360) indicates that unlike price stability, banking stability is not easy to define or measure. This is due to the interdependence and complex interactions between the various elements of the banking system, which increases the complexity is the time factor and the cross-border dimensions of these interactions, and due to the presence of many links between the participants in the financial market and financial institutions, making the task very difficult in determining an indicator that can fit all systems. Banking (Petrovska & Mihajlovska, 2013:86), so some studies, such as (Swamy, 2014:28) and (Fernandez et al, 2016:35) agreed that banking stability can be reached through the following indicators:

whereas//

$$Z = \frac{ROA + \frac{E}{A}}{\sigma(ROA)}$$

ROA stands for return on assets

NI stands for net income.

TA stands for Total Assets

The stability of banks can also be measured through the (Z.Score) indicator. It is worth noting that institutions differ in the use of this indicator and according to their objectives, but the result is the same, which is the detection of bankruptcy risks or warning indicators for hedging and limiting them.

(Z.Score) is not compatible with all market structures for all countries, due to their differences, and therefore it can be used for the financial system. This technique relies on accounting data that measures the extent of the financial prosperity of the banking system, and its decline (Capraru & Andries 2015:1142) in its value will lead to financial hardship for banks. Which leads to a decrease in profits or the market value of banks, and their rise leads to the stability of banks and income due to the lack of fluctuation in the rate of return on assets.

The Z.Score will be calculated as follows:

ROA return on assets

Ratio of equity to total assets A|E

Standard Deviation of Return on Assets (ROA(

The standard deviation of return on assets (Q(ROA) is calculated according to the legal method:

Since:

Yi = return on the assets of the bank

Y = the arithmetic mean of return on assets

N = number of observations

And that the higher rate (Z.Score) than the real rate of the sectors means less exposure to bankruptcy, and when the index decreases, this will lead to instability in banks and vice versa (2016: 191, Dushku)

There are other indicators to measure banking stability, including:
1:Asset quality index
2:liquidity index
3:profitability index
4:Capital adequacy index
5:Exchange rate risk index

## The third topic: the applied side

1: Financial analysis of the financing structure and banking stability of the research sample banks
.Baghdad Bank

The results showed in Table (1) that the highest percentage of financing by ordinary shares of Gulf Bank was in the year 2017, when it reached (0.23), compared to the average of (0.21). As for the lowest percentage of ordinary shares, it was in the year 2020, the percentage was (0.18.(

As for financing with retained earnings, it achieved the highest percentage in 2016, as it achieved a ratio of (0.02) compared to the average of (0.01.(

As for the debt financing ratio, it achieved the highest rate in 2015, when it reached (0.82), and the lowest rate was in 2017 when it was (0.75.(

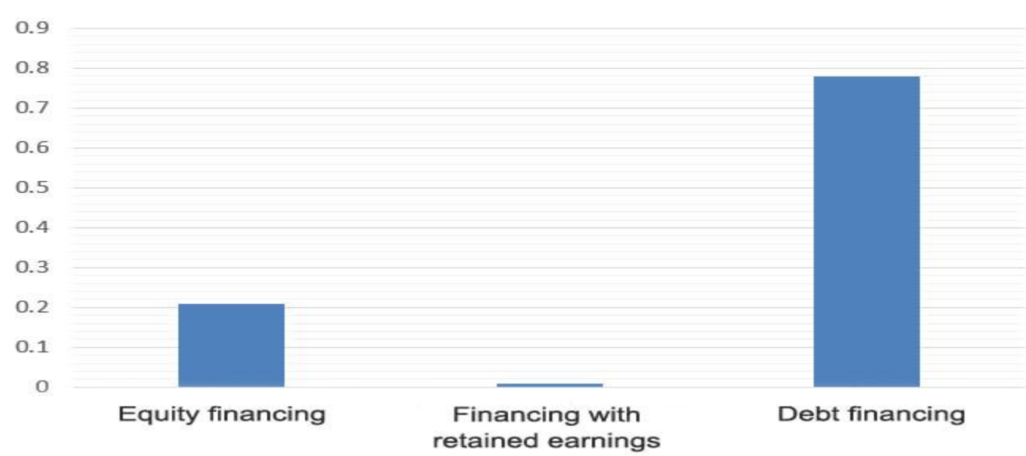
As for the banking stability index, the highest degree of banking stability was achieved in 2019, as the ratio reached (19.6) compared to the average of (15.9)

**Table (1) Indicators of the financing structure and banking stability of the Bank of Baghdad**

| banking stability | Debt financing | Financing with retained earnings | equity financing | Pointers / the years |
|---|---|---|---|---|
| 11.3 | 0.82 | 0.00 | 0.17 | **2015** |
| 17.1 | 0.76 | 0.02 | 0.21 | **2016** |
| 18.0 | 0.75 | 0.01 | 0.23 | **2017** |
| 18.9 | 0.76 | 0.01 | 0.22 | **2018** |
| 19.6 | 0.76 | 0.01 | 0.22 | **2019** |
| 10.5 | 0.80 | 0.01 | 0.18 | **2020** |
| **15.9** | **0.78** | **0.01** | **0.21** | **Average** |

Source: Prepared by the researcher based on the bank's annual financial reports

Figure (2) shows, through the previous analysis, that the Bank of Baghdad relied heavily on debt financing, which reflected negatively on the stability rate of the bank, as it led to a decrease in the stability rate of the bank, and this means that the rate is greatly affected in the event of reliance on debt financing sources, and as a result According to the previous analysis, it is possible to show a state of default in this bank




Figure( 2) Indicators of the financing structure of the Bank of Baghdad
Source: prepared by the researcher

**.Bank across Iraq**

The results showed in Table (2) that the highest percentage of financing by ordinary shares for a bank across Iraq was in the year 2019, when it reached (0.81) compared to the average (0.70). As for the lowest percentage of ordinary shares, it was in the year 2017, when the percentage was (0.50.(

As for financing with retained earnings, it achieved the highest rate in 2017, as it achieved a ratio of (0.01) compared to the average (0.00.(

As for the debt financing ratio, it achieved the highest rate in 2016, when it reached (0.34), and the lowest rate was in 2017, when it was (0.14.(

As for the banking stability index, the highest degree of banking stability was achieved in 2018, as the ratio reached (65.8) compared to the average (50.8)

**Tables (2)**

**Indicators of the financing structure and banking stability of a bank across Iraq**

| banking stability | Debt financing | Financing with retained earnings | equity financing | pointers / the years |
|---|---|---|---|---|
| 46.1 | 0.28 | 0.00 | 0.69 | **2015** |
| 48.4 | 0.34 | 0.00 | 0.63 | **2016** |
| 37.0 | 0.14 | 0.01 | 0.50 | **2017** |
| 65.8 | 0.16 | 0.01 | 0.81 | **2018** |
| 65.1 | 0.16 | 0.00 | 0.81 | **2019** |
| 42.1 | 0.22 | 0.00 | 0.77 | **2020** |
| **50.8** | **0.22** | **0.00** | **0.70** | **Average** |

Source: Prepared by the researcher based on the bank's annual financial reports

We notice through the analysis and as shown in Figure 3)) that although there were no retained profits, a state of stumbling and instability did not appear for the bank, as a result of the bank's reliance on financing by ordinary.

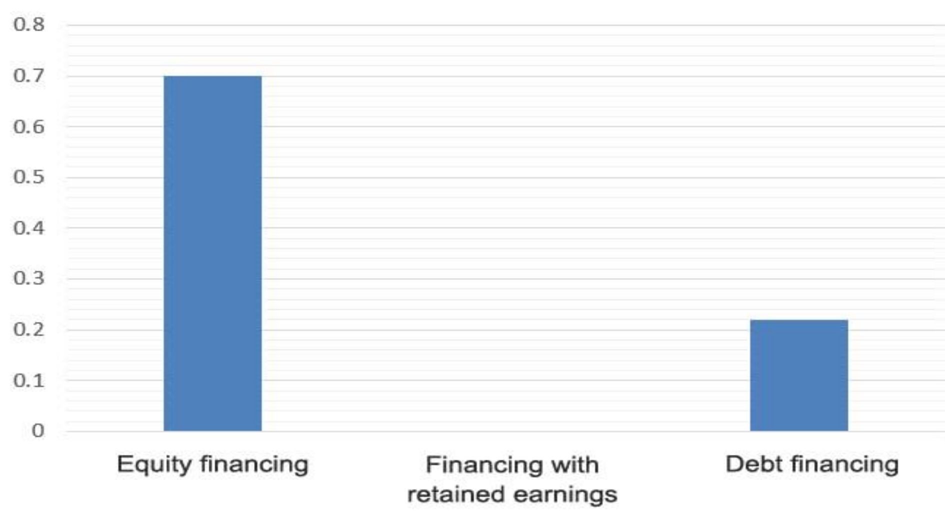



Figure (3)

Indicators of the financing structure of the Bank across Iraq

Source: prepared by the researcher

**:2:Analsing the effect results of the research variables**

The results of testing and analysing the effect between the variables of the study will be discussed based on simple regression analysis to identify the effect of the independent variable on the dependent variable. The regression coefficient (B) was relied upon to know the expected change in the dependent variable when the independent variable changes by one unit, and the coefficient (R2) was relied upon. To find out the ability of the model to interpret the relationship between the independent variable and the dependent variable, either to determine and compare the strength of the influence of each of the independent variables was done through (t-test), which indicates the significance of the results, in addition to adopting the (f) test to confirm the validity of the model used, and it has been adopted The study was based on the level of significance (0.05) to judge the extent of the significance of the effect, as the level of the calculated significance was compared with the level of the approved significance (0.05) and the effect was significant as the level of the calculated significance was smaller than the level of the approved significance and vice versa.

**The main hypothesis:** There is a significant effect of the financing structure on banking stability in the commercial banks, the research sample. Three sub-hypotheses emerge from it, which are the following:

1: There is a significant effect of financing by ordinary shares on the banking stability of the commercial banks in the research sample.

2: There is a significant impact of financing with retained earnings on banking stability in commercial banks, the research sample.

3: There is a significant effect of debt financing on banking stability in commercial banks, the research sample.

**The first sub-hypothesis:**

H_1: There is a significant effect of financing by ordinary shares on banking stability

**Schedule (3(**
**The results of the impact of ordinary stocks on the banking stability of the research sample banks**

| the decision | Prob. | ) T( t-Statistic | Std. Error | (B) Coefficient | dependent variable | the independent variable |
|---|---|---|---|---|---|---|
| admissions | 0.13 | 1.60 | 1.62 | 69.11 | **Y1** | **X** |
| **Method: Pooled Least Squares** $Y1 = (2.59) + 69.11X$ | | | | | 2.59 | **Constant) C(** |
| | | | | | 0.96 | **The coefficient of determination) $R^2$(** |
| | | | | | 451.61 | **) F( F-statistic** |
| | | | | | 0.00 | **) F(** |

Source: prepared by the researcher according to the results of the electronic calculator (Eviews 7.(

It is clear from Table (3), which shows the estimation of the regression equation for the research variables. We note that the value of the marginal slope of the independent variable (X1) was equal to (69.11). We also note that the calculated (F) value (P.Value) for the independent variable was (0.00), which is less than 0.05 and is not significant. We also find that the value of (R.squared) is equal to (0.96). As for the value of the F test, we find that the calculated F value is (451.61), which is greater than the tabular value, and this indicates the significance of the model, which confirms that the probability value of the Prob (F.statistic) test was (0.00), which is less than 0.05.

Accordingly, the hypothesis is accepted, which states that there is a significant effect of financing by ordinary shares on banking stability. .

**The second sub-hypothesis:**

**H_1: There is a significant effect of financing with retained earnings on banking stability**.

**Schedule (4(**
**The results of the effect of retained earnings on the banking stability of the research sample banks**

| the decision | Prob. | ) T( t-Statistic | Std. Error | (B) Coefficient | dependent variable | the independent variable |
|---|---|---|---|---|---|---|
| Admissions | 0.00 | 16.33 | 2.30 | 31.40 | **Y1** | **X** |
| **Method: Pooled Least Squares** | | | | | 37.56 | **Constant) C(** |

| | | |
|---|---|---|
| $Y1 = (37.56) + 31.40X$ | 0.16 | The coefficient of determination )$R^2$( |
| | 3.43 | ) F( F-statistic |
| | 0.08 | ) F( |

Source: prepared by the researcher according to the results of the electronic calculator (Eviews 7.(

It is clear from Table (4), which shows the estimation of the regression equation for the research variables. We note that the value of the marginal slope of the independent variable (2X) was equal to (31.40). We also note that the calculated (F) value (P.Value) for the independent variable was (0.08), which is greater than 0.05 and is not significant. We also find that the value of (R.squared) is equal to (0.16), but the value of . As for the value of the F test, we find that the calculated F value is (3.43), which is greater than the tabular value, and this indicates the significance of the model, which confirms that the probability value of the Prob (F.statistic) test was (0.08), which is greater than 0.05.

Accordingly, the hypothesis is accepted, which states that there is a significant effect of financing with retained earnings on banking stability.

1. **The third sub-hypothesis:**

H_1: There is a significant effect of debt financing on banking stability.

**table (5)**
**The results of the effect of debt on the banking stability of the research sample banks**

| the decision | Prob. | ) T( t-Statistic | Std. Error | (B) Coefficient | dependent variable | the independent variable |
|---|---|---|---|---|---|---|
| Admissions | 0.00 | 31.58 | 2.00 | 58.29 | Y1 | X |
| Method: Pooled Least Squares $Y1 = (63.18) + 58.29X$ | | | | | 63.18 | ) C( Constant |
| | | | | | 0.92 | The coefficient of determination) $R^2$( |
| | | | | | 210.18 | ) F( F-statistic |
| | | | | | 0.00 | ) F( |

Source: prepared by the researcher according to the results of the electronic calculator (Eviews 7.(

It is clear from Table (5), which shows the estimation of the regression equation for the research variables. We note that the value of the marginal slope of the independent variable (X3) was equal to (58.29). We also note that the calculated (F) value (P.Value) for the independent variable was (0.00), which is less than 0.05 and is not significant. We also find that the value of (R.squared) is equal to (0.92). As for the value of the F test, we find that the calculated F value is (210.18), which is greater than the tabular value, and this indicates the significance of the model, which confirms that the probability value of the Prob (F.statistic) test was (0.00), which is less than 0.05.

Accordingly, the hypothesis is accepted, which states that there is a significant effect of debt financing on banking stability..

## The fourth topic: conclusions and recommendations

**First: conclusions**

1. The financing structure has a very important role in determining the financial position of the bank.
2. Through financial analysis, it was found that banks that rely heavily on debt in their financing sources have a low stability index because they may be exposed to many financial risks that lead to default and instability.
3. Through financial analysis, we have found that banks that depend on proprietary financing, such as ordinary shares, have a large increase in the stability index as a result of not being exposed to financial risks such as liquidity risks and others.

4. The results of the statistical analysis showed that there is a direct and significant effect and correlation between the indicators of the financing structure and banking stability in the research sample banks, and this indicates the possibility of a decrease or increase in the banking stability indicator by choosing its financing structure.

**Second: Recommendations**

1. The need to rely on experts and specialists in the field of financing to determine the appropriate mix of financing on which the bank relies.
2. Banks that rely heavily on debt financing should reduce the percentage of dependence on this source and try to diversify their sources in order to achieve stability and avoid financial stumbling and instability resulting from dependence on debt financing sources, which results in high financial risks for the bank.
3. Banks experiencing instability must adopt a combination of financing structures that rely heavily on equity financing and then rely on debt financing and finally retained earnings, as this combination has the ability to achieve banking stability.
4. The need to study the experiences of developed and developing countries whose banking sectors are characterised by development and stability in order to know the most important lessons and benefit as much as possible from them, and try to apply them in the Iraqi banking sector.

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