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Does shareholder structure affect income smoothing in Central European banks?[1]

The aim of this paper is to analyse the link between bank income smoothing and shareholder structure, using a sample of Central European banks. Using data for 2004-2014, we demonstrate that foreign banks incite their subsidiaries to use loan loss provisions for income smoothing purposes. This process intensifies after the outbreak of the financial crisis and persists after the crisis. State banks show varying degrees of income smoothing, with more intense smoothing before the crisis and a diminished link between provisions and income during- and after the crisis. Overall, we provide important evidence for an effect of foreign bank ownership upon loan loss reserve policy in subsidiary banks, extending the existing evidence on shock transmission from home to host countries only through the credit supply channel.

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