

Cultural Stereotypes of Multinational Banks

Barry Eichengreen
Orkun Saka

SRC Discussion Paper No 123
November 2022



Abstract

Using hand-collected data spanning more than a decade on European banks' sovereign debt portfolios, we show that the trust of residents of a bank's countries of operation in the residents of a potential target country of investment has a positive, statistically significant, and economically important association with its cross-border exposures. In identifying cultural stereotypes at the bank level, we show that corporate culture at bank headquarters is influenced by foreign subsidiaries for several reasons, including banks' tendency to hire internally across borders for high-level managerial positions. We therefore leverage the geography of multinational bank branch networks to construct a bank-specific measure of culture that differs across banks headquartered in the same country, at the same point in time, with regard to the same target country. This allows us to compare how sovereign exposures are affected by cultural stereotypes while ruling out confounding factors at country and country-pair levels. The effect of stereotypes is persistent overtime, stronger for less diversified banks, and weaker for target countries whose bonds appear more frequently in bank portfolios. Cultural stereotypes are particularly salient when governments are hit by sovereign debt crises.

JEL classification: F34, G11, G21, G41, M14, Z10.

Keywords: cultural biases, stereotypes, trust, banks, sovereign debt.

This paper is published as part of the Systemic Risk Centre's Discussion Paper Series. The support of the Economic and Social Research Council (ESRC) in funding the SRC is gratefully acknowledged [grant number ES/R009724/1].

Barry Eichengreen, University of California, Berkeley; NBER; and CEPR.

Orkun Saka, City, University of London; CESifo Network; and Systemic Risk Centre and STICERD, London School of Economics

Published by
Systemic Risk Centre
The London School of Economics and Political Science
Houghton Street
London WC2A 2AE

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means without the prior permission in writing of the publisher nor be issued to the public or circulated in any form other than that in which it is published.

Requests for permission to reproduce any article or part of the Working Paper should be sent to the editor at the above address.

© Barry Eichengreen and Orkun Saka, submitted 2022

Cultural Stereotypes of Multinational Banks*

Barry Eichengreen
University of California, Berkeley

Orkun Saka
City, University of London

November 2022

Abstract

Using hand-collected data spanning more than a decade on European banks' sovereign debt portfolios, we show that the trust of residents of a bank's countries of operation in the residents of a potential target country of investment has a positive, statistically significant, and economically important association with its cross-border exposures. In identifying cultural stereotypes at the bank level, we show that corporate culture at bank headquarters is influenced by foreign subsidiaries for several reasons, including banks' tendency to hire internally across borders for high-level managerial positions. We therefore leverage the geography of multinational bank branch networks to construct a bank-specific measure of culture that differs across banks headquartered in the same country, at the same point in time, with regard to the same target country. This allows us to compare how sovereign exposures are affected by cultural stereotypes while ruling out confounding factors at country and country-pair levels. The effect of stereotypes is persistent over time, stronger for less diversified banks, and weaker for target countries whose bonds appear more frequently in bank portfolios. Cultural stereotypes are particularly salient when governments are hit by sovereign debt crises.

JEL classification: F34; G11; G21; G41; M14; Z10.

Keywords: cultural biases; stereotypes; trust; banks; sovereign debt.

*Barry Eichengreen (eichengr@berkeley.edu) is Professor of Economics and Political Science at the University of California, Berkeley, Research Associate at the National Bureau of Economic Research (NBER), and Research Fellow at the Centre for Economic Policy Research (CEPR). Orkun Saka (o.saka@city.ac.uk) is Associate Professor in Economics at the City, University of London, Visiting Fellow at the London School of Economics and Political Science (LSE), Research Associate at the Systemic Risk Centre and STICERD, as well as Research Affiliate at CESifo Network. Much of this work was undertaken while Orkun was visiting UC Berkeley, whose hospitality is gratefully acknowledged. We thank Bo Becker, Michael Ben-Gad, Matilde Bombardini, Travers B. Child, Rui Esteves, José M. Martín Flores, Yuriy Gorodnichenko, Jens Hagendorff, Matti Keloharju, April Knill, Nicola Limodio, Sergey Mityakov, Andrea Presbitero, Vesa Pursiainen, Paola Sapienza and Guo Xu as well as seminar participants at the China Europe International Business School (CEIBS), City, University of London and Florida State University for helpful comments. All interpretations, errors, and omissions are our own.

1. Introduction

Financial markets, even more than other markets, run on trust and stumble in its absence. Complete contracts accounting for all conceivable contingencies are a textbook abstraction. Adjudication by courts is time consuming and unpredictable. For transactions to be sustained, counterparties must be trusted, as emphasized by Arrow (1974). This is why historically one observes a concentration of commercial and financial transactions among individuals with a common cultural background who share extra-economic links, values and trust (see e.g. Greif 1989, 1991). It is plausibly why investors, despite advances in technology leading to a proliferation of hard information, still underweight culturally distant foreign markets (Anderson et al. 2011) while overweighting firms whose CEOs share a common cultural background (Grinblatt and Keloharju 2001).

While the connections between trust and economic behaviour are general, such considerations apply with special force to international investments, and to investments in the bonds of foreign sovereigns in particular. Sovereign bonds are incomplete contracts, as amply demonstrated by the history of default, restructuring and repudiation. Multiple countries make for multiple courts with uncertain jurisdiction. Governments enjoy a degree of sovereign immunity, casting doubt on the existence of a judicial solution to default. Such considerations heighten reliance on trust as an alternative to legal contract enforcement. At the same time, social psychologists have documented that cultures and values, from which trust derives, differ across countries, on some dimensions modestly, on others dramatically (see e.g. Hofstede 2001 and House et al. 2004). Many differ more dramatically across countries than within them (World Values Association 2022), which again points to importance of trust in the context of international investment. Sovereign bonds tap into these cultural stereotypes (into how trustworthy the residents of one country view residents of another) in that they are directly associated with a national government and a nationality.

In this paper, we use hand collected bi-annual data on banks' investments in European sovereign debt to show that trust has an economically important impact on cross-border investments. Specifically, when residents of the country or countries where a bank operates have a high level of trust in residents of another country, the bank is more likely to hold claims on that other country. To our knowledge, this is the first evidence of the role of trust, rooted in

cultural stereotypes, in bank lending to governments.² It is also the first evidence of the transmission of such cultural stereotypes via the operation of multinational branch networks.

As motivation, we consider the correlation between average levels of bilateral trust between countries on the one hand and banks' cross-border sovereign debt portfolios on the other. As in the related literature, we use Eurobarometer data on how much residents of one country trust the residents of another to measure average levels of bilateral trust. We control for other relationships between the bank's home country and the target country of sovereign investment, including physical, financial, informational, and legal proximity. The results confirm that average levels of trust are correlated with cross-border investment.

A limitation of such country-level evidence – which is why we describe it as a correlation and use it only as motivation – is that average levels of trust, relied on also in the earlier literature, are almost certainly correlated with unobserved characteristics of country pairs. To rule out confounding factors, we therefore develop a bank-specific measure of trust.³ For this purpose, we present a framework of banks as hierarchies. Cultural stereotypes of subsidiaries shape the soft information that subordinates transmit up the hierarchy to headquarters, where the broad parameters guiding portfolio investment decisions are set. They affect how that soft information is received by directors, because the latter share the same stereotypes, reflecting the extent to which banks hire and promote internally across borders, such that the composition of bank boards and officers reflects the geography of the bank's branch network. We provide empirical support for this framework by showing that multinational branch networks help predict the national composition of high-level managerial teams at bank headquarters.

Our central analysis focuses on banks with branches in multiple countries. We assign to branches of a bank operating in a country that country's level of bilateral trust in other countries. We aggregate this measure by calculating a weighted average, where weights are the

² In popular usage, the word “stereotype” is often invoked in derogatory context: a stereotype is a fixed image of a type of person but also an oversimplified and misleading image. We do not take a stance on the oversimplified and misleading part. What is important for our argument and analysis are the time-invariant nature of the image as well as its variation across different viewers. Alternative usage might be the word “bias,” defined as a tendency to feel or show inclination for or against someone or something. However, this term is similarly invoked in derogatory context, as a tendency to prejudicially show inclination for or against someone or something. Again, we do not take a stance on the prejudicial part. Bordalo, Gennaioli and Shleifer (2018) use the somewhat more convoluted term “diagnostic expectations” to avoid these implications.

³ We are aware of the problem of anthropomorphism – that banks, as financial institutions, do not have feelings such as trust. Rather, trust is a feeling or value expressed by bank employees and by executives and boards of directors to whom they report. We try to keep this distinction in mind in what follows, although for ease of exposition we sometimes refer to the “trust of a bank” toward a government or a country.

share of host-country branches in the network of the bank. We repeat this for each target country of potential investment, across which a bank's bilateral trust differs. Our measure of trust is therefore specific to both the bank and the target country of potential investment.

Leveraging this banks-as-hierarchies approach and focusing on multinational banks have advantages from the point of view of identification. Trust in a particular target country can differ across multinational banks headquartered in the same country insofar as they have branches in different foreign countries or in the same foreign countries but with different weights. By focusing on this within-country-pair variation, we can rule out other omitted factors at the country-pair level. We can do so even when latent influences are time varying, since our strictest specification includes country-pair * time dummies, along with bank * time and target-country * time fixed effects. We consequently compare banks headquartered in the same country with respect to the same target country at the same point in time, thereby ruling out all country-level confounding factors.

Strategic decisions such as whether or not a bank should invest in a country are generally taken at bank headquarters. Portfolio managers working in the headquarters country or elsewhere are then responsible for implementing those decisions. Because we are concerned with investment decisions undertaken by headquarters, we focus our analysis on the extensive margin of sovereign exposures – whether or not a bank invests in the bonds of a country, as opposed to exactly how much it invests. We show that our bank-level measure of trust predicts banks' entry/exit decisions vis-a-vis sovereign debt of a country.⁴ A one standard deviation rise in bank-level trust bias increases the probability of investing in a target country by 14 per cent. This is a large effect, accounting for one-third of the diversification gap (i.e., 42%) in banks' sovereign exposures. The effect is stable over a sample period spanning more than a decade. It is not only statistically significant and economically important but also persistent over time.

We show further that well diversified, relatively sophisticated banks are less likely to use trust as a determinant of their sovereign lending. Moreover, investments in target countries whose bonds are not frequently found in bank portfolios, about which hard information may be relatively scant, are more likely to be influenced by cultural stereotypes. Finally, we find that

⁴ All our main results and interpretations remain the same when we use the continuous (i.e., nominal) sovereign exposures as the outcome variable.

the impact of trust is substantially higher for target countries experiencing a sovereign debt crisis, when cultural stereotypes – and thus the role of trust – may become particularly salient.⁵

Our findings remain intact for alternative definitions of trust. They are not driven by domestic exposures, exchange rate fluctuations, observations for relatively weak target countries (in our setting Greece, Ireland, Italy, Portugal and Spain), or banks headquartered there. By flexibly controlling for the extent of branch penetration in the target country, we show that cultural stereotypes based on the geography of bank branches are not picking up the information-gathering role of branches.⁶ By controlling for a weighted-average set of characteristics at bank/target-country level, we rule out the possibility that our bank-level measure of trust is picking up other types of indirect financial, informational or political linkages that may be operating via host countries.⁷ Finally, by using data from the European Central Bank’s Single Supervisory Mechanism (SSM), we show that our results are not driven by the heterogeneity in local supervision of these banks.

Our setting, Europe, is an appealing laboratory for investigating these issues. It has a Single Market, meaning that there are few economic or regulatory barriers to cross-border investment for which one otherwise would have to control.⁸ It has a European Banking Authority and a Single Supervisory Mechanism providing information on cross-border exposures and ensuring the consistent application of regulations and supervisory policies. Helpfully, levels of bilateral trust reported by residents of one European country in another vary widely.⁹ Qualitative accounts from the euro crisis and the Greek sovereign debt crisis emphasize trust or lack thereof

⁵ One needs only recall assertions in the press during the Greek sovereign debt crisis of 2010, in Germany impugning the integrity of the Greek government and people and in Greece impugning the integrity and motives of the German counterparts. We return to this case immediately below.

⁶ The existence of branches in a country may contribute to more bank lending to the government of that country insofar as bank branches are a mechanism for information acquisition and dissemination within the bank (Saka, 2020). A bank with more branches in a country may have more information about that country, encouraging it to assume additional exposure. Our results are intact when we parametrically control for linear and non-linear effects of branch penetration or, more conservatively, when we focus only on foreign target countries where none of the compared banks has branch presence.

⁷ These indirect relationships are constructed in the same manner as we measure the bank-level trust bias to a target country; that is, we take the host countries’ attributes of interest (branch, merger, media or political relationship) and compute a weighted average for each bank/target-country pair by again using bank branches as weights.

⁸ This is especially true for sovereign exposures, which is the focus of our paper. European banks are exempt from requirements to hold additional capital against their sovereign exposures to EU member states. European Systemic Risk Board (2015), p.15 describes the relevant history. Hence regulatory treatment of sovereign exposures that we use in our sample is mostly homogenous across countries and sample period.

⁹ We know this not only from survey data from Eurobarometer but also from the Pew Research Center, which has similarly asked respondents from different EU countries how much they trust people from other European countries. We describe the Eurobarometer data more fully below. On the more limited Pew data, see Pew (2013).

– of, inter alia, Germans in Greeks, and Greeks in Germans – as a factor complicating orderly resolution.¹⁰ The fact that European banks held Greek government bonds, and that those holdings were concentrated in the portfolios of some countries’ banks but not others, complicated efforts to resolve the crisis (Eichengreen 2015). If levels of bilateral trust had an effect on these investment decisions and thus on crisis-resolution efforts, it is important to recover their role.

Our findings have important implications for interpreting observed financial allocations. Because we are comparing banks from the same home country facing the same target country at the same point in time, and because we are focusing on the sovereign debt markets where lender-borrower interactions are not relational and default tends to be across the board, trust differentials lead to inefficiency in our setting. Since trust-induced changes in portfolio decisions have nothing to do with the fundamental risk of the target country but simply reflect cultural stereotypes, they are likely to represent divergences from optimal portfolio allocations.

Our results also have implications for how multilateral banks should think about the design of high-level managerial teams responsible for their cross-country investments. In particular, banks with branch networks that are geographically well diversified and whose management teams similarly are geographically well diversified are less likely to suffer from such biases. For a bank with a well-diversified branch network, the biases transmitted by different national branches cancel out and hence tend to zero overall. If cultural biases matter, diversity in bank management brings in a more balanced view of the potential investments and consequently more efficient portfolio allocation.¹¹

Following a review of literature in Section 2, we describe our data and model in Sections 3 and 4. As motivation, Section 5 replicates and extends previous analyses showing that average country-level bilateral trust is correlated with cross-border transactions. In Section 6 we then

¹⁰ Thus, in March 2015 Reuters quoted German Finance Minister Wolfgang Schaeuble as saying that “the new Greek government (led by Syriza) had “destroyed all the trust that had been rebuilt” by its predecessors. A subsequent article by Copley (2015), also for Reuters, describes a German parliamentarian refusing to support financial assistance for Greece, saying “he has lost all trust in the Athens government...” For more see e.g. Farrell (2015). Fuller (2015) describes other EU countries prima facie lack of trust in Greece and ascribes this to the prevalence of cultural stereotypes about different nationalities.

¹¹ A recent literature focuses on the gender diversity of boards and generally concludes that this is positively associated with firm performance. Arnaboldi et al. (2021) examine gender-diverse bank boards and find that greater diversity renders boards more effective in preventing misconduct. Karavitis et al. (2021) document that increases in board gender diversity reduce loan spreads, especially for bank-dependent firms. Cardillo et al. (2021) find that European banks with more gender-diverse boards were less likely to receive public bailouts in the Global Financial Crisis and Euro Area Crisis. We are not aware of a similar literature on the national diversity of bank boards.

develop a model of banks as organizational hierarchies to explain how trust bias among the employees of foreign branches is transmitted and influences decision making at corporate headquarters. In Section 7, we apply this framework and our bank-specific measure of trust bias and report our key findings. Section 8 discusses threats to identification and robustness checks, while Section 9 concludes.

2. Literature

Our paper is related to several literatures. First, there is research on the connections between trust and transactions. Hagendorff, Lim and Nguyen (2022) examine the corporate loan market and find that lenders whose CEO comes from an ancestral country characterized by higher levels of generalised trust charge lower interest rates on U.S. syndicated loans. Gennaioli, La Porta, Lopez-de-Silanes and Shleifer (2021) show that the incidence of claims and their dispute, rejection and payment in insurance markets is importantly affected by average levels of interpersonal trust in the country where the insurance is extended.

In the context of cross-border transactions, our focus here, Guiso, Sapienza and Zingales (2009) show, utilizing measures of trust based on survey data from early editions of Eurobarometer, that higher levels of trust at the country level have a positive impact on levels of economic exchange such as trade, portfolio investment and foreign direct investment. Bloom, Sadun and Van Reenen (2012) show that greater trust leads to more decentralisation of multinational firms; this increases their productivity by helping them grow to a larger equilibrium size. Employing these same aggregate survey-data measures, Bottazzi, Da Rin and Hellmann (2016) show that the international investment decisions of venture firms are influenced by cultural trust, especially in the case of early-stage investments. Pursiainen (2022) finds that stock recommendations are biased in favour of firms in countries more trusted by residents of the equity analyst's home country.¹²

Similar patterns prevail in the case of banks' cross-border investment in sovereign bonds, as we show below. But our main analysis departs from these earlier studies, all of which measure average trust at the country level. We construct measures of trust at the individual bank level.

¹² This trust bias is stronger for “eponymous firms,” cases where the firm name includes the name of its home country, something that presumably resonates with pre-existing cultural biases.

We show that bank-specific bilateral trust importantly shapes bank lending to sovereigns even after controlling for unobservable factors that vary across country pairs and over time.¹³

Second, there is a literature on cultural attitudes and investment biases. Grinblatt and Keloharju (2001), cited in our introduction, find that investors are more likely to buy, hold and sell the stocks of firms located close by, that communicate in an investor's native language, and that have CEOs of the same cultural background.¹⁴ Anderson et al. (2011), analysing institutionally managed portfolios in some 60 countries, find that managers from culturally distant countries invest less abroad and underweight culturally distant markets. Giannetti and Yafeh (2012) find that greater cultural distance between the countries of a borrower and lender (as constructed from measures in the World Values Survey) lead banks to offer borrowers smaller loans at higher interest rates. Mian (2006) shows that greater cultural and geographical distance between a foreign bank's headquarters and local branches depresses lending by the latter. Using data for an Indian bank, Fisman, Paravisini and Vig (2017) find that cultural distance between borrower and lender, as captured by religion and caste, reduces the quantity of credit and increases the incidence of default. Accetturo, Barboni, Cascarano and Garcia-Appendini (2021), using data from the South Tyrol, show that firms are more likely to apply for loans from culturally- and linguistically-proximate banks.¹⁵

Our focus is specifically on trust as opposed to geographical distance, cultural distance or language. Still, we contribute to this literature by documenting the role of cultural stereotypes in bank lending and by highlighting the acquisition and diffusion of cultural traits through

¹³ A related literature investigates the determinants of public trust in banks and financial institutions. Analyzing survey data from the Netherlands, Jansen, Mosch and van der Crujjsen (2014) find that, in addition to negative media reports, falling stock prices and opaque product information negatively affect trust in banks. Knell and Stix (2015) find that trust in banks is negatively related to individuals' direct experience with bank failures. Fungacova, Hasan and Weill (2017) use data for 72 countries from the World Values survey to establish that women, the wealthy, the young, the religious, and individuals with pro-market economic views place most trust in banks. Other studies consider the consequences of such trust for individuals and banks themselves. Analyzing survey data from five Central European countries, Stix (2014) finds that individuals with less trust in banks have a stronger preference for cash relative to savings accounts. Looking across U.S. states, Saiedi, Mohammadi, Brostrom and Shafi (2020) show that individuals less trusting of banks hold fewer bank deposits and are more likely to participate in crowdfunding. Bertrand, Klein and Soula (2021) find that U.S. banks engage in more liquidity creation when they are regarded with high levels of trust, proxied in their study by Gallup Poll surveys asking respondents about their confidence in banks.

¹⁴ In line with our findings, such biases are weaker for more sophisticated financial institutions.

¹⁵ In this paragraph we have focused on financial transactions. But, relatedly, Gorodnichenko, Kukharskyy and Roland (2015) analyse cultural firms rather than banks and find that cultural distance between a firm and its foreign suppliers creates an incentive for a firm to engage in arm's-length transactions (outsource) as opposed to integrating production.

branch networks and managerial flows within multinational banks.¹⁶ Banks in our setting acquire a corporate culture by adopting and combining the cultures of their branches (and thus their employees), which reflects the cultures of their countries of residence. This corporate culture in turn shapes their decisions regarding lending to governments.

Third, there is an extensive literature on the determinants of banks' sovereign exposures. Broner, Martin and Ventura (2010) show that the value of government bonds may depend on which banks hold these assets, on the grounds that governments are less likely to default if domestic banks suffer adverse consequences. Sovereign bonds tend to move from foreign- to domestic-bank portfolios in times of crisis in anticipation of these incentives. Other scholars observe that governments engage in financial repression by forcing banks in their jurisdiction to hold domestic government bonds; in turn this aggravates home bias in banks' sovereign debt portfolios.¹⁷ Undercapitalisation and risk shifting also may explain banks' sovereign exposures specifically in crisis periods (Acharya and Steffen, 2015; Crosignani, 2021). More broadly, information asymmetries have been shown to limit the diversification of banks' sovereign debt portfolios (Saka, 2020; De Marco, Macchiavelli and Valchev, 2021). Our paper points to an additional factor, not analysed before, that plays an important role in the composition of such portfolios in normal times and has an especially powerful effect in times of crisis.

3. Data

Our data on bank-level sovereign debt portfolios is from the European Banking Authority (EBA). EBA first provided these public disclosures in 2010 in response to the Eurozone debt crisis. Subsequently it provided information at the consolidated parent-bank level biannually (through mid-2021 at the time of writing). We collect these data from EBA website.¹⁸

Because banks open, merge and close, this involves manually tracing them over time.¹⁹ The result is an unbalanced panel of 199 banks headquartered in 27 European countries across 22

¹⁶ See Fisman and Miguel (2007) for how cultural norms spread when legal environment is muted; Fernández and Fogli (2009) for the diffusion of culture in the domains of individual work and fertility; and Ek, Gokmen and Majlesi (2022) for the cultural transmission of risk-taking behaviour in financial investments.

¹⁷ Such "moral suasion" by governments toward domestic banks has been investigated in the context of the Eurozone debt crises (see, among others, Becker and Ivashina, 2017; Ongena, Popov and van Horen, 2019).

¹⁸ And from various other related sources detailed in **Appendix A**. In particular, **Appendix Table A.1** documents the dates of each disclosure alongside information on how many banks were included and which year-quarters sovereign portfolio information relates to.

¹⁹ The European banking industry went through a major consolidation during our sample period (Boer and Portilla, 2020). Hence, when banks in our sample merge, consolidate with a different parent bank, or go bankrupt, they drop from the sample, and new banks are added. We treat an entity as unchanged (even if its official name may change) unless it is acquired by another main entity or merges, creating an independent third entity. The exact

points in time.²⁰ These data distinguish holdings of sovereign bonds of the governments of 30 European countries.²¹ This is the only dataset in which a bank-level breakdown of sovereign debt portfolios can be systematically traced over time.²²

We merge these bank-level data with country-level surveys of bilateral trust from Eurobarometer. This restricts the banks' home and target observations to the 15 European countries covered by the latter.²³ This matching results in an unbalanced sample of 159 banks whose debt portfolios can be observed over 22 different year-quarters. For the bank-level treatment, the sample further reduces to 108 banks, for which we can observe European branch networks on SNL Financial. A full list of these banks alongside the dates on which their sovereign portfolio information is available is in **Online Appendix E**. Bilateral trust measures between home and target countries can be found in **Appendix Tables A.5** and **A.6**.

For three reasons, we focus on a binary outcome variable indicating whether or not a bank has *any* positive exposure to a sovereign at a point in time.²⁴ First, because of the consolidated nature of EBA disclosures, we cannot distinguish between bonds purchased at headquarters and at subsidiaries. We therefore consider the extensive margin of sovereign exposures, since strategic decisions such as whether or not a bank should invest in a country are taken at bank headquarters. Second, there is some heterogeneity in sovereign debt valuation methods across disclosures, and some flexibility at the bank level in categorizing sovereign exposures as

definition of such transitions over time is not crucial for our identification strategy, however, because time variation becomes irrelevant when comparing parent banks within the same home country at the same point in time.

²⁰ Countries are Austria, Belgium, Bulgaria, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Iceland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovenia, Spain, Sweden and the United Kingdom.

²¹ Most disclosures provide the full country breakdown of each bank's sovereign debt portfolio for up to 200 countries. In order to establish consistency across disclosures, only the exposures to 30 European countries are included in the sample. These are Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and United Kingdom. Another reason for restricting target countries is that our main independent variable, cultural trust bias, is derived from Eurobarometer surveys and is only available across 15 of these European countries.

²² An earlier version of this dataset (up to year 2015) is used in Saka (2020). Similar information can be found in the proprietary data set at the European Central Bank (see Ongena, Popov, and Van Horen, 2019). However, compared to EBA data, ECB cover banks from a smaller subset of countries (only for Eurozone) and provide only a broad classification of countries represented in sovereign debt portfolios (that is, domestic vs. foreign) instead of full country-breakdowns. Since our identification strategy builds on variation across foreign exposures, the EBA dataset is ideal for our setting.

²³ These are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, and United Kingdom. See **Appendix Table A.5**.

²⁴ As a robustness check, we also consider the intensive margin, employing the log of the nominal values (in million Euros) of sovereign exposures reported by banks, and obtain qualitatively similar results.

residing on the trading versus banking books, which in turn affects reported values.²⁵ Such flexibility could lead to self-reporting biases (Kaplow and Shavell 1994).²⁶ Third, since we do not observe currency denomination, exchange rate fluctuations can introduce variation in reported sovereign exposures in different currencies even in the absence of active investment decisions.

We give further details and describe the construction of other variables and data sources in **Appendix A**. Summary statistics are in **Appendix Table A.2**. In the sample with country-level treatment, the unconditional probability of exposure to a target country is 56%. Compared to a counterfactual with no frictions and full diversification in sovereign debt markets (unconditional mean = 1), this implies a diversification gap of 44%.²⁷ The corresponding gap for the bank-level sample is 42%, meaning that 42% percent of the time a bank has no exposure to the sovereign debt of a target country. These gaps are consistent with the idea that sovereign debt market is far from frictionless. There is room, in other words, for factors such as trust to explain variations in banks' sovereign debt portfolios.

4. Empirical Model

For motivation, we start by estimating a specification using country-level variation in bilateral trust:

$$\begin{aligned} \text{Sovereign Exposure}_{b, h, c, t} = & \beta_1 \text{Country-level Trust Bias}_{hc} + \beta_2 X_{hc} \\ & + \beta_3 \gamma_{bt} + \beta_4 \mu_{ct} + \varepsilon_{bhct} \end{aligned} \quad (1)$$

²⁵ For instance, direct sovereign exposures reported in the 2021 EU-wide transparency exercise contain the following four categories, each with a different accounting framework: financial assets held for trading, financial assets designated at fair value through profit or loss, financial assets at fair value through other comprehensive income, and financial assets at amortised cost.

²⁶ This could occur, for example, if more trusting banks strategically underreport their exposures to risky sovereigns during sovereign debt crises.

²⁷ That is, diversification gap can be considered as the difference between the case of full diversification and reality ($1 - 0.56 = 0.44$). A simple asset pricing model with no frictions, such as Capital Asset Pricing Model (CAPM), would predict that the share of a sovereign exposure in each bank's debt portfolio should be proportional to the share of that sovereign's total debt in the sovereign debt market (Sharpe, 1964). By implication, this would require each bank to have at least some positive exposure to each sovereign in our sample, thus implying an unconditional probability of one.

where *Sovereign Exposure_{bhct}* is a dummy variable for whether or not bank *b* of home country *h* has any positive exposure to target country *c* at time *t*.²⁸ We estimate linear probability models, thereby focusing on headquarter-led entry/exit decisions in consolidated bank portfolios as well as minimizing potential measurement error in the self-reported exposure data.²⁹

We define country-level bilateral trust as the share of respondents in home country *h* expressing “a lot of trust” in target country *c*.³⁰ We adjust these self-reported measures for country fixed effects, since some nationalities may be universally regarded as more trustworthy than others, and because respondents of some nationalities may universally trust more or less than others. In implementing this adjustment – in moving from country-level trust to *Country-level Trust Bias_{hc}* (the variable that appears in eq. 1) – we follow Guiso et al. (2009), Bloom et al. (2012) and Pursiainen (2021), running a gravity regression of bilateral trust for country pairs:

$$\text{Country-level Bilateral Trust}_{h,c} = \alpha_1 \theta_h + \alpha_2 \vartheta_c + \epsilon_{hc} \quad (2)$$

Residuals from this regression, after controlling for home country (θ_h) and target country (ϑ_c) fixed effects, capture the relative trust bias of home country *h* in target country *c* ($\epsilon_{hc} = \text{Country-level Trust Bias}_{hc}$). The resulting measure is illustrated in **Appendix Table A.6**.

Our identification strategy can be visualised as in **Appendix Figure A.1**. Since we have multiple observations for each home and target country, we can include fixed effects to remove potential time-varying variation in these dimensions. However, because each bank’s treatment status is determined by the pair-specific trust relationship between their home and target countries, we parametrically control for other confounding variations in this dimension.

The country-pair controls in *Equation (1)* (X_{hc}) include two sets of variables. Directional variables are *Bank Branches_{hc}* which measures the total number of bank branches in target

²⁸ We construct the outcome variable using the “Gross Direct Long Exposures” definition reported across all EBA disclosures.

²⁹ This also helps with interpretation of our coefficients as marginal probabilities.

³⁰ The specific question in past editions of Eurobarometer is: “I would like to ask you a question about how much trust you have in people from various countries. For each, please tell me whether you have a lot of trust, some trust, not very much trust, or no trust at all.” This question was included in various survey waves from 1970s to 1996. Following Pursiainen (2021), we use the most recent survey in order to derive a time-invariant measure of cultural trust bias.

country c belonging to a parent bank from home country h ,³¹ $Bank\ Mergers_{hc}$ which is the total number of bank mergers between 1985 and 2008 in which a bank in home country h acquired a bank in target country c ; and $Media\ Coverage_{hc}$ which records the frequency with which each target country or its citizens are mentioned in home country news headlines, divided by the total number of times the target country or its citizens are mentioned in any news headline in the sample. Non-directional controls are $Common\ Language_{hc}$ which takes the value of 1 if at least 9% of the population in both countries speaks the same language and 0 otherwise,³² $Colonial\ Relationship_{hc}$, a dummy variable picking up pairs of countries in a colonial relationship at any time in the past; $Distance_{hc}$ which is log distance in kilometers between the capital cities of countries h and c ; $Common\ Border_{hc}$ which is a dummy for pairs of countries sharing a common border; and $Common\ Legal\ Origin_{hc}$ which is a dummy for shared legal origins across countries.³³

We include fixed effects in *Equation (1)* at the bank * time (γ_{bt}) and target-country * time (μ_{ct}) levels.³⁴ The former control for time-varying bank-level factors that influence all target country exposures of a bank at any point in time. If a bank shifts away from sovereign investments because it can lend more lucratively to corporates, for example, this will not affect our estimates so long as the shift is homogenous across sovereigns. The latter control for time-varying target-country-level factors affecting lending by all banks to a country at a point in time. If a country enters a crisis and its sovereign debt becomes riskier, for example, this will not affect our estimates if all banks change their behaviour vis-à-vis the newly risky country similarly. Our coefficient of interest (β_l) will not then be driven by overall bank or target-country characteristics.

Following this motivation, we estimate a bank-level specification:

$$\text{Sovereign Exposure}_{b, h, c, t} = \beta_l \text{Bank-level Trust Bias}_{bc} \quad (3)$$

³¹ Unfortunately, branch information cannot be derived historically, since SNL Financial only provides the most recent data available (as of February 2016).

³² The threshold of 9% (imposed by Mayer and Zignago, 2011) is arbitrary; but we also experimented with an alternative 20% threshold without leading to a qualitative change in our results. We keep the former definition, since it is more likely to pick up the latent lingual relationships across countries.

³³ Construction of these variables and data sources are detailed in **Appendix A** and summary statistics are provided in **Appendix Table A.2**.

³⁴ Since banks in our sample never change their home countries, it is unnecessary to include a third set of fixed-effects at home-country * time level since such coarse variation is already absorbed by bank * time fixed-effects.

$$+ \beta_2 \text{Bank Branches}_{bc} + \beta_3 \gamma_{bt} + \beta_4 \mu_{ct} + \beta_4 \lambda_{hc} + \varepsilon_{bhct}$$

where *Bank-level Trust Bias*_{bc} is constructed taking a weighted average of *Country-level Trust Bias* for each bank-target-country pair (*b*, *c*), where the weights are the share of host-country (*i*) branches in the branch network of the multinational bank:³⁵

$$\text{Bank-level Trust Bias}_{b,c} = \sum_{i=1}^n \left(\text{Weight}_{b,i} \times \text{C. L. Trust Bias}_{i,c} \right) \quad (4)$$

Our identification strategy here can be visualised as in **Appendix Figure A.2**. We benefit from the variation across banks (i.e., HSBC vs. RBS) headquartered within the same home country (i.e., UK) facing the same target country (i.e., Austria) at the same point in time because these multinational banks have subsidiaries in different countries (i.e., France and Ireland) and because residents of those host countries have different perceptions of the same target country.³⁶ Hence, including country-pair fixed effects (λ_{hc}) renders redundant country-level controls in *Equation (1)*. Saturating our specification further with home-country * target-country * time fixed effects (λ_{hct}) absorbs all types of time-varying country-level variation in our outcome variable.

We also control at the bank-target-country level for the number of branches each bank has in a target country (*Bank Branches*_{bc}). This separates out the information channel (and, more broadly, direct financial linkages between banks and sovereigns), as in Saka (2020). In additional analyses, we drop target countries of potential investment in which the compared banks have branches (i.e., UK, France and Ireland in **Figure A.2**) and control for indirect relationships between banks and target countries that may be sustained through host countries (e.g., HSBC -compared to RBS- being financially closer to Austria because France is better-linked with Austria than is Ireland).

³⁵ For instance, if a bank has 50% of its branches in country A and 50% of its branches in country B, then its trust bias towards country C is the simple average of trust biases in countries A and B toward country C. Recall that, in line with the notion of relatively permanent cultural stereotypes, this measure is time-invariant and constructed by using a single snapshot of bank branch networks for each bank. Hence we do not have time variation in bank-level trust. That said, changes in branch networks tend to be very gradual. In addition, previous literature (e.g. Guiso et al. 2006) has emphasized the long-term stability of cultural stereotypes and used time-invariant measures to capture them (again see e.g. Guiso et al., 2009; Bloom et al., 2012; Bottazzi et al., 2016; Pursiainen, 2021).

³⁶ Domestic banks (i.e., Lloyds), on the other hand, do not add to our identifying variation as their treatment status only depends on the variation between home and target countries.

We cluster standard errors by bank, which admits the possibility that the error term is correlated across target countries and time. Double clustering at country-pair and time levels or double clustering at country-pair and bank levels do not change the results.

5. Results using Country-Level Measures of Trust

Table 1 reports estimates of *Equation (1)*. The dependent variable is a binary variable for whether or not a bank has exposure to a target country at a point in time. Column 1 reports estimates with *bank * time* and *target-country * time* fixed effects but no additional country-level controls. Columns 2-9 add country-level controls in pairwise fashion to determine if any of these singlehandedly explains the effect of trust bias on sovereign exposures. Column 10 includes all control variables.

Column 1 shows a positive, statistically significant relationship between the trust bias of a bank toward a target country and the bank's probability of lending to the government of that country. Columns 2-9 confirm that the result is robust to controls. The effect is not obviously related to informational linkages or the geographical/historical/legal distance between countries, in other words.³⁷ Although point estimates shrink as controls are added, they remain uniformly significant at the 99 percent confidence level.³⁸ Column 10 controls for all of these linkages and confirms that bank-level trust still has a positive impact on banks' sovereign exposures.

It is still possible that omitted county-pair characteristics are influential in driving both cultural trust bias and sovereign exposures, creating a spurious statistical relationship between the two. We therefore follow the method of Oster (2019) to shed light on the importance of unobservables in generating the coefficients of interest in **Table 1**. **Appendix Table B.2** presents the Oster bounds. *Rmax upper bound* is defined as 1.3 times the R-squared in the specification that controls for all observables in **Table 1**, Column 10. The bottom row presents Oster's delta, which indicates the selection on unobservables relative to observables needed to fully explain the results by omitted variable bias. The delta value greater than 1 is reassuring:

³⁷ **Appendix Table B.1** shows that, when estimated as a stand-alone predictor, each of these control variables are significant in predicting the probability of bank sovereign exposure in expected directions.

³⁸ It makes sense that the coefficient of interest shrinks as we add country-level controls. As Guiso et al. (2009) discuss, some of these control variables may themselves influence levels of trust between countries, or may be affected by such trust. For instance, it is not unreasonable to argue that physically distant countries may vest less trust in each other or countries that have a better relationship (i.e., trusting each other) are also more likely to cover each other's news in their media channels. High correlations reported in **Appendix Table A.4** between these variables and our measure of trust support these possibilities.

given the wide range of controls included in the models, it is implausible that unobserved factors are at least as important as the observables included in the specification with all controls.

Home bias in general (French and Poterba 1991) and in the context of European sovereign debt markets specifically (Saka 2020) could still be an issue. Since survey respondents tend to trust residents of their own country more than others (see **Appendix Table A.5**), the estimated coefficients could be picking up home bias in investment occurring for other reasons.³⁹ In **Appendix Table B.3**, we therefore re-run the same regressions dropping the home-country exposures of each bank. The coefficients of interest are if anything even larger than in **Table 1**.

We also re-run these models substituting the log nominal value (in millions) of the banks' sovereign exposures for the binary indicator of any exposure. The results reported in **Table B.4** carry over when we use the full variation.⁴⁰

6. Banks as Hierarchies

Why are the cultural biases of employees at its branches influential for a bank's investment strategy, whose broad parameters are set by board members and officers at bank headquarters?

An answer is that decisions at headquarters are shaped by information and personnel flows up the organizational hierarchy from branches to the C-suite and boardroom. As the Corporate Finance Institute (2021) writes, "Investment banks have a rigid and strict hierarchy that is comparable to a military organization, where each rank means a great deal...The typical hierarchy of investment banks is common to almost all investment banks, although non-US banks may have different job titles." A number of studies have examined the impact of these organizational hierarchies on banks' economic decision making. Liberti and Mian (2009) find that greater hierarchical and geographical distance between the information-collecting agent and loan-approving officer leads to less reliance on subjective information and more on objective information. Skrastins and Vig (2018), using information from a large bank in India, find that increased hierarchization of a branch reduces the volume of its credit extension,

³⁹ There is the possibility that trust itself might partially explain this home bias phenomenon; especially with regard to its cultural dimension (Grinblatt and Keloharju 2001).

⁴⁰ We additionally experiment with other ways of clustering standard errors. Our estimates remain significant at conventional levels in response to double clustering at country-pair and time levels (see **Appendix Table B.5**) or at country-pair and bank levels (see **Appendix Table B.6**).

worsens loan performance, and leads to greater standardization of loan contracts. Motivation for these studies differs, but they have in common treating banks as hierarchies.

We follow this literature in modelling banks as hierarchies linking headquarters, where broad strategic decisions are made, with branches and subsidiaries, where information is gathered. **Appendix Figure A.3** provides a visual representation of the mechanisms we have in mind. Loan officers, portfolio managers, investment analysts and other subordinates in the countries in which the bank operates provide information to headquarters. Headquarters, which in practice means the CEO, the board and the investment committee, is then responsible for making broad strategic decisions about the contours of the investment portfolio. Those inputs are colored by the trust subordinates display toward countries of potential investment. Those inputs are aggregated and assessed by the bank's top officers, after which guidelines for the bank's investment decisions are established.

For our model to have explanatory power, the views and analyses of subordinates employed in foreign subsidiaries must be colored by the cultural stereotypes displayed by residents of that country. Employees of a foreign subsidiary are residents of the country in question and tend also to be citizens of that country. This motivates imputing to them the cultural attitudes of residents of that country. In practice, cultural stereotypes among the employees of foreign subsidiaries can influence decisions made at headquarters indirectly, through disembodied information flows transmitted via internal reports, meetings, phone calls and other types of communication. We cannot test for this mechanism formally, though, since we lack the data on such information flows for banks in our sample.

The cultural stereotypes of employees of foreign subsidiaries can also affect decisions at headquarters directly, through personnel flows that shape the composition of high-level managerial teams. Specifically, corporate culture in bank headquarters may be shaped by the tendency of banks to hire and promote internally, including across borders, for high-level managerial posts.⁴¹ Given this tendency toward internal promotion, the more branches and employees a bank has in a country, the more likely that this nationality will be represented at directorial/managerial levels at the bank's headquarters, other things equal.⁴²

⁴¹ To cite one data point, UBS filled more than a third of its vacancies internally in 2015 (Butcher, 2016). Chen (2020) argues that this reliance on internal promotion is rational for banks because the existence of promotion incentives is associated with improved bank performance.

⁴² As illustrated in **Appendix Figure A.3**, one can also imagine that the decision of whether or not to invest in the sovereign debt of a country is delegated to portfolio managers in different subsidiaries. Our discussions with

To provide empirical support for this mechanism, we gathered data from *BankFocus* on current and former directors and managers employed in the headquarters of the banks in our sample.⁴³ We then estimated the following specification at bank-target-country level:

$$\text{Nationality at HQ}_{b, h, c} = \beta_1 \text{Bank Branches}_{bc} + \beta_2 \gamma_b + \beta_3 \mu_c + \beta_4 \lambda_{hc} + \varepsilon_{bhct} \quad (5)$$

where Nationality at HQ_{b, h, c} indicates whether the bank *b* headquartered in country *h* has (or has ever had) any directors or managers with the nationality of the target country *c*.

Results are in **Table 2**, where each panel uses a different measure of the bank branches in target countries. They all support our conjecture that managerial teams in multinational banks disproportionately come from countries where these banks have subsidiaries/branches. A one-standard deviation increase in log number of branches in a target country is associated with 8.4% rise in the probability of that country being represented among employees at headquarters. This association is sizable and corresponds to one third of the mean for the outcome variable.⁴⁴ In **Appendix Tables C.3** and **C.4**, we restrict the sample of employees only to senior managers (i.e., the executive board, board of directors and senior management). In **Appendix Table C.5** and **C.6**, we restrict the sample only to the first (i.e., main) nationalities of the employees.⁴⁵ And in **Appendix Table C.7** and **C.8**, we restrict it to the current managers (as of November 2022).

These results support the assumption that banks hire and promote from within, so that the national composition of its staff will affect the national composition of its board of directors, and that cultural stereotypes coloring information transmitted by subordinates will be received by directors with broadly similar cultural traits and biases.

individuals working in multinational banks indicates that this is not the case. The literature discusses cases where bank subsidiaries/branches are able to set their own deposit rates (Dlugosz 2017), hire their own tellers, award promotions to their own employees, pick bank hours, and design the process for selling new investment products to retail customers (Nagar 2002), but not to determine the composition of the bank's sovereign debt portfolio, especially when it comes to entry/exit decisions from a particular sovereign which is the focus of our paper.

⁴³ Although we can trace individuals' names across all banks included in our sample, we can see directors' and managers' nationalities only for a subset of banks, which is why the sample for this part of the analysis is smaller than that which follows.

⁴⁴ In **Appendix Table C.1**, we restrict our sample only to foreign target countries; and in **Appendix Table C.2**, we double-cluster the standard errors by country-pair and bank. Our interpretations are supported in both cases.

⁴⁵ This is to make sure that our measure captures only local people from target countries, rather than expats who may have nationalities both from home and target countries.

7. Results using Bank-Level Measures of Trust

We turn now to our key results. **Table 3** reports estimates of *Equation (3)* using bank-level measures of bilateral trust. Column 1 reports results with the same fixed effects as in **Table 1** but without other country-level controls. Column 2 renders the controls redundant by adding a full set of *home-country * target-country* fixed effects. Columns 3-4 include controls for branch linkages between banks and target countries, both linear and non-linear. Column 5 saturates the model with *home-country * target-country * time* fixed-effects, non-parametrically controlling for variation at the home and target-country levels. This limits the comparison to banks headquartered in the same country with exposures to the same government at the same point in time. It thereby enables us to disentangle the effect of bank lending supply, our concern here, from demand-side factors in the countries to which banks lend.

Estimates of the effect of bank-specific trust bias in **Table 3** are positive and statistically significant across all specifications. The baseline estimate in Column 1 is slightly larger than that in **Table 1**; however elasticities (in response to one std. dev. change) are approximately equal (i.e., 12%) in both cases. Point estimates grow still larger as we add controls such as the number of bank branches, and when we include country-pair fixed effects to capture other unobservables affecting investment. The specification in Column 5 flexibly controls for all types of country-level unobservable factors by allowing them to vary over time.⁴⁶ A one standard deviation rise in bank-level trust bias now increases the probability of investing in a target country by 14 per cent. This is a large effect, accounting for one-third of the diversification gap (i.e., 42%) in banks' sovereign exposures.

In **Figure 1**, we plot the coefficients from separate estimates of *Equation (3)* over all sub-periods. The positive effect of bank-level trust bias, whether measured as binary (Panel A) or continuous (Panel B), is significant and stable over time despite the changes in bank coverage, consistent with the intuition that cultural biases are persistent.⁴⁷ These findings also rule out

⁴⁶ Note that including *home-country*target-country*time* fixed effects in our specification also shields our estimates against the possibility of home bias (i.e., banks generally holding higher sovereign debt of their home countries) even when such bias is heterogenous across countries and varying over time. Our estimates remain significant at conventional levels in response to double clustering at country-pair and time levels (see **Appendix Table D.1**) or at country-pair and bank levels (see **Appendix Table D.2**).

⁴⁷ The reduction in the size of the coefficients in the period 2016 to 2018 confirms that the loss of granularity (due to changing reporting requirements during this period) in banks' sovereign exposures makes it more difficult to identify the effect of trust. EBA directly used regulatory FINREP reports during this period, which led to some banks not disclosing the country-breakdown of their sovereign exposures at all or reducing the granularity in these exposures (i.e., categorizing exposures below a certain threshold under the name "other countries"). See the discussion in **Appendix A** for more details. In line with **Figure 1**, our point estimate in Column 5 of **Table 3**

the concern that our estimates are driven by Eurozone crises in the early part of our period.

Appendix Table D.4 explores additional ways in which cultural stereotypes may affect banks' sovereign portfolios. First, we compute the number of countries to which a bank has positive exposures and average it over time for each bank. This allows us to calculate a time-invariant measure of diversification and separate high- and low-diversification banks by choosing the median bank as a threshold. Column I shows that banks whose investment portfolios are widely diversified across countries are less likely to allow trust bias to affect their lending decisions. More widely diversified banks may be more sophisticated and have more sources of hard information. These findings are thus consistent with previous evidence that sophisticated investors are less likely to exhibit cultural biases (Grinblatt and Keloharju, 2001). Additionally, trust appears to be less important for target countries whose bonds are frequently present in bank portfolios (Column III), an example being Germany.⁴⁸ This is consistent with evidence that familiarity may mitigate the role of trust in financial decisions (Pursiainen, 2022).

Overall, this is evidence that the institutional culture of multinational banks, and specifically the trust of employees toward countries of potential investment, shapes investment decisions above and beyond the influence of other factors emphasized in earlier literature. It is consistent with the notion that branch networks and the national stereotypes associated with residents in their locations help to shape this collective institutional culture.

8. Threats to Identification and Robustness

Here we consider potential threats to identification and provide additional analyses and robustness checks.

8.1 Endogeneity of branching decisions

A concern for our analysis is the endogeneity of banks' decisions to establish or expand branch networks to other countries, since the bank-level drivers of such expansion might also drive the decision to invest in the sovereign bonds of a bank's home country. Greek banks may expand their German operations, for example, because of their doubts about the attractiveness of Greek government securities. In this case, we will observe that the low level of trust imputed

becomes approximately 12% larger when we drop FINREP disclosure dates from our sample (see **Appendix Table D.3**).

⁴⁸ We split our sample into above/below median countries by calculating the average time-invariant frequency with which target countries are present in the portfolios of the banks in our sample.

to the German branch managers of the Greek bank branch is correlated with low levels of investment in Greek bonds, and infer that the stereotypes of German branch managers lead to low investment in Greek bonds. But in fact, the link lies in the low quality of Greek government bonds perceived by managers at the bank's Greek headquarters. We eliminate this concern by dropping all headquarter-country observations. The results, in **Appendix Table D.5**, remain intact when we compare bank exposures only to foreign target countries. The estimated effects of cultural bias are if anything larger than before.⁴⁹

8.2 Bank bias versus regulator bias

Alternatively, we may be picking up the impact of cultural stereotypes of bank regulators as opposed to bank decision makers. Regulators may discourage banks under their purview from investing in countries in which they have little trust. Or they may discourage banks from investing in foreign government bonds as a way of encouraging them to invest in their own country's government bonds. Reassuringly for our interpretation, we obtain the same results, as shown in **Appendix Table D.6**, when we limit the sample to banks that are overseen by the EU's Single Supervisory Mechanism (SSM). The SSM, housed in the ECB in Frankfurt, currently supervises the largest 140 banks; the same supervisors apply the same rules and scrutiny to all of them.⁵⁰ Focusing on banks supervised by the SSM thus rules out the alternative hypothesis that we are picking up the cultural stereotypes of national bank supervisors as opposed to bankers themselves.

8.3 Trust vs. direct financial linkages

Including the number of bank branches does not affect the key results in **Table 3**, as noted.⁵¹ Still, it is conceivable (despite our parametric controls) that a measure of bank-specific trust

⁴⁹ Note that this further shields our estimates from the influence of home bias (i.e., banks generally holding higher sovereign debt of their home countries). Although the specifications in **Table 3** control for home bias at the country level by including country-pair specific fixed effects, one can imagine different degrees of home bias across different banks headquartered in the same country.

⁵⁰ Since SSM started its operations in 2014, there has been limited time variation in terms of the number and identity of systemically significant banks that it supervises; our results in **Appendix Table D.6** take this time variation into account.

⁵¹ The fact that coefficients on this variable have the opposite sign from that suggested by the information-transmission mechanism could be due to the fact that they themselves are influenced by bank-specific trust. We explore this possibility in detail in **Appendix Table D.7**, where we estimate a specification at bank/target-country level to test for the effect of bank-level trust bias on bank branches. Indeed, trust seems to have positive, significant and robust association with branch expansion decisions of banks. Furthermore, the previously negative relationship between branches and sovereign exposures disappears when we use a continuous dependent variable instead of a binary indicator (see **Appendix Table D.10**).

bias based on bank branches could be picking up not the effect of trust but, rather, financial linkages with the target country of potential investment resulting from branch presence. Relatedly, the same factors that convince a bank to expand its branch network to a country may lead it to purchase more sovereign debt of that country.

Appendix Table D.8 therefore excludes target countries where a bank has any branch presence, shutting down this channel.⁵² These estimates compare banks headquartered in the same country with regard to the same target country, but only when none of the banks in question has branch presence in that target country. The estimated effect is larger, not smaller, than before when we limit the sample in this way. Insofar as a bank's branch expansion decision to a foreign country is *ex ante* orthogonal to its investment in the government bonds of third countries, the results point to a causal relationship between bank-level trust and that bank's sovereign exposures.

8.4 Trust vs. indirect financial/informational linkages

The fact that multinational banks operate in multiple countries may not only lead them to adopt the cultural traits of these countries but also help them to gain access (via their host countries) to the information or financial linkages about other target countries. Including country-pair-level fixed effects does not rule out the possibility that banks combine information from multiple countries and thus that bank branch networks play a role in aggregating cross-country information channels at the bank level.

In **Appendix Table D.9**, we construct a measure of these indirect linkages, using the three directional country-level variables employed as controls in the previous section: branches, mergers and media coverage. In addition, we include a non-directional proxy for political relationships between home and target countries.⁵³ We construct these proxies in the same way as for bank-level trust bias, using a weighted average of host-country characteristics to aggregate them at the bank-target-country level (à la *Equation (4)*).

⁵² Note that this includes all types of bank presence in a country whether it is via subsidiaries or single branches.

⁵³ In line with recent political science literature, this constitutes a measure of political proximity based on the similarity of voting patterns of individual countries in the United Nations General Assembly. A priori, we did not expect the political relationships to matter a great deal in our setting, which focuses on a set of countries that already form a political grouping and monetary union. Political proximity among these countries is very high and clearly visible in **Appendix Table A.2** (the mean of the relevant variable is 0.93 -in a range between minus 1 to plus 1- and std. deviation is only 0.06). Nonetheless we include it as a relevant control in the following analysis for the sake of being transparent. See **Online Appendix A** for the construction and the data source of this variable.

When used as controls, none of these variables is statistically significant. Point estimates for the effect of trust are unchanged, confirming the presumption that it is not indirect information or other relationships that bank branches provide but rather the cultural stereotypes that matter for a multinational bank's sovereign portfolio.

8.5 Defining the dependent variable as log nominal sovereign exposures

Section 5 showed that, when using country-level aggregate data on bilateral trust, we obtained the same results when substituting the value of sovereign exposure for a binary indicator for the existence of any such exposure. **Appendix Table D.10** shows that the same is true when using our bank-specific measure of trust.

8.6 Currency fluctuations

Currency fluctuations change the value of sovereign bond portfolios independent of active investment decisions. In addition, the presence or absence of exchange rate risk could affect the decision to invest, thus the extensive margin of banks' sovereign exposures. Eurozone-headquartered banks may be inclined to invest in the bonds of Eurozone governments while refusing to invest in the domestic currency bonds of other countries that are subject to exchange risk.

In **Appendix Table D.11**, we therefore include only banks headquartered in the Eurozone and target countries of investment that also are members of the Eurozone. Prior results carry over, whether we define the dependent variable as a binary (zero versus any positive exposure) or instead as the log of the nominal exposure amount (see **Appendix Table D.12**).

8.7 Weak sovereigns

Banks situated in the Eurozone's crisis countries – Greece, Italy, Ireland, Portugal and Spain – were subject to financial problems toward the beginning of our sample period. This could have affected banks' investment decisions, since investing in the bonds of their sovereigns was especially risky. We therefore exclude both banks headquartered there and their governments as targets for cross-border investment. There is again little change in our results (**Appendix Table D.13**).

8.8 Different ways of measuring trust

We experiment with different ways of measuring trust. In **Appendix Table D.14**, we consider raw levels of bilateral trust measured as the proportion of people in a country with “high trust” toward another country (see **Appendix Table A.5**) instead of the residuals from a gravity regression (i.e., trust bias; see **Appendix Table A.6**). **Appendix Table D.15** substitutes the continuous cultural trust bias proxy employed in Guiso et al. (2009), which uses the full variation in survey respondents’ answers, where levels of trust can range from 1 (i.e., “no trust at all”) to 4 (i.e., “lot of trust”).⁵⁴ In **Appendix Table D.16**, we use the Guiso et al. (2009) proxy in levels without the computing the residuals as in *Equation (2)*. The results carry over.

8.9 Does trust matter more during sovereign debt crises?

It could be that the cross-border investment behaviour of multilateral banks was different in the first half of our sample (up through 2015), owing to the effects of the Eurozone sovereign debt crisis. In **Appendix Table D.17**, we focus on this earlier part of the sample. We identify countries and time periods most affected by the crisis using two proxies: bond spreads and CDS spreads. We create two binary indicators for when countries are affected by the crisis: when the yield spread for the target country is at least 400 basis points above Germany’s, and when its CDS spread is at least 300 basis points (both following Brutti and Saure 2016). We find that bank-level trust bias matters more when a country experiences a sovereign debt crisis. This remains true even when we control for the interactions between bank branch connections and crisis indicators.

9. Conclusion

Individuals vary in the trust they place in residents of different countries. This variation has been shown, using aggregate country-level data, to affect a range of cross-border transactions. Here we consider how these cultural stereotypes or biases influence the investment decisions of multinational banks. Building on the geography of branch networks, we develop a bank-

⁵⁴ See **Appendix Table A.2** for descriptive statistics of these alternative trust measures.

specific measure of these cultural stereotypes. This allows us to compare the sovereign exposures of banks headquartered in the same country, at the same point in time, with regard to the same target country, thus ruling out omitted factors at the country and country-pair level that may have confounded previous analyses.

Using a hand-collected dataset on the sovereign bond portfolios of these same multinational banks, we then show that the trust of residents of a bank's home country in residents of the country that is a potential target for investment has a positive, statistically significant and economically important effect on its cross-border sovereign exposures. This is the first evidence of the importance of cultural biases or stereotypes for bank lending to governments. It is also the first analysis of the acquisition and transmission of such biases via the operation of multinational bank branch networks.

We show further that well diversified, relatively sophisticated banks are less likely to have their sovereign lending affected by trust biases. In addition to making less use of soft information colored by trust, banks that are well diversified in terms of their branch networks and hence the nationality of their investment teams are less likely to suffer from such biases. For a bank with a well-diversified branch network, the overall bias transmitted by different national branches will tend to zero. Since trust bias can take on both positive and negative values, the pluses and minuses will tend to cancel out as more and more nationalities are represented in the decision-making processes of multinational banks.

Our findings have important implications for evaluations of the operation of financial markets. Because we are comparing banks from the same home country investing in the same target country, and because we are focusing on the sovereign debt markets, where lender-borrower interactions are not relational and default is rarely selective, we can conclude that trust differentials affecting portfolio composition lead to inefficient allocations. The changes in investment they produce have nothing to do with the fundamental risk of the target country and cause distortions in banks' portfolio management decisions.

References

- Accetturo, Antonio, Giorgia Barboni, Michele Cascarano and Emilia Garcia-Appendini (2021), “The Role of Culture in Firm-Bank Matching,” unpublished manuscript, Bank of Italy.
- Acharya, Viral and Sacha Steffen (2015), “The “Greatest” Carry Trade Ever? Understanding Eurozone Bank Risks,” *Journal of Financial Economics* 115, pp.215-236.
- Anderson, Christopher, Mark Fedenia, Mark Hirschey and Hilla Skiba (2011), “Cultural Influences on Home Bias and International Diversification by Institutional Investors,” *Journal of Banking and Finance* 35, pp.916-934.
- Arnaboldi, F., B. Casu, A. Gallo, E. Kalotychou and A. Sarkisyan (2021), “Gender Diversity and Bank Misconduct,” *Journal of Corporate Finance* 71.
- Arrow, Kenneth (1974), *The Limits of Organization*, New York: Norton & Co.
- Becker, Bo and Victoria Ivashina (2017), “Financial Repression in the European Sovereign Debt Crisis,” *Review of Finance* 72, pp.1-33.
- Bertrand, Jeremie, Paul-Olivier Klein and Jean-Loup Soula (2021), “Liquidity Creation and Trust Environment,” *Journal of Financial Services Research* .
- Bloom, Nicholas, Raffaella Sadun and John Van Reenen (2012), “The Organization of Firms across Countries,” *Quarterly Journal of Economics* 127, pp.1663-1705.
- Boer, Martin and Andres Portilla (2020), “Consolidation of the European Banking Industry: Obstacles and Policies,” in *The Euro in 2020*, Madrid: Spanish Institute of Financial Analysts, pp.263-282.
- Bordalo, Pedro, Nicola Gennaioli and Andrei Shleifer (2018), “Diagnostic Expectations and Credit Cycles,” *Journal of Finance* 73, pp.199-227.
- Bottazzi, Laura, Marco Da Rin and Thomas Hellmann (2016), “The Importance of Trust for Investment: Evidence from Venture Capital,” *Review of Financial Studies* 29, pp.2283-2318.
- Broner, Fernando, Alberto Martin and Jaime Ventura (2010), “Sovereign Risk and Secondary Markets,” *American Economic Review* 100, pp.1523-55.
- Brutti, Filippo and Philip Saure (2016), “Repatriation of Debt in the Euro Crisis,” *Journal of the European Economic Association* 14, pp.145-74.
- Butcher, Sarah (2016), “You’re Doing it Wrong: Banks Hire Like This Now,” *efinancial careers* (7 September) <https://www.efinancialcareers.com/news/2016/09/youre-doing-it-wrong-banks-hire-like-this-now>
- Cardillo, Giovanni, Enrico Onali and Giuseppe Torluccio (2021), “Does Gender Diversity on Banks’ Boards Matter? Evidence from Public Bailouts,” *Journal of Corporate Finance* 71.
- Chen, Zequn (2020), “Promotion Incentive, Employee Satisfaction and Commercial Bank Performance,” *Open Journal of Social Sciences* 8, pp.108-123.

- Copley, Caroline (2015), “Sceptical Germans Show Greek Deal a Hard Sell to Voters,” Reuters (14 July), <https://www.reuters.com/article/eurozone-greece-germany-grassroots/sceptical-germans-show-greek-deal-a-hard-sell-to-voters-idUSL5N0ZS0NH20150714>
- Corporate Finance Institute (2021), “Typical Hierarchy of Investment Banks,” <https://corporatefinanceinstitute.com/resources/careers/jobs/typical-hierarchy-investment-banks/>
- Crosignani, Matteo (2021), “Bank Capital, Government Bond Holdings, and Sovereign Debt Capacity,” *Journal of Financial Economics* 141, pp.693-704.
- De Marco, Filippo, Marco Macchiavelli and Rosen Valchev (2021), “Beyond Home Bias: International Portfolio Holdings and Information Heterogeneity,” *Review of Financial Studies* 34, pp.1-36.
- Dlugosz, Jennifer, Yong Kyu Gam, RadhakrishnanGopalan and Janis Skrastins (2017), “Decision-Making Delegation in Banks,” unpublished manuscript, Washington University in St. Louis and Southwestern University of Finance and Economics.
- Eichengreen, Barry (2015), *Hall of Mirrors: The Great Depression, the Great Recession, and the Uses – and Misuses – of History*, New York: Oxford University Press.
- Ek, Andreas, Gokmen, Gunes and Kaveh Majlesi (2022), “Cultural Origins of Investment Behavior,” CEPR Discussion Paper No. 17412.
- European Systemic Risk Board (2015), “ESRB Report on the Regulatory Treatment of Sovereign Exposures,” Brussels: ESRB.
- Farrell, Henry (2015), “Other Europeans Say They Can’t Trust Greece: The Problem Goes Both Ways,” *Washington Post* (12 July) <https://www.washingtonpost.com/news/monkey-cage/wp/2015/07/12/other-europeans-say-they-cant-trust-greece-the-problem-goes-both-ways/>
- Fernández, Raquel and Andrea Fogli (2009), “Culture: An Empirical Investigation of Beliefs, Work, and Fertility,” *American Economic Journal: Macroeconomics* 1, pp.146-77.
- Fisman, Raymond and Edward Miguel (2007), “Corruption, Norms, and Legal Enforcement: Evidence from Diplomatic Parking Tickets,” *Journal of Political Economy* 115, pp.1020-1048.
- Fisman, Raymond, Daniel Paravisini and Vikrant Vig (2017), “Cultural Proximity and Loan Outcomes,” *American Economic Review* 107, pp.457-492.
- French, Kenneth and James Poterba (1991), “Investor Diversification and International Equity Markets,” *American Economic Review* 81, pp.222–226.
- Fuller, Steve (2015), “The European Greeks: A Figment of German Imagination?” *Sociological Review* (21 July), <https://thesociologicalreview.org/collections/greece-debt-and-europe-in-crisis/the-european-greeks-a-figment-of-german-imagination/>
- Fungacova, Zuzana, Iftekhar Hasan and Laurent Weill (2017), “Trust in Banks,” *Journal of Economic Behavior & Organization*, 157, pp.452-476.

- Gennaiola, Nicola, Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer (2021), “Trust and Insurance Contracts,” *Review of Financial Studies*.
- Giannetti, Mariassunta and Yishay Yafeh (2012), “Do Cultural Differences between Contracting Parties Matter? Evidence from Syndicated Bank Loans,” *Management Science* 58, pp.365-383.
- Gorodnichenko, Yuriy, Bohdan Kukharsky and Gerard Roland (2015), “Culture and Global Sourcing,” NBER Working Paper no.21198 (May).
- Grinblatt, Mark and Matti Keloharju (2001), “How Distance, Language, and Culture Influence Stockholdings and Trades,” *Journal of Finance* 56, pp.1053-1073.
- Greif, Avner (1989), “Reputation and Coalitions in Medieval Trade: Evidence on the Maghribi Traders,” *Journal of Economic History* 49, pp.857-882.
- Greif, Avner (1991), “The Organization of Long-Distance Trade: Reputation and Coalitions in the Geniza Documents and Genoa during the Eleventh and Twelfth Centuries,” *Journal of Economic History* 51, pp.459-462.
- Guiso, Luigi, Paola Sapienza, and Luigi Zingales (2006), “Does Culture Affect Economic Outcomes?” *Journal of Economic Perspectives* 20, pp.23-48.
- Guiso, Luigi, Paolo Sapienza and Luigi Zingales (2009), “Cultural Biases in Economic Exchange,” *Quarterly Journal of Economics* 124, pp.1095-1131.
- Hagendorff, Jens, Sonya Lim and Duc Nguyen (2022), “Lender Trust and Bank Loan Contracts,” *Management Science* 68, pp.1-22.
- Hofstede, Geert (1980), *Culture’s Consequences: International Differences in Work-Related Values*, second edition, Thousand Oaks CA: Sage.
- House, R.J. et al (2004), *Culture, Leadership and Organizations: The GLOBE Study of 62 Societies*, Thousand Oaks, CA: Sage.
- Jansen, David-Jan, Robert Mosch and Carin van der Crujisen (2014), “When Does the General Public Lose Trust in Banks?” *Journal of Financial Services Research* 48, pp.127-141.
- Kaplow, Louis and Steven Shavell (1994), “Optimal Law Enforcement with Self-Reporting of Behavior,” *Journal of Political Economy* 102, pp.583-606.
- Karavitis, Panagiotis, Sotirios Kokas and Serafeim Tsoukas (2021), “Gender Board Diversity and the Cost of Bank Loans,” *Journal of Corporate Finance* 71.
- Knell, Markus and Helmut Stix (2015), “Trust in Banks during Normal and Crisis Times – Evidence from Survey Data,” *Economica* 82, pp.995-1020.
- Mayer, Thierry, and Soledad Zignago. (2011) “Notes on CEPII’s Distances Measures: The GeoDist Database.” CEPII Working Paper No. 2011-25.
- Mian, Atif (2006), “Distance Constraints: The Limits of Foreign Lending in Poor Countries,” *Journal of Finance* 61, pp.1465-1505.

Nagar, Venky (2002), "Delegation and Incentive Compensation," *Accounting Review* 77, pp.379-395.

Ongena, Steven, Alexander Popov and Neeltje van Horen (2019), "The Invisible Hand of the Government: Moral Suasion during the European Sovereign Debt Crisis," *American Economic Journal: Macroeconomics* 11, pp.346-379.

Pew Research Center (2013), *The New Sick Man of Europe: The European Union*, Washington, D.C.: Pew Research Center.

Pursiainen, Vesa (2022), "Cultural Biases in Equity Analysis," *Journal of Finance* 77, pp.163-211.

Reuters (2015), "Greece has Destroyed all the Turst that was Rebuilt" (16 March), <https://www.reuters.com/article/eurozone-greece-germany-schaeuble/greece-has-destroyed-all-the-trust-that-was-rebuilt-germanys-schaeuble-says-idUKZ8N0OL00V20150316>

Saiedi, Ed, Ali Mohammadi, Anders Brostrom and Kouros Shafi (2020), "Distrust in Banks and Fintech Participation: The Case of Peer-to-Peer Lending," *Entrepreneurship Theory and Practice* 44, pp.1-29.

Saka, Orkun (2020), "Domestic Banks as Lightning Rods? Home Bias and Information during the Eurozone Crisis," *Journal of Money, Credit and Banking* 52, pp.273-305.

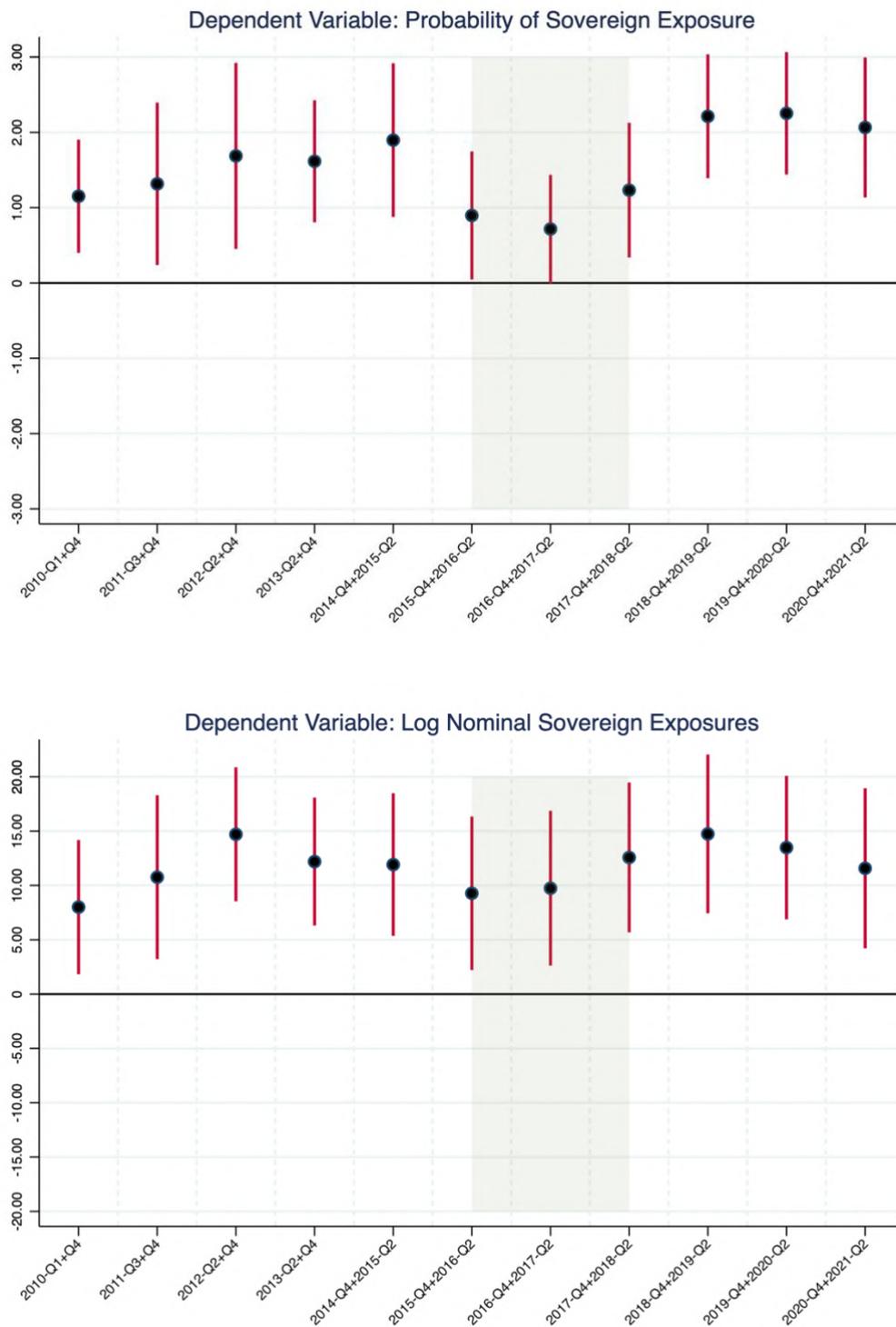
Sharpe, William (1964), "Capital Asset Prices: A Theory of Market Equilibrium under Conditions of Risk." *Journal of Finance* 19, pp.425-442.

Skrastins, Janis and Vikrant Vig (2018), "How Organizational Hierarchy Affects Information Production," *Review of Financial Studies* 32, pp.564-604.

Stix, Helmut (2013), "Why Do People Save in Cash? Distrust, Memories of Banking Crises, Weak Institutions and Dollarization," *Journal of Banking and Finance* 37, pp.4087-4106.

World Values Association (2022), *World Values Survey Wave 7*, Vienna: World Values Association.

Figure 1: The Impact of Bank-level Trust Bias over Sub-Sample Periods.



Note: This figure shows estimates for the coefficient of bank-level trust bias separately for 11 distinct sub-sample periods. Dependent variables are the probability of sovereign exposure (upper panel) and log nominal sovereign exposures (lower panel). Shaded areas indicate sub-periods during which EBA reported sovereign exposures based on regulatory FINREP data that restrict the level of granularity disclosed in banks' sovereign debt portfolios. The specification is Column 5 of Table 3. Only the estimated coefficient on *Bank-level Trust Bias* is plotted. Confidence intervals are at 90% significance level. Source: EBA, CEBS, Eurobarometer and SNL Financial.

Table 1: The Impact of Country-Level Trust Bias on Probability of Sovereign Exposure

Outcome →	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure
Country-level Trust Bias	1.093*** [0.085]	1.163*** [0.101]	1.230*** [0.100]	0.560*** [0.118]	0.848*** [0.096]	0.913*** [0.110]	0.673*** [0.128]	0.901*** [0.075]	0.902*** [0.086]	0.429*** [0.131]
Country-level Bilateral Bank Branches		-0.003 [0.002]								-0.002 [0.003]
Country-level Bilateral Bank Mergers			-0.335*** [0.115]							-0.659*** [0.174]
Country-level Bilateral Media Coverage				0.558*** [0.119]						0.516*** [0.171]
Country-level Common Language					0.116*** [0.027]					0.038 [0.039]
Country-level Colonial Relationship						0.087** [0.036]				-0.200** [0.077]
Country-level Distance							-0.028*** [0.007]			-0.044*** [0.016]
Country-level Common Border								0.089*** [0.022]		0.011 [0.021]
Country-level Common Legal Origin									0.082*** [0.026]	0.050** [0.024]
Bank x Time FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country x Time FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	27,409	27,409	27,409	27,409	27,409	27,409	27,409	27,409	27,409	27,409
Adjusted R ²	0.478	0.478	0.479	0.486	0.480	0.478	0.481	0.481	0.481	0.494

Notes: The table summarizes the results of *Equation (1)* estimated with varying sets of control variables over the full sample period 2010-Q1 to 2021-Q2. Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Country-level Trust Bias* is computed for each home-target country pair as the residuals from a gravity model of trust (see *Equation (2)*) in which trust is defined as the portion of individuals in home country who expresses “a lot of trust” towards target country, measured via Eurobarometer surveys. For the specific definitions and data sources of control variables, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table 2: The Impact of Bank-level Branch Networks on Nationalities of Directors/Managers at Bank Headquarters

Outcome →	(1) Nationality at HQ	(2) Nationality at HQ	(3) Nationality at HQ	(4) Nationality at HQ	(5) Nationality at HQ
Bank Branches in Target Country	0.278*** [0.043]	0.281*** [0.042]	0.157*** [0.024]	0.156*** [0.024]	0.121** [0.053]
<i>Adjusted R²</i>	0.082	0.106	0.350	0.384	0.480
Log of Bank Branches in Target Country	0.110*** [0.008]	0.111*** [0.008]	0.074*** [0.009]	0.071*** [0.010]	0.046*** [0.014]
<i>Adjusted R²</i>	0.205	0.222	0.408	0.432	0.493
Share of Bank Branches in Target Country	1.105*** [0.087]	1.105*** [0.087]	0.590*** [0.096]	0.590*** [0.096]	0.682** [0.282]
<i>Adjusted R²</i>	0.129	0.155	0.360	0.394	0.483
Bank FEs	No	Yes	No	Yes	Yes
Target Country FEs	No	No	Yes	Yes	No
Home Country x Target Country FEs	No	No	No	No	Yes
Observations	660	660	660	660	600

Notes: The table summarizes the results of *Equation (5)* estimated with varying sets of fixed effects over a subset of banks included in EBA and CEBS disclosures. Each panel represents a separate estimation. Dependent variable is *Nationality at HQ*, defined as a dummy variable indicating whether the nationality of a target country is (or has ever been) represented among the employees of the bank at headquarters, extracted from BankFocus. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. *Log of Bank Branches* measures the logarithmic number (x+1) of bank branches (in thousands) that the bank owns in the target country. *Share of Bank Branches* measures the bank branches that the bank owns in the target country divided by the total number of bank branches it owns across all target countries. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table 3: The Impact of Bank-level Trust Bias on Probability of Sovereign Exposure

Outcome →	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure	(4) Sovereign Exposure	(5) Sovereign Exposure
Bank-level Trust Bias	1.353*** [0.110]	1.757*** [0.329]	1.604*** [0.301]	1.630*** [0.300]	1.562*** [0.310]
Bank Branches in Target Country			-0.090*** [0.027]	-0.153*** [0.053]	-0.163*** [0.056]
Bank Branches in Target Country (squared)				0.014 [0.011]	0.016 [0.012]
Bank x Time FEs	Yes	Yes	Yes	Yes	Yes
Target Country x Time FEs	Yes	Yes	Yes	Yes	No
Home Country x Target Country FEs	No	Yes	Yes	Yes	No
Home Country x Target Country x Time FEs	No	No	No	No	Yes
Observations	23,760	23,760	23,760	23,760	21,615
Adjusted R ²	0.487	0.586	0.588	0.588	0.551

Notes: The table summarizes the results of *Equation (3)* estimated with varying sets of fixed effects and control variables over the full sample period 2010-Q1 to 2021-Q2. Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Bank-level Trust Bias* is computed for each bank-target country pair as the branch-weighted average (see *Equation (4)*) of the residuals from a gravity model of trust (see *Equation (2)*), where trust is defined as the portion of individuals in home country expressing “a lot of trust” towards target country, measured via Eurobarometer surveys. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Online Appendix for
Cultural Stereotypes of Multinational Banks¹

Barry Eichengreen
University of California, Berkeley

Orkun Saka
City, University of London

November 2022

¹ Barry Eichengreen (eichengr@berkeley.edu) is Professor of Economics and Political Science at the University of California, Berkeley, Research Associate at the National Bureau of Economic Research (NBER), and Research Fellow at the Centre for Economic Policy Research (CEPR). Orkun Saka (o.saka@city.ac.uk) is Associate Professor in Economics at the City, University of London, Visiting Fellow at the London School of Economics and Political Science (LSE), Research Associate at the Systemic Risk Centre and STICERD, as well as Research Affiliate at CESifo Network. Much of this work was undertaken while Orkun was visiting UC Berkeley, whose hospitality is gratefully acknowledged. We thank Bo Becker, Michael Ben-Gad, Matilde Bombardini, Travers B. Child, Rui Esteves, José M. Martín Flores, Yuriy Gorodnichenko, Jens Hagendorff, Matti Keloharju, April Knill, Nicola Limodio, Sergey Mityakov, Andrea Presbitero, Vesa Pursiainen, Paola Sapienza and Guo Xu as well as seminar participants at the China Europe International Business School (CEIBS), City, University of London and Florida State University for helpful comments. All interpretations, errors, and omissions are our own.

Online Appendix A: Data Sources and Descriptive Statistics

European Banking Authority and Committee of European Banking Supervisors

Data on sovereign debt portfolios of banks in our sample come from disclosure exercises undertaken between 2010 and 2021 by the European Banking Authority (EBA) and its predecessor, the Committee of European Banking Supervisors (CEBS), comprised of senior representatives of bank supervisory authorities and central banks of the European Union. The 2010 exercise was undertaken by CEBS and made public by national regulators; however EBA does not provide the related data on its website. Hence, we obtain this first disclosure from the Peterson Institute for International Economics (PIIE), while all other data sets are manually accessed via EBA.² To track and merge banks over time in a consistent manner, we use both Legal Entity Identifiers (LEI) provided by EBA in some of the disclosures as well as extensive Google searches and enquiries via SNL Financial. As a principle, we treat an entity as unchanged (even if its official name changes) unless it is acquired by another main entity or merges with another to build an independent third entity. A summary for the content of these regulatory disclosures is provided in **Appendix A.1**.

Not all banks provide the full breakdown of their sovereign bond portfolios due to changing requirements in these exercises. In particular, the 2016 and 2017 exercises (derived from the regulatory FINREP data at EBA) require banks to disclose a country breakdown only if they have more than 10% non-domestic exposures in their sovereign debt portfolio.³ In addition, 12 banks in 2016 reported to EBA on individual basis and thus did not provide a country breakdown of their sovereign debt portfolio. The introduction of EBA's COREP data disclosure framework from 2018 onwards has not only increased the coverage of

² The results of 2010 exercise compiled by PIIE from individual national regulators can be accessed here: <https://www.piie.com/sites/default/files/images/f/kirkegaard20100728.xlsx>.

³ We show later that it is indeed the banks that are under-diversified in their sovereign debt portfolios that tend to rely more on trust in their lending decisions to sovereigns. Hence, exclusion of such banks in 2016 and 2017 naturally biases our estimates towards failing to reject our null hypothesis.

the banks with sovereign breakdown but also brought finer granularity.⁴ For each disclosure exercise, we thus focus only on those banks that report the country breakdown of their sovereign portfolio and drop those reporting aggregate information.⁵ In total, there are 14 different exercises that contain balance-sheet information on 22 distinct year-quarters for 62 to 131 banks at each point in time.

Eurobarometer

In line with Pursiainen (2021) and others, we derive the measures of country-level bilateral trust from the 1996 version of the Eurobarometer surveys that ask each individual the following question:

“I would like to ask you a question about how much trust you have in people from various countries. For each, please tell me whether you have a lot of trust, some trust, not very much trust, or no trust at all.”

The 1996 version of the Eurobarometer surveys is the last one that asked this question to its respondents. It was conducted across 1000 individuals in each of the following 15 European countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, and United Kingdom.

We aggregate the data in a dyadic (A-B) form by measuring - for the country-level treatment - the percentage of people in country A who have “lot of trust” in people from country B, resulting in 221 observations.⁶ The resulting measure is illustrated in **Appendix Table A.5**. For robustness, we also aggregate

⁴ In the words of an EBA officer: “Since 2016, data is exclusively based on supervisory reporting: the Transparency templates are therefore populated by the EBA using the data collected through the regular supervisory reporting data, without any additional reporting burden on the banks. As the reporting framework has changed and enhanced through the years, you may notice a consequent evolution of the Transparency templates. In particular, in 2016 the sovereign templates were based on FINREP data. In 2018, the introduction of sovereign data in COREP has allowed for a more granular disclosure, but also some discontinuity of the series with respect to the previous exercises.”

⁵ Below we confirm that our results are not driven by any particular period or set of periods in our sample. In fact, our estimates are smaller precisely for the time period of 2016-2018 during which country composition of the banks’ sovereign debt portfolios was hampered, consistent with the intuition that granularity is necessary for identifying the effects of trust on bank lending to governments.

⁶ This includes own-country observations. The reason it is not a fully symmetric matrix (15 x 15 = 225) is because respondents in Norway did not answer the question for the following four countries: Austria, Finland, Norway and Sweden.

the data by giving points to each answer (1=no trust at all ... 4=lot of trust) and computing the average across all participants in a given country (à la Guiso et al., 2009).

For our bank-level treatment, we combine this country-level data with branch networks of each bank in our sample (see the *Equation (4)* in the manuscript), generating a time-invariant proxy of bilateral trust between each bank and each of these 15 target countries (1620 observations in total; see **Appendix Table A.2**).

SNL Financial

We obtain data the bank branch networks across 30 European countries as a single snapshot from SNL Financial (as of February, 2016). For the country-level treatment, we compute the total number of bank branches in the target country of the bank that ultimately belong to a parent bank located in its home country. This proxy aims to capture the intensity of exchange of financial information between the two countries. It is created by taking all ultimate-parent banks located in 30 EEA countries in the SNL database, independent of whether the bank is included in EBA dataset or not. The purpose here is to capture time-invariant banking linkages across countries. Hence, it is important to consider the full sample available rather than only the restricted EBA sample.⁷

For a sub-sample of banks included in EBA disclosures, we can directly associate bank branches at bank-target-country level, which is what we use to construct both the bank-specific trust proxy and the control variable employed in the bank-level analysis. A full list of banks in our sample for which we can observe the branch networks across Europe is provided in **Online Appendix E**.

⁷ The results do not depend on this sample choice. These data cover 137,284 bank branches in total, which is 92% of all bank branches (149,242) in these countries according to World Bank data for 2014 (see <https://databank.worldbank.org/source/g20-financial-inclusion-indicators>).

BankFocus

For information on the nationalities of directors and managers employed in the headquarters of the banks included in our sample, we turn to BankFocus provided by Bureau van Dijk. BankFocus tracks the characteristics of current and former managers of global parent banks at the unique individual ID level and extracts this information from various external sources (such as Refinitiv and WorldVest Base Inc.) as well as from its own manual searches via company websites, annual reports and other types of public information.

We manually match the EBA banks that have branch information available on SNL to those in BankFocus. Here we have a full overlap between these two databases. Only 22 of these 107 banks turn out to have the relevant director & manager information on BankFocus. By using this subset of banks and the nationalities of all the current/former managerial employees linked to each, we create a dummy variable indicating whether a given nationality of a target country is represented at the managerial team in a bank's headquarters. We also calculate versions of this variable focusing only on the senior managers (i.e., executive board, board of directors and senior management), only on the first nationality of each individual included in the dataset⁸ and only on those individuals who are currently employed by the bank (as of November 2022).

SDC Platinum

As an additional proxy for the flow of financial information across countries, we extract from the SDC Platinum database the total number of bank mergers between the home country and the target country of a bank in the years starting from 1985 up to the pre-crisis year of 2008. Focusing on mergers creates a risk of underestimating other potential channels via which financial institutions may set up branches in foreign countries, such as greenfield investments. The identifying assumption is that the method of foreign bank entry does not meaningfully differ across European countries or at least that it is orthogonal to the sovereign risk.

⁸ BankFocus reports nationalities of each individual up to five different countries.

Factiva

We follow Guiso, Sapienza, and Zingales (2009) in creating a more general information proxy between countries. We search the headlines of all news articles covered in each country's highest circulated news source (in the local language) in Factiva for the years between 2003 and 2007.⁹ We record the frequency of each country or its citizens being mentioned in another country's news headlines and divide it by the total number of times in which the country or its citizens are mentioned in any news headline in our sample (see **Appendix Table A.3** for the news sources covered in each country and the corresponding language). More formally:

$$\text{Country-level Media Coverage}_{h,c} = \frac{\text{Coverage}_{h,c}}{\sum_{h=1}^n \text{Coverage}_{h,c}},$$

This index summarizes the relative familiarity of a country and its citizens to other countries.

MapQuest

We use an API for MapQuest to extract the shortest distance between the capital cities of each country-pair in our sample. We compute the log distance in kilometres between the capital city of the bank's home country and the capital city of the target country. This variable is defined as $\log(x + 1)$ and naturally takes the value of zero for domestic observations.

United Nations General Assembly Voting Records

A recent literature in political science has emphasised the signal value of voting patterns in United Nations General Assembly, reflecting the political alignments of

⁹ We focus on the highest-circulated news sources that are available via Factiva. For Cyprus and Malta, there is no pre-crisis press coverage in Factiva. Thus, we use the most recently available coverage for the period furthest away in time from the Eurozone crisis, between the years 2016 and 2018.

countries around the world and over time (see, among others, Gartzke, 2010; Dreher and Sturm, 2012; Bailey, Strezhnev and Voeten, 2017; Bailey and Voeten, 2018). We follow Fisman, Knill, Mityakov and Portnykh (2022) in generating a proxy for the political relationships across countries. We download all UNGA voting data from Voeten, Strezhnev and Bailey (2009) and then restrict our dataset to a symmetric matrix of the 15 countries included in Eurobarometer and the most recent year before our sample period starts (i.e., 2009). UNGA voting records include entries equal to one of the following for each year: “yes,” “no,” “abstain,” “absent,” or “non-member”. We code the first three answers as follows: 1 for “yes”; 2 for “abstain”; and 3 for “no”. Our baseline measure of political relations is then computed as:

$$\text{Country-level Political Relationship}_{h,c} = 1 - 2 \frac{d}{d_{max}},$$

where d is the sum of metric distances between votes by bilateral pairs (h,c) in a given year and d_{max} is the largest possible metric distance for those votes. The resulting measure varies from -1 (complete political misalignment) to +1 (complete political alignment). To take into account the indirect political relationships (via host countries) between banks and target countries, we calculate a branch-weighted average of this measure for each bank-target country pair:

$$\text{Bank-level Political Relationship}_{b,c} = \sum_{i=1}^n \left(\text{Weight}_{b,i} \times \text{C. L. Pol. Rel.}_{i,c} \right)$$

where the weights are the share of host-country (i) branches in the branch network of the multinational bank (b).

Single Supervisory Mechanism (SSM)

ECB’s Single Supervisory Mechanism aims to improve the safety and soundness of the European banking system, increase financial integration and stability and

ensure consistent supervision across European banks. Under SSM, the ECB has the authority to:

- conduct supervisory reviews, on-site inspections and investigations;
- grant or withdraw banking licences;
- assess banks' acquisition and disposal of qualifying holdings;
- ensure compliance with EU prudential rules; and
- set higher capital requirements (“buffers”) in order to counter any financial risks.

The ECB has been announcing the names of “significant” banks in Europe to come under its direct supervision since 4 September 2014. The last list of significant banks (as of writing this paper) was announced on 15 November 2022 and contains 110 banks in total. We manually collect the series of announcements available on SSM website¹⁰ and then match them to the closest time points in our sample as well as to the banks included in EBA/CEBS disclosures. The subsample of significant banks that are directly supervised by ECB during at least part of our sample period can be found in **Online Appendix E**.

Miscellaneous

The literature suggests structural (and non-directional) variables that may capture linguistic, historical, and geographical channels of information transmission. Sharing a common language has been consistently shown to have a substantial positive impact on investors' asset holdings. We employ an indicator variable taking the value of 1 if at least 9% of the population in both countries speaks the same language and 0 otherwise.

Another indicator that may capture common cultural and historical heritage across nations is colonial ties, which we measure as a dummy variable picking up the pairs of countries that have ever had a colonial relationship in the past.

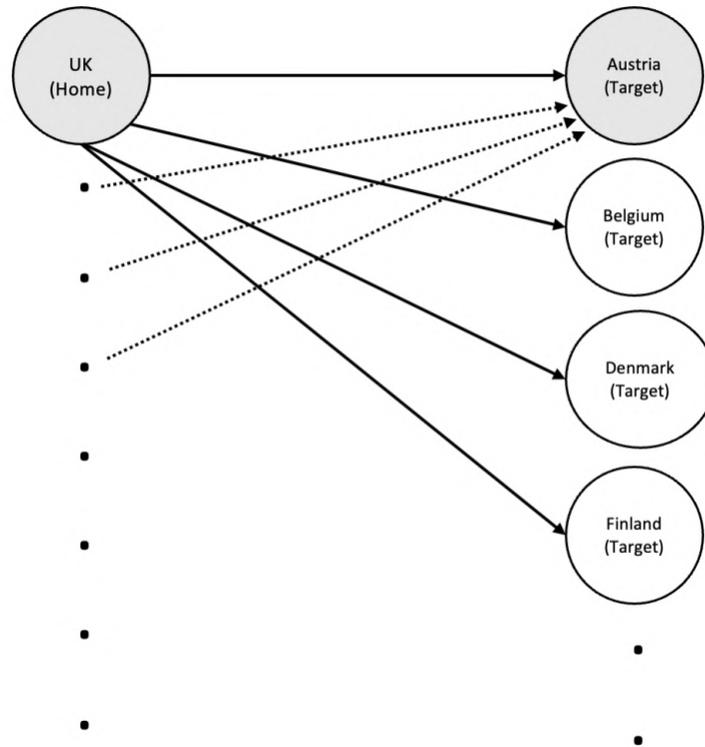
¹⁰ See <https://www.bankingsupervision.europa.eu/press/publications/html/index.en.html?sk=1>.

We also control for countries that share a common border. We extract all of these variables from the classic dataset provided by Mayer and Zignago (2011). Additionally, we obtain a (dummy) measure of common legal origins across country-pairs from La Porta, Lopez-de Silanes, and Shleifer (2008). Information on credit default swap (CDS) premia and yields for target country government bonds come from Datastream. These variables are summarised in **Appendix Table A.2**.

References

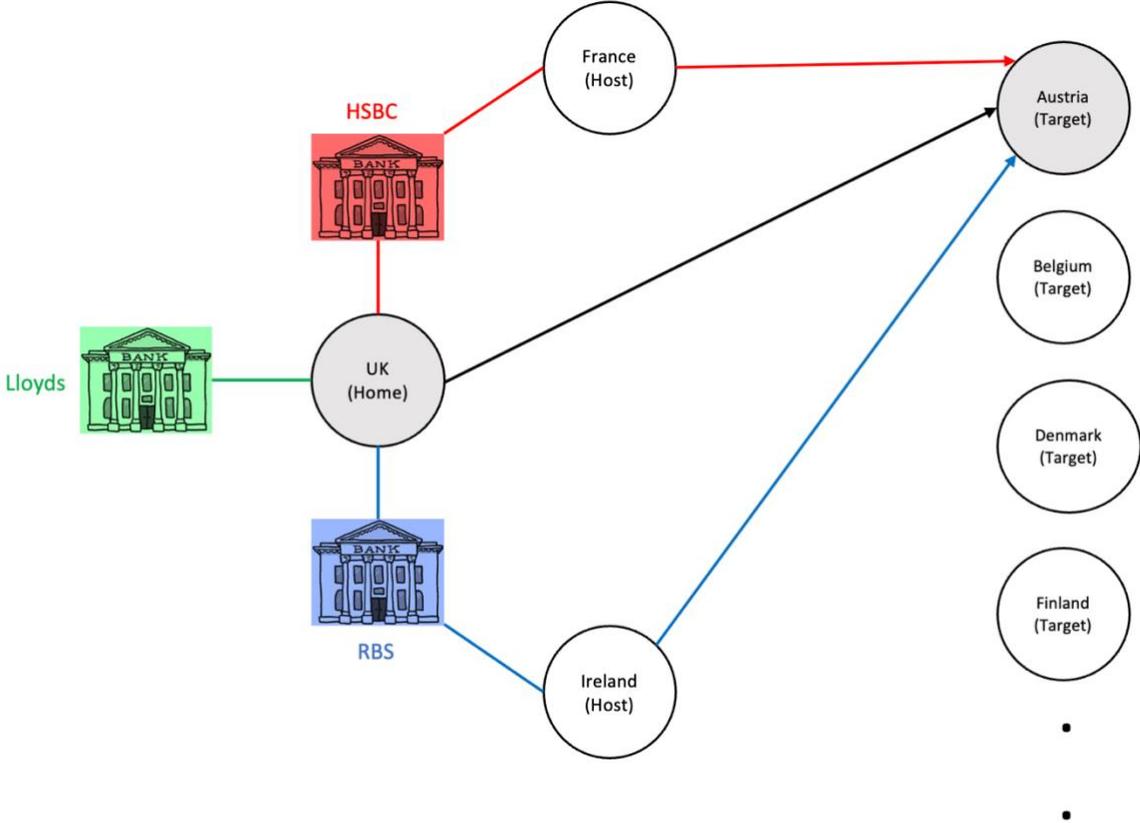
- Bailey, M. A., Strezhnev, A., & Voeten, E. (2017), “Estimating dynamic state preferences from United Nations voting data,” *Journal of Conflict Resolution*, 61(2), 430-456.
- Bailey, M. A., & Voeten, E. (2018), “A two-dimensional analysis of seventy years of United Nations voting,” *Public Choice*, 176(1), 33-55.
- Dreher, A., & Sturm, J. E. (2012), “Do the IMF and the World Bank influence voting in the UN General Assembly?” *Public Choice*, 151(1), 363-397.
- Fisman, R., Knill, A., Mityakov, S., & Portnykh, M. (2022), “Political Beta,” *Review of Finance*, 26(5), 1179-1215.
- Gartzke, E. (2010), “The Affinity of Nations: Similarity of State Voting Positions in the UNGA,” <http://dss.ucsd.edu/~egartzke/htmlpages/data.html>.
- Guiso, Luigi, Paolo Sapienza & Luigi Zingales (2009), “Cultural Biases in Economic Exchange,” *Quarterly Journal of Economics* 124, pp.1095-1131.
- La Porta, R., Lopez-de Silanes, F. & Shleifer, A. (2008), “The Economic Consequences of Legal Origins,” *Journal of Economic Literature*, 46, 285–332.
- Mayer, T., & Zignago S. (2011), “Notes on CEPII’s Distances Measures: The GeoDist Database.” CEPII Working Paper No. 2011-25.
- Pursiainen, Vesa (2022), “Cultural Biases in Equity Analysis,” *Journal of Finance* 77, pp.163-211.
- Voeten, E., Strezhnev, A., & Bailey, M. (2009), “United Nations General Assembly Voting Data”, <https://doi.org/10.7910/DVN/LEJUQZ>, Harvard Dataverse, V29.

Appendix Figure A.1: Identification Strategy at Country-level.



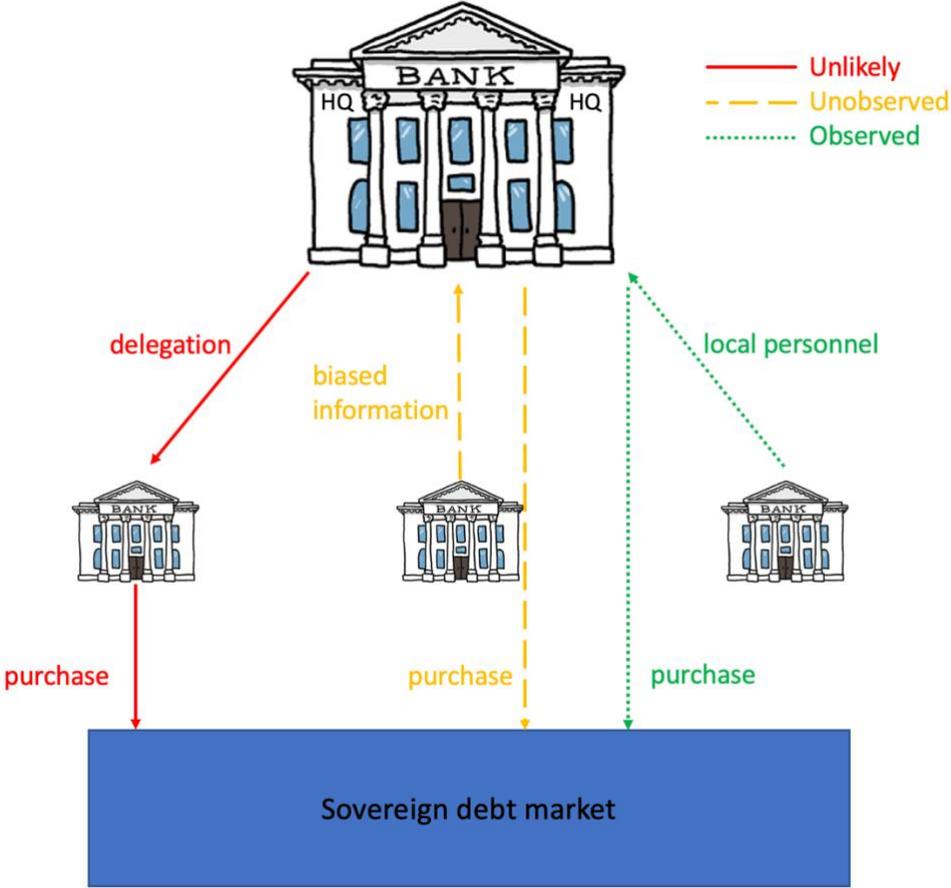
Note: This figure represents the identification strategy as described in Section 4.

Appendix Figure A.2: Identification Strategy at Bank Level.



Note: This figure represents the identification strategy as described in Section 4.

Appendix Figure A.3: Banks as Hierarchies.



Note: This figure represents the mechanisms that link foreign bank branches to multinational banks' sovereign exposures as described in Section 6.

Appendix Table A.1: Data Disclosure Details from the European Banking Authority (EBA)

Disclosure Name	Disclosure Date	Information Date	Banks covered	Banks with sovereign breakdown
2010 EU-wide stress testing exercise	23/07/2010	2010-Q1	91	91
2011 EU-wide stress testing exercise	15/07/2011	2010-Q4	90	90
EU Capital exercise 2011	08/12/2011	2011-Q3	65	65
EU Capital exercise 2012	03/10/2012	2011-Q4; 2012-Q2	62	62
2013 EU-wide transparency exercise	16/12/2013	2012-Q4; 2013-Q2	64	64
2014 EU-wide stress testing exercise	26/10/2014	2013-Q4	123	123
2015 EU-wide transparency exercise	24/11/2015	2014-Q4 & 2015-Q2	105	105
2016 EU-wide transparency exercise	02/12/2016	2015-Q4 & 2016-Q2	131	87
2017 EU-wide transparency exercise	24/11/2017	2016-Q4 & 2017-Q2	132	91
2018 EU-wide transparency exercise	14/12/2018	2017-Q4 & 2018-Q2	130	130
2019 EU-wide transparency exercise	29/11/2019	2018-Q4 & 2019-Q2	131	131
2020-1 EU-wide transparency exercise	08/06/2020	2019-Q4	127	127
2020-2 EU-wide transparency exercise	11/12/2020	2020-Q2	129	129
2021 EU-wide transparency exercise	03/12/2021	2020-Q4 & 2021-Q2	120	117

Notes: The table lists the disclosures of various exercise results as announced by the EBA. Information date refers to the data time-points in each disclosure for which the values of banks' sovereign positions can be found. Not all banks covered in 2016, 2017 and 2021 exercises provide the full breakdown of their sovereign portfolio due to changing requirements in these exercises. 2010 EU-wide stress testing exercise was conducted by the Committee of European Banking Supervisors (CEBS), which was comprised of senior representatives of bank supervisory authorities and central banks of the European Union and later succeeded by the EBA. 2010 exercise was made public by national regulators; however the EBA does not provide the related data. Hence, this data set was obtained from the Peterson Institute for International Economics while all other data sets were acquired from the EBA.

Appendix Table A.2: Summary Statistics

Variables	Mean	Standard dev.	Min	Max	Observations	Source
<i>Country-level treatment</i>						
Sovereign Exposure (dummy)	0.56	0.50	0.00	1.00	27,409	EBA & CEBS
Sovereign Exposure (log million)	3.02	3.37	0.00	12.32	27,409	EBA & CEBS
Trust Bias	0.00	0.11	-0.18	0.42	221	Eurobarometer
Bank Branches (in 000)	0.53	3.08	0.00	28.72	221	SNL Financial
Bank Mergers (in 000)	0.01	0.06	0.00	0.61	221	SDC Platinum
Media Coverage	0.09	0.14	0.00	0.77	221	Factiva
Common Language	0.12	0.32	0.00	1.00	221	M&Z (2011)
Colonial Relationship	0.08	0.27	0.00	1.00	221	M&Z (2011)
Distance (log)	6.66	1.83	0.00	8.12	221	MapQuest
Common Border	0.19	0.39	0.00	1.00	221	M&Z (2011)
Common Legal Origin	0.32	0.47	0.00	1.00	221	LP (2008)
<i>Mechanism</i>						
Nationality at HQ	0.27	0.44	0.00	1.00	660	BankFocus
Nationality at HQ (Senior managers)	0.25	0.43	0.00	1.00	660	BankFocus
Nationality at HQ (First nationalities)	0.19	0.39	0.00	1.00	660	BankFocus
Nationality at HQ (Current managers)	0.21	0.41	0.00	1.00	660	BankFocus
Bank Branches (in 000)	0.08	0.46	0.00	5.80	660	SNL Financial
Log Bank Branches	0.77	1.83	0.00	8.67	660	SNL Financial
Share of Bank Branches	0.03	0.15	0.00	1.00	660	SNL Financial
<i>Bank-level treatment</i>						
Sovereign exposure (dummy)	0.58	0.49	0.00	1.00	23,760	EBA & CEBS
Sovereign exposure (log million)	3.08	3.38	0.00	12.32	23,760	EBA & CEBS
Trust Bias	0.01	0.09	-0.15	0.41	1,620	Eurobarometer
Trust Level	0.16	0.11	0.00	0.72	1,620	Eurobarometer
Trust Bias (Guiso et al.)	0.00	0.17	-0.46	0.85	1,620	Eurobarometer
Trust Level (Guiso et al.)	2.26	0.94	0.00	3.66	1,620	Eurobarometer
Bank Branches (in 000)	0.05	0.33	0.00	5.80	1,620	SNL Financial
Indirect Branch Relationship (in 000)	0.74	3.55	0.00	28.72	1,620	SNL Financial
Indirect Merger Relationship (in 000)	0.02	0.07	0.00	0.61	1,620	SDC Platinum
Indirect Media Relationship	0.08	0.11	0.00	0.75	1,620	Factiva
Indirect Political Relationship	0.93	0.06	0.76	1.00	1,620	UNGA

Notes: The table lists the variables used in the main estimations, both with country-level and bank-level treatments as well as for the mechanism. For the specific definitions and construction of variables, see the Data Description section. The last column shows the data sources.

Appendix Table A.3: News Sources Searched via Factiva

Country	News source	Language
Austria	Die Presse	German
Belgium	Agence Belga	Dutch
Denmark	Politiken	Danish
Finland	Kauppalehti	Finnish
France	Le Figaro	French
Germany	Süddeutsche Zeitung	German
Greece	Athens News Agency	English
Ireland	The Irish Independent	English
Italy	Corriere della Sera	Italian
Netherlands	MD Business News	English
Norway	Norsk Telegrambyrå	Norwegian
Portugal	Jornal de Notícias	Portuguese
Spain	El Pais	Spanish
Sweden	Nyhetsbyrå Direkt	Swedish
Great Britain	The Sun	English

Notes: The table lists the news source and the corresponding language for each country searched via Factiva.

Appendix Table A.4: Correlation Matrix for Country-Level Variables

	Trust Bias	Bank Branches (in 000)	Bank Mergers (in 000)	Media Coverage	Common Language	Colonial Relationship	Distance (log)	Common Border	Common Legal Origin
Trust Bias	1								
Bank Branches (in 000)	0.4488	1							
Bank Mergers (in 000)	0.4906	0.7684	1						
Media Coverage	0.6851	0.4881	0.4899	1					
Common Language	0.5766	0.4371	0.4913	0.6298	1				
Colonial Relationship	0.6808	0.5295	0.5849	0.7747	0.7128	1			
Distance (log)	-0.7908	-0.5763	-0.6426	-0.7751	-0.7723	-0.8639	1		
Common Border	0.5493	0.3408	0.3961	0.5729	0.6822	0.6147	-0.6569	1	
Common Legal Origin	0.4695	0.2399	0.2784	0.456	0.4155	0.4373	-0.4356	0.4635	1

Notes: All reported correlation coefficients are significant at least at 1% level. Total number of observations: 221.

Appendix Table A.5: Trust by Home and Target Countries

		<u>Target countries</u>														
		Austria	Belgium	Denmark	Finland	France	Germany	Greece	Ireland	Italy	Netherlands	Norway	Portugal	Spain	Sweden	GB
Home countries	Austria	0.65	0.25	0.21	0.24	0.17	0.36	0.15	0.15	0.12	0.23	0.27	0.14	0.14	0.29	0.15
	Belgium	0.18	0.40	0.23	0.18	0.23	0.19	0.09	0.15	0.08	0.24	0.19	0.10	0.11	0.20	0.18
	Denmark	0.34	0.30	0.48	0.34	0.19	0.29	0.13	0.27	0.11	0.40	0.54	0.13	0.12	0.47	0.35
	Finland	0.41	0.29	0.42	0.73	0.23	0.27	0.15	0.25	0.10	0.33	0.55	0.13	0.12	0.47	0.34
	France	0.11	0.22	0.18	0.16	0.33	0.16	0.09	0.13	0.07	0.18	0.19	0.11	0.12	0.20	0.09
	Germany	0.32	0.18	0.25	0.22	0.22	0.55	0.11	0.13	0.08	0.24	0.25	0.10	0.13	0.29	0.17
	Greece	0.08	0.17	0.18	0.10	0.25	0.17	0.51	0.16	0.12	0.18	0.09	0.16	0.21	0.13	0.15
	Ireland	0.14	0.16	0.18	0.13	0.15	0.18	0.09	0.44	0.11	0.19	0.14	0.10	0.11	0.13	0.18
	Italy	0.11	0.09	0.13	0.16	0.12	0.18	0.07	0.08	0.20	0.14	0.16	0.05	0.11	0.18	0.11
	Netherlands	0.15	0.29	0.36	0.30	0.11	0.15	0.08	0.15	0.04	0.36	0.35	0.09	0.08	0.37	0.21
	Norway		0.31	0.57		0.22	0.27	0.14	0.27	0.12	0.37		0.13	0.13		0.38
	Portugal	0.05	0.10	0.10	0.06	0.21	0.11	0.06	0.06	0.07	0.11	0.07	0.44	0.13	0.06	0.12
	Spain	0.13	0.16	0.17	0.14	0.13	0.20	0.12	0.13	0.15	0.20	0.19	0.14	0.49	0.20	0.10
	Sweden	0.58	0.42	0.63	0.59	0.34	0.41	0.31	0.45	0.28	0.48	0.69	0.33	0.29	0.64	0.53
	Great Britain	0.15	0.17	0.27	0.18	0.08	0.15	0.11	0.15	0.08	0.30	0.22	0.12	0.09	0.20	0.39

Notes: The table shows trust levels between home and target country pairs defined as the portion of individuals in home country expressing “a lot of trust” towards target country, measured via Eurobarometer surveys.

Appendix Table A.6: Trust Bias by Home and Target Countries

		Target countries														
		Austria	Belgium	Denmark	Finland	France	Germany	Greece	Ireland	Italy	Netherlands	Norway	Portugal	Spain	Sweden	GB
Home countries	Austria	0.38	0.00	-0.06	-0.04	-0.05	0.10	-0.02	-0.06	-0.01	-0.04	-0.04	-0.03	-0.04	-0.01	-0.08
	Belgium	-0.03	0.12	-0.02	-0.04	0.02	-0.03	0.00	-0.01	0.02	-0.03	-0.06	0.01	-0.01	-0.04	-0.04
	Denmark	0.05	-0.04	0.31	0.04	-0.08	-0.03	-0.05	0.02	-0.04	0.10	0.22	-0.04	-0.06	0.15	0.05
	Finland	0.05	-0.04	0.06	0.36	-0.08	-0.07	-0.10	-0.05	-0.12	-0.03	0.16	-0.12	-0.14	0.09	0.03
	France	-0.07	0.04	-0.01	-0.03	0.25	0.06	0.01	0.01	0.05	-0.02	-0.03	0.04	0.04	-0.01	-0.05
	Germany	0.09	-0.03	0.01	-0.02	0.06	0.39	-0.02	-0.05	0.00	0.00	-0.01	-0.04	-0.02	0.03	-0.07
	Greece	-0.16	-0.13	-0.18	-0.15	-0.07	-0.12	0.42	-0.07	0.01	-0.18	-0.18	-0.02	0.00	-0.13	-0.14
	Ireland	-0.06	-0.04	-0.07	-0.08	-0.01	-0.05	0.01	0.41	0.06	-0.06	-0.09	0.01	-0.01	-0.10	-0.04
	Italy	-0.04	-0.03	0.00	0.00	0.06	0.10	0.01	0.01	0.21	0.01	-0.03	0.00	0.03	0.00	0.03
	Netherlands	-0.06	0.03	0.18	0.08	-0.09	-0.02	-0.05	0.01	-0.03	0.21	0.10	-0.01	-0.02	0.12	0.01
	Norway		0.01	0.24		-0.05	-0.04	-0.08	0.02	-0.06	0.05		-0.08	-0.10		0.10
	Portugal	-0.10	-0.08	-0.11	-0.11	0.01	-0.06	-0.03	-0.06	0.04	-0.10	-0.13	0.37	0.04	-0.13	-0.05
	Spain	-0.08	-0.07	-0.07	-0.08	-0.07	0.01	-0.04	-0.04	0.05	-0.05	-0.05	0.04	0.41	-0.04	-0.13
	Sweden	0.08	-0.06	0.12	0.08	-0.11	-0.08	-0.08	0.02	-0.08	-0.03	0.15	-0.07	-0.12	0.10	0.07
	Great Britain	-0.05	-0.02	0.02	-0.03	-0.08	-0.11	-0.01	0.03	0.03	0.04	-0.01	0.01	-0.01	-0.03	0.28

Notes: The table shows trust bias between home and target country pairs. Trust Bias is computed for each home-target country pair as the residuals from a gravity model of trust (see *Equation (2)*), where trust is defined as the portion of individuals in home country expressing “a lot of trust” towards target country, measured via Eurobarometer surveys.

Online Appendix B: Additional Analyses for Country-Level Treatment

Table B.1: The Stand-alone Impact of Country-Level Controls on Probability of Sovereign Exposure.

Outcome →	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure					
Country-level Bilateral Bank Branches	0.015*** [0.002]							
Country-level Bilateral Bank Mergers		0.717*** [0.106]						
Country-level Bilateral Media Coverage			0.901*** [0.085]					
Country-level Common Language				0.299*** [0.027]				
Country-level Colonial Relationship					0.346*** [0.029]			
Country-level Distance						-0.059*** [0.005]		
Country-level Common Border							0.217*** [0.025]	
Country-level Common Legal Origin								0.207*** [0.025]
Bank x Time FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country x Time FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	27,409	27,409	27,409	27,409	27,409	27,409	27,409	27,409
Adjusted R ²	0.440	0.438	0.480	0.464	0.464	0.475	0.458	0.458

Notes: The table summarizes the results of *Equation (1)* estimated without the main independent variable but with control variables over the full sample period 2010-Q1 to 2021-Q2. Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. For the specific definitions and data sources of control variables, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table B.2: Impact of Country-Level Trust Bias on Probability of Sovereign Exposure - Robustness to Omitted Variables Bias

Outcome →	(1) Sovereign Exposure	(2) Sovereign Exposure	(3)
Country-level Trust Bias	1.093*** [0.085]	0.429*** [0.131]	
Country-level Bilateral Bank Branches		-0.002 [0.003]	
Country-level Bilateral Bank Mergers		-0.659*** [0.174]	
Country-level Bilateral Media Coverage		0.516*** [0.171]	
Country-level Common Language		0.038 [0.039]	
Country-level Colonial Relationship		-0.200** [0.077]	
Country-level Distance		-0.044*** [0.016]	
Country-level Common Border		0.011 [0.021]	
Country-level Common Legal Origin		0.050** [0.024]	
Bounds on the treatment effect ($\delta=1$, $R_{max}=1.3 \cdot R$)			(0.429, 1.589)
Delta ($R_{max}=1.3 \cdot R$)			1.05
Bank x Time FEs	Yes	Yes	
Target Country x Time FEs	Yes	Yes	
Observations	27,409	27,409	
Adjusted R ²	0.478	0.494	

Notes: * significant at 10%; ** significant at 5%; *** significant at 1%. Bounds on the *Country-level Trust Bias* effect are calculated using Stata code `psacalc`, which calculates estimates of treatment effects and relative degree of selection in linear models as proposed in Oster (2019). Delta, δ , calculates an estimate of the proportional degree of selection given a maximum value of the R-squared. R_{max} specifies the maximum R-squared which would result if all unobservables were included in the regression. We define R_{max} upper bound as 1.3 times the R-squared from the main specification that controls for all observables. Oster's delta indicates the degree of selection on unobservables relative to observables that would be needed to fully explain our results by omitted variable bias.

Table B.3: Impact of Country-Level Trust Bias on Probability of Sovereign Exposure (Foreign target countries).

Outcome →	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure						
Country-level Trust Bias	1.152*** [0.174]	1.131*** [0.170]	0.952*** [0.168]	0.859*** [0.148]	1.060*** [0.180]	1.097*** [0.168]	0.753*** [0.154]	1.028*** [0.166]	0.842*** [0.144]	0.577*** [0.149]
Country-level Bilateral Bank Branches		0.052 [0.036]								-0.017 [0.032]
Country-level Bilateral Bank Mergers			6.941*** [2.571]							3.571 [2.495]
Country-level Bilateral Media Coverage				0.632*** [0.212]						0.306 [0.221]
Country-level Common Language					0.097*** [0.031]					0.027 [0.039]
Country-level Colonial Relationship						0.178*** [0.058]				0.006 [0.077]
Country-level Distance							-0.114*** [0.021]			-0.095*** [0.024]
Country-level Common Border								0.056*** [0.021]		-0.056** [0.027]
Country-level Common Legal Origin									0.096*** [0.023]	0.031 [0.026]
Bank x Time FEs	Yes	Yes	Yes	Yes						
Target Country x Time FEs	Yes	Yes	Yes	Yes						
Sample included	Foreign	Foreign	Foreign	Foreign						
Observations	25,603	25,603	25,603	25,603	25,603	25,603	25,603	25,603	25,603	25,603
Adjusted R ²	0.483	0.483	0.485	0.488	0.485	0.484	0.491	0.484	0.487	0.494

Notes: The table summarizes the results of *Equation (1)* estimated with varying sets of control variables over the full sample period 2010-Q1 to 2021-Q2 after dropping domestic observations (i.e., home country=target country). Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Country-level Trust Bias* is computed for each home-target country pair as the residuals from a gravity model of trust (see *Equation (2)*) in which trust is defined as the portion of individuals in home country who expresses “a lot of trust” towards target country, measured via Eurobarometer surveys. For the specific definitions and data sources of control variables, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table B.4: Impact of Country-Level Trust Bias on Log Nominal Sovereign Exposures.

Outcome →	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure
Country-level Trust Bias	13.181*** [0.494]	11.692*** [0.628]	11.426*** [0.631]	5.820*** [1.090]	9.217*** [0.656]	7.263*** [0.731]	3.016*** [0.835]	10.756*** [0.535]	11.545*** [0.612]	1.473** [0.745]
Country-level Bilateral Bank Branches		0.073*** [0.016]								-0.009 [0.019]
Country-level Bilateral Bank Mergers			4.319*** [0.759]							-1.875** [0.873]
Country-level Bilateral Media Coverage				7.690*** [1.101]						3.426*** [1.245]
Country-level Common Language					1.876*** [0.226]					0.184 [0.278]
Country-level Colonial Relationship						2.848*** [0.279]				-1.226** [0.500]
Country-level Distance							-0.666*** [0.048]			-0.664*** [0.117]
Country-level Common Border								1.125*** [0.180]		0.255* [0.137]
Country-level Common Legal Origin									0.700*** [0.193]	0.359** [0.171]
Bank x Time FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country x Time FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	27,409	27,409	27,409	27,409	27,409	27,409	27,409	27,409	27,409	27,409
Adjusted R ²	0.612	0.616	0.617	0.646	0.629	0.634	0.651	0.624	0.617	0.660

Notes: The table summarizes the results of *Equation (1)* estimated with varying sets of control variables over the full sample period 2010-Q1 to 2021-Q2. Dependent variable is *Sovereign Exposure*, defined as the logarithmic $-\log(x+1)$ - nominal exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Country-level Trust Bias* is computed for each home-target country pair as the residuals from a gravity model of trust (see *Equation (2)*) in which trust is defined as the portion of individuals in home country who expresses “a lot of trust” towards target country, measured via Eurobarometer surveys. For the specific definitions and data sources of control variables, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table B.5: Impact of Country-Level Trust Bias on Probability of Sovereign Exposure (Double-clustered by country-pair and time).

Outcome →	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Sovereign Exposure									
Country-level Trust Bias	1.093*** [0.140]	1.163*** [0.173]	1.230*** [0.143]	0.560*** [0.205]	0.848*** [0.165]	0.913*** [0.192]	0.673*** [0.222]	0.901*** [0.153]	0.902*** [0.160]	0.429*** [0.176]
Country-level Bilateral Bank Branches		-0.003 [0.003]								-0.002 [0.004]
Country-level Bilateral Bank Mergers			-0.335 [0.242]							-0.659** [0.241]
Country-level Bilateral Media Coverage				0.558*** [0.185]						0.516** [0.247]
Country-level Common Language					0.116** [0.042]					0.038 [0.053]
Country-level Colonial Relationship						0.087 [0.074]				-0.200 [0.142]
Country-level Distance							-0.028** [0.013]			-0.044* [0.024]
Country-level Common Border								0.089** [0.035]		0.011 [0.038]
Country-level Common Legal Origin									0.082** [0.030]	0.050* [0.028]
Bank x Time FEs	Yes									
Target Country x Time FEs	Yes									
Clustering (double)	Country-pair + Time									
Observations	27,409	27,409	27,409	27,409	27,409	27,409	27,409	27,409	27,409	27,409
Adjusted R ²	0.478	0.478	0.479	0.486	0.480	0.478	0.481	0.481	0.481	0.494

Notes: The table summarizes the results of *Equation (1)* estimated with varying sets of control variables over the full sample period 2010-Q1 to 2021-Q2. Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Country-level Trust Bias* is computed for each home-target country pair as the residuals from a gravity model of trust (see *Equation (2)*) in which trust is defined as the portion of individuals in home country who expresses “a lot of trust” towards target country, measured via Eurobarometer surveys. For the specific definitions and data sources of control variables, see **Appendix A**. Robust standard errors are double clustered at the country-pair and time levels and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table B.6: Impact of Country-Level Trust Bias on Probability of Sovereign Exposure (Double-clustered by country-pair and bank).

Outcome →	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Sovereign Exposure									
Country-level Trust Bias	1.093*** [0.146]	1.163*** [0.177]	1.230*** [0.152]	0.560*** [0.205]	0.848*** [0.166]	0.913*** [0.191]	0.673*** [0.222]	0.901*** [0.150]	0.902*** [0.160]	0.429*** [0.185]
Country-level Bilateral Bank Branches		-0.003 [0.003]								-0.002 [0.004]
Country-level Bilateral Bank Mergers			-0.335 [0.242]							-0.659*** [0.252]
Country-level Bilateral Media Coverage				0.558*** [0.197]						0.516** [0.259]
Country-level Common Language					0.116*** [0.041]					0.038 [0.057]
Country-level Colonial Relationship						0.087 [0.071]				-0.200 [0.140]
Country-level Distance							-0.028** [0.013]			-0.044* [0.025]
Country-level Common Border								0.089** [0.036]		0.011 [0.037]
Country-level Common Legal Origin									0.082** [0.035]	0.050 [0.032]
Bank x Time FEs	Yes									
Target Country x Time FEs	Yes									
Clustering (double)	Country-pair + Bank									
Observations	27,409	27,409	27,409	27,409	27,409	27,409	27,409	27,409	27,409	27,409
Adjusted R ²	0.478	0.478	0.479	0.486	0.480	0.478	0.481	0.481	0.481	0.494

Notes: The table summarizes the results of *Equation (1)* estimated with varying sets of control variables over the full sample period 2010-Q1 to 2021-Q2. Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Country-level Trust Bias* is computed for each home-target country pair as the residuals from a gravity model of trust (see *Equation (2)*) in which trust is defined as the portion of individuals in home country who expresses “a lot of trust” towards target country, measured via Eurobarometer surveys. For the specific definitions and data sources of control variables, see **Appendix A**. Robust standard errors are double clustered at the country-pair and bank levels and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Online Appendix C: Branches and Managerial Flows

Table C.1: Impact of Bank-level Branch Networks on Nationalities of Directors/Managers at Bank Headquarters (Foreign target countries).

Outcome →	(1) Nationality at HQ	(2) Nationality at HQ	(3) Nationality at HQ	(4) Nationality at HQ	(5) Nationality at HQ
Bank Branches in Target Country	1.095*** [0.091]	1.085*** [0.094]	0.846*** [0.132]	0.817*** [0.121]	0.542*** [0.107]
<i>Adjusted R²</i>	0.083	0.107	0.329	0.362	0.443
Log of Bank Branches in Target Country	0.108*** [0.012]	0.107*** [0.013]	0.083*** [0.013]	0.080*** [0.013]	0.048*** [0.014]
<i>Adjusted R²</i>	0.129	0.147	0.353	0.381	0.442
Share of Bank Branches in Target Country	4.107*** [0.532]	3.991*** [0.537]	3.294*** [0.497]	3.136*** [0.511]	1.472** [0.655]
<i>Adjusted R²</i>	0.110	0.131	0.350	0.381	0.434
Bank FEs	No	Yes	No	Yes	Yes
Target Country FEs	No	No	Yes	Yes	No
Home Country x Target Country FEs	No	No	No	No	Yes
Observations	638	638	638	638	580
Sample included	Foreign targets				

Notes: The table summarizes the results of *Equation (5)* estimated with varying sets of fixed effects over a subset of banks included in EBA and CEBS disclosures after dropping domestic observations (i.e., home country=target country). Each panel represents a separate estimation. Dependent variable is *Nationality at HQ*, defined as a dummy variable indicating whether the nationality of a target country is (or has ever been) represented among the employees of the bank at headquarters, extracted from BankFocus. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. *Log of Bank Branches* measures the logarithmic number (x+1) of bank branches (in thousands) that the bank owns in the target country. *Share of Bank Branches* measures the bank branches that the bank owns in the target country divided by the total number of bank branches it owns across all target countries. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table C.2: Impact of Bank-level Branch Networks on Nationalities of Directors/Managers at Bank Headquarters (Double-clustered by country-pair and bank).

Outcome →	(1) Nationality at HQ	(2) Nationality at HQ	(3) Nationality at HQ	(4) Nationality at HQ	(5) Nationality at HQ
Bank Branches in Target Country	0.278*** [0.064]	0.281*** [0.059]	0.157*** [0.030]	0.156*** [0.026]	0.121 [0.090]
<i>Adjusted R</i> ²	0.082	0.106	0.350	0.384	0.480
Log of Bank Branches in Target Country	0.110*** [0.008]	0.111*** [0.008]	0.074*** [0.010]	0.071*** [0.010]	0.046*** [0.014]
<i>Adjusted R</i> ²	0.205	0.222	0.408	0.432	0.493
Share of Bank Branches in Target Country	1.105*** [0.102]	1.105*** [0.102]	0.590*** [0.122]	0.590*** [0.120]	0.682** [0.267]
<i>Adjusted R</i> ²	0.129	0.155	0.360	0.394	0.483
Bank FEs	No	Yes	No	Yes	Yes
Target Country FEs	No	No	Yes	Yes	No
Home Country x Target Country FEs	No	No	No	No	Yes
Clustering (double)	Country-pair + Bank				
Observations	660	660	660	660	600

Notes: The table summarizes the results of *Equation (5)* estimated with varying sets of fixed effects over a subset of banks included in EBA and CEBS disclosures. Each panel represents a separate estimation. Dependent variable is *Nationality at HQ*, defined as a dummy variable indicating whether the nationality of a target country is (or has ever been) represented among the employees of the bank at headquarters, extracted from BankFocus. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. *Log of Bank Branches* measures the logarithmic number (x+1) of bank branches (in thousands) that the bank owns in the target country. *Share of Bank Branches* measures the bank branches that the bank owns in the target country divided by the total number of bank branches it owns across all target countries. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the country-pair and bank levels and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table C.3: Impact of Bank-level Branch Networks on Nationalities of Directors/Managers at Bank Headquarters (Senior managers only).

Outcome →	(1) Nationality at HQ	(2) Nationality at HQ	(3) Nationality at HQ	(4) Nationality at HQ	(5) Nationality at HQ
Bank Branches in Target Country	0.285*** [0.043]	0.285*** [0.042]	0.172*** [0.024]	0.168*** [0.025]	0.142** [0.063]
<i>Adjusted R²</i>	<i>0.089</i>	<i>0.107</i>	<i>0.340</i>	<i>0.367</i>	<i>0.435</i>
Log of Bank Branches in Target Country	0.112*** [0.008]	0.110*** [0.008]	0.078*** [0.009]	0.073*** [0.009]	0.047*** [0.014]
<i>Adjusted R²</i>	<i>0.219</i>	<i>0.223</i>	<i>0.404</i>	<i>0.417</i>	<i>0.449</i>
Share of Bank Branches in Target Country	1.122*** [0.083]	1.122*** [0.083]	0.638*** [0.095]	0.638*** [0.095]	0.828*** [0.233]
<i>Adjusted R²</i>	<i>0.139</i>	<i>0.161</i>	<i>0.350</i>	<i>0.380</i>	<i>0.441</i>
Bank FEs	No	Yes	No	Yes	Yes
Target Country FEs	No	No	Yes	Yes	No
Home Country x Target Country FEs	No	No	No	No	Yes
Observations	660	660	660	660	600
Sample included	Senior managers Senior managers Senior managers Senior managers Senior managers				

Notes: The table summarizes the results of *Equation (5)* estimated with varying sets of fixed effects over a subset of banks included in EBA and CEBS disclosures. Each panel represents a separate estimation. Dependent variable is *Nationality at HQ*, defined as a dummy variable indicating whether the nationality of a target country is (or has ever been) represented among the senior managers (i.e., the executive board, board of directors and senior management) of the bank at headquarters, extracted from BankFocus. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. *Log of Bank Branches* measures the logarithmic number (x+1) of bank branches (in thousands) that the bank owns in the target country. *Share of Bank Branches* measures the bank branches that the bank owns in the target country divided by the total number of bank branches it owns across all target countries. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table C.4: Impact of Bank-level Branch Networks on Nationalities of Directors/Managers at Bank Headquarters (Senior managers only + Foreign target countries).

Outcome →	(1) Nationality at HQ	(2) Nationality at HQ	(3) Nationality at HQ	(4) Nationality at HQ	(5) Nationality at HQ
Bank Branches in Target Country	1.124*** [0.091]	1.091*** [0.095]	0.908*** [0.128]	0.855*** [0.120]	0.614*** [0.109]
<i>Adjusted R</i> ²	0.093	0.108	0.318	0.343	0.393
Log of Bank Branches in Target Country	0.108*** [0.012]	0.104*** [0.013]	0.086*** [0.012]	0.080*** [0.013]	0.049*** [0.014]
<i>Adjusted R</i> ²	0.137	0.142	0.342	0.358	0.387
Share of Bank Branches in Target Country	4.059*** [0.530]	3.867*** [0.528]	3.349*** [0.499]	3.108*** [0.510]	1.761*** [0.588]
<i>Adjusted R</i> ²	0.113	0.125	0.335	0.357	0.382
Bank FEs	No	Yes	No	Yes	Yes
Target Country FEs	No	No	Yes	Yes	No
Home Country x Target Country FEs	No	No	No	No	Yes
Observations	638	638	638	638	580
Sample included	Senior managers + Foreign targets				

Notes: The table summarizes the results of *Equation (5)* estimated with varying sets of fixed effects over a subset of banks included in EBA and CEBS disclosures after dropping domestic observations (i.e., home country=target country). Each panel represents a separate estimation. Dependent variable is *Nationality at HQ*, defined as a dummy variable indicating whether the nationality of a target country is (or has ever been) represented among the senior managers (i.e., the executive board, board of directors and senior management) of the bank at headquarters, extracted from BankFocus. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. *Log of Bank Branches* measures the logarithmic number (x+1) of bank branches (in thousands) that the bank owns in the target country. *Share of Bank Branches* measures the bank branches that the bank owns in the target country divided by the total number of bank branches it owns across all target countries. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table C.5: Impact of Bank-level Branch Networks on Nationalities of Directors/Managers at Bank Headquarters (First nationalities only).

Outcome →	(1) Nationality at HQ	(2) Nationality at HQ	(3) Nationality at HQ	(4) Nationality at HQ	(5) Nationality at HQ
Bank Branches in Target Country	0.293*** [0.043]	0.303*** [0.043]	0.198*** [0.024]	0.207*** [0.025]	0.153* [0.076]
<i>Adjusted R²</i>	<i>0.115</i>	<i>0.148</i>	<i>0.309</i>	<i>0.346</i>	<i>0.438</i>
Log of Bank Branches in Target Country	0.107*** [0.010]	0.109*** [0.010]	0.082*** [0.011]	0.082*** [0.011]	0.057*** [0.012]
<i>Adjusted R²</i>	<i>0.248</i>	<i>0.271</i>	<i>0.388</i>	<i>0.416</i>	<i>0.465</i>
Share of Bank Branches in Target Country	1.195*** [0.091]	1.195*** [0.091]	0.804*** [0.109]	0.804*** [0.109]	0.846*** [0.262]
<i>Adjusted R²</i>	<i>0.193</i>	<i>0.222</i>	<i>0.340</i>	<i>0.375</i>	<i>0.445</i>
Bank FEs	No	Yes	No	Yes	Yes
Target Country FEs	No	No	Yes	Yes	No
Home Country x Target Country FEs	No	No	No	No	Yes
Observations	660	660	660	660	600
Sample included	First nationalities	First nationalities	First nationalities	First nationalities	First nationalities

Notes: The table summarizes the results of *Equation (5)* estimated with varying sets of fixed effects over a subset of banks included in EBA and CEBS disclosures. Each panel represents a separate estimation. Dependent variable is *Nationality at HQ*, defined as a dummy variable indicating whether the nationality of a target country is (or has ever been) represented among the first (i.e., main) nationalities of the bank employees at headquarters, extracted from BankFocus. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. *Log of Bank Branches* measures the logarithmic number (x+1) of bank branches (in thousands) that the bank owns in the target country. *Share of Bank Branches* measures the bank branches that the bank owns in the target country divided by the total number of bank branches it owns across all target countries. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table C.6: Impact of Bank-level Branch Networks on Nationalities of Directors/Managers at Bank Headquarters (First nationalities only + Foreign target countries).

Outcome →	(1) Nationality at HQ	(2) Nationality at HQ	(3) Nationality at HQ	(4) Nationality at HQ	(5) Nationality at HQ
Bank Branches in Target Country	0.959*** [0.167]	0.965*** [0.179]	0.823*** [0.173]	0.822*** [0.174]	0.635*** [0.136]
<i>Adjusted R²</i>	<i>0.086</i>	<i>0.118</i>	<i>0.262</i>	<i>0.300</i>	<i>0.369</i>
Log of Bank Branches in Target Country	0.095*** [0.014]	0.096*** [0.015]	0.081*** [0.014]	0.080*** [0.015]	0.060*** [0.012]
<i>Adjusted R²</i>	<i>0.134</i>	<i>0.161</i>	<i>0.293</i>	<i>0.326</i>	<i>0.372</i>
Share of Bank Branches in Target Country	4.073*** [0.533]	3.951*** [0.573]	3.604*** [0.481]	3.462*** [0.514]	2.030*** [0.707]
<i>Adjusted R²</i>	<i>0.146</i>	<i>0.170</i>	<i>0.312</i>	<i>0.343</i>	<i>0.360</i>
Bank FEs	No	Yes	No	Yes	Yes
Target Country FEs	No	No	Yes	Yes	No
Home Country x Target Country FEs	No	No	No	No	Yes
Observations	638	638	638	638	580
Sample included	First	First	First	First	First
	nationalities + Foreign targets				

Notes: The table summarizes the results of *Equation (5)* estimated with varying sets of fixed effects over a subset of banks included in EBA and CEBS disclosures after dropping domestic observations (i.e., home country=target country). Each panel represents a separate estimation. Dependent variable is *Nationality at HQ*, defined as a dummy variable indicating whether the nationality of a target country is (or has ever been) represented among the first (i.e., main) nationalities of the bank employees at headquarters, extracted from BankFocus. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. *Log of Bank Branches* measures the logarithmic number (x+1) of bank branches (in thousands) that the bank owns in the target country. *Share of Bank Branches* measures the bank branches that the bank owns in the target country divided by the total number of bank branches it owns across all target countries. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table C.7: Impact of Bank-level Branch Networks on Nationalities of Directors/Managers at Bank Headquarters (Current managers).

Outcome →	(1) Nationality at HQ	(2) Nationality at HQ	(3) Nationality at HQ	(4) Nationality at HQ	(5) Nationality at HQ
Bank Branches in Target Country	0.288*** [0.045]	0.287*** [0.045]	0.190*** [0.029]	0.187*** [0.031]	0.110 [0.063]
<i>Adjusted R</i> ²	0.110	0.135	0.326	0.359	0.489
Log of Bank Branches in Target Country	0.110*** [0.009]	0.109*** [0.009]	0.079*** [0.009]	0.075*** [0.010]	0.043*** [0.015]
<i>Adjusted R</i> ²	0.244	0.258	0.390	0.411	0.503
Share of Bank Branches in Target Country	1.135*** [0.077]	1.135*** [0.077]	0.704*** [0.081]	0.704*** [0.081]	0.626* [0.338]
<i>Adjusted R</i> ²	0.169	0.199	0.340	0.377	0.492
Bank FEs	No	Yes	No	Yes	Yes
Target Country FEs	No	No	Yes	Yes	No
Home Country x Target Country FEs	No	No	No	No	Yes
Observations	630	630	630	630	600
Sample included	Current managers	Current managers	Current managers	Current managers	Current managers

Notes: The table summarizes the results of *Equation (5)* estimated with varying sets of fixed effects over a subset of banks included in EBA and CEBS disclosures. Each panel represents a separate estimation. Dependent variable is *Nationality at HQ*, defined as a dummy variable indicating whether the nationality of a target country is currently (as of November 2022) represented among the employees of the bank at headquarters, extracted from BankFocus. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. *Log of Bank Branches* measures the logarithmic number (x+1) of bank branches (in thousands) that the bank owns in the target country. *Share of Bank Branches* measures the bank branches that the bank owns in the target country divided by the total number of bank branches it owns across all target countries. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table C.8: Impact of Bank-level Branch Networks on Nationalities of Directors/Managers at Bank Headquarters (Current managers + Foreign target countries).

Outcome →	(1) Nationality at HQ	(2) Nationality at HQ	(3) Nationality at HQ	(4) Nationality at HQ	(5) Nationality at HQ
Bank Branches in Target Country	0.980*** [0.135]	0.942*** [0.161]	0.773*** [0.164]	0.720*** [0.172]	0.532*** [0.156]
<i>Adjusted R²</i>	<i>0.087</i>	<i>0.111</i>	<i>0.280</i>	<i>0.310</i>	<i>0.428</i>
Log of Bank Branches in Target Country	0.101*** [0.014]	0.098*** [0.015]	0.079*** [0.014]	0.074*** [0.015]	0.045*** [0.015]
<i>Adjusted R²</i>	<i>0.139</i>	<i>0.156</i>	<i>0.308</i>	<i>0.331</i>	<i>0.425</i>
Share of Bank Branches in Target Country	3.969*** [0.664]	3.688*** [0.660]	3.200*** [0.619]	2.861*** [0.594]	1.294 [0.887]
<i>Adjusted R²</i>	<i>0.114</i>	<i>0.131</i>	<i>0.299</i>	<i>0.323</i>	<i>0.414</i>
Bank FEs	No	Yes	No	Yes	Yes
Target Country FEs	No	No	Yes	Yes	No
Home Country x Target Country FEs	No	No	No	No	Yes
Observations	609	609	609	609	580
Sample included	Current managers + Foreign countries				

Notes: The table summarizes the results of *Equation (5)* estimated with varying sets of fixed effects over a subset of banks included in EBA and CEBS disclosures after dropping domestic observations (i.e., home country=target country). Each panel represents a separate estimation. Dependent variable is *Nationality at HQ*, defined as a dummy variable indicating whether the nationality of a target country is currently (as of November 2022) represented among the employees of the bank at headquarters, extracted from BankFocus. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. *Log of Bank Branches* measures the logarithmic number ($x+1$) of bank branches (in thousands) that the bank owns in the target country. *Share of Bank Branches* measures the bank branches that the bank owns in the target country divided by the total number of bank branches it owns across all target countries. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Online Appendix D: Additional Analyses for Bank-Level Treatment

Table D.1: Impact of Bank-level Trust Bias on Probability of Sovereign Exposure (Double-clustered by country-pair and time).

Outcome →	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure	(4) Sovereign Exposure	(5) Sovereign Exposure
Bank-level Trust Bias	1.353*** [0.173]	1.757*** [0.297]	1.604*** [0.284]	1.630*** [0.289]	1.562*** [0.295]
Bank Branches in Target Country			-0.090*** [0.019]	-0.153*** [0.053]	-0.163*** [0.050]
Bank Branches in Target Country (squared)				0.014 [0.010]	0.016 [0.010]
Bank x Time FEs	Yes	Yes	Yes	Yes	Yes
Target Country x Time FEs	Yes	Yes	Yes	Yes	No
Home Country x Target Country FEs	No	Yes	Yes	Yes	No
Home Country x Target Country x Time FEs	No	No	No	No	Yes
Clustering (double)	Country-pair + Time	Country-pair + Time	Country-pair + Time	Country-pair + Time	Country-pair + Time
Observations	23,760	23,760	23,760	23,760	21,615
<i>Adjusted R</i> ²	0.487	0.586	0.588	0.588	0.551

Notes: The table summarizes the results of *Equation (3)* estimated with varying sets of fixed effects and control variables over the full sample period 2010-Q1 to 2021-Q2. Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Bank-level Trust Bias* is computed for each bank-target country pair as the branch-weighted average (see *Equation (4)*) of the residuals from a gravity model of trust (see *Equation (2)*), where trust is defined as the portion of individuals in home country expressing “a lot of trust” towards target country, measured via Eurobarometer surveys. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are double clustered at the country-pair and time levels and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table D.2: Impact of Bank-level Trust Bias on Probability of Sovereign Exposure (Double-clustered by country-pair and bank).

Outcome →	(1)	(2)	(3)	(4)	(5)
	Sovereign Exposure				
Bank-level Trust Bias	1.353*** [0.181]	1.757*** [0.319]	1.604*** [0.293]	1.630*** [0.296]	1.562*** [0.281]
Bank Branches in Target Country			-0.090*** [0.022]	-0.153*** [0.058]	-0.163*** [0.054]
Bank Branches in Target Country (squared)				0.014 [0.011]	0.016 [0.010]
Bank x Time FEs	Yes	Yes	Yes	Yes	Yes
Target Country x Time FEs	Yes	Yes	Yes	Yes	No
Home Country x Target Country FEs	No	Yes	Yes	Yes	No
Home Country x Target Country x Time FEs	No	No	No	No	Yes
Clustering (double)	Country-pair + Bank	Country-pair + Bank	Country-pair + Bank	Country-pair + Bank	Country-pair + Bank
Observations	23,760	23,760	23,760	23,760	21,615
Adjusted R ²	0.487	0.586	0.588	0.588	0.551

Notes: The table summarizes the results of Equation (3) estimated with varying sets of fixed effects and control variables over the full sample period 2010-Q1 to 2021-Q2. Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Bank-level Trust Bias* is computed for each bank-target country pair as the branch-weighted average (see Equation (4)) of the residuals from a gravity model of trust (see Equation (2)), where trust is defined as the portion of individuals in home country expressing “a lot of trust” towards target country, measured via Eurobarometer surveys. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are double clustered at the country-pair and bank levels and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table D.3: Impact of Bank-level Trust Bias on Probability of Sovereign Exposure (FINREP disclosures dropped).

Outcome →	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure	(4) Sovereign Exposure	(5) Sovereign Exposure
Bank-level Trust Bias	1.373*** [0.107]	1.908*** [0.332]	1.751*** [0.306]	1.776*** [0.305]	1.744*** [0.322]
Bank Branches in Target Country			-0.088*** [0.028]	-0.154*** [0.055]	-0.160*** [0.059]
Bank Branches in Target Country (squared)				0.014 [0.011]	0.016 [0.012]
Bank x Time FEs	Yes	Yes	Yes	Yes	Yes
Target Country x Time FEs	Yes	Yes	Yes	Yes	No
Home Country x Target Country FEs	No	Yes	Yes	Yes	No
Home Country x Target Country x Time FEs	No	No	No	No	Yes
Observations	19,845	19,845	19,845	19,845	18,060
<i>Adjusted R</i> ²	0.494	0.587	0.589	0.589	0.553

Notes: The table summarizes the results of *Equation (3)* estimated with varying sets of fixed effects and control variables over the sample period 2010-Q1 to 2021-Q2, not including the period corresponding to the years 2016 and 2017 during which disclosures were based on regulatory FINREP templates. Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Bank-level Trust Bias* is computed for each bank-target country pair as the branch-weighted average (see *Equation (4)*) of the residuals from a gravity model of trust (see *Equation (2)*), where trust is defined as the portion of individuals in home country expressing “a lot of trust” towards target country, measured via Eurobarometer surveys. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table D.4: Role of Diversification and Commonness in the Impact of Bank-level Trust Bias on Probability of Sovereign Exposure

Outcome →	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure	(4) Sovereign Exposure
	More diversified banks	Less diversified banks	More common targets	Less common targets
Bank-level Trust Bias	0.740** [0.326]	2.134*** [0.486]	1.018*** [0.355]	1.893** [0.824]
Bank Branches in Target Country	-0.188*** [0.047]	0.049 [0.053]	-0.083 [0.056]	-0.237 [0.181]
Bank Branches in Target Country (squared)	0.033** [0.012]	-0.009 [0.008]	-0.001 [0.014]	0.192* [0.105]
Bank x Time FEs	Yes	Yes	Yes	Yes
Target Country x Time FEs	No	No	No	No
Home Country x Target Country FEs	No	No	No	No
Home Country x Target Country x Time FEs	Yes	Yes	Yes	Yes
Observations	10,320	9,990	10,087	11,528
<i>Adjusted R</i> ²	0.348	0.490	0.556	0.523

Notes: The table summarizes the results of *Equation (3)* estimated for 4 different subsamples over the full sample period 2010-Q1 to 2021-Q2. Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Bank-level Trust Bias* is computed for each bank-target country pair as the branch-weighted average (see *Equation (4)*) of the residuals from a gravity model of trust (see *Equation (2)*), where trust is defined as the portion of individuals in home country expressing “a lot of trust” towards target country, measured via Eurobarometer surveys. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table D.5: Impact of Bank-level Trust Bias on Probability of Sovereign Exposure (Foreign target countries).

Outcome →	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure	(4) Sovereign Exposure	(5) Sovereign Exposure
Bank-level Trust Bias	1.506*** [0.246]	1.347*** [0.494]	1.600*** [0.509]	1.712*** [0.487]	1.672*** [0.515]
Bank Branches in Target Country			-0.176** [0.082]	-0.586* [0.332]	-0.611* [0.357]
Bank Branches in Target Country (squared)				0.556 [0.397]	0.568 [0.430]
Bank x Time FEs	Yes	Yes	Yes	Yes	Yes
Target Country x Time FEs	Yes	Yes	Yes	Yes	No
Home Country x Target Country FEs	No	Yes	Yes	Yes	No
Home Country x Target Country x Time FEs	No	No	No	No	Yes
Sample included	Foreign	Foreign	Foreign	Foreign	Foreign
Observations	22,336	22,336	22,336	22,336	20,241
<i>Adjusted R</i> ²	0.493	0.578	0.578	0.578	0.541

Notes: The table summarizes the results of *Equation (3)* estimated with varying sets of fixed effects and control variables over the full sample period 2010-Q1 to 2021-Q2 after dropping domestic observations (i.e., home country=target country). Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Bank-level Trust Bias* is computed for each bank-target country pair as the branch-weighted average (see *Equation (4)*) of the residuals from a gravity model of trust (see *Equation (2)*), where trust is defined as the portion of individuals in home country expressing “a lot of trust” towards target country, measured via Eurobarometer surveys. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table D.6: Impact of Bank-level Trust Bias on Probability of Sovereign Exposure (Banks under single supervisory mechanism -SSM).

Outcome →	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure	(4) Sovereign Exposure	(5) Sovereign Exposure
Bank-level Trust Bias	1.327*** [0.112]	2.046*** [0.351]	1.815*** [0.312]	1.854*** [0.312]	1.828*** [0.333]
Bank Branches in Target Country			-0.096*** [0.030]	-0.190*** [0.059]	-0.199*** [0.063]
Bank Branches in Target Country (squared)				0.022* [0.013]	0.025* [0.014]
Bank x Time FEs	Yes	Yes	Yes	Yes	Yes
Target Country x Time FEs	Yes	Yes	Yes	Yes	No
Home Country x Target Country FEs	No	Yes	Yes	Yes	No
Home Country x Target Country x Time FEs	No	No	No	No	Yes
Sample included	SSM banks				
Observations	12,795	12,795	12,795	12,795	12,105
<i>Adjusted R</i> ²	0.504	0.593	0.595	0.596	0.559

Notes: The table summarizes the results of *Equation (3)* estimated with varying sets of fixed effects and control variables over the full sample period 2010-Q1 to 2021-Q2; but only for the significant banks under ECB's single supervisory mechanism (see **Appendix E**). Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Bank-level Trust Bias* is computed for each bank-target country pair as the branch-weighted average (see *Equation (4)*) of the residuals from a gravity model of trust (see *Equation (2)*), where trust is defined as the portion of individuals in home country expressing "a lot of trust" towards target country, measured via Eurobarometer surveys. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table D.7: Impact of Bank-level Trust Bias on Bank Branches in Target Countries.

Outcome →	(1) Bank Branches	(2) Bank Branches	(3) Bank Branches	(4) Bank Branches
Bank-level Trust Bias	1.791*** [0.279]	1.914*** [0.299]	1.812*** [0.265]	1.950*** [0.287]
Bank FEs	No	Yes	No	Yes
Target Country FEs	No	No	Yes	Yes
Observations	1,620	1,620	1,620	1,620
<i>Adjusted R</i> ²	0.212	0.239	0.236	0.265

Notes: The table summarizes the results of a gravity estimation with no time dimension and where *Bank Branches* is the dependent variable, measured as the number of bank branches (in thousands) that the bank owns in the target country. *Bank-level Trust Bias* is computed for each bank-target country pair as the branch-weighted average (see *Equation (4)*) of the residuals from a gravity model of trust (see *Equation (2)*), where trust is defined as the portion of individuals in home country expressing “a lot of trust” towards target country, measured via Eurobarometer surveys. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table D.8: Impact of Bank-level Trust Bias on Probability of Sovereign Exposure (Foreign target countries with no branch connections).

Outcome →	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure
Bank-level Trust Bias	1.230*** [0.240]	2.026*** [0.660]	1.972*** [0.734]
Bank x Time FEs	Yes	Yes	Yes
Target Country x Time FEs	Yes	Yes	No
Home Country x Target Country FEs	No	Yes	No
Home Country x Target Country x Time FEs	No	No	Yes
Sample included	Foreign + No Branch	Foreign + No Branch	Foreign + No Branch
Observations	18,984	18,984	16,728
Adjusted R ²	0.485	0.566	0.519

Notes: The table summarizes the results of *Equation (3)* estimated with varying sets of fixed effects and control variables over the full sample period 2010-Q1 to 2021-Q2; but only for the bank-target country pairs in which the bank does not own any branches in the target country. Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Bank-level Trust Bias* is computed for each bank-target country pair as the branch-weighted average (see *Equation (4)*) of the residuals from a gravity model of trust (see *Equation (2)*), where trust is defined as the portion of individuals in home country expressing “a lot of trust” towards target country, measured via Eurobarometer surveys. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table D.9: Impact of Bank-level Trust Bias on Probability of Sovereign Exposure (Controls for indirect relationships with target country).

Outcome →	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure	(4) Sovereign Exposure	(5) Sovereign Exposure
Bank-level Trust Bias	1.562*** [0.281]	1.638*** [0.368]	1.732*** [0.384]	1.381*** [0.460]	1.371*** [0.467]
Bank Branches in Target Country	-0.163*** [0.054]	-0.166*** [0.056]	-0.164*** [0.058]	-0.171*** [0.059]	-0.169*** [0.060]
Bank Branches in Target Country (squared)	0.016 [0.010]	0.016 [0.012]	0.015 [0.012]	0.017 [0.013]	0.016 [0.014]
Indirect Branch Relationship with Target Country		-0.004 [0.009]	0.000 [0.012]	-0.004 [0.014]	-0.010 [0.015]
Indirect Merger Relationship with Target Country			-0.370 [0.641]	-0.447 [0.609]	-0.418 [0.642]
Indirect Media Relationship with Target Country				0.496 [0.358]	0.472 [0.360]
Indirect Political Relationship with Target Country					0.929 [0.806]
Bank x Time FEs	Yes	Yes	Yes	Yes	Yes
Target Country x Time FEs	No	No	No	No	No
Home Country x Target Country FEs	No	No	No	No	No
Home Country x Target Country x Time FEs	Yes	Yes	Yes	Yes	Yes
Observations	21,615	21,615	21,615	21,615	21,615
Adjusted R ²	0.551	0.551	0.551	0.552	0.552

Notes: * significant at 10%; ** significant at 5%; *** significant at 1%. The table summarizes the results of Equation (3) estimated with varying sets of fixed effects and control variables over the full sample period 2010-Q1 to 2021-Q2. Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Bank-level Trust Bias* is computed for each bank-target country pair as the branch-weighted average (see Equation (4)) of the residuals from a gravity model of trust (see Equation (2)), where trust is defined as the portion of individuals in home country expressing “a lot of trust” towards target country, measured via Eurobarometer surveys. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. All branch-related information is from SNL Financial. For the detailed construction of the data, see Appendix A. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table D.10: Impact of Bank-level Trust Bias on Log Nominal Sovereign Exposures.

Outcome →	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure	(4) Sovereign Exposure	(5) Sovereign Exposure
Bank-level Trust Bias	16.712*** [0.627]	11.719*** [2.326]	11.952*** [2.447]	11.785*** [2.357]	11.735*** [2.594]
Bank Branches in Target Country			0.137 [0.147]	0.539 [0.629]	0.461 [0.683]
Bank Branches in Target Country (squared)				-0.090 [0.123]	-0.075 [0.131]
Bank x Time FEs	Yes	Yes	Yes	Yes	Yes
Target Country x Time FEs	Yes	Yes	Yes	Yes	No
Home Country x Target Country FEs	No	Yes	Yes	Yes	No
Home Country x Target Country x Time FEs	No	No	No	No	Yes
Observations	23,760	23,760	23,760	23,760	21,615
<i>Adjusted R</i> ²	0.637	0.772	0.772	0.772	0.756

Notes: The table summarizes the results of *Equation (3)* estimated with varying sets of fixed effects and control variables over the full sample period 2010-Q1 to 2021-Q2. Dependent variable is *Sovereign Exposure*, defined as the logarithmic $-\log(x+1)$ - nominal exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Bank-level Trust Bias* is computed for each bank-target country pair as the branch-weighted average (see *Equation (4)*) of the residuals from a gravity model of trust (see *Equation (2)*), where trust is defined as the portion of individuals in home country expressing “a lot of trust” towards target country, measured via Eurobarometer surveys. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table D.11: Impact of Bank-level Trust Bias on Probability of Sovereign Exposure (Eurozone countries and banks only).

Outcome →	(1)	(2)	(3)	(4)	(5)
	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure
Bank-level Trust Bias	1.274*** [0.111]	1.850*** [0.399]	1.580*** [0.366]	1.578*** [0.361]	1.552*** [0.386]
Bank Branches in Target Country			-0.091*** [0.027]	-0.148*** [0.052]	-0.156*** [0.054]
Bank Branches in Target Country (squared)				0.013 [0.011]	0.014 [0.012]
Bank x Time FEs	Yes	Yes	Yes	Yes	Yes
Target Country x Time FEs	Yes	Yes	Yes	Yes	No
Home Country x Target Country FEs	No	Yes	Yes	Yes	No
Home Country x Target Country x Time FEs	No	No	No	No	Yes
Sample included	Eurozone	Eurozone	Eurozone	Eurozone	Eurozone
Observations	14,102	14,102	14,102	14,102	13,145
<i>Adjusted R</i> ²	0.492	0.562	0.565	0.565	0.547

Notes: The table summarizes the results of *Equation (3)* estimated with varying sets of fixed effects and control variables over the full sample period 2010-Q1 to 2021-Q2 after dropping all banks and target countries outside Eurozone. Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Bank-level Trust Bias* is computed for each bank-target country pair as the branch-weighted average (see *Equation (4)*) of the residuals from a gravity model of trust (see *Equation (2)*), where trust is defined as the portion of individuals in home country expressing “a lot of trust” towards target country, measured via Eurobarometer surveys. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table D.12: Impact of Bank-level Trust Bias on Log Nominal Sovereign Exposures (Eurozone countries and banks only).

Outcome →	(1)	(2)	(3)	(4)	(5)
	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure
Bank-level Trust Bias	17.744*** [0.692]	9.905*** [2.735]	9.609*** [2.883]	9.609*** [2.882]	9.558*** [3.197]
Bank Branches in Target Country			-0.099 [0.172]	-0.064 [0.556]	-0.128 [0.603]
Bank Branches in Target Country (squared)				-0.008 [0.116]	0.003 [0.124]
Bank x Time FEs	Yes	Yes	Yes	Yes	Yes
Target Country x Time FEs	Yes	Yes	Yes	Yes	No
Home Country x Target Country FEs	No	Yes	Yes	Yes	No
Home Country x Target Country x Time FEs	No	No	No	No	Yes
Sample included	Eurozone	Eurozone	Eurozone	Eurozone	Eurozone
Observations	14,102	14,102	14,102	14,102	13,145
<i>Adjusted R</i> ²	0.690	0.772	0.772	0.772	0.767

Notes: The table summarizes the results of *Equation (3)* estimated with varying sets of fixed effects and control variables over the full sample period 2010-Q1 to 2021-Q2 after dropping all banks and target countries outside Eurozone. Dependent variable is *Sovereign Exposure*, defined as the logarithmic $-\log(x+1)$ - nominal exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Bank-level Trust Bias* is computed for each bank-target country pair as the branch-weighted average (see *Equation (4)*) of the residuals from a gravity model of trust (see *Equation (2)*), where trust is defined as the portion of individuals in home country expressing “a lot of trust” towards target country, measured via Eurobarometer surveys. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table D.13: Impact of Bank-level Trust Bias on Probability of Sovereign Exposure (GIIPS target countries and banks excluded).

Outcome →	(1)	(2)	(3)	(4)	(5)
	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure	Sovereign Exposure
Bank-level Trust Bias	0.801*** [0.121]	1.113*** [0.352]	1.021*** [0.329]	1.093*** [0.321]	1.015*** [0.347]
Bank Branches in Target Country			-0.101** [0.045]	-0.285*** [0.083]	-0.284*** [0.090]
Bank Branches in Target Country (squared)				0.079** [0.032]	0.078** [0.036]
Bank x Time FEs	Yes	Yes	Yes	Yes	Yes
Target Country x Time FEs	Yes	Yes	Yes	Yes	No
Home Country x Target Country FEs	No	Yes	Yes	Yes	No
Home Country x Target Country x Time FEs	No	No	No	No	Yes
Sample included	Non-GIIPS	Non-GIIPS	Non-GIIPS	Non-GIIPS	Non-GIIPS
Observations	10,560	10,560	10,560	10,560	9,130
<i>Adjusted R</i> ²	0.456	0.573	0.574	0.575	0.485

Notes: The table summarizes the results of *Equation (3)* estimated with varying sets of fixed effects and control variables over the full sample period 2010-Q1 to 2021-Q2 after dropping the target countries of Greece, Italy, Ireland, Portugal and Spain as well as all the banks headquartered there. Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Bank-level Trust Bias* is computed for each bank-target country pair as the branch-weighted average (see *Equation (4)*) of the residuals from a gravity model of trust (see *Equation (2)*), where trust is defined as the portion of individuals in home country expressing “a lot of trust” towards target country, measured via Eurobarometer surveys. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table D.14: Impact of Bank-level Trust Level on Probability of Sovereign Exposure.

Outcome →	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure	(4) Sovereign Exposure	(5) Sovereign Exposure
Bank-level Trust Level	1.333*** [0.155]	1.395*** [0.307]	1.270*** [0.288]	1.292*** [0.292]	1.275*** [0.309]
Bank Branches in Target Country			-0.098*** [0.029]	-0.155*** [0.056]	-0.164*** [0.058]
Bank Branches in Target Country (squared)				0.013 [0.013]	0.015 [0.013]
Bank x Time FEs	Yes	Yes	Yes	Yes	Yes
Target Country x Time FEs	Yes	Yes	Yes	Yes	No
Home Country x Target Country FEs	No	Yes	Yes	Yes	No
Home Country x Target Country x Time FEs	No	No	No	No	Yes
Observations	23,760	23,760	23,760	23,760	21,615
<i>Adjusted R</i> ²	0.477	0.584	0.586	0.586	0.550

Notes: The table summarizes the results of *Equation (3)* estimated with varying sets of fixed effects and control variables over the full sample period 2010-Q1 to 2021-Q2. Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Bank-level Trust Level* is computed for each bank-target country pair as the branch-weighted average (see *Equation (4)*) of trust levels, where trust level is defined as the portion of individuals in home country expressing “a lot of trust” towards target country, measured via Eurobarometer surveys. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table D.15: Impact of Bank-level Trust Bias (Guiso et al.) on Probability of Sovereign Exposure.

Outcome →	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure	(4) Sovereign Exposure	(5) Sovereign Exposure
Bank-level Trust Bias (Guiso et al.)	0.600*** [0.048]	0.668*** [0.159]	0.596*** [0.144]	0.618*** [0.145]	0.587*** [0.150]
Bank Branches in Target Country			-0.095*** [0.028]	-0.163*** [0.053]	-0.171*** [0.056]
Bank Branches in Target Country (squared)				0.015 [0.012]	0.017 [0.012]
Bank x Time FEs	Yes	Yes	Yes	Yes	Yes
Target Country x Time FEs	Yes	Yes	Yes	Yes	No
Home Country x Target Country FEs	No	Yes	Yes	Yes	No
Home Country x Target Country x Time FEs	No	No	No	No	Yes
Observations	23,760	23,760	23,760	23,760	21,615
<i>Adjusted R</i> ²	0.478	0.584	0.586	0.586	0.550

Notes: The table summarizes the results of *Equation (3)* estimated with varying sets of fixed effects and control variables over the full sample period 2010-Q1 to 2021-Q2. Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Bank-level Trust Bias* is computed for each bank-target country pair as the branch-weighted average (see *Equation (4)*) of the residuals from a gravity model of trust (see *Equation (2)*), where trust is defined as the average across individuals in home country expressing values from 1 (i.e., “no trust at all”) to 4 (i.e., “lot of trust”) towards target country, measured via Eurobarometer surveys. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table D.16: Impact of Bank-level Trust Level (Guiso et al.) on Probability of Sovereign Exposure.

Outcome →	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure	(4) Sovereign Exposure	(5) Sovereign Exposure
Bank-level Trust Level (Guiso et al.)	0.273 [0.170]	0.333*** [0.127]	0.295** [0.121]	0.303** [0.124]	0.296** [0.133]
Bank Branches in Target Country			-0.103*** [0.031]	-0.155*** [0.059]	-0.163*** [0.061]
Bank Branches in Target Country (squared)				0.012 [0.014]	0.014 [0.015]
Bank x Time FEs	Yes	Yes	Yes	Yes	Yes
Target Country x Time FEs	Yes	Yes	Yes	Yes	No
Home Country x Target Country FEs	No	Yes	Yes	Yes	No
Home Country x Target Country x Time FEs	No	No	No	No	Yes
Observations	23,760	23,760	23,760	23,760	21,615
<i>Adjusted R</i> ²	0.450	0.583	0.585	0.585	0.548

Notes: The table summarizes the results of *Equation (3)* estimated with varying sets of fixed effects and control variables over the full sample period 2010-Q1 to 2021-Q2. Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Bank-level Trust Level* is computed for each bank-target country pair as the branch-weighted average (see *Equation (4)*) of trust levels, where trust level is defined as the average across individuals in home country expressing values from 1 (i.e., “no trust at all”) to 4 (i.e., “lot of trust”) towards target country, measured via Eurobarometer surveys. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Table D.17: Interaction Between Bank-level Trust Bias and Eurozone Crises.

Outcome →	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure	(4) Sovereign Exposure
Bank-level Trust Bias*Eurozone crises(bond)	3.319** [1.550]	3.410** [1.554]		
Bank Branches in Target Country*Eurozone crises(bond)		-0.025 [0.040]		
Bank-specific Trust Bias*Eurozone crises(cds)			2.386* [1.342]	2.446* [1.362]
Bank Branches in Target Country*Eurozone crises(cds)				-0.015 [0.035]
Bank-specific Trust Bias	1.301*** [0.361]	1.167*** [0.330]	1.299*** [0.359]	1.167*** [0.330]
Bank Branches in Target Country		-0.105*** [0.030]		-0.104*** [0.030]
Bank x Time FEs	Yes	Yes	Yes	Yes
Target Country x Time FEs	No	No	No	No
Home Country x Target Country FEs	No	No	No	No
Home Country x Target Country x Time FEs	Yes	Yes	Yes	Yes
Observations	11,520	11,520	11,520	11,520
Adjusted R ²	0.540	0.542	0.539	0.542

Notes: The table summarizes the results of *Equation (3)* estimated with varying sets of fixed effects, control variables and interactions over the sample period 2010-Q1 to 2015-Q2. Dependent variable is *Sovereign Exposure*, defined as a dummy variable indicating any positive exposure of a bank toward a target country at a point in time reported in EBA and CEBS disclosures. *Bank-level Trust Bias* is computed for each bank-target country pair as the branch-weighted average (see *Equation (4)*) of the residuals from a gravity model of trust (see *Equation (2)*), where trust is defined as the portion of individuals in home country expressing “a lot of trust” towards target country, measured via Eurobarometer surveys. *Bank Branches* measures the number of bank branches (in thousands) that the bank owns in the target country. *Eurozone crises* variables indicate which target-country-time points correspond to two different thresholds: at least 400 basis points bond yields above Germany and at least 300 basis points in CDS spreads (both obtained from Datastream). All branch-related information is from SNL Financial. For the detailed construction of the data, see **Appendix A**. Robust standard errors are clustered at the bank level and reported in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

Online Appendix E: List of Banks in the Matched Sample

Bank names	Home country	Branch info available	Under SSM	2010 – Q1	2010 – Q4	2011 – Q3	2011 – Q4	2012 – Q2	2012 – Q4	2013 – Q2	2013 – Q4	2014 – Q4	2015 – Q2	2015 – Q4	2016 – Q2	2016 – Q4	2017 – Q2	2017 – Q4	2018 – Q2	2018 – Q4	2019 – Q2	2019 – Q4	2020 – Q2	2020 – Q4	2021 – Q2
Erste Bank	Austria	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Raiffeisen Bank	Austria		Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
OESTERREICHISCHE VOLKSBANK AG	Austria				x	x					x					x	x	x	x	x	x	x	x	x	x
BAWAG P.S.K.	Austria	Yes	Yes								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Raiffeisenlandesbank Niederösterreich-Wien AG	Austria	Yes	Yes								x	x	x	x	x	x									
Raiffeisenlandesbank Oberösterreich AG	Austria	Yes	Yes								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Sberbank Europe AG	Austria		Yes											x	x	x	x	x	x	x	x	x	x	x	x
VTB Bank AG	Austria		Yes											x	x	x	x								
Dexia	Belgium	Yes	Yes	x	x	x					x	x	x	x	x	x	x	x	x	x	x	x	x		
KBC Bank	Belgium	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Belfius Bank	Belgium	Yes	Yes				x	x			x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
AXA Bank Europe SA	Belgium	Yes	Yes								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Investar (Holding of Argenta Bank- en Verzekeringsgroep)	Belgium		Yes								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Bank of New York Mellon	Belgium		Yes											x	x	x	x	x	x	x	x	x	x	x	x
Deutsche Bank	Germany	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Commerzbank	Germany	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
LBBW	Germany	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
DZ Bank	Germany	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
BayernLB	Germany	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Norddeutsche Landesbank	Germany	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Hypo Real Estate (HRE)	Germany	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
WestLB	Germany	Yes		x	x	x																			

Bank names	Home country	Branch info available	Under SSM	2010 – Q1	2010 – Q4	2011 – Q3	2011 – Q4	2012 – Q2	2012 – Q4	2013 – Q2	2013 – Q4	2014 – Q4	2015 – Q2	2015 – Q4	2016 – Q2	2016 – Q4	2017 – Q2	2017 – Q4	2018 – Q2	2018 – Q4	2019 – Q2	2019 – Q4	2020 – Q2	2020 – Q4	2021 – Q2
HSH Nordbank	Germany	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x										
Helaba	Germany	Yes	Yes	x		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Landesbank Berlin	Germany	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
DEKA	Germany	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
WGZ Bank	Germany	Yes	Yes	x	x	x	x	x	x	x	x	x	x												
Deutsche Postbank	Germany	Yes		x																					
Aareal Bank AG	Germany	Yes	Yes								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Deutsche Apotheker- und Ärztebank eG	Germany	Yes	Yes								x	x	x						x	x	x	x	x	x	x
HASPA Finanzholding	Germany	Yes	Yes								x	x	x						x	x	x	x	x	x	x
IKB Deutsche Industriebank AG	Germany	Yes									x														
KfW IPEX-Bank GmbH	Germany										x														
Landeskreditbank Baden-Württemberg-Förderbank	Germany	Yes	Yes								x	x	x							x					
Landwirtschaftliche Rentenbank	Germany	Yes	Yes								x	x	x	x	x	x	x	x							
Münchener Hypothekenbank eG	Germany		Yes								x	x	x						x	x	x	x	x	x	x
NRW.Bank	Germany		Yes								x	x	x	x	x	x	x	x							
Volkswagen Financial Services AG	Germany	Yes	Yes								x	x	x	x	x				x	x	x	x	x	x	x
Wüstenrot Bausparkasse AG	Germany										x														
Wüstenrot Bank AG Pfandbriefbank	Germany	Yes									x														
HSH Beteiligungs Management GmbH	Germany		Yes													x	x	x	x	x	x	x	x	x	x
State Street Europe Holdings Germany S.a.r.l. & Co. KG	Germany		Yes													x	x	x	x	x	x	x	x	x	x
UBS Europe SE, Ffm	Germany		Yes																				x	x	x
J.P. Morgan AG, Frankfurt am Main	Germany		Yes																				x		
Danske Bank	Denmark	Yes		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Jyske Bank	Denmark	Yes		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Sydbank	Denmark	Yes		x	x	x	x	x	x	x	x	x	x						x	x	x	x	x	x	x

Bank names	Home country	Branch info available	Under SSM	2010 – Q1	2010 – Q4	2011 – Q3	2011 – Q4	2012 – Q2	2012 – Q4	2013 – Q2	2013 – Q4	2014 – Q4	2015 – Q2	2015 – Q4	2016 – Q2	2016 – Q4	2017 – Q2	2017 – Q4	2018 – Q2	2018 – Q4	2019 – Q2	2019 – Q4	2020 – Q2	2020 – Q4	2021 – Q2
NYKREDIT	Denmark	Yes			x	x	x	x	x	x	x	x	x						x	x	x	x	x	x	x
Santander	Spain	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
BBVA	Spain	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
JUPITER	Spain	Yes	Yes	x	x	x					x	x	x						x	x	x	x	x		
CAIXA	Spain	Yes	Yes	x	x	x	x	x	x	x	x	x	x					x	x	x	x	x	x	x	x
EFFIBANK	Spain	Yes	Yes		x						x	x	x						x	x	x	x	x		
Banco Popular Espanol	Spain	Yes	Yes	x	x	x	x	x	x	x	x	x	x												
Banco De Sabadell	Spain	Yes	Yes	x	x						x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Diada	Spain	Yes		x	x						x														
BREOGAN	Spain	Yes	Yes	x	x						x	x	x					x	x	x	x	x	x	x	x
Mare Nostrum	Spain	Yes	Yes	x	x						x	x	x												
BankInter, S.A.	Spain	Yes	Yes	x	x						x	x	x					x	x	x	x	x	x	x	x
ESPIGA	Spain			x	x																				
Banca Civica	Spain			x	x																				
Caja De Ahorros Y Monte De piedad De Zaragoza	Spain	Yes	Yes	x	x						x	x	x						x	x	x	x	x	x	x
M.P. Y C.A. De Ronda, Cadiz, Almeria, malaga, Antequera Y Jaen	Spain	Yes	Yes	x	x						x	x	x						x	x	x	x	x	x	x
Banco Pastor	Spain			x	x																				
Bilbao Bizkaia Kutxa	Spain			x	x																				
UNNIM	Spain			x	x																				
Caja De Ahorros Y Monte De Piedad De Gipuzkoa Y San Sebastian	Spain			x	x																				
CAI	Spain			x	x																				
Banca March, S.A.	Spain	Yes		x	x																				
Caja De Ahorros De Vitoria Y Alava	Spain			x	x																				
Caja De Ahorros Y Monte De Piedad De Ontinyent	Spain			x	x																				

Bank names	Home country	Branch info available	Under SSM	2010 – Q1	2010 – Q4	2011 – Q3	2011 – Q4	2012 – Q2	2012 – Q4	2013 – Q2	2013 – Q4	2014 – Q4	2015 – Q2	2015 – Q4	2016 – Q2	2016 – Q4	2017 – Q2	2017 – Q4	2018 – Q2	2018 – Q4	2019 – Q2	2019 – Q4	2020 – Q2	2020 – Q4	2021 – Q2
Colonya	Spain			x	x																				
CAM	Spain			x	x																				
Caja Sol	Spain			x																					
Caja De Ahorros Y Monte De Piedad De Cordoba	Spain			x																					
Banco Guipuzcoana, S.A.	Spain			x																					
Cajas Rurales Unidas	Spain		Yes								x	x	x					x	x	x	x	x	x	x	x
Kutxabank	Spain	Yes	Yes								x	x	x					x	x	x	x	x	x	x	x
OP-Pohjola	Finland	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Kuntarahoitus Oyj	Finland		Yes													x	x	x	x	x	x	x	x	x	x
Nordea Bank Abp	Finland		Yes																	x	x	x	x	x	x
Säästöpankkiliitto osk	Finland																			x	x	x	x		
BNP-PARIBAS	France	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Credit Agricole	France	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
BPCE	France	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
SocGen	France	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Banque PSA Finance	France										x			x	x										
BPI France (Banque Publique d'Investissement)	France		Yes								x	x	x						x	x	x		x	x	x
C.R.H. - Caisse de Refinancement de l'Habitat	France		Yes								x	x	x						x	x	x	x			
Groupe Crédit Mutuel	France	Yes	Yes								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
La Banque Postale	France	Yes	Yes								x	x	x						x	x	x	x	x	x	x
RCI Banque	France		Yes								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Société de Financement Local	France		Yes								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Banque Centrale de Compensation (LCH Clearnet)	France																		x	x	x	x			
HSBC France	France		Yes																				x	x	x

Bank names	Home country	Branch info available	Under SSM	2010 – Q1	2010 – Q4	2011 – Q3	2011 – Q4	2012 – Q2	2012 – Q4	2013 – Q2	2013 – Q4	2014 – Q4	2015 – Q2	2015 – Q4	2016 – Q2	2016 – Q4	2017 – Q2	2017 – Q4	2018 – Q2	2018 – Q4	2019 – Q2	2019 – Q4	2020 – Q2	2020 – Q4	2021 – Q2
RBS	UK	Yes		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x		
HSBC	UK	Yes		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x		
Barclays	UK	Yes		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x		
Lloyds	UK	Yes		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x		
Nationwide Building Society	UK																		x	x	x	x	x		
Standard Chartered Plc	UK															x	x	x	x	x	x	x	x		
EFG Eurobank	Greece	Yes	Yes	x	x			x	x	x			x	x	x	x	x	x	x	x	x	x	x	x	x
National Bank of Greece	Greece	Yes	Yes	x	x			x	x	x			x	x	x	x	x	x	x	x	x	x	x	x	x
Alpha Bank AE	Greece	Yes	Yes	x	x			x	x	x			x	x	x	x	x	x	x	x	x	x	x	x	x
Piraeus Bank Group	Greece	Yes	Yes	x	x			x	x	x			x	x	x	x	x	x	x	x	x	x	x	x	x
ATE Bank	Greece			x	x																				
Hellenic Postbank	Greece			x	x																				
Allied Irish Bank	Ireland	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Bank of Ireland	Ireland	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
IRISH LIFE AND PERMANENT	Ireland	Yes	Yes		x	x	x	x	x	x	x	x	x	x	x	x									
DEPFA BANK Plc	Ireland												x	x	x	x	x	x							
Citibank Holdings Ireland Limited	Ireland		Yes												x	x	x	x	x	x	x	x	x	x	x
BoA Merrill Lynch International Designated Activity Company	Ireland		Yes																		x		x	x	x
Barclays Bank Ireland Plc	Ireland		Yes																				x	x	x
Ulster Bank Ireland Designated Activity Company	Ireland		Yes																				x	x	x
Intesa SanPaolo	Italy	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
UniCredito	Italy	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Monte Dei Paschi	Italy	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x					x	x	x	x	x	x	x
Banco Popolare	Italy	Yes	Yes	x	x	x	x	x	x	x	x	x													
Ubi Banca	Italy	Yes	Yes	x	x	x	x	x	x	x	x	x							x	x	x	x	x		

Bank names	Home country	Branch info available	Under SSM	2010 – Q1	2010 – Q4	2011 – Q3	2011 – Q4	2012 – Q2	2012 – Q4	2013 – Q2	2013 – Q4	2014 – Q4	2015 – Q2	2015 – Q4	2016 – Q2	2016 – Q4	2017 – Q2	2017 – Q4	2018 – Q2	2018 – Q4	2019 – Q2	2019 – Q4	2020 – Q2	2020 – Q4	2021 – Q2
Banca Carige S.P.A. - Cassa di Risparmio di Genova e Imperia	Italy	Yes	Yes								x	x	x						x						
Banca Piccolo Credito Valtellinese	Italy	Yes									x														
Banca Popolare Dell'Emilia Romagna - Società Cooperativa	Italy	Yes	Yes								x	x	x			x	x	x	x	x	x	x	x		
Banca Popolare Di Milano - SCRL	Italy	Yes	Yes								x	x	x												
Banca Popolare di Sondrio	Italy	Yes	Yes								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Banca Popolare di Vicenza - Società Cooperativa per Azioni	Italy	Yes	Yes								x	x	x												
Credito Emiliano S.p.A.	Italy	Yes	Yes								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Iccrea Holding S.p.A	Italy	Yes	Yes								x	x	x						x	x	x	x	x	x	x
Mediobanca - Banca di Credito Finanziario S.p.A.	Italy	Yes	Yes								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Veneto Banca S.C.P.A.	Italy	Yes	Yes								x	x	x												
Banco BPM S.p.A.	Italy		Yes																x	x	x	x	x	x	x
Cassa Centrale Banca - Credito Cooperativo Italiano SpA	Italy		Yes																		x	x	x	x	x
Gruppo Bancario Finecobank	Italy																								x
Gruppo Bancario Mediolanum	Italy																								x
ING Bank	Netherlands	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Rabobank	Netherlands	Yes		x	x	x	x	x	x	x															
ABN AMRO	Netherlands	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
SNS Bank	Netherlands		Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Bank Nederlandse Gemeenten N.V.	Netherlands		Yes								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Nederlandse Waterschapsbank N.V.	Netherlands		Yes								x	x	x						x	x	x	x	x	x	x
Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.	Netherlands	Yes	Yes								x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
LP Group B.V.	Netherlands																								x
DNB NOR BANK ASA	Norway	Yes			x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x		
SR-bank	Norway																		x	x	x	x	x		

Bank names	Home country	Branch info available	Under SSM	2010 – Q1	2010 – Q4	2011 – Q3	2011 – Q4	2012 – Q2	2012 – Q4	2013 – Q2	2013 – Q4	2014 – Q4	2015 – Q2	2015 – Q4	2016 – Q2	2016 – Q4	2017 – Q2	2017 – Q4	2018 – Q2	2018 – Q4	2019 – Q2	2019 – Q4	2020 – Q2	2020 – Q4	2021 – Q2
SpareBank 1 SMN	Norway																		x	x	x	x	x		
Caixa Geral de Depósitos	Portugal	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Banco Comercial Português	Portugal	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Espírito Santo Financial Group S.A. (ESFG)	Portugal			x	x	x	x	x	x	x															
Banco BPI	Portugal	Yes	Yes	x	x	x	x	x	x	x	x	x	x	x											
Caixa Central de Crédito Agrícola Mútuo, CRL	Portugal													x	x	x	x	x	x	x	x	x			
Caixa Económica Montepio Geral	Portugal																		x	x	x	x	x		
Novo Banco	Portugal		Yes											x	x	x	x	x	x	x	x	x	x	x	x
Nordea	Sweden	Yes		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x							
SEB	Sweden	Yes		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Svenska Handelsbanken	Sweden	Yes		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Swedbank	Sweden	Yes		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Kommuninvest - group	Sweden													x	x	x	x	x	x	x	x	x	x	x	x
SBAB Bank AB - group	Sweden																		x	x	x	x	x	x	x
Länsförsäkringar Bank AB - group	Sweden																		x	x	x	x	x	x	x



THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■



Systemic Risk Centre

The London School of Economics
and Political Science
Houghton Street
London WC2A 2AE
United Kingdom

Tel: +44 (0)20 7405 7686
systemicrisk.ac.uk
src@lse.ac.uk