Cultural Stereotypes of Multinational Banks

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Introduction

- Cultural stereotypes are historically determined and change very slowly
  - "It is harder to crack prejudice than an atom." (Einstein)

- Grain of truth? Hard to differentiate between biases and fundamentals!

- This paper: Cultural stereotypes lead us to trust or distrust in other nations, ethnicities, etc.

Introduction

- Cultural closeness is crucial for financial markets but is it because of <u>higher trust or better information</u>?

  - Historical example: a concentration of commercial and financial transactions among individuals with a common cultural background (see e.g. Greif 1989, 1991)

  - Modern investors underweighting culturally distant foreign markets (Anderson et al. 2011);

  - and overweighting firms whose CEOs are of a common cultural background (Grinblatt and Keloharju 2001)

Introduction

- **In this paper**: Does "cultural trust" matter for financial institutions?
  - Focus on an ideal laboratory: bank exposures of sovereign debt in Europe
    - Supranational supervision of banks & homogenous regulatory treatment of gov't bonds
  - Cultural trust measure from *Eurobarometer* surveys (Guiso et al., 2009)
    - How much each country's people "trust" in people from another country
  - Merge with a unique bi-annual dataset collected from *EBA* and *CEBS* between 2010 and 2021.
    - More detailed than ECB supervisory confidential data
  - Construct a bank-level trust measure by leveraging bank branch networks
    - A full mapping of bank branches across Europe for each bank from *SNL Financial*
  - **Identification**: compare banks headquartered in the same country at the same point in time and with regards to their exposures towards the same target country/sovereign
    - Going from country-level to bank-level evidence with a micro-foundation for why culture is heterogenous across (multinational) banks

Literature

- **<u>Bilateral trust in international econ and finance</u>:**

    - A higher level of trust at the country level has a positive impact on levels of economic exchange such as trade, portfolio investment and foreign direct investment (Guiso, Sapienza and Zingales, 2009).

    - Greater trust leads to more decentralisation of multinational firms (Bloom, Sadun and Van Reenen, 2012).

    - International investment decisions of venture firms are influenced by bilateral trust (Bottazzi, Da Rin and Hellmann, 2016).

    - Equity analysts' stock recommendations are biased in favour of firms in foreign countries more trusted by the analysts' home country (Pursiainen, 2022)

- **<u>Cultural attitudes and investment biases</u>:**

    - Common cultural heritage (language or CEO background) matters for investors' stock portfolios (Grinblatt and Keloharju, 2001).

    - U.S. banks whose CEOs immigrated from countries with high average levels of trust charge lower syndicated loan rates (Hagendorff, Lim and Nguyen, 2022).

- **<u>Determinants of banks' sovereign exposures</u>:**

    - Mostly to explain why banks' home bias in gov't exposures increases during crises (Broner, Martin and Ventura, 2010; Saka, 2020; Crosignani, 2021)
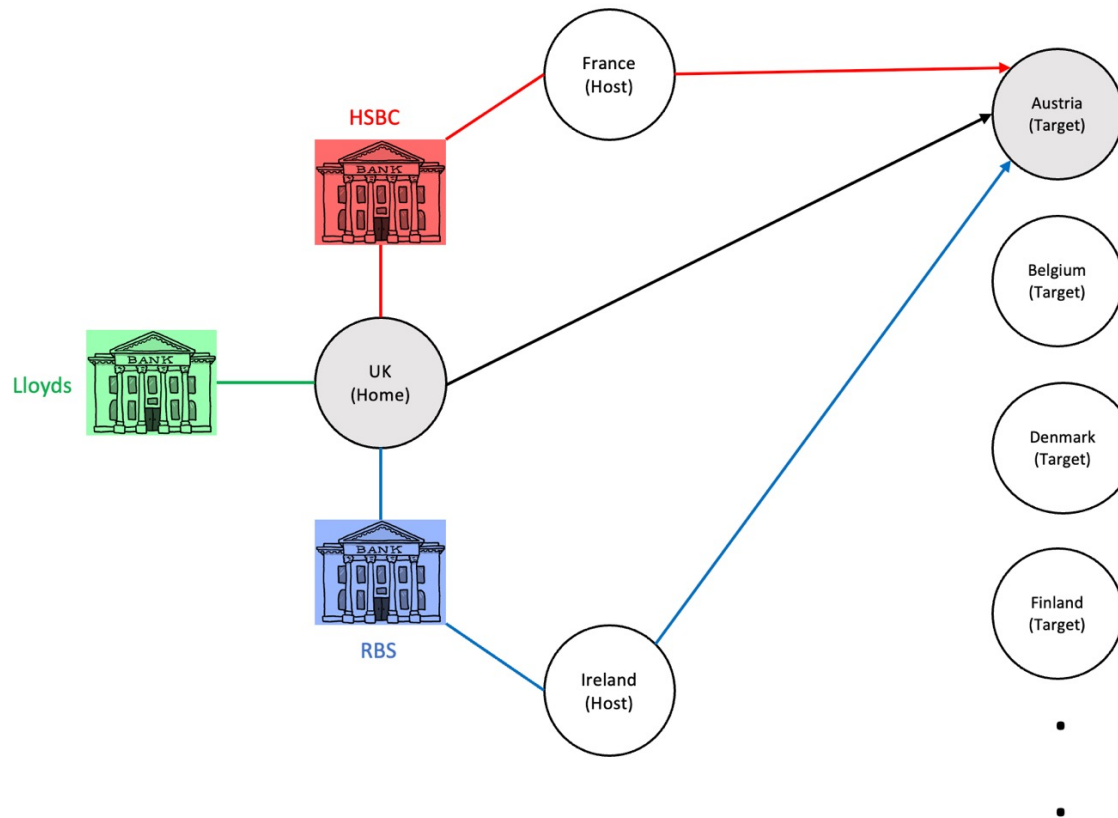
Identification strategy (country-level)
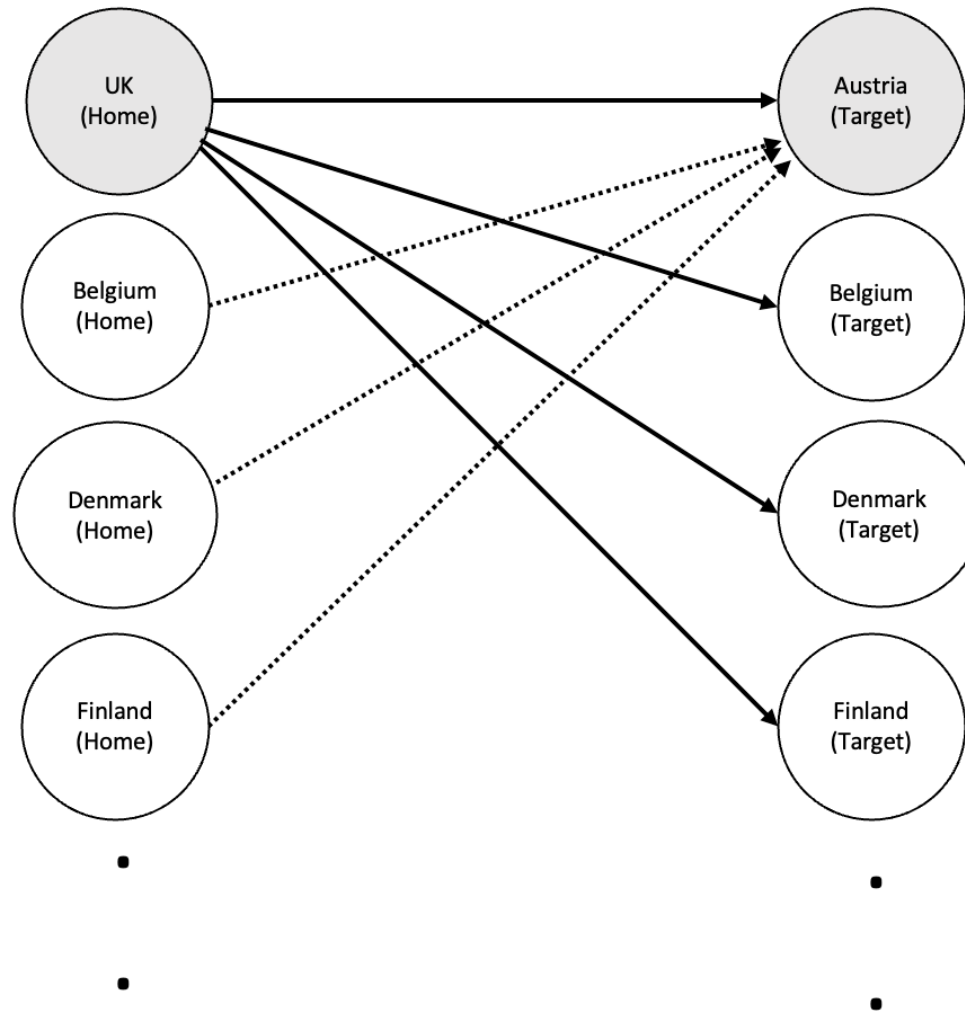
Identification strategy (mechanisms)
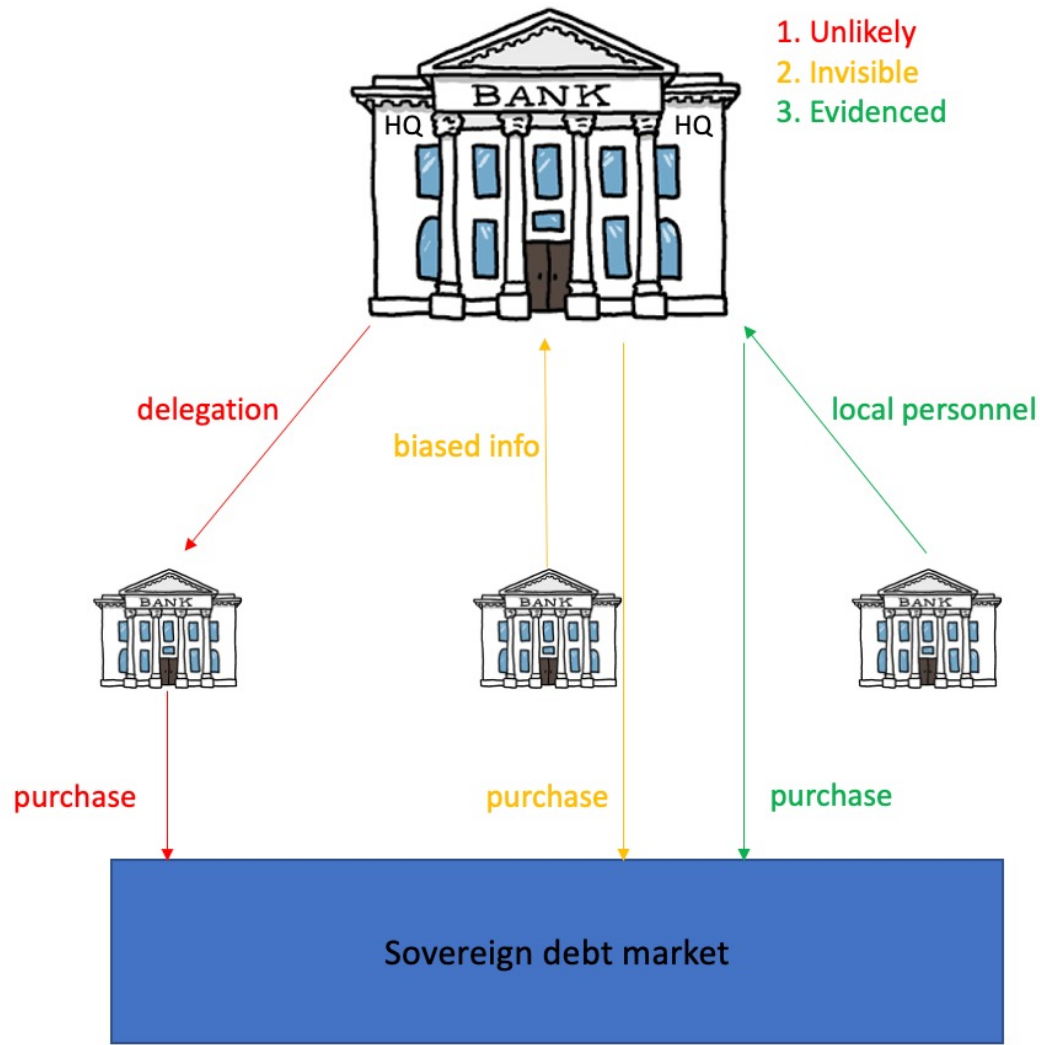
Identification strategy (bank-level)

Minimizing information channel:
- excluding home-country exposures;
- excluding host-country exposures;
- indirect relationships between banks and target countries (via host countries)

Data

- ## Eurobarometer:

  - Latest trust question in 1996.

  - *"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"*

  - **Country-level bilateral trust**: Percentage of people in home country who express "a lot of trust" towards people in target country (Pursiainen, 2022)

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

Home countries	Austria	Belgium	Denmark	Finland	France	Germany	Greece	Ireland	Italy	Netherlands	Norway	Portugal	Spain	Sweden	GB
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

Data

- **<u>European Banking Authority (EBA) and CEBS</u>:**
  - Stress-tests, capital exercises, transparency exercises between 2010-2021.
  - Consolidated bank-level exposures to up to 200 sovereigns (restricted to 30 European sovereigns)
  - Banks manually traced over time due to mergers, closures, name changes, etc.
  - Result: 199 banks located in 27 European countries across 22 points in time (11 years) with exposures to 30 European gov'ts

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

Data (cont'd)

- Other datasets and summary statistics:

Appendix Table A.2: Summary Statistics

Variables	Mean	Standard dev.	Min	Max	Observations	Source
Country-level treatment						
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)
Mechanism						
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
Bank-level treatment						
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

Empirical setting (country-level)

Country-level trust bias is proxied by $\mathfrak{Z}$ in:

$$\textit{Country-level Bilateral Trust}_{hc} = \alpha_1 \vartheta_h + \alpha_2 \vartheta_c + \mathfrak{Z}_{hc}$$

- $$\textit{SoxExp}_{bhct} = \beta_1 \textit{Country-level trust bias}_{hc}$$
$$+ \beta_2 X_{hc} + \beta_3 \Omega_{bt} + \beta_4 \mu_{ct} + \varepsilon_{bhct}$$

where *SoxExp* is a dummy variable equal to 1 if bank **b** headquartered in country **h** has any exposure to target country **c** at time point **t**.

Main results (country-level)

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

Outcome ➔	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure	(4) Sovereign Exposure	(5) Sovereign Exposure	(6) Sovereign Exposure	(7) Sovereign Exposure	(8) Sovereign Exposure	(9) Sovereign Exposure	(10) 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

Country-level trust matters but is confounded by other factors.

Empirical setting (mechanism)

- *Nationality at HQ$_{bhc}$ = β$_1$BankBranches$_{bc}$*
$$+ \beta_2\Omega_b + \beta_3\mu_c + \beta_4\rho_{hc} + \varepsilon_{bhc}$$

where **Nationality at HQ** is a dummy equal to 1 if bank **b** headquartered in country **h** has a current (or former) high-level manager employed in its headquarters with nationality from target country **c**.

Main results (mechanism)

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***	0.281***	0.157***	0.156***	0.121**
	[0.043]	[0.042]	[0.024]	[0.024]	[0.053]
Adjusted R^2	*0.082*	*0.106*	*0.350*	*0.384*	*0.480*
Log of Bank Branches in Target Country	0.110***	0.111***	0.074***	0.071***	0.046***
	[0.008]	[0.008]	[0.009]	[0.010]	[0.014]
Adjusted R^2	*0.205*	*0.222*	*0.408*	*0.432*	*0.493*
Share of Bank Branches in Target Country	1.105***	1.105***	0.590***	0.590***	0.682**
	[0.087]	[0.087]	[0.096]	[0.096]	[0.282]
Adjusted R^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
Observations	660	660	660	660	600

Bank branch networks predict the nationality of the high-level managerial teams at HQs.

Empirical setting (bank-level)

Bank-level trust bias is:

$$\text{Bank-level Trust Bias}_{b,c} = \sum_{i=1}^{n}\left(\text{Weight}_{b,i} \; x \; \text{CountryLevel Trust Bias}_{i,c}\right)$$

- $SoxExp_{bhct} = \beta_1 Bank\text{-}level\ trust\ bias_{bc}$
  $+ \beta_2 BankBranches_{bc} + \beta_3\Omega_{bt}$
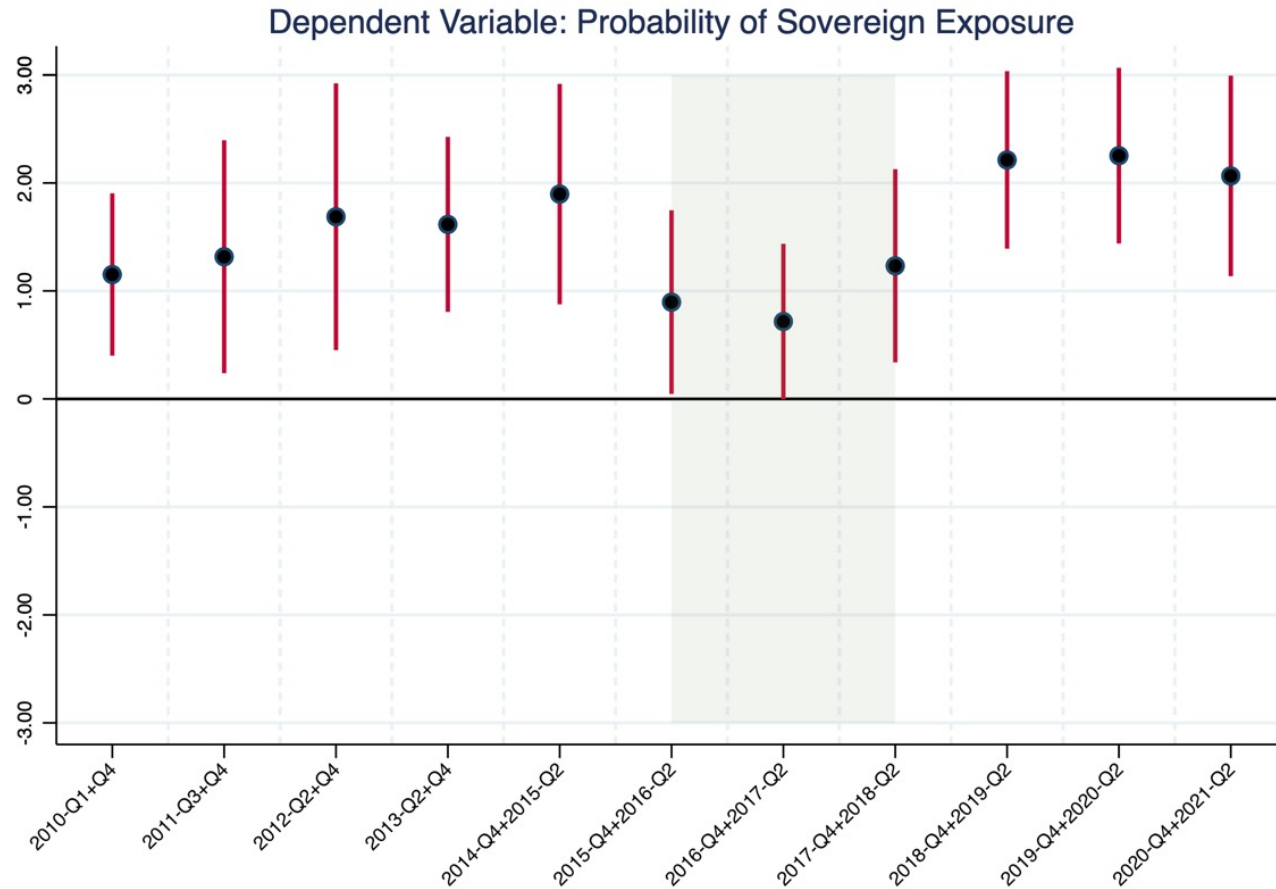 $+ \beta_4\mu_{ct} + \beta_5\rho_{hct} + \varepsilon_{bhct}$

Main results (bank-level)

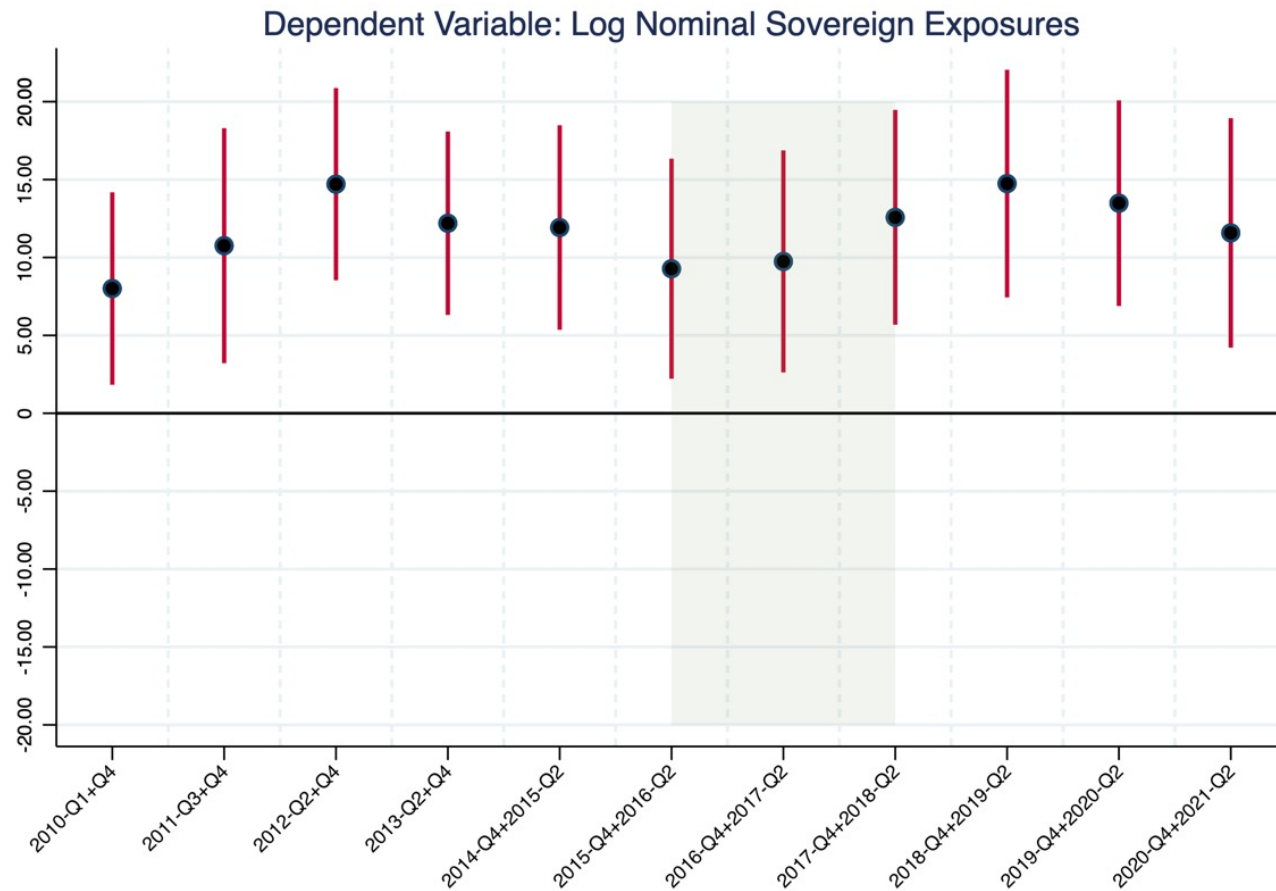**Table 3: The Impact of Bank-level Trust Bias on Probability of Sovereign Exposure**

Outcome ➜	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure	(4) Sovereign Exposure	(5) Sovereign Exposure
Bank-level Trust Bias	1.353***	1.757***	1.604***	1.630***	1.562***
	[0.110]	[0.329]	[0.301]	[0.300]	[0.310]
Bank Branches in Target Country			-0.090***	-0.153***	-0.163***
			[0.027]	[0.053]	[0.056]
Bank Branches in Target Country (squared)				0.014	0.016
				[0.011]	[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 R²	0.487	0.586	0.588	0.588	0.551

Economic magnitude: One standard deviation rise in bank-level trust bias increases the probability of investing in a target country by 14 per cent (compared to unconditional probability of %58)

Main results (persistency)

Dependent Variable: Probability of Sovereign Exposure

Main results (persistency)

Dependent Variable: Log Nominal Sovereign Exposures

Add. results (foreign targets)

Table B.9: The Impact of Bank-level Trust Bias on Probability of Sovereign Exposure (Foreign target countries).

	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure	(4) Sovereign Exposure	(5) Sovereign Exposure
Outcome ➜					
Bank-level Trust Bias	1.506***	1.347***	1.600***	1.712***	1.672***
	[0.246]	[0.494]	[0.509]	[0.487]	[0.515]
Bank Branches in Target Country			-0.176**	-0.586*	-0.611*
			[0.082]	[0.332]	[0.357]
Bank Branches in Target Country (squared)				0.556	0.568
				[0.397]	[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
Adjusted R²	0.493	0.578	0.578	0.578	0.541

Add. results (foreign + no branches)

Table B.11: The 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

Add. results (indirect linkages)

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***	1.638***	1.732***	1.381***	1.371***
	[0.281]	[0.368]	[0.384]	[0.460]	[0.467]
Bank Branches in Target Country	-0.163***	-0.166***	-0.164***	-0.171***	-0.169***
	[0.054]	[0.056]	[0.058]	[0.059]	[0.060]
Bank Branches in Target Country (squared)	0.016	0.016	0.015	0.017	0.016
	[0.010]	[0.012]	[0.012]	[0.013]	[0.014]
Indirect Branch Relationship with Target Country		-0.004	0.000	-0.004	-0.010
		[0.009]	[0.012]	[0.014]	[0.015]
Indirect Merger Relationship with Target Country			-0.370	-0.447	-0.418
			[0.641]	[0.609]	[0.642]
Indirect Media Relationship with Target Country				0.496	0.472
				[0.358]	[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 R²	0.551	0.551	0.551	0.552	0.552

Add. results (IV)

Table D.18: The Impact of *Instrumented* Bank-level Trust Bias on Probability of Sovereign Exposure

Outcome →	(2SLS) Sovereign Exposure	(First-stage) Bank-level Trust Bias	(2SLS) Sovereign Exposure	(First-stage) Bank-level Trust Bias
Bank-level Trust Bias	2.260*** [0.529]		2.837** [1.118]	
Bank Branches in Target Country	-0.165*** [0.055]	-0.002 [0.007]	-0.818** [0.402]	0.129** [0.050]
Bank Branches in Target Country (sq)	0.018* [0.010]	-0.000 [0.002]	0.753 [0.460]	-0.130* [0.070]
Bank-level Distance in Power Distance		-0.207*** [0.029]		-0.089*** [0.028]
Bank-level Distance in Individualism		-0.278*** [0.031]		-0.172*** [0.021]
Bank-level Distance in Masculinity		-0.153*** [0.023]		-0.105*** [0.033]
Bank-level Distance in Uncertainty Avoidance		0.003 [0.029]		-0.047* [0.026]
Bank-level Distance in Long-term Orientation		-0.169*** [0.044]		-0.029 [0.026]
Bank-level Distance in Indulgence		-0.222*** [0.039]		-0.114** [0.050]
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	21,615	21,615	20,241	20,241
Bank Sample	All	All	Foreign	Foreign
First-stage Kleibergen-Paap F-stat		175.23		44.59
First-stage Montiel-Pflueger F-stat		137.62		35.12

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Add. results (Eurozone only)

Table B.14: The Impact of Bank-level Trust Bias on Probability of Sovereign Exposure (Eurozone Countries Only).

Outcome ➔	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure	(4) Sovereign Exposure	(5) Sovereign Exposure
Bank-level Trust Bias	1.274***	1.850***	1.580***	1.578***	1.552***
	[0.111]	[0.399]	[0.366]	[0.361]	[0.386]
Bank Branches in Target Country			-0.091***	-0.148***	-0.156***
			[0.027]	[0.052]	[0.054]
Bank Branches in Target Country (squared)				0.013	0.014
				[0.011]	[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
Adjusted R^2	0.492	0.562	0.565	0.565	0.547

Add. results (GIIPS excluded)

Table B.16: The Impact of Bank-level Trust Bias on Probability of Sovereign Exposure (GIIPS Excluded).

Outcome ➜	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure	(4) Sovereign Exposure	(5) Sovereign Exposure
Bank-level Trust Bias	0.801***	1.113***	1.021***	1.093***	1.015***
	[0.121]	[0.352]	[0.329]	[0.321]	[0.347]
Bank Branches in Target Country			-0.101**	-0.285***	-0.284***
			[0.045]	[0.083]	[0.090]
Bank Branches in Target Country (squared)				0.079**	0.078**
				[0.032]	[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
Adjusted R^2	0.456	0.573	0.574	0.575	0.485

Add. results (SSM banks)

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***	2.046***	1.815***	1.854***	1.828***
	[0.112]	[0.351]	[0.312]	[0.312]	[0.333]
Bank Branches in Target Country			-0.096***	-0.190***	-0.199***
			[0.030]	[0.059]	[0.063]
Bank Branches in Target Country (squared)				0.022*	0.025*
				[0.013]	[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	SSM banks	SSM banks	SSM banks	SSM banks
Observations	12,795	12,795	12,795	12,795	12,105
Adjusted R²	0.504	0.593	0.595	0.596	0.559

Add. results (heterogeneity)

Table 3: The Role of Diversification and Commonness in the Impact of Bank-level Trust Bias on Probability of Sovereign Exposure.
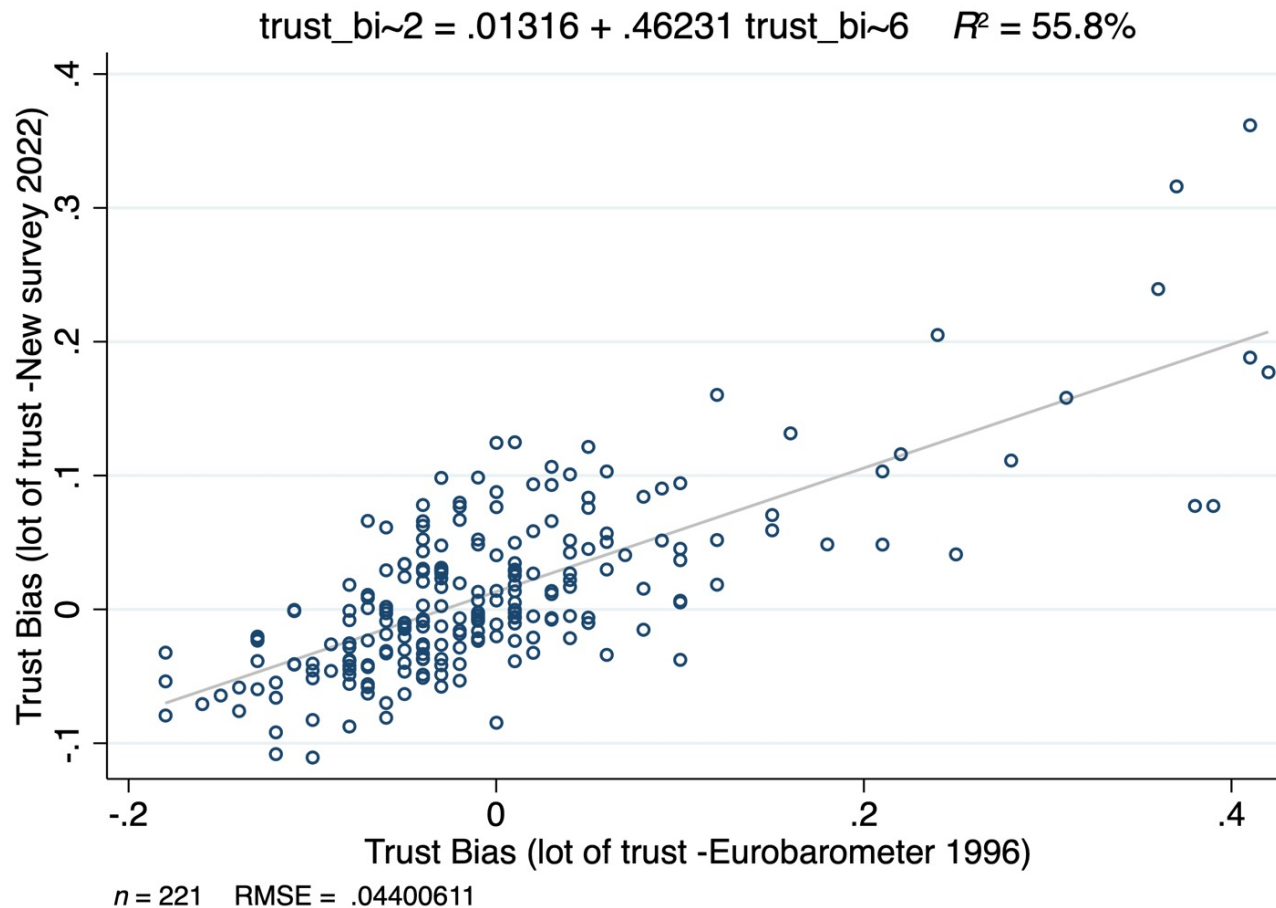
Outcome ➔	(1) Sovereign Exposure	(2) Sovereign Exposure	(3) Sovereign Exposure	(4) Sovereign Exposure
	Diversifying banks	Non-diversifying banks	Common targets	Non-common targets
Bank-level Trust Bias	0.740**	2.134***	1.018***	1.893**
	[0.326]	[0.486]	[0.355]	[0.824]
Bank Branches in Target Country	-0.188***	0.049	-0.083	-0.237
	[0.047]	[0.053]	[0.056]	[0.181]
Bank Branches in Target Country (squared)	0.033**	-0.009	-0.001	0.192*
	[0.012]	[0.008]	[0.014]	[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
Adjusted R^2	0.348	0.490	0.556	0.523

Add. results (role of crises)

Table B.20: The 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	Yes	Yes	Yes	Yes
Home Country x Target Country FEs	No	Yes	Yes	Yes
Home Country x Target Country x Time FEs	No	No	No	No
Observations	11,520	11,520	11,520	11,520
Adjusted R^2	0.540	0.542	0.539	0.542

Add. results (persistency & ext. validity)

trust_bi~2 = .01316 + .46231 trust_bi~6 R^2 = 55.8%

Trust Bias (lot of trust -New survey 2022)

Trust Bias (lot of trust -Eurobarometer 1996)

n = 221   RMSE = .04400611

- A new online survey (via Respondi) across 30 European countries
- Correlation with existing survey: ~ 0.75

Conclusions

- We aim to extend the econ/finance literature on cultural stereotypes by proposing a tighter identification strategy (from country to bank-level).

- Our results imply an economically substantial effect of cultural trust on European banks' cross-country investments.

  - Likely to be inefficient for sovereign debt markets

- Diversity is key!

  - Positive and negative stereotypes balance each other in diverse managerial groups