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THE INFLUENCE OF BOARD OF DIRECTORS STRUCTURE ON IRAQI BANKS CREDIT RISK: CONCEPTUAL PAPER

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Abstract: *The study aims to develop a conceptual framework for the impact of corporate governance factors on credit risks, such as board independence, board expertise, and board subcommittees. This work created a conceptual model within the context of agency theory. Agency theory theorists contend that in their attempts to originate, fund, service, and monitor credit supply, bank management may engage in specific acts or inactions that hurt the loan portfolio, resulting in asset losses. Moreover, while many prior studies have focused on corporate governance, few have focused on bank governance. Banks have different personalities of their own. Bank governance is unique from other companies since the banks are heavily regulated and opaque. In this regard, this study gives critical information to policymakers and adds to the current body of knowledge in the field of bank governance on the credit risk of Iraqi banks.*

Keywords: *Corporate governance, Board structure, Credit risk, Banking industry.*

Introduction

The subject of credit risk management and the other types of risks has received extensive attention due to the financial crises that were faced by or may facing some banks in the business world (Aebi et al., 2012; Ben Saada, 2018; Liang et al., 2013; Moussa, 2019; Pathan & Faff, 2013). Credit risk is one of the financial stability indicators that international organisations and governments can use to assess the health of economically vulnerable sectors. As a result, good credit risk management appears to be critical to banks' survival and global financial stability (Tekathen & Dechow, 2013). The borrower's failure to pay interest on the borrowed funds or settle the principle under the terms of the credit agreement is referred to as credit risk (Greuning & Bratanovic, 2003). In this regard, some studies have shown that increased banking risks faced by banks on the one hand, and their lack of management on the other, resulted in significant banking crises; this has served as the most powerful motivation for the Basel Committee to issue numerous guidelines to manage each type of risk (Bhattarai, 2019). As a result, credit risk is a worldwide phenomenon, and Iraq is no different. According to the Financial Stability Report in the Arab countries by the Arab Monetary Fund (AMF, 2018), the credit risk in Iraqi banks has grown significantly, with Iraq ranking fourth among 20 Arabic countries in terms of non-performing credit facilities from 2013 to 2018.

Because the weight of the non-performing loans is heavy on Iraqi banks, there is growing concern about the increase in bank bad loan cases. Between 2012 and 2015, these loans were initially 27.8 percent. Then, even though the central bank of Iraq (CBI) obligated banks to control and reduce risks, including the establishment of risk management committees. In the year 2019, private bank loans accounted for 47.9% of total credit. They're worth roughly $2 billion (Central Bank of Iraq, 2018; Central Bank of Iraq, 2019). These loans have raised the number of questionable loans as well as the likelihood of insolvency. In this regard, due to fears of a repeat of the economic collapse during the crisis that struck most of Asia, Iraq has learned the lesson the hard way and have rightfully strengthened their corporate governance mechanisms. As a result, Iraq's central bank, which is solely responsible for producing currency and overseeing banks, issued the Iraqi Code on Corporate Governance (ICCG) in 2017 (OECD, 2018). The Central Bank of Iraq and the Iraqi Stock Exchange (Bursa) have begun working to improve other corporate governance standards, their efficacy, and the development of the best rules and structures that banks should follow.

The preoccupying situation of non-performing loans, their repercussions, and the new issue of corporate governance code issued by the Central Bank of Iraq is the study driving motivations. Additionally, corporate governance was stimulated by a group of prior studies; these studies imply corporate governance mechanisms represented by the board structure (sub-committees of the board, financial expertise & independence), and the nature of those mechanisms are intertwined and tested in a study (Ballester et al., 2020; Ben Saada, 2018; Boateng et al., 2019; Bradley et al., 2007; Singh et al., 2021). Besides, corporate governance effectiveness has raised discourse in several parties, and thus, this study would like to prove whether this controlling mechanism could serve its duties, by extending the discussion on the theoretical view of the corporate governance research through the development of a holistic theoretical framework that clarifies the linking between the board of directors structure and credit risk. According to agency theory research (Ahmed et al., 2021; Fama & Jensen, 1983; Jensen & Meckling, 1976; Liu et al., 2019) , boards or ownership can build superior monitoring and control systems that reduce agency costs and risk in general. We look at the impact of board independence, board expertise, and two board subcommittees on NPLs in particular. The current study is intriguing since there has been limited studies on the impact of board structure on non-performing loans in banks following the implementation of the Iraqi code of corporate governance (ICCG), by incorporating the ICCG recommendations issued by the Central Bank of Iraq in 2018.

Iraq Environment

Iraqi banks share economic activity and are leaders in the country's economy, since they contribute significantly to the country's economic success. In this sense, the Iraqi Stock Exchange leads the Iraqi banking industry, which, according to the CBI, consists of 71 banks, including seven state banks and 64 local and international banks. In this regard, there are 46 local private banks in total, with 18 international banks; a big portion of their activity is centred on providing financial services to diverse industries (Anwar, 2015; Central Bank of Iraq, 2018).

The overall assets of the Iraqi banking system till 2019 was 121.4 trillion dinars, with state banks accounting for 96.6 trillion dinars, or 84 percent of total assets. Simultaneously, private sector assets amounted to 25 trillion dinars, which represents 16% of total assets. Besides, the total capital of the banking sector until 2019, was 17.6 trillion dinars, with private banks being most significant at 11.5 trillion dinars, while public banks accounted for 6.1 trillion (Central Bank of Iraq, 2019).

Under Banking Law No. 94 of 2004 requires both conventional and Islamic banks to get licences; Islamic banks began functioning with Islamic Banks Law No. 43 of 2015 (Central Bank of Iraq, 2015b). Fundamentally, the distinction between Islamic and conventional banks in Iraq is that Islamic banks base their operations on Islamic Sharia-approved profit and loss sharing principles rather than dealing with bank interest, whereas traditional banks deal with clients using the interest system. In addition to the financial controlling, the Islamic banks are requered to Sharia oversight of their activities, that to guarantee conformity with Islamic Sharia's regulations, which is overseen by the Shariah Supervisory Board that is made up of a panel of jurists. Furthermore, there are similarities, given that both Islamic and conventional banks provide a variety of banking services, and despite the difference in the method, both are financial intermediaries (Central Bank of Iraq, 2015b; Central Bank of Iraq, 2018).

Iraqi banks offer loans to people, manufacturing and agricultural businesses in order to enable them to make profitable investments and, as a result, boost Iraq's economic prosperity. In this regard, the amount of credit supplied by the banking industry in 2019 amounted to 32.6 trillion dinars, with state banks accounting for the lion's share, accounting for 84 percent of total credit. On the other hand, while the amount of deposits in the Iraqi banking system reached 93.3 trillion dinars in 2019, public bank deposits account for the majority of the total, accounting for 86 percent of total deposits (Central Bank of Iraq, 2019).

Table 1 shows the family sector and non-financial corporate sector dominate loans granted by private banks, constituting 90% of total loans provided.

Table 1: Sectorial Distribution of Loans in Private Banks

Sectorial Distribution of Loans	***2015***	***2016***	***2017***	***2018***	***2019***
Residents	99.3%	99.3%	99.3%	99.5%	99.1%
Other Financial Companies	6.8%	5.2%	8.3%	7.6%	6.9%
The Central Government	-	-	-	-	-
Non-Financial Companies	26.0%	36.6%	44.7%	49.5%	54.8%
Family Sector	66.5%	57.5%	46.3%	42.4%	37.3%
Non-Residents	0.7%	0.7%	0.7%	0.5%	0.9%

Source: (Central Bank of Iraq, 2019).

Additionally, Table 1 points out that the central government sector is the largest borrower in public banks at rates exceeding 55% for all years. In comparison, the individuals' sector is the second-largest borrower from public banks at rates ranging from 28.5% in 2015 to 34.7% in 2019.

Table 2: Sectorial Distribution of Loans in Public Banks

Sectorial Distribution of Loans	***2015***	***2016***	***2017***	***2018***	***2019***
Residents	100%	100%	100%	100%	100%
Other Financial Companies	1.9%	1.9%	1.3%	1.3%	1.1%
The Central Government	63.3%	59.9%	55.8%	56.5%	56.0%
Non-Financial Companies	6.3%	6.3%	7.8%	10.5%	8.2%
Family Sector	28.5%	31.9%	35.0%	31.7%	34.7%
Non-Residents	-	-	-	-	-

Source: (Central Bank of Iraq, 2019).

When reviewing the sectoral distribution of credit provided by Iraqi banks overall, as in Table 3, findings show that the sectors which borrow the most from Iraqi banks are public government and individual sectors.

Table 3: Sectorial Distribution of Loans in Iraqi Banks

Sectorial Distribution of Loans	*2015*	*2016*	*2017*	*2018*	*2019*
Residents	99.9%	99.9%	99.9%	99.9%	99.8%
Other Financial Companies	2.9%	2.5%	2.5%	2.4%	2.1%
The Central Government	50.3%	48.4%	46.2%	46.3%	46.2%
Non-Financial Companies	10.2%	12.2%	14.2%	15.7%	16.3%
Family Sector	36.5%	36.8%	37.0%	35.5%	35.2%
Non-Residents	0.1%	0.1%	0.1%	0.1%	0.2%

Source: (Central Bank of Iraq, 2019).

According to Table 3, the average concentration of (37 percent) of total loans for the family sector reflects the consumptive nature of credit supplied in Iraq. The concentration of public government loans in public banks reflects the breadth of credit facilities provided by the state's public banks, as they are essentially state-owned. On the other hand, borrowing of the non-financial corporate sector is weak compared to the individuals' sector, due to the structural imbalances in the Iraqi economy and weak incentives of the non-financial corporate sector to borrow from the banking sector to stimulate production. Finally, it turns out that all loans are granted to residents with an average of 98 percent, which indicates that the banking sector in Iraq is not directly affected by banking abroad crises.

Furthermore, the banking sector may be exposed to default risk when the government and household sectors falter. According to the Financial Safety Report issued by the CBI for the year 2019, bad loans grew negatively from year to year until the NPLs percent in the fourth quarter of 2019 reached 46.9% in private banks, and 14% in public banks. In other words, nearly half of the loans granted by private banks are non-performing loans, subject to a high risk of default. This indicates the lack of discipline of banks in providing loans and the weak policy of bank management in dealing with the problem of bad loans, which has increasing over the years (Central Bank Of Iraq, 2019). Figure 1 below shows the status of bad loans in banks, as mentioned in the Financial Safety Report issued by the CBI.

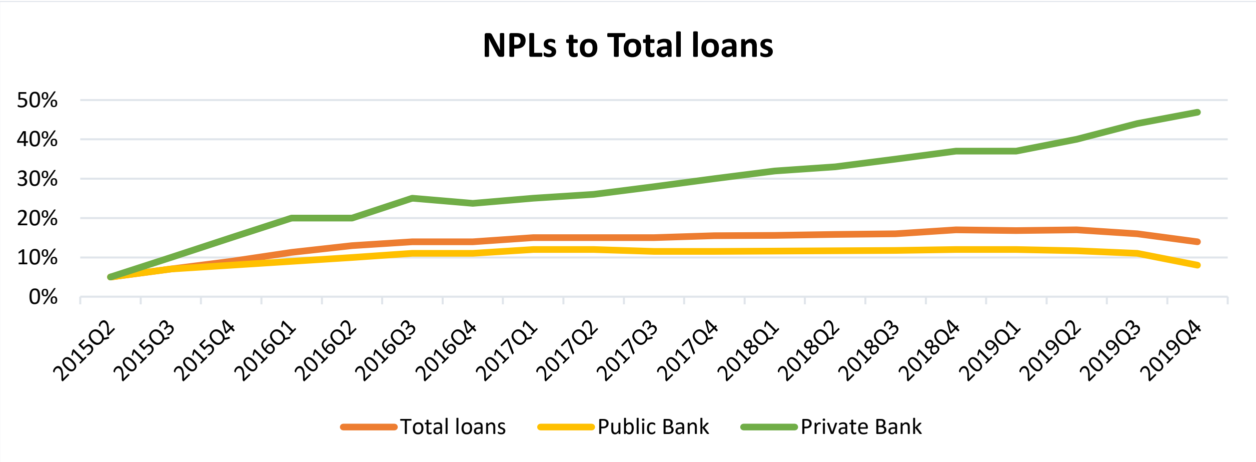

Figure 1: NPLs to Total Loans

Source: Central Bank of Iraq (2019).

Arab Monetary Fund indicated that the increase in non-performing loans in Iraqi banks is due to the lack of discipline of Iraqi banks in granting credit, whether by granting credit with insufficient guarantees or granting the credit above credit limits specified in the bank's policy (AMF, 2018). According to the latest report of the Arab Monetary Fund, the ratio of non-performing loans to total loans granted by Iraqi banks exceeded 12.7% in 2019, after Libya, in which the ratio of NPLs was 21%, and in Tunisia, where the ratio was 13.2 %. Meanwhile, in countries such as Jordan, Oman, Morocco, Egypt, Saudi Arabia, Qatar and the UAE, non-performing loans came in less than 10% (AMF, 2020).

Iraqi private banks have a large capital capacity to cover all expected credit losses if all bad loans are written off, as they began in 2015 to calculate allocations higher than bad loans if the percentage of NPLs reached 110 percent, and this continued to decline until the second quarter (Q2) of 2016, after which it began to be relatively stable; whereas public banks recorded coverage ratios for bad loans higher than private banks in the period following 201. Figure 2 shows that coverage ratios tend to grow over time, reaching 86.5 percent in 2019 Q4. On the other hand, the bad loan-to-total-loan ratio is substantial, reflecting an apparent weakness in credit-granting rules that is mitigated by a relatively low coverage ratio (Central Bank of Iraq, 2019). Figure 2 depicts the percentage of provisions allocated to NPLs.

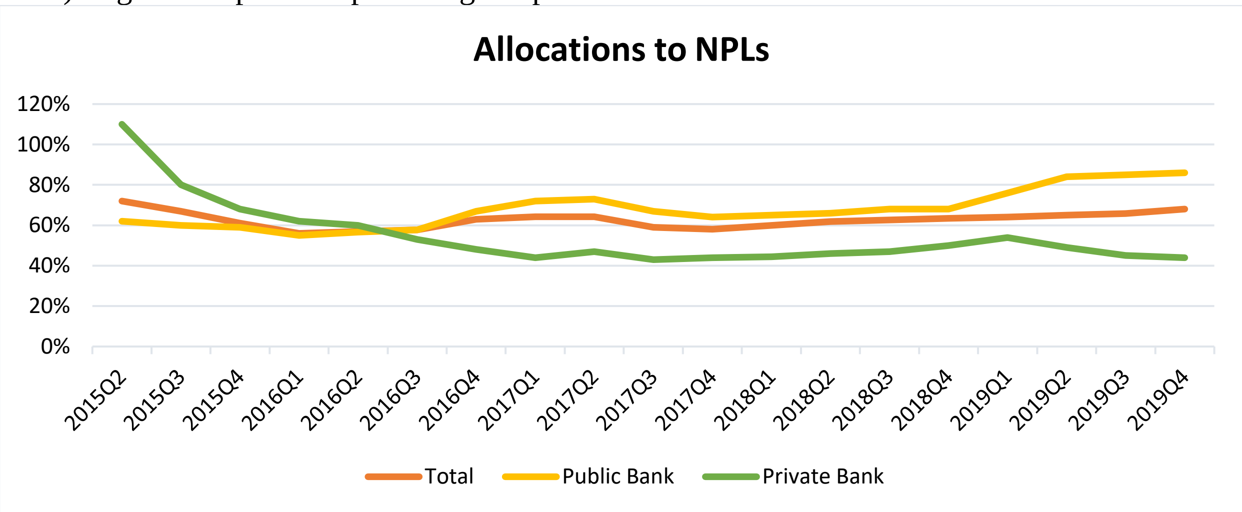

Figure 1: Allocations to NPLs

Source: Central Bank of Iraq (2015a, 2019).

According to the Banking Law of 2004, the CBI monitors the work of public and private Iraqi banks, issuing licenses or permits, and organizing and supervising the banking sector as defined in the Banking Law (Central bank of Iraq, 2004). The operational requirements of the stock market in Iraq are carried out following the regulations and legislation issued under Companies Law No. 74 of 1997 which was updated in 2004, and according to the Banking Law of 2004. Later the requirements of the works of Islamic banks were made following the Islamic Banking Law No. 43 of 2015 (Anwar, 2015; Central Bank of Iraq, 2015b).

In addition to prior regulations, public banks operate under the supervision and orders of the Iraqi Ministry of Finance; this is owing to the ownership of public banks, which is held by the state and its institutions. In 2017, the International Finance Corporation (IFC) collaborated with the Central Bank of Iraq to draught corporate governance norms for the banking sector. The Iraqi Corporate Governance Code (ICCG) went into effect in 2018, and the ICCG standards

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became necessary for the banking industry (Central Bank of Iraq, 2018; IFC, 2018; OECD, 2018).

In Iraq, the general framework of the corporate governance guide is divided into 6 sections; the general framework of the guide, the board of directors, the Sharia board, committees, executive management, and important components to accomplish supervision, disclosure, and transparency. The scope of using the ICCG guiding framework is necessary for all Iraqi banks operating in Iraq, with the exception of branches of foreign banks from the items of the board of directors and committees. The section of the board of directors is represented by a set of items, which include the board of directors' composition, qualifications and independence of the board member, board meetings, the board's duties and responsibilities, the board chairman's tasks and responsibilities, and the CEO's selection and installation (Central Bank of Iraq, 2018).

Furthermore, the corporate governance rule required the formation of a Shariah Commission to monitor Sharia compliance of activities of Islamic banks operating in Iraq without exception, as well as specifying its composition, meetings, and tasks. The corporate governance law required the formation of committees associated with the board of directors, which are represented by the audit committee, risk management committee, nomination and remuneration committee, and governance committee. The credit committee, investment committee, and information and communication technology committee are all associated with the senior management. The code outlined the components, meetings, and duties of these committees as well.

The executive management represents the fifth section of the general framework of the corporate governance guide regarding the suitability of its members, its framework, and tasks; specifying the aspects of conflict of interest and ways to monitor them. Finally, the code defined the fundamental structures required to enable supervision, disclosure, and openness. The internal auditor symbolises qualifications as well as internal audit's relationship to the board of directors and Sharia audit, as well as its relationship with Sharia control and the board of directors. Also included are anti-money laundering and terrorism funding, as well as the board of directors' relationships with risk management, compliance management, and stakeholders. This part also provides disclosure, transparency, and shareholder rights instructions. Except for the Sharia commission and Sharia audit, which are exclusively available to Islamic banks, the elements in the corporate governance code are necessary for all Iraqi Islamic and conventional banks (Central Bank of Iraq, 2018).

Literature Review

Agency problem that develops due to the separation of ownership and control are dealt with by corporate governance. To handle agency challenges, corporate governance measures are in place. Regulatory and internal controls are the mainstays of bank governance. As a result, helping the managers discipline, bank policy control and proper execution of companies' plans (Andres & Vallelado, 2008), and risk strategy influence. The first device capable of lowering bank risks appears to be banking governance. The banking business is complex, and the most effective control mechanism in the companies is the board of directors. Its job is to ensure the interests of all stakeholders (shareholders, regulators, and management) are in sync. According to various studies, the recent financial crises are the result of weak risk management and corporate governance system deficiencies in some institutions (Denis & Fischbacher, 2009). There appears to be a considerable link between board structure and credit policy in general, and credit risk in particular. Finally, the structure or composition of the board of directors is crucial in corporate governance.

Board of directors' effectiveness is contingent on a myriad of factors (Leblanc, 2007). Board independence, size, expertise such as and other factors play an important role in board effectiveness (Omer & Al-qadasi, 2020). According to Byrd and Hickman (1992) , the board with a larger number of external independent directors enhances the monitoring of the board since such a composition may represent a more effective method of monitoring and supervising executive activities. Al Farooque et al. (2020) pointed out that sub-committees of the board have become positioned as part of a company's governance structure to protect the best interests of the organisation.

Board independent and credit risk

The board independence notion emerged especially in the Anglo-American context when ownerships are dispersed. Since the 1960s, the boards with more outsider-directors (boards with more outside directors than inside directors) have been in the United States' extremely popularity, therefore the outsider directors on board reform agenda were compatible with existing Anglo-American corporate governance practices (Rashid, 2018). Board independence is viewed as an effective technique for monitoring manager performance and deterring opportunistic behaviour due to such directors' increased desire and interest in analysing management conduct and thereby maintaining the company's reputation (Sadaa et al., 2020; Uribe-Bohorquez et al., 2018). The strength of the board is expected to be inversely related to independence, in this regard, the presence of non-executive directors on the board is typically connected with board independence: executive or internal directors are members of the management team (Gray et al., 2007). Board of directors composed with higher independent directors attended leads to facilitated monitoring role of the board because such composition tends to represent a more effective way of monitoring and controlling managerial actions (Abdullah et al., 2021; Al-Abrrow et al., 2019; Chen et al., 2020). In context with Iraq, Corporate Governance Code (2017), facilitates the board's monitoring responsibility. This is because a more effective manner of monitoring and managing management actions is represented by such a composition. In Iraq, Corporate Governance Code (2017) mandates that banks have about two-thirds of their board members be independent outsiders. According to Lu and Boateng (2018) , having a significant number of outside directors on the board will enhance effective decision-making, improve decision quality, and lower credit risk.

Borisova et al. (2012) suggested that the ratio of independent directors is an effective internal control mechanism. Similarly, Pathan (2009) found a negative relationship between board independence and risk. In this context, Moussa (2019) clarified that the Tunisian banks' board of directors with more independent board members reveals a negative impact on credit risk. In fact, independent board members might fight unperfect decisions and make correct proposals regarding the selection of certain projects, consequently decreasing the risk degree.

H1: The presence of an independent board of directors is associated with a reduction in credit risk

Board Expertise and Credit Risk

As far as the author can ascertain, only a few studies have measured the board structure using board financial expertise, specifically using it with risks. Banks and other financial organisations have been accused of taking high, unnecessary risks during the current financial

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crisis. The present crisis has been considered by many as a widespread failure of board governance in the banking sector, because boards are ultimately legally accountable for all key operating and financial decisions made by the business (Minton et al., 2014; Tariq et al., 2021). In this context, proponents of financial sector reform stated that board members' lack of financial understanding contributed significantly to the crisis (Kirkpatrick, 2009; Walker, 2009). Because the financial knowledge of the board might act as a control mechanism, and because their position on the board will be crucial in spotting risks that could affect shareholders' interests, the board's monitoring function will be emphasised (Minton et al., 2012). Board members, it appears, are unable to adequately monitor or advise management on risk-taking due to a lack of financial understanding (Alnoor et al., 2021; Unda et al., 2019). Where a more financially experience board can spot risks that will not pay off or are harmful company's financial viability and may counsel top management to avoid them. Alternatively, these financial specialists may identify more calculated risks to shareholders on a regular basis and push management to take them on (Minton et al., 2014). Financial specialists, according to Rost and Osterloh (2010) , are more likely than non-financial experts to underestimate financial risks in a high-uncertainty environment. As a result of the previous research, this current study will use financial knowledge to assess its function in reducing credit risk in Iraqi banks. The findings can help banks, regulators, and decision-makers increase the board of directors' monitoring function.

H2: The board expertise has a negative link with credit risk

Board Subcommittee and Credit Risk

Principle 4.4 of the Code of Corporate Governance Guidelines state that the board committee specifically focused on risk matters (risk management committee) can be an effective mechanism in assisting the entire board in meeting its risk oversight, risk, and internal control management responsibilities (Iraq Code of Corporate Governance, 2018). By conducting an in-depth and extensive study and evaluation of risks and internal controls, a risk management committee comprised of risk management professionals would be better prepared to assist corporate governance. Furthermore, the presence of risk management committee is anticipated to support the board of commissioners in carrying out its supervisory job in order to safeguard stakeholders and fulfil the company's objectives (Khaw et al., 2022; Nasution, 2019). The risk management committee also allows for a better understanding of the company's risk profile (Burrell & Morgan, 1979). As a result, each committee has a distinct function; if all committees in a company fulfil their responsibilities by objectively overseeing and monitoring management activities, agency conflicts should be reduced, and shareholder and manager interests should be better aligned, resulting in improved board director performance and shareholder wealth maximisation.

The influence of other sub-board committees (i.e., remuneration and nomination, corporate governance, and sustainability committees) for Iraqi banks are not examined in this study due to unavailable data from annual reports and the database. Additionally, before 2018, banks were optionally required to have these committees.

Audit Committee

Audit committees are responsible for reviewing risk management as well as financial reporting. The Blue-Ribbon Committee proposed in 1999 that audit committees ask management, the director of internal audit, and an independent accountant to know about significant risks or exposures, and to review the efforts that management has taken to reduce these risks to the company (Millstein, 1999). Regulators and depositors, on the other hand, are concerned about bank risks, particularly in light of the recent financial crisis. Risk supervision is under more scrutiny by regulators. The Securities and Exchange Commission (SEC) introduced guidelines in 2009 to strengthen proxy disclosure and expand the role of boards of directors in risk assessment and management. Boards of directors are likely to be more attentive to regulatory compliance and behave more cautiously to prevent legal liability or reputational damage from bank defaults as a result of higher regulatory requirements on risk control (Abdullah et al., 2021; Alnoor, 2020; Sun & Liu, 2014). Pathan (2009) finds a negative relationship between board quality and banking risk, implying that high-quality boards are concerned about bank risk. Similarly, high-quality audit committees may be motivated to lower a bank's regulatory compliance risk. Furthermore, a high-quality audit committee may undervalue management's excessive risk-taking for short-term gains when such risk-taking does not actually optimise value (Cheng et al., 2011). This type of opportunistic conduct is especially common in the banking business, where management success is measured in part by how much money may be earned in comparison to their peers (Rajan, 2005).

As a result, boards of directors frequently have operating committees, such as the audit committee, that provide supervision. Although audit committees are in charge of risk management, there is little evidence that the audit committee has an impact on a bank's credit risk management. Lestari (2018) discovered that the audit committee had a negative impact on banking risk in a group of Indonesian banks. Similarly, Amin et al. (2019) found that the Audit Committee's involvement was the best candidate among the internal governance parameters linked to a large drop in non-performing loan ratios in Bangladesh's conventional commercial banks. Finally, Tahir et al. (2020) emphasised the importance of the review committee in increasing the quality of bank loans to Pakistani banks.

H3: Audit committee has a negative influence with credit risk

Risk Management committee

In terms of risk control, detection, and prevention, the risk management committee has excelled, notably in terms of financial risk (Larasati et al., 2019). Furthermore, the formation of a separate risk management committee is linked to risk management openness and the lack of financial crime (Abdullah & Said, 2019). As a result of multiple corporate scandals and unexpected business failures in recent years, risk management awareness has increased. The aftermath of the global financial crisis, as well as prior accounting scandals, have shifted public attitudes of the importance of risk management in commercial enterprises (Walker et al., 2005). Many stakeholders have high expectations for risk management programmes inside the firm, thus top corporate leaders must become more active in risk monitoring. The company's board of directors begins establishing new organisational structures to help in the risk monitoring process to handle this issue (Beasley et al., 2008). To guarantee that risk management is executed efficiently, the board of commissioners may appoint a risk management committee (RMC). This supervisory duty can be shifted to the audit committee if the risk management committee is judged unnecessary (Knkg, 2012). The board's dedication to and appreciation of the crucial significance of internal control systems and solid corporate governance is demonstrated by the formation of a risk management committee (Cummins et al., 2009). RMC supervision is typically beyond the audit committee's authority and scope, as the audit committee's oversight may be confined to financial reporting and other compliance-related risks, rather than other risk categories (Brown et al., 2009).

Except for Bin Saadeh's study, no empirical studies have looked at the impact of this committee on non-performing loans. Ben Saada (2018) indicated that the risk committee, which is measured by the number of annual meetings, had a negative impact on credit risk. This committee is responsible for assessing the various risks facing banks. Its oversight role appears to be more important than that of the other committees, namely the credit committee and the audit committee. The previous research focused on the critical function of the Risk Management Committee in the risk management process, which is different from the goal of this present study, which is to investigate the influence of RMC on credit risk. Furthermore, unlike the Bin Saadeh research, the present one includes measurements for both the Risk and Non-Performing Loan Committees, as well as the study environment. As a result, the purpose of this study is to fill a vacuum in the existing literature on the risk management committee's role in credit risk management. The current study suggests, based on the preceding debate:

H4: Risk management committee has a negative influence on credit risk

Theoretical Background on Board Structure with Credit Risk
The basic question in corporate governance is whether shareholders' interests can be properly safeguarded or not, and agency theory is focused with addressing agency conflict. The problem of separation of ownership has regulated organisations to adopt the most suitable, appropriate, and solid governance arrangements in order to ensure that principals and agents' interests are effectively aligned. One of the fundamental goals of corporate governance, according to Demsetz and Lehn (1985) , is to solve agency problems by ensuring that all sides' interests are aligned. According to Jensen and Meckling (1976), a board of directors serves as the representatives of the principals. Similarly, Healy and Palepu (2001) argue that directors are an important tool for controlling and constraining management in the best interests of shareholders, reducing agency conflict. The board's crucial job of reviewing management on behalf of the shareholders is also justified by agency theory (Fama & Jensen, 1983a). Boards are often regarded as an important instrument or device for scrutinising firm management choices. The board of directors' duty, according to agency theory, is to offer the most effective method for achieving corporate governance that protects their interests; in other words, it was established largely to alleviate agency difficulties (Fama, 1980).

Carter et al. (2010) affirm that the board of directors‘ fiduciary commitment is to secure shareholders‘ interest that is being prioritised by the management. The researchers further mentioned that agency theory has posited that the board of directors' effectiveness is contingent on a myriad of factors (Leblanc, 2007). Factors such as board independence, size, expertise and other factors play a part (Omer & Al-qadasi, 2020). Byrd and Hickman (1992) contend that the board's monitoring role is facilitated by a committee whose composition reflects a more significant proportion of external independent directors since such a composition could represent a more effective way of monitoring and controlling managerial actions. In terms of board sub-committees, Al Farooque et al. (2020) stated that they have become the standard as part of a company's governance framework to secure the firm's best interests. In addition, discussed the function of the board of directors in managing top managers' potential opportunism in large businesses. As a result, agency theory focuses on the institutional arrangements (ownership and organisational structures) that influence agency conflicts. This is strongly related to property rights, because the consequences of property rights distribution are critical in analysing principal-agent interactions. The principal-agent paradigm's key aspects are that it: (1) proposes explanations and solutions for many sorts of agency issues; and (2)

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provides both dispute avoidance and conflict resolution ways through incentive-alignment and governance procedures.

As a result, agency theory is the dominant theory that explains the links between corporate governance and credit risk (Ali et al., 2018; Utama et al., 2016). In this way, the agency issue might be connected to cases of bank credit risk. In their efforts to originate, finance, service, and monitor credit supply the bank managers may participate in particular acts or inactions that may damage the loan portfolio, resulting in asset loss. To avoid such situations, robust internal control measures that minimise such losses should be in place and successfully implemented.

Theoretical Framework
Based on the previous literature study and theoretical framework, Figure 3 demonstrates the diagrammatic representation of the theoretical framework investigated in this study. In this framework, credit risk is the dependent variable for the antecedent which is the board structure. The framework is showcased that this study fundamentally utilises agency theory to present the evidence on roles of board structure and ownership structure towards credit risk.

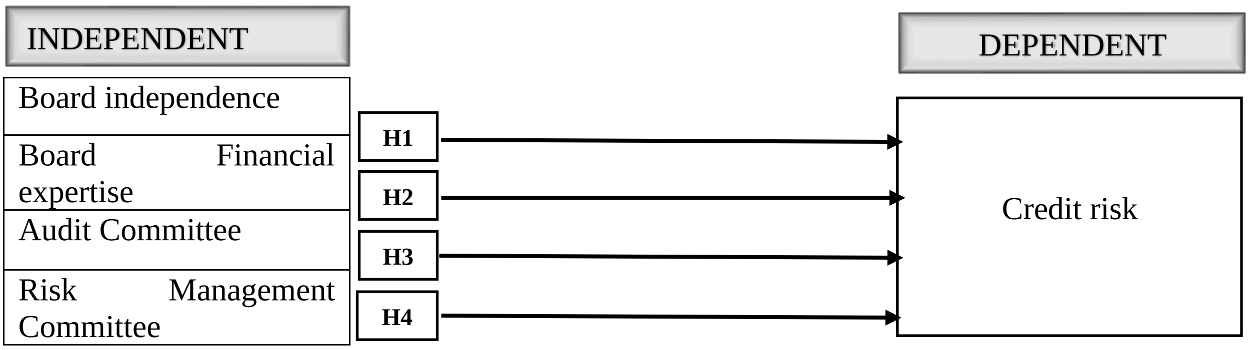

Figure 3: A Visual Depiction of How Board structure Influence the Credit Risk.

Significant of Study
The majority of Middle Eastern nations have significant agency costs. Besides, Iraq's banking industry functions in a slightly different context than that of the rest of the Middle East countries, particularly after 2003, when the country was embroiled in a war with the United States and then economic sanctions, political issues, and internal strife. Because of these reasons, Iraq might be a new context for the conflict of interests and agency problem. Therefore, the current study can contribute by helping to better understand the role of the agency problem in the Iraqi context, as well as the factors that lead to banks' exposure to significant credit risks. In addition, this study helps corporate governance practitioners control and limit credit risk so that stakeholders and investors workforce will be more secure, especially in the Iraqi environment. Therefore, this study can provide a map of the prevailing situation of corporate governance in Iraq, which is of interest to local and international investors, managers and academic researchers considering the impact of corporate governance framework on credit risk. It is hoped that the results will provide further direction to the Iraqi Securities Commission, CBI and Iraqi Institute of Corporate Governance regarding the mechanisms of corporate governance in Iraqi banks. As such, it would provide a basis for policymakers and regulators to develop or redesign suitable corporate governance systems for the Iraqi capital market that might be applicable in other developing economies.

Volume:7 Issues: 39 [March, 2022] pp. 167 - 182
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Methodology

Utilising the research onion�' as the primary reference for developing the methodology (Saunders et al., 2016), the principles of positivism and the deductive approach will be applied in this study. The research technique that will be used is an archival research strategy that uses the documents (annual reports) as the principal data source. This study will use two primary sources of data collection from secondary data sources (multi-method data collection technique) from Datastream and the Iraqi listed banks‘ annual reports. The panel data study will consider, and the time frame is specified for the years 2011-2020.

Conclusion

A review of the literature shows that most of the literature that has examined the relationship between board structure on risk shows a significant concentration on developed countries, but this issue has attracted only limited research on developing countries. There is a need, then, for a study that focuses on developing countries, because the relation between board structure with credit risk in these countries is not fully explained by findings on this issue in developed economies. Therefore, the current study mainly focuses on Iraq where the Iraqi banking sector is characterized by a high credit risk compared to other developing countries in the Middle East. Moreover, corporate governance in Iraq is still in the development stage compared to that in the Western world, there is also a scarcity of literature on corporate governance in Iraq. The purpose of this paper is to present a conceptual framework for understanding the impact of the board of directors' structure on non-performing loans. The research is based on a sample of Iraqi listed banks from 2011 to 2020. Numerous academics in this article illustrate how the inclusion of independent members, expertise, audit committee, and risk management committee on the board of directors influences credit risk based on the current literature. In reality, because this is just a conceptual paper, it advises that an actual investigation based on the conceptual framework be done in the future to check the effect of board structure on credit risk.

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Volume:7 Issues: 39 [March, 2022] pp. 167 - 182
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