

# THE IMPACT OF IMPLEMENTING IFRS 18 ON ANALYZING FINANCIAL PERFORMANCE AND ENHANCING INVESTMENT DECISIONS

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## Abstract

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This study examines the anticipated impact of implementing the International Financial Reporting Standard 18 (IFRS 18) on improving investors' ability to analyze the financial performance of banking companies listed on the Iraq Stock Exchange (ISX). The research addresses challenges related to transparency and accounting disclosure, which currently limit investors' capacity to make informed decisions. An analytical and comparative approach was employed by redesigning the income statements of two banks — Bank of Baghdad and Mansour Bank — to comply with IFRS 18 requirements. These statements were then compared with financial reports prepared under the International Accounting Standard 1 (IAS 1) for the years 2022 and 2023. Key financial ratios relevant to investors were examined to identify observable differences in financial indicators between the two reporting frameworks. The findings indicate that presenting income statements in accordance with IFRS 18 enhances the clarity, transparency, and comparability of financial information. The analysis suggests that such improvements may provide investors with better insights into the financial performance of banks and could influence their decision-making processes. These results are consistent with the studies of Lee (2024) and Czajor (2024).

**Keywords:** IFRS 18, Financial Performance Analysis, Transparency, Investor Decision-Making

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## 1. INTRODUCTION

In this study, we were the first to examine the relationship between the implementation of the International Financial Reporting Standard 18 (IFRS 18) and investment decisions by re-preparing financial statements (income statements) to comply with the requirements of the international standard, comparing the results of data analysis with

the published statements of the sample companies, and determining the degree of influence and differences in the case of relying on this data to make investment decisions. Several studies (Al-Refiay et al., 2023; Elbolok et al., 2022; Garrouch & Omri, 2024) have discussed the problems of information inadequacy or comparability when implementing the International Accounting Standard 1 (IAS 1), which reduces the financial analyst's ability

to provide conflicting and useful data to investment decision-makers. The investment decision is a difficult and sensitive issue, and it is essentially a process of allocating a company's resources (Nguyen et al., 2024; Rubab et al., 2025). Accounting and financial reporting standards have been linked to investments with the aim of providing users with information that enables them to make sound and informed decisions, thus protecting scarce resources from waste. To achieve profitable returns over the coming periods, these decisions require accounting information with appropriate characteristics and the ability to assist users in making decisions (Baniata, 2024). Investors appear to be the most important users of the financial reports provided, and investment decisions affect the level of capital provided to companies, which depends primarily on the opinions of financial analysts (Liapis & Thalassinou, 2013). Furthermore, studying and analyzing financial information that affects a company's financial future and value helps decision-makers reach a better understanding (Abadi, 2019). Our results demonstrate clear differences in the results of financial ratio indicators when comparing income statement data for the same sample using different presentation and classification methods after implementing IFRS 18 and after reclassifying the data based on the standard's requirements, compared to the requirements of IAS 1 in the income statement presentation. These results clearly impact investment decisions, leading to more transparent and comparable information presentation, providing a more comprehensive view of financial performance, and enhancing future investment decisions. These results are consistent with studies that emphasize the need to consider the process of implementing emerging IAS in financial reporting, which seek to provide high-quality information that meets the needs of investment transactions (Al-Okaily et al., 2023; Alharbi et al., 2023; Aldoseri & Melegy, 2023).

In light of the rapid developments in the business environment and the ongoing changes in the needs of financial report users, there is an urgent need to develop accounting standards that ensure the provision of more transparent and high-quality financial information, enhancing investor confidence, credibility, and decision-making ability in financial markets. IAS plays a pivotal role in regulating and improving financial reporting practices for users, contributing to improved decision-making (Deloitte, 2024; IFRS Foundation, 2024; PricewaterhouseCoopers [PwC], 2024).

In this study, we examine how companies' implementation of IFRS 18 could represent a new paradigm shift in the business world in providing high-quality financial data by enhancing investors' ability to understanding information and helping financial analysts find appropriate logical relationships between different data sets is achieved by standardizing the presentation of data in financial statements, which improves comparability and increases the transparency of disclosed information. This is achieved by compiling information in a way that improves investor focus on the data, leading to appropriate investment decisions (Zainy, 2024; Baby et al., 2024). This is what the researchers in this study are working on, assuming the implementation of IFRS 18 and verifying the data's ability to increase transparency

and comparability, leading to greater investor ability to make critical financial decisions compared to the results of implementing IAS 1.

The structure of this research paper is divided into five sections, as follows. Section 2 reviews the relevant literature. Section 3 analyzes the methodology used to conduct empirical research on the application of IFRS 18. Section 4 then redesigns the income statement for the research sample and examines the results. Section 5 discusses the results, and, finally, Section 6 presents the final conclusions.

## 2. LITERATURE REVIEW

### 2.1. IFRS 18

The International Accounting Standards Board (IASB) has introduced IFRS 18 as a replacement for IAS 1, which discusses presentation and disclosure in financial statements in a way more focused on revealing profits or losses by analyzing subtotals into a set of five main classifications (operating, investing, financing, income tax, and discontinued operations) that helps investors further improve the comparability of financial reports of companies similar in the nature of the activity, in addition to providing greater disclosure and transparency about companies' performance and requirements that support the collection of higher-quality information compared to the IAS 1 (KPMG, 2024). This standard helps companies provide better information about their financial performance, which is primarily useful for users of financial statements, in assessing expected future cash flows, and in assessing the company's ability to manage economic resources effectively (Ernst & Young [EY], 2024).

The main reason for preparing this standard is to standardize the method of presenting information in financial statements, especially the profit or loss statement, and to a lesser extent, the cash flow statement, which leads to enhancing the comparability of information and helping investors and financial analysts study the financial performance of companies and make appropriate investment decisions (BDO International, 2024). Improving the comparability of information in financial statements can reduce external financing costs and enhance the company's value in the financial market (Lee, 2024). In addition to its comparability and transparency features, IFRS 18 improves the usefulness of information in making better decisions (IFRS Foundation, 2024).

The issue of identifying core and non-core activities in companies is an important part of applying the requirements of this standard, and classifying subtotals in the profit or loss statement and cash flow statement which constitutes the essential factor in determining the main classifications, and this is what IAS 1 did not clearly focus on which made it difficult to compare financial information and led to a decrease in its quality and IFRS 18 addressed this problem (Czajor, 2024).

These main classifications are widely used in cash flow statements and have been regulated in IFRS 7. However, this does not mean that there is agreement or compatibility between these classifications and what was introduced in IFRS 18. This is one of the challenges facing the IASB in introducing amendments to IFRS 7 (Grant Thornton, 2024b).

As for the method of presenting financial information imposed by the application of the new standard, it does not affect the requirements for recognition or measurement of the elements of the financial statements. Its impact is limited to the process of classifying profit or loss statement data and cash flow statement, which requires redesigning the financial reporting systems in companies. The matter may become more complicated in companies that engage in various commercial or industrial activities and have multiple branches. Some of its branches classify their activities into basic and non-basic activities. This makes it difficult to collect and classify these activities according to the requirements of the standard and present them in a single statement (BDO International, 2024).

Although some of these changes are clear, they require redesigning the accounts because the classification of expenses or revenues in the new standard depends largely on the nature of the main assets or liabilities. It does not depend on the nature of expenses and revenues. This requires redesigning operational systems or creating new systems (Grant Thornton, 2024b). For example, the classification process of results generated from the use of fair value may be affected, such as asset impairment losses, which will be classified according to the purpose of these assets, whether for operational use or for investment or financing purposes, and in accordance with the subtotals in the financial statements regarding IFRS 18. Even financial derivatives, hedging, and risk management tools had their share of being affected by the use of the new standard. The profits or losses resulting from the element required to manage hedging and control risks are classified based on their use in operational, investment, or financing processes.

The changes imposed by the application of the standard lead to improved classification of information in financial statements, which focuses on increasing the value of financial investments and improving financial performance reports by increasing the disclosure of subtotals in the statement of profit or loss and performance measures determined by management. This is reflected in increasing the transparency of financial statements, reducing additional non-essential disclosures, and improving the quality of financial statement results in disclosing profits or losses (Czajor, 2024). The standard requires companies to disclose performance measures or metrics not specified in IFRS, which management uses to communicate with investors to convey its view on an aspect of the company's financial performance which should be consistent with the main and sub-totals of the statement of profit or loss and the statement of the tax effect and the effect on non-controlling interests and for each sub-item (IFRS Foundation, 2024).

In general, IAS do not prevent companies from presenting additional measures outside the requirements of financial statements, through which these companies provide a better presentation of data from the perspective of investors or for the purpose of meeting some non-international requirements. In contrast, the standard clearly defines how to disclose these measures, how to calculate them, and the changes that occur to them within the subtotals in the financial statements, to achieve greater comparability between financial information (European Financial Reporting Advisory Group [EFRAG], 2024).

As a result of the above opinions of researchers, drafters of the new standard, and the studies that were discussed, the application of IFRS 18 enhances the ability of financial analysts and investors to make investment decisions. It helps establish fixed rules for preparing financial statements, facilitating comparisons, and providing transparency on performance measures and their impact on the company's future. The next section will discuss the requirements and needs of financial analysts and investors in line with the new standard. The relationship between the application of IFRS 18 compared to IAS 1 and the usefulness of accounting information for making investment decisions will be revealed through the following hypotheses:

*H1: Redesigning the income statement in compliance with IFRS 18 provides clearer and more decision-useful financial information than IAS 1.*

*H2: Presenting financial statements under IFRS 18 improves transparency and comparability in reporting for the banking sector.*

## 2.2. IFRS 18 and its role in analyzing financial performance and its impact on rationalizing investor decisions

In order to understand the information provided in the financial statements, financial performance analysis provides a better way to evaluate the relationship between the components of the financial statements to gain a better understanding of a company's strengths and weaknesses, as well as its financial health, analyzing and properly understanding the information helps investors predict the growth of the company's dividend and stock value in the future. Therefore, the relationship between financial performance analysis and investment decision is crucial to the behavior of a rational investor regarding investment decision (Al-Rubaye & Ali, 2024, 2025; Mohammed et al., 2024).

The most important financial information required in the investment decision-making process comes from financial reports. Financial information analysts want to analyze and evaluate companies' ability to sustain profits, develop future forecasts, and make comparisons. Furthermore, the financial information derived from the financial statements will also help in the company's economic activities, investment, and financing decision-making process (Olayinka, 2022; Al-Temimi & Zainy, 2020).

In order for financial analysis indicators to be useful in investment decisions, they must rely on financial statements that have standardized characteristics and a preparation method that is consistent with IAS. By using similar metrics, the financial analyst can select appropriate data and make accurate comparisons, which can then be relied upon to improve investment decisions. As a result of the numerous differences in the classification of sub- and main aggregates in financial statements and the lack of transparent disclosure of performance measures, standard setters have been prompted to address this problem to improve the usefulness of the information and its relevance in analyzing financial performance and making investment decisions by issuing a new standard (IFRS 18) regulating this.

The new IFRS 18 standard aims to provide investors with greater transparency and disclosure regarding companies' financial performance,

ultimately enabling them to make rational investment decisions. The standard introduces three sets of new requirements that aim to enhance companies' disclosure of financial performance and provide investors with a more robust basis for analyzing and comparing companies. The standard also sets out guidelines governing the presentation and disclosure in financial reports (Grant Thornton, 2024a).

Several studies, such as Alruwaili et al. (2023), Khanh et al. (2024), have shown that the transition to implementing IFRS has led to tangible improvements in the levels of disclosure and transparency, improved the quality of financial comparisons between companies, and provided more detailed financial reports, which has led to enhanced global competitiveness and increased investor confidence, thus supporting investment decision-making.

The new standard helps improve the transparency and integrity of financial reporting and facilitates the process of making investment and economic decisions, as the range of management performance measures that will be presented in this standard is limited compared to the wide range of performance measures presented in studies, which leads to providing greater focus on important financial data and understanding how management calculates them (Maruszcwska & Tuskiewicz, 2024).

The standard helps investors analyze financial performance more effectively by improving comparability between financial statements, particularly profit or loss statements, and by using standardized primary and secondary classifications for all companies. It also increases the transparency of alternative performance measures provided by management and widely used by investors to better understand how data is calculated. This leads to better regulating the use of these measures and making them more subject to audit requirements. Furthermore, the standard consolidates information in a useful, non-detailed, or highly condensed manner, resulting in a more focused presentation of important data (IFRS Foundation, 2024). The relationship between the application of IFRS 18 and financial ratio indicators will be revealed through the following hypothesis:

*H3: Differences in financial indicators and ratios between IAS 1 and IFRS 18 presentations may influence investors' decisions.*

## 3. METHODOLOGY

### 3.1. Research problem

Companies listed on the Iraq Stock Exchange (ISX) face persistent challenges related to transparency and accounting disclosure, which hinder investors' ability to make well-informed decisions when evaluating financial performance. IFRS 18, which emphasizes the presentation and disclosure of financial statements, is expected to address these issues by enhancing the clarity and decision-usefulness of financial information for investors.

Given that IFRS 18 has not yet been implemented, there are concerns regarding its potential impact on accounting practices, financial reporting, and its role in supporting more informed investor decisions. This study aims to investigate the anticipated effect of applying IFRS 18 on financial performance analysis and its implications for investor decision-making in the banking sector.

### 3.2. Research approach

This study employs an analytical and comparative approach. The income statements of two banks — Bank of Baghdad and Mansour Bank — were redesigned to comply with IFRS 18 requirements and then compared to their financial reports prepared under IAS 1 for the years 2022 and 2023. The comparison aims to highlight differences in the presentation of financial information and to examine how these differences may influence investors' understanding of financial performance and their subsequent decisions, relying solely on descriptive analysis without statistical testing. This data was compiled based on the financial statements published in the Iraqi Financial Market database.

### 3.3. Model and data

The requirements of IFRS 18 income statement have been applied to Bank of Baghdad and Mansour Bank for the years 2022 and 2023, which are listed on ISX. This has been done in comparison with the income statements according to IAS 1, as shown in Tables 2 to 7. Financial ratio indicators for the income statement have been analyzed according to the requirements of the new standard, and the results have been compared with the ratio indicators achieved as a result of implementing IAS 1. The reason for choosing these two banks as a sample to study the application of the new standard requirements is that they are classified as the best and most active banks in the stock market, and they also have among the highest stock prices compared to other banks, which indicates investors' preference for these banks. This will be studied based on the following steps:

1. Compilation of the most important studies that addressed the relationship between financial ratios and investment decisions.
2. Compiling the most important financial ratios that help investors make investment decisions.
3. Study the reasons for using each financial ratio in the studies collected.
4. Sorting and selecting the financial ratios that affect the items that will be modified based on the application of IFRS 18.
5. Comparing the results of financial ratios when applying IFRS 18 and when applying IAS 1 with the actual reality of the study sample banks and disclosure reports.

## 4. RESULTS

### 4.1. Compilation of the results of the most important studies that discuss financial ratios and the reasons for their use

The latest specialized studies in the financial sector have been collected, aiming to study and analyze financial data and provide information that helps investors make investment decisions, extract financial ratios that assist in the analysis and comparison process, and provide a clear picture of financial performance. These ratios will be relied upon later to study data before and after the implementation of the international standard IFRS 18. These studies can be reviewed in the following Table 1.

**Table 1.** The most important financial ratios used to make investment decisions

<i>Studies</i>	<i>Financial ratio</i>	<i>The purpose of using the ratio</i>
Martens (2023), Abdulkareem et al. (2021), Harinurdin (2023)	Operating ratio	<ul style="list-style-type: none"> <li>• Measuring and evaluating banking performance and cost management efficiency.</li> <li>• Analyzing profitability and operational position.</li> <li>• Determining the impact of financial ratios on stock prices and company value.</li> <li>• Understanding the impact of internal factors on operational efficiency and risk management.</li> </ul>
Lamothe et al. (2024), Nguyen and Le (2022), Rachmaniyah et al. (2021)	Profit margin	<ul style="list-style-type: none"> <li>• Evaluating profitability and operational efficiency.</li> <li>• Understanding the factors affecting financial performance.</li> <li>• Predicting financial health and stability.</li> <li>• Supporting decision-making.</li> </ul>
Hutchinson and Saint Guilhem (2024), Mao and Xu (2024), Patrocinio et al. (2024)	Return on investment (ROI)	<ul style="list-style-type: none"> <li>• Measuring financial performance and profitability.</li> <li>• Making investment decisions.</li> <li>• Evaluating efficiency and effectiveness.</li> <li>• Comparative analysis.</li> <li>• Understanding causal relationships.</li> <li>• Allocating resources.</li> </ul>
Bank for International Settlements (BIS, 2025), Bajaj Broking Team (2025)	Asset turnover	<ul style="list-style-type: none"> <li>• Measuring operational efficiency.</li> <li>• Analyzing financial performance.</li> <li>• Identifying profitability drivers.</li> <li>• Supporting decision-making.</li> <li>• Benchmarking.</li> </ul>
Singh et al. (2024), Hawaldar et al. (2022), Kusuma (2021)	Operating return on assets (ROA)	<ul style="list-style-type: none"> <li>• Measuring management's effectiveness in utilizing assets to generate profits.</li> <li>• Identifying factors that positively or negatively impact asset utilization efficiency.</li> <li>• Comparing performance between companies or across different time periods.</li> <li>• Predicting future financial results based on current operational efficiency.</li> </ul>
Harinurdin (2023), He and Yoo (2024), Mehta et al. (2024)	Investing income	<ul style="list-style-type: none"> <li>• Measuring reliance on non-operating income.</li> <li>• Risk management.</li> <li>• Comparing financial sectors.</li> <li>• Evaluating profitability and its impact on stock value.</li> <li>• Understanding the relationship between financial development and investment.</li> </ul>
Adem (2023), Susanto et al. (2024)	Financing interest	<ul style="list-style-type: none"> <li>• Analyzing income sources and their diversification.</li> <li>• Evaluating the profitability of financial institutions.</li> <li>• Understanding the impact of monetary policy and interest rates.</li> <li>• Evaluating operational efficiency and asset management.</li> <li>• Predicting future performance and credit risk.</li> </ul>
Albi et al. (2025), Patel (2024), Muhammad (2024)	Operating income	<ul style="list-style-type: none"> <li>• Evaluating operational efficiency.</li> <li>• Profitability analysis.</li> <li>• Determining the impact of efficiency on company value.</li> <li>• Understanding the impact of efficiency on stock prices.</li> <li>• Evaluating the bank's financial health.</li> </ul>
Antonio (2025), Ferniawan et al. (2024), Onyeka-Iheme (2024)	Earnings per share	<ul style="list-style-type: none"> <li>• Determine its impact on stock prices.</li> <li>• Evaluate the impact on stock returns.</li> <li>• Measure its impact on company value.</li> <li>• An indicator of the company's financial performance.</li> </ul>
Khresat and Abu Jassar (2025), Mehzabin et al. (2023)	Operating profit margin	<ul style="list-style-type: none"> <li>• A key indicator of operating profitability.</li> <li>• An assessment of management efficiency.</li> <li>• A factor influencing stock value and market performance.</li> <li>• A tool for analyzing the impact of financial and operational factors.</li> <li>• A measure for comparison and analysis across time and sectors.</li> </ul>
Veyrone et al. (2023), Rajindra et al. (2021), Mehzabin et al. (2023)	Operating expense ratio	<ul style="list-style-type: none"> <li>• Measuring operational efficiency.</li> <li>• Analyzing the impact of costs on profitability.</li> <li>• Evaluating overall financial performance.</li> <li>• Identifying factors affecting performance.</li> <li>• Monitoring structural changes.</li> </ul>

Source: Authors' elaboration based on the studies mentioned in column 1.

#### 4.2. Studying the data of the Bank of Baghdad

At Step A, we prepare and review the income statement for the Bank of Baghdad. Step B includes an analysis of financial ratios for the income

statement at the Bank of Baghdad. For this step, Figure 1 shows the ratio analysis. Step C aims to analyse the financial ratios to reveal income using vertical analysis.

**Table 2.** Bank of Baghdad's income statement, according to IFRS 18, compared to IAS 1

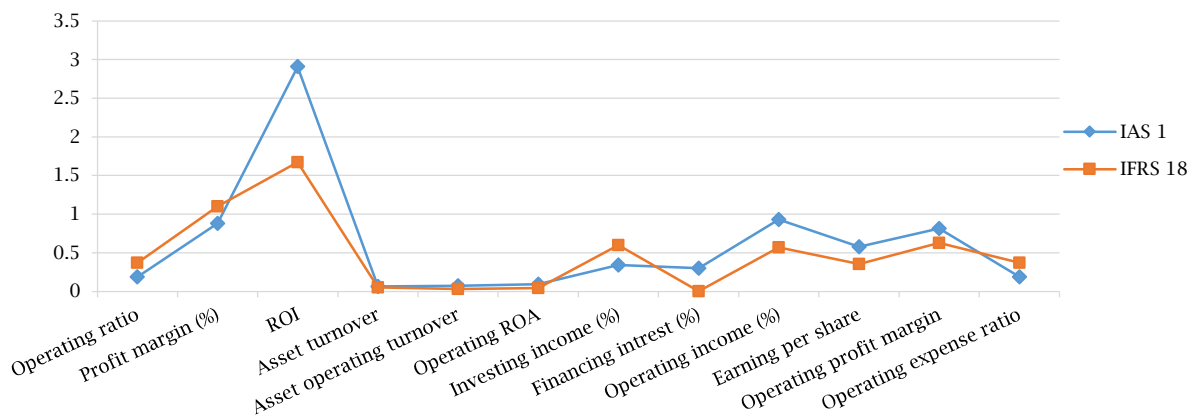
Income statement according to IAS 1			Income statement according to IFRS 18			Categories
Statement of profit or loss	2022	2023	Statement of profit or loss	2022	2023	
Interest income	44,795,773	52,903,454	Interest income	11,769,649	16,706,923	Operating
Interest expense	(9,469,103)	(9,896,291)	Interest expense	(9,334,396)	(9,791,322)	
Net interest income	35,326,670	43,007,163	Net interest income	2,435,253	6,915,601	
Net commission income	56,023,994	134,163,500	Net commission income	56,023,994	134,163,500	
Net interest and commission income	91,350,664	177,170,663	Gross profit	58,459,247	141,079,101	
Net foreign exchange gains	20,308,430	53,528,587	Operating expenses			
Investment income	113	38	Employee salaries	(14,452,518)	(15,702,774)	
Other income	362,745	3,403,639	Depreciation and amortization	(2,234,842)	(2,937,149)	
Total income	112,021,952	234,102,927	Miscellaneous allocations expense	(730,988)	(3,657,404)	
Employee salaries	(14,452,518)	15,702,774	Expected credit loss allowance expense	(17,163,731)	(19,221,111)	
Other expenses	(13,650,068)	10,753,678	Other expenses	(13,650,068)	(10,753,678)	
Depreciation and amortization	(2,234,842)	2,937,149	Total expenses	(48,232,147)	(52,272,116)	
Miscellaneous allocations expense	(730,988)	3,657,404	Operating profit	10,227,100	88,806,985	
Total expenses	(31,068,416)	33,051,005	Net foreign exchange gains	20,308,430	53,528,587	Investing
Earnings before expected credit losses	80,953,536	201,051,922	Bond interest	33,026,124	36,196,531	
Expected credit loss allowance expense	(17,163,731)	19,221,111	Investment income	113	38	
Net profit before tax	63,789,805	181,830,811	Rental and real estate sales revenue	362,745	3,403,639	
Income tax	(10,635,320)	(26,048,820)	Profit before financing and income tax	63,924,512	181,935,780	
Net profit after tax	53,154,485	155,781,991	Borrowing interest	(73,458)	(154)	Financing
			Lease obligations interest	(61,249)	(104,815)	
			Profit before income tax	63,789,805	181,830,811	
			Income tax expense	(10,635,320)	(26,048,820)	Income taxes
			Profit from continuing operations	53,154,485	155,781,991	
			Losses from discontinued operations	0	0	Discontinued operations
			Profit	53,154,485	155,781,991	

Source: Authors' elaboration based on data from sample banks.

**Table 3.** Results of financial ratio analysis for the Bank of Baghdad

<i>Financial ratio</i>		<i>Results</i>	
		<i>IAS 1</i>	<i>IFRS 18</i>
Operating ratio	Total expenses / Net sales	0.187	0.371
Profit margin (%)	Net income / Net sales	88%	110%
ROI	(Net sales / Investment) × (Earnings / Net sales)	2.910	1.673
Asset turnover	Net sales / Average total assets	0.064	0.051
Asset turnover	Operating income / Average total assets	0.073	0.032
Operating ROA	Operating income / Operating assets	0.092	0.041
Investing income (%)	Investment income / Net income	34%	60%
Financing interest (%)	Financing interest / Total expenses	30%	0.2%
Operating income (%)	Operating income / Net income	93%	57%
Earnings per share (%)	Operating income / Average number of outstanding common shares	0.576	0.355
Operating profit margin (%)	Operating income / Operating revenue	0.813	0.629
Operating expense ratio (%)	Operating expenses / Operating revenue	0.187	0.371

Source: Authors' elaboration based on data from sample banks.

**Figure 1.** Ratio analysis for the Bank of Baghdad

Source: Authors' elaboration based on data from sample banks.

**Table 4.** Vertical analysis of income statement data

IAS 1			IFRS 18		
The element	Amount	% to net profit	The element	Amount	% to net profit
Net interest and commission income	177170663	100%	Gross profit	141079101	100%
Total income	234102927	132%	Total expenses	52272116	37%
Total expenses	33051005	19%	Operating profit	88806985	63%
Earnings before expected credit losses	201051922	113%	Investment profit	93128795	66%
Net profit before tax	181830811	103%	Profit before financing and income tax	181935780	129%
Net profit after tax	155781991	88%	Profit before income tax	181830811	129%
			Profit from continuing operations	155781991	110%

Source: Authors' elaboration based on data from sample banks.

#### 4.3. Studying the data of Mansour Bank

Similar to the structure of the research in subsection 4.2, the investigation of the data from the Mansour Bank includes the following steps:

Step A — preparing and reviewing the income statement for the Mansour Bank; Step B — analysis of financial ratios for the income statement; Step C — analysis of the financial ratios to reveal income using vertical analysis.

**Table 5.** Mansour Bank's income statement, according to IFRS 18, compared to IAS 1

Income statement according to IAS 1			Income statement according to IFRS 18			Categories
Statement of profit or loss	2022	2023	Statement of profit or loss	2022	2023	
Credit interest	19,119,875	31,481,433	Interest income	16,172,821	25,685,468	Operating
Debit interest	(3,207,704)	(4,079,062)	Interest expense	(3,207,704)	(4,079,062)	
Net interest income	15,912,171	27,402,371	Net interest income	12,965,117	21,606,406	
Credit commissions and fees	9,473,672	30,738,746	Net commission income	9,305,360	29,972,387	
Debit commissions and fees	(168,311)	(766,359)	Net operating profit from foreign currency transactions	1,504,360	1,869,388	
Net commission and fee income	9,305,360	29,972,387	<b>Gross profit</b>	<b>23,774,837</b>	<b>53,448,181</b>	
Net interest, commission, and fee income	25,217,531	57,374,759	<b>Operating expenses</b>			
Net operating profit from foreign currency transactions	1,504,360	1,869,388	Employee salaries	(5,350,695)	(6,777,795)	
Foreign exchange revenues	7,672	6,189,250	Depreciation and amortization	(1,257,766)	(1,417,295)	
Investment income	81,119	32,313	Miscellaneous allocations expense	(200,000)	-	
Other operating income	169,890	145,102	Expected credit loss allowance expense	-	(3,000,000)	Investing
Total operating income	26,980,574	65,610,814	Other expenses	(5,667,928)	(7,505,302)	
<b>Expenses</b>			Total expenses	(12,476,389)	(18,700,392)	
Employee expenses	(5,350,695)	(6,777,795)	<b>Operating profit</b>	<b>11,298,448</b>	<b>34,747,789</b>	
Depreciation	(777,852)	1,193,713	Bond interest	1,210,925	3,863,976	
Amortization	(479,913)	(223,581)	Investment income	81,119	32,313	Financing
Expected credit loss allowance expense	-	(3,000,000)	Foreign exchange revenues	7,672	6,189,250	
Recoveries of provisions	(200,000)	-	Rental and real estate sales revenue	2,421,850	1,931,988	
Other operating expenses	(5,667,928)	(8,135,801)	<b>Profit before financing and income tax</b>	<b>15,020,014</b>	<b>46,765,316</b>	Income taxes
Total operating expenses	(12,076,390)	(19,330,893)	Borrowing interest	(44,251)	(58,782)	
Profit before tax	14,904,183	46,279,921	Lease obligations interest	(71,581)	(426,614)	Discontinued operations
Income tax expense	(2,252,671)	(6,632,398)	<b>Profit before income tax</b>	<b>14,904,182</b>	<b>46,279,920</b>	
<b>Net profit after tax</b>	<b>12,651,511</b>	<b>39,647,522</b>	Income tax expense	(2,252,671)	(6,632,398)	Discontinued operations
			Profit from continuing operations	12,651,511	39,647,522	
			Losses from discontinued operations	0	0	Discontinued operations
			<b>Profit</b>	<b>12,651,511</b>	<b>39,647,522</b>	

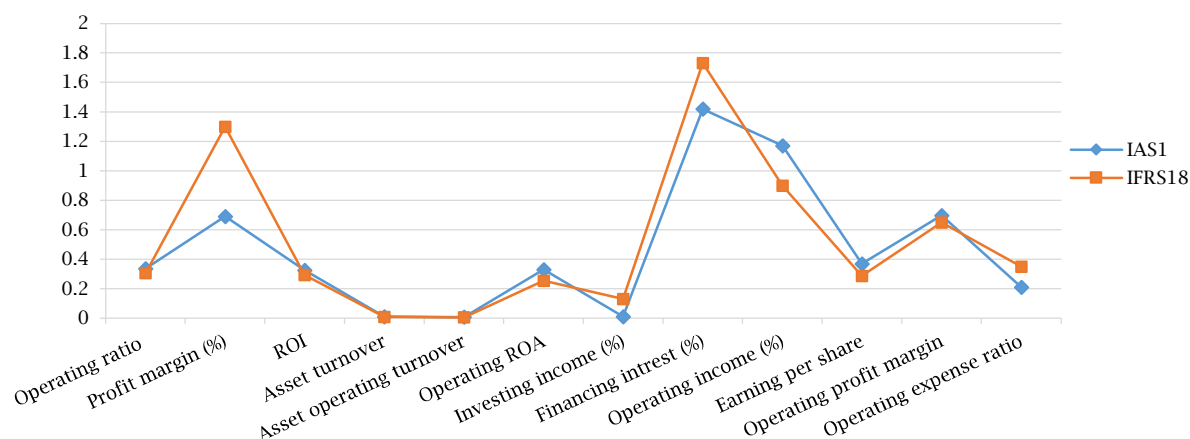
Source: Authors' elaboration based on data from sample banks.

**Table 6.** Results of financial ratio analysis for the Mansour Bank

Financial ratio		Results	
		IAS 1	IFRS 18
Operating ratio	Total expenses / Net sales	0.337	0.307
Profit margin (%)	Net income / Net sales	88%	110%
ROI	(Net sales / Investment) × (Earnings / Net sales)	69%	130%
Asset turnover	Net sales / Average total assets	0.064	0.051
Asset turnover	Operating income / Average total assets	0.326	0.293
Operating ROA	Operating income / Operating assets	0.092	0.041
Investing income (%)	Investment income / Net income	0.010	0.009
Financing interest (%)	Financing interest / Total expenses	30%	0.2%
Operating income (%)	Operating income / Net income	0.008	0.006
Earnings per share (%)	Operating income / Average number of outstanding common shares	0.576	0.355
Operating profit margin (%)	Operating income / Operating revenue	0.329	0.255
Operating expense ratio (%)	Operating expenses / Operating revenue	0.187	0.371

Source: Authors' elaboration based on data from sample banks.

Figure 2. Ratio analysis for the Mansour Bank



Source: Authors' elaboration based on data from sample banks.

Table 7. Results of financial ratio analysis for the Mansour Bank

IAS 1			IFRS 18		
The element	Amount	% to net profit	The element	Amount	% to net profit
Net interest and commission income	57374759	100%	Gross profit	53448181	100%
Total income	39647522	69%	Total expenses	18700392	35%
Total expenses	19330893	34%	Operating profit	34747789	65%
Earnings before expected credit losses	57415723	100%	Investment profit	12017527	22%
Net profit before tax	46279921	81%	Profit before financing and income tax	46765316	87%
Net profit after tax	39647522	69%	Profit before income tax	46279920	87%
			Profit from continuing operations	39647522	74%

Source: Authors' elaboration based on data from sample banks.

## 5. DISCUSSION

The applied aspect of the research relies on redesigning the income statements of the sample banks to comply with the requirements of the new standard. The disclosures, reports, and analytical tables submitted by the sample banks were reviewed, and all income statement items were reclassified into subgroups of operating, investment, and financing revenues and expenses, in line with the vision and strategy of the banks under study.

The study then reviewed the income statements before and after the implementation of the new standard. The study revealed significant confusion and overlap between income statement items, making it difficult for investors to distinguish between operating and investment items, let alone identify financing items. This prompted the researchers to delve deeper into the analytical tables and link them to the reports of the sample banks.

To determine the feasibility of using the new standard and classifying income statement items into subgroups, the researchers discussed reviewing the data based on the new data from the perspective of stock market investors. They also worked on using the most important financial ratios related to analyzing financial performance and directly linked to the income statement data. This was achieved by referencing the most prominent reports submitted by the market and extracting the most important financial ratios.

### 5.1. Results of the Bank of Baghdad's data analysis

The analysis of the financial ratio results presented provides a clear comparison between the implementation of IAS 1 and IFRS 18 for the Bank of Baghdad. It demonstrates a significant change in performance indicators, profitability, and operational efficiency, reflecting the significant impact of restructuring the income statement in accordance with the new IFRS 18 requirements.

Table 8. Bank of Baghdad's data analysis results (Part 1)

Ratio	IAS 1	IFRS 18	Change	Analysis
Profit margin	88%	110%	Significant increase	The increase from 88% to 110% (which is very high) indicates that net profit compared to sales has increased significantly under IFRS 18. This may reflect the reclassification of non-operating expense or income items, particularly those related to investing or financing items, out of operating profit.
ROI	1.673	2.910	Significant increase	The increase in return from 1.673 to 2.910 indicates that the bank is achieving higher returns per unit of investment after implementing IFRS 18. This may be a result of higher net income or a redefinition of investment components under the new standard.
Operating profit margin	0.629	0.813	Increase	The increase from 0.629 to 0.813 indicates that the portion of operating revenue remaining after deducting operating expenses has increased. This supports the clearer separation of operating and non-operating activities in IFRS 18.
Operating ROA	0.041	0.092	Significant increase	A nearly double increase, indicating a significant improvement in the efficiency of using operating assets to generate operating income.



**Table 8.** Bank of Baghdad's data analysis results (Part 2)

<i>Ratio</i>	<i>IAS 1</i>	<i>IFRS 18</i>	<i>Change</i>	<i>Analysis</i>
Operating ratio	0.371	0.187	Significant decrease	The decrease in the ratio from 0.371 to 0.187 indicates that total costs compared to net sales have decreased sharply. This likely reflects the reclassification of a significant portion of expenses that were included in "total expenses" in IAS 1 to other categories (investing or financing) under IFRS 18.
Operating expense ratio	0.371	0.187	Significant decrease	A lower operating expense ratio is similar to the operating ratio and confirms the reduction or reclassification of expenses listed as "operating".
Asset turnover	0.073	0.032	Significant decrease	These results indicate a significant decrease in the asset turnover ratio when based on operating income, due to the different classification of operating expenses when applying IFRS 18.
Investing income	60%	34%	Significant decrease	A lower ratio of investment income to net income reflects that IFRS 18 has reduced the portion classified as "investment income" compared to net income. This may mean that a portion of income has been moved to the operating category, or that net income has increased more than investment income.
Financing interest	0.2%	30%	Significant increase	The dramatic increase from 0.2% to 30% indicates that IFRS 18 requires separating finance-related expenses and clearly presenting them as a separate category. This change is one of the most significant changes the new standard imposes on the structure of the income statement.

Source: Authors' elaboration.

The most significant impact of implementing IFRS 18 compared to IAS 1 is the restructuring of the profit and loss statement (income statement) in terms of:

1. *Improving comparability and transparency.* Studies have indicated that the primary objective of IFRS 18 is to standardize the presentation of information and enhance comparability and transparency. This is evident in:

- Support for hypotheses *H1*, *H2*: The mandatory standardization of the categories (operating, investing, financing) is what led to the clear and logical changes in the financial ratios presented under IFRS 18. These changes demonstrate that income statements are now based on consistent rules. This is consistent with the studies of Alruwaili et al. (2023) and Khanh et al. (2024), which facilitate comparison of the Bank of Baghdad's operational performance with any other bank that applies the same standardization.

- Support for hypothesis *H3*: The radical changes in the indicators (such as the jump in profit margin from 88% to 110% and the increase in ROI from 1.673 to 2.910) demonstrate a significant and direct impact on financial analysis indicators. This impact changes the basis of analysts' analysis, thus influencing investors' decisions by providing them with stable anchor points for their analyses.

2. *The relationship to the relevance of information for investment decision-making.* The financial analysis results confirm that IFRS 18 improves the quality of financial performance information, which has a direct impact on rationalizing investor decisions:

- Focusing analysis on the substance: By separating 30% of financing expenses under IFRS 18 from operating activities, investors can isolate the "credit and market risks" associated with financing and investment from the underlying "operational risks". This distinction is essential for analyzing and evaluating companies' ability to maintain earnings, which is consistent with studies by Olayinka (2022) and Al-Temimi and Zainy (2020), leading to more rational investment decisions.

- Regulating management metrics: The significant increase in ratios such as the profit margin (110%) may be due to the bank's use of performance

metrics determined by management. IFRS 18 requires these metrics to be consistent with the main and subtotals of the IFRS statement of profit or loss, ensuring investors that the figures used by management are not misleading, but rather transparent and linked to the audited financial statements.

- Support for hypothesis *H3*: The significant differences in profitability indicators (ROI) and earnings per share between the two standards confirm that investor decisions should be influenced by financial statements prepared in accordance with IFRS 18 and show better and more accurate performance in the quarter, which enhances investor confidence in the figures used to establish future forecasts of value and earnings. This is consistent with a study by Al-Rubaye and Ali (2024).

The results of the bank's financial analysis show a direct relationship and clear alignment with the objectives and expected impacts of implementing IFRS 18, as stated in the aforementioned academic and professional studies and references. The numerical data confirm that the new standard indeed achieves the core objectives for which it was developed, namely, improving transparency, enhancing comparability, and providing more useful information to investors.

3. *Disclosure of management-defined performance measures (MPMs).*

- Studies have confirmed that the new standard requires companies to disclose performance measures not specified in the standards and used by management, imposing requirements on how they are calculated and linked to subtotals (EFRAG, 2024; Maruszewska & Tuskiewicz, 2024).

- In the analysis results, a profit margin of 110% under IFRS 18 may be an example of a modified performance measure. This extremely high percentage may not represent the traditional "accounting" profit margin, but rather a margin "adjusted" that is used by management to clarify its view of performance after excluding certain items in accordance with IFRS 18 to structure its presentation to ensure transparency and comparability with standard results.

## 5.2. Results of the Mansour Bank's data analysis

The results of the financial ratio analysis support the intended role of IFRS 18 in enhancing transparency and comparability and providing more relevant information for investment decisions, as stated in the studies and hypotheses presented:

1. *Enhancing comparability and transparency.* The primary objective of IFRS 18 is to standardize the presentation of information, which enhances comparability and helps investors and financial analysts, which is consistent with hypothesis *H2*:

- **Significant ratio differences:** The significant ratio differences between IAS 1 and IFRS 18, particularly in the profit margin (69% vs. 130%) and operating income ratio (117% vs. 90%), indicate that IFRS 18 imposes a new presentation structure that forces companies to classify income and expense items in a uniform manner (operating, investing, financing, etc.). This regulation improves comparability between companies with similar activities, unlike IAS 1, which did not focus on a clear separation between core and non-core activities. This is consistent with a study by KPMG (2024) and Grant Thornton (2024b).

- **Improved transparency:** Classifying income by source (operating, investing, financing) enables financial analysts and investors to more clearly understand the key components of a bank's performance. The higher investment income ratio under IFRS 18 (13% vs. 1%) may indicate a more accurate classification of investment returns, enhancing transparency around income sources.

2. *Relevance of information for investment decision-making.* Providing clearer and more useful financial information supports rational investment decisions, which is supported by hypotheses *H1* and *H3*:

- **Focus on operational performance:** The redesign in IFRS 18 resulted in a reduction in indicators such as operating ROA (from 0.329 to 0.255) and earnings per share (from 0.370 to 0.286). These figures, although lower, may be more relevant and realistic for assessing a bank's true ability to maintain earnings because they more clearly exclude or isolate the effects of non-core activities.

- **Greater utility for financial analysis:** Differences in indicators (*H3*) require investors and financial analysts to rely on financial statements with the standardized characteristics provided by IFRS 18 to make accurate comparisons, which improves the usefulness of the information in analyzing financial performance and forecasting future cash flows. This is consistent with a study by the IFRS Foundation (2024).

3. *Disclosure of MPMS.* IFRS 18 requires disclosure of non-standard performance measures used by management, specifying how they are calculated. This is consistent with the studies by EFRAG (2024) and Czajor (2024):

- The organization of these measures makes them more subject to audit requirements.

- Providing these measures enables investors to better understand how the data is calculated, which enhances transparency and increases the value of financial investments.

**Table 9.** Mansour Bank data analysis results

Ratio	IAS 1	IFRS 18	Change	Analysis
Operating ratio	0.337	0.307	Decrease	The lower operating ratio under IFRS 18 (0.307) compared to IAS 1 (0.337) indicates that the bank has become more operationally efficient in covering total expenses from net sales under the new classification.
Operating profit margin	0.698	0.650	Decrease	The lower ratio under IFRS 18 (0.650) compared to IAS 1 (0.698) indicates that the bank's profitability from its core operating activities may appear lower after reclassifying revenues and expenses, perhaps providing a more accurate view of operational substance as assumed by the new standard.
Profit margin	69%	130%	Significant increase	IFRS 18 (130%) shows a significantly higher profit margin compared to IAS 1 (69%). This significant discrepancy may be due to the extensive reclassification of net income and net sales items into the five main classifications (operating, investing, financing, income tax, and discontinued operations) that IFRS 18 focuses on.
Operating expense ratio	0.210	0.350	Significant increase	The higher ratio under IFRS 18 (0.350) compared to IAS 1 (0.210) shows that operating expenses attributable to operating revenue are significantly higher under IFRS 18. This suggests that the new standard may have classified additional expenses (or reduced operating revenue) within the scope of core activities, improving transparency of the true cost of operations.
ROI	0.326	0.293	Decrease	IFRS 18 shows a lower ROI (0.293) than IAS 1 (0.326). This may result from the reclassification of investments or earnings, providing a more conservative and realistic view of investment return after excluding or reclassifying non-core activities.
Asset turnover	0.010	0.009	Decrease	The ratio shows a slight decrease under IFRS 18, which may reflect a narrower definition of assets used in core operations or a change in the classification of net sales.
Operating ROA	0.329	0.255	Decrease	IFRS 18 shows a lower operating ROA (0.255) compared to IAS 1 (0.329). This discrepancy reinforces the view that IFRS 18 focuses on the clear separation of the results of core operating activities.

Source: Authors' elaboration.

Overall, the ratio analysis indicates that the implementation of IFRS 18 has resulted in a fundamental change in Mansour Bank's financial performance measures, providing investors with more accurate and structured data on the core operating, investment, and financing performance. This is the goal sought by the standard's authors to enhance transparency, comparability, and support investment decisions.

The researchers noted significant differences between the results of financial ratios. A review of income statement data based on the new standard reveals significantly lower results regarding the ability of the banks in the study sample to achieve operating revenues compared to total revenues, in addition to higher operating expenses compared to revenues. When examining the investment and financing aspects, the data often

reveals significant differences that cannot be clearly identified when examining the income statement based on IAS 1. When comparing the results of the financial ratios of the study sample banks, the researchers find that the Bank of Baghdad is superior to the Mansour Bank in investment activity, as the ratios were 66% and 22%, respectively, and the results are close in operational activities, with a slight increase in the percentage of operating expenses in the Bank of Baghdad compared to Mansour Bank, and the former is superior in

achieving higher profits. When reading these ratios after applying the requirements of the new standard, it gives a better perception to investors regarding the direction in choosing the Bank of Baghdad, but when studying the financial market currently, it is noted that there is a greater tendency for investors to choose Mansour Bank, which indicates their inability to rely on financial data in making better investment decisions, and this can be summarized through the following Table 10.

**Table 10.** Comparison of results for sample banks after applying the requirements of IFRS 18

<b>Bank of Baghdad</b>		<b>Mansour Bank</b>	
<b>The element</b>	<b>% to net profit</b>	<b>The element</b>	<b>% to net profit</b>
Gross profit	100%	Gross profit	100%
Total expenses	37%	Total expenses	35%
Operating profit	63%	Operating profit	65%
Investment profit	66%	Investment profit	22%
Profit before financing and income tax	129%	Profit before financing and income tax	87%
Profit before income tax	129%	Profit before income tax	87%
Profit from continuing operations	110%	Profit from continuing operations	74%

Source: Authors' elaboration based on data from sample banks.

Thus, the researchers believe that reviewing income statement data according to IFRS 18 requirements gives investors a better ability to analyze financial performance and enhance their ability to compare and choose the least risky and highest return investment, in addition to eliminating the need for expanded disclosures, analytical tables and extensive details that take a lot of effort from investors and financial analysts to reach an acceptable understanding of income statement data. It also gives banks the opportunity to highlight financial data in a manner consistent with the vision and strategy of investors, each according to its focus on operational, investment, and financing aspects. This is known as providing appropriate data according to what the reader of accounting information needs.

The study confirms its hypotheses (*H1-H3*) by showing the impact of IFRS 18 on the transparency of financial statements and performance ratios in an emerging banking sector, provides practical evidence from Iraq — a relatively under-researched market — highlighting how reclassification and presentation affect financial indicators, and reinforces disclosure and information asymmetry theories while supporting institutional theories on the effects of mandatory adoption of international standards.

## 6. CONCLUSION

The previous study examines the presentation of financial data in the income statement and its impact on financial performance analysis and its impact on investor decisions. This study was conducted by reviewing the requirements for classifying and presenting financial data in accordance with IAS and IFRS, particularly IAS 1 and IFRS 18. It also explored the reasons that prompted international accounting boards to propose amending the international standard responsible for presenting financial data in statements. This study, which is the first to be conducted by the researchers, utilized the financial reports of Iraqi banks and redesigned them to comply with the new standard. It also analyzed the financial data, demonstrating

a comparative presentation of data and depicting financial performance with greater transparency. The study found significant differences in the results of financial ratio indicators when comparing income statement data for the same bank using different data presentation and classification methods. This was particularly true for investment profits, which appeared on the income statement after implementing IFRS 18 at 22% instead of 66%, after-tax income from 129% to 87%, and income from continuing operations from 110% to 74% after redesigning the statements based on the standard. These results clearly impact investment decisions, leading to a more transparent and comparable presentation of data, providing a more comprehensive view of financial performance and enhancing future investment decisions. As with all studies, our study has some limitations. It does not provide clear evidence of companies' readiness to implement the new standard, whether this will encourage them to further embellish earnings and not present financial statements as required by the standard to conceal important facts from investors, and whether IFRS 18 can impose restrictions that prevent companies from embellishing data.

Future research could expand the scope geographically by examining the impact of IFRS 18 on banks in other emerging countries to compare results with the Iraqi market, as well as conduct long-term analyses to observe the sustained effects of the standard on financial performance and transparency. Additionally, studies could explore the impact of IFRS 18 on non-banking sectors to assess the generalizability of the findings and analyze the role of organizational culture and governance in the effective implementation of international standards. Furthermore, future research could investigate the relationship between IFRS 18 disclosure and investor behavior and investment decisions, and examine the role of modern technologies, such as information systems and artificial intelligence, in enhancing the application of international financial standards and improving the transparency of financial statements.

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