

## Accepted Manuscript

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PII: S0378-4266(14)00203-9

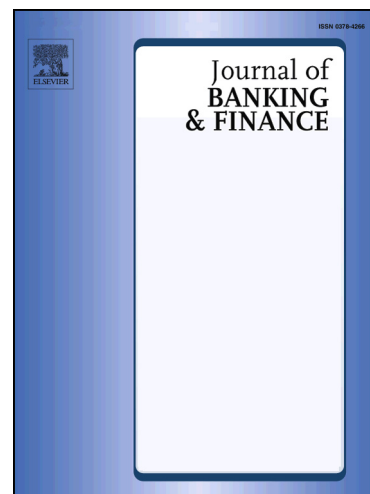
DOI: <http://dx.doi.org/10.1016/j.jbankfin.2014.06.005>

Reference: JBF 4481

To appear in: *Journal of Banking & Finance*

Received Date: 24 April 2013

Accepted Date: 6 June 2014



Please cite this article as: Frey, R., Kerl, C., Multinational banks in the crisis: Foreign affiliate lending as a mirror of funding pressure and competition on the internal capital market, *Journal of Banking & Finance* (2014), doi: <http://dx.doi.org/10.1016/j.jbankfin.2014.06.005>

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# Multinational banks in the crisis: Foreign affiliate lending as a mirror of funding pressure and competition on the internal capital market

May 2014

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## Abstract

We investigate how the lending activities abroad of a multinational bank's local and hub affiliates have been affected by funding difficulties during the financial crisis. We find that affiliates' local deposits and performance have been stabilizing loan supply. By contrast, relying on short-term wholesale funding has increasingly proven to be a disadvantage in the crisis, which has seen inter-bank and capital markets freeze. By introducing a liable approximate measure for intra-bank flows, we detect competition for intra-bank funding between the affiliates abroad as well as an increasing focus on the parent bank's home market activities. In addition, the more an affiliate abroad relies on intra-bank funding in the crisis, the greater its dependence on its parent bank having a stable deposit and long-term wholesale funding position. We consider changes in long-term lending to the private sectors of 40 countries by the affiliates of the 68 largest German banks. To obtain a more precise picture, we clean our lending data from valuation effects.

**JEL Classification:** G21; F23; F34; E44

**Keywords:** Multinational banks; affiliates; funding structure; internal capital market; intra-bank lending; wholesale funding; financial crisis

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This opinions expressed in the paper are those of the authors and do not necessarily reflect the views of the Deutsche Bundesbank.

This paper has benefited from the rich input we received from Alexander Lipponer in connection with work on an earlier, joint paper. Furthermore, we are very grateful for valuable comments by Jörg Breitung, Claudia Buch, Jens Conrad, Ulrich Grosch, Heinz Herrmann, Thomas Kick, Cordula Munzert, Peter Raupach, Winfried Rudek and Peter Tillmann. Any errors and inaccuracies are our own. We gratefully acknowledge financial support received from the University of Giessen (C. Kerl), which was granted at an early stage of the paper.

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