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Evaluating the Effectiveness of Financial Analysis in Improving Investment Decisions in the Iraqi Banking Sector

Hussein Jaleel Mohsin*
Institute of Administration Rusafa/Middle Technical University

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Financial analysis, income, investment, return on investment

A R T I C L E   I N F O

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*Corresponding author:
Hussein Jaleel Mohsin
Institute of Administration Rusafa/Middle Technical University

Abstract: Financial analysis is the process of evaluating and understanding the numbers and financial information provided by companies in their financial reports. The purpose of this analysis is to comprehend the company's actual performance and assess its real capacity to achieve profit and growth in the future. This plays a critical and essential role in the decision-making process regarding whether to proceed with investments or not. Thus, financial analysis serves as a powerful tool that aids investors in making well-informed and clear investment decisions, especially in the banking sector, where investment is considered one of the fundamental pillars for generating returns. The study relies on the published financial data of a sample of Iraqi banks listed on the Iraq Stock Exchange for the period from 2020 to 2023, including the following banks: Zain Iraq Bank, Al-Mustashar Islamic Bank, Jihan Bank, and International Islamic Bank. Consequently, one of the key objectives of the study is to provide theoretical and practical contributions in diagnosing the issues related to financial analysis processes and their impact on investment ratios in the banks included in the research sample.

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تقييم فعالية التحليل المالي في تحسين قرارات الاستثمار في القطاع المصرفي العراقي

حسين جليل محسن
معهد الإدارة الرصافة/الجامعة التقنية الوسطى

المستخلص

التحليل المالي هو عملية تقييم وفهم الأرقام والمعلومات المالية التي تقدمها الشركات في تقاريرها المالية. يهدف هذا التحليل إلى فهم الأداء الفعلي للشركة وتقييم قدرتها الحقيقية على تحقيق الأرباح والنمو في المستقبل. يلعب التحليل المالي دورًا حاسمًا وأساسيًا في عملية اتخاذ القرار بشأن المضي قدمًا في الاستثمارات أو عدمه. لذلك، يُعد التحليل المالي أداة قوية تُساعد المستثمرين على اتخاذ قرارات استثمارية مدروسة وواضحة، خاصة في القطاع المصرفي، حيث يُعتبر الاستثمار أحد الركائز الأساسية لتوليد العوائد. تعتمد الدراسة على البيانات المالية المنشورة لعينة من المصارف العراقية المدرجة في سوق العراق للأوراق المالية للفترة من 2020 إلى 2023. وهذه المصارف هي: مصرف زين العراق، مصرف المستشار الإسلامي، مصرف جيهان، مصرف الدولي الإسلامي وبالتالي، فإن أحد الأهداف الرئيسية للدراسة هو تقديم مساهمات نظرية وعملية في تشخيص القضايا المتعلقة بعمليات التحليل المالي وتأثيرها على نسب الاستثمار في المصارف المشمولة بعينة البحث.

الكلمات المفتاحية: التحليل المالي، الدخل، الاستثمار، العائد على الاستثمار.

1. Introduction

The financial data analyzed consists of financial statements such as the balance sheet, income statement, cash flow statement, and all related supplementary financial reports. These statements represent the financial value of companies in terms of their assets, profits, liabilities, and liquidity. These data are of interest to owners, suppliers, lenders, investors, shareholders, and all stakeholders who rely on them to determine the size of investments and the nature of lending.

As a result, financial analysis of these data is undertaken to enable decision-makers to make clear and informed decisions while minimizing or significantly reducing investment risks. Financial statements vary according to generally accepted accounting principles and standards. To understand financial statements, it is not sufficient to rely solely on the numbers presented in the various financial statements. Therefore, it is necessary to conduct specialized financial analyses aimed at clarifying the data and identifying the reasons behind any financial issues, if present. These analyses also examine the impact of different company elements on operational activities.

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Furthermore, comparative processes are performed to track specific financial statements over multiple years, providing a basis for comparison between financial periods. Financial ratios, such as return on investment, are also used as a key element to understand the return ratios achieved in previous periods and their implications for investments.

1-1. Research Problem: The importance of financial analysis for the published financial information in financial statements in investment decision-making is evident from the above. Accordingly, the research problem can be formulated in light of the following question:

What is the role of financial analysis of published financial information in financial statements and its impact on changes in investment orientation?

1-2. Research Objectives

1. Identifying the scope of financial analysis, its features, and how it can be utilized in making investment decisions for a sample of Iraqi banks.
2. Formulating the theoretical aspects of financial statement analysis for a sample of banks operating in the Iraq Stock Exchange.
3. Exploring the implications of financial analysis processes on financial statements, highlighting the quality of published financial information traded in the Iraq Stock Exchange.

1-3. Research Hypothesis

"There is an effectiveness of financial analysis on investment decisions for a sample of banks listed on the Iraq Stock Exchange "

2. Literature Review

2-1. The Role of Financial Analysis in Investment Decisions: The role of financial analysis in making investment decisions begins with the process of gathering data related to the company being considered for investment. This data includes financial statements such as the income statement, balance sheet, cash flow statement, and other relevant reports. Subsequently, processes like financial ratio analysis and cash flow analysis are conducted. Additionally, investors seek to review the company's management reports to understand the management's vision regarding the company's current and future performance. Thomas et al. (2016) Using the present value, the financial information is utilized to estimate the current value of the company, including the stock price. Based on financial analysis and the evaluation of the present value, investors decide whether to invest in the company or not.

Parker (2017) It helps the investor conduct analysis, comparisons, and interpretation of financial data to make the right decision, as it sheds light on various aspects of the company, including profitability, liquidity, and the evaluation of the company's profit distributions. Campbell's research (2018) Therefore, indicators are identified to analyze the company's financial performance, with the purpose of evaluating profitability, assessing the company, and determining shareholder wealth.

2-2 The Impact of Financial Analysis on Bank Performance: Difficulty in evaluating bank performance may arise due to differences in regulatory environments and the nature of their objectives, in addition to the ineffectiveness of current performance measures in detecting certain situations, such as distress and bankruptcy, that the institution may face. Henry's (2015) by Irving (2019) However, banks are evaluated through a set of financial indicators represented by financial analysis ratios used to diagnose the financial position of the bank. This includes analyzing liquidity, profitability, asset utilization, capital adequacy, and debt ratios.

According to Michaelson's study (2020), Performance evaluation in banks is considered an important process as it allows for identifying strengths and weaknesses, working on improving strengths and addressing weaknesses to overcome them.

2-3. Financial Analysis in the Iraqi Banking Sector: Al-Jaafari (2016) Iimproving and developing the financial performance of Iraqi banks enables the advancement of the rapidly growing Iraqi banking sector. This is attributed to the significant importance of the banking sector, particularly Iraqi banks, especially after the emergence of several private banks that have operated competitively alongside government banks. The Central Bank of Iraq supervises all banking activities, whether governmental or private.

The study conducted by Al-Zahed (2018) The majority of Iraqi banks do not conduct financial analysis in a manner that aligns with the scale of global developments. Strengths and weaknesses are neither identified nor diagnosed, which would otherwise assist users of financial data in making decisions. Decision-makers, whether investors, lenders, or other beneficiaries, face numerous difficulties in interpreting financial data, leading to a lack of clarity and transparency in financial information.

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2.4 Challenges and Opportunities for Improving the Use of Financial Analysis: Iraqi banks must keep up with the developments and updates experienced by the banking sectors in global markets. Improvements can be achieved by conducting detailed financial analyses of companies' financial situations, ensuring they are carried out in accordance with generally accepted international accounting standards. Al-Khatib (2017). Sherif's study (2019) enhances the accuracy and reliability of the data and reduces discomfort among data users. If these banks adopt this approach, there will be growth and development in many of the bank's financial instruments, such as investments, credits, and more.

3. Research **Gaps:** There are numerous studies that have highlighted the topic of financial analysis in Iraqi banks. However, in light of the economic challenges facing the country and the inclusion of many banks under the sanctions framework, these banks must work on activating other financial tools, such as investments and credits. Given the gaps in the literature regarding the study of financial analysis and its impact on the sustainability and development of banks, there is a pressing need for further research and studies on this subject. This is especially important given the critical role this sector plays as the backbone of the economy of any country.

4. **The Methodology:** The data collection methods will rely on a quantitative approach in the study process. Data will be measured using the financial statements of a sample of banks listed on the Iraq Stock Exchange to determine whether financial analysis impacts investment decisions.

Research Design: The data analysis will be conducted using statistical variance analysis (ANOVA) through the SPSS program. The study relies on published data from the Iraq Stock Exchange for the period from 2020 to 2023, covering a group of four banks. The aim is to determine the potential impact of financial analysis, assess the effectiveness of financial analysis in Iraq, and evaluate its influence on investment decision-making.

4-1. Research Sample and data Collection:

- The research sample consists of four banks listed on the Iraq Stock Exchange, with their officially published financial statements for
- The period from 2020 to 2023 is being utilized. It was considered that the banks in the research sample are equal in terms of capital to support a robust basis for comparison.

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4-2. Variables and Indicators

- **Independent Variables**:
  - **Return on Investment (ROI)**: This will be 1st variable to measure how effectively banks are turning their investments into profits.
  - Revenue Growth: This will be 2nd variable to measure how effectively banks are turning their investments into profits.
- **Dependent Variable**:
  - **Investment Decisions**: Measured through the banks' investment patterns, returns on investments, and the overall performance of the investment portfolio.

4-3. Data Analysis Techniques

Only **Analysis of Variance (ANOVA)** will be used to evaluate whether there are significant differences in financial performance indicators across different banks. ANOVA will help determine whether financial analysis has a measurable impact on investment decision-making.

4-4. Hypothesis Testing: The following hypotheses will be tested:

- **H1** Financial analysis has a positive effect on the effectiveness of investment decisions in Iraqi banks.
- **H0** Financial analysis has no significant effect on investment decisions in Iraqi banks.

5. RESULTS: Regression was used to study the relationship between the variables for the period from 2020 to 2023, covering four years, and for the banks represented by Al-Mustashar Islamic Bank, Jihan Bank, International Al-Islami Bank, and Zain Iraq Bank, in addition to using ANOVA statistical analysis to test the research hypothesis.

Regression Statistics	
Multiple R	0.629891331
R Square	0.396763089
Adjusted R Square	-0.206473822
Standard Error	0.539258601

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.191265886	0.191265886	0.657723495	0.566198827
Residual	1	0.290799839	0.290799839		
Total	2	0.482065725			

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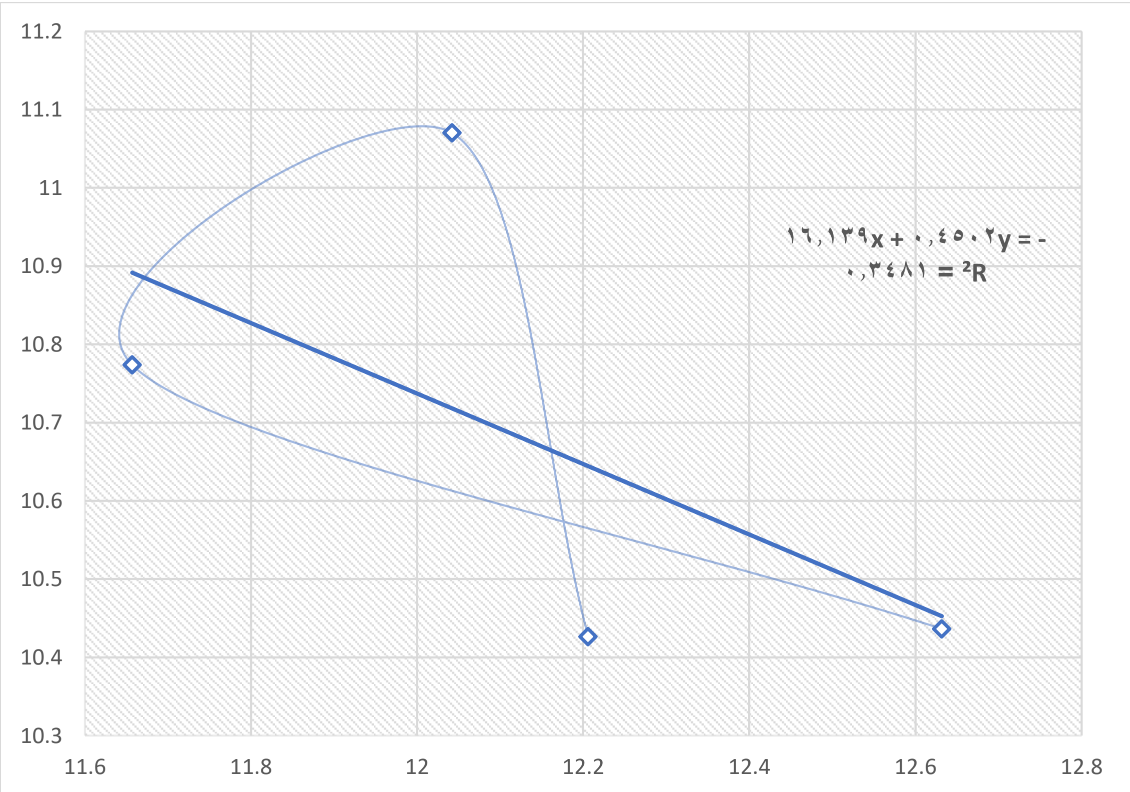
	Coefficients	Standard Error	t Stat	P-value
Intercept	22.60196862	12.9404363	1.746615654	0.331029804

Based on the results of the previous statistical analysis, we observe that the R Square reflects the variance of the research variables, specifically financial analysis on investment decisions. From the percentage, we notice that it is low, representing only 39%. As for the ANOVA analysis, we observe that the calculated F value is greater than 0.05, which means that the results are not statistically significant.

We also notice that the t-statistic value is 1.7466, which is a test to determine whether the differences are statistically significant or not. Based on this value, we observe that the relationship between financial analysis and investments is not statistically significant, meaning that financial analysis does not have a strong effect on investment decisions. The P-value is 0.3310, which is a measure used to assess the statistical significance of the coefficient. Since the P-value is greater than 0.05, this indicates that the effect of financial analysis is not statistically significant in the investment decisions of the banks in the research sample.

In order to clarify and explain the variance between the variables effectively, the following chart illustrates this.



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Based on the results of the statistical analysis, we find that there are several limitations in the financial analysis' impact on investment decisions, which contrasts with the literature that emphasizes the importance of financial analysis in investment operations for bank, we accept the null hypothesis, which states that "Financial analysis has no significant effect on investment decisions in Iraqi banks"

Conclusions

1. Financial analysis focuses on examining and studying the outputs of the desired accounting cycle in the financial statements. It is also a prominent and essential tool for understanding the financial position and economic performance of companies. Additionally, financial statement analysis provides a comprehensive overview of a company's financial position.
2. Scientific studies indicate that financial analysis provides investors with accurate and comprehensive data that helps in making informed investment decisions.
3. Identifying growth opportunities for banks and potential risks is one of the reasons for using financial analysis, alongside making investment decisions.
4. There is no significant variation in the financial data of the banks in the research sample; rather, their financial results are similar in terms of return on investment and investment growth rates.
5. Financial analysis has no real impact on investment decision-making, highlighting significant shortcomings in financial analysis processes, a lack of advanced tools for analysis, and insufficient attention from executive management. This is particularly notable despite its importance as one of the key elements that contribute to the growth and prosperity of banks, especially in the current economic situation.
6. There are many issues that could affect the financial analysis of data, the most important of which are shortcomings in software systems or deficiencies in the financial analysis skills of the staff.

Recommendations:

1. Banks should reconsider the strategies and processes they use in technological development to respond to new financial changes, especially within the Iraqi environment, to provide financial analysis that aligns with the size of the company.
2. Significant attention must be given to financial analyses due to their role in presenting the institution to the external world and their impact on openness,

particularly in investments and credits, which are crucial to the banking sector, especially under the current economic situation where banks are restricted from using foreign currencies.

3. Continuous improvements in financial reports are essential due to their growing importance in financial analysis. Companies must enhance the quality of their reports and provide clearer and more transparent information.
4. Leverage modern analytical tools, such as artificial intelligence, to analyze large datasets effectively.

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