Expropriation risk vs. government bailout: implications for minority shareholders of state-owned banks

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Abstract

Using a unique sample of bank loan announcements in Indonesia, we examine whether government ownership affects the market valuation of banks when they extend their activities. Our empirical findings provide evidence that even if a risk of expropriation exists in state-owned banks ("grabbing hand" effect), it seems to be offset by the "helping hand" effect when loans are extended to privately-owned firms, and even to be outweighed by the potential twin "helping hand" effect when loans are extended to state-owned firms. Our findings support the view that shareholders rationally anticipate the risk of expropriation when investing in state-owned banks in countries with weak shareholder protection, but are willing to accept this higher risk in exchange for a greater "helping hand" effect if governments are expected to bail out state-owned firms in case of distress.

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1. Introduction

In emerging countries, although governments have privatized many banks over the last twenty years, they still maintain their controlling shareholding positions in many unlisted but also publicly traded banks. Conversely, in developed countries, the bank failures triggered by the 2007-2008 global financial crisis have led governments to substantially increase their stakes and involvement in a number of large banks. The implications of government ownership on banks' corporate governance has therefore become an important area of research for developed as well as emerging economies.

According to the "grabbing hand" hypothesis of Frye and Shleifer (1997) and Shleifer and Vishny (1998), government ownership might be less efficient than private ownership and harmful to corporate governance if the state expropriates shareholders' wealth for the benefit of politicians. In line with this hypothesis, La Porta et al. (2002), Dinc (2005), Sapienza (2004) and Khwaja and Mian (2005) find that government ownership of banks facilitates the financing of projects that maximize the private welfare of politicians rather than banks' revenues. Meanwhile, the "helping hand" hypothesis argues that the state as a shareholder is in a position to provide preferential treatment and is unlikely to allow large state-owned firms to face bankruptcy (Faccio et al., 2006). These two hypotheses therefore indicate that two types of expropriation might be occurring with state ownership of banks. The state might expropriate shareholders, but might also be extracting value from taxpayers, which in turn could benefit shareholders. Consequently, an important research question that we address in this paper is how minority shareholders anticipate being affected by government ownership when banks extend their activities. On the one hand, as the bank invests in new projects, minority shareholders will expect higher expropriation ("grabbing hand" effect). On the other hand, if these new projects fail, they will expect specific support from taxpayers and to a larger extent than shareholders of private banks would ("helping hand" effect). Specifically, we investigate the market reaction to bank loan announcements for state-owned in comparison to private banks by taking the expropriation dimension into account. To thoroughly conduct our empirical investigation, we use detailed data on bank loan announcements and related party loans to proxy the likelihood of expropriation, collected for Indonesia whose banking industry provides an ideal setting. Indeed, the Indonesian banking sector is characterized by strong government ownership and weak minority shareholder protection with therefore high expropriation risk. According to the World Bank Doing Business Index, Indonesia is ranked 88th regarding the protection of minority investors, far behind its neighboring countries such as Singapore (1st), Malaysia (4th), and Thailand (36th). Furthermore, because many private banks in Indonesia operate along with

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state-owned banks, especially family-owned banks, such an environment allows investigating expropriation in publicly traded banks which are either state-owned or private.

Previous studies have been carried out on non-financial firms and have compared the relative merits and disadvantages of state versus private ownership. Claessens et al. (1998) find, for a sample of publicly listed East Asian firms, that government ownership has no significant impact on market valuation. They also find that firms with family as controlling shareholders are associated with lower market values. They interpret these results as evidence that the risk of expropriation of minority shareholders is stronger when the controlling shareholder is a family than when it is the state. On the contrary, using a sample of listed non-financial Chinese firms, Bai et al. (2004) find that large holdings by the government have a negative effect on market valuation. Cheung et al. (2009) further find that the "grabbing hand" hypothesis only holds for Chinese firms controlled by local governments, while central government ownership is beneficial for minority shareholders in line with the "helping hand" hypothesis.

In this paper, we focus on banking firms and investigate the valuation effect of loan announcements in publicly listed state-owned banks (SOBs) in comparison to privately-owned banks. Specifically, looking at banks and not firms from the real sector brings in an important dimension that has not been investigated so far. Government bailouts are much more common for banks than other firms and hence while shareholders might expect a lower return from these new projects, because of expropriation, they might also perceive them as less risky because of the higher probability of government support in case of distress. Unless default resolution mechanisms are credibly implemented to impose the losses on majority as well as minority shareholders in both government and private banks (bail-in and not bailout), such a behavior could be even more pronounced in the post 2007-2008 financial crisis era. We use an event study approach to examine and compare the market reaction to bank loan announcements of state-owned and privately-owned banks and use the importance of loans to related parties as a proxy for the likelihood of expropriation. Among privately-owned banks, we identify those that are family-owned; as the existing literature shows that they are more likely to engage in extraction of private benefit (Claessens et al., 2002; Villalonga and Amit, 2006; Maury, 2006), we use them as a benchmark against which to evaluate the valuation effect of loan announcements for state-owned banks by taking the likelihood of expropriation into account. If investors rationally anticipate that the "helping hand" effect offsets or even outweighs the "grabbing hand" effect, and if investors take such anticipation into account in valuing a state-owned bank equity, we expect either a non-significant valuation effect or a positive

announcement returns for state-owned banks, while negative announcement returns for family-owned banks are expected if the likelihood to be expropriated is higher.

As the valuation effect of loan announcements from state-owned banks could also depend on the type of borrowers they lend to, we go further in our analysis by differentiating if borrowers are state- or privately-owned. When the borrower is a state-owned firm (SOE), minority shareholders of state-owned banks could anticipate benefiting from a twin "helping hand" effect as the possible bailout in case of financial distress should also apply to borrowers when they are SOEs. Loan announcements are expected to result in a positive valuation effect for state-owned banks if the twin "helping hand" effect could outweigh the "grabbing hand" effect. Regarding privately-owned borrowers, they can have either a horizontal or a vertical pyramidal ownership structure. The fraction of firms belonging to a pyramidal business group is very high in Indonesia, with around two-thirds of firms affiliated to a group (Khanna and Yafeh, 2007). If borrowers belong to such a pyramidal business group, they could benefit from co-insurance within their business group (Friedman et al., 2003; Khanna and Yafeh, 2005, 2007; Gopalan et al., 2007). The ultimate owners could use group internal resources to bail out troubled member firms, in other word propping up weaker firms. When borrowers are privately-owned but belong to a pyramidal business group, this co-insurance effect can reduce their default risk as they are financially supported by their group. It is then possible that the cumulative effect of the "helping hand" and co-insurance effects outweigh the "grabbing hand" effect, resulting in positive loan announcement returns for state-owned banks.

To investigate the market reaction to state-owned banks loan announcements, we focus in this paper on a single country to provide a better understanding of possible channels through which loan announcements affect stock prices when the risk of expropriation exists. More specifically, we examine stock market reactions to state-owned bank loan announcements in comparison to family-owned banks during the 2010–2014 period in Indonesia, using an event-study methodology. To do so, we hand collected a unique dataset on 342 loan announcements of listed Indonesian banks, as well as on banks and borrowing firms ownership structure, and on banks' related party transactions. Our findings show that there is no significant relationship between announcement returns and the extent of related lending of state-owned banks, while there is a negative and significant relationship with the extent of related lending of family-owned banks. Our results further show that announcement returns are positively and significantly related to the extent of related lending of state-owned banks when loans are granted to state-owned firms, while there are no significant relationship when loans are extended to privately-owned firms, affiliated or not to a business group. On the contrary, we

find that announcement returns are negatively linked to the extent of related lending of family-owned firms when loans are made to privately-owned firms. Taking all together these results are consistent with the argument that even if a risk of expropriation exists in state-owned banks ("grabbing hand" effect), it seems to be offset by the "helping hand" effect when loans are extended to privately-owned firms, and even to be outweighed by the twin "helping hand" effect when loans are extended to state-owned firms. Our results do not provide evidence that the co-insurance effect seem to offset the risk of expropriation when loans are extended to borrowers affiliated to a pyramidal business group.

This study makes several contributions to the literature. Firstly, it contributes to the literature on state versus private ownership. Government ownership of banks can be superior to private ownership when the institutional environment is weak. Secondly, it examines the value of government ownership of banks and shed light on yet undocumented factors that make bank stock prices react to loan announcements. Thirdly, it examines how related party transactions can act as a channel through which government ownership affects the value of publicly listed banks. Our findings are of interest to policymakers in countries with weak legal protection for shareholders and where governments maintain their controlling shareholdings as we highlight the channels that could help in reducing the value discount in banks with government ownership.

The rest of the paper is organized as follows. Section 2 presents related literature and the research questions we address. Section 3 describes our sample and defines our variables of interest. Section 4 presents the market reaction results. Section 5 examines the determinants of banks loan announcements. Section 6 contains robustness checks and section 7 concludes the paper.

2. Related literature and research questions

Megginson (2005) argues that state ownership of banks is driven by several factors. Firstly, government ownership of banks is a way to maintain domestic control over a nation's financial system. Secondly, state-owned banks can compensate a possible lack of private capital with sufficient risk tolerance to finance growth. Thirdly, state-owned banks can be used to finance sectors which play an important social role and which private would be less keen to finance because of lower profitability than other sectors. Globally, state-owned banks are also expected to lend countercyclically, providing credit when and where other banks do not. This could encourage industrialization and development at a more rapid pace than private financing would allow.

Controlling government shareholders are therefore more likely to adopt a non-profit maximization behavior to achieve social and political objectives, to the detriment of other shareholders' interest (Bai et al., 2000; Lin and Li, 2008). Schleifer and Vishny (1994) show that, even in a fully competitive market, state-owned firms will be inefficient because the state forces them to pursue non-economic objectives, such as maintaining employment. Shleifer and Vishny (1998) argue that this "grabbing hand" behavior, with governments expropriating shareholders' wealth from state-owned firms, implies that private ownership is preferable to state ownership. In line with this argument, empirical evidence shows that government ownership of banks is detrimental to their performance (Berger et al, 2005; Bonin et al., 2005; Berger et al, 2009).[2]

However, prior research has also shown that shareholders in state-owned firms may benefit from government cross-subsidization to counter financial difficulties. Seshinski and Lopez-Calva (2003) demonstrate that governments will choose to provide subsidies to state-owned firms in financial distress whenever the political costs of allowing these firms to go bankrupt outweigh the political cost of subsidization. The large number of bailouts during the global financial crisis of 2007-2008 is indicative of how much the cost of allowing banks to go bankrupt outweighs the cost of subsidization in such severe circumstances. The government can also help the firms in which it has a major stake through preferential treatment, such as preferential loans when the government is creditor (Tian and Estrin, 2008). This preferential treatment could also include explicit bias when the government is the regulator, as it is the case in Indonesia. The first question address in this paper is then whether investors estimate that government ownership might not be systematically detrimental to the value of state-owned banks if the "helping hand" effect offsets or even outweighs the "grabbing hand" effect.

To gain further insights into the market reaction to loan announcement of state-owned banks, we also need to consider if the borrower is state- or privately-owned. To avoid their failure, the state may provide preferential treatments to SOEs and cross-subsidize them if they encounter financial difficulties (Faccio et al., 2006). Shareholders of state-owned banks could therefore benefit from a twin "helping hand" effect when the borrower is a SOE. With respect to privately-owned borrowers, a particularly important feature we need to consider is that borrowers belonging to a pyramidal business group could present lower default risk. The business groups enable member firms to share risk by reallocating resources from one affiliate to another firm (Friedman et al., 2003; Khanna and Yafeh, 2005, 2007; Gopalan et al., 2007).

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[2] See the survey of Shaban and James (2018).

There is some empirical evidence of co-insurance within pyramidal business groups. Chang and Hong (2000) find that pyramidal business groups in Korea use internal business transactions for cross-subsidization purposes. Gopalan et al. (2007) further find that group-affiliated firms in India are less likely to go bankrupt than stand-alone firms. Shareholders of state-owned banks could therefore benefit from the cumulative effect of the "helping hand" and co-insurance effects when borrowers belong to a pyramidal business group. The second research question we address is therefore whether the market reaction to loan announcements of state-owned banks depends on the borrowing firm type. Shareholders might react positively to loan announcements when the borrowing firm is either a SOE or a firm affiliated to a group if they anticipate that the twin "helping hand" effect, or the cumulative effect of helping hand" and co-insurance effects, outweigh the "grabbing hand" effect.

The literature analyzing the reaction of bank stock prices to loan announcements is very scare and does not examine market reactions of government ownership of banks. Working on a sample of 88 bank loan announcements in Japan, Kang and Liu (2008) find a negative impact of loan announcements on the stock returns of the lending banks, while they observe a positive impact on the valuation of borrowing firms. They conclude that such findings are consistent with the hypothesis that banks make suboptimal lending decisions that lead to wealth transfers to borrowers. Bailey et al. (2011), who find no significant response for the stock prices of Chinese banks, fail to confirm these results. However, their investigation is limited to 24 loan announcements made by Chinese banks listed on the stock market.

Our paper is more closely related to Claessens et al. (1998), Bai et al. (2004) and Cheung et al. (2009) that examine whether non-financial firms benefit from the presence of government shareholders. These three papers provide opposite results, with Bai et al. (2004) showing that government ownership has a negative impact on market valuation, while Claessens et al. (1998) find no significant impact and Cheung et al. (2009) find a positive impact but only for central government ownership. We contribute to this literature by focusing on government ownership of banks, with potentially a stronger expecting "helping hand" effect as government bailouts are much more common for banks than for non-financial firms. We furthermore investigate whether the type of the borrowing firm is a channel that make shareholders of state-owned banks react to loan announcements.

3. Data and variable definitions

3.1. Presentation of the sample

Our analysis is focused on Indonesia as government and family ownership are a prominent feature there, and the legal environment and the level of shareholder protection are relatively low compared to other emerging countries.

The Indonesian market authority obliges borrowing firms to report information on each loan contract no later than two working days after the transaction is undertaken to the Indonesian Financial Services Authorities (OJK) and in Indonesian newspapers. However, the information provided around the announcement date is often limited to the name of the lending bank and the loan size. More detailed information (contract date, interest rate, maturity, the relationship between the borrower and the lending bank) are only provided in the annual report of borrowing firms. We therefore collected our data on bank loan announcements from the annual reports of borrowing firms and not from announcements to the Stock Exchange.

Out of the 550 firms publicly listed on the Indonesian Stock Exchange (IDX) over the period 2010-2014, we find that 153 firms have taken out loans from banks and disclosed detailed information on the loan contracts. We obtain information on 421 loan contracts, involving 27 listed banks (among the 35 banks that are listed on the IDX over the period). Among these 27 banks, 12 are identified as state-owned, 12 are family-owned and 3 are institutionally-owned (the largest shareholder is an institutional investor), and they account for 211, 131 and 23 loan announcements, respectively (see Section 3.2.). We decided to drop the 3 institutionally-owned banks from our sample as the small number of observations do not allow us to robustly conduct the regressions, especially when considering the type of borrowers they lend to. We furthermore examine if other events may affect banks' stock prices around the loan announcements (e.g. dividend payments, change in managerial key position, etc.) in banks' annual reports and website corporate announcements; we drop 23 loans announcement for which other events were identified. Because all the relevant data (financial statements, ownership structure and related party transactions) on borrowing firms and lending banks are not available in either annual financial reports or in Bloomberg and Bankscope, we end up with a final sample of 342 loans involving 136 borrowers and 24 lending banks. Table 1 presents the distribution of loans, borrowing firms and lending banks by year over the 2010-2014 period.

[Insert Table 1]

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3.2. Ownership structure of lending banks and borrowing firms

We assemble data on the ownership structure of banks using BvD Bankscope, Bloomberg and annual reports. Banks in Indonesia are generally controlled by one large shareholder. This could be due to the reforms imposed by the government over the 2000s. In 2005, the Indonesian government attempted to promote competition by preventing shareholders from having controlling stakes in multiple banks (PBI No. 7/15/PBI/2005), forcing them to divest or consolidate through mergers and acquisitions. In 2007, the government provided more incentives for consolidation by raising the minimum capital requirement up to IDR 100 billion (PBI No 9/16/2007).

We follow the existing literature (e.g. La Porta et al., 1999, 2002; Caprio et al., 2007; Lepetit et al., 2015) by using the control threshold of 10% to build the control chain of banks for each year and identify all owners that have a controlling stake. We find that all banks have at least one controlling owner, with the largest and the second largest owner holding on average around 55% and 7% of the shares, respectively, leaving minority shareholders with on average a 34% stake.

We find that the largest owner is a government for 12 banks, with on average a controlling stake of around 63%, while minority shareholders hold on average 31% of the shares (see Table 3). We have 8 banks controlled directly or indirectly by the government of Indonesia, and 4 banks controlled by a foreign government (Singapore, Malaysia and Qatar). The 8 Indonesian state-owned banks account for a substantial market share with around 42% of the total assets of the banking system over the 2010-2014 period (for a total of 116 banks). We also have 12 family-owned banks, with families holding on average 42.5% of the shares. We find that the ownership structure of these state- and family-owned banks is stable over the sample period, the largest controlling owners remaining the same with however time-varying shareholdings. The number of loan announcements for state-owned and family-owned banks is 211 and 131, respectively (see Table 3). We can see that the size of the loan is on average larger for state-owned banks than for family-owned banks (see Table 3). We create the dummy variables *DSOB* and *DFamily*, taking the value of one for loan contracts when the lender is state-owned or family-owned, respectively. As the existing literature shows that families, as controlling shareholders, are more prone to engage in extraction of corporate resources through perks or transfer of assets on non-market terms to related parties (Claessens et al., 2002; Villalonga and Amit, 2006), we use family-owned banks as benchmark to evaluate the impact of government ownership of banks on the market reaction to loan announcements.

For the borrowing firms, we identify if they are state- or privately-owned using the information provided by the company website, the IDX, the firms' annual report and the Ministry of SOEs. We have in our sample 10 borrowers that are SOEs among the 20 SOEs that are listed on the IDX, with the government holding more than 50% of the shares. These 10 borrowers account for 45 loan announcements. We therefore have 126 borrowers that are privately owned, accounting for 297 loan announcements. Among these privately-owned borrowers, we identify 115 borrowers belonging to a pyramidal business group and 11 with a horizontal ownership structure, accounting for 278 and 19 loan announcements, respectively. We create the dummy variables *DSOE* and *DPrivInGroup* that takes the value of one for loan contracts when the borrower is state-owned or belongs to a pyramidal business group, respectively.

[Insert Table 2]

3.3. Related loans as a proxy for the likelihood of expropriation

We try to identify which loans can be classified as related at the announcement date. In Indonesia, the regulator considers loans as related if: (i) borrowers and lenders are owned by the same controlling shareholder(s); or (ii) borrowing firms are controlled by a key person in lenders' management (executive manager, director, etc.). Since 2008, regulation requires listed Indonesian firms to publicly announce any related party transaction (RPT) a maximum of two working days after the transaction takes place, except for related party transactions having a lower value than 0.5% of the firm's paid capital (BAPEPAM-LK Rule IX.E.1). Such rules might create incentives for firms to arrange RPT and split them into smaller ones; this implies that investors on the market might not be aware of all RPTs when they take place, but instead only have information, ex-post, on the total amount of RPTs that are disclosed in the annual report. Moreover, if the related parties and the controlling owners are in the same group with consolidated annual reports, the status of the transactions (RPT or non-RPT) do not need to be public announced to the IDX although they need to be reported to the Indonesian Financial Services Authorities (OJK) and in the borrowing firm's annual report. Listed banks are furthermore subject to the rules imposed by Central Bank of Indonesia; since 2005, loans extended to related parties cannot exceed 10% of the banks' equity (Peraturan Bank Indonesia No. 7/3/PBI/2005).

In this context, market participants will not be able to identify all loans that are related using publicly information available at the announcement date. We cannot therefore conduct our event study analysis using information on loans classified as related at the announcement date,

as a large number of loans will be classified as non-related while they are related.[3] The only reliable information is the information on related loans provided in the annual report. We therefore use the information published in the annual report on loans to related parties as a proxy for the likelihood of expropriation, as common in the existing literature (e.g. Bailey et al., 2011, Djankov et al., 2008; Huang et al., 2012). Related party transactions can be used by large shareholders as a vehicle to transfer resources from the company to its related parties (La Porta et al. 2003; Gordon et al., 2004; Jiang et al. 2010). Such expropriation behavior with the pursuit of non-profit maximizing objectives could affect minority shareholders through a reduction in firm value. Alternatively, related party transactions could also take the form of efficient arrangements that are of benefit to all shareholders when there is incomplete information (Ryngaert and Thomas, 2012). This can be the case if the availability of more information on related parties reduces the uncertainty on the risk characteristics of projects (Rajan, 1992). However, the existing empirical literature find that related party transactions are negatively related to firm value, supporting the expropriation hypothesis (Gordon et al., 2004; Cheung et al. 2009; Jiang et al. 2010; Kohlebeck and Mayhew, 2010; Ryngaert and Thomas, 2012).

We collect the data on the total amount of related loans provided in banks annual report for the years 2010 to 2014 and compute for each bank the ratio of related loans to total assets (*RPLTA*) and the ratio of related loans to total loans (*RPLTL*). The sample median of RPLTL is 0.30%, with on average a higher proportion of related loans for state-owned banks (5.67%) compared to family-owned banks (0.88%) (see Table 2). We furthermore find that related loans represent on average around 2.40% of banks' total assets (see Table 3), and 21.08% of their total equity. Surprisingly, the proportion of related loans to total equity exceeds the maximum threshold, showing that banks can find ways to conduct related transactions without being constrained by the regulator.

[Insert Table 3]

4. Abnormal returns surrounding loan announcements

4.1. Event study methodology

We investigate the effect of loan announcements on stock prices of state-owned banks in comparison to family-owned banks. The announcements of individual loan agreements can have a significant effect on the stock prices of the lending bank although loans to an individual

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[3] Based the information publicly available, we can only identify 54 loans that are related among the 342 loans announcements we have in our sample.

firm generally represent a small portion of a bank's loan portfolio (Kang and Liu, 2008). They provide information to the market about the bank's lending policy and how the bank invests its funds to engender cash flows.

We apply a standard event study methodology to compute CARs for all announcements. We obtain daily stock prices and market index data from Bloomberg. We compute ex-post abnormal returns, defined as the difference between actual stock returns and expected returns in the event window, as follows:

$$AR_{it} = R_{it} - (\hat{\alpha}_i + \hat{\beta}_i R_{mt}) \tag{1}$$

where R_{it} is the daily return of the ith lending bank at time t and R_{mt} is the daily market index return at time t; $\hat{\alpha}_i$ and $\hat{\beta}_i$ are ordinary least squares (OLS) regression estimates from the market model. We compute the abnormal returns by estimating $\hat{\alpha}_i$ and $\hat{\beta}_i$ using 180 daily returns beginning with day $t = -200$ and ending with $t = -20$ relative to the announcement date $t=0$.

We calculate the cumulative abnormal returns between any two dates T_1 and T_2 as

$$CAR_i(T_1, T_2) = \sum_{t=T1}^{T2} AR_{it} \tag{2}$$

and we construct the cross-sectional average of CARs between dates T_1 and T_2 as

$$ACAR_i(T_1, T_2) = \frac{1}{N} \sum_{i=1}^{N} CAR_i(T_1, T_2) \tag{3}$$

We test the significance of average CARs using the standard cross-sectional t-statistic test that the average CARs over any given time interval are equal to zero. We also employ the Wilcoxon test (1945) that uses a median test of the null hypothesis to check if the mean return is not unduly influenced by outlier returns.

4.2. Results

Tables 4 reports the CARs for state-owned banks (Panel B) with either high or low levels of related loans, in comparison with family-owned banks (Panel C).[4] Panel A also reports the results for the whole sample. We consider different event windows spanning from 3 days before and 3 days after the loan announcement date. We use the sample median value of the ratio of related loans to total loans (*RPLTL*) to differentiate banks with relative high and low levels of *RPLTL,* i.e. with high and low likelihood of expropriation.

Panel A for the whole sample shows that there are significant negative CARs at the 1 or 5% confidence levels for banks with a relatively high levels of related loans for two of the event

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[4] We also tried to compute CARs for state-owned and family-owned banks depending on the level of their related loans (high or low) and also on the type of borrowers they lend to (SOEs, privately-owned affiliated or not to a group). However, dividing each sub-group of banks into six subsamples leaves some cases with a very small number of observations (or even no observations), and we prefer to not display and comment such results.

windows we consider. We furthermore observe that the stock market reacts negatively to loan announcements of family-owned banks with higher levels of related loans for the event windows [-3,+3] and [-1,+1] (Panel C). CARs for family-owned banks with lower levels of related loans are consistently non-significant. Regarding state-owned banks, Panel B shows that CARs are non-significant for state-owned banks with relatively high level of related party loans, for the three event windows we consider and for both the *t*-statistic and the Wilcoxon tests. Together with the finding of negative announcement returns for family-owned banks with relatively high levels of related loans, the absence of significant negative returns for state-owned banks with high levels of related loans supports the hypothesis that investors expect the "grabbing hand" effect to be offset by the "helping hand" effect. However, we surprisingly find negative and significant abnormal returns for state-owned banks with relatively lower levels of related loans for the two event windows [-2,+2] and [-1,+1].

[Insert Table 4]

5. Determinants of loan announcement effect

5.1. Type of banks and levels of related loans

We next conduct a cross-sectional regression analysis to determine how government ownership affect the market valuation of banks by taking into account the likelihood of expropriation as measured by the importance of related loans. We use a CAR event window of [-2, +2] as the dependent variable[5] and consider family-owned banks as a benchmark as follows:

$$CAR_i = \beta_0 + \beta_1 RPL_i + \beta_2 RPL_i \times DSOB_i + \beta_3 DSOB_i + \sum_m \theta_m Control_i + \varepsilon_i \qquad (4)$$

where *RPL* is either the ratio of related loans to total loans (*RPLTL*) or the ratio of related loans to total assets (*RPLTA*); *DSOB* takes the value of one when the lending bank is state-owned.

As the existing literature shows that firms controlled by family are more likely to expropriate minority shareholders (Claessens et al., 2002; Villalonga and Amit, 2006; Maury, 2006), we expect loan announcement returns to be negatively related to the extent of related loans (*RPLTL*) when the controlling shareholder is a family. In comparison with family-owned banks, we expect loan announcement returns to be non-significantly or positively related to the extent of related loans when the controlling shareholder is a government. We cannot directly test the hypothesis that investors of state-owned banks anticipate that the "helping hand" effect could

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[5] We check the robustness of our results by considering other CAR event windows in Section 6.

offset or even outweigh the "grabbing hand" effect as we cannot separately measure these two effects. However, our results will support this hypothesis if we find that loan announcement returns are negatively related to the extent of related loans in the case of family-owned banks while there is either a non-significant or a positive relationship in the case of state-owned banks (β_1 negative and significant and $\beta_1 + \beta_2$ non-significant or positive and significant).

We include a set of control variables in Equation (4). All variables are defined in Table 3 with corresponding descriptive statistics. We include the ratio of loan size to the total assets of the borrowing firm (*LoanSize*). We expect a negative sign if the market perceives loans as suboptimal with a wealth transfer to borrowers, to be consistent with the findings of Kang and Liu (2008). We also include the maturity of loans in years (*TenureYear*); we expect a negative coefficient if loans with longer maturity are associated with higher probabilities of default. We control for the interest rate fixed by banks (*InterestRate*); a positive coefficient is expected if higher interest rates contribute to higher bank profits. We furthermore include three variables to control for borrowers' characteristics: the lagged value of ROA (*BorrowerROA*), the leverage ratio (*BorrowerLev*), and the logarithm of total assets (*BorrowerSize*). We expect *BorrowerROA* and *BorrowerSize* to positively affect banks' abnormal returns if granting loans to borrowers with higher profitability and larger size is less risky, while *BorrowerLev* is expected to be negative if lending to firms with higher leverage incurs more risk. We also include the lagged value of ROA of the lending banks (*BankROA*); a positive coefficient is expected if the profit of the previous year gives a good signal on how a bank managed its completed and ongoing projects. Table A1 in Appendix shows the correlation matrix of our variables and does not point to potential multicollinearity problems.

Results in Table 5 show that, for family-owned banks that we consider as a benchmark, announcement returns are negatively related to the extent of related lending in banks' balance sheets (β_1 negative and significant). Our results show a different market reaction to the presence of a government as the controlling shareholder compared to a family as the coefficient β_2 is positive and significant. Wald tests show that announcement returns of state-owned banks are not significantly related to the importance of related lending ($\beta_1 + \beta_2$ non-significant). Our findings are therefore consistent with the argument that even if a risk of expropriation exists when a state is the controlling owner of a bank, it seems to be offset by the "helping hand" effect. Our empirical analysis provide therefore evidence that shareholders do not anticipate being affected by government shareholdings in banks, while they negatively value the presence of families as controlling shareholders.

[Insert Table 5]

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5.2. Impact of the borrowing firm's type

We further examine whether market reactions to loan announcements of state-owned banks in comparison to family-owned banks also depend on the type of firms they lend to.[6] To examine this potential channel of impact, we augment Equation (4) with terms interacting the ratio of related loans, the dummy variable for state-owned banks, and dummy variables for borrowing firms' type. We first examine the differential impact when borrowing firms are state- or privately-owned; the estimation results are given in Table 6, with Table 7 providing the associated Wald tests. We next further differentiate if privately-owned borrowing firms are affiliated or not to a pyramidal business group; the estimation results are reported in Table 8, and Wald tests in Table 9.

Our results in Tables 6 and 7 show that announcement returns are negatively related to the extent of related lending when the controlling shareholder is a family, but only when loans are extended to privately-owned firms. The in-depth analysis of Tables 8 and 9 show that this negative market reaction is however lower when borrowing firms are affiliated to a pyramidal business group. In contrast, our results show that banks' announcement returns are not significantly affected when loans are extended by family-owned banks to state-owned firms. Results in Tables 6 to 9 furthermore show that announcement returns are positively and significantly related to the extent of related lending when the controlling shareholder is a government, but only when loans are extended to state-owned firms. We find no significant relationship when loans are extended to privately-owned firms, and irrespective of whether or not they are affiliated to a business group. Our findings therefore show that the market positively value the presence of government ownership of banks, even if a risk of expropriation exits, when loans are extended to SOEs as compared to loans extended to privately-owned firms.

These results taking all together confirm the results we found above that shareholders of state-owned banks anticipate not being affected by government ownership, and irrespective of whether loans are extended to SOEs or privately-owned firms. Our findings furthermore support the arguments that when loans are extended to SOEs, the twin "helping hand" effect outweigh the "grabbing hand" effect. For family-owned banks, our results seem to indicate that when borrowers are SOEs, the market anticipates that family-owned banks might also benefit from a "helping hand" effect that might offset the risk of expropriation. On the contrary, the potential co-insurance effect when loans are extended to borrowers affiliated to a pyramidal

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[6] As we only have listed firms in our sample of borrowers, they are all profit maximizing.

business group does not offset the risk of expropriation, but the co-insurance effect contributes to attenuate the negative market valuation associated with family shareholdings.

[Insert Tables 6 to 9]

6. Robustness tests

To check the robustness of our results, we conduct several tests.

Alternative event windows and tests for abnormal returns

To determine whether our results are affected by the event-windows we consider, we compute CARs in [0,+1], [0,+2], and [-1,+2] windows. The results, provided in Table A2 in Appendix, show that our main results remain unchanged. Furthermore, as the T-test is not immune to how abnormal returns are distributed across the event windows, we use alternatively both Pattel (1976) and Boehmer et al. (1991) tests that take into account abnormal returns distribution, event-induced volatility and serial correlation to tackle this issue. Again, we find that our main results remain unchanged (see Table A2).

We also rerun regressions of Tables 5 to 9 on the three alternative event windows [0,+1], [0,+2], and [-1,+2] and find similar results than for the event-window [-2,+2]. To save space, we only report in Appendix (see Tables A3 and A4) the results of the last regressions (Table 8 and 9) when the dependent variable is the ratio of related loans to total loans. Our results when the lender is a state-owned bank are unchanged. When banks are controlled by a family, we find that announcement returns are negatively related to the extent of related lending, not only when loans are extended to privately-owned firms as we found previously, but also to SOEs for the two event windows [-1,+2] and [0,+1]. The results we found above that the "helping hand" effect could offset the risk of expropriation in family-owned banks when they lend to SOEs is therefore not robust across all the event windows.

Sie of loans

The market reaction to loan announcements might depend on the size of the loan (Kang and Liu, 2008), especially in our study where we are taking into account the likelihood of expropriation. We therefore examine whether our results are not driven by a stronger market reaction for large loans. We create the dummy variable *DLargeLoans* which takes the value of one if the loan size is above the median sample. In our sample, the average amount of state-owned banks loans is relatively high around 412.31 Billion rupiahs compared to family-owned banks (169.77 Billion rupiahs) (see Table 3). Loans from state-owned banks account therefore for 62.20% of the loans that we classify as large.

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We test whether the size of the loan affect our results by augmenting Equation (4) with terms interacting the ratio of related loans, the dummy variable for state-owned banks, and the dummy variable *DLargeLoans*.[7] The results provided in Tables A5 and A6 show that the relationships between abnormal returns and the extent of related loans in state-owned and family-owned banks we found previously do not depend on the size of the loan.

Type of government

Cheung et al. (2009), who analyse abnormal stock returns at the announcement of related party transactions for Chinese SOEs, find results consistent with the "helping hand" hypothesis when the controlling shareholder is the central government, while their results support the "grabbing hand" hypothesis when SOEs are controlled by local governments. They justify these results by arguing that local governments might have more opportunities to expropriate as they have lower visibility to the press and to judicial authorities compared to the central government. In our sample, we only have 2 state-owned banks controlled by local Indonesian governments, accounting for 6 observations. We cannot therefore examine whether the market reaction to state-owned banks' loan announcements depends on the type of government, local or central. However, we check the robustness of our results by excluding the 6 loan announcements made by state-owned banks controlled by local governments, and our results remain unchanged (see Tables A7 to A9).

We furthermore examine whether the valuation effect of loan announcements is different when state-owned banks are controlled either by the government of Indonesia (central and local) or by a foreign government. The market might anticipate that foreign governments are less likely to provide preferential treatment or to bail-out banks when they are shareholders of banks located in a foreign country, while they might expropriate shareholders' wealth for their benefit. We have 8 state-owned banks controlled by the government of Indonesia and 4 by a foreign government, accounting for 168 and 43 loan announcements, respectively.[8] Table A10 reports the CARs for Indonesian state-owned banks (Panel A) and for foreign state-owned banks (Panel B) with either high or low levels of related loans. We note that all the foreign state-owned banks have a level of related loans lower than the median sample. We observe from Panel A that CARs are consistently non-significant for Indonesian state-owned banks with

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[7] We are not able to run regressions when considering the type of borrower the bank lends to as it will require to include quadruple interaction terms.
[8] Two banks are controlled by the government of Malaysia, one by the government of Singapore and one by the government of Qatar.

relatively high and low levels of related loans, for the three event windows we consider. In contrast, we find that announcement returns of foreign state-owned banks loan agreements are significantly negative. These results indicate that the negative valuation effect of loan announcement we found for state-owned banks with low levels of related loans in Table 4 is driven by foreign state-owned banks. We next compute the two dummy variables *DSOBInd* and *DSOBForeign* taking the value of one when the largest shareholder is the government of Indonesia or a foreign government, respectively. We test whether the type of government affect our results by augmenting Equation (4) with terms interacting the ratio of related loans and the two dummy variables for Indonesian and foreign state-owned banks.[9] The results provided in Tables A11 show that despite the positive and significant coefficient associated with *DSOBInd* and the non-significant coefficient of *DSOBForeign*, the Wald tests show that announcement returns of both Indonesian and foreign state-owned banks are not significantly related to the importance of related lending. These findings confirm what we found previously that shareholders of state-owned banks do not anticipate being affected by government shareholdings in banks, and this result holds irrespective of the type of the government.

Proportion of independent directors

The appointment of independent directors, who are independent from the influence of the management and controlling shareholders, are seen as an essential tool to mitigate the risk of resource diversion and transfer of firm value from minority shareholders (Dahya and McConnell, 2005; Young et al., 2008). We therefore need to check if the market reaction to bank loan announcements when taking the likelihood of expropriation into account does not depend on the proportion of independent directors on the board.

The Company Law in Indonesia adopts a two-tier board structure, with a board of directors (BOD) and a board of commissioners (BOC). The BOD consists of only firms' executive and has managerial or day-to-day operational responsibilities, while the BOC is in charged with ensuring the implementation of the corporate strategy, supervision of management policies, and advising the BOD. The role of BOC is therefore comparable to that of board of directors in a one tier board structure. Under the Central Bank of Indonesia regulation No. 8/14/PBI/2006 on the implementation of corporate governance for banks, banks must have a minimum of 50% of commissioners who are independent since 2006. We have in our sample around 25% of banks having just the minimum legal of 50% of independent commissioners. We compute the dummy

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[9] The number of loan announcements for foreign state-owned banks does not allow us to run the regressions when we consider the type of borrowers as in Tables 6 to 9.

variable *HighIndepDirectors* that takes the value of one when the proportion of independent commissioners is strictly higher than 50%. We augment Equation (4) with terms interacting the ratio of related loans, the dummy variable for state-owned banks, and the dummy variable for banks with a proportion of independent commissioners higher than the minimum imposed by the regulator. Results provided in Tables A12 and A13 shows that the relationships between abnormal returns and the extent of related loans in state- and family-owned banks we found previously do not depend on the proportion of independent commissioners in the board.

7. Conclusion

This study examines whether government ownership affect the market valuation of banks when they extend their activities. We use a unique hand collected dataset for Indonesia to analyze the impact of loan announcements on the bank stock returns of state-owned banks when expropriation is at stake, by taking family-owned banks as a benchmark. While minority shareholders of state-owned banks might expect a lower return from new loans because of expropriation ("grabbing hand" effect), they might also perceive them as less risky because of the higher probability of government bailout ("helping hand" effect). We also investigate whether the type of the borrowing firm (state-owned firm, privately-owned firm affiliated to a group or not) is a channel that make shareholders of state-owned banks react more or less to loan announcements. The negative market valuation of the "grabbing hand" effect could be outweighed by a twin "helping hand" effect coming from potential bailout of state-owned banks and of borrowing firms when they are state-owned. Similarly, borrowing firms that belong to a pyramidal business group might present lower default risk if intragroup resources are used to support member firms that experience financial adversity (the co-insurance effect).

Our findings show that there is a negative and significant relationship between announcement returns and the extent of related lending of family-owned banks, while there is no significant relationship with the extent of related lending of state-owned banks. Taking together these findings are consistent with the argument that even if a "grabbing hand" effect exists in state-owned banks, it seems to be offset by the "helping hand" effect. These results hold for banks controlled by either the government of Indonesia or a foreign government, and irrespective of the size of the loan and the proportion of independent directors in the board.

Our results further show that announcement returns are positively and significantly related to the extent of related lending of state-owned banks when loans are granted to state-owned firms, while there are no significant relationship when loans are extended to privately-owned firms, and irrespective of whether or not they are affiliated to a business group. In contrast, we

find that announcement returns are negatively linked to the extent of related lending of family-owned firms when loans are made to privately-owned firms, with however a lower impact when borrowing firms are affiliated to a pyramidal business group. Taking all together, these results support the argument that when state-owned banks extend loans to SOEs, the expected twin "helping hand" effect outweighs the "grabbing hand" effect. For family-owned firms, the potential co-insurance effect when loans are extended to borrowers affiliated to a pyramidal business group does not seem to offset the risk of expropriation.

Our empirical analysis provide therefore evidence that shareholders do not anticipate being affected by government shareholdings in banks when expropriation is at stake, while in contrast they anticipate being negatively affected by loan announcements when banks are controlled by families. Government ownership of banks seems to be superior to family ownership when the institutional environment is weak, especially when loans are extended to state-owned firms.

To conclude, our findings support the view that shareholders rationally anticipate the risk of expropriation when investing in state-owned banks in countries with weak shareholder protection, but are willing to accept this higher risk in exchange for a greater "helping hand" effect if governments are expected to bail out state-owned firms in case of distress. Shareholders do not seem to impose a value discount to state-owned banks as they expect specific support from taxpayers and to a larger extent than shareholders of family-owned banks.

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Table 1. Distribution of the sample by year

Years	Number of loan announcements	Number of borrowing firms	Number of lending banks
2010	92	50	16
2011	66	49	13
2012	64	49	17
2013	63	33	20
2014	57	47	22
Total over the period	**342**	**136**	**24**

Table 2. Descriptive statistics by category of banks

	State-owned banks	Family-owned banks
Number of banks	7	12
Number of loan announcements	211	131
% of shares of the largest shareholder		
Mean	62.94	42.6
Min	25.66	15.42
Max	96.92	69.9
% of shares held by minority shareholders		
Mean	31.13	38.70
Min	2.62	12.16
Max	43.25	54.74
Loan announcement size (Million rupiahs)		
Mean	412 317.2	169 768.8
Min.	2 000	1 000
Max.	5 670 000	3 000 000
RPLTL (%)		
Mean	5.67	0.88
Min.	0	0
Max.	29.68	17.19
Sample median	0.30	

Banks are defined as state-owned or family-owned when their largest shareholder is the government, or a family, respectively. A minority shareholder hold less than 10% of shares. RPLTL = ratio of related loans to total loans.

Table 3. Definitions, data sources and summary statistics for variables

Variables	Definition	Data sources	Mean	Standard Deviation	Min.	Max.
RPLTL	Related party loans to total loans	Annual Reports	3.8	6.4	0	29
RPLTA	Related party loans to total assets	Annual Reports	2.4	4.05	0	19.6
LoanSize	Loan size to total asset of borrowing firms	Bloomberg and Annual Reports	14.05	67.70	0.01	91.54
TenureYear	Year number of loan maturity	Annual Reports	3.01	2.31	0.5	10
InterestRate	Interest rate on loan	Annual Reports	10.89	2.33	4	22
BorrowerROA	Net Income to total assets	Bloomberg	4.99	8.34	-92.47	37.55
BorrowerLev	Total debt to total assets	Bloomberg	25.82	21.36	0	86.05
BorrowerSize	Logarithm of total assets	Bloomberg	14.68	1.69	10	18.53
BankROA	Net income to total assets	Bloomberg	4.92	0.97	-3.20	2.88
DSOB	Takes the value of one for loan contracts when the lending bank is state-owned, and zero otherwise	Annual Reports BvD Bankscope	0.61	0.49	0	1
DFamily	Takes the value of one for loan contracts when the lending bank is family-owned, and zero otherwise	Annual Reports BvD Bankscope	0.38	0.48	0	1
DSOE	Takes the value of one for loan contracts when the borrower is state-owned, and zero otherwise	Ministry of SOEs IDX	0.13	0.34	0	1
DPrivInGroup	Takes the value of one form loan contracts when the borrower is privately-owned and belongs to a pyramidal business group	Annual Reports Websites	0.81	0.39	0	1
DLargeLoans	Takes the value of one form loan contracts when the size of the loan is above the median sample	Annual Reports	0.49	0.50	0	1
DSOBInd	Takes the value of one form loan contracts when the largest shareholder is the government of Indonesia	Annual Reports BvD Bankscope	0.49	0.50	0	1
DSOBForeign	Takes the value of one form loan contracts when the largest shareholder is a foreign government	Annual Reports BvD Bankscope	0.12	0.33	0	1
HighIndepDirectors	Takes the value of one form loan contracts when the proportion of independent commissioners is strictly higher than 50%.	Annual Reports	0.26	0.44	0	1

Note: All variables are expressed in percentage except BorrowerSize and dummy variables.

Table 4. Abnormal returns surrounding the loan announcement according to level of related loans (RPLTL)

Event windows (Days)	Mean (%)	Wilcoxon Test (z-probability)	t-Test (t-statistic)	Observations
Panel A: All Sample				
Low RPLTL				
[-1,+1]	-0,09	0.13	-0.37	164
[-2,+2]	-0,4	0.06*	-1.73*	164
[-3,+3]	-0,45	0.13	-1.32	164
High RPLTL				
[-1,+1]	-0,27	0.04**	-1.36	178
[-2,+2]	-0,20	0.10	-0.95	178
[-3,+3]	-0,48	0.00***	-1.97**	178
Panel B: state-owned banks				
Low RPLTL				
[-1,+1]	-0.49	0.04**	-2.08**	108
[-2,+2]	-0.71	0.01**	-2.62**	108
[-3,+3]	-0.55	0.20	-1.46	108
High RPLTL				
[-1,+1]	-0.09	0.34	-0.34	103
[-2,+2]	-0.16	0.34	-0.62	103
[-3,+3]	-0.34	0.14	-1.06	103
Panel C: Family-owned banks				
Low RPLTL				
[-1,+1]	0.67	0.91	1.24	56
[-2,+2]	0.19	0.98	0.45	56
[-3,+3]	-0.24	0.47	-0.36	56
High RPLTL				
[-1,+1]	-0.53	0.05*	-1.74*	75
[-2,+2]	-0.25	0.16	-0.72	75
[-3,+3]	-0.66	0.01**	-1.83*	75

We use the sample median value of the ratio related loans total loans (RPLTL) to distinguish banks with low and high levels of related loans. The asterisks (***), (**) and (*) denote significance at the 0.01, 0.05 and 0.1 levels, respectively.

Table 5. Impact of government ownership of banks on CARs (ordinary least square regressions)

	CARs [-2,+2]	CARs [-2,+2]
RPLTL (β_1)	-0.189***	
	(-3.04)	
RPLTA (β_1)		-0.281***
		(-3.24)
RPLTL*DSOB (β_2)	0.196***	
	(2.93)	
RPLTA*DSOB (β_2)		0.285***
		(2.99)
DSOB	-0.00585	-0.00535
	(-1.52)	(-1.40)
LoanSize	-0.000630	-0.000627
	(-0.36)	(-0.35)
TenureYear	-0.00100*	-0.00100*
	(-1.68)	(-1.67)
InterestRate	-0.000275	-0.000230
	(-0.16)	(-0.13)
BorrowerROA	-0.000264	-0.000265
	(-1.29)	(-1.30)
BorrowerLEV	-0.000179**	-0.000179**
	(-2.14)	(-2.14)
BorrowerSize	0.000678	0.000712
	(0.61)	(0.64)
BankROA	0.00382**	0.00386**
	(2.18)	(2.20)
Constant	-0.0000676	-0.000800
	(-0.00)	(-0.05)
Wald Test		
$\beta_1 + \beta_2 = 0$	0.0071	0.003
	(0.29)	(0.10)
Nbr. of obs.	342	342
Adjusted R-Squared	0.0292	0.0285

Variables are defined in Table 3. The t-statistics are in parentheses, with *, **, and *** denoting significance at 10%, 5% and 1% levels.

Table 6. Borrowing firms' type: state-owned versus privately-owned (ordinary least square regressions)

	CARs [-2,+2]	CARs [-2,+2]
RPLTL (α_1)	-0.187***	
	(-3.02)	
RPLTA (α_1)		-0.278***
		(-3.22)
RPLTL*DSOE (α_2)	0.0548	
	(0.07)	
RPLTA*DSOE (α_2)		-0.0441
		(-0.03)
RPLTL*DSOB (α_3)	0.164**	
	(2.45)	
RPLTA*DSOB (α_3)		0.236**
		(2.46)
RPLTL*DSOB*DSOE (α_3)	0.112	
	(0.15)	
RPLTA*DSOB*DSOE (α_3)		0.310
		(0.19)
DSOB*DSOE	-0.0264***	-0.0267***
	(-3.67)	(-3.69)
DSOB	-0.00339	-0.00293
	(-0.84)	(-0.73)
DSOE	0.0117**	0.0119**
	(2.50)	(2.54)
Constant	-0.00448	-0.00520
	(-0.25)	(-0.29)
Control variables	Yes	Yes
Nbr. of obs.	342	342
Adjusted R-Squared	0.0372	0.0366

Variables are defined in Table 3. The t-statistics are in parentheses, with *, **, and *** denoting significance at 10%, 5% and 1% levels.

Table 7. Borrowing firms type, state-owned versus privately-owned: Wald Tests from Table 6

	RPLTL	RPLTA
The lender is state-owned, the borrower is state-owned		
$\alpha_1 + \alpha_2 + \alpha_3 + \alpha_4 = 0$	0.1443**	0.2240**
	(2.43)	(2.25)
The lender is state-owned, the borrower is privately-owned		
$\alpha_1 + \alpha_3 = 0$		
	-0.0222	-0.0424
	(-0.85)	(-1.03)
The lender is family-owned, the borrower is state-owned		
$\alpha_1 + \alpha_2 = 0$		
	-0.1318	-0.3220
	(-0.18)	(-0.20)
The lender is family-owned, the borrower is privately-owned		
$\alpha_1 = 0$	-0.1866***	-0.277**
	(-3.02)	(-3.22)

The t-statistics are in parentheses, with *, **, and *** denoting significance at 10%, 5% and 1% levels.

Table 8. Borrowing firms' type: state-owned versus privately-owned affiliated to a pyramidal business group (ordinary least square regressions)

	CARs [-2,+2]	CARs [-2,+2]
RPLTL ($\alpha1$)	-8.926** (-2.59)	
RPLTA ($\alpha1$)		-16.20*** (-2.76)
RPLTL*DSOE ($\alpha2$)	8.839** (2.51)	
RPLTA*DSOE ($\alpha2$)		16.09*** (2.61)
RPLTL*DPrivInGroup ($\alpha3$)	8.745** (2.54)	
RPLTA*DPrivInGroup ($\alpha3$)		15.93*** (2.71)
RPLTL*DSOB ($\alpha4$)	8.841** (2.55)	
RPLTA*DSOB ($\alpha4$)		16.06*** (2.72)
RPLTL*DSOB*DSOE ($\alpha5$)	-8.612** (-2.43)	
RPLTA*DSOB*DSOE ($\alpha5$)		-15.73** (-2.54)
RPLTL*DSOB*DPrivInGroup ($\alpha6$)	-8.680** (-2.50)	
RPLTA*DSOB*DPrivInGroup ($\alpha6$)		-15.83*** (-2.68)
DSOB*DSOE	-0.0199 (-0.81)	-0.0188 (-0.79)
DSOB*DPrivInGroup	0.00528 (0.22)	0.00632 (0.27)
DSOB	-0.00925 (-0.39)	-0.00998 (-0.44)
DSOE	-0.0116 (-0.65)	-0.0127 (-0.72)
DPrivInGroup	-0.0236 (-1.29)	-0.0246 (-1.38)
Constant	0.0223 (0.84)	0.0220 (0.84)
Control variables	Yes	Yes
Nbr. of obs.	342	342
Adjusted R-Squared	0.0446	0.0441

Variables are defined in Table 3. The t-statistics are in parentheses, with *, **, and *** denoting significance at 10%, 5% and 1% levels.

Table 9. Borrowing firms type, state-owned versus privately-owned affiliated to a pyramidal business group: Wald Tests from Table 8

	RPLTL	RPLTA
The lender is state-owned, the borrower is state-owned	0.1417**	0.2202**
$\alpha_1 + \alpha_2 + \alpha_4 + \alpha_5 = 0$	(2.36)	(2.19)
The lender is state-owned, the borrower is privately-owned in a group	-0.0201	-0.0396
$\alpha_1 + \alpha_3 + \alpha_4 + \alpha_6 = 0$	(-0.76)	(-0.94)
The lender is state-owned, the borrower is privately-owned not in a group	-0.0853	-0.1396
$\alpha_1 + \alpha_4 = 0$	(-0.79)	(-0.83)
The lender is family-owned, the borrower is state-owned	-0.0870	-0.1035
$\alpha_1 + \alpha_2 = 0$	(-0.13)	(-0.07)
The lender is family-owned, the borrower is privately-owned in a group	-0.1813***	-0.2702***
$\alpha_1 + \alpha_3 = 0$	(-2.94)	(-3.15)
The lender is family-owned, the borrower is privately-owned not in a group	-8.926**	-16.195***
$\alpha_1 = 0$	(-2.59)	(-2.76)

The t-statistics are in parentheses, with *, **, and *** denoting significance at 10%, 5% and 1% levels.

Appendix

Table A1: Correlation Matrix

	(1) RPLTL	(2) RPLTA	(3) LoanSize	(4) TenureYear	(5) InterestRate	(6) BorrowerROA	(7) BorrowerLEV	(8) BorrowerSize	(9) BankROA	(10) DSOB	(11) DFamily	(12) DSOE	(13) DPrivInGroup
(1)	1												
(2)	0.997	1											
(3)	-0.0390	-0.0405	1										
(4)	-0.0384	-0.0473	-0.0652	1									
(5)	0.0978	0.107	-0.00130	-0.0353	1								
(6)	0.0291	0.0265	-0.0913	0.0198	-0.0863	1							
(7)	-0.0329	-0.0386	-0.0871	0.0296	-0.0658	-0.243	1						
(8)	0.124	0.123	-0.212	0.0701	-0.266	0.0996	0.0290	1					
(9)	0.170	0.182	-0.0668	-0.122	-0.0146	0.0385	-0.0967	0.000100	1				
(10)	0.363	0.363	-0.0254	0.00660	0.00470	-0.000800	-0.0684	0.192	-0.149	1			
(11)	-0.363	-0.363	0.0254	-0.00660	-0.00470	0.000800	0.0684	-0.192	0.149	-1	1		
(12)	0.132	0.132	-0.0111	-0.122	-0.0432	0.133	-0.166	0.491	0.0734	0.253	-0.253	1	
(13)	-0.111	-0.111	-0.164	0.108	0.0256	0.0642	0.142	-0.456	-0.0210	-0.178	0.178	-0.811	1

*All variables are defined in Table 3. *,**, and *** denote significance at 10%, 5% and 1% levels respectively.*

Table A2. Robustness check (1): CARs for alternative event-windows and tests for abnormal returns

Event windows (days)	Mean (%)	Wilcoxon Test (z-probability)	t-Test (t-statistic)	Patell Test (z-probability)	Boehmer Test (z-probability)	Observations
All Sample						
[-1.+1]	-0.18	0.012**	-1.19	0.174	0.271	342
[-2.+2]	-0.30	0.013**	-1.90*	0.174	0.251	342
[-3.+3]	-0.46	0.004***	-2.26**	0.088*	0.222	342
[0;1]	-0.26	0.001***	-2.06**	0.007***	0.017**	342
[0;2]	-0.35	0.006***	-2.59**	0.002***	0.010**	342
[-1;2]	-0.27	0.015**	-1.75*	0.105	0.18	342

The asterisks (***), (**) and (*) denote significance at the 0.01, 0.05 and 0.1 levels, respectively.

Table A3. Robustness check (1): alternative event-windows (ordinary least square regressions)

	CARs [-1,+2]	CARs [0,+2]	CARs [0,+1]
RPLTL (α1)	-13.46**	-6.436***	-8.767***
	(-2.14)	(-2.89)	(-2.91)
RPLTL*DSOE (α2)	10.11	-1.020	-4.365
	(1.62)	(-0.19)	(-1.15)
RPLTL*DPrivInGroup (α3)	13.30**	6.291***	8.646***
	(2.11)	(2.82)	(2.87)
RPLTL*DSOB (α4)	13.32**	6.391***	8.834***
	(2.11)	(2.84)	(2.92)
RPLTL*DSOB*DSOE (α5)	-9.817	1.156	4.360
	(-1.57)	(0.22)	(1.15)
RPLTL*DSOB*DPrivInGroup (α6)	-13.17**	-6.236***	-8.699***
	(-2.09)	(-2.77)	(-2.87)
DSOB*DSOE	-0.00305	-0.0390*	-0.0438**
	(-0.08)	(-1.96)	(-2.46)
DSOB*DPrivInGroup	0.0317	-0.00568	0.0237
	(0.85)	(-0.29)	(1.40)
DSOB	-0.0322	0.000467	-0.0281*
	(-0.87)	(0.02)	(-1.71)
DSOE	-0.0394	0.0137	0.0373***
	(-1.21)	(1.00)	(2.94)
DPrivInGroup	-0.0613*	-0.0125	-0.0286**
	(-1.84)	(-0.88)	(-2.22)
Constant	0.0766**	0.0263	0.0512**
	(2.17)	(1.11)	(2.21)
Control variables	Yes	Yes	Yes
Nbr. of obs.	342	342	342
Adjusted R-Squared	0.0603	0.0179	0.0179

Variables are defined in Table 3. The t-statistics are in parentheses, with *, **, and *** denoting significance at 10%, 5% and 1% levels.

Table A4. Robustness check (1), Wald tests based on Table A3

	CAR[-1,+2]	CAR[0,+2]	CAR[0,+1]
The lender is state-owned, the borrower is state-owned	0.1481***	0.091**	0.061*
$\alpha_1 + \alpha_2 + \alpha_4 + \alpha_5 = 0$	(2.68)	(1.97)	(1.73)
The lender is state-owned, the borrower is privately-owned in a group	-0.0179	-0.010	0.013
$\alpha_1 + \alpha_3 + \alpha_4 + \alpha_6 = 0$	(-0.64)	(-0.35)	(0.57)
The lender is state-owned, the borrower is privately-owned not in a group	-0.1471	-0.044	-0,066
$\alpha_1 + \alpha_4 = 0$	(-1.24)	(-0.49)	(-0.90)
The lender is family-owned, the borrower is state-owned	-3.352***	-7.456	-13,132***
$\alpha_1 + \alpha_2 = 0$	(-4.24)	(-1.57)	(-5.92)
The lender is family-owned, the borrower is privately-owned in a group	-0.169**	-0.145**	-0.120
$\alpha_1 + \alpha_3 = 0$	(-2.19)	(-2.46)	(-1.34)
The lender is family-owned, the borrower is privately-owned not in a group	-13,464**	-6.435***	-8,766***
$\alpha_1 = 0$	(-2.83)	(-2.89)	(-2.91)

The t-statistics are in parentheses, with *, **, and *** denoting significance at 10%, 5% and 1% levels.

Table A5. Robustness check (2): Size of loans (ordinary least square regressions)

	CARs [-2,+2]	CARs [-2,+2]
RPLTL	-0.182**	
	(-2.27)	
RPLTA		-0.283**
		(-2.38)
RPLTL*DLargeLoan	0.00526	
	(0.05)	
RPLTA*DLargeLoan		0.0387
		(0.28)
RPLTL*DSOBA*DLargeLoan	0.0284	
	(0.26)	
RPLTA*DSOB*DLargeLoan		0.0195
		(0.12)
RPLTL*DSOB	0.176**	
	(2.02)	
RPLTA*DSOB		0.265**
		(2.04)
DSOB*DLargeLoan	-0.00153	-0.00176
	(-0.20)	(-0.23)
DSOB	-0.00529	-0.00474
	(-0.99)	(-0.89)
DLargeLoan	0.00829	0.00833
	(1.39)	(1.41)
Constant	0.0114	0.0109
	(0.68)	(0.64)
Control variables	Yes	Yes
Nbr. of obs.	342	342
Adjusted R-Squared	0.0355	0.0351

Variables are defined in Table 3. The t-statistics are in parentheses, with *, **, and *** denoting significance at 10%, 5% and 1% levels.

Table A6. Robustness check (2), Wald tests based on Table A5

	RPLTL	RPLTA
State-owned banks, Large Loans	0.027	0.040
	(0.73)	(0.65)
State-owned banks, Smaller Loans	-0.006	-0.018
	(-0.19)	(-0.36)
Family-owned banks, Large Loans	-0.177***	-0.244***
	(-3.24)	(-3.37)
Family-owned banks, Smaller Loans	-0.182**	-0.283**
	(-2.27)	(-2.38)

The t-statistics are in parentheses, with *, **, and *** denoting significance at 10%, 5% and 1% levels.

Table A7. Robustness check (3): exclusion of local governments from SOBs (ordinary least square regressions)

	CARs [-2,+2]	CARs [-2,+2]
RPLTL (β_1)	-0.187***	
	(-3.06)	
RPLTA (β_1)		-0.278***
		(-3.26)
RPLTL*DSOB (β_2)	0.201***	
	(3.04)	
RPLTA*DSOB (β_2)		0.293***
		(3.11)
DSOB	-0.00686*	-0.00637
	(-1.76)	(-1.64)
LoanSize	-0.000695	-0.000693
	(-0.40)	(-0.40)
TenureYear	-0.000963	-0.000961
	(-1.62)	(-1.61)
InterestRate	-0.000348	-0.000309
	(-0.20)	(-0.18)
BorrowerROA	-0.000261	-0.000262
	(-1.29)	(-1.30)
BorrowerLEV	-0.000193**	-0.000193**
	(-2.28)	(-2.29)
BorrowerSize	0.000732	0.000763
	(0.66)	(0.68)
BankROA	0.00298	0.00302
	(1.59)	(1.60)
Constant	-0.000405	-0.00109
	(-0.02)	(-0.06)
Control variables	Yes	Yes
Wald Test		
$\beta_1 + \beta_2 = 0$	0.014	0.015
	(0.56)	(0.37)
Nbr. of obs.	336	336
Adjusted R-Squared	0.0260	0.0250

Variables are defined in Table 3. The t-statistics are in parentheses, with *, **, and *** denoting significance at 10%, 5% and 1% levels.

Table A8. Robustness check (3): exclusion of local governments from SOBs (ordinary least square regressions)

	CARs [-2,+2]	CARs [-2,+2]
RPLTL ($\alpha1$)	-8.650**	
	(-2.49)	
RPLTA ($\alpha1$)		-15.70***
		(-2.65)
RPLTL*DSOE ($\alpha2$)	8.635**	
	(2.44)	
RPLTA*DSOE ($\alpha2$)		15.76**
		(2.54)
RPLTL*DPrivInGroup ($\alpha3$)	8.470**	
	(2.44)	
RPLTA*DPrivInGroup ($\alpha3$)		15.44***
		(2.61)
RPLTL*DSOB ($\alpha4$)	8.562**	
	(2.45)	
RPLTA*DSOB ($\alpha4$)		15.56***
		(2.62)
RPLTL*DSOB*DSOE ($\alpha5$)	-8.401**	
	(-2.35)	
RPLTA*DSOB*DSOE ($\alpha5$)		-15.39**
		(-2.46)
RPLTL*DSOB*DPrivInGroup ($\alpha6$)	-8.396**	
	(-2.40)	
RPLTA*DSOB*DPrivInGroup ($\alpha6$)		-15.32**
		(-2.58)
DSOB*DSOE	-0.0203	-0.0192
	(-0.82)	(-0.80)
DSOB*DPrivInGroup	0.00386	0.00489
	(0.16)	(0.21)
DSOB	-0.00883	-0.00956
	(-0.37)	(-0.42)
DSOE	-0.0113	-0.0124
	(-0.63)	(-0.70)
DPrivInGroup	-0.0229	-0.0239
	(-1.24)	(-1.33)
Constant	0.0220	0.0218
	(0.82)	(0.83)
Control variables	Yes	Yes
Nbr. of obs.	336	336
Adjusted R-Squared	0.0406	0.0399

Variables are defined in Table 3. The t-statistics are in parentheses, with *, **, and *** denoting significance at 10%, 5% and 1% levels.

Table A9. Robustness check (3), Wald tests based on Table A8

	RPLTL	RPLTA
The lender is state-owned, the borrower is state-owned	0.1468**	0.2290**
$\alpha_1 + \alpha_2 + \alpha_4 + \alpha_5 = 0$	(2.47)	(2.30)
The lender is state-owned, the borrower is privately-owned in a group	-0.013	-0.028
$\alpha_1 + \alpha_3 + \alpha_4 + \alpha_6 = 0$	(-0.49)	(-0.66)
The lender is state-owned, the borrower is privately-owned not in a group	-0.0872	-0.1426
$\alpha_1 + \alpha_4 = 0$	(-0.80)	(-0.84)
The lender is family-owned, the borrower is state-owned	0.014	0.060
$\alpha_1 + \alpha_2 = 0$	(0.02)	(0.04)
The lender is family-owned, the borrower is privately-owned in a group	-0.1793***	-0.2677***
$\alpha_1 + \alpha_3 = 0$	(-2.97)	(-3.17)
The lender is family-owned, the borrower is privately-owned not in a group	-8.649**	-15.704***
$\alpha_1 = 0$	(-2.49)	(-2.65)

The t-statistics are in parentheses, with *, **, and *** denoting significance at 10%, 5% and 1% levels.

Table A10. Robustness check (4): government of Indonesia vs. foreign governments

Event windows (Days)	Mean (%)	Wilcoxon Test (z-probability)	t-Test (t-statistic)	Observations
Panel A: Indonesian state-owned banks				
Low RPLTL				
[-1,+1]	-0,37	0.47	-1.26	65
[-2,+2]	-0,4	0.42	-1.24	65
[-3,+3]	-0,3	0.59	-0.69	65
High RPLTL				
[-1,+1]	-0,09	0.34	-0.34	103
[-2,+2]	-0,16	0.34	-0.62	103
[-3,+3]	-0,34	0.14	-1.06	103
Panel B: Foreign state-owned banks				
Low RPLTL				
[-1,+1]	-0.66	0.03**	-1.70*	43
[-2,+2]	-1.15	0.00***	-2.58**	43
[-3,+3]	-0.91	0.19	-1.40	43
High RPLTL				
[-1,+1]	-	-	-	0
[-2,+2]	-	-	-	0
[-3,+3]				

We use the sample median value of the ratio related loans total loans (RPLTL) to distinguish banks with low and high levels of related loans. Indonesian state-owned banks are controlled by the government of Indonesia; foreign state-owned banks are controlled by a foreign government. The asterisks (***), (**) and (*) denote significance at the 0.01, 0.05 and 0.1 levels, respectively.

Table A11. Robustness check (4): government of Indonesia vs. foreign governments (ordinary least square regressions)

	CARs [-2,+2]	CARs [-2,+2]
RPLTL (β_1)	-0.187***	
	(-3.01)	
RPLTA (β_1)		-0.277***
		(-3.20)
RPLTL*DSOBInd (β_2)	0.184***	
	(2.71)	
RPLTA*DSOBInd (β_2)		0.265***
		(2.74)
RPLTL*DSOBForeign (β_3)	-5.254	
	(-0.32)	
RPLTA*DSOBForeign (β_3)		-7.847
		(-0.35)
DSOBInd	-0.00416	-0.00359
	(-0.98)	(-0.85)
DSOBForeign	-0.00716	-0.00665
	(-0.70)	(-0.65)
Constant	0.00125	0.000660
	(0.08)	(0.04)
Control variables	Yes	Yes
Wald Tests		
$\beta_1 + \beta_2 = 0$	-0.0025	-0.0118
	(-0.10)	(-0.28)
$\beta_1 + \beta_3 = 0$	-5.4403	-8.1242
	(-0.33)	(-0.36)
Nbr. of obs.	342	342
Adjusted R-Squared	0.0267	0.0264

Variables are defined in Table 3. The t-statistics are in parentheses, with *, **, and *** denoting significance at 10%, 5% and 1% levels.

Table A12. Robustness check (5): proportion of independent directors (ordinary least square regressions)

	CARs [-2,+2]	CARs [-2,+2]
RPLTL	-0.190**	
	(-2.58)	
RPLTA		-0.268***
		(-2.71)
RPLTL*HighIndepDirectors	0.00199	
	(0.02)	
RPLTA*HighIndepDirectors		-0.0321
		(-0.16)
RPLTL*DSOB	0.201**	
	(2.47)	
RPLTA*DSOB		0.276**
		(2.40)
RPLTL*DSOB*HighIndepDirectors	-0.0178	
	(-0.13)	
RPLTA*DSOB*HighIndepDirectors		0.0166
		(0.08)
DSOB*HighIndepDirectors	-0.00183	-0.00260
	(-0.22)	(-0.31)
HighIndepDirectors	-0.00111	-0.000712
	(-0.19)	(-0.12)
DSOB	-0.00548	-0.00469
	(-1.07)	(-0.92)
Constant	0.000659	-0.0000553
	(0.04)	(-0.00)
Control variables	Yes	Yes
Nbr. of obs.	342	342
Adjusted R-Squared	0.0196	0.0188

Variables are defined in Table 3. The dummy variable. The t-statistics are in parentheses, with *, **, and *** denoting significance at 10%, 5% and 1% levels.

Table A13. Robustness check (5): proportion of independent directors, Wald tests based on Table A12

	RPLTL	RPLTA
State-owned banks, high independent directors	-0,004	-0,007
	(-0.14)	(-0.16)
State-owned banks, low independent directors	0.011	0.007
	(0.34)	(0.13)
Family-owned banks, high independent directors	-0.189**	-0.268***
	(-2.58)	(-2.71)
Family-owned banks, low independent directors	-0.187*	-0.301*
	(-1.71)	(-1.73)

High/low independent directors indicates that the number of commissioners in the board is higher/lower than 50%, the minimum imposed by the Central Bank of Indonesia. The t-statistics are in parentheses, with *, **, and *** denoting significance at 10%, 5% and 1% levels.