International Journal of Business and Management Invention (IJBMI)
ISSN (Online): 2319 – 8028, ISSN (Print): 2319 – 801X
www.ijbmi.org || Volume 8 Issue 04 Series. II|| April 2019 || PP 01-09

IFRS9: The "new" Standard and how its first implementation affected the Greek Banking System at the 1st of January 2018

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ABSTRACT: *The Greek credit institutions applied the International Financial Standard 9 – Financial Instruments (IFRS9) for first time at 1st of January 2018. IFRS 9 replaced International Accounting Standard 39 - "Financial instruments-Recognition and Measurement" (IAS39). The application of IFRS 9 involved important modifications in the accountant principles that concern in the financial asset elements and liabilities. The most important effect from the application of the new standard concerns the adoption of stricter accounting principles with regard to the impairment of financial instruments. Less was the effect from the application of new rules of calculation of financial elements of assets and liabilities. In this paper are presented analytically the effects from the implementation of IFRS9 on the basic sizes of the balance sheets of the Greek banks and the regulatory ratios.*

KEY WORD: *IFRS9, Banking Efficiency, Greek Banks*

Date of Submission: 29-03-2019 Date of acceptance: 09-04-2019

I. INTRODUCTION AND LITERATURE REVIEW

The Greek financial crisis that began in 2008 constituted a big blow for the world and domestic economy. A lot of researches have analyzed the reasons that led to the crisis. One of them is considered that it is the use of financial standards from the larger financial institutions which concerns the financial elements and their depiction in the financial statements, which sometimes did not include elements for potential repercussions, and as a result have not been taken any action in order to be protected the world economy.

International Accounting Standards are a frame of principals and regulations, with the aim to the correct depiction of the financial state and the outcome in the financial statements of enterprises, which are published for the information of investment public. International Accounting Standards (IAS) have been renamed to International Financial Reporting Standards (IFRS).

According to Kavvadias (2003) International Financial Reporting Standards (IFRS) which develop and are revised continuously, constitute a sum of rules and accounting principles, that are related with the editing and presentation of financial statements.

The basic aim of International Financial Reporting Standards is reported in the paragraph a of regulation 1606/2002 and mentions that the present regulation strengthens the free circulation of capitals in the internal market and helps the European Community enterprises to competent in an equivalent base for the discovery of available financial resources as much in the European Community as in international capital markets.

As a result of the regulation' s implementation is the gradual and operational function of capital market, the protection of investment public and the creation of a confidence mood in the financial markets. Concisely, a healthy financial system is reflected by a smooth and efficient operation of the capital market, which receives the international acceptance through the general acceptable accounting models.

Moreover, it should be pointed out that IFRS aim in the safeguard of the competitiveness of European Capital Markets. The achievement of this objective requires the convergence of models that are used in Europe for the editing of financial statements, with various International Financial Standards, that might be used worldwide for the cross-border transactions or the import in the Stock Exchange market allover in the world (Pettas, 2014).

Jermakowicz (2004) realised an important effect in the shareholder's equity and in the net income when adapting the Belgian GAAP with IFRS. Cordazzo (2008) founded higher net income and shareholders' equity under IFRSs than under the Italian GAAP. Lopes and Viana (2007) presented less preservative profits for Portuguese enterprises and less conformity with disclosure and reconciliation requirements.

Cordeiro et al. (2007) presented important variations in the balance sheet and the profit and loss statement. Callao et al. (2007) and Horton and Serafeim (2008) realised that in Spain the long-term and total liabilities were increased while the equity of capital were decreased for the companies that adopt IFRS. Also found that there was no report improvement in the Spanish quality of report after the adoption of IFRS.

On the contrary, in Sweden, reporting quality increased after the adoption of IFRSs (Paananen et al., 2005). Perramon and Amat (2006) presented that the implementation of IFRS has brought several differences in the income statement of Spanish enterprises, mainly because of the implementation of fair values.

Variously sized Spanish enterprises with various profitability were affected in a different way. Aisbitt (2006) reported that for UK enterprises there were generally no important impacts on equity. In the UK, the earnings adaptation is value relevant (Capkun et al., 2008; Horton and Serafeim, 2008). Similar outcomes are found by Schadewitz and Markku (2008) for Finland. Stenka et al. (2008) report that the major result of IFRS adoption on UK accounts relates to goodwill and pension accounting.

Hung and Subramanyam (2007) proved that the total assets and the book value of capital equity, are considerably higher according to the IFRS in comparison to German GAAP. They also realised that the adaptations of book value in IFRS are in general value relevant, while the adaptations in the income are in general irrelevant.

Goodwin and Ahmed (2006) implied that small Australian enterprises that are influenced by the A-IFRS should make less changes in the net income and equity than the bigger enterprises. They also pointed out that small Australian enterprises presents increase in net income and equity resulting from adoption of A-IFRS. A-IFRS adoption did not have important impact on total assets, on the contrary, it increased liabilities.

Van Tendeloo and Vanstraelen (2005) realised that the adoption of IFRS could in certain cases lead to higher accrued expenses and, afterwards, to higher management of profits. They support that the adoption of standards of high quality does not probably be sufficient for the benefit of high quality information in countries with low mechanism of protection of investors.

Barth et al. (2008) have found that enterprises that implemented IFRS generally resulted less profit management, more loss recognition and high value relevance in reported accounting results. They also found that enterprises applying IFRS in general acquired higher accounting quality between before and after adoption periods.

PricewaterhouseCoopers (2006) claimed that IFRS adoption has altered investing perceptions on company values and has significantly influenced firms' investment decisions. Similarly, Citigroup (2005) proposed that the quality of reported information under IFRS might boost investors to revise their views and perceptions about financial reporting.

Credit Suisse (2004) showed that IFRS implementation would lead to material restatements and higher fluctuation of profits. Ormrod and Taylor (2004) suggested that debt to equity ratios may change, and may lead to new negotiations of debt and loan agreements.

Athianos et al. (2004) found that total assets and total liabilities are larger under IFRS than under the Greek GAAP. Also, the variation of net income is significantly higher under IFRS, while the average return on equity and asset turnover are lower. The impact on shareholders' equity has been caused mainly by adjustments in tangible assets, deferred tax assets and liabilities and intangible assets.

Spathis et al. (2002) and Baralexis (2004) resulted that the implementation of IFRS appeared to decrease the possibility for profit management comparing to the Greek GAAP. Tsalavoutas et al. (2008) showed that even after IFRS adoption, investors continue to give substantially higher importance to profits, implying that changing accounting standards does not necessarily change market participants' perceptions

International Accounting Standards Board started the process to replace IAS 39 with IFRS9, which would contain all those changes, that the financial statements of the institutions would reflect all the ominous predictions, in order to be taken in time the preparatory measures.

1st of January 2008 is defined as the date for the introduction of IFRS9. IFRS9 contains fundamental changes concerning the previous IAS 39. The way of accounting of financial instruments changes completely.

II. THE "NEW" STANDARD IFRS 9

IAS 39 has been criticized for its complexity by preparers of financial statements, auditors, and users (IASB, 2008). After its publication in 1999 there followed a lot of observations and proposals on the improvement of accounting follow-up of financial instruments and the simplification of rules. This criticism became more intense at the duration of financial crisis in 2008, when the financial standards and concretely IAS 39, were accused for the aid of variability because of the enormous reports of damage that are related with the fair value of the financial instruments of banks.

This fact made IASB to review the accounting rules and progressively to replace IAS 39. In order to do this, IASB published in November 2009 a new model, IFRS 9 "Financial Instruments". This first publication of IFRS 9 examines only the classification and the measurement of financial assets. It re-published in October 2010 and this latest publication includes the requirements on accounting for financial liabilities. Its mandatory adoption was at 1 January 2013, with an earlier adoption of at the end of 2009.

IASB's main objective with IFRS 9 is to decrease the complexity, to improve the comparability and to help the investors to comprehend better the accountancy of financial instruments. The differences between the old standard, IAS 39 and the new IFRS 9, are notable. IFRS 9 abolish two categories of financial instruments, those of financial assets available-for-sale and investments held-to-maturity.

With IFRS 9, financial assets are categorized henceforth with base of their measurement, as in the fair values or in the amortized cost. It adopts a new approach for the classification of financing financial elements with base two criteria: the aim of enterprising model of economic entity and the conventional financier flows of financing financial element, and gives a new character to classification of financial assets based on entity's business model and the contractual cash flows of the financial asset. (IASB, 2008).

III. THE EFFECT OF THE 1ST APPLICATION OF IFRS9 IN THE GREEK BANKING SECTOR AT THE 1ST JANUARY 2018

The Greek credit institutions implemented the International Financial Reporting Standard "Financial instruments-IFRS9" for first time at the 1st of January 2018. IFRS 9 replaced International Accounting Standard 39 "Financial instruments-Recognition and Measurement". The application of IFRS 9 involved important modifications in the accountant principles that concern in the financial elements of assets and liabilities.

The application of the new standard had an important effect on the adoption of stricter accounting principles with regard to the decline of financial instruments. However, the effect on the application of new rules for the measurement of financial elements of assets and liabilities was less. Concretely, the banks at the 1st January of 2018 applying IFRS 9 formed increased provisions with the result of the reduction of customer loans and requirements at 5,2 billion Euro. However, for the whole period of IFRS9 application the total effect shows a reduction of 5,7 billion euro taking into consideration the taxation. Relative was also the direct impact in the total equity.

As far as it concerns the effect on the regulatory capital equity, Greek banks have chosen to use the transient provisions of the application of IFRS 9 which based on the Regulation of European Union 2395/2017, credit institutions could apply progressively the repercussion from the adoption of IFRS 9 in the regulatory capital during a five-year transient period that begins at the 1st of January 2018.

More specifically, it is forecasted to be added in the regulatory equity capital a part (in percentage) of the repercussion from the application of IFRS 9. This percentage that is added, it amounts in 95% at the first time of application of IFRS 9 and it goes decreasing during the transient period until it becomes eliminated. Consequently, at the first time of application only the 5% of total repercussion affects in the regulatory equity capital. The escalation of the impact in the regulatory equity capital during the transient period is presented in Table 1.

Table 1. The effect on the regulatory equity capital during the transient period

Year	percentage %
2018	5%
2019	15%
2020	30%
2021	50%
2022	75%
2023	100%

Data Source : Bank of Greece

The effect on the Common Equity Tier (CET1) is presented in Table 2.
It is marked that the appreciated effect from the application of IFRS 9 in Tier CET1 probably is altered, while the admissions and techniques that were used by the banks will continue to be under a continuous review and improvement until the end of the fiscal year 2018 when the financial statements would be completed and published. The implementation of IFRS9 has affected on the operational results of the banking sector. The increased provisions decreased the rest of loans after provisions and in consequence the sum of interest loans.

Table 2. Effect from the implementation of IFRS9 to the Common Equity Tier 1 (CET1)

CET1	percentage	change in the units of base
31.12.17 (IAS 39)	17,09%	
01.01.2018 with the application of transient provisions	16,74%	-35
01.01.2018 without the application of transient provisions	13,70%	-304

Data Source: Bank of Greece

3.1 Effect on the basic elements of the financial statement

In 2018 it was continued the reduction of assets for Greek banking groups because of the reduction of loans. More analytically, the assets were decreased within the first semester of 2018 at 5,8% (15,1 billion euro) and have arisen to 244, 4 billion euro (Table 3). This reduction has been attributed to the following reasons:

1. In the reduction of the rest amounts of loans after provisions at 15,9 billion euro because of the deletions and sales of not served loans and also the repercussion from the application of IFRS9. More specifically, in the frame of the application of IFRS 9 presented increased provisions for credit risk (5,2 billion euro) at the 1st of January 2018, which decreased the rest of loans. In consequence, it was decreased the part of loans as a percentage of asset (for June 2018: 62,0%, December 2017: 64,5%) (Table 3 and Figure1).

Table. 3 The structure of the Assets and Liabilities of the Greek Banking Groups

The structure of the Assets and Liabilities of the Greek Banking Groups					
(amounts in million euro)					
	2017	%	June 2018	%	Change
Assets					
Cash and Cash equivalents in the Central Bank	6.657	2,6%	9.336	3,8%	2.679
Accounts receivable from Credit Institutions	7.875	3,0%	7.190	2,9%	-685
Loans	167.350	64,5%	151.445	62,0%	-15.905
Bonds	30.197	11,6%	30.242	12,4%	45
Participations tangible and intangible	7.755	3,0%	7.702	3,2%	-53
Non current assets classified as held for sale	7.503	2,9%	5.633	2,3%	-1.870
Other asset elements	32.227	12,4%	32.914	13,5%	687
Total	**259.564**	**100%**	**244.462**	**100%**	**-15.102**
	2017	%	June 2018	%	Change
Liabilities					
Customer Deposits	155.906	60,1%	161.157	65,9%	5.251
Liabilities to the credit institutions	47.138	18,2%	34.549	14,1%	-12.589
Bonds issued from the banking sector	2.899	1,1%	5.180	2,1%	2.281
Liabilities relative to the non current assets (held for sale)	5.482	2,1%	3.517	1,4%	-1.965
Other Liabilities elements	13.537	5,2%	12.626	5,2%	-911
Equity Capital	34.602	13,3%	27.433	11,2%	-7.169
Total	**259.564**	**100%**	**244.462**	**100%**	**-15.102**

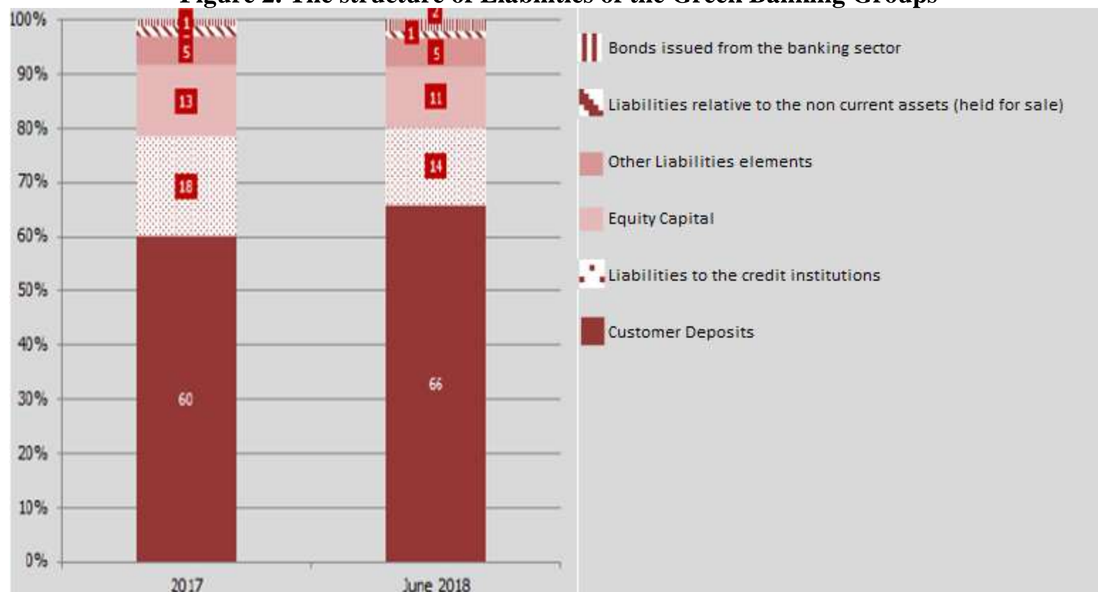
Source: Bank of Greece

Figure 1. The structure of Assets of the Greek Banking Groups

Data Source: Bank of Greece

2. In the reduction of financial elements for sale at 1,9 billion euro, which is owed in the completion of programmed sales of subsidiary companies. On the contrary, it was observed an increase in the cash and cash equivalents in the central bank at 2,6 billion euro. As far as it concerns the liabilities, the more important progress was the reduction of liabilities to credit institutions at 12,6 billion euro, that was also decreased (June 2018: 14,1%, December 2017: 18,2%) (Figure 2 and Table 3). This development was a result of the reduction of financing of banks from Eurosystem. Also, a reduction has been presented by equity capital at 7,2 billion euro, because of the increased provisions in the frame of the first implementation of IFRS9. On the contrary, increase has presented the deposits of customers at 5,3 billion euro

Figure 2. The structure of Liabilities of the Greek Banking Groups



Data Source: Bank of Greece

3.2 Banking efficiency

The first semester of 2018 the Greek banks recorded damage after taxes and interrupted activities of 320 million euros, comparing with the same period of 2017 when they recorded 61 million euros. (Table 4).

Table 4. The presence of the Greek Banking Institutions abroad

The precence of the Greek Banking Institutions abroad (June 2018)

(amounts in million euro)

Countries of the precence of Greece banking groups	Assets	Loans (before provisions)	Loans to delay (over 3	Percentage of loans to delay	Deposits	Number of service units	Number of personnel
Southeastern Europe	**23.796**	**17.216**	**4.942**	**29%**	**17.845**	**790**	**11.340**
Albania	1.530	741	193	26%	1.171	99	1.125
Bulgaria	5.637	3.725	505	14%	4.546	246	3.224
Cyprus	8.763	6.773	3.474	51%	7.163	42	1.285
Ukraine	89	59	18	30%	51	18	369
Fyrom	1.466	1.109	106	10%	1.191	66	1.032
Romania	4.924	3.775	548	15%	2.852	238	3.076
Serbia	1.387	1.034	98	10%	871	81	1.229
Financial Centers	**6607**	**2519**	**17**	**1%**	**2.313**	**5**	**242**
Germany	167	32	1	3%	129	1	12
Great Britain	4.066	2.034	14	1%	1.082	3	136
Luxembourg	2.374	453	2	1%	1.102	1	94
Other Countries	**939**	**572**	**68**	**12%**	**410**	**24**	**423**
Total	**31.342**	**20.307**	**5.027**	**25%**	**20.568**	**819**	**12.005**

Source: Bank of Greece

More specifically, the net interest income was decreased at 14,5% concerning the first semester of 2017, while the income from interest was decreased more rapidly from what the expenses of interest. The income from interest was influenced negatively mainly by the application of IFRS9,which had as a result the reduction of interests of loans, but also from the continuing deleverage of assets. The reprocess of expenses for interest is owed mainly in the continuing reduction of financing by Emergency Liquidity Assistance (ELA) and in smaller degree in the further marginal de-escalation of interest-rates of new deposits. In consequence, the net interest margin was decreased at 8 units of base the first semester of 2018 comparing with the same in 2017 when was shaped in the 2,4% (Table 5).

Table 5. Profit and Loss Statement of the Greek Banking Sector

Profit and Loss Statement of the Greek Banking sector

(amounts in million euro)

	1st semester of 2017	1st semester of 2018	change (%)
Operating Income	**4.335**	**3.963**	**-8,6%**
Net interest income	3.454	2.954	-14,5%
- Interest income	4.600	4.025	-12,5%
- Interest Expenses	-1.147	-1.071	-6,6%
Net income from non interest operations	881	1.009	14,5%
- Net income from fee and comissions	576	584	1,5%
- Income from financial actions	204	359	75,9%
- Other income	101	66	-35,1%
Operating Expenses	**-2.112**	**-2.204**	**4,3%**
Staff expenses	-1.101	-1.213	10,1%
Administration expenses	-828	-806	-2,7%
Depreciation	-183	-185	1,3%
Net income (operating income-operating expenses)	**2.223**	**1.759**	**-20,9%**
Provisions for credit risk	-1.869	-1.462	-21,8%
Other Impairment losses	-108	-70	-35,3%
Non repeated profits/losses	-27	-84	>100
Profits (+)/Losses (-) Before tax	**219**	**143**	**-34,5%**
Taxes	-83	-143	72,1%
Profits (+)/Losses (-) from interrupted activities	-197	-321	62,6%
Profits (+)/Losses (-) After tax	**-61**	**-320**	**>100**

Data Source: Bank of Greece

This reprocess is owed in the more rapid rate of reduction of net income from interest (numerator of ratio) against the rate of reduction of asset for this period (11,8%). However, the net interest margin of Greek banks remains considerably higher than the equivalent of intermediate size of banking groups in the European Union. The net income from not interest operations was strengthened at 14,5% in an annual base, as a result from the particularly important amplification of income from financial actions.
The income was influenced positively by financial profits that resulted from the portfolio of Greek bonds, as well as from reclassification of amounts, that happened because of IFRS9, from the net interest income to income from financial operations.

The net income from supplies remained almost immutable. With regard to the operational expenses, was observed an increase because of the cost of programs of voluntary exit in the frame of further shrinkage of personnel and network of shops.

As a result, in the first semester of 2018 was marked important reprocess of operational profits, and the ratio of efficiency (ER) for the Greek banks, which however remains in lower level than the average of intermediate size of banking groups in the EU. The first semester of 2018 the banks gave decreased provisions for the credit risk (at 21,8% concerning the same period of 2017), partly because of the recuperation of provisions related with the sale of portfolios of not served openings. The rest damage of impairment was decreased, while the not repeated damage was increased. The damage from interrupted operations was increased comparing to the first semester of 2017 and in combination with the increased taxation, have changed the profits pre-taxes in damage after- taxes and interrupted operations. As a result, the ratio of asset efficiency (ROA) and equity (ROE) of the banking groups receded. (Table 5).

With regard to the prospects for the profitability, these are connected with the growth of the Greek economy and the further aid of confidence to the banking sector. The banks owe to re-define their operational model, giving accent in the re-establishment of their mediatory role, in the growth of new and innovative work with the view to the differentiation of their income resources, as well as in the further reduction of their operational cost. In this frame, major importance will have the efforts of banks to achieve the new agreed operational objectives for the reduction of not served loans.

Table 6. Ratios of Efficiency of the Banking Groups for Greece and the EU countries

Ratios of Efficiency of the Banking Groups for Greece and the EU countries

(percentage %)

	Greece[1,2]		EU 28[3]
	1st semester of 2017	1st semester of 2018	2017
Net Interest Margin	2,5	2,4	1,4
Operating Expenses/ Assets	1,5	1,8	1,5
Efficiency Ratio	48,7	55,6	62,4
Provisions for credit risk/assets	1,7	0,6	
Procisions for credit risk/operating income	43,1	36,9	
Asset efficiency (after tax) -ROA	0,1	0,0	0,4
Equity efficiency (after tax)-ROE	0,8	0,0	4,8

[1] For the calculation of the ratios they are used assets at the end of the examined period

[2] ROA and ROE takes into account the profits after tax and before the interrupted activities.

[3] Intermediate Banking Groups . Their ROA and ROE are calculated after tax and interrupted activities

Source: Bank of Greece- derived from Statistic Database (SDW) of European Central Bank (ECB)

3.3 Capital adequacy

The capitalized adequacy of Greek banking groups receded in the first semester of 2018 because of the application of IFRS 9 and the recording of damage after taxes.

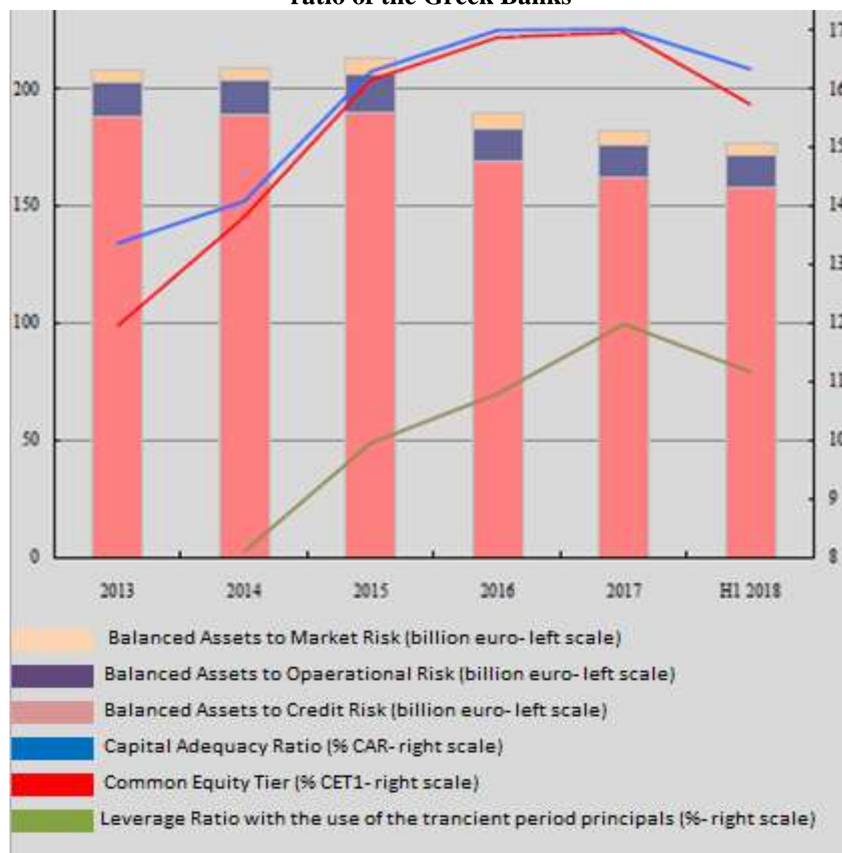
These factors had as a consequence the reduction of regulatory capital equity of Greek banking groups at 6,8% concerning December 2017, while the balanced to risk assets were decreased at 2,8%. In consequence, the Capital Adequacy Ratio in a unified base receded in the 16,3% in June 2018 from 17% in December 2017

(Figure 3). Higher reprocess presented the Common Equity Tier 1 (CET1) in 15,7% in June 2018 from 17% in December 2017 because of the higher reduction of Capital Common Share (- 9,9%).

The leverage of Greek banking groups was worsened comparing to 2017 (Figure 3) because of the important reduction of Capital of Category 1 for this period concerning the corresponding change of total openings that is taken into account for the calculation of the ratio.

With regard to the prospects for the capital adequacy of Greek banks, the application of IFRS9 will progressively overload further the regulatory capital, while the Greek banks have chosen to use the provision of transient period concerning to the absorption of repercussions in the supervisory proper funds from the implementation of the new standard.

Figure 3. Allocation of the balanced assets per risk, development of the capital adequacy and leverage ratio of the Greek Banks



Source: Bank of Greece

IV. CONCLUSIONS

In this paper has been presented the effects of the first implementation of the "new" standard IFRS9 of the Greek banking sector by examining the basic elements of the banks' financial statements and the regulatory ratios.

As a conclusion, it is found that the Greek banking institutions have been recorded for the first semester of 2018 damages (after-taxes) and interrupted operations of 320 million euro. More specifically, the net interest income decreased more rapidly than the interest expenses.

Interest income was influenced negatively mainly by the application of IFRS9, that had as a result the reduction of interest rests of loans, but also from the continuing deleveraging of banks' assets. The remission of interest expenses is owed mainly in the continuing reduction of financing by the mechanism of Emergency Liquidity Assistance.

As a result, the net interest margin was decreased and it came to 2,4%, remaining however considerably higher than the average that present intermediate size banking groups in the European Union. Globally, was observed important reprocess of operational profits the first semester of 2018, but also the Efficiency Ratio (ER) of the Greek credit institutions, which however remains in lower level comparing to the average of intermediate size of banking groups in the EU.

With regard to the capitalized sufficiency of Greek banking groups, this receded in the first semester of 2018 because of the application of IFRS 9, and the recording of damage after taxes. More analytically, the Common Equity Tier 1 (CET1) in a unified base was decreased in 15,7% from 17% in December 2017.

To sum up, that the credit institutions should maintain important capitalized reserves in order to absorb the future effects from the progressive impacts in the regulatory capital from the completion of application of IFRS9, as it has been determined by the United Regulatory Mechanism.

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Eleni Koletsa" IFRS9: The "new" Standard and how its first implementation affected the Greek Banking System at the 1st of January 2018" International Journal of Business and Management Invention (IJBMI), vol. 08, no. 04, 2019, pp 01-09