Insurance Companies
The effects of the IFRS first time adoption

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Abstract

During the adoption of IFRS for the first time, insurance companies were required to apply from 1/1/2005 apart other IFRSs, IFRS-4 "Insurance Contracts".
IFRS-4 set out new common rules of accounting and disclosure of information regarding insurance contracts issued and the reinsurance contracts held.
In this paper we consider the effects of the first time adoption of IFRS in the financial statements of insurance companies listed in the Athens Stock Exchange.
Our research showed that the adoption of IFRS by the insurance companies caused efficient reduction of their shareholder equity, while there were no significant changes in their income statements. The significant differences, that caused the reduction of shareholder' equity, are due to additional provisions required mainly by IFRS-4.
The above noted fact contributed to the greater relevance and reliability of the financial statements and demonstrated the problem of capital adequacy and solvency for insurance companies in Greece.

(JEL Classification M40)
Keys words: Financial Accounting, IFRS-4, Insurance companies.

Introduction

According to the c.l.2190/1920, (as modified by L.3229/2004), the share hold companies or other values listed in the Stock Market, are obliged to form financial reports, from 1/1/2005 according to the International Accounting Standards, as they have been adopted by the European Regulation 1606/2002.

During the transition from the Greek Accounting Standards to the International Financial Standards, the insurance companies came against some adjustment issues, mainly because of the fact that apart from the IFRS in force for all other enterprises, the IFRS 4's enforcement from 1/1/2005 defined obligations, concerning the accounting of insurance contracts.

In this article we cite the main principles imported by IFRS and we also analyse the accounting principles and practices, mentioned in the insurance contracts.

Furthermore, we present the impacts in the equity capitals and the results in the listed insurance companies, during the transition from the Greek Accounting Standards to the IFRS and we analyse the main differences between the two accounting systems.

1. **IFRS-4 Insurance contracts**

The fact that insurance contracts were excluded from the scope of exciting IFRs that would otherwise be relevant and the accounting practices for insurance contracts were very diverse, and also often different from practices in other sectors involved IASB Board to develop an International Reporting Standard (IFRS) on insurance contracts.

To enable insurers to implement some aspects of the project in 2005 the IASB Board split the project in two phases. The objects for the phase I were:

a) to specify the financial reporting for insurance contracts by any entity that issues such contracts (insurer) until the Board completes the second phase of this project on insurance contracts,

b) to make limited interim improvements to accounting by insurers for insurance contracts,

c) to require any entity issuing insurance contracts to disclosure that identifies and explains the amounts in the financial statements arising from the insurance contracts and helps user of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.[1]

IFRS 4 introduces the first specific requirements in international standards for disclosures about insurance contracts. The disclosures will shine some light into insurance accounting, which users of insurers' financial statements often describe as an impenetrable black box.

IFRS 4 also confirm explicity that IFRSs:

- prohibit provision for possible claims under contracts that are not in existence at the reporting date(such as catastrophe and equalization provisions)
- require a test for the adequacy of recognised insurance liabilities and an impairment test for the reinsurance assets
- require an insurer to keep insurance liabilities in its balance sheet until they are discharged or cancelled, or expire, or to present insurance liabilities without offsetting them again related Reinsurance assets.

The insurance companies shall apply the IFRS 4 to:

- insurance contracts (including reinsurance contracts) that they issue and reinsurance contracts that they hold,

[1] Για την παροχή οδηγιών σχετικά με θέματα που δεν αναλύονται επαρκώς στο IFSR4 έχει εκδοθεί η διερμηνεία SIC 27 «Evaluating the Substance of Transactions involving the Legal Form of a Lease» παράγραφος. 37.8

- financial instruments that they issue with a discretionary participation feature.

The insurance companies shall apply the IFRS 4 for annual periods beginning an or after 1 January 2005. Earlier application is encouraged. If an entity applies the IFRS 4 for an earlier period it shall disclose that fact.

1.1Definition of insurance contracts

IFRS-4 include a new definition of insurance contracts for accounting purpose, which removes some contracts from the scope of IAS 39 "Financial Instruments".

Insurance contract is a contracts under which one party (the insurer) accept significant insurance risk from another party (the policy holder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. The insured event is uncertain future event that is covered by an insurance contract and creates insurance risk.

As insurance risk is defined the risk other than financial risk, which is transferred from the holder of the contract to the issuer.

The definition of an insurance contract refer to insurance risk, which transferred from the holder to the issuer. Uncertainty or risk (such whether an insured event will occur, when it will occur, or how much the insurer will need to pay if it occurs) is the essence of an insurance contract. A contract that exposes the issuer to financial risk without significant insurance risk is not an insurance contract.

Financial contract is the contract under which one party (the insurer) accept significant financial risk. As financial risk defined the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or rating or credit index variable, variable in the case of a non-financial variable that the variable is not specific to a party to the contract.

IFRS 4 includes measures that should ease the burden for insurers adopting IFRSs for the first time.

Under the new definition in IFRS 4 some contracts previously subject to IAS 39 quality as insurance contracts. This change applies to contracts that principally involve the transfer of financial risk but also transfer significant insurance risk. The change reduces caused the previous definition. It also reduces the possibility of changes that might need to be reversed in phase II.

1.2Embedded Derivatives

Some insurance contracts embedded derivatives or itself are derivatives. In these case IAS 39 requires to separate the embedded derivatives from the contract, measure them at the fair value and include changes in their fair value in profit or loss.

As an exception to the requirement in IAS 39, IFRS-4 confirms that an insurer need not to measure an embedded derivative separately at fair value if the derivative meets the definition of an insurance contract and is an option to surrender an insurance contract for the fixed amount (or for an amount based on a fixed amount and an interest rate), or is so interdependent with the host insurance contract in which it is embedded that an entity cannot measure the embedded derivative separately.

1.3Unbundling of deposit components

There exist cases where some insurance contracts contain both an insurance component and a deposit component. In these cases an insurer is required or

permitted to unbundled those components. The insurer is require to unbundled the components if can measure the deposit component (including any embedded surrender options) separately without considering the insurance component and if its accounting policies do not otherwise require to recognise all obligations and rights arising from the deposit components.
To unbundled a contract an insurer shall apply the IFRS 4 to the insurance component and the IAS 39 to the deposit component.
Unbundling is prohibited if an insurer cannot measure the deposit component separately.

1.4 Recognition and measurement

IFRS 4 includes follow recognitions and measurements rules that should ease the burden for insurers adopting IFRS for the first time in 2005. Concerning the insurance contracts recognition and the measurement IFRS 4 introduce follow :

- temporary exemption from the some requirements in other IFRS.
- liability adequacy test.
- impairment in reinsurance assets.
- changes in accounting policies.

1.4.1 Temporary exemption from some other IFRSs

According to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (paragraphs 10-12) is specified a hierarchy of criteria that an entity should use in developing an accounting policy if no IFRS applies specifically to an item. The criteria include relevance to the decision-making needs of users and reliability. Reliability encompasses faithful representation of transactions and other events in accordance with their substance and economic reality, neutrality (freedom from bias) prudence (degree of caution in exercising judgements under conditions of uncertainty) and completeness within the bounds of materiality and cost.
Without changes made in IFRS 4 an insurer would have needed to assess whether its accounting policies for insurance contracts comply with these requirements.
IFRS-4 creates a temporary exemption from the hierarchy in IAS 8, in five specific requirements (relating to catastrophe provisions, liability adequacy, derecognition, offsetting and impairment of reinsurance assets) and permits some existing practises to continue but prohibits their introduction.

1.4.2 *Liability adequacy test*

IFRS 4 requires an insurer to test whether from its recognised insurance liabilities are adequate.
IFRS 4 requires an insurer shall assess at each reporting date whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisitions costs and related intangible assets) is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognised in profit or loss.
The test must consider current estimates of all contractual cash flows, and of related cash flows such as claims handling costs, as well as cash flows resulting from embedded options and guarantees and the entire deficiency must be recognised in profit or loss.
If the insurer does not apply a test that meets those requirements, it must apply a test that refers to IAS 37 "Provissions, Contingent Liabilities and Contingent Asset".

1.4.3 Impairment of reinsurance assets

IFRS-4 requires an impairment test for reinsurance assets. If the test shows that a reinsurance asset is impaired, the insurer shall reduse its carrying amount accordingly and recognise that impairment loss in profit or loss. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the insurer may not receive all amounts due to it under the terms of the contract and that event has a reliably measurable impact on the amounts that the insurer will receive from the reinsurer.
To increase transparency about reinsurance IFRS 4 does not permit to remote a liability until this liability is extinguished, or to be offset against related reinsurance assets against the related direct insurance liabilities. Farther more IFRS 4 requires specific disclosure to report.

1.4.4 Changes in accounting policies

According to IFRS 4 an insurer may change its accounting for insurance contracts if the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. An insurer shall judge relevance and reliability by the criteria in IAS 8. The changes in the accounting policies for insurance contracts shall show that bring the financial statements closet to the criteria in IAS 8 but need not achieve full compliance with those criteria.
In many from the existing accounting models arises accounting mismatch if economic condition affect assets and liabilities to the same extent, but the carrying amount of those assets and liabilities do not respond equally to those economic changes. Specifically, accounting mismatch occurs if an entity uses different measurement bases for assets and liabilities. It is important to distinguish accounting mismatch from economic mismatch, which arises if the values of cash flows from assets and liabilities respond differently to changes for assets and liabilities respond.
In particular IFRS 4 suggest but not required the insurer to change its accounting policies in the follow issues:

a) Current interest rates

An insurer is permitted but not required to change its accounting policies so that it remeasures designated insurance liabilities (include related deferred acquisition costs and related intangible assets) to reflect current market interest rates and recognises changes in those liabilities in profit or loss. At that time it may also introduce accounting policies that required other current estimates and assumptions for designated liabilities. The election in this paragraph permits an insurer to change its accounting policies, without applying those policies consistently to all similar liabilities as IAS 8 would otherwise require.

b) Continuation of existing practices

An insurer may continue the following practices even though the introduction of any of them make not the financial statements more relevant to the economic decision-making needs of users.
Such practices dominated :

- measurement of insurance liabilities on an undiscounted basis.
- measurement of contractual rights to future investment management fees at an amount that exceeds their fair values as implied by a comparison with current fees charged by other market participants for similar services.
- using non uniform accounting policies for the insurance contracts (and related deferred acquisition costs) of subsidiaries.

c) Prudence

In the case where an insurer already measures its insurance contracts with sufficient prudence, need not change its accounting policies to eliminate excessive prudence.

d) Future investment margin

An insurer need not change its accounting policies for insurance contracts to eliminate future investment margin. However there is a rebuttable presumption that an insurer’s financial statements will become

less relevance and reliable if it introduce an accounting policy that reflects future investment margin in the measurement of insurance contracts, unless those margins affect the contractual payments.
These policies suppose:
- current estimates and assumption,
- a fair (but not excessively prudent) adjustment to reflect risk and uncertainty
- measuments that reflect both the instrinsic value and time value of embedded options guarantees
- a current market discount rate even if that discount rate reflects the estimated return on the insurer's assets.

e) Shadow accounting

In some accounting models realized gains or losses on an insurer's assets have a direct effect on the measument of some or all of its insurance liabilities. When many of those models were constructed, unrealized gains and most unrealized losses were not recognised in financial statements. Some of those models were extended later to required some financial assets to be measured at fair value, with changes in fair value recognised directly in equity (ie the same treatment as for available for sale financial assets under IAS 39). When this happened, a practice sometimes knows as "shadow accounting" was developed with the following two features:
- a recognised but unrealized gain or loss on an asset affects the measurement of the insurance liability in the same way that a realized gain or loss does
- if unrealised gains or losses on an asset are recognised directly in equity, the resulting change in the carrying amount of the insurance liability is also recognised in equity.

1.5 Discretionary participation features in insurance contracts

Some insurance contracts contain a discretionary participation feature as well as guaranteed element. The issuer of such a contract may but need not recognise the guaranteed element separately. If the issuer does not recognise them separately it shall classify the whole contract as a liability and if classifies them separately it shall classify the guaranteed element as either as a liability or a separate component of equity. Specially the insurer may recognise all premiums received as revenue without separating any portion that relates to the equity component.
IFRS 4 does not specify how the issuer determines whether that feature is liability or equity but required a consistent accounting policy for that split.

1. 6 Discretionary participation features in financial instruments

When a financial instrument contains a discretionary participation feature, and the insurer classifies the discretionary participation feature as a liability, it shall apply the liability adequacy test to the whole contract. The issuer need not determine the amount that would result from applying IAS 39 to the guaranteed element.
In the case where the insurer classifies part or all of that feature as a separate component of equity, the liability recognised for the whole contract shall not be than the amount that would result from applying IAS 39 to the guaranteed element.
In the case where these contracts are financial instruments, the issuer may continue the to recognise the premiums for those contracts as revenue and recognise as an expense the resulting increase in the carrying amount of the liability.

1.7 *Disclosure*

According to IFRS 4 the insurer shall disclose information that identifies and explain the amounts in its financial statements arising from insurance contracts and information that helps users to understand the amount, timing and uncertainty of future cash flows from insurance contracts.

2.The effect of the IFRS first time adoption.

According to the Greek Law the insurance companies are join stock companies with business object the execution of insurances, reinsurances and financial contracts. Due to the particularity of the object of insurance companies, the legislation framework for their function, in force for all enterprises, is completed by a special legislation framework, according to the Greek and European Legislation.

During the transition from the International Financial Reporting Standards (IFRS), the insurance companies had to deal with some adjustment issues, due to the fact that beyond all other IFRS in force for all enterprises, IFRS 4's adoption since 1/1/2005, defined obligations, concerning the accounting of insurance contracts.

In this paper, we cite the consequences and we analyse the main readjustments held in the equity capitals, as well as the results of the listed companies during the first time adoption of the IFRS.

2.1 The effect from the first time adoption in the equity.

During the transition from the Greek Accounting Standards, (as they are defined based on the provisions of the Branch Accounting Standards' c.l.2190/1920 and the insurance companies legislation in force) there have been great diversifications in the IFRS which led to the severe reduction of the equity capitals of the companies in examination.

Specifically, the total of the above companies' equity capital, which according to the Greek Accounting Standards was defined to €545.950 thousand, was diminished after the adoption of the IFRS to the amount of €30.856 thousand, registering a reduction of 94.5%.

As observed by the elements of the following table No 1, the equity capitals had a negative impact by the further provisions , formed in order to cover the adequacy of the insurance obligations, the estimated allowances to the personnel and the deed of recognition and assessment of the Financial assets at the fair value, while there was a less negative impact to the valuation of intangible assets(erasure of expenses of an amortization that lasted for a lot of years), the additional provisions for doubtful requirements and other readjustments.

A positive impact was brought in the equity capital by the adoption of the deferred taxation, the valuation of sharing in associated enterprises, the readjustment of the fixed elements' value and the balance of amortization.[2]

Table No1: Readjustment of equity capitals during the first adoption of the IFRS.

[2] Apart from the clauses of L.2190/20, the insurance companies are subject to a special regulation form, defined by c.l.400/1970 <<Concerning Private Insurance Companies>>, as is in force, after alterations that came from L.2170/93 (g 150A), PD 252/96 (g 186 A) PD 159/1998 (g 121 A) L.2741/1999 (g 199 A) PD169/2000 (g 156 A)
Moreover, some special decisions made by the Minister of Development, from which the most important are Ê-35222/97, E-1695/98, E-3974, and Ê-315,6459,9479/2000 and Ê-4383/7-6-2001, regulate the arrangement testing of the losses, techniques, methods and the way of estimating the technical reserve.

Amounts in Thousand euros	ETHNIKI AEEGA	AGROTIKI	PHOINIX	ASPIS	Evropaiki pisti	TOTAL
Total of equity capitals according to the G.A.S.	**275.794**	**94.316**	**45.177**	**109.909**	**20.754**	**545.950**
Accounting provisions Adequacy test according to the IFRS 4 on the 1/1/2005	-226.000	-85.850	-25.090	-60.854	-9.564	-407.358
Provisions of allowance obligations to the personnel	-85.350	-13.203	-348	-728	-513	-100.141
Deferred taxation	65.226	31.652	-	-70	283	97.092
Valuation of Portfolio in its fair value	1.211	2.503	7.177	-105.654	242	-94.521
Effect from the valuation of intangible assets	-747	-7.373	-2.073	-312	-909	-11.414
Effect of the recognition of the doubtful debts	-4.700	-	8	-5.500	-700	-10.892
Sharing assessment in associating enterprises			-1.268	55.175		53.907
Readjustment of Fixed elements based On their exact value			337		13.771	14.108
Balance amortization	4.648	-290		1.095		5.452
Other readjustments	-249		-61.410	332		-61.327
Total of adjustments	-245.961	-72.561	82.667	-116.515	2.610	-515.094
Total according to the IFRS the 1/1/2005	29.833	21.755	-37.490	-6.607	23.364	30.856

Source: Adjustment tables of the equity capitals during the first application of IFRS, as they were published on the 31/12/2005, in the above mentioned companies' financial reports.

As a result, it is noticed that the equity capitals' reduction by 94.5% of the companies in consideration, is mainly due to the fact that the level of provisions that the insurance companies had to make according to the Greek Legislation are far from the provisions that had to make, according to the IFRS. The above development demonstrates that the IFRS have introduced more conservative accounting policies than those followed according to the Greek Legislation, as well as the fact that in the financial reports formed according to the Greek Accounting Standards, the actual total of the insurance companies' obligations was incomplete.
The implementation of the IFRS introduced new higher provisions and contributed to the more reliable valuation of the insurance companies' obligations, which leads to the reliability of their financial information.

At the same time, the drastic reduction of equity capitals showed the lack of liability in these insurance companies.[3]

It’s typical the fact that three out of five insurance companies in examination, showed a reduction in their equity capital.
The above negative results, shows the need for the insurance enterprises to be reinforced by capital, as well as the need to increase their share capital in order to obtain adequate liability.
During 2005, Ethniki Aeega increased its capital by 129 mil. euros and Phoenix Metrolife by 100 mil. euros, which as it seems was not enough to coverits capitals’ needs.

2.2Impacts of the first IFRSs application to results before taxes

Contrary to the development to equity capitals during the transition from the Greek Accounting Standards to IFRS, the results before taxes of the related companies, in total, present an improvement; from losses of €149.6 million in accordance to the Greek Accounting Standards, they have been evolved to €65.9 million, in accordance to IFRS.
The following are noted through the results of Table 2 below: the improvement of the results before taxes has been resulted by the decrease, at an amount of €126,575 million, in combination with the decrease regarding the revenues, at an amount of €42,851 thousand.
A negative impact was performed to the development of the revenues by the readjustment of the revenues from insurance policies, at an amount of -€29,088 thousand, the acknowledgement and the valuation of financial means to their fair value, at an amount of €-11,074 thousand, the calculation of interests and relative revenues, at an amount of €-6,325 thousand, while a positive impact was noted by the remaining revenues, at an amount of €3,636 thousand.
A negative impact was given to the readjustment of the expenses (that is a reduction of the expenses level) by the readjustment of the insurance reserves and provisions, at an amount of €-66,569 thousand, the reduction of the administration and disposition expenses, at an amount of €-6,468 and the reduction of the remaining operating expenses, at an amount of €-53,538 thousand.
At company level, it is noted that the readjustments in the results before taxes, during the first IFRSs application, contributed to the improvement of the results or to the reduction of the losses, for three of the five companies under examination, while an important negative impact was noted only for the company ΕΘΝΙΚΗ ΑΕΓΑ (ETHNIKI AEGA).

TABLE 2: Readjustment of Results at the 1st IFSRs application

Amounts in thousands Euros	ETHNIKI	AGROTIKI	PHOINIX	ASPIS	Evropaiki pisti	TOTAL
Profits before taxes, in accordance to L.2190/	**11,880**	**-4,141**	**-130,144**	**-28,084**	**875**	-149,614
Acknowledgment and valuation of financial means in their fair	-16,828	5,026	3,703	-3,471	496	-11,074

[3]According to the article 7 of L.400/1970, every Greek insurance company is obliged to dispose depending on its activities, a sufficient liability, which lines up with its free of any obligation, fortune. These elements are mainly the share capital, the reserve which does not relate to Insurance obligations, the profits that are transferred to their new use and any possible surplus values. The indicator of liability demonstrates at what extent the liability margin can be covered by the elements that it contains.

value.						
Results from variation of the insurance policies		14,625	-43,713			-29,088
Interests and relative revenues		-6,325				-6,325
Other operating revenues		6,038	-2,402			3,636
Total revenues	**-16,828**	**19,364**	**-42,112**	**-3,471**	**496**	**-42,851**
Variation of reserves / provisions	-3,510		-63,565		506	-66,569
Administration and disposition expenses	9,766		-12,664	-1509	-2,061	-6,468
Other operating expenses	4,723	-4,881	-54,165	313	472	-53,538
Total expenses	**10,979**	**-4,881**	**-130,394**	**-1,196**	**-1,083**	**-126,575**
Overall impact (revenues – expenses)	**-27,807**	**24,245**	**87,982**	**-2,275**	**1,579**	**83,724**
Profits before taxes, in accordance to IAP/IFRS	**-15,927**	**20,104**	**-42,162**	**-30,359**	**2,454**	**-65,890**

2.3. Most important readjustments during the 1st IFSRs application

The most important readjustments in the financial information presented during the transition from the Greek Accounting Standards to the IAS/IFRS are, in brief, the following:

2.3.1 Adequacy of insurance provisions

In accordance to IFSR-4, the insurance company is obliged when preparing its financial statements to conduct a adequacy test, regarding the insurance provisions, by using current evaluations of the future cash flows of its insurance policies. If, through the sufficiency audit, it is resulted that the accounting value of its insurance obligations (minus the relative postponed acquisition expenses and the relative intangible assets, such as the insurance policies acquired by the merging of businesses or by the transfer of portfolio) is smaller than their future cash flows, the entire deficit is projected in the results.

The difference of the insurance provisions (increase or decrease) in relation to their previous evaluation, is transferred to the accounts of the results of operations, concerning the respective provisions over the own deduction performed by the insurance company, and the remaining amount is transferred as a charge for the reinsures, in accordance to those provided by the reinsurance contracts.

A exception lays on the cases of insurance policies that are directly connected to the assets (Unit Linked), where from their current value, profits or losses are resulted, during the evaluation of the Unit Linked assets of the insurance company. In these cases, the insurance company has to readjust the insurance provisions equally to the non liquid profits or losses from the evaluation, and the resulting difference of the insurance provisions must be transferred to the appropriate trading account.

When the obligation, arising from the insurance policy, has been paid, cancelled or expired, the insurance company does not present insurance provisions.

During the sufficiency audit for the insurance reserves, it has been resulted that the insurance reserves of the insurance companies, as they are defined by the Greek legislative framework in force[4] are significantly inferior to the obligations defined by IFSR-4, by the use of evaluations of the future cash flows of the insurance polices and of the production costs.

For this reason, additional provisions, of €407,358 thousand, which are equal to approx. 75% of the equity capitals, in accordance to the Greek Accounting Standards, has been formed make.

In company level, the adjustment to the clauses of IFRS 4 had a significant impact to all the companies, and in particular to ETHNIKI AEEGA, AGROTIKI AEEGA and to ASPIS PRONOIA, which were forced to create additional provisions, of €226, 86 and 61 million respectively.

2.3.2 Liabilities for allowances to the personnel

In accordance to the Greek labour legislation in force, the employees are entitled of remuneration in case of dismissal or retirement. The amount of the remuneration depends on the years of services, the wage level at the time of leave as well as on the reasons for leave (dismissal or retirement). In accordance to L.2065/1992, only the created provision for personnel remuneration due to leave from the service (retirement) at the

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[4] In accordance to the Greek Legislation in force, the insurance companies are obliged to create insurance provisions, in order to project their net contractual obligations, which are resulted by the insurance policies. The main categories of insurance provisions, created by the insurance companies, are the following:

(1) Mathematical provisions

The mathematical provisions include the mathematical reserve of the life insurance policies and of their capitalization, and it involves the difference resulting between the current value of the monetary obligation, undertaken by the insurance company for each life insurance policy (including the reserve of the non distributed profits to the insured parties) and the current value of the net premiums that are due by the insured party, and which will be paid to the insurance company between the following years. This difference is calculated by the used of analogical methods, in accordance to the clauses of 85538/7254/1970 and Ê3-3974/11.10.1999 Decisions of the Minister of Commerce.

(2) Provisions for non accrued premiums

The provisions for the non accrued premiums include the analogy of gross premiums, regarding the following uses of the policies that are in effect during the composition date of the financial statements.

(3) Risk reserve in effect

This is the additional provision created at the composition date of the financial statements, when the reserve of the non accrued premiums and rights is estimated to be not sufficient in order to cover the provided losses and expenses, of the insurance policies in effect.

(4) Provisions for pending indemnities

These are the provisions created for the entire cover of the obligations from insurance risks, which have been presented until the composition date of the financial statements, for which the relative amounts of the insurance indemnities and of the relative expenses have not been paid, irrespectively to the fact whether they have been stated or not, whether their precise amount has been defined, or whether the range of the insurance company liability is questioned. The amount of the estimated provision is defined in accordance to the available information, such as experts' evaluation reports, medical reports, and court decisions.

The calculation of these provisions is performed in accordance to Ê3-3974/11-10-1999 decision of the Minister of Commerce. In particular, regarding the branch of the Vehicle's Civil Liability, the insurance company's Pending Losses reserve is calculated in accordance to the Decision no. Ê3-3975/11-10-1999 of the Minister for Development.

(5) Payable allowances

These are the insurance allowances due to the insured parties that for various reasons have not been paid until the composition date of the financial statements.

(6) Provisions for life insurances, where the insured parties bear the financial risk

These are the provisions destined to cover the liability undertakings of the insurance company, which are connected to financial means, within the life policies framework, whose value or performance is defined in relation to investments for which the financial risk is borne by the insured party.

following year and the payment of premiums for the group policies of the employees (in accordance to the signed labour collective agreements) are acknowledged as retirement allowances expenses,

In accordance to the clauses of the IAS 19 "Allowances to the personnel", it is acknowledged that the insurance companies offer several allowance programs to their personnel, after their leave from service, by participating both in programs of defined allowances and to programs of defined contributions.

In the programs of defined contributions, the company is obliged to pay predefined contributions to the insurance agencies.

In the programs of predefined allowances, which in reality are retirement plans, the company obligations are defined by the remuneration amount payable to the employee, in relation to his/her age, service and payment at the time of retirement. The obligation noted in the financial statements in relation to the programs of predefined allowances is comprised by the present value of the allowances, with the reduction of the fair value of the program's assets, by the readjustments required for profits or losses resulting from the actuarial study, that have not been registered yet, as well as by the cost of the service that has been already provided.

The obligations for allowances to the personnel are defined on an annual basis, by an independent actuary. The current value of the resulting liabilities is measured as a discount of the future cash flows. As a discount interest, the majority of the companies uses the Greek State bond interest, for a maturing period that reaches the terms of the relative obligation to pay the remuneration.

Actuarial profits or losses that may result from readjustments, as well as from changes in the actuarial issues, are analogically charged or credited to the results, in accordance to the mean remaining working life of the employees. Alternatively, the amount of the actuarial profits or losses may be acknowledged in the net position, and not burden the results.

During the 1st application of the IFRS, the acknowledgement and the evaluation of the liabilities for allowances to the personnel resulted to a decrease in the equity capitals at an amount of €85,350 thousand for ETHNIKI AEGA and at an amount of €13,203 thousand for AGROTIKI AEGA, while lower aggravations were in the equity capitals of the remaining companies.

2.3.3 Deferred taxation

In accordance to the Branch Accounting Principles, differences for deferred taxes are not calculated.

In accordance to IAS (International Accounting Standard) 12, the income tax is calculated over the profits of accounting period, based on the tax legislation in force, and it is acknowledged as an expense in the results of operations. Accounting losses that are transferred to following accounting periods in order to be set off, are acknowledged as assets when the realization of future taxable profits is considered possible, which will be sufficient for the set off of the accumulated tax losses.

The deferred tax demands are projected when it is expected that a future tax profit will be present, for the use of the temporary difference creating the deferred tax demand. The deferred income tax is defined by the demand or liability method resulting by the temporary differences between the accounting value and the tax base of the assets and liabilities. The gain is projected as a deferred asset tax, while the respective demand is projected as a deferred liability tax with deferred a respective impact to the results of operations. The deferred tax is defined in accordance to the tax rates that will be in force during the period when the asset or obligation will be finally settled.

As noted by Table 1, the impact of the accounting management of the deferred tax had a significantly positive outcome for the equity capitals, especially for ETHNIKI AEGA and AGROTIKI AEGA. This development is due to the fact that the greatest part of the provisions are not acknowledged as tax – deductible expenses during the accounting period where they were created, and as a result, a future tax gain is expected to be presented at the final settlement of the relative expenses.

2.3.4 Investments in financial assets

In accordance to the Greek Accounting Standards, the shares of societes anonymes, the bonds, the shares of mutual funds and the participations in companies are evaluated per category in the lowest price, between the acquisition value and their current value.

The following is defined as current value, in accordance to article 42e of c.l 2190/20: a) Regarding titles negotiable in an organized market, the weight average of their market price during the last month of the accounting period, b) regarding shares of bond capitals, the weight average of their net value during the last month of the accounting period, c) regarding shares of societes anonymes that are not registered in the Stock Market, their net realisable value, as resulting by the last, lawfully, composed Balance Sheet.

The investments in financial assets, in accordance to IAS 32 and 39 are classified as investments for trade, as investments held until their expiration and as investments available for sale. The decision for the classification of the investments is taken during their acquisition.

Initially, all the investments are acknowledged at the fair value of the consideration paid, including the purchase expenses related to the sale, if involving investments available for sale or investments held until their expiration.

<u>Investments for trade</u>

The investments for trade are acquired in order to achieve profit from the short-termed fluctuations of their prices, and they mainly include bills (shares, bonds, shares of mutual funds and other securities). The investments for trade are initially evaluated at their fair value, while the expenses for their acquisition are charged to the results of operations. After their initial registration, the investments for trade are evaluated at their fair value. The profits or losses resulting from the evaluation of these investments are registered in the results of operations statement.

<u>Investments held until their expiration</u>

The investments that are held until their expiration include the investments that have a predefined expiration date, and usually fixed or definable payments, for which there is a positive intention of holding them until their expiration. These investments are evaluated at their non amortized value, by applying the method of the real interest. The amortizable value is defined after taking into consideration the purchase value and any above or below par difference, resulting during the acquisition date of the investments, minus any provisions for impairment.

<u>Investments available for sale</u>

The available for sale investments regard investments that may be held until the expiration, or may be sold in order to satisfy liquidity needs or to achieve profits from the variation of the interests or of the foreign currency prices. The available for sale investments are initially registered with their acquisition value, and later on are evaluated at their fair value. The profits or losses resulting during their evaluation are registered in a special account of the equity capitals, until the specific investments are sold, disposed or until it is found that there is an impairment in their value, hence they are transferred in the results of operations statement.

<u>Calculating the fair value</u>

The following is defined as fair value:

a) regarding investments in titles negotiable in organized markets, the current market value at the closing date of the financial statements,

b) regarding investments in titles that are not registered in an organized market, at their fair value, as this is defined by the purchase data, minus any current impairment. Regarding the exceptional case where there aren't any data for the definition of their fair value, then they are acknowledged at their acquisition value.

From Table 1, above, it is observed that during the acknowledgement and the evaluation of the financial means at the fair value, by applying the IFRSs, a significant aggravation was realized to the equity capitals of ASPIS PRONOIA (at an amount of €105,654 thousand), while, on the contrary, the remaining faced a positive impact.

Additionally to the evaluation of the participations in linked businesses, it has been resulted that ASPIS PRONOIA has presented an increase, at the amount of €55,175 thousand, in its equity capital, a fact that, according to its financial statements, is due to the calculation of the fair value of its subsidiary / related companies, while PHOENIX – METROLIFE AEGA has calculated a impairment in a related company of an amount of €1,268 thousand.

2.3.5 Readjustments of intangible assets (Expenses of perennial amortization)

In accordance to the Branch Accounting Principles of the insurance companies, some categories of expenses (such as capital increase expenses, amortization expenses, reorganization expenses, etc) are capitalized and amortized equally at a period of 5 accounting periods.

In accordance to IAS 38, the above expenses categories do not meet the acknowledgement criteria as intangible assets, and are regarded as expenses that aggravate the results of operation. During the first application of the IFRS, the non amortized balance of these expenses was transferred in the account named "Results carried forward" of the equity capital.

2.3.6 Acknowledging additional provisions for doubtful demands

In accordance to the Branch Accounting Principles, the provision for doubtful debts is formed either as a percentage over sales or for general risks, when a financial outflow is considered possible.

Based on the IFRSs, the provisions must be acknowledged only for the current liabilities, which are presented as a result of a past event, and which demand a financial outflow in order to be settled, and on the condition that the amount of the liability may be reasonably estimated.

Based on the above, the insurance liabilities under examination were obliged to create additional provisions for doubtful demands, at the amount of €10.9 million, from which €5.5 million concern ASPIS AEGA and €4,700 million concern ETHNIKI AEGA.

2.3.7 Readjustment of the fixed assets' value, based on their fair value

In accordance to the Greek Legislation, the fixed assets are presented with their acquisition value. A readjustment of the assets' value is not allowed, unless a special law demands it. By applying the special law, the businesses must reevaluate the buildings and land for tax reasons either with their "objective" values or with specific factors. Any such readjustment directly influences the equity capitals.[5]

The fixed assets for own, in accordance to IAS 16, are registered with their acquisition value and they are then evaluated with readjusted values, which are the fair values during the readjustment date, minus the subsequence accumulated amortizations and the accumulated losses due to impairment. The readjustment must be performed frequently, in order to avoid any significant difference between the accounting values and the fair values during the issue date of the financial statements.

If the fixed assets include fields, lots and buildings owned in order to receive leases and / or capital profits they are then acknowledged as investment property. The investments in property (in accordance to IAS 40) is initially registered at its acquisition value, which includes the transaction expenses. After its initial registration, the investments is

[5] Article 42[e] par. 9 of c.l 2190/20 subsequancy

evaluated at its fair value and the differences between the acquisition value or their previous evaluation is charged against in the results.

During the first application of the IFSRs, the ETHNIKI AEGA, AGROTIKI AEGA, PHOENIX – METROLIFE and ASPIS PRONOIA companies selected the method of acquisition value. However, it is noted that the above companies, by applying the clauses of L.3229/2004, have performed, in the 2003 accounting period, an evaluation of their fixed assets based on their fair price, according to which positive Readjustment Differences were resulted, at an amount of €109,125 thousand for ETHNIKI AEGA, €19,685 thousand for AGROTIKI AEGA, €15,465 thousand for PHOENIX METROLIFE and €50,476 thousand for ASPIS PRONOIA; amounts that were projected in their reserve capitals.

The EVROPAIKI PISTI Company selected the method of projecting its fixed assets with their fair value, according to which positive differences were resulted, at an amount of €13,771 thousand.

2.3.8 Difference of depreciation due to IFRS factors

Based on the Branch Accounting Principles of the insurance companies, the depreciation of the fixed assets are calculated in accordance to the factors defined in respect of L.299/2003 in force.

In accordance to the IFRSs, the depreciation are calculated in accordance to the beneficial life duration for each fixed asset, as this is defined in accordance to the evaluations of the administration. The expansion of the fixed assets beneficial life that were adopted by all the companies under examination (with the exception of PHOENIX and Evropaiki Pisti)has contributed to the decrease of the calculated, in accordance to the Greek Accounting Principles, depreciation and as a result to the improvement of their Equity Capitals.

2.3.9 Other readjustments in the Equity Capitals

From the remaining readjustments that occurred in the equity capitals of the companies under examination, the most important regards the different projection of the due stock capital, of €60,002 thousand to PHOENIX - METROLIFE Company (in accordance to IFRS, the due capital is not included in the equity capitals), while implications of lesser importance were observed by the impact of the projection of the currency differences, of the provisions for taxes of non audited accounting periods, etc.

2.3.10 Other readjustments that influences the results before taxes

As it is observed by the data of Table 2, there have been readjustments of the results of significant amounts, which were due to the acknowledgment and recalculation of the revenues and expenses from insurance policies.

As an example, the case of AGROTIKI AEGA is mentioned, which revenues from insurance polices were increased at an amount of €14,625 thousand, as well as the case of PHOENIX METROLIFE AEGA, whose revenues from insurance policies were reduced at an amount of €43,712 thousand.

Respectively, negative impacts of significant size where observed by the variation of the insurance reserves and provisions for the insurance policies, at an amount of €63,565 thousand, for PHOENIX – METROLIFE AEGA and €3,510 thousand for ETHNIKI AEGA.

From the remaining revenues and expenses that were realized during the first application of the ΔΧΠΧ (International Standard for Financial Information) (above those analyzed above), impacts of lesser importance were noted by the different handling in the calculation of the amortizations, the provisions for doubtful demands, the remuneration of personnel, the evaluation of securities and in the currency differences.

However, it is noted that, as resulting from the Table 1 & 2 data, there have been readjustments of significant size, both regarding the equity capitals and mainly the results of specific companies, which cannot be explained without a sufficient knowledge regarding the events that imposed them. In addition, it is observed that in certain occasions, for example in the cases of acknowledging the revenues and expenses from insurance policies, the provisions for doubtful debts and the provisions for taxes of non audited accounting periods, the readjustment of revenues and expenses was not as much due to the differences between the accounting principles between the Greek Accounting Principles and the IFRSs, as to the fact that the transparency and full disclosure regime imposed by the IFRSs forced the restoration of the faults realized by erroneous accounting practices, followed during the previous years.

2.3.11 The development of the results and equity capitals for the 2005 accounting period

As presented in the following tables, the development of the results and of the equity capital of the insurance companies registered in the Athens Stock Market for the 2005 accounting period presents normal trend, in comparison to those of 2004.

From the Table 3 data, it is observed that the results before taxes of the insurance companies have been increased during 2005 and they have been formulated as profits at an amount of €47.7 million, contrary to €67.5 million losses for 2004. At company level, a significant improvement has been noted in the results of ETHNIKI AEGA, ASPIS AEGA and PHOENIX AEGA (which has reduced its losses), while a decrease is presented by the results of AGROTIKI AEGA and Evropaiki Pisti AEGA.

Table 3: Results before taxes regarding the insurance companies registered in Athens Stock Market

in thousand Euro	ETHNIKI	AGROTIKI	PHOINIX	ASPIS	Evropaiki Pisti	TOTAL
2005	23,405	8,308	-10,981	3,200	2,347	47,685
2004	-22,214	20,104	-42,162	-30,359	2,454	-72,177

Respectively, a significant improvement is observed in the equity capitals of the companies under examination, the amount of which during 2005 reached €259 million, contrary to €31.8 million for 2004.

It is noted that within 2005 increased of the stock capital were performed, equal to €190 million, (€130 million from ETHNIKI AEGA and 60 million from PHOENIX AEGA), and readjustments of the value of their assets (equal to €51,341 million regarding ASPIS AEGA), which have contributed to the increase of the equity capitals.

Table 4: Equity capitals of the insurance companies registered in Athens Stock Market

in thousand Euro	ETHNIKI	AGROTIKI	PHOINIX	ASPIS	Evropaiki Pisti	TOTAL
2005	165,858	35,261	-10,425	48,336	21,471	259,051
2004	51,669	21,755	-37,490	-929	23,364	52,691

(*) It is noted that ETHNIKI AEGA amended the financial details for the 2004 accounting period, resulting to an increase, for 2004, in the losses from €15,927 thousand to €22,214 thousand, and an increase in the equity capitals from €29.833 thousand to €51.669 thousand.

Conclusions

The IFRS-4 filled the gap of the accounting of insurance contracts and introduced common rules in the E.U. concerning the accounting principles that all insurance companies should subject to. IFRS-4 is the first phase of a plan for insurance contracts' accounting, while another Standard is still in process.

During the first adoption of the IFRS, there have been several effects on the financial information of the listed insurance companies. The readjustments, made during the transition from the Greek Accounting Standards, (as they have been defined according to the clauses c.l. 2190/1920 of the Branch Accounting Principles and the legislation framework in force for the insurance companies), to the IFRS, brought a serious reduction of 94.5% in the equity capitals of the companies under examination, opposing to the results, where there has been an important improvement.

The reduction of the equity capitals is due, mainly, to the creation of very important further provisions, during the adoption of the IFRS-4, concerning the adequacy of the insurance provisions and other International Accounting Standards, concerning the allowances to the personnel and the doubtful demands. A negative impact was also registered due to the recognition and valuation of financial means, the erasure of expenses of perennial amortization and other readjustments.

A positive impact in the forming of the equity capitals was registered from the application of postponed taxation, the valuation of participations, the readjustment of the fixed assets' value and the difference of amortization.

An improvement in the results before taxes, during the adoption of the IFRS, came from the combination of the reduction of both the expenses and the revenues.

In the development of the revenues, a negative impact was registered due to the readjustment of revenues from insurance contracts, the recognition and valuation of financial means at their reasonable value, the estimation of interests and other such revenues, while a positive impact was registered to the other revenues.

In the readjustment of expenses, there has been a negative impact, (meaning a reduction of expenses), by the recounting of insurance reserves and provisions, the reduction of management expenses and disposal, as well as other functional expenses.

From the readjustments made during the first adoption of the IFRS, is shown that the provisions of insurance companies, which had to subject to the Greek Legislation, where far from subjecting to the IFRS.

High additional provisions, after the adoption of IFRS, led to a more reliable valuation of the insurance companies' obligations, followed by the higher reliability and the transparency of their financial information.

In the mean time, the drastic reduction of their equity capitals, showed the low level of the insurance companies' reliability and the need for them to act in order to reinforce their capitals.

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