

The Impact of Investment Banking on Credit Risk: An Analytical Study of the Iraqi Credit Bank

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Abstract

Purpose: The goal of this current research is to evaluation importance of investments and their evaluation especially after making investment decisions, comes from sound scientific foundations. In addition, the fields of investment have developed a lot in the past years in light of the rapid developments in the banking and financial industry facing banks, it has become imperative for banks to take into account the utmost caution and safety when investing their financial resources.

Theoretical framework: the analytical study of the Iraqi Credit Bank was adopted as the research sample and as an analytical aspect of the bank to show the impact of investment banking on credit risks.

Method/design/approach: The most important method used in measuring the evaluation of investments, financial statements were adopted for their importance in evaluating banking investments and their role in evaluating credit risks. The methods used in measuring bank credit risks included the standard approach that relies on the credit ratings developed by the external rating institution.

Results and conclusion: The research reached the most important conclusion, which is that the Iraqi banks, the research sample, do not use modern financial instruments represented by derivatives and innovative financial instruments used by many Arab and foreign financial and banking institutions to reduce risks and increase returns. The research concluded that the bank needs to work on preparing its employees to become qualified for this work by international standards.

Research implications: The study affected the bank, the study sample, in exploiting liquidity and investing it in various investment fields to improve the profitability situation in banks in exchange for less risk.

Originality/value: the analytical study of the Iraqi Credit Bank was adopted as the research sample and as an analytical aspect of the bank to show the impact of investment banking on credit risks.

Keywords: Investment Banking, Credit, Investment Tools, Derivatives.

Introduction

The banking sector plays an important role in the economic units in Iraq and is considered a mirror that reflects the state of the economy, as it is one of the most important main pillars for the continuation and development of economic activity in all developed and developing countries alike. To include resorting to the use of new tools to

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achieve reasonable profits with the least risks associated with them, and in view of this comes the importance of investments and their evaluation, especially after making investment decisions and according to sound scientific foundations, in addition to the fact that investment fields have developed a lot during the past years in light of the rapid developments in the banking industry and information and communication technology Which led to the expansion of the base of banking and financial risks facing banks in parallel, so it became necessary for banks to take into account the utmost caution, caution and safety when investing their financial resources.

Study methodology

First: the problem of the study:

The investment decisions in the study sample banks are not based on scientific foundations and rules when they are taken, but rather they are subject to personal estimates, as they often lack accuracy and objectivity due to the lack of necessary accounting information for that, and therefore that banks practice less risky business to avoid what may result from losses in exchange for sacrificing the returns that It can be achieved.

Second: the importance of the study:

The importance of the study comes from the importance of investment, which has an important role in the economy of any country, in stimulating financial markets, and in achieving capital accumulation.

Third: Objectives of the study:

The study aims to study the current situation in the field of banking investments in Iraqi banks, the study sample, to find out the practical situation, and to identify the extent to which investment activities can be developed, as well as to evaluate banking investments and their risks by showing the importance of financial analysis of the data available to the study sample banks.

Fourth: The hypothesis of the study:

The study sample banks do not rely on scientific and objective foundations when evaluating investments and the risks arising from them

Conceptual framework towards investment

First: - The concept of investment and its nature:

The concept of investment can be defined from the economic point of view as "the productive employment of capital through the acquisition or purchase of (real) tangible assets represented in buildings, equipment, inventory and the purchase of real estate."

(Amling, 1999), which is also "directing savings towards different uses that lead to satisfying the economic needs of society and increasing welfare." (Backman & Roland, 2000)

Investment, from the point of view of the commercial bank, is defined as "the employment of financial resources, according to their deadlines, in the purchase of various financial assets for the purpose of achieving profits." (Brealey & Marcus, 2001)

Second: - investment objectives:

The general objectives pursued by commercial banks in investment operations fall short according to the economic and political conditions surrounding the society, and according to the degree of risk that the bank's management can bear.

In general, the investment objectives of commercial banks are summarized in the following four purposes:(Derek & Barbara, 2005).

1. Achieving a return by employing some resources instead of leaving them idle with the bank, after it keeps a sufficient amount of liquid money in its vaults to meet the expected withdrawals of depositors.
2. Maintaining convertible reserves into cash to secure the liquidity situation at the bank, as securities of all kinds are easy to convert into cash in a short time.
3. Being able to face seasonal financing or sudden withdrawal from deposits or credits open to customers, when the bank maintains a portfolio of securities, it avoids the risk of exposure to crises, as it can sell a quantity of them in the fastest time.
4. The bank targets the interest of the national economy when it subscribes to government papers - especially in developing countries - as it bears a burden in financing economic development plans and filling the need for government spending.

Third: Investment Tools:

Investment has many and varied tools that vary with the diversity of the economic activity in which it is invested, including:

1. Real investment tools:

It is defined as the tools that provide the investor with possession of a real asset such as real estate, commodities, investment projects, and foreign currencies (Edmister, 2007).

2. Financial investment tools:

It refers to the tools used in investing in financial instruments, and the investor's possession of a non-real financial asset results in obtaining a return, and it takes the form of a stock, bond, certificate of deposit, or treasury transfers, etc. (Fabozzi & Modigliani, 1996). Trading in these instruments takes place in the different financial markets represented in the money market and the capital market.

3. Derivatives :

Derivatives are nothing but new and diversified investment tools, and they are called by this name because they are "derived from traditional investment tools such as stocks and bonds, and their value depends on the prices of these tools, and derivative tools are financial contracts related to off-balance sheet operations, especially for banks, It relates to real products or commodities, or securities such as stocks and bonds, foreign currencies, precious metals, or specific financial indicators such as stock indices, bonds, exchange rates, or interest rates.This tool is used to protect economic units from the risks of fluctuations that they may be exposed to in the field of prices. Foreign exchange and interest rates. (Ross & Westerfield, 2002)

Fourth: Evaluation of financial investments:

A _ stock valuation:

Since the shares consist of ordinary shares and preferred shares, the evaluation of all types of these shares will be discussed as follows: (Edmister, 2007)

Ordinary shares:

Ordinary shares give rise to two types of cash flows. First, it produces a dividend on a regular basis and second, the shareholder receives the selling price when the shares are sold (Ross & Westerfield, 2002). For the purpose of evaluating banks' investments in common stocks, they can use the discounted dividend model (the present value of internal cash flows).

There are several cases that banks will face when using this model, as follows:

The first case: If the investor (the bank) purchases the ordinary shares and keeps them for one year, then the calculation of the present value of the dividend plus the current value of the sale price when selling the shares is done through the following equation: (Brealey & Marcus, 2001)

$$P_0 = \text{Div}_1 / (1 + r) + P_1 / (1 + r)$$

P_0 : Present value (PV) of the equity investment.

Div_1 : the dividend paid at the end of the first year.

r : stock discount rate.

P_1 : stock price at the end of the year.

The second case: when the investor (the bank) invests in ordinary shares for more than one year, the current value is calculated through the following equation: (Brealey & Marcus, 2001)

$$P_0 = \text{Div}_1 / (1 + r) + \text{Div}_2 / (1 + r)^2 + \dots + (\text{Div}_n + P_n) / (1 + r)^n$$

P_0 : Present value (PV) of the equity investment.

Div_1 : the dividend paid at the end of the first year.

Div_2 : the dividend paid at the end of the second year.

Div_n : the dividend paid at the end of the last investment year.

n : the number of years of the investment.

P_n : the share price at the end of the last investment year.

r : stock discount rate.

The third case: when the investor (the bank) invests in ordinary shares for an indefinite period, the calculation of the current value of the ordinary shares is done through the following equation: (Gregory, 1996)

$$P_0 = \text{Div}/r$$

P_0 : Present value (PV) of the equity investment.

Div : the dividend paid at the end of the year.

r : stock discount rate.

After extracting the present value (PV) of the ordinary shares according to each of the previous cases, it is compared to the investment cost. Thus, we are faced with two cases:

Present value < investment cost investment is positive

Present value > investment cost..... investment is negative

Preferred shares:

They are intermediate financial instruments between ordinary stocks and bonds, as they are similar to bonds by obtaining a specific return, and similar to ordinary shares by obtaining profits when they are realized, and that the economic unit cannot distribute profits to ordinary stockholders unless the preference stockholders are given their due profits, meaning those shares that entitle their owners The right to obtain a priority in receiving a certain profit, or a priority in recovering what was paid from the capital upon liquidation, or a priority in both matters, and this priority is not available to the owners of ordinary shares. (Guedj, 1997)

B_ bond valuation:

They are lending instruments with a predetermined periodic interest, regardless of the performance of the economic unit. Their nominal value is recovered upon maturity, and they can be disposed of before that term by selling them (Hall, 2004). Value, negotiable, and indivisible (Amling, 1999).

For the purpose of evaluating banks' investment in bonds of all kinds, we have three forms of bonds: (Ross & Jaff, 2002).

Net discount bonds:

It is the simplest type of bond, and it represents a pledge of a single payment at a fixed future date. It is usually called zero coupon bonds, to emphasize the fact that the holder of this type of bond does not receive cash payments until the maturity date. This type of bond is evaluated using the equation following: (Ross & Jaff, 2002)

$$Pv = F / (1 + r)^T$$

Pv: current value.

F: The amount of the future payment at a particular date in the future.

r: bond discount rate.

T: the number of years.

Consoles bonds:

Not all bonds have a maturity date. Consoles bonds are bonds that never stop paying coupons and do not have a final maturity date, so they are never crushed, that is, they are invested forever. These bonds are evaluated using the following equation: (Ross & Jaff, 2002)

$$PV = C/r$$

PV: current value.

C: means coupons.

r: bond discount rate.

Level Coupon Bonds:

They are bonds issued by the government or by economic units, and they usually result in coupons semi-annually and have a specific maturity date. These bonds are evaluated using the following equation:(Brealey & Marcus, 2001)

$$PV = C1 / (1 + r)^1 + C2 / (1 + r)^2 + \dots + (Cn + Fn) / (1 + r)^n$$

PV: The present value of the investment in the fixed coupon bond.

C1: Coupons at the end of the first year.

C2: coupons at the end of the second year.

Cn: coupons at the end of the last investment year.

n: the number of investment bonds.

Fn: The price of the bond at the end of the last investment year.

r: bond discount rate.

In general, after extracting the current value of each form of the previous bonds, it is compared to the investment cost, and therefore we are faced with two cases, namely:

Present value < investment cost investment is positive.

Present value > investment cost..... investment is negative.

From the above, the evaluation of bonds was in terms of type, and in terms of maturities, as follows:

1. Treasury transfers:

They are debt instruments used by the government to finance its loans. These instruments are characterized by the fact that they represent a guaranteed source of revenue generation, and they are easily and quickly convertible into cash, and they can be bought and sold easily. The terms of these instruments range from three to six months.(Hall, 2004).

2. Treasury bonds:

It is one of the investment tools in government securities issued by the Ministry

Financial, these bonds are long-term, unlike treasury transfers, which are short-term, and they are issued with a maturity period of not less than one year and not more than 10 years, and the interest paid on them is semi-annual. (Hempele & Simonson, 1994)

Fifth: - Bank investment risks

Risk can be defined in the field of finance and investment - financial thought - as "the process of anticipating or predicting the cash flows that the investment project deserves, where the risk in this case lies in the possibility of the actual cash flows deviating from the expected cash flows, and the degree of risk varies from one investment project to another According to the size of the expected deviation between what is actual and what is expected (Hempele & Donald, 1999) Risks have also been defined in financial terms as fluctuations in the market value of the economic unit, where financial risks are divided into:

❖ Systematic Risk

❖ Unsystematic Risk

Types of investment risks: (Hirt & Block, 2003)

Investment risks are among the most important risks among other banking risks as a result of the financial nature of the banking business. The risks surrounding investments can be clarified as follows:

1. Credit Risk :

These risks result from the inability of the other party to fulfill its agreed obligations.

It includes on-balance sheet items such as loans and bonds and off-balance sheet items such as letters of guarantee and letters of credit.

Credit risks lead to a deterioration in the value of the bank's assets and thus expose it to losses that eventually lead to bankruptcy (Ross, 1991).

2. Market Risk :

It is the uncertainty related to revenues as a result of changes in interest rates, fluctuations in exchange rates, fluctuations in securities prices and commodity prices (commodity prices were not taken into account because they do not fall within the bank's work). These are risks that cannot be eliminated by diversification because they affect the market as a whole and cannot be diversified (Hempele,1999). These risks include the following:

1. Interest Rate Risk

It is also sometimes referred to as a component of market risk. The effect of changing the interest rate on the profit margin of the bank is called interest rate risk (Ross, 1991) and

refers to the possibility of a negative impact on the net flow and the value of assets and liabilities resulting from the change in the interest rate.

(Hemple, 1999), that is, the risks resulting from the possibility of a discrepancy between the expected rates of return and the actual rates of return due to a change in market interest rates during the investment period (Sa Yers, 2007). Interest rate risks escalate in the absence of an information system at the bank

2. Exchange Rate Risk

It is the risk of fluctuation of the buying and selling prices of foreign currencies against the national currencies in the event that the bank owns assets denominated in foreign currencies.

It is also the risk of loss resulting from future fluctuations in exchange ratesApplicable to foreign currency assets, liabilities and rights (Sinkey, 2010)

3. Liquidity Risk

It means the inability of the bank to finance its financial needs (Hemple, 1994), that is, the inability of the bank to provide cash to pay its obligations in the short term (Treasury,2003) without realizing tangible losses or the inability to invest the funds appropriately. The failure of the internal cash flows of the bank to meet the external cash flows

Sixth: Risk Assessment:

It is the process of measuring and analyzing the risks associated with financial and investment decisions

(Pickett, 2005) and risks related to the achievement of the objectives of the economic unit in order to determine the optimal method for managing these risks. (Hemple, 1994)It is the process of estimating the importance of the identified risk, which revolves around taking into account the likelihood of occurrence and the possible consequences of the occurrence of the risk. (Pickett, 2005)

1. Credit risk measurement methods include:

Standard Curriculum:

The standard approach depends on the credit ratings that are classified by the external rating institution, such as (Standard & Poors, Moody, Fitch). The Basel Committee divided these ratings into five categories and gave each category a risk weight according to the rating category for countries, banks and companies. That is, it links the risk weight ratios to the risk degrees given by the external rating institutions. In the event that the external evaluation is not available, a weighting ratio of 100% is applied, as shown in the table below. (Backman & Roland, 2000)

Table (1) Categories of credit ratings

evaluation score	AA to AAA	A+ to A-	BB to BBB	Less than BB	Not rated
risk weights	20%	50%	100%	150%	200%

(Backman & Roland, 2000)

Internal classification method (basic and advanced):

In evaluating the credit risks it is exposed to, the bank relies on methods prepared by the bank itself. Then the capital required to cover these risks is calculated and four quantitative inputs are adopted, namely: (Amling, 1999)

- Probability of Default: It measures the probability that the customer will fail to repay the loan within a certain period of time.

- Loss Given Default: Measures the portion of the loan that would be returned in the event of default.
- Exposure at default: related to loan obligations and measures the amount of facilities that are withdrawn if default occurs.
- Maturity: It measures the remaining economic term in case of default.

Seventh: - Financial statements and evaluation of banking investments

The financial statements are considered as the window through which others look at the activity of the economic unit in its various aspects, and ultimately the accounting information, as it is one of the most important sources from which banks draw their information, because this information has advantages that are consistent with the nature of the decisions taken by banks on an ongoing basis. Banking management needs to be classified Investment deadlines and maturity dates. (Backman & Roland, 2000)

1- Financial statements and their role in credit assessment:

With regard to the approved foundations, whether they are in granting credit or investing in stocks, they are not based on objective information or on scientific grounds. This leads, therefore, to a default by the bank on the one hand, and the customer on the other hand. (Gorton & Roasen, 1999) The reasons that lead to the exposure of the bank to default on debts are:

1. Failure to conduct an adequate study on the customer with regard to the following: (Hall, 2004)

1. The customer's personality and eligibility to contract.
2. The customer's capital and his contribution to the funded activity.
3. The customer's ability to manage his activity.
4. Guarantees provided by the customer.
5. The customer's indebtedness towards others (banks, institutions, individuals).

2. Not conducting an adequate study on the guarantees provided by the customer for the purpose of obtaining a loan or facilities with regard to the following:

1. Evaluation and pricing of the warranty provided by the customer.
2. The conditions that must be met in the guarantee, in terms of ownership, mortgage, possession and immediate storage

(commodities and merchandise) and the laws regulating their circulation and sale (Hall, 2004)

There are indicators that indicate a default that the bank must pay attention to:

1. Payment Record

Here, the bank must search for information in the customer's credit history regarding the following: (Ross & Westerfield, 2002)

1. Late payments and difficulties in obtaining payments.
2. Payments of the rounded amount to the nearest monetary unit.
3. Creating disagreement over bills for simple reasons.
4. Repeating the number of sukuk incorrectly.
5. Non-AD Sukuk

2. Financial Ratio Analysis

Where it is conducted on each group of accounts prepared by the customer, and this analysis provides indicators regarding the deterioration of credit, that is, the trend of deterioration over time in financial ratios can constitute a reason for concern and the reduction of the credit rating of the concerned customer. There are several basic rules that must be taken into account when researching and analyzing bank credit applications, which are the so-called Five C's of credit, which are the availability and determination of the customer's payment, the customer's financial and administrative technical competence, the customer's sufficient capital and the customer's economic conditions. And the national economy as a whole, the availability of guarantees. These percentages are as follows: (George & Adriantry, 1999).

1. Ratios and indicators for analyzing the availability of intent to pay: (Darke, 2004).

- Accounts Payable Turnover Ratio = Purchases / Average Accounts Payable.
- Payment period = number of days in the year / average turnover of accounts payable.

2. Ratios and indicators indicating the financial competence of the customer requesting credit:

- Trading Ratio = Current Assets / Current Liabilities.
- Quick liquidity ratio = (current assets - inventory) / current liabilities.
- Cash ratio = (cash + temporary investments + debtors) / current liabilities.

3. Ratios and indicators expressing the availability of sufficient capital for the customer requesting credit.

- The ratio of total debts to assets = (total short + long-term debts) / total assets.
- Long-term debt to assets ratio = long-term debt / total assets.
- Debt-to-equity ratio = total debt / total equity.
- Interest coverage ratio = net profit before interest and taxes / debt interest.

4. Translated ratios and indicators of the conditions experienced by the customer's activity and the national economy:

- Gross Profit to Sales Ratio = Gross Profit / Sales.
- Net Profit to Sales Ratio = Net Profit / Sales.
- Rate of return on assets = net profit after tax / total assets.
- Rate of return on equity = net profit after tax / total equity

(Warren & James, 2002).

Eighth: Evaluating the risks of banking investments, as follows: (Weygandt & Donald, 1999)

Credit risk: (Weygandt & Donald, 2002)

1. The ratio of cash to current assets: This ratio represents the amount of cash withheld by the bank and not used by the bank in the field of investment. The ratio is calculated as follows:

Cash on hand and at banks / current assets

2. Ratio of working capital to total assets: This ratio here reflects the amount of current assets (except for goods and inventory) to total assets, as it is noted in banks that the ratio of current assets represents the largest part of assets and may reach 75% or more, and this is the opposite of industrial establishments that Its fixed assets represent the largest part of its assets. This percentage is calculated as follows:

Working capital to total assets = current assets / total assets

3. Ratio of short-term securities to total assets: This ratio reflects the amount of investments in short-term securities to total assets, and there must be a balance between the size of investments and the size of the bank's assets. This percentage is calculated as follows:

Ratio of short-term securities to total assets = short-term securities / total assets

4. Circulation ratio: This ratio measures the ability of the economic unit to pay its short-term obligations through its current assets. The decrease in this ratio indicates the difficulty of the unit paying its obligations, while the high ratio indicates the unit's sacrifice of returns due to its restriction of large capital in current assets. The ratio is calculated as follows:

Current Ratio = Current Assets / Current Liabilities

The ratio of credit granted to deposits: This ratio measures the amount of the amounts granted as credit and the amounts received as deposits, as the bank must balance between the amounts of loans granted and the amounts of borrowing, otherwise it will be exposed to financial insolvency. The ratio is calculated as follows:

Ratio of credit (loan) granted to deposits (borrowing) = credit / deposits

1. The ratio of the allowance for doubtful debts to the total loans: This ratio measures the amount of the allowance for doubtful debts to the credit granted, as the allowance should be studied before granting credit facilities. The percentage is calculated as follows: (Ross & Westerfield, 2002)

Provision for doubtful debts/total loans

2. The ratio of reservation against bankruptcy: This ratio measures the amount of the provision for doubtful debts to non-performing loans, as the higher the percentage of non-performing or non-performing loans, the correspondingly higher is the proportion of the provision. The ratio is calculated as follows:

Provision for doubtful debts / total non-performing loans

Table (2) Credit Risk Assessment

	pointer	Scale	2005	2006	2007
1	The cash is in the possession of the bank and not the investor (Ratio of cash to current assets).	percent	64	46	47
2	The amount of current assets (working capital) to total assets.	Percent	99	99	100
3	Amounts invested in short-term securities from the bank's total assets.	Percent	20	42	43
4	Settle the obligations of the economic unit through its current assets.	Percent	1.2	1.1	1.3
5	balance in the use of available resources.	Percent	16	8	8
6	The amount of provision for doubtful debts to the total loans	Percent	0.05	0.27	0.44
7	The amount of provision for doubtful debts to the total non-performing loans	Percent	0.31	0.94	0.62

It is noted from Table No. (2) that the ratio of cash to current assets of the Iraqi Credit Bank was lower in 2006 than it was in 2005, as the ratio reached (46%) after it was (64%), and this indicates that the bank invested its money instead of Thus, this led to a noticeable increase in net profits, as it amounted to (14.275) fourteen billion two hundred and seventy-five million dinars, after it was (6.441) six billion four hundred and forty-one million dinars. In 2007, a slight increase in the percentage was observed, reaching (47%). This percentage is considered good because the bank achieved higher profits than the profits achieved in 2006, which amounted to

(21.980) Twenty-one billion nine hundred and eighty million dinars, despite the increase in its capital, which rose by double after it was stable in the previous employees at the same level.

Referring to table (2), we note that the ratio of working capital to total assets of the study sample bank is high during the study period, as it is noted that the ratio of current assets represents the largest part of the assets. Therefore, this ratio of the study sample bank is within reasonable limits because it depends primarily on cash And other current assets that can be quickly liquidated, such as treasury bills and stocks. This explains the legal prohibition for banks not to own fixed assets (real estate) except for their banking purposes and the housing of their employees.

It is also noted from Table No. (2) that the percentage of short-term investments to the total assets of a bank for credit was higher in 2006 than it was in 2005, as the percentage reached (42%) after it was (20%), and this indicates that the bank invested This led to a noticeable increase in net profits, as it amounted to (14.275) fourteen billion two hundred and seventy-five million dinars, compared to (6.441) six billion four hundred and forty-one million dinars. In 2007, a slight increase in the percentage was observed, reaching (43%). This percentage is considered good because the bank invested its money in that year and achieved a net profit of (21.980) twenty-one billion nine hundred and eighty million dinars, despite the fact that its capital increased by double after it was stable for a period of time. two years

From the foregoing, it is clear that the credit risk ratio of the bank, the study sample, is low, despite the slight fluctuation in the ratios of investments to total assets. However, in general, it is noted that the ratios of investments are low at the expense of cash, and thus the risks to which banks are exposed, especially credit risks, are low.

It is also noted from Table No. (2) that the percentage of credit granted to deposits of the Iraqi Credit Bank began to decline in 2006, reaching (8%) after it represented (16%) in 2005. This decrease is attributed to the fact that the Central Bank of Iraq allowed banks to invest His money is in the manner of what is called night investment and at a remunerative interest rate, which banks preferred over granting credit and exposing them to risk, in addition to incurring administrative costs. In 2007, it is noted that the ratio was stable at (8%), which indicates that the bank continues to follow a conservative policy in granting credit facilities.

Referring to Table No. (2), we note that the ratio of the provision for doubtful debts to the total loans of the Iraqi Credit Bank started to increase during the study period, reaching (27%) in 2006 after it had represented (5%), and this indicates a poor assessment of risks credit, and in 2007 we notice a continued increase in the percentage, reaching (44%), and this indicates that the credit granted does not study their reality well.

Returning also to Table No. (2), we note that the ratio of the provision for doubtful debts to the total bad loans of the Iraqi Credit Bank was (31%) in 2005 because the bank did not put an amount for this provision in 2004, but in 2006 it is noted that the percentage increased from the year In the past, it reached (94%) because of its management's interest in this issue due to its importance, and in 2007 the percentage reached (62%), as it is

noted that the percentage decreased because the bank's management reduced granting credit facilities in 2007 in order to avoid bad debts that the bank might be exposed to.

Conclusions:

1. Banks are considered one of the important sectors in the economy of any country and are based on confidence in investment and credit, and that this confidence is due to its association with government agencies and its commitment to legislation, regulations and laws in the performance of its work and the preparation of financial statements and reports. Therefore, the financial statements of banks are among the important sources for users of financial statements to make investment decisions. However, it can be said that the banking system prevails in both its public and private sectors.

2. Investment is one of the important activities in financial institutions that have a vital and important role in the economy, through the funds available to advance the process of economic development and achieve capital accumulation in its various sectors, as the concept of investment should be at the core of the thinking of the bank's management and that whoever has the right idea He can carry out investment activity in areas and tools to achieve good returns or low risks, whether it is investing in stocks, bonds, or in granting credit

3. Iraqi banks not using modern financial tools represented by derivatives (innovative financial instruments) used by many Arab and foreign financial and banking institutions to reduce risks and increase returns.

4. The study sample bank does not rely on scientific and objective bases in evaluating its investments, but rather on personal estimates, and this leads to a weakening of its performance in directing its funds to invest in more profitable and secure investment tools and fields.

5. The lack of interest of the study sample bank in the process of identifying risks, especially investment risks, despite their importance, as it was noted that the study sample banks were not interested in using accounting information in the proper assessment of credit risks, but it was observed to hedge them by increasing the proportion of the provision for doubtful debts every year for The previous year, in addition to the increase in guarantees and mortgages provided, which, if used, would have prevented banks from falling into the error of non-performing loans (bad debts).

6. That one of the main activities of banks is accepting deposits and granting credit, and this as a result requires an objective study, correct decisions and correct calculations, but this is different from what was found in the bank in the study sample, where the investment in the secured aspects of the Central Bank of Iraq represented by treasury transfers and also in night investment Investing in the financial markets, in order to avoid the risks that banks may be exposed to

Recommendations:

1. Banks should set policies related to credit, investment, etc., and apply them according to the requirements of the law and regulations issued by the Central Bank of Iraq, in addition to insuring their medium and long-term loans with large amounts with the companies concerned with that to insure loans, and establish a deposit insurance company to ensure the protection of depositors. And the banks.

2. The need for banks to adhere to the application of rules and legislation, as some of them appear as determinants or changes to banking work, but the reality of the situation has proven that these rules and determinants are in the interest of the bank and the national economy, because the bank does not only deal with its capital, but public

deposits constitute the largest percentage of its activity and commitment The bank will thus contribute to avoiding severe crises that may expose it to bankruptcy.

3. Working on exploiting the liquidity in banks and investing it in various investment fields to improve the profitability of banks in exchange for less risk.

4. Work on diversifying investment tools through forming investment portfolios and evaluating them periodically and using investment tools that are appropriate to the nature of banking work, and not being limited to short-term government investment tools, because this leads to limiting the diversification of existing investment opportunities.

5. The possibility of establishing specialized departments to follow up on the granted credit, independent of the credit department, whose mission is to follow up the borrowed customer from the date of granting him the facility through field visits to his project, knowing the cash flows and meeting him regularly until he pays the loan amount and interest due on time, and takes the necessary measures towards any problem that occurs To prevent the borrower from defaulting.

6. The need for banks to adhere to the principle of diversification in their investments, because it leads to achieving the following:

- Reducing investment risks.
- Improving investment profitability.
- saving

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