"An evaluation and analysis of the financial profile

of selected banks:

A comparison among Greek, British and German listed banks."

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The purpose of this dissertation is to present the financial profile of Greek, British and German listed banks one year before the implementation of the International Accounting Standards (IAS) and one year after. The new IASs were applied for each financial year starting on or after 1 January 2005. The implementation of the new accounting system has influenced all the listed companies. This paper focuses on the differences among the Greek listed banks (before-after analysis), on the differences among British listed banks and lastly on the differences among German listed banks. Differences among Greek, British and German listed banks are also studied. The conclusions and recommendations answered the project title and suggested future developments and changes.

This thesis is divided into seven (7) chapters of which chapter (1) serves as an introduction to the subjects under discussion and its main objectives. Chapter two (2) contains the corresponding literature review of every subject under study. Chapter three (3) outlines the hypotheses and presents a detailed description of the methodology. In chapter four (4) the data is analyzed, presented and commented. Data analysis consists of hypothesis analysis. The analysis investigates the banks' performance by calculating financial ratios while multivariate parametric tests, such as binary logistic regression and linear regression verify or negate the hypotheses. Chapter five (5) embodies the conclusion of the thesis and presents the most important findings of the research. The research findings suggest that there is a relationship between IAS and financial restatements. Moreover, it indicates the fair value orientation of IAS. Empirical results show also that the adoption of the IAS/IFRS has led to a reduction in the cost of equity. The present study, used as a means of detecting and constraining some of the causes of earnings management, could be proven to help a variety of interested groups such as firms, shareholders, investors, financial institutions, auditors, legislators, the Inland Revenue and the state.

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1. Introduction

1.1. Background of IAS

IAS/IFRS are accounting rules ("standards") issued by the International Accounting Standards Board (IASB), an independent organization based in London. IASB claim to be a set of rules that ideally would apply equally to financial reporting by public companies worldwide. Between 1973 and 2000, international standards were issued by the IASB's predecessor organization, the International Accounting Standards Committee (IASC) (Ball, 2006).

The European Union decided, on the 31st of December 2001, the implementation of the International Accounting Standards (IAS). According to this, all listed companies that take place in organized European capital markets and governed by the law of a member state must prepare their consolidated financial statements - accounts on the basis of international accounting standards (IAS/IFRS) issued by the International Accounting Standard Board (IASB). The new accounting standards were applied for each financial year starting on or after 1 January 2005. The European Union also decided that the remaining non-listed companies could voluntary adopt and apply the IAS. By this decision, the E.U. permitted the member-countries to extend their application. Thus, from the 1st of January 2005, the overwhelming majority of E.U. member-countries, including Greece, have confronted the application of two accounting systems, one for listed and the other for non-listed companies (Bellas et al., 2007; Palea, 2007; Tsalavoutas and Evans, 2008).

In July 2002, the European Parliament and Council issued Regulation No. 1606 on the application of international accounting standards. According to the regulation, financial statements prepared in 2004 under national GAAP had to be restated in accordance with IFRSs in order to provide comparatives. Reconciliation statements explaining how the transition from previous GAAP to IFRSs which affected companies' financial statements were also required. This regulation was implemented in order to improve transparency and comparability of financial statements thereby contributing to a more efficient and cost-effective functioning of the capital market (Tsalavoutas and Evans, 2008; Palea, 2007).

The present essay is a departmental study on the banking sector. The motivation for studying the banking industry is to assess the financial characteristics of banks. Previous researches excluded financial institutions because of the fundamental differences in their financial accounting practices and rules in their published financial statements relative to nonfinancial firms (Iatridis, 2008; Sellhorn, 2006; Bellas et al., 2007). The study is also motivated by the need to determine whether the banks have been influenced or not.

Listed banks from Greece, the UK and Germany were used in order to test the hypotheses (appendix A). The purpose of this paper is to examine the (subsequent) influence on said banks' financial profile following the implementation of IAS. The study through statistical tools (SPSS 17) initially examines whether banks have large statistical differences on the financial restatements after the implementation of IAS. The study afterwards concentrates on the fair value orientation of IAS and examines the earnings management issue. Last but not least, the paper investigates whether the adoption of the IAS/IFRS has led to a reduction in the cost of equity. The research findings suggest that there is a relationship between IAS and financial restatements for both Greek and German listed banks yet not for banks in the London stock exchange. Higher standard deviation results reported under IAS in 2005 than in 2004 indicate the fair value orientation of IAS. The earnings management tests indicate that banks under IAS display higher volatility. Empirical results also show that the adoption of the IAS/IFRS has led to a reduction in the cost of equity.

All data was collected from the banks' published financial statements for the years 2004 and 2005 regarding both accounting systems (domestic and IAS). Extra financial information was obtained from web sites digitallook.com and capital.gr.

2. Literature review

2.1. International Accounting Standards (IAS) papers review

The adoption and the application of IAS has been a subject of numerous studies. Even though the application of IAS was not rendered compulsory until 2005, many companies all over the world found it worthwhile to begin their application earlier. Many different papers have been published describing the main characteristics of the companies that began the application earlier AL-Basteki (1995), Murphy (1999), Tarca (2002) and El-Gazzar, Finn and Jacob (1999). The main conclusion of their studies is that all the companies which voluntarily adopt IAS are listed in numerous foreign stock markets and they are involved in international sales.

A large amount of studies investigated the harmonization of national (i.e. domestic) accounting standards with international accounting standards. Garrido, Leon and Zorio (2002) and Fontes, Rodrigues and Craig (2005) support the idea of formal harmonization which is the balancing of laws and regulations. On the contrary, Street, Gray and Brayant (1999), Rahman, Perera and Ganesi (2002), Street and Gray (2002), and Larson and Street (2004) support the theory of material harmonization which is a practical application of the accounting standards.

A prior study, which appears to be related to the IAS, is the subject of creative accounting or earnings management. Zimmermann and Gontcharov (2003), showed that the German companies resort to the equal manipulation of their profits. They came to the same conclusion by implementing not only the German standards but also the International Accounting Standards. In contrast with the above research, Barth, Landsman and Lang (2005), after examination of sample companies coming from various countries, concluded that the companies manipulate their profits less when the IAS are applied.

"One of the more common questions within the international bibliography that has occupied financial accounting is the investigation of the correlations of accounting information (i.e. Earnings, book value, cash flows, etc.) with share prices and returns (value relevance)" (Bellas et al., 2007, p4).

Ball and Brown (1968) concluded that share prices agree with the accounting information that is included in published financial statements. Their research was based on the investigation of the correlation of earnings with share returns.

Many papers have been published comparing the IAS with the domestic accounting standards. Sami and Zhou (2004), Lin and Chen (2005), compared the International Accounting Standards with the Chinese Accounting Standards (CAS). Hung and Subramanyam (2004), in a sample of eighty companies that voluntarily applied the IAS, exclusively compared the IAS with the German Accounting Standards. In United States of America, Harris and Muller (1999) have looked at the IAS in contrast with the American Accounting Standards (US GAAP). Finally, Barth et al. (2005) expanded the above analysis by comparing IAS to domestic accounting standards for more than one country. They specifically examined how much the IAS improved the quality of accounting information amongst a large sample of companies from twenty-three different countries (for the 1994 to 2003 period). Ding et al. (2007) studied determinants and effects of differences between domestic accounting standards (DAS) and international accounting standards (IAS) and explored how these differences influence financial reporting quality. Using a sample of 30 countries and creating two indices, absence and divergence suggested that a higher level of absence implies more opportunities for earnings management. Absence also implies a decrease in firm-specific information to investors. A larger divergence from IAS is associated with richer firm-specific information in capital markets.

Ball (2006), presented in detail the advantages and disadvantages for the investors of the IFRS adoption. On the "pro" side of the ledger, he concluded that extraordinary success has been achieved in developing a comprehensive set of "high quality" IFRS standards, persuading almost 100 countries to adopt them. On the "con" side, he noticed problems with the current interest of the IASB (and the FASB) with "fair value accounting."

Capcun et al. (2008) conducted a research based in a sample which included 1,722 firms from EU countries. In all these countries the adoption of IFRS was mandatory in 2005. They tested the differences between Local GAAP and IFRS financial statements and found an increase in total assets, book equity and a significant change in the structure of assets and liabilities. Firms appeared to have used the transition to IFRS in order to manage their earnings upwards. The

findings showed that in all European countries the return on assets (ROA) was higher according to their IFRS reports than according to their Local GAAP reports.

2.2. IAS in Greece

Concerning the impact of implementation of IAS in Greece, Tsalavoutas and Evans (2008) examined changes in companies' book-to-market ratios between pre and post IFRS adoption. They examined the impact of IFRSs adoption on companies' financial statements (net profit, equity, gearing and liquidity) for the financial year 2004. They also studied which accounting standards had the strongest economic impact on equity and finally they investigated possible changes to the book-to-market ratio between the pre and post IFRS periods. They concluded that the implementation of IFRSs did indeed have a significant impact on the financial position. The introduction of IFRSs had a positive impact on Greek listed companies' shareholders' equity and net profit. However, it had a negative impact on gearing and liquidity. Their findings also suggested that the introduction of IFRSs improved the quality of the accounting information provided by companies and this was reflected in their book-to-market relationship.

Bellas et al. (2007) investigated the impacts of the accounting changeover from the Greek Accounting Standards (GAS) to the International Accounting Standards (IAS) in relation to the published financial statements of Greek listed companies for the year 2004. They concluded that tangible assets, fixed assets, and total liabilities record significantly higher prices under the IAS. Furthermore, it was recorded that, in opposition to the net income after taxes, the book value appears to play a more significant role under the IAS, compared to that under the GAS. There was also evidence that the adjustments of GAS to net income improved incremental value relevance, while the adjustments of GAS to book value did not improve it.

Spathis and Georgakopoulou (2007) presented a study of the adoption of IFRS in South Eastern Europe by examining the case of Greece. They presented the factors and the constraints that influence the agreement of firms with IFRS. Moreover they emphasized some key differences between IFRS and the Greek accounting system, which have had a major impact on the conversion to IFRS. Furthermore, they referred to specific issues related to local accounting practices and IFRS, the issue of enforcing compliance with IFRS and how this related to current accounting and audit services.

Iatridis and Rouvolis (2010) investigated the effects of the transition from Greek GAAP to IFRS on the financial results of Greek listed firms. They focused on the factors associated with the provision of voluntary IFRS disclosures before the official period of adoption, the degree of earnings management under IFRS and the value relevance of IFRS-based accounting numbers. They concluded that the implementation of IFRS has introduced volatility in key income statement and balance sheet measures of Greek firms. The findings showed lower key accounting measures, such as profitability, liquidity and growth in 2005, the year of first adoption of IAS/IFRS. Those differences were explained by the fair value orientation of IFRS and the associated transition costs.

2.3. IAS in the UK

In the UK and Ireland, the use of IFRS was neither stimulated by the regulatory authorities nor pushed for by the companies themselves, since these countries have strong equity-outsider financing systems and 'class A' accounting systems. From their perspective, the benefits of IFRS adoption do not appear to outweigh the related costs. Therefore, the voluntary adoption of IFRS in the UK and Ireland was almost nonexistent (Cuijpers and Buijink, 2005, p 493; Haller, 2002).

Ashbaugh and Davis-Friday (2002) found that for firms listed on the London Stock Exchange, adopting IAS or U.S. GAAP increases the likelihood of the firms becoming targets in mergers and acquisitions. One explanation for these results is that higher quality financial reporting allows outsiders to better identify takeover targets, leading to more acquisitions of firms using IAS or U.S. GAAP. An alternative, but not mutually exclusive, interpretation of these results is that firms that want to be acquired adopt a more transparent accounting standard. Both interpretations suggest that a more transparent accounting environment facilitates merger and acquisition activity.

Christensen et al. (2006) pointed out the market response of UK companies to the decision by the E.U. to adopt IAS by the fiscal year 2005. In order to reach a conclusion, two methodologies were applied. First an event study was used to assess the immediate share price response to news about the EU's deliberations on IFRS adoption. Second an earnings based valuation model was applied to infer costs of capital before and after the decision of adopting IFRS across the EU. The research found evidence that mandatory IFRS has not affected UK

firms in a uniform way – some firms have made a relative gain and some firms have made a relative loss as a consequence.

Asbitt (2006) investigated the accounting effect of the transition to IFRS on the 100 largest UK listed firms. In particular the differences in financial measures due to IFRS were compared with the level of disclosure regarding the transition to IFRS in the annual report for the year preceding the IFRS report. The results suggested that the level of disclosure prior to the transition gave little indication of the overall effect of the change in accounting convention.

Horton and Serafeim (2008) investigated whether there was market reaction to and value-relevance of information contained in the mandatory transitional documents required by IFRS. They found considerable negative unusual returns at the date of disclosure. Further analysis indicated that the abnormal returns were significantly associated with the cumulative earnings reconciliation adjustment whereas positive trading activity for firms reported a negative reconciliation adjustment on UK GAAP earnings. Moreover they found that the valuation coefficient was also notably higher at the post-disclosure date. Thus, IFRS were appeared to be reliable through which information is revealed. Goodwill impairment, share based payments, employee benefits, financial instruments and deferred taxes were proved to be associated with stock prices.

Iatridis and Valahi (2010) published a paper about firms' voluntary compliance with the reporting requirements of the International Accounting Standard (IAS) before the official adoption of IASs. The purpose of this paper was to identify the reasons for the voluntary adoption of IASs. Based on a sample consisted of 262 UK companies that were listed on the London Stock Exchange, they concluded that firms' decisions were influenced by the intention to improve key financial measures, such as leverage, profitability and growth.

2.4. IAS in Germany

Leuz and Verrecchia (2000) studied German firms that had switched from German GAAP to IAS or U.S. GAAP and showed that bid-ask spreads were lower and trading volumes were higher for firms employing international standards. They also checked whether switching to the IAS or the U.S. GAAP led to less share price volatility but were unable to document a negative association around the switch.

Hung and Subramanyam (2004) investigated the effects of adopting International Accounting Standards (IAS) on financial statements and their value relevance for a sample of German firms. They conducted a comparison between accounting numbers reported under German accounting rules (HGB) with those under IAS for the same set of firm-years. This research revealed that adopting IAS results in economically significant changes to many key accounting measures and financial ratios.

In a research study a few years later, Hung and Subramanyam (2007) investigated the effects of adopting International Accounting Standards (IAS) on financial statements for a sample of German firms during 1998-2002. They found that total assets and book value of equity, as well as variability of book value and net income, were significantly higher under IAS than under German accounting rules (HGB). In addition, they found that book value (net income) plays a greater (lesser) valuation role under IAS than under HGB.

Paananen and Henghsiu (2008) based on a sample of German companies published an article about the development of accounting quality of IAS and IFRS over time. This study compares the characteristics of accounting amounts under IAS during 2000-2002 (IAS period), IFRS during 2003-2004 (IFRS voluntary period) and 2005-2006 (IFRS mandatory period). They concluded that accounting quality has declined after the mandatory EU adoption of IFRS. They found that earnings and book value of equity were becoming less value relevant during the IFRS periods compared to the IAS period (on contrary to the E.U will).

Aubert and Grudnitski (2008) studied which EU countries had the largest differences in return on assets (ROA) computed under IAS/IFRS and local, generally accepted accounting principles (GAAP). Test results showed significant positive differences in ROA for German French, and Portuguese firms.

Ernstberger and Vogler (2008) examined the impact of voluntary adoption of Internationally Accepted Accounting Principles on the cost of equity-capital in Germany. They found that overall cost of equity-capital estimates in the Capital Asset Pricing Model (CAPM) for companies applying IAAP are significantly lower compared to those applying German GAAP.

Paananen and Lin (2008) examined the characteristics of accounting amounts using a sample of German companies reporting under IAS during 2000-2002 (IAS period), IFRS during

2003- 2004 (IFRS voluntary period) and 2005-2006 (IFRS mandatory period). The conclusion showed a decrease in accounting quality after the mandatory EU adoption in 2005.

2.5. Principle of "fair value"

The financial accounting standards board (FASB 2004a, cited by Landsman, 2005, p3) defines "fair value" as "the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties". As the FASB notes, "the objective of a fair value measurement is to estimate an exchange price for the asset or liability being measured in the absence of an actual transaction for that asset or liability."

Bignon et al. (2004) supported that it is difficult to affirm that the net contribution of fair value to the improvement of accounting standards is positive. In the presence of asymmetries of information, complementarities and specificities, the logic of historical cost may be far from ideal, but it appears the best possible solution. They also support the introduction of fair value method which would show a more faithful view to the shareholders. The improved assessment of wealth and the presentation of the real values of assets and liabilities would provide better information about the firms' risks and would provide more reliable results in financial statements.

Cairns et al. (2009) investigated the use of fair value measurement by 228 listed companies in the UK and Australia around the time of adoption of IFRS from 1 January 2005. They tested whether within and between countries comparability in policy choices (as measured by T indices) has changed in relation to (a) mandatory and (b) optional use of fair value measurement. The results suggest a conservative approach and/or lack of incentives to use fair value measurement for most companies. Some banks and insurance companies are an exception for financial assets such as Australian property companies.

A staff team led by Enria (2004) recognized the potential drawbacks and advantages of a full fair value accounting framework. Five main drawbacks have surfaced from the analysis. The first focuses on the likely increase in the volatility of income. The second drawback relates to the role of banks in maturity and liquidity transformation. The third drawback concerns the role of banks as institutions smoothing inter temporal shocks. The fourth drawback is the potential disruption to market discipline caused by the reduction of comparability and reliability of financial statements across financial institutions. The fifth drawback focuses on the limited

reliability of present bank estimates of probabilities of default (PDs) for accounting purposes. Moving to the advantages of FFVA, the key issue is the improved scope for market discipline and corrective action. It is increasingly acknowledged in both the academic literature and the supervisory debate that the discipline exercised by informed and uninsured investors is an essential element of supervisory control. The second advantage can be seen as the other side of the coin regarding the cost of the banks' role in maturity and liquidity transformation, as mentioned above. The third advantage stresses the potential of FFVA to limit the scope for pro-cyclicality. Finally, it may be argued that increased volatility in accounting magnitudes is not necessarily a problem if investors correctly interpret the information disclosed.

2.6. Value Relevance

Bartov et al. (2005) compared the value relevance of German GAAP, IAS, and U.S. GAAP for firms traded on German stock exchanges. Defining value relevance as the coefficient of the regression of return on earnings deflated by beginning market value, they find a higher coefficient on IAS and U.S. GAAP earnings than German GAAP earnings, but no difference between IAS and U.S. GAAP

Hung and Subramanyam (2007) compared the value relevance of the two accounting standards by regressing stock prices on book values and net incomes. Their study finds that although differences in R-squared under the two standards are not significant, book values of equity have a higher coefficient under IAS and net incomes have a higher coefficient under German GAAP.

2.7. Cost of equity

Easley and O'Hara (2004) found that a higher proportion of private information increases cost of equity capital, whereas cost of equity capital is decreased by higher dispersion of private information and higher precision of private and public information.

Palea (2007) examined the effects of the IAS/IFRS adoption in Europe on the cost of equity capital relative to the bank industry. The empirical findings showed that the increase in the level of disclosure provided by the adoption of the IAS/IFRS in the European Union by Regulation 1606/2002 has effectively led to a lower cost of capital. Descriptive statistics revealed that the Leverage and Growth variables, which are supposed to be negatively related to

the E(EPS)/P ratio used as a proxy for the cost of equity, have decreased in mean and median over the period under consideration.

King (2009) published estimates of the inflation-adjusted cost of equity for banks in six countries: Canada, France, Germany, Japan, the United Kingdom and the United States, over the period 1990–2009. This cost was estimated using the single-factor capital asset pricing model (CAPM). The costs of equity estimates were higher for France and Germany and lower for Japan. Counter intuitively, the estimates were lower for the United Kingdom and the United States as the measured betas are lower on average using this method. The estimates showed wide variation across banks, highlighting the difficulty of estimating expected returns using the CAPM.

2.8. Additional research

Aboody et al. (1999) found that upward revaluation of fixed assets by U.K. firms is positively related to future operating income and cash flow from operations. Therefore, the empirical tests of Van Tendello and Vanstraelen (2005) should be interpreted with caution. Future research using the Jones model should adjust for asset revaluation. Leuz and Verrecchia (2000) investigate the impact of changing accounting standards on the cost of capital by using bid-ask spreads and stock turnover ratios as proxies for the cost of capital. They suggest that opaque information environments reduce the demand for stocks and thus increase bid-ask spreads and lower stock turnover ratios.

Ashbaugh and Pincus (2001) investigated whether analyst forecast errors decrease after a firm adopts IAS. They argue that IAS adoption reduces analysts' cost of information acquisition and improves forecast accuracy, even though earnings smoothing under other accounting standards makes forecasts easier. They find that forecast errors are positively related to the difference between a country's domestic accounting standards and IAS.

Armstrong et al. (2007) identified 16 events between 2002 and 2005 that may change the likelihood of the adoption of IFRS and the controversial fair value accounting on financial instruments, IAS 39. They found that stock market reaction is significantly positive (negative) in reaction to the events that increased (decreased) the likelihood of the adoption and the reaction is stronger for firms that do not cross-list in the U.S. They conclude that equity investors perceive the benefit of the harmonization, but the benefits are expected to be smaller for firms cross-

listing in the U.S., since U.S. GAAP is closer to IFRS than were most European domestic GAAPs.

3. Research strategy and methodology

3.1. Data sets

The study has focused on banking sector and has covered a period of two years, from opening 2004 to closing 2005. It is a cross-country analysis among three European countries that adopted the International accounting standards in 2005 (Greece, the UK and Germany). The reason for picking up these countries was the differences in their previous accounting system. Germany is generally classified as a code-law country and the domestic accounting system emphasizes conservatism and income smoothing. The same stands for Greece, where the German model (stakeholder oriented accounting system) was applied. On the contrary the UK is generally classified as a common-law country (Hung, 2004; Nobes, 2005; Bellas et al., 2007).

The Greek legal system belongs to the code (or Roman) law family. Greek accounting and commercial law have been strongly influenced by French precedents (Ballas et al., 1998). Companies in code-law countries tend to have greater scope for income smoothing (Spathis and Georgakopoulou, 2007). The accounting system in Germany has traditionally been stakeholder-oriented (Ball et al., 2000). German Generally Accepted Accounting Principles (GAAP) or Commercial Code (Handelsgesetzbuch – HGB) encourages a cautious approach to asset valuation and liability recognition to facilitate contracting with stakeholders. HGB permits great flexibility for managers to value assets at their lowest amount possible to minimize tax liability. HGB also is characterized by income smoothing through the use of reserves to reduce fluctuations in income and also through delayed and gradual recognition. (Harris, Lang and Moller ,1994; Leuz and Wustemann, 2004). Accounting standards in common law countries are mostly set by private organizations such as IASB in the U.K. The purpose of these standard setters is to satisfy investor needs for information. The difference between common law and code law country is that in common law countries the right to set accounting standards is derived from information demands from investors, not from the demands of the government (Soderstrom and Sun, 2007).

The data set consists of banks which are listed on each country's stock exchange and afford information about the restatements of financial statements. The sample of the study

consists of about 30 banks and take into consideration the consolidate results. Previous research has shown that consolidated data is more value relevant than unconsolidated data (Alford et al., 1993; Harris et al., 1994).

The accounting and financial data of the sample banks was acquired from Capital.gr, Digitallook.com and from their financial statements that were collected from the Financial Times annual report service and from each banks' website. Appendix A provides the list of banks of each country.

The empirical analysis has used multivariate parametric tests, such as the linear regression analysis and the binary logistic regression analysis, which calculate the probability of adoption in terms of the firms; financial traits. Logistic regression is used to predict a categorical (usually dichotomous) variable from a set of predictor variables e.g. adopters or non adopters (Pindyck and Rubinfeld, 1981). With a categorical dependent variable, discriminate function analysis is usually employed if all of the predictors are continuous categorical; and logistic regression is often chosen if the predictor variables are a mix of continuous and categorical variables and/or if they are not appropriately distributed. Logistic regression makes no assumptions about the distributions of the predictor variables. The prognostic precision of the models and the reliability of the estimates are also considered.

3.2. Methods for data collection

Data collection is a prominent matter when preparing a research study, since the quality of its final results depends highly on the quality of data that have been collected during the research procedure. Valid data entails valid results. Data can be principally categorized as quantitative or qualitative.

Quantitative data can be counted numerically. It can range from simple counts such as the frequency of occurrences to more complex data such as test scores or prices. To be useful this data must be analyzed and interpreted. In order to analyze the data the researcher must use statistical software packages such as SPSS, Excel, Minitab, E-views etc. Qualitative data is more ambiguous as the conclusions are dependent on the meaning of the expressed words. For example, the word "easy" and "difficult" can be interpreted differently according to the special needs and circumstances of each interviewer. On the other hand, qualitative questions are more complex. They require more care in their design by the researcher and require more detailed

reflection from the participant (Saunders et al., 2000). Triangulation and iterative procedures are used in order to augment credibility of findings and often bring in results that are not in a position to be categorized. Qualitative data collection methods include mainly interviews (face to face, telephone interviews) questionnaires, case studies and observation. Thus, the analysis of qualitative data is a demanding and a time consuming process.

Data can also be divided into in primary and secondary data. These types of data include both quantitative and qualitative data and can be used in any research. A researcher in order to test hypotheses, answer questions, or collect data about his survey can use either primary or secondary data. Primary data is that which has been collected by the researcher in order to meet his objectives. The primary data can be collected by observation, interviews or questionnaires. Secondary data is that which already exists and has been collected for other use. This data can be divided into three main categories: documentary data, survey based data and those gathered from multiple sources (Saunders et al., 2000).

The advantages of using secondary data are that it is less costly and less time consuming. It is easier for the researcher to find and collect this data through governments' surveys, internet, papers, journals etc. saving a great amount of time and money rather than to collecting it themselves (Saunders et al., 2000; Stathakopoulos, 2005). On the other hand, there are disadvantages. One problem is the accuracy of the collected data. In some cases, it is difficult to audit the validity of the data because of errors that might have happened during either the collection or the analysis process. Other problems are the availability and the adequacy of the secondary data. The problem of suitability is the last one. Secondary data has been collected for a specific reason at a specific time, thus this data might be inappropriate for any other researchers' goal (Stathakopoulos, 2005).

The present essay, being a secondary research study, employs secondary research tools. Videlicet, it mainly makes use of quantitative (accounting and financial) data (comprehended in the firms basic financial statements) stored in respective databases (specifically FT).

3.3. Methods for data analysis

There are three methods of data analysis: exploratory, descriptive and experimental. Exploratory research is straightly connected with the researcher's actions and goals. Whoever implements exploratory research must be ready to redefine their objectives if they come across

new data (Saunders et al., 2000). According to Robson (1993, cited by Saunders et al. 2000 p. 97) descriptive research depicts '...an accurate profile of persons, events or situations...'. For example, this research can be used in order to find out the age of the visitors. Experimental research is considered to be 'the most scientifically valid research' (Kotler and Keller, 2006 p.106). This method is based on the cause-and-effect phenomenon and it tries to measure the correlation among the variables, such as how the increase of advertisement will affect the sales. The aim is to conduct the experiments under a controlled environment in order to find out the best solution for the problem. The best field experiment is the market test (Kotler and Keller, 2006; Stathakopoulos, 2005).

Considering the nature of the data that was collected, not only basic but also more advanced multivariate statistical techniques were used. Specifically, simple descriptive summary statistics (such as the mean, median and standard deviation) and correlation coefficients have been estimated. Moreover, the linear and the binary (or binomial) logistic regression are used, along with a number of financial ratios.

Financial ratios are an indecomposable part of financial statement analysis. They are used to analyze trends and compare a firm's financial situation and performance to those of other firms. They are frequently classified, relative to the information they provide, profitability, liquidity, financial leverage, dividend policy and asset turnover ratios. It is of great importance for a firm to have solid financial ratios, given the fact that the kind of relation that will be evolved (or possibly not) among the various stakeholders (particularly the present and potential shareholders and lenders) and the firm is highly contingent on their thriftiness.

Descriptive summary statistics and correlation coefficients are estimated in order to find out the dispersion and volatility of various samples (via computing their standard deviation) as well as the kind of correlation existing amidst samples (through finding their correlation coefficient) along with categorization and grouping reasons (via estimating the samples' mean and median).

In addition the regression analysis is used to predict the value of a dependent variable based upon the value of one or more independent variables. Using historical time series or cross sectional data, the regression analysis is utilized as a means of explaining the impact of changes in independent variables over the dependent variable (Morris, 1996).

As far as the linear regression is concerned it aims at explaining the relationship among the dependent variable and the independent variables with a straight line fit to the data. Regarding the binary (or binomial) logistic regression, it attempts to explain the relationship among a dichotomous dependent variable (able to take only two value rates, to wit 0, and 1) and independent variables of any type. Concerning the latter statistical analysis technique, the sample firms have been categorized into groups based on the hypothesis formulation, a process that is going to be further explicated in the next section (Morris, 1996).

3.4. Methodological review

First of all, as far as the data collection methods that have been used in the hereupon essay are regarded, they respect the gathering of secondary data of quantitative (comprehended in the firms' basic financial statements).

The 30 banks which constitute the sample are enlisted in the Athens, London and Frankfurt stock exchange. The references suggest positive implications about their overall characteristics and reporting credibility (although the sample banks reporting credibility is virtually the subject-matter of this study, it should not be confounded with the data collection and analysis methods' credibility and validity). Due to the stricter monitoring procedures surrounding them) and the wide recognition of the accounting and financial databases (digital look, capital) from which the research's were garnered the secondary data collection process is considered to be fairly valid and reliable (primarily in relation to the quantitative data but also the qualitative).

Additionally the data analysis methods employed in the present study regard both basic and multivariate statistical techniques. Specifically, the statistical techniques utilized respect the estimation of simple descriptive summary statistics measures, correlations and regressions (linear and binary logistic) along with a number of financial ratios.

Given the objectivity and accuracy of the corresponding statistical tools, the methods for data analysis are fairly valid and reliable.

3.5. Research Limitations

The study seeks to examine the implications of the adoption of IASs on banks. However the analysis and comparison of all listed banks was not possible. Some banks were excluded because of their enrolling day at the Athens stock Exchange (after 2005), such as, Proton Bank

(22/12/2005), Marfin Popular Bank (05/01/2007) and Post Bank (05/06/2006). Thus, the study was unable to compare the two different accounting systems. Because of mergers and acquisitions that took place in the last five years in the banking sector the number of the active banks has become too small (e.g. Santander bought out Abbey, ABN-ABRO is now owned by RBS, Santander and Dutch government). The small sample maybe brings up questions concerning the validity of the analysis.

Financial ratios are an indecomposable part of financial statement analysis. Unfortunately, due to the fact that many data were not available (limited user access) and primary differences that exist among banks and other sectors in the financial statements (balance sheet, income statement), not all the ratios were analyzed and presented.

Nevertheless, it was not easy to notice the real intentions and motives of banks in order to represent their financial statements. Furthermore management decisions and attitudes cannot be simply classified and processed in order to come to secure conclusions (Hodder et. al., 2003). Those decisions are induced by the investors' expectations since managers seek to increase interest and attract as many investors as possible (Levitt, 1998). Moreover, a vital issue is, understanding how and to what extent stock returns influence the financial performance of firms and the reliance that investors show due to their financial decisions.

3.6. Research Hypotheses

3.6.1. H_1: The implementation of the IAS has influenced the financial profile of banks

IFRSs are issued by the international Accounting standards board (IASB) formerly known as International Accounting Standards Committee (IASC) and established in 1973. The main objective of IASB is "to develop in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions" (Epstein and Mirza, 2002, p.11).

This paper attempts to support the objectives primarily stated above through the use of a research hypothesis. Therefore the first hypothesis states:

H_1:"The implementation of the IAS has influenced the financial profile of banks in Greece , the UK and Germany"

H_1 studies whether banks in Greece, the UK and Germany had greater statistical differences before the implementation of IAS (in the year 2004) than after implementation of IAS (in the year 2005). The dependent variable in the logistic regression that is used in the first hypothesis is a dummy variable which is given two values, zero and one (0, 1). Zero (0) represents the banks' financial statements in 2004 and one (1) characterizes the banks' financial statements according to IAS in 2005. For the first hypothesis, a logistic regression model is used to compare the measures of different financial ratios.

The following model is used three times, one for each of the three cases (countries) that are under investigation.

The hypothesis examines the changes within the financial statements of each respective country's banks, after the adoption of IAS and estimates the impacts of adoption on key financial measures like size, growth, profitability, liquidity and leverage. The logistic regression model is as follows.

$$SF_{i,t} = a_0 + a_1 Size_{i,t} + a_2 Profitability_{i,t} + a_3 Growth_{i,t} + a_4 Leverage_{i,t} + a_5 Liquidity_{i,t} + e_{i,t}(X_1)$$

Where:

$SF_{i,t}$ = A dummy variable representing the year reported. $SF_{i,t} = 0$ for banks reporting accounting figures under the domestic accounting system in 2004 and $SF_{i,t} = 1$ for the same set of banks reporting the accounting figures under IAS in 2005.

$Size_{i,t}$ = The study utilizes size ratios to respect the impact on the size potential of the particular set of banks. The size ratios are presented in Appendix B.

$Profitability_{i,t}$ = The study utilizes profitability ratios to respect the impact on the profitability potential of the particular set of banks. The profitability ratios are presented in Appendix B.

$Growth_{i,t}$ = The study utilizes growth ratios to respect the impact on the growth potential of the particular set of banks. The growth ratios are presented in

Appendix B.

$Leverage_{i,t}$ = The study utilizes leverage ratios to respect the impact on the leverage potential of the particular set of banks. The leverage ratios are presented in Appendix B.

$Liquidity_{i,t}$ = The study utilizes liquidity ratios to respect the impact on the liquidity potential of the particular set of banks. The liquidity ratios are presented in Appendix B.

$e_{i,t}$ = The error term.

3.6.2. H_2: The post IAS accounting numbers are likely to exhibit high STD because of the fair value orientation of IAS.

The volatility in income statement and balance sheet values is expressed by the increase or decrease of the standard deviation (Andrews, 2005). In this part, the study is based on the investigation of descriptive statistics specifically on the differences of ratios categories between the IAS and national accounting system. The measures that have increased standard deviation show high volatility because of the fair value orientation of IAS. In contrast, the measures that have decreased standard deviation show less volatility, rejecting the null hypothesis. The volatility hypothesis studies the effects of IAS adoption in the variability of measures like size growth, profitability liquidity and leverage. The volatility hypothesis is as follows:

H_2: "The post IFRS accounting numbers are likely to exhibit high STD because of the fair value orientation of IAS."

Greek, English and German listed banks (Appendix A) were used in order to validate the H_2 hypothesis. Moreover, the paper compares the financial statements in 2004 under domestic accounting standards and in 2005 under IAS.

3.6.3. H_3: IAS adoption reduces earnings management

The phenomenon of earnings management has been a great concern for the accounting profession in the last few decades. It has been argued that earnings management covers the true financial position of business organizations and hides relevant information that investors ought to

know (Loomis, 1999). Therefore the third hypothesis examines the earnings management and is stated as follows:

H_3: "IFRS adoption reduces earnings management"

The first earnings management test examines the volatility of the change in net profit (ΔNP) scaled by total assets (TA) and the volatility of the change in net profit (ΔNP) to the change in operating cash flows (ΔCF). Less volatile figures provide evidence of earnings management (Iatridis and Rouvolis, 2010). The investigation focuses on banks and compares the accounting numbers reported in the pre-IAS period with those reported in the IAS adoption period.

The second earnings management test relies on the study of earnings management purposes. It examines whether banks' attempt to report small positive profits rather than losses or influence the timing of losses. Not only firms but also banks used to control their accounting numbers in order to come up with small positive profits rather than losses (SPP_{it}). A negative coefficient on SPP_{it} would be indicative of less earnings management. (Burgstahler and Dichev ,1997; Leuz et al., 2003). Moreover this test deals with the time that large scale losses are recognized. Studies suggest that when large losses have taken place then lower earnings management should surely exist (Ball et al., 2000; Lang et al., 2005.). The analysis focuses on Greek, British and German listed banks and compares the accounting numbers reported under IFRS with those reported under the domestic accounting standard, using the logistic model.

The logistic regression model is the following:

$$RR_{i,t} = a_0 + a_1 Growth_{i,t} + a_2 Profitability_{i,t} + a_3 Leverage_{i,t} + a_4 Size_{i,t} + a_5 Liquidity_{i,t} + a_6 SPP_{i,t} + a_7 LNL_{i,t} + e_{i,t}$$

Where:

$RR_{i,t}$ = A dummy variable representing the year reported. $RR_{i,t}$ = 0 for banks reporting accounting figures under the domestic accounting system in 2004 and $RR_{i,t}$ = 1 for the same set of banks reporting the accounting figures under IAS in 2005.

$Growth_{i,t}$ = The expected growth rate in earnings.

$Profitability_{i,t}$ = The ability to generate net income measured by ROA ratio.

$Leverage_{i,t}$ = The book leverage.

$Size_{i,t}$ = The natural logarithm of market capitalization.

$Liquidity_{i,t}$ = The ability of current assets to meet current liabilities.

$SPP_{i,t}$ = A dummy variable showing a measure of small positive profits. Equals to 1 if net profit scaled by total assets is between 0 and 0.01 (Lang et al., 2003; Barth et al. , 2005) and equals to 0 otherwise.

$LNL_{i,t}$ = A dummy variable showing a measure of timely loss recognition. Equals to 1 if net profit scaled by total assets is less than -0.20 (Lang et al. , 2003; Lang et al., 2005) and equals to 0 otherwise.

$e_{i,t}$ = The error term.

The model above is performed three times, one for each of the three cases (countries) that are under investigation.

3.6.4. H_4: The adoption of the IAS/ IFRS leads to a reduction in the cost of equity

Palea (2007), investigated the effects of the IAS/IFRS adoption in Europe on the capital market focusing on the financial industry. The purpose of her paper was to verify whether the adoption of the IAS/IFRS has led to a reduction in the cost of equity. Empirical results validate the main hypothesis contributing both theoretical and practical to the economic thought.

This study uses Paleas' approach and tests the effects of IAS adoption in the banking sector by examining how the cost of equity reacts to the accounting changes. Thereupon the cost of equity hypothesis is as follows

H_4: "The adoption of the IAS/ IFRS leads to a reduction in the cost of equity"

This research estimates the cost of equity by using the Gordon growth model approach with growth in earnings, developed by Gordon and Shapiro (1956) (cited by Palea, 2007).

In order to isolate the effect of the IAS/IFRS adoption on the cost of equity, the following cross-sectional and multivariate regression is performed:

$$Ke_{i,t} = a_0 + \beta_1 \text{RiskFree} + \beta_2 \text{Growth}_{i,t} + \beta_3 \text{Profitability}_{i,t} + \beta_4 \text{Leverage}_{i,t} + \beta_5 \text{Size}_{i,t} + \beta_6 \text{Liquidity}_{i,t} + \beta_7 \text{Growth} \times IAS_{i,t} + \beta_8 \text{Profitability} \times IAS_{i,t} + \beta_9 \text{Leverage} \times IAS_{i,t} + \beta_{10} \text{Size} \times IAS_{i,t} + \beta_{11} \text{Liquidity} \times IAS_{i,t} + \varepsilon$$

Where:

$Ke_{i,t}$ = The E $(EPS_{t+1})/P_t$ ratio used as a proxy for the cost of equity.

RiskFree = The risk-free rate, the 10 years German bond yield has been used as a basis computing the risk-free rate.

$\text{Growth}_{i,t}$ = The expected growth rate in earnings.

$\text{Profitability}_{i,t}$ = The ability to generate net income measured by ROA ratio.

$\text{Leverage}_{i,t}$ = The book leverage (TlbEq).

$\text{Size}_{i,t}$ = The natural logarithm of market capitalization.

$\text{Liquidity}_{i,t}$ = The ability of current assets to meet current liabilities.

$\text{Growth} \times IAS_{i,t}$ = Identifies the differential effect of reporting expected growth rate in earnings under the IAS.

$\text{Profitability} \times IAS_{i,t}$ = Identifies the differential effect of profitability under the IAS.

$\text{Leverage} \times IAS_{i,t}$ = Identifies the differential effect of reporting book leverage under the IAS.

$\text{Size} \times IAS_{i,t}$ = Identifies the differential effect of reporting market capitalization under the IAS.

$\text{Liquidity} \times IAS_{i,t=}$ Identifies the differential effect of reporting liquidity under the IAS.

ε= The error term.

The dependent variable is the cost of equity $Ke_{i,t}$ = E(EPSt +1)/Pt where E (EPSt +1) is the expected earnings per share in the next year and Pt is the stock price (Palea , 2007). Data has been obtained from capital.gr, which contains daily information on historical stock market prices from all the Athens stock exchange. Whereas for English listed banks data have been collected from digitallook.com.

The independent variables are the rest. The 10 year German bond yield has been used as a basis computing the risk-free rate. The data was obtained from the central Bank of Greece. Seeing that the risk-free interest rate is positively related to the cost of equity, a positive coefficient is expected to be found.

In order to isolate the effect of each variable under the new accounting set on the cost of equity, an interaction term of an accounting standard dummy variable IAS and each variable is introduced in the regression so as to reflect the differential effect of reporting and providing disclosure on the book leverage under IAS/IFRS over non-IAS/IFRS requirements (Bartov, Goldberg and Kim, 2005). IAS is a dummy variable that equals one if the report is based on IAS/IFRS and zero otherwise. If the information under the IAS/IFRS contributes to the reduction in the cost of equity, a negative coefficient for the interaction term of the IAS dummy and leverage should be found.

The above multivariate linear regression is performed for Greek and British listed banks (Appendix A). The time horizon is two years. The data collected from the published financial statements of Greek and British listed banks for the year 2004 and 2005.

The above multivariate linear regression is performed only for Greek and British listed banks. Unfortunately, testing the H_4 hypothesis on German banks was unattainable because of data shortage.

4. Research findings and discussion

4.1. The implementation of the IAS has influenced the financial profile of banks

Table 1 presents the results of the comparison between IAS and the domestic accounting system. It focuses on Greek, British and German banks and compares their financial numbers as reported under IAS in 2005 with the ones reported under the domestic accounting system in 2004 and investigates the impact of IAS implementation on bank financial performance.

Table 1:"H_1: The implementation of the IAS has influenced the financial profile of banks"

Logistic regression analysis of variables								
Panel A IAS vs. Greek accounting system			**Panel B IAS vs. English accounting system**			**Panel C IAS vs. German accounting system**		
Variables	Coefficients	Sig.	Variables	Coefficients	Sig.	Variables	Coefficients	Sig.
Dept	4861,768 (3425,998)	*	ROE	262,527 (155,594)	*	Dept	-90,789 (57,262)	*
ROA	10540,296 (7345,530)	**	ROCE	-189,248 (113,818)	*	EPS	2,690 (1,672)	**
ROE	-851,412 (597,129)	**	Constant	80,943 (149,479)		ROCE	-13,125 (7,926)	**
TATR	2004,369 (1406,863)	**				Constant	85,619 (54.196)	
Constant	-1552,447 (391766,253)							
Model x^2	19,611	*	Model x^2	10,449	*	Model x^2	9,619	*
Percentage of correctly classified	86,4		Percentage of correctly classified	70		Percentage of correctly classified	88,9	
Sample size	N1=11 N2=11		Sample size	N1=10 N2=10		Sample size	N1=9 N2=9	

(***),(**) and (*) indicate statistical significance at the 1%, 5% and 10% level (two-tailed) respectively.
N1 indicates domestic accounting system (2004)
N2 accounting system under IAS (2005)

Panel A refers to Greek banks. The findings show that the 2005 IAS-based numbers are significantly different than the 2004 Greek GAAP numbers. Hence, H_1 holds. Panel A shows that under IAS, banks display higher leverage (Dept). The higher financial reporting quality of IAS would enhance the credibility of reported financial numbers and, consequently, reinforce the

creditability of banks, thereby leading to higher leverage (Iatridis and Rouvolis, 2010). Panel A also shows that, in 2005, Greek banks exhibit higher profitability (ROA) and size (TATR) measures. The results are in accordance with Bellas et al., (2007). However, the negative coefficient of ROE ratio indicates a reduction of the amount of net income returned as a percentage of shareholders equity.

Panel B refers to banks in the United Kingdom. The findings show that the 2005 IAS-based numbers are not significantly different than the 2004 domestic numbers. Thus, the results do not support the H_1. Panel B shows that under IAS, banks display higher profitability (ROA). However, the negative coefficient of ROCE ratio indicates differences on banks efficiency. In other words the ROCE ratio is an indicator of how well a bank is utilizing capital to generate revenue.

Panel C refers to German listed banks. The findings show that the 2005 IAS-based numbers are significantly different than the 2004 domestic numbers. Hence, H1 holds. Panel C shows that under IAS, banks display higher profitability (EPS). The findings agree with Aubert and Grudnitski (2008) about the positive differences in profitability for German listed banks. However, the negative coefficient of ROCE ratio indicates differences on banks efficiency. Panel C also shows a negative coefficient of leverage (Dept) because of resulting lower interest expenses that are reported for that year.

The findings showed that the IAS/IFRS implementation effects were favorable in terms of profitability for all the countries. High quality information of the new accounting standards would positively affect the profitability measures.

4.2. The post IFRS accounting numbers are likely to exhibit high STD because of the fair value orientation of IAS

Table 2 compares the standard deviation results as reported under IAS in 2005 with the ones reported under the domestic accounting system in 2004 and investigates the differences.

Panel A refers to Greek listed banks. Banks' size measure (TATR) appears to be less volatile, suggesting that banks' activity is not adversely affected. The less volatility is evidence for earnings management. On the opposite measures like leverage (TassEq, TlbEq) profitability (ROA, ROE) appears to have higher standard deviations which lead to greater volatility. The

higher volatility is evidence for earnings management (Dechow, 1994). The results are likely to be related with the fair value orientation of IAS. In conclusion the IAS adoption introduces volatility.

Table 2: H_2:" the post IFRS accounting numbers are likely to exhibit high STD because of the fair value orientation of IAS"

Table 2 Panel A: Descriptive statistics Standard deviation, Greece

	Panel A Greece				
	Standard Deviation			Mean	
Variables	2004	2005		2004	2005
Dept	,017947	,028580	+	,93207	,94620
EPS	1,0170	,67817	-	,0918	,6218
ROA	,007388	,010072	+	-,001173	,001309
ROCE	,475774	,268683	-	,041455	-,015855
ROE	,175208	,200537	+	-,063882	,016718
TassEq	4,105394	23,190723	+	15,66862	11,745036
TAXratio	,188339	,67835	+	-,184964	-,460273
TlbEq	4,102857	23,19277	+	14,66407	10,750491
TATR	,071480	,004072	-	,019436	,043118
Valid N (listwise)	11	11		11	11

Panel B refers to British listed banks. It presents that all the variables have higher standard deviations which leads to greater volatility. The higher volatility is evidence for earnings management (Dechow, 1994). The results are likely to be related with the fair value orientation of IAS. Thus, the H_2 hypothesis stands for the UK.

At last, panel C presents the standard deviation results for German banks. Size measure (TATR) appears to be less volatile, suggesting that banks' activity is not adversely affected. The less volatility is evidence for earnings management. On the contrary measures like leverage (TassEq, TlbEq) profitability (ROA, EPS) appear to have higher standard deviations which lead to greater volatility. The higher volatility is evidence for earnings management (Dechow, 1994). The results are likely to be related with the fair value orientation of IAS.

Table 2 Panel B: Descriptive statistics Standard deviation, U.K

	Panel B U.K.				
	Standard Deviation			Mean	
Variables	2004	2005		2004	2005
Dept	,020323	,026185	+	,95360	,95393
EPS	,33230	,35710	+	,8616	,9243
ROA	,003485	,0078828	+	,00783	,00941
ROCE	,098123	,2523323	+	,22888	,29609
ROE	,0744024	,2442282	+	,16828	,23639
TassEq	12,47208	16,0490807	+	26,16697	28,34249
TAXratio	,579698	,0756327	+	-,07461	-,25035
TlbEq	12,47208	16,0490834	+	25,16697	27,34251
TATR	,015043	,0167913	+	,03341	,03223
Valid N (listwise)	10	10		10	10

Table 2 Panel C: Descriptive statistics Standard deviation, Germany

	Panel C Germany				
	Standard Deviation			Mean	
Variables	2004	2005		2004	2005
Dept	,0166311	,0178849	+	,973	,96949
EPS	1,32158	1,92945	+	1,4878	2,241
ROA	,019167	,0025701	+	,00483	,00114
ROCE	,2683935	,1291730	-	,16017	,02810
ROE	,1480315	,0835443	-	,08649	,03804
TassEq	21,334228	22,456380	+	47,89854	42,68287
TAXratio	,2276847	,2303972	+	-,33492	-,18040
TlbEq	21,334228	22,456375	+	46,89854	41,68284
TATR	,8095771	,7845023	-	,29902	,28785
Valid N (listwise)	9	9		9	9

In brief, the findings show that H_2 stands, suggesting that the transition of IAS is likely to introduce volatility in banks' financial measures because of the fair value orientation of IAS.

4.3. IAS adoption reduces earnings management

The earnings management test one (table 3) indicates that banks under IAS come out to display higher volatility in the change of net profit (ΔNP). Moreover the volatility in the change

of net profit to the change in operating cash flows (ΔNP/ ΔCF) is higher for banks under IAS in comparison with banks under national accounting system. This implies that the volatility of the change in net profit is higher than the change in operating cash flows. Thus, according to the empirical findings IAS adoption reduces earning management. Therefore, H_3 holds.

According to table 3 the hypothesis stands not only for Greek listed banks but also for British and German listed banks (panel A, panel B and panel C). Table 3 presents that that the standard deviation results under IAS, are significantly higher for Greece compared to the other two countries' results.

Table 3: H_3: "Earnings management " : test 1 results

Panel A Greek listed banks		
Earnings Volatility	**2004**	**2005**
	Standard deviation	Standard deviation
Volatility of ΔNP/TA	0,0174	0,1201
Volatility of ΔNP/CF	0,3952	0,5539
Panel B U.K. listed banks		
Earnings Volatility	**2004**	**2005**
	Standard deviation	Standard deviation
Volatility of ΔNP/TA	0,0035	0,0079
Volatility of ΔNP/CF	0,1905	0,1978
Panel C German listed banks		
Earnings Volatility	**2004**	**2005**
	Standard deviation	Standard deviation
Volatility of ΔNP/TA	0,0026	0,0109
Volatility of ΔNP/CF	0,2545	0,2615

The second earnings management test in order to prove whether hypothesis H_3 holds focuses on the study of earnings management purposes. It is used a binary logistic regression which is mainly focused on the examination of the behavior of two variables. The first one is SPP which is a dummy variable that indicates a measure of small positive profits. The second one is LNL which is also a dummy variable that signifies a measure of large negative losses (Lang et al., 2003; Barth et al., 2005). Table 4 panel A, exhibits for Greek listed banks that SP

under IAS/IFRS is significantly negative, implying that firms tend to report small profits less frequently. Furthermore panel A, exhibits that Greek listed banks under IAS have a significantly positive coefficient for LNL. This means that banks under IAS tend to identify large losses when they occur. On the contrary banks in Greece under GAAP were likely to smooth their earnings through suspending the accounting recognition of large losses in an attempt to display better financial performance (Iatridis and Rouvolis, 2010). Consequently the results prove that hypothesis H_3 holds.

Table 4: H_3: "Earnings management ": test 2 results

Logistic regression Analysis Extract Small profits Large negative losses		
Panel A: Greek GAAP vs. IAS: 2004 vs. 2005		
Variables	**Coefficients**	**sig**
SPP	-1.094 (1.902)	**
LNL	2.091 (1.259)	**
Panel B: British GAAP vs. IAS: 2004 vs. 2005		
Variables	**Coefficients**	**sig**
SPP	-0.894 (1.546)	*
LNL	1.856 (0.538)	*
Panel C: German GAAP vs. IFRS: 2004 vs. 2005		
Variables	**Coefficients**	**sig**
SPP	-1.122 (1.537)	**
LNL	2.229 (1.314)	**

***, ** and * indicate statistical significance at the 1%, 5% and 10% level (two-tailed) respectively.

Panel B presents the results for the UK. It shows that under IAS/IFRS, SP is negative. This implies that firms tend to report small profits less. Moreover panel B exhibits that banks under IAS have a positive coefficient for LNL. This means that banks under IAS tend to identify large losses when they occur. On the contrary banks under GAAP are likely to smooth their earnings through suspending the accounting recognition of large losses in an attempt to display better financial performance (Iatridis and Rouvolis, 2010). Therefore the results prove that hypothesis H_3 stands.

The results for the German listed banks are presented in Panel C. It displays that under IAS/IFRS; SP is also considerably negative, implying that firms tend to report small profits less

frequently. Additionally panel C demonstrates that banks under IAS have a significantly positive coefficient for LNL. This means that German banks under IAS tend to identify large losses when they occur. On the contrary banks under GAAP are likely to smooth their earnings through suspending the accounting recognition of large losses in an effort to display better financial performance (Iatridis and Rouvolis, 2010). Consequently the results prove that hypothesis H_3 holds.

4.4. The adoption of the IAS/ IFRS leads to a reduction in the cost of equity

Multiple regression estimates the coefficients of the linear equation when there is more than one independent variable that best predicts the value of the dependent variable.

Table 5 displays R, R squared and adjusted R squared. R is the relationship between the observed and predicted values of the dependent variable. The values of R range from -1 to 1. The sign of R indicates the direction of the relationship (positive or negative). The absolute value of R indicates the strength, with larger absolute values indicating stronger relationships.

R^2 is a measure of how much of the variability in the outcome is accounted for by the predictors. It indicates the degree to which one variable overlaps with another variable in terms of variance. For the model its value is 0.657 which means that variables accounts for 65.7% of the variation. The values of R squared range from 0 to 1. Small values indicate that the model does not fit the data well. The sample R squared tends to optimistically estimate how well the model fits the population. Adjusted R squared attempts to correct R squared to more closely reflect the goodness of fit of the model in the population.

Analysis of Variance (ANOVA) tests whether the model is significantly better at predicting the outcome than using the mean as a best guess. Specifically the F-ratio represents the ratio of the improvement in prediction that results from fitting the model relative to the inaccuracy that still exists in the model. $F= 1.7$, $p<0.1$

The beta coefficient shows how strongly the independent variable associated with the dependent variable is. It is equal to the correlation coefficient between the two variables. Coefficient b values indicate the individual contribution of each predictor to the model. The b values inform about the relationship between K_e and each predictor. If the value is positive it means that there is a positive relationship between the predictor and the outcome whereas a

negative coefficient represents a negative relationship. The b value also informs to what degree each predictor affects the outcome if the effects of all other predictors are held constant.

Table 5 shows that, among the control variables, growth under IAS has a negative and strongly significant coefficient, whereas profitability under IAS shows a positive coefficient, which is significant at a 0,10 level. The positive coefficient indicates the positive relationship between expected earnings per share and profitability under IAS. This means that the investors evaluate positive the profitability measures based on IAS. Consequently, the investors and in general the international markets are in favor for IASs. The negative coefficient indicates the opposite relationship. Hence, the comparison of the two coefficients of the variables indicates that the growth representation according to the IAS/IFRS has resulted in a lower cost of equity.

Table 5: H_4:"The adoption of the IAS/ IFRS leads to a reduction in the cost of equity"

Table 5: Panel A: Linear regression results Greece

Panel A : Linear regression results Greece			
	Coefficients		
Variables	**B**	**Std Error**	**Sig.**
Growth IAS	-300,384	131,283	**
Profitability IAS	14348,313	8073,072	*
(Constant)	-16,148	287,664	
	ANOVA		
F	1,700		*
Mean Square	21242,514		
R^2	0,657		
R	0,810		
Adjusted R Square	0,270		

Table 5 panel B presents the results for English listed banks. For the model, R^2 value is 0.589 which means that variables accounts for 58.9% of the variation. The ANOVA test shows that the F value is 0,324 $p < 0.1$. Panel B also presents the beta coefficient. Among the control variables, size under IAS has a negative coefficient, whereas Leverage under IAS shows a positive coefficient, which is significant at a 0,10 level. The positive coefficient indicates the positive relationship between expected earnings per share and leverage under IAS. This means that the investors evaluate positive the leverage measures based on IAS. Consequently, the investors and in general the international markets are in favor for IASs. The negative coefficient

indicates the opposite relationship. Hence, the comparison of the two coefficients of the variables indicates that the size representation according to the IAS/IFRS has resulted in a lower cost of equity.

The results are consistent with the claim that the cost of equity has decreased after the IAS/IFRS adoption. Results in table 5 confirm that switching from domestic accounting system to the IAS/IFRS has provided a lower cost of capital.

Table 5: Panel B: Linear regression results U.K.

Linear regression results U.K.			
	Coefficients		
Variables	**B**	**Std Error**	**Sig.**
Size IAS	-2455,875	5315,515	*
Leverage IAS	2,265	18,145	*
(Constant)	865,301	6403,173	
	ANOVA		
F	0,324		*
Mean Square	5705,076		
R^2	0,589		
R	0,649		
Adjusted R Square	-0,880		

Unfortunately, testing the H_4 hypothesis on German banks was unattainable because of data shortage. Therefore the empirical findings comparison between this paper and Ernstberger's and Vogler's (2008) paper about equity capital could not be performed.

5. Conclusions and recommendations

The research attempted to discover the impact that new IAS have on banking industry. The study through statistical tools initially examined whether banks have great statistical differences on the financial restatements after the implementation of IAS. The empirical results showed that the Greek listed banks were indeed influenced. Greek banks displayed higher leverage (Dept), exhibited higher profitability (ROA) and size (TATR) measures. The results were in accordance with Bellas et al (2007). On the contrary, findings about the banks listed on London stock exchange showed that the 2005 IAS-based numbers were not significantly different than the 2004 domestic numbers. One explanation for that is the voluntary pre adoption of the IAS. Many listed firms followed this direction in order to adapt their restatements earlier avoiding undesirable results. As for German listed banks, under IAS they displayed higher profitability (EPS). The findings agree with Aubert and Grudnitski (2008) about the positive differences in profitability for German listed banks.

The study afterwards concentrated on the fair value orientation of IAS. Higher standard deviation results reported under IAS in 2005 than reported in 2004 indicates the fair value orientation of IAS. The findings showed that for Greece, measures like leverage (TassEq, TlbEq) and profitability (ROA, ROE) appeared to have higher standard deviations which lead to greater volatility. The same conclusion stands for British listed banks. All the variables had higher standard deviations under IAS than under the previous accounting system. German banks appeared to have higher standard deviations for measures such as leverage (TassEq, TlbEq) and profitability (ROA, EPS) however size measure (TATR) appeared to be less volatile.

The study indicated that IAS adoption is likely to introduce volatility in income statement and balance sheet figures like size growth profitability and liquidity. The standard deviation of the above ratios appeared to be higher from 2004 to 2005. The higher volatility that was observed was associated with the fair value orientation of IAS. Reversely the introduction of volatility was appropriate for financial figures like leverage as their standard deviation tended to decrease.

One more issue that this study examined was earnings management. The first earnings management test indicated that banks in Greece, the UK and Germany, under IAS displayed higher volatility in the change of net profit (ΔNP) and in the change of net profit to the change in operating cash flows (ΔNP/ ΔCF). The second earnings management test presented that SP under IAS/IFRS was significantly negative, implying that firms tend to report small profits less frequently. Additionally it presented that listed banks under IAS have a significantly positive coefficient for LNL.

Last but not least, in this research, the effects of the IAS/IFRS adoption in Europe on the capital market have been investigated by focusing on the cost of equity relative to the bank industry. The hypothesis tested in this research aimed at verifying whether the adoption of the IAS/IFRS has led to a reduction in the cost of equity. Empirical results validate this hypothesis, providing support to the claim that switching from the European Directives' system to the IAS/IFRS set has resulted in a lower cost of equity.

The purpose of this dissertation was to present the financial profile of Greek, British and German listed banks one year before the implementation of the International Accounting Standards (IAS) and one year after. It tried to present the impacts that the new accounting standards had on the financial restatements of the banks. Since no other previous research about banks was performed (only for listed firms) this study contributes on presenting whether the banking sector was influenced or not by IAS and to what extent. Moreover, it tried to compare those results among the three pre-mentioned countries in order to identify similarities and differences. This paper is indeed not perfect. Thereupon, future research should compare banks from more countries or study the financial results in a period of five years or more, after the mandatory implementation of IAS.

6. Implications of the research

This study is valuable in many ways and could be helpful for anyone who works on subjects relevant to the one it is referring to. It offers insight about important topics concerning the completion of a restatement and opens the way for further analysis of bank's attitudes and responses regarding the changes that the restatement may carry. This would develop the process of performing a restatement and would likely to reduce the costs and improve the quality of financial statements. Banks tend to perform restatements in cases where the effects would be minimized in order to increase their effectiveness.

The study is useful as well, since the bank that performs a restatement undergoes enormous alterations. Firstly, the accounting figures of the bank change and consequently the bank's financial performance does also. Secondly, the preparation of the financial statements reflects the real and fair financial picture of the firm and therefore the insecurity of the firm is reduced. Thirdly, investors form a relationship of confidence with the bank, since higher quality financial reporting elevates bank reliability to the market and provides evidence for the capacity of the firm to meet its financial obligations in a timely manner. Lastly, the communication between managers and shareholders and / or lenders is improved.

Moreover, the empirical findings relating to the earnings management perspective and the value relevant accounting information are useful. They could assist analysts and authorities to strengthen the present inspection and control structure and investors in making proper previsions of upcoming firms' performance. Finally, they could support the stock market effectiveness.

7. Reflections on learning

Preparing a dissertation essay is a quite painstaking procedure, since a lot of effort and time have to be offered in order to present a possibly worthy piece of work.

Being as this was my first time producing such a lengthy and assuming study, this dissertation was a chance for me to learn the procedures of how empirical research is tabled, established and accomplished. To become more specific, the selection of secondary data was a no familiar process to me and the procession of the information acquired previously unknown as well. Moreover, the initial information had to be processed in order to become precious financial material and afterwards important empirical findings, procedures that were never before assigned.

The whole procedure was proven helpful in developing personal skills that could be helpful in the future. Better time management skills and the ability to plan and organize a work in sequence are examples of how I have been positively affected by this process.

To conclude, this dissertation was a source of valuable knowledge and helped to broaden my horizons. I feel positive in my research and findings and am pleased to have studied such an interesting topic on financial accounting.

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Appendix A

Banks under investigation

	Greek Banks	British Banks	German Banks
1	Agricultural Bank	ALLIANCE	Comerzbank
2	ALPHA	Allied	Dabbank
3	ASPIS	Abbey	Dekabank
4	ATTICA	Bank Of Ireland	Deutsche bank
5	Bank of Cyprus	Barclays	Dz
6	EMPORIKI	HSBC	Hyporealestate
7	National	LLOYDS	Hypovereinsbank
8	EUROBANK	RBS	Postbank
9	General	Standard Chartered	Rentenbank
10	Marfin EGNATIA	Northern	
11	PERAEUS		

Appendix B

Accounting measures used as explanatory variables

Ratios	Variables	Explanation
Profitability	EPS	Earnings per share
	ROA	Return on Assets
	ROE	Return on Equity
	ROCE	Return on capital employed
Leverage	Dept	Dept to assets ratio
	TlbEq	Total liabilities to equity
	TassEq	Total assets to shareholder equity
Growth	EPSG	Earnings per share growth
Size	TATR	Total asset turnover ratio
Liquidity	CFTL	Cash flow to total liabilities
Other Variables	SP	Small profits
	LL	Large losses
	ΔCF	Change in operating cash flows scaled by total assets
	ΔNP	Change in net profit scaled by total assets