

Research Report

Accounting conservatism

In which way the degree of conditional accounting conservatism in advance of the financial crisis is a predictor, of the degree during and after the financial crisis.

A comparative research between the banks in Southern and Northern European countries

Master Accounting, Auditing and Control

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Date : April 2012

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Abstract

Although an extensive number of scientific articles already have published on the use of accounting conservatism, the convention exists that certain topics regarding the use of accounting conservatism need further explanation.

Previous studies have examined the relation between firm performance and accounting conservatism (e.g. Jansen, 2010) and the relation between earnings management and accounting conservatism (e.g. Molenaar, 2009) in the United States before and during the financial crisis using the Basu-measure.

Those studies concluded respectively that there is an upward trend during the financial crisis in the degree of conditional accounting conservatism and that bank managers' use their discretion over loan loss provisions to influence conditional accounting conservatism.

This research introduces the inclusion of the period after the financial crisis and investigates whether an upward trend is present or if the use of conditional accounting conservatism before the financial crisis is in any way a predictor of conditional accounting conservatism during and after the financial crisis in Europe. In addition a distinction between Northern and Southern European banks is made due to investigating the recent news in a more scientific approach.

Findings of the research indicate, in contrast with the research findings of Jansen (2010) in the United States, that when using the same research model (original Basu-measure) the use of conditional accounting conservatism is not present before and during the crisis in Europe.

Using the adjusted Basu-model with loan loss provisions the findings indicate that the use of conditional accounting conservatism is present during the financial crisis. These findings are consistent with the literature of Nichols et al (2008) that the loan loss provision seems to be the best place to measure conservatism.

Additional findings of the research could indicate a different discretion of bank managers in the Northern and Southern European countries due to different results of conditional accounting conservatism.

Thus, the analysis shows no results that indicate that the use of conditional accounting conservatism is in any way a predictor of the use of conditional accounting conservatism during and after the financial crisis.

Preface

The emerged financial crisis in the summer of 2007 in the United States is still an argument of the day, examples are the news bulletins over Greece and other Southern European countries.

Apparently, banks played an substantive role in this crisis. The financial crisis spread to Europe and the main factors that created the crisis were risky and incorrect lending procedures by banks.

By examining in which way the use of conditional accounting conservatism in advance of the financial crisis is a predictor of the use of conditional accounting conservatism during and after the financial crisis, with a specific distinction between Northern and Southern European banks, I tried to provide additional insight in the conservative behaviour of European banks.

This research report is the crown on my Master's Degree program Accounting, Auditing & Control at the Erasmus University Rotterdam. For the guidance and help in the writing process from my Master's Thesis supervisor I would like to thank Mr. E.A. de Knecht RA. The supervision he provided was relevant and an important contribution in completing this report. Due to starting the post-initial program Accountancy on the Erasmus School of Accounting and Assurance in September 2011 I would like to thank him especially for his patience during the writing process.

In addition, I would like to thank Mr. Dr. Sc. Ind. A.H. van der Boom in advance for his role as co-reader.

This report is the end of my Master's Degree program and I will continue to increase my knowledge in accountancy and auditing by focusing on my post-initial program Accountancy on the Erasmus School of Accounting and Assurance on the Erasmus University Rotterdam.

Bas Hijmering
Rotterdam, April 2012

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1. Introduction

1.1 Background

1.1.1 Accounting conservatism

Conservatism has influenced accounting practice for at least five hundred years.

Conservatism is the most influential principle of valuating in accounting.

(Watts, 2003)

Based on these statements it has become clear what the importance of the use of conservatism in the accounting practice is. Before explaining accounting conservatism, it is needed to clarify its function in the accounting process. The following figure shows the function of accounting conservatism started from the point of usefulness of financial statement information.

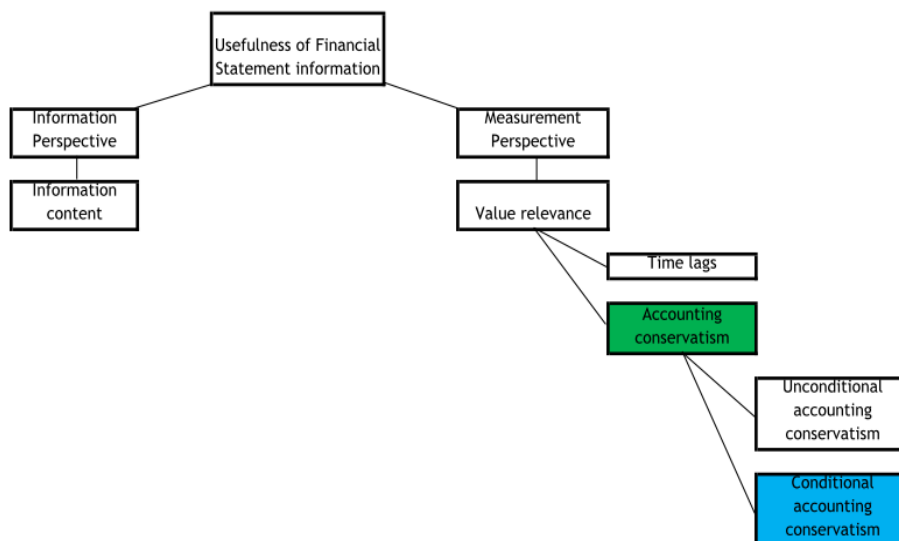


Figure 1: Usefulness of Financial Statement Information and Accounting conservatism

The figure is based on several earlier studies (e.g. Watts, 2003). Despite the central role of the use of conservatism within accounting theory and practice, no authoritative definition of conservatism exists (Givoly and Hayn, 2000). As shown in figure 1 a distinction exists between unconditional and conditional accounting conservatism. This distinction is based on the article of Beaver and Ryan (2005); which describes the use of accounting conservatism as follows:

“The on average understatement of the book value of net assets relative to their market value.”

(Beaver and Ryan, 2005, p. 269)

In their article, Beaver and Ryan refer to unconditional accounting conservatism as news-independent or ex-ante whereas conditional accounting conservatism is referred to as news-dependent or ex-post.

According to Beaver and Ryan, unconditional accounting conservatism is due to predetermined aspects (adopted accounting policies and methods) of the accounting process and by the fact that the book value of net assets is understated. In addition, this is the reason why the use of unconditional accounting conservatism is qualified as balance-sheet conservatism.

Conditional accounting conservatism on the other hand qualifies as earnings conservatism (Beaver and Ryan, 2005). The reason for using the term earnings conservatism is that it refers to the application of accounting policies or methods that recognize bad news in earnings on a timelier basis than good news.

1.1.2 Financial crisis

The financial crisis that has recently evolved seems to be a very interesting topic in relation to the use of conditional accounting conservatism. This crisis has considerable economic consequences.

The financial crisis, in addition known as the economic crisis, emerged in the summer of 2007 when the subprime mortgage crisis erupted in the United States. The financial crisis spread also to Europe (Dabrowski, 2010). According to Mishkin (2009), the main factors that create the financial crisis have been the risky and the incorrect procedures for lending of the top banks of the United States.

According to Bordo and Landon-Lane (2010), the financial crisis ended with bailouts of insolvent banks by governments, expansionary fiscal and monetary policy in many countries, a provision of credit facilities to unclog financial markets and guarantees of the liabilities of the banking system. Their article further describes that the economic recovery started in the summer of 2009. Further on the pre financial crisis period is until the year 2006, the financial crisis period are the years 2007, 2008 and 2009 and the after financial crisis period is the year 2010.

1.1.3 European banking sector

As stated in the previous paragraph the financial crisis started in the banking sector of the United States (Mishkin, 2008). In the article of Roubini (2009), his opinion is that immoral lending practices in the United States have considered far from conservative and have ultimately led to big problems for banks all over the world.

Another opinion of Roubini (2009) is that in the United States the degree of accounting conservatism was relatively low at the beginning of the financial crisis. The previous paragraph has stated that according to Dabrowski the financial crisis also spread to Europe.

It is interesting, based on reading articles about the banking sector and the financial crisis and following discussions in the media, to investigate if the same counted for the banking sector in the European countries. Much has commented in a non-scientific way, for this reason, a more scientific approach could support or reject certain assumptions.

1.1.4 Division of European countries

During and after the financial crisis, the media have reported intensively about alleged malfunctioning of financial reporting of Southern European countries. For the Southern European countries, this resulted in proposals to leave the euro zone (e.g. Salmon, 2011).

In addition, this raises the question if Southern European countries differ in the degree of the use of accounting conservatism from northern European countries. During and after the financial crisis, the degree of the use of accounting conservatism could have changed in Southern Europe. Northern Europe could have possibly maintained the same level of the use of accounting conservatism before, during, and after the financial crisis.

The final choice to explain is the division between the northern and the southern European countries. Charlemagne (2010) explains that based on the Gross Domestic Product (GDP), an East-West Europe divide seems to fit in best. However, considering both geographical and economic trends including the financial crisis, Charlemagne (2010) concludes that it seems more accurate to use another distinction. This creates the division between an economically stronger Northern Europe and an economically weaker Southern Europe.

The question remains which countries belong to Northern and which countries belong to Southern Europe. A credit rating could be a method to measure the economic strength of a country. Appendix 1 applies the credit ratings of four rating agencies on Euro countries. The North-South division is visible, although Ireland is an exception. Applying the credit rating of Standard and Poor's and excluding Ireland, the categorization is stated underneath.

For the purpose of this research, Northern Europe contains the countries Austria, Belgium, Finland, France, Germany, Ireland, Luxembourg, and The Netherlands. The Southern European region contains the countries Cyprus, Greece, Italy, Malta, Portugal, Slovenia, and Spain.

In addition to the enumeration of Northern European countries, the decision to include Ireland needs an explanation. The assumption exists that in comparison to the other Northern Europe countries the results of the data of Ireland could result in an outlier. However, in this stage of the research a preliminary decision is not preferable.

1.2 Objectives

Although an extensive number of scientific articles already have published on the use of accounting conservatism, the convention exists that certain topics regarding the use of accounting conservatism need further exploration.

This research is an addition to prior scientific research regarding the use of accounting conservatism in relation to the financial crisis [e.g. Roubini (2009); El Allali (2010)].

According to Roubini (2009) at the beginning of the financial crisis, the degree of the use of accounting conservatism in the United States (US) was relatively low.

With regard to Europe, the expectation is that another situation exists with differences in the degree of the use of accounting conservatism between the banking sector in Northern and in Southern Europe. Moreover, the expectation exists that this is one of the early researches, regarding the use of accounting conservatism, that include the period after the financial crisis.

As already signaled in the previous paragraph, many discussions regarding the use of accounting conservatism and the financial crisis do not seem based on any empirical research. This research aims to present a research that provides a more scientific approach.

The expectation exists that this research will create results that are interesting for students in accounting, finance and banking, financial analysts. Besides that, the research results could be of value for bank managers, regulators, auditors and other interested readers.

1.3 Research Question

Based on the background information and the objectives in the previous paragraphs the research question is defined as

“In which way is conditional accounting conservatism in advance of the financial crisis a predictor of the degree of the use of conditional accounting conservatism during and after the financial crisis regarding the European banking sector?”

To answer the before formulated research question, the following questions need an answer:

- What is the content of the term conditional accounting conservatism?
- Why does this research choose for the use of conditional accounting conservatism?
- What is the role of the regulation in general and in the banking sector especially regarding the use of accounting conservatism?
- Which prior research performed research on the use of conditional accounting conservatism?
- Does the use of conditional accounting conservatism occur in the banking sector of both Northern and Southern Europe, before, during, and after the financial crisis?
- Is the degree of the use of conditional accounting conservatism in the pre-financial crisis period higher in the banking sector of Northern Europe than in the banking sector of Southern Europe?

1.4 Methodology

This paragraph will describe the research methods regarding the sub-questions. A literature study is used, to examine the role of regulation regarding the use of accounting conservatism in general and in the banking sector especially and the most appropriate measurement method to answer the research question, as by existing research on both regulation and appropriate measurement methods.

The population that is involved in the research is, as stated in an earlier paragraph, the banking sector of the countries in Northern and Southern Europe. In addition, a literature study is used to determine which banks are considered in the research.

After selecting an appropriate measurement method, it will become clear which resources the research will need to conduct the research. The gathered resources are processed and regressed in SPSS to answer the seventh and eighth sub-question.

Finally, analyzing the results will lead to detection of possible important variables or factors that influence the outcomes and the limitations of the research.

1.5 Demarcation and limitations

At first, it is important to mark the boundaries of the research. As signaled in an earlier paragraph an essential distinction in the use of accounting conservatism is present in the prior literature, as used by Beaver & Ryan (2005). While this research only investigates the use of conditional accounting conservatism in the banking sector, it excludes the use of unconditional accounting conservatism part of accounting conservatism and consequently this is not a subject in this research.

Secondly, the limitations expected or already encountered in studying literature needs clarification. In an earlier paragraph, Ireland has been considered as a possible outlier in the research. However, a preliminary decision in this stage of the research is not preferred and the research will consider Ireland. This could result in filtering Ireland out of the data.

Another limitation is that available information after the financial crisis period is limited to one year.

1.6 Structure

The research follows the structure of the sub-questions formulated in the paragraph “Research Question” and presents in this way a good insight in the process of answering the research question.

Chapter 2 starts with the content of the term conditional accounting conservatism, and continues with the question why, with respect to the banking sector, the research will use conditional accounting conservatism. In order to develop the necessary understanding of this concept, exploration of the theory of accounting conservatism and its explanations is considered relevant.

Chapter 3 will explain the influence of the regulation in general and in the banking sector specifically. This examination of the regulation in general and in the banking sector is to assess whether the Northern and the Southern countries are subject to different regulation and to provide an insight in the regulation environment of banks.

In order to develop expectations for the later in this chapter presented hypothesis, chapter 4 will present and explain prior scientific literature concerning empirical research related to measurement methods and empirical research focusing on the use of conditional accounting conservatism within the banking sector. On the other hand, this theory will become a framework of the used methodology with regard to earlier studies in the banking sector in order to choose an appropriate measurement method.

Chapter 5 will present the research design, based on this framework. This research design considers a thorough explanation of the research method used and aspects of the sample selection.

In order to answer the research question, chapter 6 will provide the results from the research and the research analysis.

Finally, the last chapter presents the conclusions and the limitations of the research and the suggestions for further research.

2. Conditional Accounting Conservatism

2.1 What is the content of the term conditional accounting conservatism?

The introduction of this research, based on the article of Beaver and Ryan (2005), presents a distinction between the terms conditional and unconditional accounting conservatism. To describe the content of the term conditional accounting conservatism, this chapter starts with this distinction used by Beaver and Ryan and continues with other prior scientific literature on the use of conditional accounting conservatism. After describing the content of the term, follows the reason for the use of conditional accounting conservatism in relation to the banking sector.

2.1.1 Beaver and Ryan

According to Beaver and Ryan, the use of unconditional accounting conservatism is due to predetermined aspects (adopted accounting policies and methods) of the accounting process and by the fact that the book value of net assets is understated. In addition, this is the reason why unconditional accounting conservatism is qualified as balance-sheet conservatism. Due to the predetermined aspects of unconditional accounting conservatism, in addition, it refers to the often-used term ex-ante conservatism (e.g. Richardson and Tinaikar, 2004).

Conditional accounting conservatism on the other hand qualifies as earnings conservatism (Beaver and Ryan, 2005). The reason for using the term earnings conservatism is that it refers to the application of accounting policies or methods that recognize bad news in earnings on a timelier basis than good news. Due to the application of accounting policies and methods, and the signaling of conditional accounting conservatism in a later stadium in addition, it refers to the often-used term ex-post conservatism (e.g. Richardson and Tinaikar, 2004).

2.1.2 Other prior scientific literature

The same distinction between unconditional and conditional accounting conservatism presents Ryan (2007). Conditional accounting conservatism involves, in the article of Ryan (2007), the more timely recognition of bad than good news in earnings, which for many types of assets occurs with impairment accounting. In other words formulates conditional conservatism involves writing down the assets in a timely fashion upon receiving sufficiently bad news but not writing up the assets as quickly upon receiving correspondingly good news (Ryan, 2007).

In addition, the research of Pae (2007), describes conditional accounting conservatism as the application of accounting methods and policies that recognize bad news in earnings on a timelier basis than good news.

Both researches are consistent with Basu's (1997) interpretation of conservatism that "*earnings reflect bad news more quickly than good news*" (Basu, 1997, p. 37). Consequently, the interpretation of Basu and his model is conditional accounting conservatism oriented.

According to Richardson and Tinaikar (2004), Basu attempts to characterize conservatism by stating that bad news items will be recognized more quickly in

financial statements than good news items. Richardson and Tinaikar (2004) valued Basu's definition entirely ex-post, in other words conditional conservatism in nature. However, because of choosing/adopting an accounting policy is a part of the conservatism, in their research is pointed out that Basu's definition does exist an ex-ante part, in other words an unconditional part. .

Due to the theory by Richardson and Tinaikar (2004), the choice/adoption of an accounting policy, becomes an even more important factor in the research. The following chapter will assess the accounting policies in general and in the banking sector especially.

2.2 Why conditional accounting conservatism is used?

After explaining the content of the term conditional accounting conservatism, the reason for using this term in this research needs to become clear. While more background information on the topic accounting conservatism is required, this paragraph starts with accounting conservatism in general. Based on prior literature this paragraph continues with reasons for using conditional accounting conservatism in relation with the banking sector.

2.2.1 Accounting conservatism in general

Bliss already described conservatism in 1924 by the rule "anticipate no profits but anticipate all losses" (Bliss, 1924). The interpretation of Basu of this rule is "*accountants' tendency to require a higher degree of verification to recognize good news as gains than to recognize bad news as losses*" (Basu 1997, page 7).

According to Watts, this anticipating of profit refers to recognizing profits before a legal claim to the revenues generating exists and before the revenues are verifiable. Summarized Watts refers to the use of accounting conservatism as the asymmetrical verification for losses and gains.

In addition, the article of Watts (2003) presents the following explanations for the use of accounting conservatism:

- Contracting
- Shareholder litigation
- Taxation and reporting
- Standards and regulations

All these explanations suggest that users of financial reports benefit from the use of conservatism. The next subparagraphs will clarify the explanations.

2.2.1.1 Contracting explanations

One explanation states that the use of conservatism arises because it is part of the efficient technology in the organization of the firm and its contracts with various parties. In the article of Watts, this qualifies as the contracting explanation (Watts, 2003). Based on this explanation, the use of accounting conservatism implies addressing moral hazard caused by parties to the firm having asymmetric payoffs asymmetric information, limited liability and limited horizons.

An essential distinction within the contracting explanations is the three attributes of accounting measures, timeliness, verifiability, and asymmetric verifiability.

2.2.1.2 Timeliness

Watts and Zimmerman (1986) introduced that timeliness relates to the agency costs. Agency costs arise when parties, management and other parties, are maximizing their own welfare instead of maximizing the firm's value. Agency costs include costs for aligning parties' incentives with firm value maximizing and the negative firm value effect caused by the remaining lack of alignment (Watts, 2003).

Reducing agency costs increases the firm value to be shared among the various parties to the firm. Examples of agency cost-reducing contracts are management compensation contracts, debt contracts between the firm and the holders of the firm's debt, cost-plus sales contracts, and employment contracts.

Besides the fact that contracting parties demand net assets for compensation and for debt contract purposes, timely measures of performance are demanded as well. Because these measures represent the effects of the managers' actions on firm value in the period in which the actions are taken, timely managerial performance measures are more effective.

Timeliness avoids dysfunctional outcomes associated with managers' limited horizon (Watts, 2003). This is explained in the following example:

Because future earnings will reflect the benefits of the project after the manager left the firm, a manager may forego positive net present value of a project with negative earnings on the short-term.

In debt contracts, earnings-based formulas are used to restrict the dividend payments and their goal is to maintain a certain amount of net assets within the firm. This certain amount wants the debt holder to be within the firm for a guaranteed backing or bond for the outstanding debt. These restrictions reduce the ability of the shareholders and the managers to maximize their own welfare by paying a liquidating dividend at the expense of debt-holders and total firm value (Smith and Warner, 1979).

In addition, accounting earnings are likely to generate such restrictions, when the earnings are not timely recorded, and do not recognize an increase in net assets in the year of occurrence. Consequently, accounting-based debt contracts and earnings-based management compensation contracts both generate a demand for timely earnings and net asset measures.

2.2.1.3 Verifiability

Much information that makes accounting measures, like net assets and earnings, informative and timely is not easy to verify. For example, the expected increase in net cash flows due to taking a product to a new market is useful information for examining a manager's performance. Because these estimates depend on assumptions about the future that experts cannot agree upon, the estimates of those future net cash inflows are not verifiable. While those estimates are not

verifiable, the contract will not use the estimates. To enforce in a court of law the contract verification is required, which is the reason why contracts exclude non-verifiable future net cash inflows from earnings measures.

When the expected future cash flows are negative and are not committed by contract, no legal liability for those cash outflows exists. Despite the lower verification requirement for losses, future cash outflows are not typically recognized. Besides no legal liability, another important reason for not recognizing these future cash outflows is that actions are likely to be taken to eliminate those negative future cash flows (Watts, 2003).

2.2.1.4 Asymmetric verifiability

After commenting that verification is necessary this subparagraph will explain why for gains a higher degree of verification is required than for losses.

Part of the explanation is the fact that relevant parties to the firm have asymmetric payoffs from the contracts.

The explanation is divided in three subjects: debt contracts, executive compensation contracts, and firm governance.

Debt Contracts

Investors in firm's debt do have an asymmetric pay off with respect to the net asset. At maturity of a loan, the firm's net assets can be above the face value of the debt or under the face value of the debt. When the firm's net assets are above the face value the debt-holders do not receive any extra compensation and when the firm's net assets are under the face value the limited liability causes debt-holders to receive less than the contracted sum. Consequently, debt-holders are concerned with the lower ends of the earnings and the net asset distributions (Watts, 2003). Hence, debt holders want assurances that the firm's minimum amount of net assets will be higher than their contracted sum.

When assessing a potential loan, lenders are interested in the likelihood; the firm will have enough assets to cover their loans (Watts, 2003). Future values of net assets of the firm are generally not verifiable. To trigger technical default that allows the loan to be called, debt contracts use lower bound measures of net assets (Beneish and Press, 1993). To restrict managerial actions that reduce the value of net assets or otherwise reduce the values of the loan, dividend and acquisition policy that could increase the firm's risk are included in restrictions in the debt contracts (Smith and Warner, 1979).

Executive Compensation Contracts

A manager frequently has more information than other parties (shareholders, board of directors or auditors) have. When the compensation of managers is an earnings-based compensation, this might create a bias in the estimations about, for instance the future cash flows from a new project development. Because an absence of verifiable requirements exists, the manager can bias the estimation to improve his own pay-off (Watts, 2003).

Firm Governance

In addition, asymmetric verifiability does arise from firm governance reasons or employment contracts too. Shareholders could dismiss management in situations where negative present value projects are accepted or losses admitted. Conservatism will provide timely signals for negative present value projects and it protects the shareholders option to exercise their own property rights (Watts, 2003).

Shareholder litigation

Litigation produces, just as earnings-based compensation, asymmetric pay-offs and is more likely when earnings or net assets are overstated than understated. Conservatism accounting is expected to reduce the litigation costs (Beaver, 1993). Because the expected litigation costs are higher by overstatement than by understatement, management and auditors have incentives to report conservative values for net assets and for earnings.

Taxation and Reporting

In the article of Watts (2003), the following sentence is stated:

Because taxable income and methods for calculating taxable income have long been linked to reported earnings, they have long influenced the calculation of earnings.

(Watt, 2003, p. 216)

Taxes provide incentives for firms to conform reported accounting income to tax incentives (Shackelford and Shevlin, 2001). As long as the firm is profitable, interest rates are positive the firm has taxable income, the connection between the reported and the taxable income provides an incentive to defer income to decrease the present value of taxes. Like litigation, this incentive leads to understatement of earnings or of net assets.

Standard setters and regulatory explanations

Regulation, from standard setters and regulators, provides incentives for the firm to report conservative financial statements by setting conservative regulation.

Watts explains this by the following statement:

Losses from overstated income and overhauled assets are more usable and observable in the political process than foregone gains due to understated income or undervalued assets.

(Watts, 1997, p. 67)

2.2.2 Conditional Accounting conservatism and the banking sector

In the previous section within the contracting explanation of Watts the evaluation of debt contracts resulted in the fact that the asymmetric pay offs of debt contracts leads to accounting conservatism for the debt holders. While in general the core business of banks is making profit with debt contracts it has become clear that besides the possible other explanations for the use of conservatism the contracting explanation contributes an essential part to the use of accounting conservatism by banks.

The research of Qiang (2007) examines whether each proposed explanation in the article of Watts applies to the use of conditional conservatism, unconditional conservatism or both. The findings of the research were the following:

- 1) The contracting explanation induces the use of conditional accounting conservatism
- 2) The litigation explanation induces the use of both forms of accounting conservatism
- 3) The regulation explanation induces the use of unconditional accounting conservatism
- 4) The taxation explanation induces the use of unconditional accounting conservatism.

The research of Garcia Lara et al (2005) studies the economic determinants of the use of conditional accounting conservatism resulting in findings consistent with the research of Qiang (2007) for the contracting and litigation explanation. Although the criticism of Rees (2009) states that the research of Garcia Lara et al (2005) is not properly performed, no rejection of the contracting explanation inducing the use of conditional accounting conservatism is presented.

2.3 Summary

The chapter starts with the content of the term conditional accounting conservatism. The content of this term refers to the application of accounting policies or methods that recognize bad news in earnings on a timelier basis than good news (Beaver and Ryan, 2005). Basu (1997) has interpreted conditional accounting conservatism as; earnings reflect bad news more quickly than good news.

Further, on in this research when there is referred to conditional accounting conservatism the content means that earnings reflect bad news more quickly than good news, in accordance with the interpretation of Basu (1997).

According to Richardson and Tinaikar (2004) because of choosing/adopting an accounting policy is a part of the conservatism, Basu's definition exist an ex-ante part, in other words unconditional part. This is part of chapter 3 that will present the examination for the differences in regulation in general and within the banking sector between the countries in the research.

In addition, to the content of the term conditional accounting conservatism the choice for conditional accounting conservatism with respect to the banking sector is explained. At first, the explanations of conservatism have divided, based on the research of Watts (2003), in four groups of explanations: the contracting explanations, shareholder litigation explanations, taxation, and reporting explanations and standard setters and regulatory explanations.

When examining the four explanations the contracting explanation seems to have a significant connection with the banking sector, while a bank creates profits just by receiving money and then lending it. This lending of money creates for the bank an asymmetric pay off and that triggers the use of accounting conservatism within the bank.

Other researchers investigate the relationship between the use of conditional accounting conservatism (e.g. Qiang, 2007) and the four explanations of accounting conservatism presented by Watts (2003). Their research points out that the contracting explanation induces the use of conditional conservatism.

Unconditional accounting conservatism on the other hand is due to predetermined aspects, like adopted accounting methods and policies. Based on these findings and theory in the previous paragraph and the unexpected aspects, like management estimates and the financial crisis, conditional accounting conservatism is used.

Although these adopted accounting methods and policies are an essential element in the research, the goal is to measure the conservative behavior of the Northern and Southern European banks instead of the conservative value of the regulation in these countries.

Based on this a profound basis exists to choose for conditional accounting conservatism.

3. What is the role of the regulation in general and in the banking sector especially regarding accounting conservatism?

3.1 Accounting conservatism under IFRS

It is important to assess changes in regulation that could create changes in the degree of conditional accounting conservatism during the research period. In reaction to the financial crisis, law and regulation could have been changed resulting in effects on conditional accounting conservatism. Because this research concerns countries in Northern and Southern Europe, accounting conservatism under IFRS is part of this research.

In a discussion paper of the IASB (IASB, 2006), the IASB argues that conservatism is not desired as a quality of reporting financial information. The discussion paper investigates in which way the conservatism principle is applied under IFRS.

Hellman (2008) has studied in which way accounting conservatism has to apply under IFRS, by examining three standards, IAS 11 - Construction contracts, IAS 12 - Income taxes, and IAS 38 - Intangible assets. Hellman concludes that IFRS holds increased opportunities for temporary accounting conservatism in comparison with more consistent accounting conservatism.

Using Deloitte's summaries of International Financial Reporting Standards, appendix 2 summarizes the history of IAS 11 - Construction contracts, IAS 12 - Income taxes, and IAS 38 - Intangible assets. Regarding IAS 11 - Construction contracts, since 1995, the regulators performed no changes in this standard. For IAS 12 - Income taxes, an exposure draft has been designed in 2008, but no amendments have been applied since 2001. With regard to IAS 38 - Intangible assets, several amendments have been applied since the start of the financial crisis. In particular, the amendment of 16 April 2009 regarding the measurement of intangible assets in business combinations could affect our research data. However, both Northern and Southern European countries are subject to IFRS consequently, both regions will face the same consequences. Nevertheless, this is taken into consideration during the data analysis in chapter 6.

3.2 Accounting conservatism under Basel

3.2.1 The Basel Accords

3.2.1.1 In general

Another form of regulation that might have influence on the degree of the use of conditional accounting conservatism is the Basel Accords. Basel I and II have been developed by the Basel Committee, a group of eleven countries that decided to set up an agreement to harmonize banking standards and regulations for the member states (Balin, 2008). In the 1980's, the desire for a common banking capitalization standard grew enormously, which this resulted in a final agreement in 1988 by the G-10, commonly known as Basel 1.

3.2.1.2 Basel 1

The primary goal of Basel 1 was to promote harmonization of regulatory and capital adequacy standards within the member states of the Basel Committee. Domestic currency and debt are seen as the most reliable and favorable financial instruments of Basel 1. Furthermore, Basel 1 was written only to provide adequate capital in order to guard against risk in the creditworthiness of a bank's loan book. The agreement proposes minimum capital requirements for internationally active banks. Central banks and governments are invited to be even more conservative in their banking regulations than suggested by these requirements.

Basel 1 is built upon four pillars, which will be shortly discussed in the following. The first pillar is known as "The Constituents of Capital". This pillar defines what types of on-hand capital are to be counted as a bank's reserves and in addition, in which way much of each type a bank can hold. The agreement divides capital reserves into two tiers. (1) Tier 1 Capital, which consists of disclosed cash reserves and other capital paid for by the sale of bank equity and (2) Tier 2 Capital (Balin, 2008). This tier is diverse and can include among others reserves created to cover potential loan losses and hybrid debt/equity instrument holdings. According to the Basel Accord, banks must hold an equal amount of Tier 1 and Tier 2 capital.

The second pillar is called "Risk Weighting". It creates a system to risk-weight banks' assets. There are five types of risk schemes to measure the risk in assets. Furthermore, the third pillar is called "A Target Standard Ratio". This pillar converges the first two pillars as signaled before. It foresees in a general rule whereby 8% of the risk-weighted assets of the bank must be covered by the capital reserves of Tier 1 and 2. The final pillar, "Transitional and Implementing Agreements", sets a stage for the implementation of the Agreement (Balin, 2008). Creation of strong surveillance and enforcement mechanisms is requested by each central bank to ensure that the Basel Accords are followed up.

Although nearly all countries had implemented the Basel Accord by 1999, at least on paper, the Agreement had to deal with much criticism. In response to this criticism, the Basel Committee decided in 1999 to come with a new accord, which resulted in Basel 2.

3.2.1.3 Basel 2

This new agreement did expand the scope, technicality, and depth of the former Basel Accord greatly. The pillar framework of Basel 1 is still the starting point of this second Agreement, but each pillar is expanded greatly. Factors such as market and operational risk, market based surveillance and discipline and regulatory mandates are now incorporated into the agreement. The first pillar, "Minimum Capital Requirements", has been expanded the most extensively (Balin, 2008). Basel II creates a more sensitive measurement with respect to a bank's risk-weighted assets. In addition, it tries to eliminate the loopholes in Basel 1, which allowed banks to take on additional risk with "cosmetically tricks" by falsely displaying minimal capital requirements.

Basel II introduces two alternate approaches toward risk-weighting capital, besides the standardized approach, each known as "Internal Ratings Based Approach": (1) Foundation IRB, in this approach banks can develop models that provide in-house

risk weighting for their loan books, and (2) Advanced IRB. This method is equal to (1), except for the following: banks themselves, instead of regulators, determine the assumptions of 'proprietary credit default models'(Balin, 2008). In addition, the first pillar provides in three methodologies to rate the riskiness of the assets of a bank, a method for credit risk, operational risk and market risk. By the time a bank has calculated which reserves it needs to have to guard against market and operational risk and has adjusted its asset base according to credit risk, the bank can calculate which on-hand capital reserves it needs to achieve "capital adequacy" according to Basel II.

Pillar 2 and 3, which are much less complex than Pillar 1, deal with minor improvements and changes compared to Pillar 1 in Basel 2. Pillar 2 deals with regular-bank interaction, extending rights in bank dissolution and supervision. In Basel 2, the rights of regulators concerning this bank control and oversight have prolonged and improved (Balin, 2008). For example, banks are charged with the drafting of their own risk profiles. If this reporting is not done (properly), authorities have the right to penalize the bank at-fault. Regulators are given extra mandates in Basel II.

Finally, the third pillar concerns the increase of market discipline within a countries' banking sector. Basel II suggests releasing disclosures of a bank's capital and risk-taking positions to the public on a quarterly basis. In addition, Basel 2 tries to empower shareholders to enforce discipline with respect to reserve holding respectively risk-taking of banks in case of too few reserves respectively in case of taking too much risk. Banks can thus become punished by their own shareholders (Balin, 2008).

A final agreement with respect to Basel II was reached in 2006 in Spain. Basel II applies to large international banks.

However, the use of Basel 1 and 2 by most private and public organizations as truly international banking standards predicates the inclusion of emerging markets in each accord. This puts emerging markets in a difficult position: either adopt Basel and then receive international capital flows and thereby face excessive risk-taking and an overwhelmed central bank or cut off from most international capital (Balin, 2008).

3.2.1.3 Basel 3

Since July 2008 the Basel Committee for Banking Supervision is working on a new capital accord for the banks of the world, the so called Basel 3 Accord. This triggered the European Commission to publish three Capital Requirements Directives with actions and requirements concerning risk, capital and liquidity management within banks (Deloitte, 2012)

These new requirements are a part of Basel 3 and contribute to the purpose of increasing the quality and height of the capital reserves. For some specific products the capital requirements increase and banks are encouraged to form extra capital reserves during periods of good economic circumstances in order to absorb the losses during periods of economic stress. Banks that do not meet or do not adequately meet the requirements for extra capital reserves will be restricted in

their ability to make dividend and performance-related bonus payments (Deloitte, 2012).

In addition, Basel 3 has a great impact on the liquidity management of banks. The new liquidity standards, based on a stress test, introduce a new long term standard that mitigate the risk of mismatch between the maturity of assets and the maturity of liabilities.

Besides the capital and liquidity requirements Basel 3 introduces a leverage ratio for European banks, the Leverage Coverage Ratio (LCR). The LCR provides transparency in the ability of a bank to meet the short term liability (30 days) under a relatively high stress scenario with its 'high quality' liquid assets (Deloitte, 2012)

The Basel Committee for Banking Supervision implements the most requirements of Basel 3 for the capital reserve and the leverage ratio from 1 January 2013 and for the liquidity management from 1 January 2015. Although these requirements are not yet effective several banks reserve capital and liquidity in the period before implementation in order to meet the requirements set in Basel 3.

3.3 Tax regulations

The first chapter describes the different countries that are involved in the research. While these countries could have different regulation about taxes, it is important to assess these differences.

Murphy (2009) divides Europe in three regions:

1. EU low tax region
2. EU high tax region
3. The Eastern European regions

The countries in the EU high tax region are Belgium, France, and Germany and the countries in the EU low tax region are Ireland, Portugal, and Spain. This distinction is quite similar with the distinction made between the Northern and Southern European countries.

3.4 Summary

This chapter has described the influence of accounting policies, IFRS, on accounting conservatism, the regulation environment, Basel Accords, and the tax regulation.

Firstly, the examination of the accounting policies of IFRS has revealed that certain IAS-standards were changed within the period from the pre-financial crisis period until the post-financial crisis period, which is from 2006 until 2010 as signaled in chapter 1. Although changes in accounting policies were made during this period both the Northern and Southern European countries are subject to the same accounting policies of IFRS and by that face the same consequences. Nevertheless, this is taken into consideration during the data analysis in chapter 6.

Secondly, the Basel Accords do invite Central Banks to be more conservative than there regulations and try to develop standards, regulations and policies that lead to a more conservative way of banking. As stated earlier the creation of strong surveillance and enforcement mechanisms is requested by each Central Bank to ensure that the Basel Accords are followed up. The Basel accords try to mitigate improper and unjust bank behavior, in an earlier section of this paragraph referred to as "cosmetically tricks". By this, the regulation environment of the banking sector has the tendency to be more conservative than earlier.

Thirdly, the tax regions within Europe can, according to Murphy (2009), be divided into a high tax region, a low tax region and an eastern European region. The high tax region and the low tax region are quite similar with the selected countries in this research for Northern and Southern Europe. While this could influence the research data this is taken into account when selecting an appropriate measurement method.

4. Findings of prior literature

4.1 Accounting conservatism in general

According to the article of Watts (2003), in general researchers use three types of measures to assess the use of accounting conservatism:

1. Net asset measures
2. Earnings and accrual measures
3. Earnings/stock returns relation measures

In addition to these three types, Penman and Zhang have presented a conservatism score based on three reserve components. The earnings/stock relation measure will be explained the most due to the use of this measure in the banking sector specifically as described in the second paragraph of this chapter.

4.1.1 Net asset measures

Beaver and Ryan present two sources of variation in the book-to-market ratio in their paper (Beaver and Ryan, 2000). These are bias and lags in book value, both sources have a different impact on the ability of book-to-market ratio's to predict book returns on equity in the future.

Beaver and Ryan (2000) explain that bias means that a book value is persistently higher or lower than the market value. For that reason, the book-to-market ratio is persistently above or below one. A bias may result from effects of the accounting process as well as the economic environment. Conservatism is an example of an effect from the accounting process. Beaver and Ryan (2000) explain lags by "unexpected economic gains (losses) that are recognized in book value over time rather than immediately, so that the book-to-market ratio is temporarily lower (higher) than its mean (one in the absence of bias) but tends to its mean over time. Ahmed et. al (2002) have measured conservatism by using the following model for the book-to-market ratio:

$$BTM_{it} = \alpha + \alpha_i + \alpha_t + \sum \beta_k RET_{it-k} + \varepsilon_{it}$$

BTM_{it} = book-to-market ratio for firm i at fiscal year-end t

α = intercept across all firms and years

α_i = persistent firm-specific bias component of book-to-market ratio during the sample period

α_t = year-specific component of the book-to -market ratio across all firms

RET_{it} = stock return (including dividends) for firm in year t

4.1.2 Earnings and accrual measures

Givoly and Hayn (2000) concentrate on the effects of conservatism on the income-statements over longer periods. The paper states that accounting conservatism leads to persistently negative accruals. Givoly and Hayn describe that the sign and magnitude of the accumulated accruals over time are measures to determine conservatism.

“A consistent predominance of negative accruals across firms over a long period is, ceteris paribus, an indication of conservatism, while the rate of accumulation of negative accruals is an indication of the shift in the degree of conservatism over time”.

(Givoly and Hayn, 2000, p. 292)

4.1.3 Earnings/stock returns relation measures

4.1.3.1 Basu

Basu (1997) has researched the effects of conservatism on financial statement reports and describes accounting conservatism as “the more timely recognition in earnings of bad news regarding future cash flows than good news.” Efficient markets are markets where all pertinent information is available to all participants at the same time, and where prices respond immediately to available information. In efficient markets like stock markets, stock returns reflect in a symmetrically and quickly manner all news that is publicly available.

The research findings of Basu show a considerable difference between the sensitivity of earnings to negative and positive returns. The sensitivity of earnings to negative returns is two to six times larger than the sensitivity to positive returns. Basu (1997) concludes finally that “earnings is more timely in reporting publicly available ‘bad news’ about future cash flows than ‘good news’.”

This conclusion of Basu is consistent with the earlier described content of the term of conditional accounting conservatism in chapter 2 and is in accordance with the inefficient market in Berk & DeMarzo (2007).

The research method of Basu has been applied in several studies on accounting conservatism (e.g. Givoly and Hayn, 2000). Applying the method of Basu makes it possible to compare studies. In order to measure the use of conditional accounting conservatism, in the research of Basu firms’ stock returns are linked to accounting earnings (Basu, 1997). In other words conditional accounting conservatism is measured in the article of Basu by using the asymmetric standards for the verification of losses and gains which causes negative stock returns (bad news) to be more reflected in current earnings than positive stock returns(good news).

Basu expresses this in the following regression (Basu, 1997):

$$X_{it}/P_{t-1} = \alpha_0 + \alpha_1 DR_{it} + \beta_0 R_{it} + \beta_1 R_{it} \times DR_{it} + \epsilon_t$$

X_{it} = earnings per share for firm i in fiscal year t

P_{t-1} = the beginning-of-fiscal-year price per share

R_{it} = concurrent stock returns of firm i

DR_{it} = a dummy variable that equals zero if R_{it} is positive and one if R_{it} is negative.

In the Basu model (Basu, 1997), the reaction of earnings to positive returns has been measured by β_0 , β_1 measured the reaction of the earnings to negative returns. When the definition of Basu is compared with this knowledge in case of conditional accounting conservatism the model will measure a β_1 bigger than zero, because β_1 has to be bigger than β_0 (Basu, 1997). Basu describes the variable β_1 as the measure for the sensitivity of earnings to positive and negative returns and

compares the B_0 and B_1 with $(B_1 + B_0)/B_0$ to indicate the sensitivity of earnings is more sensitive for negative returns than positive returns. Besides that, Basu (1997) uses the adjusted R^2 to indicate the explanatory power of the B_0 sample (positive returns sample) and B_1 sample (negative returns sample). When conditional accounting conservatism is present, the sensitivity of earnings is higher to negative returns and the adjusted R^2 is higher for the B_1 sample than the B_0 sample.

4.1.3.2 Ball and Shivakumar

Ball and Shivakumar (2005) applied further research on this topic and hypothesized that the financial reporting for private companies has a lower quality than is the case with public companies. The reason for this difference is hypothesized to be a different market demand, regulation notwithstanding.

Ball and Shivakumar (2005) extended the research of Basu (1997) by researching differences between private and public companies. However, this research was restricted to the United Kingdom.

According to Ball and Shivakumar (2005), under UK law, the financial statements of private firms must be audited and complied with the same accounting standards and tax laws as public companies. Although these accounting standards and tax laws are the same, the results do assist the results that on average the earnings quality is measurably lower for private companies. The explanation for this difference lies in the fact that the accounting standards are not seen as absolute givens. Their effect on financial reporting is still subject to market demand (Ball & Shivakumar, 2005).

4.1.3.3 Roychowdhury and Watts

In addition, Roychowdhury and Watts (2007), applied further research on the Basu measure by researching its relation with the market-to-book measure.

The article of Roychowdhury and Watts denoted two features of the Basu measure that are worth signaling. The first feature of the Basu measure is that it estimates, using single-period earnings and returns, the asymmetric timeliness of earnings with respect to news that became available within that one period. Secondly, the article denotes that the Basu measure uses changes in the equity value as the benchmark and thus reflects rent changes (Roychowdhury and Watts, 2007).

When in practice, accounting is not influenced by rent changes the earnings component in the regression model will not recognize either decreases or increases in rents. This assumption implies that rent changes are uncorrelated with separable net asset value changes and by that, the timeliness of earnings with respect to both negative and positive returns will be low.

This second feature is more severe for the research when returns and earnings are measured over short horizons. Over longer horizons, rents are expected to convert into separable assets or disappear. If rents convert into separable assets, the rents are recorded in book value and are subject to write-downs during bad news periods. Thus, the error introduced by rents into bad and good news timeliness should diminish when estimated over longer horizons.

The results of the research conclude that when researchers will perform empirical research over a short horizon a negative relation exists between the Market-to-book measure and the Basu measure and over a long horizon, a significant positive relation exists.

Besides the results mentioned before the evidence of the research suggests that the Basu measure is biased downwards when both positive and negative returns are driven by changes in rents and that the problem with the Basu measure is less severe the longer the horizon of the research. This suggests the possibility that the Basu measure estimated cumulatively is a better measure than the market-to-book measure for conservatism with respect to net asset values.

4.1.3.4 Vichitsarawong, Eng and Meek

The research of Vichitsarawong et al. (2010) examines timeliness of earnings, conditional accounting conservatism, in the period surrounding the Asian financial crisis in the countries Malaysia, Thailand, Singapore, and Hong Kong. This extended prior research (e.g. Ball et al, 2003) that suggests that managers have the tendency to report more good news and recognize bad news more delayed during a financial crisis. In addition, this research has examined the implementation of corporate governance measures in the post crisis period, and there influence on the timeliness of earnings.

Besides the interpretation of conservatism of Basu, the timeliness of earnings and conservatism are characterized in the article (Vichitsarawong, 2010) as measures of “transparency” following Francis et al. (2004).

The research measured the use of conservatism with the Basu-model, as described earlier; the only difference is that the Net income is before extraordinary items per share. To verify the findings of the Basu-model the accumulation of non-operating accruals of Givoly and Hayn (2000) is used. While this accumulation of non-operating accruals is unconditional accounting conservatism this is no part of the research although it could verify findings of the use of conservatism in general.

The results of the research from Vichitsarawong et al. (2010) indicate that the timeliness of earnings and conservatism during the financial crisis was low in the four countries. In addition, that the conservatism level was improved in the post-financial crisis period and even was higher than the pre-financial crisis period. Based on this, Vichitsarawong et al. (2010) concluded that this suggests that corporate governance reforms may have contributed to more transparent financial reporting. More transparent financial reporting is observed by the higher conservatism level in the post-financial crisis period, due to the transparent characteristic in the definition of conservatism.

4.1.4 Conservatism score of Penman and Zhang

Penman and Zhang (2002) have developed a conservatism score. Inventory reserve, research, development (R&D) reserve, and the reserves for advertisements are the three components of this score. Inventory is measured by the LIFO reserve that has been reported in the financial statement footnotes. R&D is measured by the R&D assets on the balance amortized over the last 5 years and advertising is measured by capitalized advertising expenses over 2 years. For the last two reserves, the

sum-of-the-year's digits are applied. The total sum of the reserves is finally scaled by net operating assets.

Advantage of this method is the possibility to measure conservatism on specific accounts. Disadvantage is that no overall level of conservatism in the accounting system of the firm has been determined (Hui et al., 2009).

4.2 Accounting conservatism in the banking sector

4.2.1 *Liu and Ryan*

The study of Liu and Ryan (1995) researched in which way banks' loan portfolio composition affects the timeliness of loan loss provisions and by doing so the relation between security returns and loan loss provisions. This research on conservatism is consistent with the definition of conditional accounting conservatism from Basu, in the previous paragraph.

In the article, two differences between loan loss provisions and nonperforming loans are stated. The first is in case of a given loan. In this situation, loan loss provisions are referred to as the management's estimates of the probability with which the loan principal will not be paid. While nonperforming or performing in case of a given loan is in its entirety (Liu and Ryan, 1995).

The second is that three well-defined nonperforming loan categories exist. In addition, the changes in nonperforming loans are relatively timelier and less discretionary than loan loss provisions.

Liu and Ryan (1995) expected that the timeliness of loan loss provisions from a bank depend on the frequency of loan renegotiation and the loan size. Under loan renegotiation Liu and Ryan (1995) understand any arrangement, for example credit extension, loan rollover, or restructuring terms, to assist borrowers. A bigger size and the possibility of renegotiation creates that the calculation of loan default is more context dependent and less susceptible to statistical analysis (Liu and Ryan, 1995) and by that untimely.

Liu and Ryan (1995) used a model in which returns are a function of the change in non-performing loans, loan write-offs, the loan loss provision, and the pre loan loss earnings. Pre loan loss earnings are the earnings before extraordinary items plus the loan loss provision.

The model as used by Liu and Ryan is as follows:

$$R_{t+1, t-1} = a_s + B_s X_{t+1, t-s} + y_s LLPt + \delta_s WOt + \zeta_s \Delta NPLt + \varepsilon_{t+1, t-s}$$

$R_{t+1, t-1}$ = the cumulative raw return from quarters $t-s$ to $t+1$,

$X_{t+1, t-1}$ = the cumulative pre loan loss earnings from quarters $t-s$ to $t+1$,

$LLPt$ = the loan loss provision in quarter t ,

WOt = loan write-offs in quarter t ,

$NPLt$ = non-performing loans in quarter t ,

y_s = the coefficient on the loan loss provision for subsample T when returns are cumulated from quarter $t-s$ to $t+1$.

(Liu and Ryan, 1995, p. 82)

Their findings are that a positive market reaction exists to an increased loan loss provision only for banks with relative more large and frequently renegotiated loans and the market anticipation of the loan loss provision for these banks is earlier and stronger as well. For banks with relative infrequently renegotiated or small loans, the market reaction to an increased loan loss provision is negative.

4.2.2 Nichols, Wahlen and Wieland

The subject of implications of conditional conservatism in bank accounting is investigated by Nichols et al. (2008). Their study measures differences in accounting conservatism between privately held and publicly traded banks.

Based on the article of Liu and Ryan, Nichols et al (2008) stated:

Thus, loan loss accounting should be the best place to observe bank managers' preferences for conservative (or anti-conservative) accounting.

(Nichols et al., 2008, p. 91).

In the article of Nichols et al. (2008), conditional conservatism is defined as the asymmetric timeliness of recognition of gains versus losses in accounting income, which is consistent with the definition of Basu in a previous chapter.

In the article of Nichols et al (2008), conservatism in the banking sector is measured by using loan loss provisions. Loan loss provisions are referred to as accrued expenses that reflect managers' estimation and judgment of changes in expected losses in the future from credit risk in the loan portfolio (Nichols et al., 2008).

Loan loss provisions determine with which timeliness banks recognize loan loss expectations in income (Nichols et al, 2008). Nichols et al. (2008) measure loan loss provision timeliness relative to changes in nonperforming loans, which is consistent with the prior literature in the previous paragraph from Liu and Ryan. During the research, Nichols et al. decomposed the change in net income in the following two parts:

- Change in earnings before loan loss provisions
- Change in loan loss provision

(Nichols et al., 2008, p. 111)

The primary focus of the regression analysis in the article of Nichols et al. (2008) was on the persistence of change in the loan loss provisions. An indication for conditional conservatism is that good news about credit losses is assumed to have higher persistence and bad news should have lower persistence.

The conclusion of the paper is that public banks exhibit greater demand than private banks for conditional accounting conservatism and that public banks recognize less timely earnings increases and more timely earnings decreases than private banks. The research also found that public banks recognize smaller and less timely loan loss recoveries but larger and more timely loan charge offs (Nichols et

al., 2008). In other words, the results show that equity ownership structure, public or private banks, might lead to differences in conditional accounting conservatism.

4.2.3 Molenaar

Molenaar (2009) extends previous studies, (e.g. Pae, 2007) that examined the relation between conditional accounting conservatism and earnings management in general, by researching the banking sector of the United States specifically.

Former studies (e.g. Pae, 2007) concluded that accounting conservatism reflected in earnings is mostly explained by the accrual component instead of the cash flow component of earnings. While the nature of the accruals of financial firms is different, the financial firms were not included in the samples and by that not subject of the research (Pae, 2007).

In performing this research, Molenaar (2009) used the Basu measure to determine whether there is conditional accounting conservatism or not. Although the Basu-measure was used, the summarized regression as formulated by Roychowdhury et al (2007) was presented. This “summarized” regression is the following:

$$Et/Pt-1 = \alpha + \beta Rt + \eta DRt + \gamma Rt \times DRt + \epsilon t$$

(Roychowdhury et al, 2007, p. 10)

The first results based on earnings showed no conditional accounting conservatism over the period 2000 until 2007. The results were re-run with substituting the earnings by its component loan loss provisions, leading to the following model based on the Basu model:

$$LLPt/Pt-1 = \alpha + \beta Rt + \eta D + \gamma RtD + \epsilon t$$

(Molenaar, 2009, p. 32)

Again, the results showed no conditional accounting conservatism over the period 2000 until 2007. After this Molenaar (2009) compared the average loan loss provisions with the average non-performing loans and by performing this way an indication for the use of earnings management was found. The results from comparing showed a lower average loan loss provisions than the average non-performing loans in the years 2000 until 2004 and a higher average loan loss provisions than the average non-performing loans in the years 2005 until 2007. This indicates that the years 2005 until 2007 were in need of corrections for judgments in the prior years.

To disentangle the effect of the use of earnings management Molenaar (2009) used the Jones model to determine which part of the loan loss provisions is discretionary (managed), and which part is non-discretionary. These results created the following conclusion:

- The part of loan loss provisions managers have discretion over, is managed non-conservative direction and the part of loan loss provisions managers cannot use their discretion is conservative.

Consequently, the relation between earnings management and conditional accounting conservatism, according to Molenaars' research (2009) shows that bank managers in the United States use their discretion over loan loss provisions to influence conditional accounting conservatism into the managements' desired direction and to manage earnings.

4.2.4 Jansen

Jansen (2010) examined the relationship between conditional accounting conservatism before the financial crisis and firm performance during the financial crisis. Jansen (2010) found in prior research concerning conditional accounting conservatism (e.g. Ryan & Zarowin, 2003) that during a period of financial crisis an increasing trend of conservatism is reported during this period.

In Jansen's research, the Basu measure (earnings) is used to measure the use of conditional accounting conservatism. Firm performance is measured by using the return-on-equity and return-on-assets ratios and is characterized as "bad" when the ratios are declining or have highly fluctuating values. On the other hand "good" performance is characterized as a stable or having an upward trend in the earlier signaled ratios.

During this research, Jansen (2010) conducted analysis on whether conditional accounting conservatism was applied by the US public banks, whether there was an upward trend of conditional accounting conservatism during the financial crisis, and whether the conditional accounting conservatism before the crisis was positively related with the performance of the banks in the United States. The corresponding outcomes were the following:

- United States public banks applied conditional accounting conservatism in the period of 1997 until 2009. This shows a ± 2 times more timeliness recognizing "bad" news as compared to the timeliness of the recognizing "good" news.
- Jansen (2010) documented evidence that there was an upward trend during the financial crisis in the degree of conditional accounting conservatism.
- According to statistical findings of Jansen's (2010) first regression model Jansen states that "bad" performing banks report less conservative before the financial crisis than "good" performing banks.

Altogether the relationship between the use of conditional accounting conservatism before the financial crisis and the firm performance during the financial crisis is summarized, a positive relation. This implies that when banks are reporting more conservative before the financial crisis so that during the financial crisis they perform "better" during the financial crisis.

4.2.5 El Allali

El Allali (2010) examined the relation between firm performance and conditional accounting conservatism in banks in Western Europe. Western Europe in his research stands for the countries: Austria, Belgium, Deutschland, Denmark, Spain, Finland, France, Great Britain, Ireland, Lithuania, Luxembourg, The Netherlands, Norway, Portugal and Sweden and the research is performed over the period 1997 until 2009.

The research of El Allali (2010) uses the Basu measure (earnings) for measuring conditional accounting conservatism and the ROA en ROE-ratios for measuring firm performance. Where banks are considered as bad performing banks when a negative or a significant drawback in ROA (ROE) is present and as good performing banks when a positive ROA (ROE) is present and no significant reduce in ROA (ROE) has been signaled.

The results of the research of El Allali (2010) show that over the full sample period, from 1997 until 2009, conditional accounting conservatism has been applied by the Western European banks. Besides that, a reduce in the degree of the use of conditional accounting conservatism has been signaled from the pre-financial crisis period to the financial crisis period and evidence was found, although only at a confidence level of 10%, for a positive relation between conditional accounting conservatism and firm performance.

4.3 Hypotheses Development

After the previously explained theory and empirical literature, hypothesis regarding conditional accounting conservatism can be developed.

As described earlier in this chapter Basu uses the stock returns in relation to earnings, while stock returns reflect in a symmetrically and quickly manner all news that is publicly available, to find empirical evidence whether a firm is conservative or not. Although this was a research, in general other researchers (e.g. Molenaar, Jansen) used this stock returns model in the banking sector specifically and found evidence for conditional accounting conservatism in the United States.

To confirm whether the banking sector in Europe, just like the banking sector in the United States, is subject to the use of conditional accounting conservatism, the first hypothesis is the following:

- (1) *The use of conditional accounting conservatism does not occur in the banking sector of both Northern and Southern Europe, before, during, and after the financial crisis.*

Hence, the expectation exists to find conservatism based on the indications from the articles of Molenaar (2009) and Jansen (2010) a difference between the Northern and Southern European countries is expected. This expectation is based on the in chapter 1 signaled distinction between an economic stronger Northern Europe and an economic weaker Southern Europe in combination with the article of Jansen where a better firm performance before the financial crisis leads to a higher level of conditional accounting conservatism. Based on this the second hypothesis is as follows:

- (2) *The Northern European countries do not have a higher degree of the use of conditional accounting conservatism than the Southern European countries in advance of the financial crisis.*

When the results become clear from the second hypothesis the last hypothesis to answer the research question can be drawn. While a difference between Northern and Southern European countries is expected, these countries need separate hypotheses.

(3) *a) The degree of the use of conditional accounting conservatism in Northern European countries in advance of the financial crisis is not a predictor of the degree of the use of conditional accounting conservatism during and after the financial crisis.*

b) The degree of the use of conditional accounting conservatism in Southern European countries in advance of the financial crisis is not a predictor of the degree of the use of conditional accounting conservatism during and after the financial crisis.

As described earlier in this chapter in the article of Vichitsarawong et al (2010) a higher degree of the use of conservatism after the financial crisis is found than before the financial crisis and in the article of Jansen (2010) an upward trend in the use of conditional accounting conservatism in the United States banking sector is found. Based on these findings the expectation is to find that the degree of the use of conditional accounting conservatism in advance of the financial crisis is a predictor for the degree during and after the financial crisis.

4.4 Summary

In the first paragraph of this chapter different measurement methods of accounting conservatism are provided, namely:

- the net asset measures,
- earnings and accrual measures,
- earnings/stock return measures and
- the Penman and Zhang conservatism score.

While the earnings/stock return measures are mostly used in studies concerning conditional accounting conservatism within the banking sector only this measurement method is part of the summary.

An earnings/stock return measure is the Basu-measure (1997) and has been applied in several studies since (e.g. Givoly and Hayn, 2000). When measuring with the Basu-measure there are two key components that individually measure the sensitivity of earnings to negative or positive news or the explanatory power of the positive/negative sample returns.

Ball and Shivakumar (2005) as well as Roychowdhury and Watts (2007) applied further research on this topic and found respectively that the earnings quality of private companies is measurably lower than public companies and that there is a positive relation between the Market-to-Book ratio and the Basu-measure. Nichols et al (2008) performed the same research as Ball and Shivakumar (2005) for the banking sector and found the same difference between private and public companies.

Research concerning an earlier crisis was performed by Vichitsarawong et al (2010) which examined conditional accounting conservatism in relation with corporate governance before, during and after the Asian financial crisis in 1997 when using the Basu-measure. This research found a higher level of conditional accounting conservatism in the post-financial period than there was in the pre-financial crisis period.

Research concerning the banking sector, in the second paragraph of this chapter, performed by Liu and Ryan (1995) , Nichols et al (2008) and Molenaar (2009) provide relevant results for designing a research.

Liu and Ryan (1995) found results that the composition of a banks' loan portfolio affects the timeliness of loan loss provisions. Another result of Liu and Ryan (1995) points out that the frequency of renegotiation of loans affects the timeliness of loan loss provisions. The timeliness component is consistent with the Basu's interpretation of accounting conservatism.

The research of Nichols et al (2008), based on the article of Liu and Ryan (1995), pointed out that the loan loss provision should be the best place to observe bank managers' preferences for conditional accounting conservatism, while there results are consistent with the results of Ball and Shivakumar (2005).

Molenaar (2009) found, while examining the relation between conditional accounting conservatism and earnings management, that United States bank managers do use their discretion over loan loss provisions to influence conditional accounting conservatism.

The next chapter the research design provides an assessment of the relevant results for designing a research. Before designing the research the most influential basis for the development of the hypotheses in the third paragraph of this is provided.

The most influential prior literature in developing hypotheses are both Jansen (2010) and El Allali (2010) which applied research on the relation between (conditional) accounting conservatism and firm performance and both found levels of conservatism before and during the financial crisis.

The research of Jansen (2010) examined banks from the United States and the research of El Allali (2010) examined banks from Western Europe. In addition Jansen (2010) concluded that there was an upward trend during the financial crisis in the degree of conditional accounting conservatism.

5. Research Design

In this chapter, the development of methodology used for the empirical part of the research is presented and explained. First, the chapter will present the objective of this research and its subject. The chapter continues with the explanation of the research model and the data sample used in this research.

5.1 Objective

As stated before, an extensive number of scientific articles already have published on the use of accounting conservatism, the convention exists that certain topics regarding the use of accounting conservatism need further exploration.

Conditional accounting conservatism by public and private banks has been compared by Nichols et al (2008), the relation between conditional accounting conservatism from banks in the United States. The firm performance before and during the financial crisis have been examined by Jansen (2010) and El Allali (2010) examined the relation between the use of conditional accounting conservatism from Western European banks and firm performance. Until now, no comparison between European countries in the degree of the use of conditional accounting conservatism has been found in scientific articles. Moreover, the expectation exists that this is one of the early researches, regarding the use of conditional accounting conservatism, that include the period after the financial crisis.

This research intends to extend previous researches regarding conditional accounting conservatism and the financial crisis in comparing European countries and intends to find evidence in which way the degree of the use of conditional accounting conservatism in advance of the financial crisis is a predictor for the degree during and after the financial crisis.

5.2 Research Approach

Before focusing on the research approach in this research, it is relevant to present the general types of research approaches. Creswell (2003) identified three general types of research approaches, the qualitative approach, the quantitative approach, and the mixed methods approach.

The qualitative approach is used to provide an understanding of a subject and to provide theories on a subject. In order to perform this approach generally open-ended questions are used Creswell (2003), and requires meanings of participants and the use of personal values and the interpretation of the researcher in the study.

The quantitative approach is used to determine and/or to verify a theory. This process of verifying and determining a theory requires closed-ended questions, in the form of hypotheses. To prove whether these are acceptable or not, these hypotheses are subject to statistical procedures based on numeric data.

When the mixed methods approach is used, the subject of the research asks for open-ended and closed-ended questions, and is used to research the consequence of actions and is problem-centered.

The following table from Creswell (2003) presents an overview of the signaled approaches:

Table 1.4 Qualitative, Quantitative, and Mixed Methods Approaches			
<i>Tend to or Typically</i>	<i>Qualitative approaches</i>	<i>Quantitative approaches</i>	<i>Mixed Methods Approaches</i>
Use these philosophical assumptions	- Constructivist/ Advocacy/ Participatory knowledge claims	- Postpositivist knowledge claims	- Pragmatic knowledge claims
Employ these strategies of inquiry	- Phenomenology, grounded theory, ethnography, case study, and narrative	- Surveys and experiments	- Sequential, concurrent, and transformative
Employ these methods	- Open-ended questions, emerging approaches, text or image data	- Closed-ended questions, predetermined approaches, numeric data	- Both open- and closed-ended questions, both emerging and predetermined approaches - both qualitative and quantitative data and analysis
Use these practices of research, as the researcher	- Positions himself or herself - Collects participant meanings - Focuses on a single concept or phenomenon - Brings personal values into the study - Studies the context or setting of participants - Validates the accuracy of findings - Makes interpretations of the data - Creates an agenda for change or reform - Collaborates with the participants	- Tests or verifies theories or explanations - Identifies variables to study - Relates variables in questions or hypothesis - Uses standards of validity and reliability - Observes and measures information numerically - Uses unbiased approaches - Employs statistical procedures	- Collects both quantitative and qualitative data - Develops a rationale for mixing - Integrates the data at different stages of inquiry - Presents visual pictures of the procedures in the study - Employs the practices of both qualitative and quantitative research

(Creswell, 2003, p. 19)

Finding evidence, as described in the objective paragraph, is a characteristic of empirical research, research that is based on observations or experiments (Oemar, 2010). Empirical research is often conducted to test a hypothesis or to answer a specific question. Considering the signaled research approaches this research is suited for the quantitative approach.

In the objective of the research, a comparison of data is subject to the research. Babbie (2007) characterizes two types of studies that compare data, the cross-sectional study, and the longitudinal study. Babbie (2007) describes a cross-sectional study as a study that involves observations of a sample of a population at the same point in time. Focusing on the bank sector the cross-sectional study involves bank data of the banking industry over the same period.

Longitudinal studies on the other hand, as described by Babbie (2007), are studies that are designed to permit observations of the same population over an extended period. Expressing this with a focus on the bank sector a longitudinal study is suited for comparing bank data over an extended period, for instance before, during and after the financial crisis. Based on the comparison of the empirical data with the hypothesis conclusions can be drawn.

5.3 Type of research

For the objective of the research, no interfering with the research environment is preferred, while this can affect the outcomes. Based on the previous paragraph the research approach can be characterized as a quantitative approach. The research will use existing data and in this way, the research is using an unobtrusive method of research. While this method can study social behavior without affecting it, this is in favor for the research (Babbie, 2007). The analyzing of existing statistics concerning the use of conditional accounting conservatism is performed, according to El Allali (2010), at least 260 times.

When a research uses statistical methods, these should be used to conclude whether the hypotheses are empirically or statistically significant. Statistical significant implies that an observed effect, for instance the use of conditional accounting conservatism, is so large that it would hardly occur by chance (Alwan et al, 2009).

A limitation of the analysis of existing data is that the researchers are limited to the existing data. Babbie (2007) states that replication, repeating a research to confirm or question an earlier study's findings, is a characteristic that could even reduce the problem of validity. Hence, the research hypotheses as stated in the previous chapter are replication of or based on the results of comparable prior research.

5.4 Research model

Whether the use of conditional accounting conservatism is applied by the Northern and the Southern European banks is tested with the Basu (1997) model adjusted to the loan loss provisions component, consistent with the provided literature of Nichols et al (2008) and the thesis of Moolenaar (2010), loan loss provision are the best element to measure the use of conditional accounting conservatism. Conditional accounting conservatism, in this research, is the timeliness of the loan loss provisions component in earnings with respect to stock returns. This is inferred based on the regression of Basu, in which the earnings per share component is changed to the loan loss provisions per share component, creating the following regression:

$$LLP_{it}/Pt-1 = \alpha_0 + \alpha_1 DR_{it} + \beta_0 R_{it} + \beta_1 R_{it} \times DR_{it} + \epsilon_t$$

Where: LLP_{it} = the loan loss provision per share for firm i in fiscal year t

As explained in the previous chapter, β_0 measures the reaction of earnings to positive returns and β_1 measures the reaction of earnings to negative returns. While the earnings are changed to the loan loss provisions, the β_0 and β_1 do measure the reaction of loan loss provisions instead of earnings.

In this regression the variable β_1 is qualified as the measure for the sensitivity of loan loss provisions to positive and negative returns and the adjusted R^2 as the indication for the explanatory power of the β_0 sample (positive returns sample) and β_1 sample (negative returns sample). When the use of conditional accounting conservatism is present, the sensitivity of the loan loss provisions is higher to

negative returns and the adjusted R^2 is higher for the B1 sample than the B0 sample.

Although the loan loss provisions are used in the research of Molenaar (2009), it is important to assess if loan loss provisions are a mandatory disclosure part within IFRS. Reviewing the standards of IFRS 7 - Financial Instruments (Epstein, Jermakowicz, 2010) loan loss provisions are indeed a mandatory part within IFRS. In appendix 2 is visible that IFRS 7 is effective from 1 January 2007. In the first chapter, the research period at least should include the financial statement dates of 31 December 2006, 2008, and 2010. Because the first date is subject to other regulation than IFRS 7, apparently, this seems to be a problem. However, by using the comparative figures from the financial statements of 2007, the 31 December 2006 situation prepared under the same IFRS 7 regulation is accessible.

The article of Liu and Ryan (1995), presents the theory that the timeliness of loan loss provisions from a bank depends on the frequency of the renegotiation and the loan size.

In this research, because of the following reasons, these variables are not taken into account:

- Increasing complexity of the research
- Increasing time and budget needed for the research
- Unclear whether all information is available

5.5 Data collection

The previous chapter, prior literature (e.g. Ball & Shivakumar, 2005 and Nichols et al., 2008), described that on average private companies report a lower earnings quality and have a lower demand for the use of conditional accounting conservatism. This provides a basis to exclude the private companies.

During the crisis, several banks received support from their governments, for example the ING Bank from the Netherlands in 2008 (Boonstra, 2008). This support from governments could have resulted in full control over the supported banks and the banks should, at least can be considered as government banks. Studying which banks in the population have received support becomes a study in it selves and for this reason excluding the government banks is not performed in this research.

Using the BankScope-database to filter all banks in Northern European countries and Southern European countries for the loan loss provisions and the DataStream-database will supplement the data from the BankScope-database for the data of annual stock prices and the number of outstanding shares at year-end.

5.6 Data sample

When sampling the population from the BankScope database all banks from the Northern and Southern European countries were selected and filtered for which banks use IFRS, according to chapter 3 all banks use IFRS although some exceptions could exist.

The export with all the required information from the BankScope-database showed that several banks were missing required information, for instance the loan loss provisions (LLP) over a year. In order to get full data for the research several banks (24 banks) in the research were excluded based on missing information about the loan loss provisions over the years in the research or due to a non-corresponding latest year-end with the most frequent year-end.

Consequently, after the LLP-filter 110 banks left as to the research and still information about annual stock prices and the numbers of outstanding shares at the end of the financial year were missing. The DataStream-database was used to fill the gaps of the 34 banks that were still missing information to get the required full data for the research.

After matching the data of the 34 banks from the DataStream-database with the data from the BankScope-database several banks (16 banks) were excluded. The reason for excluding these 16 banks was either that the information known from the BankScope-database did not match with the information from the DataStream-database or due to the company was becoming a stock exchange quoted company within the sample period. Appendix 3 provides several overviews concerning the data sampling-progress.

This last reason caused that the country Slovenia was excluded because both banks were becoming a stock exchange quoted company within the research period.

In this research the used data are data of loan loss provisions, number of outstanding shares, and annual stock returns of 94 stock exchange quoted banks in the Northern and Southern European countries (exclusive of Slovenia) for the period of 2006 to 2010.

5.7 Summary

This chapter starts with connecting the objective of the research with the research approach and a suitable type of research. A quantitative longitudinal study with no interference of the research environment seems to suit the research the best and is found in the research method, analyzing existing statistics.

After the selection of the research method, the research model to perform the research, based on the prior literature in chapter 4, is explained. Hence the research model describes the required data for the research a more detailed definition of banks was necessary. The more detailed definition of banks led to excluding private banks and including government banks.

Combining the data from the BankScope- and Datastream databases, used to gather the data, a sample of 94 public banks from Austria, Belgium, Cyprus, Germany, Spain, Finland, France, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands and Portugal over the years 2006 until 2010. The following chapter describes the performed research based on the hypotheses as derived in chapter 4.

6. Results and Analysis

This chapter will contain the results of the empirical research performed as explained, and pointed out in the hypotheses, in previous chapters. The structure of this chapter is based on the hypotheses and will start with investigating the use of conditional accounting conservatism over the full sample period based on the Basu-measure with the LLP-component. Next, both the Northern and the Southern Europe conditional accounting conservatism will be examined separately. Finally, in which way the pre-financial crisis degree of conditional accounting conservatism is a predictor for the degree during and after the financial crisis is examined.

6.1 Conditional accounting conservatism in Northern and Southern Europe

In the process of examining the use of conditional accounting conservatism in Northern and Southern Europe several outcomes, the R, the R square, the Beta's, are relevant for the result as described in an earlier chapter. Besides these outcomes, the F-value and its significance level and the significance levels of the Beta's are relevant for interpreting the results.

6.1.1 Northern and Southern Europe 2006 until 2010

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Kosten LLP per Share / Pt-1	470	-24489.45000	18.74613200	-262.6066173	1368.499912
Stock Return	470	-163.5000	128.9000	-2.583932	19.2000424
Stock Return * Dummy	470	-163.5000	.0000	-5.186764	16.2237423
Valid N (listwise)	470				

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.101 ^a	.010	.004	1365.870125

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8969293.436	3	2989764.479	1.603	.188 ^a
	Residual	8.694E8	466	1865601.200		
	Total	8.783E8	469			

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

b. Dependent Variable: Kosten LLP per Share / Pt-1

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-180.660	108.140		-1.671	.095
	Dummy	-43.528	140.816	-.016	-.309	.757
	Stock Return	-6.045	7.595	-.085	-.796	.426
	Stock Return * Dummy	13.936	8.602	.165	1.620	.106

a. Dependent Variable: Kosten LLP per Share / Pt-1

The descriptive statistics show a relatively big standard deviation in the sample that could indicate that the sample has outliers. Before researching the possibility of outliers in the data, the regression is run with the existing statistics.

The model summary presents an R, which stands for the correlation of the variables with the dependent variable, of 0,101. The R Square of 0,01 implies that the chosen variables (Stock Return, Stock Return * Dummy and Dummy) explain for 1% the outcome of the LLP per Share/Pt-1 as shown in the Basu-measure in the previous chapter (Field, 2009).

The ANOVA-table shows an F-value of 1,603 that is not significant for the significance levels of 1%, 5% and 10%. This result is calculated by dividing the Mean Square of the Regression with the Mean Square of the Residuals (Field, 2009). Based on this Field (2009) would conclude that the regression model is not a significantly better prediction than using the mean value of the LLP per share/Pt-1.

The coefficients show that the B3 is bigger than 0 and is bigger than B2. The first result implies that the use of conditional accounting conservatism exists. The last result indicates that earnings are incrementally more sensitive for 'bad' news than for 'good' news. Although to be true, these results need to be combined with the significance levels of 1%/5% and 10%. The column Sig. shows that none of the results is significant.

Although the results of the coefficients table are described the results of the ANOVA-test implies already that these results were of no use, while from the results of the ANOVA-test already could be concluded that the prediction was not significantly better than predicting based on the mean value of the LLP per Share/Pt-1.

Until now, no results for a combined sample of the Northern and the Southern European banks showed any use of conditional accounting conservatism or a significantly better predictor than the mean. For this reason, the sample is split up into the years 2006, 2007, 2008, 2009, and 2010. This distinction will provide a more detailed examination whether the Northern and the Southern European banks apply conditional accounting conservatism.

6.1.2 Northern and Southern Europe 2006

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2006 (Selected)			
1	.084 ^a	.007	-.026	344.5593375

a. Predictors: (Constant), Stock Return * Dummy, Stock Return, Dummy

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	76566.578	3	25522.193	.215	.886 ^a
	Residual	10684902.34	90	118721.137		
	Total	10761468.91	93			

a. Predictors: (Constant), Stock Return * Dummy, Stock Return, Dummy

b. Dependent Variable: Kosten LLP per Share / Pt-1

c. Selecting only cases for which Financial year = 2006

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-90.108	42.625		-2.114	.037
	Dummy	27.275	121.236	.028	.225	.823
	Stock Return	-1.576	2.222	-.077	-.710	.480
	Stock Return * Dummy	2.549	30.073	.010	.085	.933

a. Dependent Variable: Kosten LLP per Share / Pt-1

b. Selecting only cases for which Financial year = 2006

The model summary shows an R (correlation) of 8,4% and an R square of 0,7% that implies that the variables explain 0,7% of the outcomes. The standard error is relatively big which could indicate the presence of outliers. The outliers are examined in a later stadium of the research and in this examination; the full sample is taken into account. This research has no attention for outliers in the years separately.

The ANOVA-test provides the F-value of 0,215 that is not significant at the significance levels of 1%/5% and 10%. Based on this, according to Field (2009) the variables lead to no significantly better predictor than the mean of the LLP per Share/Pt-1. Based on this no use exist in examining the coefficients-table.

6.1.3 Northern and Southern Europe 2007

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2007 (Selected)			
1	.381 ^a	.145	.117	353.6803006

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1916087.882	3	638695.961	5.106	.003 ^a
	Residual	11258077.95	90	125089.755		
	Total	13174165.83	93			

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

b. Dependent Variable: Kosten LLP per Share / Pt-1

c. Selecting only cases for which Financial year = 2007

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-88.145	73.331		-1.202	.233
	Dummy	41.908	90.367	.052	.464	.644
	Stock Return	-29.792	8.700	-.740	-3.424	.001
	Stock Return * Dummy	30.565	10.119	.615	3.020	.003

a. Dependent Variable: Kosten LLP per Share / Pt-1

b. Selecting only cases for which Financial year = 2007

The model summary shows an R (correlation) of 38,1% and an R square of 14,5%. This implies that the variables explain 14,5% of the outcomes. The standard error is relatively big which could indicate the presence of outliers. The outliers are examined in a later stadium of the research, in this examination the full sample is taken into account. No attention exists for outliers in the years separately.

The ANOVA-test provides the F-value of 5,106 that is significant at the significance levels of 1%/5% and 10%. Based on this, according to Field (2009), the variables are a significantly better predictor than the mean of the LLP per Share/Pt-1. Consequently, the results in the coefficients table are useful for the research.

The results in the coefficients table show that the B3 is bigger than zero and is bigger than the B2 at the significance levels 1%/5% and 10%. Based on these results the banks applied conditional accounting conservatism in the year 2007 and the earnings of the banks are incrementally more sensitive for 'bad' news than for 'good' news, 1,83 times.

6.1.4 Northern and Southern Europe 2008

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2008 (Selected)			
1	.458 ^a	.210	.193	358.5467076

a. Predictors: (Constant), Stock Return * Dummy, Dummy

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3108911.939	2	1554455.970	12.092	.000 ^a
	Residual	11698572.48	91	128555.742		
	Total	14807484.42	93			

a. Predictors: (Constant), Stock Return * Dummy, Dummy

b. Dependent Variable: Kosten LLP per Share / Pt-1

c. Selecting only cases for which Financial year = 2008

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-950.444	207.007		-4.591	.000
	Dummy	900.314	211.599	.399	4.255	.000
	Stock Return * Dummy	3.513	1.209	.272	2.906	.005

a. Dependent Variable: Kosten LLP per Share / Pt-1

b. Selecting only cases for which Financial year = 2008

Excluded Variables^b

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics
						Tolerance
1	Stock Return	-90.631 ^a	-8.814	.000	-.681	4.456E-5

a. Predictors in the Model: (Constant), Stock Return * Dummy, Dummy

b. Dependent Variable: Kosten LLP per Share / Pt-1

The model summary shows an R (correlation) of 45,8% and an R square of 21,0% this implies that the variables explain 21,0% of the outcomes. The standard error is relatively big which could indicate the presence of outliers. The outliers are examined in a later stadium of the research, in this examination the full sample is taken into account. No attention exists for outliers in the years separately.

The ANOVA-test provides the F-value of 12,092 that is significant at the significance levels of 1%/5% and 10%. Based on this, according to Field (2009) the variables are significantly better predictor than the mean of the LLP per Share/Pt-1. Consequently, the results in the coefficients table are useful for the research.

The results in the coefficients table show that the β_3 is bigger than zero at the significance levels 1%/5% and 10%. Based on these results the banks applied conditional accounting conservatism in the year 2008. The variable Stock Return is not present in the coefficients table while in 2008 (almost) no stock returns were positive.

6.1.5 Northern and Southern Europe 2009

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2009 (Selected)			
1	.424 ^a	.179	.152	2364.371768

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.100E8	3	36668473.90	6.559	.000 ^a
	Residual	5.031E8	90	5590253.860		
	Total	6.131E8	93			

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

b. Dependent Variable: Kosten LLP per Share / Pt-1

c. Selecting only cases for which Financial year = 2009

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-195.602	363.944		-.537	.592
	Dummy	-.241.895	556.114	-.046	-.435	.665
	Stock Return	-.26.493	32.498	-.133	-.815	.417
	Stock Return * Dummy	139.499	42.282	.509	3.299	.001

a. Dependent Variable: Kosten LLP per Share / Pt-1

b. Selecting only cases for which Financial year = 2009

The model summary shows an R (correlation) of 42,4% and an R square of 17,9%, this implies that the variables explain 17,9% of the outcomes. The standard error is relatively big which could indicate the presence of outliers. While the outliers are examined in a later stadium of the research, in this examination the full sample is taken into account. No attention exists for outliers in the years separately.

The ANOVA-test provides the F-value of 6,559 that is significant at the significance levels of 1%/5% and 10%. Based on this, according to Field (2009), the variables are a significantly better predictor than the mean of the LLP per Share/Pt-1. Consequently, the results in the coefficients table are useful for the research.

The results in the coefficients table show that the B3 is bigger than zero and is bigger than the B2 at the significance levels 1%/5% and 10%. Based on these results the banks applied conditional accounting conservatism in the year 2009 and the earnings are incrementally more sensitive for 'bad' news than for 'good' news, 4,83 times.

6.1.6 Northern and Southern Europe 2010

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2010 (Selected)			
1	.093 ^a	.009	-.024	1515.556954

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1810723.583	3	603574.528	.263	.852 ^a
	Residual	2.067E8	90	2296912.883		
	Total	2.085E8	93			

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

b. Dependent Variable: Kosten LLP per Share / Pt-1

c. Selecting only cases for which Financial year = 2010

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-236.739	376.662		-.629	.531
	Dummy	-302.142	449.884	-.090	-.672	.504
	Stock Return	10.968	73.347	.030	.150	.881
	Stock Return * Dummy	-44.700	98.561	-.079	-.454	.651

a. Dependent Variable: Kosten LLP per Share / Pt-1

b. Selecting only cases for which Financial year = 2010

The model summary shows an R (correlation) of 9,3% and an R square of 0,9% that implies that the variables explain 0,9% of the outcomes. The standard error is relatively big which could indicate the presence of outliers. While the outliers are examined in a later stadium of the research in this examination, the full sample is taken into account. No attention exists for outliers in the years separately.

The ANOVA-test provides the F-value of 0,263 that is not significant at the significance levels of 1%/5% and 10%. Consequently, according to Field (2009) the variables imply no significantly better predictor than the mean of the LLP per Share/Pt-1. Based on this no use exists in examining the coefficients-table, as presented below.

6.1.7 Outliers Northern and Southern Europe

Field (2009) describes a way of filtering the sample for outliers in SPSS based on z-scores. The z-score can be qualified as a significant level, where a z-score of +/- 2 stands for a significance level of 5%. SPSS provides the following table with reference to the case numbers in the data that differ more than the significance level of 5%.

Casewise Diagnostics^a

Case Number	Std. Residual	Kosten LLP per Share / Pt-1	Predicted Value	Residual
14	-2.284	-3315.623800	-196.0753714	-3119.548428
15	-2.063	-3009.843000	-192.5691971	-2817.273802
26	-9.772	-13586.55100	-239.2600522	-13347.29094
27	-17.531	-24489.45000	-544.4826544	-23944.96734
182	-2.848	-4240.919000	-350.5283933	-3890.390606
306	-3.573	-5110.873000	-231.2901756	-4879.582824
307	-2.350	-3438.682900	-228.3784088	-3210.304491

a. Dependent Variable: Kosten LLP per Share / Pt-1

Because of this reason outliers are considered as banks that do not fit into the data. In the research it is not preferred to scope single years out of the data. Based on this tool in SPSS the following banks, for all there years (5 years), are excluded in the sample:

- Volksbank Vorarlberg e. Gen. (Country Austria)
- Oesterreichische Volksbanken AG (Country Austria)
- Caisse Régionale de credit agricole mutuel d'Alpes-Provence-Credit Agricole Alpes Provence (Country France)
- Allied Irish Banks (Country Ireland)

When the regression excluding the outliers is re-run for the full sample period and the separate years no new results are present. This re-run can be found in Appendix 4. While the re-run did not find any new or better results the following paragraph will consider the original sample.

6.2 Conditional accounting conservatism in Northern Europe and in Southern Europe

6.2.1 Northern Europe 2006 until 2010

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Kosten LLP per Share / Pt-1	225	-24489.45000	18.74613200	-425.6035265	1954.944148
Stock Return	225	-163.500	128.900	-4.10696	27.331086
Stock Return * Dummy	225	-163.500	.000	-8.75741	22.627658
Valid N (listwise)	225				

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.087 ^a	.008	-.006	1960.662208

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6517301.899	3	2172433.966	.565	.639 ^a
	Residual	8.496E8	221	3844196.298		
	Total	8.561E8	224			

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

b. Dependent Variable: Kosten LLP per Share / Pt-1

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-254.509	221.928		-1.147	.253
	Dummy	-196.990	303.592	-.050	-.649	.517
	Stock Return	-4.526	11.544	-.063	-.392	.695
	Stock Return * Dummy	9.763	13.114	.113	.744	.457

a. Dependent Variable: Kosten LLP per Share / Pt-1

The descriptive statistics show a relatively big standard deviation in the sample that could indicate that the sample has outliers. While the re-run for the full sample in Appendix 5 shows no new results, the original sample is used in this research.

The model summary presents an R, which stands for the correlation of the variables with the dependent variable, of 0,087. The R Square of 0,008 implies that the chosen variables (Stock Return, Stock Return * Dummy and Dummy) explain for 0,8% the outcome of the LLP per Share/Pt-1 as shown in the Basu-measure in the previous chapter (Field, 2009).

The ANOVA-table shows an F-value of 0,565 that is not significant for the significance levels of 1%, 5% and 10%. Based on this, according to Field (2009) the variables are no significantly better predictors than the mean of the LLP per Share/Pt-1. Based on this no use exist in examining the coefficients-table.

6.2.1.1 Northern Europe 2006

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2006 (Selected)			
1	.052 ^a	.003	-.070	500.1675876

a. Predictors: (Constant), Stock Return * Dummy, Stock Return, Dummy

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27655.291	3	9218.430	.037	.990 ^a
	Residual	10256872.24	41	250167.616		
	Total	10284527.53	44			

a. Predictors: (Constant), Stock Return * Dummy, Stock Return, Dummy

b. Dependent Variable: Kosten LLP per Share / Pt-1

c. Selecting only cases for which Financial year = 2006

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-146.271	93.254		-1.569	.124
	Dummy	34.591	288.420	.023	.120	.905
	Stock Return	-.686	3.444	-.032	-1.199	.843
	Stock Return * Dummy	-4.240	52.531	-.015	-.081	.936

a. Dependent Variable: Kosten LLP per Share / Pt-1

b. Selecting only cases for which Financial year = 2006

The model summary shows an R (correlation) of 5,2% and an R square of 0,3% that implies that the variables explain 0,3% of the outcomes.

The ANOVA-test provides the F-value of 0,263 that is not significant at the significance levels of 1%/5% and 10%. Consequently, according to Field (2009) the variables imply no significantly better predictor than the mean of the LLP per Share/Pt-1.

Based on this no use exists in examining the coefficients-table.

6.2.1.2 Northern Europe 2007

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2007 (Selected)			
1	.397 ^a	.158	.096	510.6173402

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1999211.808	3	666403.936	2.556	.068 ^a
	Residual	10689932.79	41	260730.068		
	Total	12689144.60	44			

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return
 b. Dependent Variable: Kosten LLP per Share / Pt-1
 c. Selecting only cases for which Financial year = 2007

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-198.874	151.533		-1.312	.197
	Dummy	131.537	198.142	.117	.664	.511
	Stock Return	-28.374	13.486	-.685	-2.104	.042
	Stock Return * Dummy	28.178	16.003	.533	1.761	.086

a. Dependent Variable: Kosten LLP per Share / Pt-1
 b. Selecting only cases for which Financial year = 2007

The model summary shows an R (correlation) of 39,7% and an R square of 15,8% that implies that the variables explain 15,8% of the outcomes.

The ANOVA-test provides the F-value of 2,556 that is not significant at the significance levels of 1% and 5%, but is significant at the 10%-level. Consequently, according to Field (2009) the variables at a significance level of 10% imply a significantly better predictor than the mean of the LLP per Share/Pt-1.

The coefficients show that the B3 is bigger than 0 and is bigger than B2. The first result implies that the use of conditional accounting conservatism exists and the second result indicates that earnings are incrementally more sensitive for 'bad' news than for 'good' news. Although to be true, these results need to be combined with the significance levels of 1%/5% and 10%. The column Sig. shows that both results are significant at the 10%-level and the B2 is also significant at the 5%-level.

Both the results, the use of conditional accounting conservatism and the incrementally more sensitive earnings to 'bad' news than 'good' news, can be considered as true for the year 2007.

6.2.1.3 Northern Europe 2008

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2008 (Selected)			
1	.522 ^a	.273	.238	489.0762285

a. Predictors: (Constant), Stock Return * Dummy, Dummy

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3771555.626	2	1885777.813	7.884	.001 ^a
	Residual	10046213.40	42	239195.557		
	Total	13817769.03	44			

a. Predictors: (Constant), Stock Return * Dummy, Dummy

b. Dependent Variable: Kosten LLP per Share / Pt-1

c. Selecting only cases for which Financial year = 2008

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1422.465	345.829		-4.113	.000
	Dummy	1356.756	358.899	.505	3.780	.000
	Stock Return * Dummy	3.387	1.846	.245	1.834	.074

a. Dependent Variable: Kosten LLP per Share / Pt-1

b. Selecting only cases for which Financial year = 2008

Excluded Variables^b

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics
						Tolerance
1	Stock Return	-.84411 ^a	-5.299	.000	-.638	4.147E-5

a. Predictors in the Model: (Constant), Stock Return * Dummy, Dummy

b. Dependent Variable: Kosten LLP per Share / Pt-1

The model summary shows an R (correlation) of 52,2% and an R square of 27,3% that implies that the variables explain 27,3% of the outcomes.

The ANOVA-test provides the F-value of 7,884 that is significant at the significance levels of 1%/5% and 10%. Consequently, according to Field (2009) the variables, imply a significantly better predictor than the mean of the LLP per Share/Pt-1.

The coefficients show that the B3 is bigger than 0 and that there is no B2. The first result implies that the use of conditional accounting conservatism exists and the second result indicates that in 2008 no positive stock returns are present in the sample.

When the first result is combined with the significance levels of 1%/5% and 10% and the column Sig. the use of conditional accounting conservatism can be considered as true for the year 2008.

6.2.1.4 Northern Europe 2009

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2009 (Selected)			
1	.409 ^a	.167	.106	3478.823526

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	99402681.92	3	33134227.30	2.738	.056 ^a
	Residual	4.962E8	41	12102213.13		
	Total	5.956E8	44			

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return
 b. Dependent Variable: Kosten LLP per Share / Pt-1
 c. Selecting only cases for which Financial year = 2009

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-237.582	912.739		-.260	.796
	Dummy	-568.517	1300.404	-.076	-.437	.664
	Stock Return	-24.619	56.532	-.124	-.435	.665
	Stock Return * Dummy	131.430	70.168	.479	1.873	.068

a. Dependent Variable: Kosten LLP per Share / Pt-1
 b. Selecting only cases for which Financial year = 2009

The model summary shows an R (correlation) of 40,9% and an R square of 16,7% that implies that the variables explain 16,7% of the outcomes.

The ANOVA-test provides the F-value of 2,738 that is not significant at the significance levels of 1% and 5%, but is significant at the 10%-level. Consequently, according to Field (2009) the variables at a significance level of 10% imply a significantly better predictor than the mean of the LLP per Share/Pt-1.

The coefficients show that the B3 is bigger than 0 and is bigger than B2. The first result implies that the use of conditional accounting conservatism exists and the second result indicates that earnings are incrementally more sensitive for 'bad' news than for 'good' news. Although to be true, these results need to be combined with the significance levels of 1%/5% and 10%. The column Sig. shows that the B3 is significant at the 10%-level and the B2 is not significant at the significance levels 1%/5% and 10%.

Both the results, the use of conditional accounting conservatism and the incrementally more sensitive earnings to ‘bad’ news than ‘good’ news, cannot be considered as true for the year 2009.

6.2.1.5 Northern Europe 2010

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2010 (Selected)			
1	.262 ^a	.069	.001	2129.666000

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^{b, c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13711514.26	3	4570504.755	1.008	.399 ^a
	Residual	1.860E8	41	4535477.275		
	Total	1.997E8	44			

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

b. Dependent Variable: Kosten LLP per Share / Pt-1

c. Selecting only cases for which Financial year = 2010

Coefficients^{a, b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-157.436	594.720		-.265	.793
	Dummy	-1346.555	870.619	-.319	-1.547	.130
	Stock Return	5.386	106.392	.014	.051	.960
	Stock Return * Dummy	-145.701	164.285	-.217	-.887	.380

a. Dependent Variable: Kosten LLP per Share / Pt-1

b. Selecting only cases for which Financial year = 2010

The model summary shows an R (correlation) of 26,2% and an R square of 6,9% that implies that the variables explain 6,9% of the outcomes.

The ANOVA-test provides the F-value of 1,008 that is not significant at the significance levels of 1%/5% and 10%. Consequently, according to Field (2009) the variables imply no significantly better predictor than the mean of the LLP per Share/Pt-1.

Based on this no use exists in examining the coefficients-table.

6.2.2 Southern Europe 2006 until 2010

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Kosten LLP per Share / Pt-1	245	-2124.550000	.98707163	-112.9155783	210.2609202
Stock Return	245	-33.7800	12.0800	-1.185237	4.3260278
Stock Return * Dummy	245	-33.7800	.0000	-1.907596	3.6506468
Valid N (listwise)	245				

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.084 ^a	.007	-.005	210.8180737

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	76089.006	3	25363.002	.571	.635 ^a
	Residual	10711066.71	241	44444.260		
	Total	10787155.71	244			

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return
b. Dependent Variable: Kosten LLP per Share / Pt-1

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-138.042	29.763		-4.638	.000
	Dummy	20.523	36.396	.047	.564	.573
	Stock Return	7.293	10.251	.150	.711	.477
	Stock Return * Dummy	-10.941	11.018	-.190	-.993	.322

a. Dependent Variable: Kosten LLP per Share / Pt-1

The descriptive statistics show a relatively big standard deviation in the sample that could indicate that the sample has outliers. While the re-run for the full sample in Appendix 5 shows no new results, the original sample in this research is used.

The model summary presents an R, which stands for the correlation of the variables with the dependent variable, of 0,084. The R Square of 0,007 implies that the chosen variables (Stock Return, Stock Return * Dummy and Dummy) explain for 0,7% the outcome of the LLP per Share/Pt-1 as shown in the Basu-measure in the previous chapter (Field, 2009).

The ANOVA-table shows an F-value of 0,571 that is not significant for the significance levels of 1%, 5% and 10%. Based on this, according to Field (2009) the variables are no significantly better predictors than the mean of the LLP per Share/Pt-1. Based on this no use exist in examining the coefficients-table.

6.2.2.1 Southern Europe 2006

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2006 (Selected)			
1	.203 ^a	.041	-.023	72.73087425

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10203.061	3	3401.020	.643	.591 ^a
	Residual	238040.103	45	5289.780		
	Total	248243.164	48			

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

b. Dependent Variable: Kosten LLP per Share / Pt-1

c. Selecting only cases for which Financial year = 2006

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-67.122	17.675		-3.798	.000
	Dummy	36.647	36.119	.190	1.015	.316
	Stock Return	5.674	5.077	.214	1.118	.270
	Stock Return * Dummy	4.126	13.511	.057	.305	.761

a. Dependent Variable: Kosten LLP per Share / Pt-1

b. Selecting only cases for which Financial year = 2006

The model summary shows an R (correlation) of 20,3% and an R square of 4,1% that implies that the variables explain 4,1% of the outcomes.

The ANOVA-test provides the F-value of 0,643 that is not significant at the significance levels of 1%/5% and 10%. Consequently, according to Field (2009) the variables imply no significantly better predictor than the mean of the LLP per Share/Pt-1.

Based on this no use exists in examining the coefficients-table.

6.2.2.2 Southern Europe 2007

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2007 (Selected)			
1	.238 ^a	.057	-.006	48.82072286

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6464.538	3	2154.846	.904	.447 ^a
	Residual	107255.834	45	2383.463		
	Total	113720.372	48			

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

b. Dependent Variable: Kosten LLP per Share / Pt-1

c. Selecting only cases for which Financial year = 2007

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-34.417	15.399		-2.235	.030
	Dummy	13.419	20.487	.126	.655	.516
	Stock Return	1.051	4.465	.057	.235	.815
	Stock Return * Dummy	7.968	7.218	.247	1.104	.275

a. Dependent Variable: Kosten LLP per Share / Pt-1

b. Selecting only cases for which Financial year = 2007

The model summary shows an R (correlation) of 23,8% and an R square of 5,7% that implies that the variables explain 5,7% of the outcomes.

The ANOVA-test provides the F-value of 0,904 that is not significant at the significance levels of 1%/5% and 10%. Consequently, according to Field (2009) the variables imply no significantly better predictor than the mean of the LLP per Share/Pt-1.

Based on this no use exists in examining the coefficients-table.

6.2.2.3 Southern Europe 2008

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2008 (Selected)			
1	.129 ^a	.017	-.026	79.86169650

a. Predictors: (Constant), Stock Return * Dummy, Dummy

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4985.055	2	2492.528	.391	.679 ^a
	Residual	293382.966	46	6377.891		
	Total	298368.021	48			

a. Predictors: (Constant), Stock Return * Dummy, Dummy

b. Dependent Variable: Kosten LLP per Share / Pt-1

c. Selecting only cases for which Financial year = 2008

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-6.401	79.862		-.080	.936
	Dummy	-48.320	81.528	-.088	-.593	.556
	Stock Return * Dummy	1.079	1.911	.083	.564	.575

a. Dependent Variable: Kosten LLP per Share / Pt-1

b. Selecting only cases for which Financial year = 2008

Excluded Variables^b

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics
						Tolerance
1	Stock Return	. ^a000

a. Predictors in the Model: (Constant), Stock Return * Dummy, Dummy

b. Dependent Variable: Kosten LLP per Share / Pt-1

The model summary shows an R (correlation) of 12,9% and an R square of 1,7% that implies that the variables explain 1,7% of the outcomes.

The ANOVA-test provides the F-value of 0,391 that is not significant at the significance levels of 1%/5% and 10%. Consequently, according to Field (2009) the variables imply no significantly better predictor than the mean of the LLP per Share/Pt-1.

Based on this no use exists in examining the coefficients-table.

6.2.2.4 Southern Europe 2009

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2009 (Selected)			
1	.250 ^a	.062	.000	260.8282220

a. Predictors: (Constant), Stock Return * Dummy, Stock Return, Dummy

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	203807.677	3	67935.892	.999	.402 ^a
	Residual	3061411.264	45	68031.361		
	Total	3265218.941	48			

a. Predictors: (Constant), Stock Return * Dummy, Stock Return, Dummy

b. Dependent Variable: Kosten LLP per Share / Pt-1

c. Selecting only cases for which Financial year = 2009

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-146.188	65.372		-2.236	.030
	Dummy	-146.239	112.813	-.273	-1.296	.201
	Stock Return	-50.740	36.302	-.285	-1.398	.169
	Stock Return * Dummy	-45.666	102.552	-.092	-.445	.658

a. Dependent Variable: Kosten LLP per Share / Pt-1

b. Selecting only cases for which Financial year = 2009

The model summary shows an R (correlation) of 25,0% and an R square of 6,2% that implies that the variables explain 6,2% of the outcomes.

The ANOVA-test provides the F-value of 0,999 that is not significant at the significance levels of 1%/5% and 10%. Consequently, according to Field (2009) the variables imply no significantly better predictor than the mean of the LLP per Share/Pt-1.

Based on this no use exists in examining the coefficients-table.

6.2.2.5 Southern Europe 2010

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2010 (Selected)			
1	.625 ^a	.390	.350	269.1822802

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2088144.781	3	696048.260	9.606	.000 ^a
	Residual	3260659.499	45	72459.100		
	Total	5348804.280	48			

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

b. Dependent Variable: Kosten LLP per Share / Pt-1

c. Selecting only cases for which Financial year = 2010

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	429.765	247.929		1.733	.090
	Dummy	-608.165	253.821	-.504	-2.396	.021
	Stock Return	-1311.980	280.899	-.8286	-4.671	.000
	Stock Return * Dummy	1308.498	281.586	8.007	4.647	.000

a. Dependent Variable: Kosten LLP per Share / Pt-1

b. Selecting only cases for which Financial year = 2010

The model summary shows an R (correlation) of 62,5% and an R square of 39,0% that implies that the variables explain 39,0% of the outcomes.

The ANOVA-test provides the F-value of 9,606 that is significant at the significance levels of 1%/5% and 10%. Consequently, according to Field (2009) the variables imply a significantly better predictor than the mean of the LLP per Share/Pt-1.

The coefficients show that the B3 is bigger than 0 and is bigger than B2. The first result implies that the use of conditional accounting conservatism exists and the second result indicates that earnings are incrementally more sensitive for 'bad' news than for 'good' news. Although to be true, these results need to be combined with the significance levels of 1%/5% and 10%. The column Sig. shows that both results are significant at the 1%/5% and 10%-level.

Both the results, the use of conditional accounting conservatism and the incrementally more sensitive earnings to 'bad' news than 'good' news, can be considered as true for the year 2010.

6.3 The pre financial crisis degree of conditional accounting conservatism in Northern Europe and in Southern Europe as a predictor

In the previous paragraphs the results for the pre financial crisis period were not reliable or no degree of the use of conditional accounting conservatism was present. To ensure these results the Basu-measure in which the earnings per share component were substituted for the loan loss provision per share component will be used in its original state (Basu-measure with the earnings per share component). Gathering the earnings per share information from the Northern and the Southern European banks 22 banks were excluded in the first sample of 94 banks. See appendix 5 for an overview of the banks that are excluded.

6.3.1 Northern and Southern Europe 2006 until 2010 (EPS)

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
EPS/Pt-1	360	-7.8350	5.9820	.153281	.8244223
Stock Return	360	-163.500	128.900	-2.85686	20.844899
Stock Return * Dummy	360	-163.500	.000	-5.62484	17.540753
Valid N (listwise)	360				

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.204 ^a	.042	.034	.8104032

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.198	3	3.399	5.176	.002 ^a
	Residual	233.804	356	.657		
	Total	244.002	359			

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return
b. Dependent Variable: EPS/Pt-1

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.162	.075		2.176	.030
	Dummy	-.124	.096	-.074	-1.293	.197
	Stock Return	.004	.005	.105	.891	.373
	Stock Return * Dummy	-.014	.005	-.291	-2.581	.010

a. Dependent Variable: EPS/Pt-1

The descriptive statistics show a relatively big standard deviation in the sample that could indicate that the sample has outliers. While the sample has become relatively small with 72 banks, no outliers are excluded from these earnings per share sample.

The first table, the model summary, presents an R, which stands for the correlation of the variables with the dependent variable, of 0,204. The R Square of 0,042 implies that the chosen variables (Stock Return, Stock Return * Dummy and Dummy) explain for 4,2% the outcome of the EPS/Pt-1 as shown in the Basu-measure in the previous chapter (Field, 2009).

Secondly, the ANOVA-table shows an F-value of 5,176 that is significant for the significance levels of 1%, 5% and 10%. Based on this, according to Field (2009) the variables are significantly better predictors than the mean of the EPS/Pt-1.

Thirdly, the coefficients show that the B3 is not bigger than 0 and is not bigger than B2. Both the results do not imply or indicate the use of conditional accounting conservatism or the incrementally more sensitive earnings to 'bad' news than 'good' news. In addition, the B2 component is not significant at the significant levels of 1%/5% and 10% so no result of the use of concerning conditional accounting conservatism is present for the period of 2006 until 2010.

6.3.1.1 Northern and Southern Europe 2006 (EPS)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2006 (Selected)			
1	.316 ^a	.100	.060	.5444669

a. Predictors: (Constant), Stock Return * Dummy, Stock Return, Dummy

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.242	3	.747	2.521	.065 ^a
	Residual	20.158	68	.296		
	Total	22.400	71			

a. Predictors: (Constant), Stock Return * Dummy, Stock Return, Dummy
 b. Dependent Variable: EPS/Pt-1
 c. Selecting only cases for which Financial year = 2006

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.104	.075		1.381	.172
	Dummy	-.111	.242	-.063	-.461	.647
	Stock Return	-.010	.004	-.323	-2.747	.008
	Stock Return * Dummy	.010	.051	.026	.192	.848

a. Dependent Variable: EPS/Pt-1
 b. Selecting only cases for which Financial year = 2006

The model summary shows an R (correlation) of 31,6% and an R square of 10,0% that implies that the variables explain 10,0% of the outcomes.

The ANOVA-test provides the F-value of 2,521 that is not significant at the significance levels of 1%/5% but is significant at the 10%-level. Consequently, according to Field (2009) the variables at the significance level of 10% imply a significantly better predictor than the mean of the EPS/Pt-1.

The coefficients show that the B3 is bigger than 0 and is bigger than B2. The first result implies that the use of conditional accounting conservatism exists and the second result indicates that earnings are incrementally more sensitive for ‘bad’ news than for ‘good’ news. Although to be true, these results need to be combined with the significance levels of 1%/5% and 10%. The column Sig. shows that B3 is not significant and B2 is significant at the significance levels 1%/5% and 10%.

Summarized, the research for the year 2006 encountered no results that indicate the use of conditional accounting conservatism.

6.3.1.2 Northern and Southern Europe 2007 (EPS)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2007 (Selected)			
1	.922 ^a	.849	.843	.2701347

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.006	3	9.335	127.931	.000 ^a
	Residual	4.962	68	.073		
	Total	32.969	71			

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

b. Dependent Variable: EPS/Pt-1

c. Selecting only cases for which Financial year = 2007

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.191	.073		-2.615	.011
	Dummy	.290	.085	.182	3.390	.001
	Stock Return	.131	.007	1.994	19.137	.000
	Stock Return * Dummy	-.136	.008	-1.666	-17.005	.000

a. Dependent Variable: EPS/Pt-1

b. Selecting only cases for which Financial year = 2007

The model summary shows an R (correlation) of 92,2% and an R square of 84,3% that implies that the variables explain 84,3% of the outcomes.

The ANOVA-test provides the F-value of 127,931 that is significant at the significance levels of 1%/5% and 10%. Consequently, according to Field (2009) the variables imply a significantly better predictor than the mean of the EPS/Pt-1.

The coefficients show that the B3 is smaller than 0 and is smaller than B2. The first result implies that the use of conditional accounting conservatism does not exist and the second result indicates that earnings are incrementally less sensitive for 'bad' news than for 'good' news. Although to be true, these results need to be combined with the significance levels of 1%/5% and 10%. The column Sig. shows that B3 is significant and B2 is significant at the significance levels 1%/5% and 10%.

Summarized, the research for the year 2007 encountered no results that indicate the use of conditional accounting conservatism.

6.3.1.3 Northern and Southern Europe 2008 (EPS)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2008 (Selected)			
1	.590 ^a	.348	.329	.3930290

a. Predictors: (Constant), Stock Return * Dummy, Dummy

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.684	2	2.842	18.398	.000 ^a
	Residual	10.659	69	.154		
	Total	16.342	71			

a. Predictors: (Constant), Stock Return * Dummy, Dummy

b. Dependent Variable: EPS/Pt-1

c. Selecting only cases for which Financial year = 2008

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.064	.393		.163	.871
	Dummy	-.058	.397	-.014	-.145	.885
	Stock Return * Dummy	-.008	.001	-.591	-6.060	.000

a. Dependent Variable: EPS/Pt-1

b. Selecting only cases for which Financial year = 2008

Excluded Variables^b

Model	Beta In	t	Sig.	Partial Correlation	Collinearity Statistics
					Tolerance
1	Stock Return	. ^a	.	.	.000

a. Predictors in the Model: (Constant), Stock Return * Dummy, Dummy

b. Dependent Variable: EPS/Pt-1

The model summary shows an R (correlation) of 59,0% and an R square of 34,8% that implies that the variables explain 34,8% of the outcomes.

The ANOVA-test provides the F-value of 18,398 that is significant at the significance levels of 1%/5% and 10%. Consequently, according to Field (2009) the variables imply a significantly better predictor than the mean of the EPS/Pt-1.

The coefficients show that the B3 is smaller than 0 and that there is no B2. The first result implies that the use of conditional accounting conservatism does not exist and the second result indicates that in 2008 no positive stock returns are present in the sample. Although to be true, these results need to be combined with the significance levels of 1%/5% and 10%. The column Sig. shows that B3 is significant at the significance levels 1%/5% and 10%.

Summarized, the research for the year 2008 encountered no results that indicate the use of conditional accounting conservatism.

6.3.1.4 Northern and Southern Europe 2009 (EPS)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2009 (Selected)			
1	.389 ^a	.152	.114	.9335552

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.589	3	3.530	4.050	.010 ^a
	Residual	59.264	68	.872		
	Total	69.852	71			

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

b. Dependent Variable: EPS/Pt-1

c. Selecting only cases for which Financial year = 2009

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.309	.171		1.805	.075
	Dummy	-.115	.248	-.057	-.464	.644
	Stock Return	.032	.014	.455	2.286	.025
	Stock Return * Dummy	-.058	.017	-.624	-3.337	.001

a. Dependent Variable: EPS/Pt-1

b. Selecting only cases for which Financial year = 2009

The model summary shows an R (correlation) of 38,9% and an R square of 15,2% that implies that the variables explain 15,2% of the outcomes.

The ANOVA-test provides the F-value of 4,050 that is significant at the significance levels of 1%/5% and 10%. Consequently, according to Field (2009) the variables imply a significantly better predictor than the mean of the EPS/Pt-1.

The coefficients show that the B3 is smaller than 0 and is smaller than B2. The first result implies that the use of conditional accounting conservatism does not exist and the second result indicates that earnings are incrementally less sensitive for 'bad' news than for 'good' news. Although to be true, these results need to be combined with the significance levels of 1%/5% and 10%. The column Sig. shows that B3 is significant at the significance levels 1%/5% and 10% and B2 is significant at the significance levels 5% and 10%.

Summarized, the research for the year 2009 encountered no results that indicate the use of conditional accounting conservatism.

6.3.1.5 Northern and Southern Europe 2010 (EPS)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2010 (Selected)			
1	.143 ^a	.021	-.023	1.1499797

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.886	3	.629	.475	.700 ^a
	Residual	89.927	68	1.322		
	Total	91.813	71			

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

b. Dependent Variable: EPS/Pt-1

c. Selecting only cases for which Financial year = 2010

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.252	.322		-.783	.437
	Dummy	.090	.387	.036	.233	.817
	Stock Return	.037	.058	.142	.634	.528
	Stock Return * Dummy	-.089	.080	-.215	-1.119	.267

a. Dependent Variable: EPS/Pt-1

b. Selecting only cases for which Financial year = 2010

The model summary shows an R (correlation) of 14,3% and an R square of 2,1% that implies that the variables explain 2,1% of the outcomes.

The ANOVA-test provides the F-value of 0,475 that is not significant at the significance levels of 1%/5% and 10%. Consequently, according to Field (2009) the variables imply no significantly better predictor than the mean of the EPS/Pt-1.

Based on this no use exists in examining the coefficients-table.

7. Conclusion

This chapter will present the conclusion of the research by answering the following research question:

“In which way is conditional accounting conservatism in advance of the financial crisis a predictor of the degree of the use of conditional accounting conservatism during and after the financial crisis regarding the European banking sector?”

To answer the research question the sub questions/hypotheses as provided in the third paragraph of chapter four are used to present the answer.

7.1 Conclusion

Hypothesis 1

The use of conditional accounting conservatism does not occur in the banking sector of both Northern and Southern Europe, before, during, and after the financial crisis.

The results in chapter 6 show that for a combined sample of Northern and Southern Europe for the years 2006 until 2010 the model is not a significant better predictor than the mean. For the full sample period the hypothesis is not rejected.

For the years separately the results in the combined sample indicate that before the financial crisis (2006) the model is no significant better predictor than the mean, during the financial crisis (2007 until 2009) conditional accounting conservatism is present and after the financial crisis (2010) the model is no significant better predictor than the mean.

All together hypothesis 1 is only rejected for the combined sample during the financial crisis. In other words there is significant empirical evidence that the use of conditional accounting conservatism during the financial crisis is present for the Northern and Southern European countries together.

Hypothesis 2

The Northern European countries do not have a higher degree of the use of conditional accounting conservatism than the Southern European countries in advance of the financial crisis.

While the sample after the correction of outliers did not show any new results the original sample was used in the comparison of Northern and Southern Europe. Both the Northern European and Southern European samples showed for the full sample period, 2006 until 2010, that the model is no significant better predictor than the mean. Which is consistent with the combined sample of Northern and Southern Europe.

The Northern European sample as well as the Southern European sample show that before the financial crisis the model is not a significant better predictor than the mean. In other words these results do not reject the hypothesis 1 and that there is conditional accounting conservatism.

Based on these results hypothesis 2 is not rejected, so there is no empirical evidence that the Northern European countries do have a higher degree of the use of conditional accounting conservatism than the Southern European countries in advance of the financial crisis.

To ensure these results the research model was adjusted from the loan loss provision Basu-measure to the earnings per share Basu-measure. The re-run for the combined sample of Northern and Southern European countries showed with a significance level of 10% that no use of conditional accounting conservatism is present in advance of the financial crisis.

Hypothesis 3

a) The degree of the use of conditional accounting conservatism in Northern European countries in advance of the financial crisis is not a predictor of the degree of the use of conditional accounting conservatism during and after the financial crisis.

b) The degree of the use of conditional accounting conservatism in Southern European countries in advance of the financial crisis is not a predictor of the degree of the use of conditional accounting conservatism during and after the financial crisis.

While hypothesis 2 was not rejected and the re-run with the earnings per share component in the Basu-measure showed no new results both hypotheses were no longer subject of research.

Research question

The used models showed that it was either not a significant better predictor than the mean and that there was no use of conditional accounting conservatism in advance of the financial crisis. Considering these results the answer for the question in which way conditional accounting conservatism in advance of the financial crisis is a predictor of the degree of the use of conditional accounting conservatism during and after the financial crisis regarding the European banking sector is that it is in no way a predictor based on the used models in the research.

In addition, a possible indication that the stock returns of banks before the financial crisis do not reflect earnings of past periods could be present. This possible indication differs from the prior literature in chapter four and could have been due to the limitations of the research as described in the following paragraph.

7.2 Limitations

The research has limitations concerning the following subjects:

- Loan portfolio composition (Renegotiation period of loans and loan size)
- Government banks and/or government support

The loan portfolio composition is of influence on the use of the conditional accounting conservatism (Lui & Ryan, 1995), but is not subject of the research. The research would become more complex, more time and budget demanding and it was not clear whether all information was available.

Whether the subject of government banks or support is of influence on the use of conditional accounting conservatism is uncertain while no research is present. Government banks and support are not subject of the research while the distinction between non-government banks and government banks is a study on it selves. Government banks or support could influence the research results while its effect on conditional accounting conservatism is uncertain.

In addition, the exclusion of the banks from Slovenia is a limitation of the research. The exclusion of these banks was either caused by the lack of research information and on the other hand by the banks in Slovenia that became listed during the sample period.

7.3 Further research

Measuring with the loan loss provisions from Northern and Southern European banks a remarkable result is present. In the Northern European sample the results show that during the financial crisis, in the years 2007 and 2008, the use of conditional accounting conservatism was present while in the Southern European sample the results show that after the financial crisis, 2010, the use of conditional accounting conservatism is present. These results could indicate that bank managers use their discretion over loan loss provisions, as presented in prior literature of Molenaar (2009), to present bigger loan loss provisions or to postpone loan loss provisions. In other words this could indicate that the Northern European bank managers used their discretion to present bigger loan loss provisions during the financial crisis while the Southern European bank managers used their discretion to postpone the loan loss provisions during the financial crisis. In today's news lots of arguments and non-scientific reasons are present for such behavior of bank managers. Further research would present more insight in bank managers behavior and of value for several institutes, for example the Basel Committee and the IASB.

In addition further research for the earnings stock relation for banks in advance of the financial crisis could be of interest. In the research a possible indication that stock returns of banks before the financial crisis do not reflect earnings of past periods could be present due to no use of conditional accounting conservatism is found in advance of the financial crisis. Although this indication could be present due to the limitations of the research further research could present more insight in banks stock return relation with earnings.

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Appendix 1: Credit ratings Euro Countries

<HELP> for explanation. Msg:ECO ALRT
 Enter # <GO> for a country's credit profile or historical ratings Page 1/2

Local Currency LT Debt
Region - Euro Countries

COLOR DENOTES A RATING CHANGE WITHIN LAST 2 BUSINESS DAYS (Pos /Neg /Neutral)

	MOODY'S	S&P	FITCH	R&I
1)Austria	15)Aaa	29)AAA	43)AAA	57)NR
2)Belgium	16)Aa1	30)AA+	44)AA+	58)AA+
3)Cyprus	17)Aa3 *-	31)A	45)AA- *-	59)NR
4)Finland	18)Aaa	32)AAA	46)AAA	60)NR
5)France	19)Aaa	33)AAA	47)AAA	61)AAA
6)Germany	20)Aaa	34)AAA	48)AAA	62)AAA
7)Greece	21)Ba1 *-	35)BB+ *-	49)BB+	63)BBB- *-
8)Ireland	22)Baa1	36)A *-	50)BBB+	64)BBB+
9)Italy	23)Aa2	37)A+	51)AA-	65)AA
10)Luxembourg	24)Aaa	38)AAA	52)AAA	66)AAA
11)Malta	25)A1	39)A	53)A+	67)NR
12)Netherlands	26)Aaa	40)AAA	54)AAA	68)AAA
13)Portugal	27)A1 *-	41)A- *-	55)A+	69)NR
14)Slovakia	28)A1	42)A+	56)A+	70)NR

* Denotes this rating is a Country Ceiling Rating

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2011 Bloomberg Finance L.P.
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 Enter # <GO> for a country's credit profile or historical ratings Page 2/2

Local Currency LT Debt
Region - Euro Countries

COLOR DENOTES A RATING CHANGE WITHIN LAST 2 BUSINESS DAYS (Pos /Neg /Neutral)

	MOODY'S	S&P	FITCH	R&I
1)Slovenia	3)Aa2	5)AA	7)AA	9)NR
2)Spain	4)Aa1 *-	6)AA	8)AA+	10)NR

* Denotes this rating is a Country Ceiling Rating

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2011 Bloomberg Finance L.P.
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Source: Bloomberg

Appendix 2: Summaries of International Financial Reporting Standards

IAS11: Construction contracts	
Objective	Prescribe the accounting treatment of revenue and costs associated with construction contracts
Further details	A construction contract is a contract specifically negotiated for the construction of an asset or a group of interrelated assets [IAS 11.3]
History IAS 11	
December 1977	Exposure Draft E11 <i>Accounting for Construction Contracts</i>
March 1979	IAS 11 <i>Accounting for Construction Contracts</i>
1 January 1980	Effective date of IAS 11
May 1992	Exposure Draft E42 <i>Construction Contracts</i>
December 1993	IAS 11 (1993) <i>Construction Contracts</i> (revised as part of the 'Comparability of Financial Statements' project)
1 January 1995	Effective date of IAS 11 (1993)

Source: Deloitte, Summaries of International Financial Reporting Standards. <http://www.iasplus.com/standard/ias11.htm>

IAS12: Income taxes	
Objective	Prescribe the accounting treatment for income taxes.
Further details	<p><u>Temporary difference</u>: a difference between the carrying amount of an asset or liability and its tax base.</p> <p><u>Taxable temporary difference</u>: a temporary difference that will result in taxable amounts in the future when the carrying amount of the asset is recovered or the liability is settled.</p> <p><u>Deductible temporary difference</u>: a temporary difference that will result in amounts that are tax deductible in the future when the carrying amount of the asset is recovered or the liability is settled.</p> <p><i>Key Definitions</i> [IAS 12.5]</p>
History IAS 12	
April 1978	Exposure Draft E13 <i>Accounting for Taxes on Income</i>
July 1979	IAS 12 <i>Accounting for Taxes on Income</i>
January 1989	Exposure Draft E33 <i>Accounting for Taxes on Income</i>
1994	IAS 12 (1979) was reformatted
October 1994	Modified and Re-exposed as Exposure Draft E49 <i>Income Taxes</i>
October 1996	IAS 12 <i>Income Taxes</i>
1 January 1998	Effective date of IAS 12 (1996)
October 2000	Limited Revisions to IAS 12
1 January 2001	Effective date of the October 2000 revisions
March 2009	Exposure Draft of a Revised IAS 12

Source: Deloitte, Summaries of International Financial Reporting Standards. <http://www.iasplus.com/standard/ias12.htm>

Appendix 2 (continued): Summaries of International Financial Reporting Standards

IAS38: Intangible assets	
Objective	Prescribe the accounting treatment for intangible assets that are not dealt with specifically in another IFRS. The Standard requires an entity to recognize an intangible asset if, and only if, certain criteria are met. The Standard also specifies in which way to measure the carrying amount of intangible assets and requires certain disclosures regarding intangible assets. [IAS 38.1]
Further details	<p>Intangible asset: an identifiable non-monetary asset without physical substance. An asset is a resource that is controlled by the entity because of past events (for example, purchase, or self-creation) and from which future economic benefits (inflows of cash or other assets) are expected. [IAS 38.8] Thus, the three critical attributes of an intangible asset are</p> <ul style="list-style-type: none"> • identifiable • control (power to obtain benefits from the asset) • future economic benefits (such as revenues or reduced future costs)
History IAS 38	
February 1977	Exposure Draft E9, Accounting for Research and Development Activities
July 1978	IAS 9 (1978), Accounting for Research and Development Activities
1 January 1980	Effective date of IAS 9 (1978)
August 1991	Exposure Draft E37 <i>Research and Development Costs</i>
December 1993	IAS 9 (1993) <i>Research and Development Costs</i>
1 January 1995	Effective date of IAS 9 (1993)
June 1995	Exposure Draft E50 <i>Intangible Assets</i>
August 1997	E50 was modified and re-exposed as Exposure Draft E59 <i>Intangible Assets</i>
September 1998	IAS 38 <i>Intangible Assets</i>
1 July 1999	Effective date of IAS 38 (1998)
31 March 2004	Revisions to IAS 38
1 April 2004	Effective date of March 2004 revisions to IAS 38
22 May 2008	IAS 38 amended for <i>Annual Improvements to IFRSs 2007</i> about advertising and promotional activities and about the units of production method of amortization
1 January 2009	Effective date of the May 2008 revisions to IAS 38
16 April 2009	IAS 38 amended for Annual Improvements to IFRSs 2009 about measurement of intangible assets in business combinations
1 July 2009	Effective date of the April 2009 revisions to IAS 38

Source: Deloitte, Summaries of International Financial Reporting Standards.
<http://www.iasplus.com/standard/ias38.htm>

Appendix 2 (continued): Summaries of International Financial Reporting Standards

IFRS 7: Financial Instruments	
Objective	To add to the prescribed disclosure to give users of financial statements more insight in information about the reported entities' exposure to risks and in which way those are being managed.
Further details	IFRS 7 is applicable to both recognized and unrecognized financial instruments.
HISTORY OF IFRS 7	
22-jul-04	Exposure Draft ED 7 Financial Instruments: Disclosures
18-aug-05	IFRS 7 <i>Financial Instruments: Disclosures</i> issued
1-jan-07	Effective date of IFRS 7
10-jan-08	IFRS 3 (2008) is issued as a consequence deleting paragraph 3(c) - scope exemption for acquirer for contracts for contingent consideration
14-feb-08	IAS 32 is amended for puttable instruments and obligations arising on liquidation, adding to IFRS 7 paragraph 3(f) scope exemption for such instruments classified as equity
22-mei-08	Consequential amendment to IFRS 7.3(a) following from Improvements amendment to IAS 27, IAS 28, and IAS 31. The requirement to present additional disclosures of IAS 27, IAS 28, and IAS 31 in the individual financial statements accounting for interests in subsidiaries, associates, or joint ventures in accordance with IAS 39 has been deleted.
13-okt-08	Amendment to IFRS 7 for disclosures relating to reclassifications of financial assets
1-jul-08	Effective date of the October 2008 reclassifications amendment
23-dec-08	Exposure Draft of proposed amendments to IFRS 7 issued
5-mrt-09	Amendment to IFRS 7 on enhancing disclosures about fair value and liquidity risk
1-jan-09	Effective date of the: March 2009 enhanced fair value disclosure amendments scope exemption for puttable instruments classified as equity exemption from presenting additional IAS 27, IAS 28 and IAS31 disclosures amendment
1-jul-09	Effective date of the January 2008 IFRS 3 consequential amendment
6-mei-10	IFRS 7 amended for Annual Improvements to IFRSs 2010
7-okt-10	Amendment to IFRS 7 on enhancing disclosures about transfers of financial assets.
1-jan-11	Effective date of May 2010 amendment to IFRS 7
1-jul-11	Effective date of October 2010 amendment to IFRS 7 related to transfers of financial assets

Source: Deloitte, Summaries of International Financial Reporting Standards.
<http://www.iasplus.com/standard/ifrs07.htm>

Appendix 3: Overviews of the Data-sampling progress

Overview of excluded banks based on the latest available account date (20 of the 154 banks)

	Bank Name	City	Country code	Latest accounts date
31.	Ageas	BRUSSELS	BE	12-2008
60.	Caisse régionale de crédit agricole mutuel Nord de France-Crédit Agricole Nord de France	LILLE CEDEX	FR	12-2009
69.	Caisse Régionale de crédit agricole mutuel Atlantique Vendée-Crédit Agricole Atlantique Vendée	NANTES CEDEX 9	FR	12-2009
70.	BANIF SGPS SA	FUNCHAL	PT	12-2009
81.	Caisse régionale de credit agricole mutuel de la Touraine et du Poitou-Credit Agricole de la Touraine et du Poitou	POITIERS CEDEX	FR	12-2009
82.	Caisse régionale de crédit agricole mutuel de l'Ille-et-Vilaine-Crédit Agricole de l'Ille-et-Vilaine	RENNES CEDEX	FR	12-2009
85.	Caisse régionale de crédit agricole mutuel Loire Haute-Loire-Crédit Agricole Loire Haute-Loire	SAINT-ETIENNE CEDEX	FR	12-2009
86.	Caisse régionale de Crédit Agricole mutuel du Morbihan-Crédit Agricole du Morbihan	VANNES CEDEX 9	FR	12-2009
115.	Compagnie Financière Martin-Maurel	MARSEILLE	FR	12-2009
119.	Probanka d.d. Maribor	MARIBOR	SI	12-2009
121.	Apulia ProntoPrestito SpA	SAN SEVERO	IT	12-2009
122.	SIIC de PARIS	COURBEVOIE	FR	12-2007
125.	Gontard & Metallbank AG	FRANKFURT AM MAIN	DE	09-2001
134.	IdB Holdings SA	LUXEMBOURG	LU	12-2008
141.	Lang & Schwarz Wertpapierhandelsbank AG	DUESSELDORF	DE	12-2008
144.	Bankverein Werther AG	WERTHER	DE	12-2009
148.	Concord Investmentbank AG	FRANKFURT AM MAIN	DE	06-2008
150.	Hornblower Fischer AG	FRANKFURT AM MAIN	DE	12-2003
152.	NORDAKTIENBANK AG	HAMBURG	DE	12-2009
154.	IPG Investment Partners Group Wertpapierhandelsbank AG	MUENCHEN	DE	12-2008

Overview of excluded banks based on the latest available account date or missing LLP-information (24 of the 134 banks)

	Bank Name	City	Country code	Total Banks per Country	Filter for not available LLP	Cons. code	Total Assets mil USD Last avail. yr	Latest accounts date	Loan Loss Provisions th EUR Last avail. yr	Loan Loss Provisions th EUR Year - 1	Loan Loss Provisions th EUR Year - 2	Loan Loss Provisions th EUR Year - 3	Loan Loss Provisions th EUR Year - 4
83.	Bank für Tirol und Vorarlberg AG-BTV (3 Banken Gruppe)	INNSBRUCK	AT	1		C2	11.874	12-2010	42.100	44.500	29.300	29.200	29.400
92.	BKS Bank AG	KLAGENFURT	AT	1		C2	8.335	12-2010	47.600	37.400	20.000	19.200	20.000
52.	Raiffeisenlandesbank Oberösterreich AG	LINZ	AT	1		C2	47.475	12-2010	126.700	185.300	135.100	81.500	77.900
67.	Oberbank AG	LINZ	AT	1		C2	22.406	12-2010	103.800	90.700	67.800	68.400	56.300
112.	Volksbank Vorarlberg e.Gen.	RANKWEIL	AT	1		C2	3.312	12-2010	10.800	10.300	7.500	8.400	7.400
17.	Erste Group Bank AG	VIENNA	AT	1		C2	275.171	03-2011	2.031.200	2.056.600	1.071.400	454.700	439.100
23.	Raiffeisen Bank International AG	VIENNA	AT	1		C1	175.271	03-2011	1.194.100	1.737.900	780.300	357.000	308.900
44.	Oesterreichische Volksbanken AG	VIENNA	AT	1		C2	62.086	03-2011	364.300	863.400	143.700	87.100	61.800
76.	Immofinanz AG	VIENNA	AT	1	-1	C1	15.930	07-2010	n.a.	n.a.	0	0	n.a.
137.	Autobank AG	VIENNA	AT	1		C2	364	12-2010	1.400	1.800	500	700	1.000
140.	Wiener Privatbank SE	VIENNA	AT	1	-1	U1	158	12-2010	-800	500	n.a.	n.a.	n.a.
	Totaal AT			11	-2								
10.	Dexia	BRUSSELS	BE	1		C2	757.262	03-2011	641.000	1.096.000	1.132.000	163.000	124.000
13.	KBC Groep NV/ KBC Groupe SA-KBC Group	BRUSSELS	BE	1		C1	428.679	12-2010	1.483.000	1.903.000	901.000	224.000	185.000
	Totaal BE			2	0								
46.	Bank of Cyprus Public Company Limited-Bank of Cyprus Group	NICOSIA	CY	1		C2	56.972	03-2011	374.500	247.900	91.600	55.900	99.600
47.	Marfin Popular Bank Public Co Ltd	NICOSIA	CY	1		C2	56.895	03-2011	266.100	250.600	129.400	97.900	81.000
87.	Hellenic Bank Public Company Limited	NICOSIA	CY	1		C2	11.006	03-2011	74.700	63.200	39.700	12.800	39.000
132.	USB Bank Plc	NICOSIA	CY	1		U1	724	12-2010	6.900	1.400	1.700	1.500	1.500

				Totaal CY									
				4	0								
117.	GRENKELEASING AG	BADEN-BADEN	DE	1		U1	2.233	12-2010	33.700	31.200	20.100	17.100	15.100
22.	Landesbank Berlin Holding AG-LBB Holding AG	BERLIN	DE	1		C2	175.677	12-2010	105.000	185.000	63.000	-53.000	118.000
135.	quirin bank AG	BERLIN	DE	1		U1	541	12-2010	-600	500	700	-100	-200
147.	Tradegate AG Wertpapierhandelsbank	BERLIN	DE	1		U1	52	12-2010	0	100	1.100	100	100
16.	Deutsche Postbank AG	BONN	DE	1		C2	286.857	12-2010	561.000	678.000	498.000	338.000	337.000
51.	IKB Deutsche Industriebank AG	DUESSELDORF	DE	1		C2	48.177	09-2010	493.900	589.600	255.200	239.700	318.600
151.	Sino AG	DUESSELDORF	DE	1		U1	9	09-2010	0	0	0	-100	0
66.	HSBC Trinkaus & Burkhardt AG	DÜSSELDORF 1	DE	1		C2	24.832	03-2011	7.700	22.400	4.500	-3.500	-5.200
2.	Deutsche Bank AG	FRANKFURT AM MAIN	DE	1		C2	2.546.272	03-2011	1.274.000	2.630.000	1.076.000	612.000	298.000
64.	DVB Bank SE	FRANKFURT AM MAIN	DE	1		C2	25.811	12-2010	52.000	72.200	16.500	20.300	23.800
8.	Commerzbank AG	FRANKFURT AM MAIN 1	DE	1		C2	1.007.882	03-2011	2.499.000	4.214.000	1.855.000	479.000	878.000
149.	mwb fairtrade Wertpapierhandelsbank AG	GRAFELFING	DE	1		U1	30	12-2010	0	100	0	0	0
153.	Varengold Wertpapierhandelsbank AG	HAMBURG	DE	1	-1	U1	7	06-2010	-300	100	100	0	100
106.	DAB Bank AG	MÜNCHEN	DE	1		C2	4.326	12-2010	600	600	300	-200	500
126.	Merkur-Bank KGaA	MÜNCHEN 2	DE	1		U1	956	12-2010	7.900	6.600	5.000	16.900	6.800
116.	UmweltBank AG	NUERNBERG	DE	1		U1	2.355	12-2010	1.900	500	-600	900	3.300
74.	Oldenburgische Landesbank - OLB	OLDENBURG	DE	1		C2	17.839	12-2010	24.600	26.400	15.700	-5.400	-7.100
77.	Comdirect Bank AG	QUICKBORN, PINNEBERG	KR. DE	1		C2	14.752	12-2010	300	-1.300	1.200	1.900	3.400
36.	Wüstenrot Württembergische &	STUTT GART	DE	1		C2	101.534	12-2010	146.800	258.200	965.500	52.100	118.400
127.	Baader Bank AG	UNTERSCHLEISSHEIM	DE	1	-1	C2	885	12-2010	500	1.000	3.100	n.a.	n.a.

48.	Aareal Bank AG	WIESBADEN	DE	1		C2	55.073	03-2011	105.000	150.000	80.000	77.000	89.000	
118.	MLP Ag	WIESLOCH	DE	1	-1	C1	2.011	12-2010	n.a.	182.600	204.600	n.a.	n.a.	
	Totaal DE			22	-3									
35.	Caja de Ahorros del Mediterraneo CAM	ALICANTE	ES	1		C2	108.811	09-2010	846.500	981.800	573.400	297.700	190.800	
11.	Banco Bilbao Vizcaya Argentaria SA	BILBAO	ES	1		C2	738.560	12-2010	4.563.000	5.199.000	2.797.000	1.902.000	1.476.700	
55.	Banco Pastor SA	LA CORUNA	ES	1		C2	41.602	12-2010	283.400	588.200	229.200	127.000	93.900	
5.	Banco Santander SA	MADRID	ES	1		C2	1.626.805	12-2010	#####	#####	5.964.400	3.496.100	2.483.900	
25.	Banco Popular Espanol SA	MADRID	ES	1		C2	173.891	03-2011	1.106.300	1.520.000	905.200	291.600	326.700	
28.	Banco Espanol de Crédito SA, BANESTO	MADRID	ES	1		C2	161.171	03-2011	811.100	451.600	299.800	271.700	190.100	
42.	Bankinter SA	MADRID	ES	1		C2	72.357	12-2010	216.300	218.700	186.200	75.500	97.300	
30.	Banco de Sabadell SA	SABADELL	ES	1		C2	129.742	03-2011	395.900	225.500	570.900	189.700	241.800	
62.	Banco de Valencia SA	VALENCIA	ES	1		C2	31.666	12-2010	199.700	260.000	123.900	105.800	60.000	
	Totaal ES			9	0									
57.	Sampo Plc	HELSINKI	FI	1	-1	C2	38.370	09-2010	n.a.	n.a.	n.a.	n.a.	-1.000	
78.	Aktia Plc	HELSINKI	FI	1		C2	14.724	12-2010	14.100	31.700	0	200	-1.600	
145.	Amanda Capital Plc	HELSINKI	FI	1	-1	C2	69	12-2010	800	5.900	2.600	n.a.	n.a.	
103.	Alandsbanken Abp-Bank of Aland Plc	MARIEHAMN	FI	1	-1	C2	4.643	12-2010	5.900	2.900	2.300	n.a.	n.a.	
50.	Pohjola Bank plc-Pohjola Pankki Oyj	POHJOLA	FI	1		C2	48.348	12-2010	104.000	129.000	28.000	1.000	1.000	
	Totaal FI			5	-3									
72.	Caisse régionale de credit agricole mutuel d'Alpes-Provence-Credit Agricole Alpes Provence	AIX EN CEDEX 3	PROVENCE	FR	1		C2	19.621	12-2010	59.600	113.900	56.200	42.900	44.300
65.	Caisse Régionale de Crédit Agricole Mutuel Brie Picardie-Crédit Agricole Brie Picardie	AMIENS	FR	1		C2	25.404	12-2010	44.500	37.600	36.900	30.300	30.800	
80.	Caisse régionale de crédit agricole mutuel de Normandie-Seine	BOIS-GUILLAUME CEDEX	FR	1	-1	C2	14.222	06-2010	25.200	18.700	3.100	5.500	16.400	

104.	Boursorama	BOULOGNE BILLANCOURT CEDEX	FR	1	-1	C2	4.548	06-2010	1.700	600	700	800	0
75.	Caisse régionale de crédit agricole mutuel Sud Rhône -Alpes-Credit Agricole Sud Rhône Alpes	GRENOBLE CEDEX 9	FR	1		C2	16.966	12-2010	49.700	48.700	34.300	31.300	17.300
111.	Banque Tarneaud	LIMOGES	FR	1		U1	3.634	12-2010	16.000	18.600	8.500	6.600	7.300
1.	BNP Paribas	PARIS	FR	1		C2	2.669.907	03-2011	4.921.000	7.818.000	3.783.000	1.472.000	810.000
3.	Crédit Agricole S.A.	PARIS	FR	1		C2	2.129.248	12-2010	3.777.000	4.689.000	3.065.000	1.836.000	547.000
12.	Natixis	PARIS	FR	1		C2	611.984	12-2010	-34.000	1.484.000	771.000	244.000	50.000
53.	Caisse régionale de crédit agricole mutuel de Paris et d'Ile-de-France-Crédit Agricole d'Ile-de-France	PARIS	FR	1		C2	43.316	12-2010	60.100	80.400	100.400	-400	37.100
89.	Paris Orléans SA	PARIS	FR	1	-1	C2	10.404	03-2010	59.500	78.200	2.000	800	n.a.
99.	Altarea S.A.	PARIS	FR	1	-1	C2	5.954	12-2010	n.a.	n.a.	91.500	n.a.	n.a.
120.	Affine	PARIS	FR	1	-1	C1	1.851	06-2010	4.300	1.400	1.600	900	200
124.	Locindus	PARIS	FR	1	-1	C2	1.292	12-2010	-1.100	-400	2.900	n.a.	0
128.	ABC Arbitrage	PARIS	FR	1		C2	881	12-2010	-800	-100	1.700	0	3.700
136.	Bourse Direct	PARIS	FR	1		U1	471	12-2010	0	100	100	100	0
143.	SIIC de PARIS 8ème	PARIS	FR	1	-1	U1	121	12-2010	-100	500	0	0	n.a.
146.	Société financière pour le financement de bureaux et d'usines SOFIBUS	PARIS	FR	1		U1	60	12-2010	100	200	-100	100	400
15.	Crédit Industriel et Commercial - CIC	PARIS CEDEX 02	FR	1		C2	323.405	12-2010	275.000	615.000	341.000	140.000	80.000
139.	Union Financière de France Banque	PARIS CEDEX 16	FR	1	-1	C2	265	12-2010	0	n.a.	n.a.	n.a.	n.a.
6.	Société Générale	PARIS LA DEFENSE CEDEX	FR	1		C2	1.512.656	12-2010	3.464.000	4.450.000	2.460.000	905.000	679.000
113.	Banque de la Réunion	SAINT-DENIS-DE-LA- REUNION	FR	1		U1	3.013	12-2010	22.600	81.600	27.000	13.700	6.200

123.	Crédit Foncier et Communal d'Alsace et de Lorraine (Banque)-CFCAL Banque	STRASBOURG	FR	1		C2	1.320	12-2010	2.700	2.400	600	100	-3.800
90.	Caisse Régionale de Crédit Agricole Mutuel Toulouse 31-Crédit Agricole Mutuel Toulouse 31 CCI	TOULOUSE CEDEX	FR	1		C2	10.396	12-2010	38.300	40.000	32.300	23.200	24.000
				Totaal FR	24								-8
20.	Bank of Greece	ATHENS	GR	1	-1	U1	185.249	12-2010	472.900	472.200	197.400	148.100	n.a.
27.	National Bank of Greece SA	ATHENS	GR	1		C2	161.337	03-2011	1.365.000	1.041.000	513.300	320.000	267.200
32.	EFG Eurobank Ergasias SA	ATHENS	GR	1		C2	116.499	03-2011	1.362.000	1.177.000	886.000	401.000	344.000
39.	Alpha Bank AE	ATHENS	GR	1		C2	89.255	03-2011	884.900	680.600	578.900	195.700	239.000
41.	Piraeus Bank SA	ATHENS	GR	1		C2	77.071	12-2010	600.700	491.200	388.200	111.100	77.000
54.	Agricultural Bank of Greece	ATHENS	GR	1		C2	41.716	03-2011	468.600	619.500	195.600	79.900	62.700
58.	Emporiki Bank of Greece SA	ATHENS	GR	1		C2	35.779	12-2010	1.026.000	650.700	473.700	218.300	473.300
68.	TT Hellenic Postbank S.A	ATHENS	GR	1		C2	22.136	12-2010	54.200	40.600	36.100	28.700	24.100
97.	Attica Bank SA-Bank of Attica SA	ATHENS	GR	1		C2	6.374	12-2010	42.500	34.800	34.600	30.400	23.600
100.	General Bank of Greece SA	ATHENS	GR	1		C2	5.714	12-2010	411.800	137.400	51.100	42.100	76.100
101.	Proton Bank S.A.	ATHENS	GR	1		C2	5.686	12-2010	43.900	34.300	15.800	6.900	900
110.	T Bank S.A	ATHENS	GR	1		C2	3.651	12-2010	39.500	48.000	18.300	3.400	2.700
96.	Marfin Investment Group	MAROUSI	GR	1	-1	C2	7.231	12-2010	n.a.	n.a.	23.300	n.a.	27.100
				Totaal GR	13								-2
18.	Bank of Ireland	DUBLIN 2	IE	1		C2	223.775	12-2010	1.887.000	2.371.000	1.435.000	227.000	103.000
19.	Allied Irish Banks plc	DUBLIN 4	IE	1		C2	194.043	12-2010	6.015.000	5.242.000	1.822.000	106.000	118.000
				Totaal IE	2								0
79.	Banca popolare dell'Etruria e del Lazio Soc. coop.	AREZZO	IT	1		C2	14.568	12-2010	116.000	125.000	65.500	48.400	45.400
24.	Unione di Banche Italiane Scpa-UBI Banca	BERGAMO	IT	1		C2	174.450	03-2011	745.800	894.700	566.200	359.400	249.000
71.	Credito Bergamasco	BERGAMO	IT	1		U1	20.696	12-2010	137.000	106.700	81.400	40.200	39.100

88.	Banco Desio - Banco di Desio e della Brianza SpA	DESIO	IT	1		C2	10.907	12-2010	40.700	63.000	47.800	25.400	15.000
49.	Banca Carige SpA	GENOVA	IT	1		C2	53.461	03-2011	126.000	116.300	91.000	92.700	107.000
9.	Intesa Sanpaolo	MILAN	IT	1		C2	880.221	12-2010	2.818.000	3.700.000	2.601.000	1.283.000	1.034.000
37.	Mediobanca SpA	MILAN	IT	1		C2	93.875	09-2010	464.100	477.500	204.600	165.800	119.600
43.	Banca Popolare di Milano SCaRL	MILAN	IT	1		C2	72.225	03-2011	246.500	324.900	207.500	136.200	127.200
84.	Credito Artigiano	MILAN	IT	1		U1	11.798	12-2010	54.800	65.900	39.200	33.000	29.100
114.	Banca Profilo SpA	MILAN	IT	1		C2	2.643	12-2010	4.900	1.100	4.800	-300	0
130.	Mittel SpA	MILAN	IT	1	-1	C2	821	09-2010	800	3.600	-100	n.a.	n.a.
40.	Banca popolare dell'Emilia Romagna	MODENA	IT	1		C2	78.165	03-2011	435.500	629.300	236.800	175.900	163.100
56.	Credito Emiliano SpA-CREDEM	REGGIO-EMILIA	IT	1		C2	40.083	12-2010	62.500	119.300	64.800	56.700	29.300
7.	UniCredit SpA	ROMA	IT	1		C2	1.241.966	12-2010	7.044.900	8.455.000	3.681.800	2.311.200	2.294.700
133.	Banca Finnat Euramerica SpA	ROME	IT	1		C2	690	12-2010	900	700	200	0	0
73.	Banco di Sardegna SpA	SASSARI	IT	1		C2	18.613	12-2010	74.700	77.700	58.700	37.400	41.700
14.	Banca Monte dei Paschi di Siena SpA-Gruppo Monte dei Paschi di Siena	SIENA	IT	1		C2	326.402	12-2010	1.125.500	1.452.700	1.002.300	723.800	612.600
59.	Credito Valtellinese Soc Coop	SONDRIO	IT	1		C2	35.757	03-2011	134.400	190.000	125.200	97.600	82.000
61.	Banca Popolare di Sondrio Societa Cooperativa per Azioni	SONDRIO	IT	1		C2	35.118	12-2010	136.000	144.800	69.400	48.700	40.600
108.	Banca Popolare di Spoleto SpA	SPOLETO	IT	1		U1	4.048	12-2010	18.000	29.000	17.300	13.400	9.100
105.	Banca Intermobiliare di Investimenti e Gestioni	TORINO	IT	1		C2	4.397	12-2010	6.500	18.200	29.300	33.100	7.300
142.	Conafi Prestito SpA	TORINO	IT	1		C2	139	09-2010	4.300	1.000	700	300	400
102.	Banca Generali SpA-Generbanca	TRIESTE	IT	1	-1	C2	5.088	12-2010	n.a.	3.300	2.100	600	600
109.	Banca Ifis SpA	VENICE	IT	1		C2	3.744	12-2010	25.600	22.700	6.800	2.900	2.100
21.	Banco Popolare	VERONA	IT	1		C2	180.593	12-2010	959.900	823.100	1.140.600	434.000	361.600
				Totaal IT	25								
													-2
33.	Espirito Santo Financial Group S.A.	LUXEMBOURG	LU	1		C2	116.449	12-2010	338.500	531.600	258.000	183.500	162.700

138.	Brait SA	LUXEMBOURG	LU	1	-1	C2	301	09-2010	n.a.	n.a.	n.a.	n.a.	972
			Totaal LU	2	-1								
129.	FIMBank Plc	SLIEMA	MT	1		C2	861	12-2010	2.264	1.466	775	226	1.231
95.	HSBC Bank Malta Plc	VALETTA	MT	1		C2	7.569	12-2010	5.266	4.232	1.907	42	-422
91.	Bank of Valletta Plc	VALLETTA	MT	1		C2	8.646	09-2010	12.888	3.753	3.093	-352	10.668
131.	Lombard Bank (Malta) Plc	VALLETTA	MT	1	-1	C2	759	12-2010	200	-100	-1.400	n.a.	n.a.
			Totaal MT	4	-1								
4.	ING Groep NV	AMSTERDAM	NL	1		C2	1.666.368	12-2010	1.751.000	2.973.000	1.280.000	125.000	103.000
38.	Delta Lloyd NV-Delta Lloyd Group	AMSTERDAM	NL	1	-1	C2	92.447	12-2010	15.000	8.600	n.a.	n.a.	n.a.
93.	Kas Bank NV	AMSTERDAM	NL	1	-1	C2	8.040	12-2010	-2.600	-300	35.300	0	n.a.
107.	BinckBank NV	AMSTERDAM	NL	1		C2	4.298	12-2010	-100	900	200	1.100	0
26.	SNS Reaal NV	'S-HERTOGENBOSCH	NL	1		C2	170.596	12-2010	706.000	438.000	153.000	28.000	35.000
63.	Van Lanschot NV	'S-HERTOGENBOSCH	NL	1		C2	27.158	12-2010	86.500	113.200	20.100	1.300	2.900
			Totaal NL	6	-2								
34.	Banco Espirito Santo SA	LISBON	PT	1		C2	111.779	12-2010	351.800	539.900	274.400	213.200	181.600
29.	Banco Comercial Português, SA-Millennium bcp	PORTO	PT	1		C2	133.631	12-2010	716.600	548.600	538.500	260.200	125.700
45.	Banco BPI SA	PORTO	PT	1		C2	61.010	12-2010	105.200	150.800	121.200	82.400	33.400
			Totaal PT	3	0								
98.	Abanka Vipaa dd	LJUBLJANA	SI	1		C2	6.128	12-2010	44.100	24.700	12.100	11.100	18.400
94.	Nova Kreditna Banka Maribor d.d.	MARIBOR	SI	1		C2	7.839	12-2010	73.900	76.100	38.900	26.900	19.103
			Totaal SI	2	0								
			Eindtotaal	134	-24								

Overview of Mismatches/Errors between Datastream and Bankscope and Publicly traded companies in the sample period

Bank Name	Comment	City	Country code	Latest accounts date
Raiffeisenlandesbank Oberösterreich AG	Mismatch/Error between Datastream and Bankscope	LINZ	AT	12-2010
Oberbank AG	Mismatch/Error between Datastream and Bankscope	LINZ	AT	12-2010
Autobank AG	Publicly traded from 18th November 2010	VIENNA	AT	12-2010
Marfin Popular Bank Public Co Ltd	Publicly traded from February 2007	NICOSIA	CY	03-2011
quirin bank AG	Publicly traded from November 2006	BERLIN	DE	12-2010
Tradegate AG Wertpapierhandelsbank	Publicly traded from February 2009	BERLIN	DE	12-2010
mwb fairtrade Wertpapierhandelsbank AG	Publicly traded from February 2009	GRAFELFING	DE	12-2010
Caja de Ahorros del Mediterraneo CAM	Publicly traded from August 2008	ALICANTE	ES	09-2010
Aktia Plc	Publicly traded from Oktober 2009	HELSINKI	FI	12-2010
Caisse Régionale de Crédit Agricole Mutuel Brie Picardie-Crédit Agricole Brie Picardie	Mismatch/Error between Datastream and Bankscope	AMIENS	FR	12-2010
Société financière pour le financement de bureaux et d'usines SOFIBUS	Mismatch/Error between Datastream and Bankscope	PARIS	FR	12-2010
TT Hellenic Postbank S.A	Publicly traded from July 2006	ATHENS	GR	03-2011
Conafi Prestito SpA	Publicly traded from May 2007	TORINO	IT	12-2010
SNS Reaal NV	Publicly traded from June 2006	'S-HERTOGENBOSCH	NL	12-2010
Abanka Vipac dd	Publicly traded from November 2008	LJUBLJANA	SI	12-2010
Nova Kreditna Banka Maribor d.d.	Publicly traded from December 2007	MARIBOR	SI	12-2010

Appendix 4: Regression without outliers Northern and Southern Europe

2006-2010

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Kosten LLP per Share / Pt-1	450	-2124.550000	18.74613200	-120.7534129	233.3561393
Stock Return	450	-150.0000	128.9000	-2.345551	17.3222192
Stock Return * Dummy	450	-150.0000	.0000	-4.718398	14.4428305
Valid N (listwise)	450				

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.073 ^a	.005	-.001	233.5172654

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	129814.683	3	43271.561	.794	.498 ^a
	Residual	24320519.72	446	54530.313		
	Total	24450334.40	449			

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return
b. Dependent Variable: Kosten LLP per Share / Pt-1

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-128.003	18.879		-6.780	.000
	Dummy	13.008	24.594	.028	.529	.597
	Stock Return	-1.215	1.410	-.090	-.862	.389
	Stock Return * Dummy	.679	1.618	.042	.420	.675

a. Dependent Variable: Kosten LLP per Share / Pt-1

2006

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2006 (Selected)			
1	.129 ^a	.017	-.018	71.45819972

a. Predictors: (Constant), Stock Return * Dummy, Stock Return, Dummy

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7459.275	3	2486.425	.487	.692 ^a
	Residual	439139.590	86	5106.274		
	Total	446598.866	89			

a. Predictors: (Constant), Stock Return * Dummy, Stock Return, Dummy

b. Dependent Variable: Kosten LLP per Share / Pt-1

c. Selecting only cases for which Financial year = 2006

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-49.086	9.016		-5.444	.000
	Dummy	-13.747	25.206	-.069	-.545	.587
	Stock Return	.400	.492	.089	.812	.419
	Stock Return * Dummy	.573	6.239	.011	.092	.927

a. Dependent Variable: Kosten LLP per Share / Pt-1

b. Selecting only cases for which Financial year = 2006

2007

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2007 (Selected)			
1	.131 ^a	.017	-.017	83.05933991

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10430.692	3	3476.897	.504	.681 ^a
	Residual	593301.439	86	6898.854		
	Total	603732.131	89			

- a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return
 b. Dependent Variable: Kosten LLP per Share / Pt-1
 c. Selecting only cases for which Financial year = 2007

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-25.298	21.013		-1.204	.232
	Dummy	-23.718	24.431	-.133	-.971	.334
	Stock Return	-5.565	5.649	-.544	-.985	.327
	Stock Return * Dummy	4.724	5.786	.428	.816	.417

- a. Dependent Variable: Kosten LLP per Share / Pt-1
 b. Selecting only cases for which Financial year = 2007

2008

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2008 (Selected)			
1	.070 ^a	.005	-.018	185.4212556

- a. Predictors: (Constant), Stock Return * Dummy, Dummy

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14845.740	2	7422.870	.216	.806 ^a
	Residual	2991150.657	87	34381.042		
	Total	3005996.397	89			

- a. Predictors: (Constant), Stock Return * Dummy, Dummy
 b. Dependent Variable: Kosten LLP per Share / Pt-1
 c. Selecting only cases for which Financial year = 2008

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.005	131.113		.000	1.000
	Dummy	-87.091	133.145	-.070	-.654	.515
	Stock Return * Dummy	-.089	.726	-.013	-.122	.903

- a. Dependent Variable: Kosten LLP per Share / Pt-1
 b. Selecting only cases for which Financial year = 2008

Excluded Variables^b

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics
						Tolerance
1	Stock Return	-94.557 ^a	-.049	.961	-.005	3.045E-9

a. Predictors in the Model: (Constant), Stock Return * Dummy, Dummy

b. Dependent Variable: Kosten LLP per Share / Pt-1

2009

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2009 (Selected)			
1	.276 ^a	.076	.044	328.5955648

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	767312.740	3	255770.913	2.369	.076 ^a
	Residual	9285853.890	86	107975.045		
	Total	10053166.63	89			

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

b. Dependent Variable: Kosten LLP per Share / Pt-1

c. Selecting only cases for which Financial year = 2009

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-215.989	51.137		-4.224	.000
	Dummy	24.487	78.385	.035	.312	.755
	Stock Return	-11.303	4.751	-.406	-2.379	.020
	Stock Return * Dummy	12.697	6.298	.326	2.016	.047

a. Dependent Variable: Kosten LLP per Share / Pt-1

b. Selecting only cases for which Financial year = 2009

2010

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	Financial year = 2010 (Selected)			
1	.139 ^a	.019	-.015	290.5614520

a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return

ANOVA^{b,c}

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	143580.294	3	47860.098	.567	.638 ^a
	Residual	7260632.340	86	84425.957		
	Total	7404212.633	89			

- a. Predictors: (Constant), Stock Return * Dummy, Dummy, Stock Return
 b. Dependent Variable: Kosten LLP per Share / Pt-1
 c. Selecting only cases for which Financial year = 2010

Coefficients^{a,b}

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-228.319	73.598		-3.102	.003
	Dummy	22.681	87.829	.035	.258	.797
	Stock Return	10.515	14.083	.149	.747	.457
	Stock Return * Dummy	-23.656	19.103	-.215	-1.238	.219

- a. Dependent Variable: Kosten LLP per Share / Pt-1
 b. Selecting only cases for which Financial year = 2010

Appendix 5: Incomplete EPS-data in Bankscope

Bank Name	Country code	Comment
Bank für Tirol und Vorarlberg AG-BTV (3 Banken Gruppe)	AT	Incomplete EPS-data in Bankscope
Aareal Bank AG	DE	
ABC Arbitrage	FR	
Allied Irish Banks plc	IE	
Alpha Bank AE	GR	
Volksbank Vorarlberg e.Gen.	AT	Incomplete EPS-data in Bankscope
Dexia	BE	Incomplete EPS-data in Bankscope
Attica Bank SA-Bank of Attica SA	GR	
Bank of Cyprus Public Company Limited-Bank of Cyprus Group	CY	Incomplete EPS-data in Bankscope
Hellenic Bank Public Company Limited	CY	Incomplete EPS-data in Bankscope
USB Bank Plc	CY	Incomplete EPS-data in Bankscope
Banca Carige SpA	IT	
Banca Finnat Euramerica SpA	IT	
Banca Ifis SpA	IT	
Banca Intermobiliare di Investimenti e Gestioni	IT	
Deutsche Bank AG	DE	Incomplete EPS-data in Bankscope
Deutsche Postbank AG	DE	Incomplete EPS-data in Bankscope
Banca Monte dei Paschi di Siena SpA-Gruppo Monte dei Paschi di Siena	IT	
Banca popolare dell'Emilia Romagna	IT	
HSBC Trinkaus & Burkhardt AG	DE	Incomplete EPS-data in Bankscope
Banca popolare dell'Etruria e del Lazio Soc. coop.	IT	
Banca Popolare di Milano SCaRL	IT	
Banca Popolare di Sondrio Societa Cooperativa per Azioni	IT	
Banca Popolare di Spoleto SpA	IT	
Banca Profilo SpA	IT	
Banco Bilbao Vizcaya Argentaria SA	ES	
Banco BPI SA	PT	
Banco de Sabadell SA	ES	
Banco de Valencia SA	ES	
Banco Desio - Banco di Desio e della Brianza SpA	IT	
Banco di Sardegna SpA	IT	
Banco Espanol de Crédito SA, BANESTO	ES	
Banco Espirito Santo SA	PT	

Banco Pastor SA	ES	
Banco Popular Espanol SA	ES	
Banco Santander SA	ES	
Bank of Ireland	IE	
Bankinter SA	ES	
Banque de la Réunion	FR	
Banque Paribas	FR	
BinckBank NV	NL	
BKS Bank AG	AT	
BNP Paribas	FR	
Bourse Direct	FR	
Caisse Régionale de Crédit Agricole Mutuel Toulouse 31-Crédit Agricole Mutuel Toulouse 31 CCI	FR	Incomplete EPS-data in Bankscope
Caisse régionale de credit agricole mutuel d'Alpes-Provence-Credit Agricole Alpes Provence	FR	
Caisse régionale de crédit agricole mutuel de Paris et d'Ile-de-France-Crédit Agricole d'Ile- de-France	FR	
Caisse régionale de credit agricole mutuel Sud Rhône -Alpes-Credit Agricole Sud Rhône Alpes	FR	
Comdirect Bank AG	DE	
Commerzbank AG	DE	
Agricultural Bank of Greece	GR	Incomplete EPS-data in Bankscope
Crédit Agricole S.A.	FR	
Crédit Foncier et Communal d'Alsace et de Lorraine (Banque)-CFCAL Banque	FR	
EFG Eurobank Ergasias SA	GR	Incomplete EPS-data in Bankscope
Crédit Industriel et Commercial - CIC	FR	
Credito Emiliano SpA-CREDEM	IT	
Credito Valtellinese Soc Coop	IT	
DAB Bank AG	DE	
DVB Bank SE	DE	

Emporiki Bank of Greece SA	GR	
Erste Group Bank AG	AT	
General Bank of Greece SA	GR	
GRENKELEASING AG	DE	
IKB Deutsche Industriebank AG	DE	
ING Groep NV	NL	
Intesa Sanpaolo	IT	
KBC Groep NV/ KBC Groupe SA-KBC Group	BE	
Landesbank Berlin Holding AG-LBB Holding AG	DE	
Merkur-Bank KGaA	DE	
National Bank of Greece SA	GR	
Natixis	FR	
Oesterreichische Volksbanken AG	AT	
Oldenburgische Landesbank - OLB	DE	
Piraeus Bank SA	GR	
Pohjola Bank plc-Pohjola Pankki Oyj	FI	
Banco Popolare	IT	Incomplete EPS-data in Bankscope
Credito Artigiano	IT	Incomplete EPS-data in Bankscope
Credito Bergamasco	IT	Incomplete EPS-data in Bankscope
Proton Bank S.A.	GR	
Raiffeisen Bank International AG	AT	
Sino AG	DE	
Mediobanca SpA	IT	Incomplete EPS-data in Bankscope
Société Générale	FR	
T Bank S.A	GR	
Espirito Santo Financial Group S.A.	LU	Incomplete EPS-data in Bankscope
Bank of Valletta Plc	MT	Incomplete EPS-data in Bankscope
FIMBank Plc	MT	Incomplete EPS-data in Bankscope
HSBC Bank Malta Plc	MT	Incomplete EPS-data in Bankscope
UmweltBank AG	DE	
UniCredit SpA	IT	
Van Lanschot NV	NL	Incomplete EPS-data in Bankscope
Unione di Banche Italiane Scpa-UBI Banca	IT	
Banco Comercial Português, SA-Millennium bcp	PT	Incomplete EPS-data in Bankscope
Wüstenrot & Württembergische	DE	