

The Impact of Financial Leasing on Banking Performance by Measuring the EPS Index / Applied and Analytical Research in Some Iraqi Private Islamic Banks for the Period From 2018_2022

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Abstract

This study aimed to analyze the impact of financial leasing revenues on financial performance in the banking sector, by identifying the nature of financial leasing and its benefits, and to know the extent to which banks benefit from financial leasing and its impact on their banking performance, the study relied on the financial statements of two private Iraqi Islamic banks, which provide financial leasing services, by calculating the total return per share and return per share through financial leasing. The study relied on the main hypothesis that financial leasing positively affects the financial banking performance of Islamic banks that adopted this formula. The study reached the conclusion that there is no impact of financial leasing revenues on the financial performance in the study sample combined, as well as the lack of impact of financial leasing revenues on financial performance in all banks representing the study sample, and the reason for this is due to the instability in the economies of these countries, This fluctuation in the volume of financial leasing activity in Arabic countries reflects many of the problems and challenges facing this activity. One of the most important recommendations reached by the research is the need to provide full support to the banking sector by governments to be able to provide financial leasing services and benefit from them, as well as the need to educate administrators in the banking sector about the importance of financial leasing and the expected benefits of using it.

Keywords: *Banking Performance, Islamic Banking Sector, Financial Leasing.*

Introduction

Financing is the lifeblood of any commercial institution, as emerging institutions and developing institutions require huge funds to expand, diversify and modernize their business, through various financing sources, and usually owners of institutions use traditional financing methods such as lending and overdraft, but with the rapid scientific development and progress in various aspects of life, competition between business institutions has intensified, which in turn led to the trend to search for new financing methods that help them increase the volume of their business and raise financial performance for her, without going to traditional methods because of their risks and obstacles.

Financial leasing is one of the modern means used by business institutions with the aim of increasing the volume of their capital, as well as raising the efficiency of the financial performance of their systems, as it is one of the financing methods that contributed to providing the necessary financing to business institutions in many countries, which led to supporting and advancing the economy.

Leasing finance is a form of asset-based financing and is an alternative to lending financing, as it plays an important role in meeting the financial requirements of various sectors of society and contributes to the economic development of the country, especially its effective role in the banking sector, as it is considered one of the most important modern sources of financing used by banks to contribute to achieving many positive advantages, which are identified through analyzing the impact of financial leasing on banking performance.

The banking sector plays a major and important role in supporting the national economy, as the bank is one of the safest places, in terms of depositing or reinvesting funds, so it is necessary to review the

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performance of banks periodically, and since the banking institution is not isolated from the environment to which it belongs, it affects and is affected by it, so it has become obligatory for it to take into account the variables of its environment in the process of measuring and evaluating performance so that its decisions are effective and free from deviations, the process of evaluating and reviewing banking performance through the bank's financial indicators provides an integrated and clear picture of the market share that the bank has among its competitors, and it also helps to indicate the level of liquidity and profitability enjoyed by the bank, and this is what prompted the researcher to try to analyze the impact of financial leasing on financial performance in the banking sector.

The First Topic: Methodology

Problem of study: The success of business organizations depends on a set of factors, including the availability of funding necessary to increase and support the organization's capabilities to provide its products and services in the best way to the customer, and financial leasing is one of the modern methods used by banks to meet the needs of business organizations financing, and therefore we can identify the problem of research through the following questions:

- Is it possible to apply the financial leasing formula through Islamic banks?
- To what extent does the application of the financial leasing formula affect banking performance?
- Does the bank really need to apply the financial leasing formula? To what extent does he benefit from it?

Importance Of Study

The importance of study stems from the following:

- Highlighting new financing formulas that enable banks to achieve superior banking performance.
- Using a form of Islamic financing to enable banks to apply the provisions of Islamic Sharia.
- Enriching the scientific library in research in this field because of the lack of treatment, especially in Iraq.
- Lack of interest in this activity by banks, and thus it is necessary to provide them with such research to increase knowledge and awareness.

The Objectives

The aims to analyze the relationship between the factors associated with the financial leasing decision and the evaluation of banking performance through the following:

- Identify the nature of financial lease and its benefits.
- Knowing the extent to which banks benefit from financial leasing and its impact on their banking performance by measuring the profitability index of shares.
- Showing a means of financing that enables banks, especially Islamic banks, to rely on them and use them to employ their funds and investments.
- Knowing the level of adoption of banks, especially Islamic banks, for this activity and the extent of their awareness of it.

Hypotheses

To answer the research problem, the following hypotheses have been formulated:

- There are real trends by the departments of Islamic banks to apply the financial leasing formula in their work.

- Financial leasing positively affects the financial and banking performance of Islamic banks that have adopted this formula.

Limits the Study

Time limits: The study approved the period from 2018 to 2022.

Spatial boundaries: Two private Iraqi Islamic banks were taken as follows:

Asia Iraq Islamic Bank for Investment and Finance

Iraqi Islamic Bank for Investment and Development

Model Of Study

Figure (1) shows the study model, which consists of:

Independent variable: financial leasing. The first dimension: financial leasing revenues, as it shows the dependent variable, which is the financial performance of the sector

The banker is expressed in one dimension, which is earnings per share (EPS).

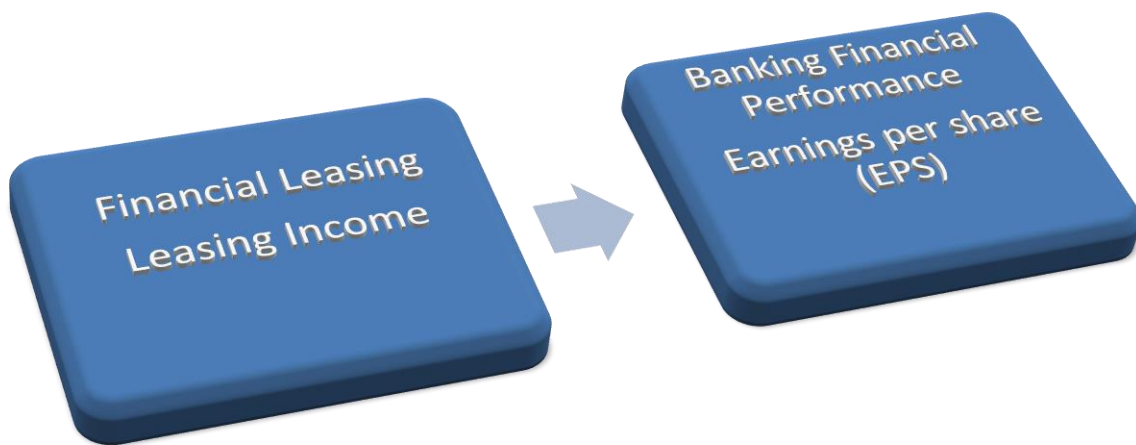


Figure 1Form of study

Source: Prepared by the researcher

The second topic: the theoretical framework

Fundamentals Of Financial Leasing

The Concept of Financial Leasing

Financial leasing is the peak of development in the new financing formulas, as it has witnessed significant growth in United States and then in the rest of the world. Its roots go back to after World War II, mainly in the United States of America, due to the signing of a contract by the military institution to lease military

equipment to Britain and Russia, to appear the first institution specialized in leasing in this country in 1952. Britain knew this funding in the rental of rail cars in 1955. In France, financial leasing first appeared in 1965, when it leased computers. At the international level, the first international leasing company was established in 1977 in South Korea (Moyer, 1995:770).

Financial leasing is one of the methods used to finance institutional investors to avoid intensive resort to loans and bonds, and the consequent negative effects on the future financial situation (Hawari and Omar, 2013: 42). Today, thousands of companies with long ideas and a lack of liquidity use leasing as a simple and flexible financing solution to increase productivity and make profits (Bamako, 2000:1).

Financial leasing can be defined as a contract concluded between two parties, the lessee and the lessor, under which the first party is obligated to pay specific amounts on agreed dates to the second party that owns an asset in exchange for the benefit of the first party, the lessee, of the services provided by the asset. The most important clauses included in the contract are the basic duration of the contract, the value of periodic rent payments and the date of payment, as well as the possibility of renewing the contract (Abdullah and Al-Sahlawi 2017, 387).

Parties To the Financial Leasing Contract

The financial leasing contract consists of three main parties as below: (Sultana, 2022:).

- The lessor: is the real owner of the asset and the financing institution buys the required asset from the supplier, and leases it. The lessor and the supplier may be the same entity and usually a competent company, a bank or an insurance company. The lessor is the one who finances the purchase of the asset from his own money or from another lender, and leases it to the lessee in return for periodic rent, with the condition that he retains his ownership of the asset during the lease period.
- Lessee: It is the person, institution or company that receives the service of the assets provided by the lessor under this contract. Which operates and uses the capital asset, in return for agreed rental payments, with the option to purchase this asset at the end of the lease period.
- 3- Supplier: It is the producer or distributor of the leased assets, as he delivers them to the lessor in accordance with the standards and conditions agreed upon between him and the lessee.

Types of Leases

There are several types of lease contracts, namely:

- Financial leasing contract: The financial leasing contract is described as a lease contract for more than 75% of the useful life of the asset, in which an option is given to the lessee to purchase the asset at less than the fair market value. At the end of the lease term, ownership of the asset is transferred to the lessee. If purchased, the present value of the lease payments exceeds 90% of the total original cost of the equipment. All costs of its investments in the initial period are recovered from the lease rentals by the lessor in the financial lease contract (Nemati, 2012:81).
- Operating leasing contract: An agreement that is usually short-term, allowing the lessee to reserve the right to cancel the lease contract and return the asset to the lessor (Hillier and others, 2012:33).
- Leveraged leasing: Leveraged leasing is concerned with assets characterized by high value. The role of the lessee in this contract does not differ from the leasing contracts discussed previously, but there is a difference in the role of the lessor, who purchases the asset required by the lessee, and finances it partially from With his own money, the remaining part is financed with a long-term loan, and the lending party is a financing institution, either a commercial bank or an insurance company (Rao, 1992: 800).

- The hire-purchase lease: It is an alternative to the lending transaction for purchasing equipment. It is usually used in retail or individual financing of less expensive assets, such as motorcycles, sewing machines, refrigerators, and the like. Through it, the lessee pays a high down payment, sometimes amounting to (30%) of the purchase price, and with each rental payment he retains a higher percentage of ownership of the equipment, and thus obtains ownership rights to the asset (Bass and Henderson, 2000: 2).
- Sale and leaseback: In this type of leasing arrangement, the leasing company buys the asset from the lessee and immediately leases it to the same person. This provides the tenant with an immediate cash injection into their business (Kiso, 2018:1709).
- Which would maintain the activity of the banking institution in the market, as the outputs of the banking performance evaluation process are inputs to the future planning process of the banking institution.
- Detecting cases of financial distress and failure and identifying the various risks to which the banking institution is exposed.

The third topic: the practical aspect

Analysis of The Impact of Financial Leasing on Iraqi Islamic Banks Through the EPS Index

Asia Iraq Islamic Bank for Investment and Finance

In 2017, the activity of the United Financial Transfer Company was transferred to the Asia-Iraq Islamic Bank for Investment and Finance and a license to amend the activity was granted in accordance with the letter of the Central Bank of Iraq issued in 2018. The bank began its banking activity on 04/15/2018 and carries out banking, financial, credit and investment activities. In accordance with the provisions of Islamic Sharia through the main branch in Baghdad, a plan has also been prepared to open other branches in the city of Baghdad and the provinces.

The bank provides all conventional banking services and facilities to individuals and companies, as well as investment through speculation and participation. Among the services provided by the bank is the financial leasing service, which is carried out through a contract through which the bank acquires assets and assets for a confirmed request from its customers to own those assets through leasing, where it is transferred. The original belongs to a customer after the end of the contract period.

The bank has one branch and its official website (<https://aiib.iq/>)

With regard to analyzing banking performance through EPS, which represents return per share and can be measured as follows:

EPS = Earnings after taxes / number of common shares

Table (1) shows the financial data for the bank's study variables for the period from 2018-2022, as follows:

Table (1) Financial data related to the Islamic Iraq Bank during the period 2018-2022

EPS for Leasing	Bank EPS	number of Shares	Profit After Tax	Leasing Earning	Year
0.37	1.71-	100000000000	(1703964602)	36637581	2018
0.36	0.91	150000000000	136209935	54539537	2019
0.80	4.82	150000000000	722379632	119898333	2020

0.45	0.43-	250000000000	(1073209230)	113131765	2021
0.81	0.59	250000000000	1493337516	201525144	2022

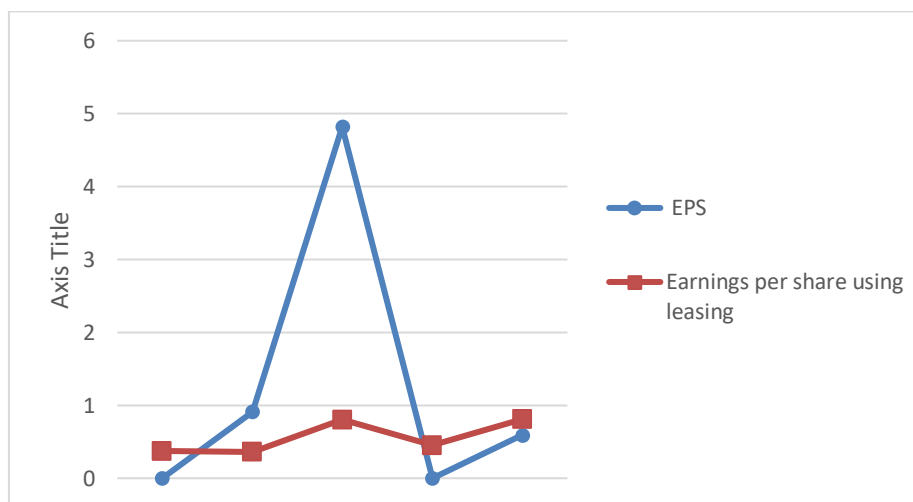
Source: Prepared by the researcher based on the bank's annual reports taken from the bank's official website <https://aiib.iq>

We note from Table (1) that the return per share using leasing has fluctuated during the research period, as the lowest value was in 2019 and reached (0.36), while the highest value reached (0.81) in the year 2022, and between these two years its value fluctuated up and down. But somewhat slightly, and the reason for this is that rental income was fluctuating during the research period, but also in a similar manner.

While we note that there is a difference in the values of the return on the share, as it reached its highest percentage in 2020 when it became (4.82), while its lowest value was in the year (2018). The reason for this is that the bank was exposed to a deficit in profits in 2018 amounting to (1703964602). In 2022, the bank achieved its highest percentage of profits, but it did not positively affect the earnings per share because the number of shares increased to (250000000000), and by dividing the profits by a larger number of shares, the earnings per share decreases.

The relationship between financial leasing and return per share in the Islamic Iraq Bank of Asia can be clarified in Figure (2), as follows: Figure (2)

The relationship between financial leasing and earnings per share in the Islamic Bank of Asia Iraq for the period from 2018 – 2022



Source: Prepared by the researcher based on the data in the previous table

The Iraqi Islamic Bank for Investment and Development

The Iraqi Islamic Bank for Investment and Development was established on December 19, 1992, and the legal procedures were completed to amend the capital and the increase was approved, so that the current capital of the bank became (250) billion Iraqi dinars as of 3/5/2014, and the bank began practicing its activities with full powers. The Central Bank of Iraq on February 23, 1993, and the bank worked to share the wheel of economic development and growth in the country.

The Iraqi Islamic Bank leads the forefront of other banks in Iraq, being the first Islamic bank. It works by innovating and developing common banking transactions in Iraq, especially in light of the current political and economic framework, in accordance with the evil regulations and provisions. The bank has (15) branches spread across major cities in Iraq, and its location The bank's email address is (<https://www.iraqiislamicb.iq/index.html>).

To measure the impact of financial leasing on EPS, we can look at Table (2), which includes the financial data for the bank's study variables for the period from 2018-2022, as follows:

Table (2) Financial statements related to the Iraqi Islamic Bank for the period 2018-2022

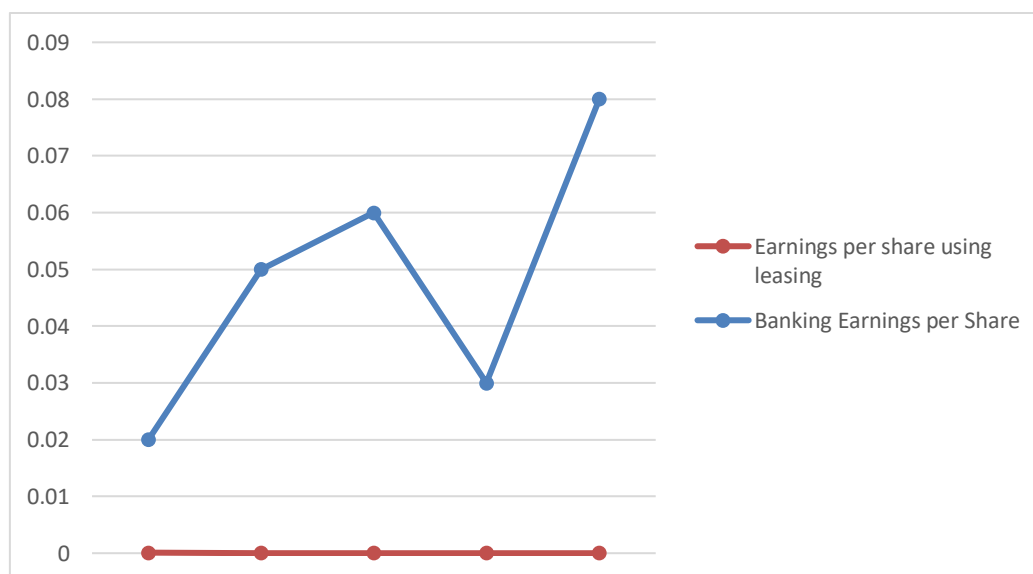
EPS for Leasing	Bank EPS	number of Shares	Profit After Tax	Leasing Earning	Year
0.0001	0.02	250000000	5039911	29750	2018
0	0.05	250000000	11932699	0	2019
0.000007	0.06	250000000	15221162	1800	2020
0.00002	0.03	250000000	6628338	4950	2021
0.00003	0.08	250000000	22164472	7767	2022

Source: Prepared by the researcher based on the bank's annual reports taken from the bank's official website <https://www.iraqislamicb.iq/index.html>

We note from Table (2) that the bank's use of leasing was very slight by looking at the simple revenues achieved through leasing activity, and we can say that the return per share through leasing fluctuated during the years of the study and reached its highest percentage in the year (2018), as It reached (0.0001) because the bank achieved the highest percentage of revenues this year based on the period taken, and through the numbers it is also clear that the bank did not rely on financial leasing activity in its work.

Through Figure (3), the relationship between financial leasing and the return on share in the Iraqi Islamic Bank can be clarified. We can also notice that the return on share using leasing appears at a value of zero, because the profits achieved are very close to zero, and this is reflected in the return on shares and their values, which are close. Very from scratch as well, as follows:

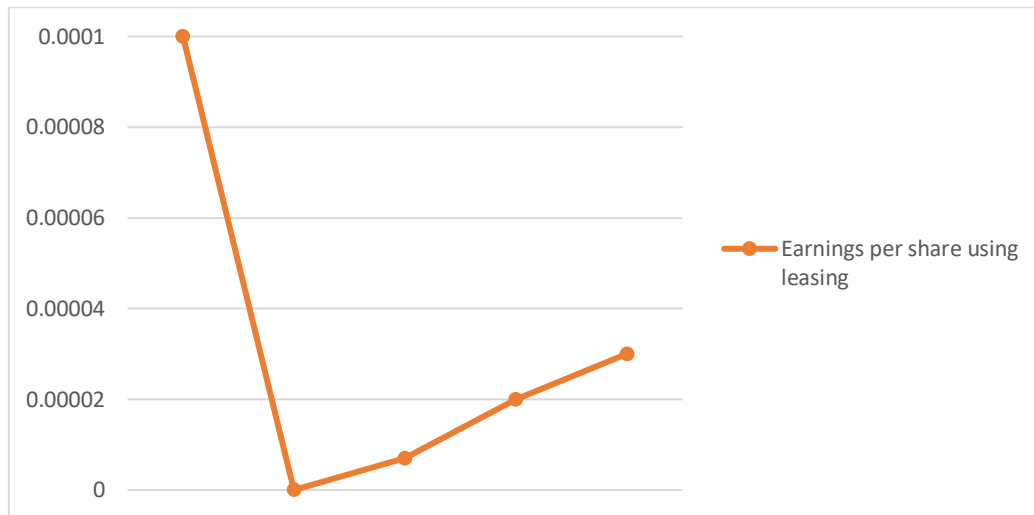
Figure (3) The relationship between financial leasing and earnings per share in the Iraqi Islamic Bank for the period 2018-2022



Source: Prepared by the researcher based on the data in the previous table

To clarify the values of return per share using leasing more clearly, through the data of Table (2) in Figure (4), as follows:

Figure (4) The relationship between financial leasing and return on share using leasing in the Iraqi Islamic Bank for the period 2018-2022



Source: Prepared by the researcher based on the data in the previous table

Based on the previous performance of banks in using financial leasing and its impact on the return of the common stock, it can be said that there are no real trends by Islamic banks' departments to apply the financial leasing formula in their work, and thus the first hypothesis is rejected, and that financial leasing did not positively affect the banks' financial performance. The Islamic research sample, and the reason is that the banks do not use this activity correctly and appropriately, and thus we reject the second hypothesis as well.

Based on the above, focus should be placed on activating financial leasing better in the Islamic banking sector in Iraq, with the need to educate leaders of the Iraqi Islamic banking sector about the importance of financial leasing and the benefits expected from its use, as well as identifying the problems and obstacles facing financial leasing, and working on processed.

Conclusions And Recommendations

Conclusions

- Financial leasing affects banking performance in the Iraqi Islamic banking sector slightly, and does not achieve the desired benefits.
- There is a clear fluctuation in the growth of financial leasing financing activity in Iraq through the research sample. The reason is attributed to the instability in the economies of this country, and this fluctuation in the volume of financial leasing activity in Iraq reflects many of the problems and challenges facing this activity.
- The lack of specialized cadres in financial leasing in Iraq, whether legal or administrative, and their lack of knowledge of applying this activity in the correct manner.

Recommendations

- Focus on activating financial leasing better by banks by identifying the problems and obstacles facing financial leasing and working to address them.
- The need to educate administrators in the banking sector about the importance of financial leasing and the expected benefits from its use.
- Providing full support to the banking sector by governments to enable them to provide and benefit from financial leasing services.

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