



Effects of ESG on Company Profits & Risk

Environmental, Social & Governance

Sustainable Finance

Sustainability & Integrated Reporting

CONNEXIS Sustainability | Strategy | Advisory

- Strategic ESG Advisory
- ESG | CSR Implementation
- Transparency & Disclosure
- Impact Investing, SRI & SDGs

- Financial Institutions
- Manufacturing, Trade & Real Estate
- Governmental Agencies
- International Organizations

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Team





Franz Knecht, lic.iur.

Founder & CEO Lead Partner

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Areas of Expertise

- Environmental, Social & Governance (ESG)
- ESG Risks for Brand & Profitability
- Socially Responsible Investing (SRI)
- Responsible Supply Chain Management
- Sustainability & Integrated Reporting

Specific Industry Experience

- Financial Institutions
- Manufacturing, Trade & Industry
- International Organizations
- Governmental Agencies
- Real Estate

Franz Knecht was the first sustainability officer at Swiss Bank Corporation (now UBS) from 1991 to 1998. His responsibilities included the integration of ESG risks into loans, investments & investment banking, the Bank's first Sustainability Report and the development of the first international industry solutions for Sustainable Finance.

In 1999 Franz founded CONNEXIS AG as a specialized CSR|ESG|SRI-Advisory firm to better serve the financial industry and financial institutions. In the years since, Franz has expanded his experience into International Organizations and Governmental Agencies as well as manufacturing and real estate companies.

Franz is also actively involved in the development of international ESG standards, working with the International Standards Organization (ISO), the Global Reporting Initiative (GRI), the German Verein für Umweltmanagement & Nachhaltigkeit in Finanzinstituten (VfU), the World Business Council for Sustainable Development (WBCSD) and others since the early 2000s.

In October 2017 ISO appointed Franz Knecht to be the *Convenor* of its Working Group 08 that develops the new ISO 14007 standard for "*Determining Environmental Costs & Benefits*".

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Markus Althausen (MSc) Associate Partner

Expertise

- Sustainable Finance
- Renewable Energy
- Carbon Strategy
- Clean Tech

Industries

- Investment Banking
- Agro-Industries
- Waste Management



Sebastian Reich (PhD) Associate Partner

Expertise

- ESG Strategy
- Business Modeling
- ESG Due Diligence
- ESG Reporting

Industries

- Real Estate
- Asset Management
- Chemical Industry



Daniel Knecht (LLM) Associate Partner

Expertise

- International Law
- Corporate Governance

Industries

- Commercial Law
- Real Estate Law
- Arbitration



Jean Hetzel (MS Law) Associate Partner

Expertise

- ISO Standardization
- Environmental Management Systems
- Auditing & Verification

Industries

- Financial Institutions
- Manufacturing & Industry
- Governmental Agencies

Reference Customers



Financial Services



















Industry, Trade & Real Estate























International Organizations













European Environment Agency

Governmental Agencies



Schweizerische Eidgenossenschaft Confédération suisse Confederazione Svizzera Confederaziun svizra

Federal Office for the Environment FOEN



Schweizerische Normen-Vereinigung Association Suisse de Normalisation Swiss Association for Standardization





Arab Republic of Egypt
Ministry of Environment

Ministry of Environment
Egyptian Environmental Affairs Agency





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Studies & Analyses: Effects of ESG on Performance, Value & Risk



- '2024 Institutional Investor Survey on Sustainability'

 David Larcker, Amit Seru, and Brian Tayan | Stanford Graduate School of Business (2024)
- 'ESG & financial performance: Aggregated evidence from more than 2,000 empirical studies' Friede, Busch, Bassen; DAM with Univ. of Hamburg | Journal of Sustainable Finance & Investment (2015)
- 'Financial Relevance of ESG'

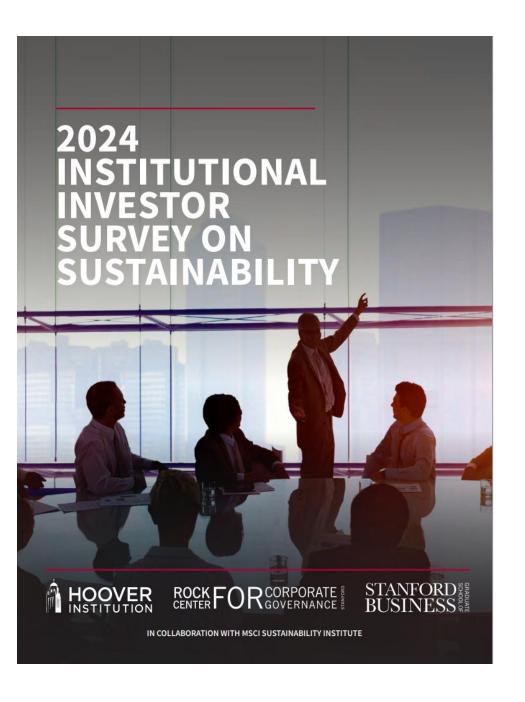
 Seretis | EMEA, MSCI Global | Responsible Investor Webinar: 'Banking on ESG' (2019)
- 'Impact of ESG performance on firm value and profitability'

 Mahmut Aydoğmuş, Güzhan Gülay, Korkmaz Ergun | Borsa Instanbul Review (2022)
- 'Analysis of the Problems & Countermeasures of China's Green Credit'

 Wu, Zhang | Tianjin Polytechnic University, China | Journal of Geoscience & Environment Protection (2018)
- "The Impact of Green Lending on Credit Risk in China"

 Cui, Geobey, Weber, Lin | University of Waterloo with Northern Illinois University (2018)
- 'Incorporating Sustainability Criteria into Credit Risk Management' Weber, Scholz, Michalik; GOE with ETH Zurich (2015)

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2024 Institutional Investor Survey on Sustainability

David Larcker, Amit Seru, and Brian Tayan
Stanford Graduate School of Business (2024)

Survey: 47 participants, 50% hold more than USD 250 bn AUM

Key findings

- ESG integration is mainstream but is predominantly about governance
- ESG is primarily about risk reduction, and it is industry-specific
- Concern about the environment almost entirely about climate change
- Investors on both sides of the Atlantic consider environmental, social, and governance risks in their decision-making, but differently
- Investors use ESG to weed out bad actors



Journal of Sustainable Finance & Investment



ISSN: 2043-0795 (Print) 2043-0809 (Online) Journal homepage: https://www.tandfonline.com/loi/tsfi20

ESG and financial performance: aggregated evidence from more than 2000 empirical studies

Gunnar Friede, Timo Busch & Alexander Bassen

To cite this article: Gunnar Friede, Timo Busch & Alexander Bassen (2015) ESG and financial performance: aggregated evidence from more than 2000 empirical studies, Journal of Sustainable Finance & Investment, 5:4, 210-233, DOI: 10.1080/20430795.2015.1118917

To link to this article: https://doi.org/10.1080/20430795.2015.1118917



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'ESG & financial performance: Aggregated evidence from more than 2,000 empirical studies'

Friede, Busch, Bassen; DAM with Univ. of Hamburg

Journal of Sustainable Finance & Investment (2015)

'ESG & Corporate Financial Performance'



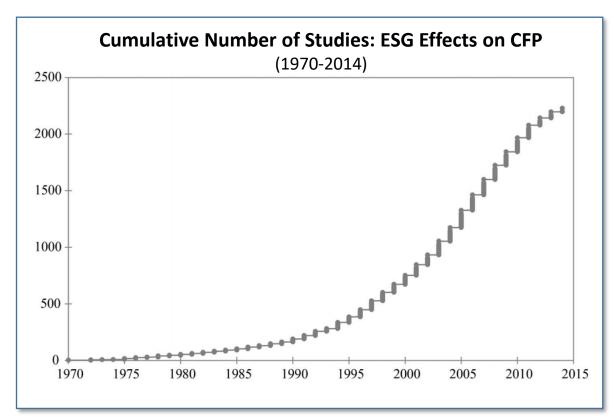
Background

Analysis of the effects of ESG criteria on Corporate Financial Performance (CFP)

Scientific study Type:

Sample: Meta Study of 2,200 studies

Time frame: 40 years (1970 to 2014)



https://www.researchgate.net/publication/287126190 ESG and financial performance Aggregated evidence from more than 2000 empirical studies

Source: 'ESG & financial performance'

'ESG & Corporate Financial Performance'



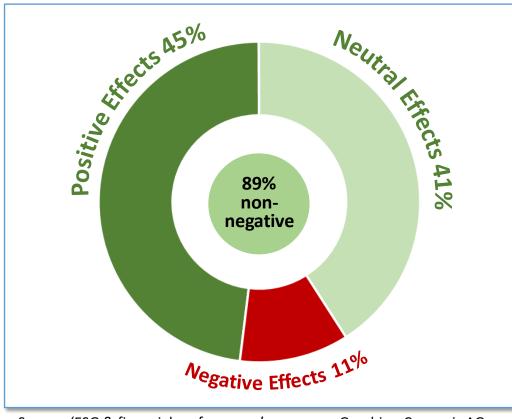
Key Findings

89% of all analyzed studies show non-negative effects

- 48% positive effects
- 41% neutral or mixed effects

Only 11% of studies show negative effects

Effects of ESG Criteria on Financial Performance



Source: 'ESG & financial performance' Graphics: Connexis AG



'Financial Relevance of ESG'

Seretis, EMEA, MSCI Global

Responsible Investor Webinar: 'Banking on ESG' (2019)

URL: https://www.responsible-investor.com/webinars/banking-on-esg-how-will-the-banking-sector-adapt-in-an-era-of-global-volatility

'Financial Relevance of ESG' - MSCI Analysis



Background

Analysis of effects of ESG ratings on bank performance

Type: Commercial | MSCI internal data analysis

Sample: 88 banks in MSCI World Banks Index

Time frame: 6 years (2013 to 2018)

MSCI WORLD BANKS INDEX (USD)

INDEX CHARACTERISTICS

MSCI World Banks		
88		
Mkt Cap (USD Millions)		
3,420,934.17		
445,729.4		
1,942.15		
38,874.25		
Median 16,648.5		

The MSCI World Banks Index is composed of large and mid cap stocks across 23 Developed Markets countries*. All securities in the index are classified in the Banks industry group (within the Financials sector) according to the Global Industry Classification Standard (GICS®).

TOP 10 CONSTITUENTS

Country	Float Adj Mkt Cap (USD Billions)	Index Wt. (%)
US	445.73	13.03
US	311.45	9.10
US	225.20	6.58
US	180.48	5.28
GB	158.31	4.63
CA	113.62	3.32
CA	102.17	2.99
AU	99.43	2.91
US	88.76	2.59
US	75.53	2.21
	1,800.67	52.64
	US US US GB CA CA AU US	USD Billions) US 445.73 US 311.45 US 225.20 US 180.48 GB 158.31 CA 113.62 CA 102.17 AU 99.43 US 88.76 US 75.53

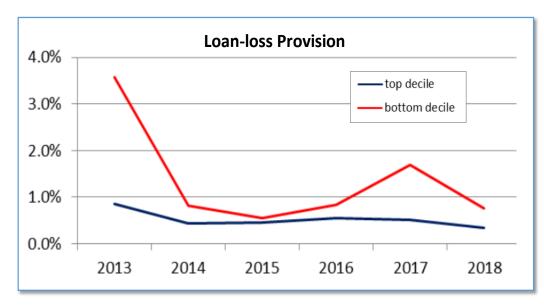
'Financial Relevance of ESG' – MSCI Analysis

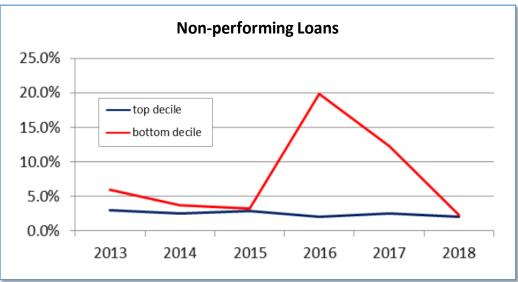


Key Findings I

Banks with better ESG ratings have lower loan risks

- Lower loan-loss provisions
- Lower non-performing loans





Source: Responsible Investor Webinar "Banking on ESG", Sept 16th, 2019

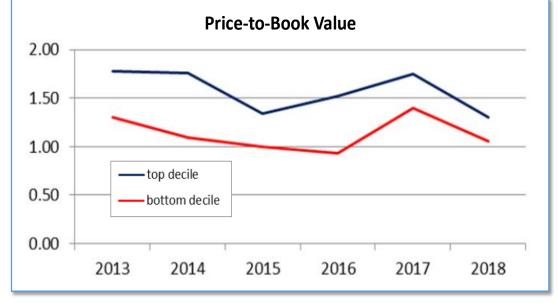
'Financial Relevance of ESG' – MSCI Analysis

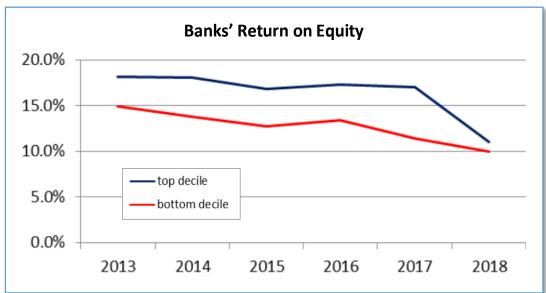


Key Findings II

Banks with better ESG ratings perform better

- Higher Price-to-Book Value
- Higher Return on Equity





Source: Responsible Investor Webinar "Banking on ESG", Sept 16th, 2019





Available online at www.sciencedirect.com

Borsa Istanbul Review

Borsa İstanbul Review 22-S2 (2022) S119-S127 http://www.elsevier.com/journals/borsa-istanbul-review/2214-8450

Full Length Article

Impact of ESG performance on firm value and profitability

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Borsa İstanbul, İstanbul, Türkiye

Received 6 September 2022; revised 12 November 2022; accepted 13 November 2022 Available online 17 November 2022

Abstrac

In this study, we examine impact of Environment, Social, Governance (ESG) performance on firm value and profitability. Our large dataset gives us the chance to better conceptualize this impact. Our findings suggest that overall ESG combined score is positively and significantly associated with firm value. Individual Social and Governance scores have a positive and significant relationship with firm value. On the other hand, ESG combined score, Environment, Social, and Governance scores have positive and significant relationships with firm profitability. These findings suggest that investing in high ESG performance promises financial return for the firm in terms of both value and profitability.

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JEL classification: C33; G32; L25; M14; Q56

Keywords: Environment; Social; Governance; ESG; Firm value; Tobin's Q; ROA

1. Introduction

Increasing interest of investors and global awareness on the continuous associated with particularly the environment and other non-financial factors, such as social responsibility and proper governance, puts pressure on firms to increase their efforts and focus on non-financial aspects of their work. Investors, employees, suppliers, customers and the government increasingly expect the firm to be keen on all these fronts, take necessary mitigation measures and report effectively. Firms report their performance on these risks broadly through three categories namely Environment, Social and Governance (ESG). However, from the firm's perspective, taking action means investment. A key question on the issue in board meetings and relevant committees is whether the required investment and resources makes financial sense. This paper aims to shed light on the

Peer review under responsibility of Borsa İstanbul Anonim Şirketi.

question of whether ESG performance can be associated with financial return for the firm.

Stakeholder theory (Freeman, 1984) put forward the idea that successful companies are able to align the interest of all stakeholders and therefore they are more sustainable. They focus on not only profit maximizing interests of the shareholders but also interests of other stakeholders of the firm as well. Business Roundtable, an association bringing together CEOs of leading companies in USA, announced that they subscribe to the stakeholder model and the purpose of the corporation should be to serve multiple stakeholders in addition to shareholders, including customers, employees, communities, the environment and suppliers. As an emerging strategic model for the vision of the company, ESG metrics may evaluate performance and position on a range of issues important to the company's larger group of stakeholders, much like how financial metrics evaluate a company's performance for shareholders (Kay et al., 2020).

ESG disclosures increase in popularity among publicly traded firms in recent years as they work towards inclusion of stakeholders, responding to investor demand, establishing credibility, and reacting to crises and competition in their

https://doi.org/10.1016/j.bir.2022.11.006

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Impact of ESG Performance on firm value & profitability

Mahmut Aydoğmuş, Güzhan Gülay, Korkmaz Ergun Borsa Instanbul Review (2022)

Analysis of 5,000 largest publicly listed companies (Bloomberg)

Key findings

- ESG combined score: positive, significant relationship with firm value
- Social & Governance scores: positive, significant relationships with firm value
- Environmental score alone: no relationship with firm value

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Journal of Geoscience and Environment Protection, 2018, 6, 111-119

http://www.scirp.org/journal/gep ISSN Online: 2327-4344 ISSN Print: 2327-4336

Analysis of the Problems and Countermeasures of China's Green Credit

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How to cite this paper: Wu, X.J. and Zhang, X.H. (2018) Analysis of the Problems and Countermeasures of China's Green Credit. Journal of Geoscience and Environment Protection, 6, 111-119. https://doi.org/10.4236/gep.2018.66009

Received: May 9, 2018 Accepted: June 24, 2018 Published: June 27, 2018

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Abstract

At present, China's green credit market is the most important channel for green financing and has a great influence on the development of China's green finance. Based on the collection and arrangement of the related data and information, the paper points out the main problems which is existing in China's green credit by figures and examples from aspects of detail standards of policies, the matching level between deposits and loans and the management ability of avoiding environmental risk. Furthermore, the paper puts forward corresponding countermeasures of the problems.

Keywords

Green Credit, Environmental Financial Policies, Environmental Risk Management, Commercial Banks

1. Introduction

Green credit originates from Western countries. With the rise of public campaigns such as environmental protection and human rights, banks in Western countries have to face the risk of the project being stranded due to customer environmental problems and the risk of affecting their reputation or even losing other customers [1]. In order to avoid these risks and achieve their own sustainable development, banks have to carry out green credit. In 2003, 10 banks such as Citibank, Barclays Bank and ABN AMRO announced the implementation of the "Equator Principles" (EPs), which formally incorporated the concept of green finance into a standard bank risk management framework [2]. At present, the "Equator Principles" has become the industry benchmark for international banks to practice green credit. Different from other countries' "bottom-up" approach, the development of green credit in China began with the introduction of

DOI: 10.4236/gep.2018.66009 Jun. 27, 2018

Journal of Geoscience and Environment Protection

'Analysis of the Problems & Countermeasures of China's Green Credit'

Wu, Zhang; School of Economics Tianjin, China

Journal of Geoscience & Environment Protection 6, p.111-119 (2018)

URL: https://www.scirp.org/journal/paperinformation.aspx?paperid=85577

'Problems & Countermeasures of China's Green Credit'



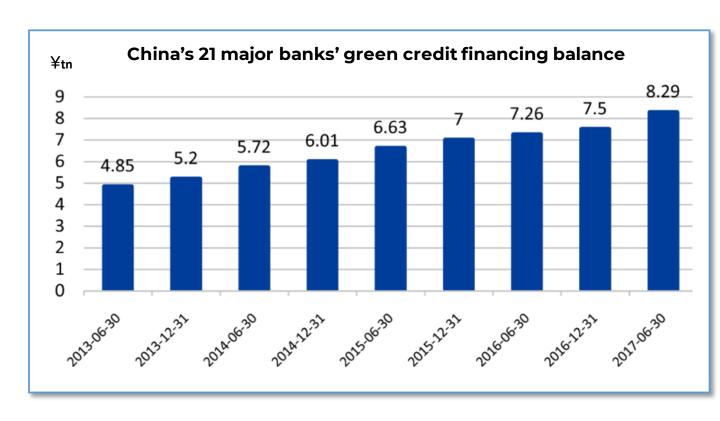
Background

Analysis of credit risks in green loans vs. non-green loans in Chinese banks

Type: Academic Study

Sample: China's 21 major banks

Time frame: 3.5 years | 2013 to 06/2017



'Problems & Countermeasures of China's Green Credit'



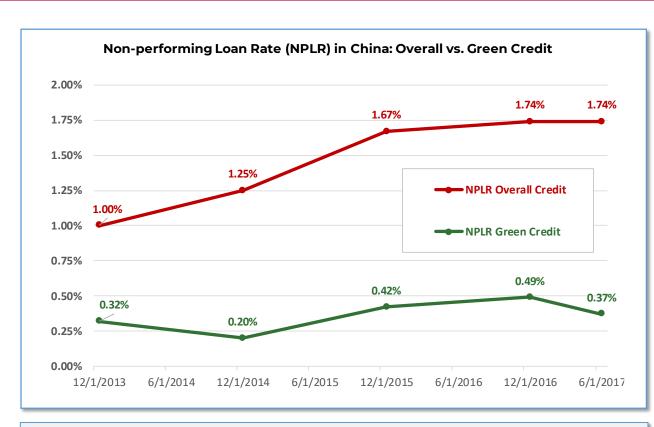
Key Findings

Green Credit: Lower Non-performing Loan Rate (NPLR)

■ Green Credit: 0.36% non-performing loans

Overall Credit: 1.48% non-performing loans

Delta: Ø Green Credit NPLR is 112 basis points lower



China NPLR	Dec-13	Dec-14	Dec-15	Dec-16	Jun-17	Average
NPLR Overall Credit	1.00%	1.25%	1.67%	1.74%	1.74%	1.48%
NPLR Green Credit	0.32%	0.20%	0.42%	0.49%	0.37%	0.36%
Delta	-0.68%	-1.05%	-1.25%	-1.25%	-1.37%	-1.12%





Articl

The Impact of Green Lending on Credit Risk in China

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Received: 26 April 2018; Accepted: 11 June 2018; Published: 14 June 2018



Abstract: This study explores China's green credit policy from a credit risk perspective. Green finance has been growing rapidly in China since the government issued its Green Credit Policy. The objective of this study is to explore whether green loans are less risky than non-green loans. Based on a five-year dataset of 24 Chinese banks, we used panel regression techniques, including two-stage least square regression analysis and random-effect panel regression to examine whether a higher green credit ratio reduces a bank's non-performing loan ratio (NPL ratio). The results suggest that allocating more green loans to the total loan portfolio does reduce a bank's NPL ratio. We conclude that institutional pressure by the Chinese Green Credit Policy has a positive effect on both the environmental and the financial performance of banks. The study contributes to the literature on the correlation between green lending and credit risks, as well as to the literature on the impact of institutional pressure on environmental and financial risks.

Keywords: green finance; green credit policy; non-performing loan ratio; environmental risk management; Chinese banking sector

1. Introduction

The financial sector can both promote and hinder a cleaner environment [1]. Banks, for instance, can choose to lend money to clean or dirty industries. Due to their key role in providing capital to all economic sectors, banks and other financial institutions have a great deal of leverage in transitioning to a greener economy.

For 25 years, banks and other investors have addressed environmental issues through voluntary codes of conduct, such as the United Nation's (UN) Environment Programme's Financial Initiative [2], the Equator Principles for Project Finance [3], and the UN Principles for Responsible Investment (UNPRI) (www.unpri.org). Involvement in these voluntary initiatives helps signatories improve their reputation, public recognition, and risk management when coupled with stricter standards and increased transparency [4].

Newer developments have gone beyond voluntary codes of conduct to establish regulations and mandatory guidelines for green financing. Both the European Union and the European Banking Federation have issued guidelines for green and sustainable finance [5,6], and a number of largely industrializing countries, mostly members of the Sustainable Banking Network hosted by the International Finance Corporation (IFC), have introduced sustainability regulations for banks. China is the largest member of this group, and their 2007 Green Credit Policy has been addressed in many academic studies. The Green Credit Policy requires banks to offer green credit for environmental protection, emission reduction, and energy conservation projects, as well as restrict loans to high-pollution, high-emission, and overcapacity industries. In addition to reducing environmental

Sustainahility 2018, 10, 2008; doi:10.3390/su10062008

www.mdpi.com/journal/sustainability

URL: https://www.mdpi.com/2071-1050/10/6/2008

'The Impact of Green Lending on Credit Risk in China'

Cui, Geobey, Weber, Lin; Waterloo Univ. & Univ. Of N. Illinois

MDPI Journal of Sustainability (2018)

'Impact of Green Lending on Credit Risk in China'



Background

Analysis of credit risks in green loans vs. non-green loans in Chinese banks

Type: Academic Study

Sample: 24 banks in China

Time frame: 5 years (2009 to 2015)

Bank	Type of Bank	
China Development Bank (CDB)	Policy bank	
Industrial and Commercial Bank of China (ICBC)	State-owned commercial bank	
China Construction Bank (CCB)	State-owned commercial bank	
Agricultural Bank of China (ABC)	Policy bank	
Bank of China Limited (BOC)	State-owned commercial bank	
Bank of Communications (BOCOM)	State-owned commercial bank	
China Merchants Bank (CMB)	Joint-stock commercial bank	
Shanghai Pudong Development Bank (SPD)	Joint-stock commercial bank	
China Minsheng Banking (CMBC)	Joint-stock commercial bank	
Industrial Bank (CIB)	Joint-stock commercial bank	
China Citic Bank (CNCB)	Joint-stock commercial bank	
China Everbright Bank (CEB)	Joint-stock commercial bank	
Ping An Bank	Joint-stock commercial bank	
Hua Xia Bank (HXB)	Joint-stock commercial bank	
China Guangfa Bank (CGB)	Joint-stock commercial bank	
China Bohai Bank (CBHB)	Joint-stock commercial bank	
Bank of Beijing (BOB)	City commercial bank	
Bank of Nanjing	City commercial bank	
Bank of Shanghai (BOS)	City commercial bank	
Bank of Jiangsu	City commercial bank	
Bank of Ningbo	City commercial bank	
Bank of Chongqing	City commercial bank	
Harbin Bank	City commercial bank	
Bank of Zhengzhou	City commercial bank	

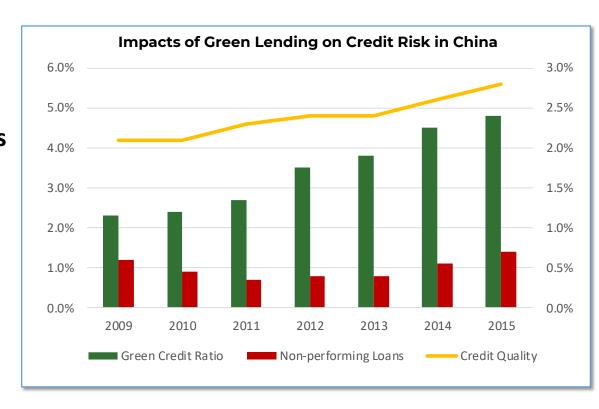
'Impact of Green Lending on Credit Risk in China' - Study



Key Findings

Green lending improves bank loan portfolios

- Higher green credit ratio: Better credit quality
- Higher green credit ratio: Fewer non-performing loans



Business Strategy and the Environment Bus. Strat. Env. 19, 39–50 (2010) Published online 27 November 2008 in Wiley InterScience (www.interscience.wiley.com) DOI: 10.1002/bse.636

Incorporating Sustainability Criteria into Credit Risk Management

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(NSSI). Switzerland

ABSTRACT

Does a commercial debtor's economic, environmental and social performance in terms of sustainability affect its credit risk rating? Does adding criteria aimed at assessing a lender's environmental, social or sustainability practices provide added value to traditional financial rating criteria? Many analyses have reported that a correlation exists between companies' environmental and their financial performance. We checked out the assertion that it 'pays to be sustainable' by analyzing the role that criteria pertaining to sustainability and environmental orientation play in the commercial credit risk management process. Our results show that sustainability criteria can be used to predict the financial performance of a debtor and improve the predictive validity of the credit rating process. We conclude that the sustainability a firm demonstrates influences its creditworthiness as part of its financial performance. Copyright © 2008 John Wiley & Sons, Ltd and ERP Environment.

Received 20 September 2007; revised 16 September 2008; accepted 16 September 2008 Keywords: sustainability, banking; loan; risk; rating; decision making; credit

Introduction

HE CRISIS ABOUT ASSET BACKED SECURITIES BASED ON RISKY MORTGAGES IN 2007 SHOWED THAT PRUDENT RISK management practices in the credit rating process are more important than ever. This is valid not only for mortgages, but also for loans to small and medium sized enterprises (SMEs) that are difficult to rate with respect to their credit standing as well. Thus we analyzed the influence of a commercial debtor's economic, environmental and social risks in terms of sustainability on its credit risk rating. Furthermore, if this is the case, the question of whether adding criteria aimed at assessing a lender's environmental, or sustainability, practices to the classical credit rating criteria improves the risk rating ability should be answered.

A number of academic surveys have identified a positive correlation between environmental performance and financial performance (Annandale et al., 2001; Dasgupta et al., 2002; Dowell et al., 2000; Klassen and McLaughlin, 1996; Nakao et al., 2007). Studies have been done on the chain of cause and effect between environmental performance and financial performance (Bansal and Roth, 2000; Lankoski, in press; Reinhardt, 1999; Steger, 2000) as well as on factors that influence the strength of the correlation (Russo and Fouts, 1997). Other analyses suggest that a positive environmental performance can be associated with neutral to positive economic (Ilnitch

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'Incorporating Sustainability Criteria into Credit Risk Management'

Weber, Scholz, Michalik; Gesellschaft f. Organisation & Entscheidung (GOE) with ETH Zurich

Business Strategy & the Environment 19, p. 39-50 (2010)

Sustainability Criteria & Credit Risk Management - Study



Background

Analysis of effects of ESG criteria on credit risk management

Type: Academic Study

Sample: 28 German banks, 180 loans

Time frame: 2010

Traditional criteria (Cronbach's alpha = 0.91)	Economic sustainability criteria	Environmental sustainability criteria	Social sustainability criteria (Cronbach's alpha = 0.75)	
	(Cronbach's alpha = 0.83)	(Cronbach's alpha = 0.76)		
Reputation	Net debt service	Costs of environmental measures	Wage policy	
Legal capacity to borrow	Sustained growth	Emissions	Health policy	
Competency of management	Quality of growth	Environmental friendliness of construction	Social security of the employees	
Follow-up regulation	Sector development	Consideration of nature and landscape	Workers' participation	
Relations to the lender	Integration of environmental aspect in economic decision making	Soil erosion	Conservation of workplace	
Potential for development	Robustness against crises	Sealing of soil	Flexibility of working conditions and working hours	
Attainment of budget	Personal resources	Sewage emission		
Dividend policy	Community relations	Sewage quality		
Sector	Risk of accidents	Air emission		
Region	Job creation	Noise emission		
Product and market	Adequacy of firm size	Resource protection		
Competition	Eco-efficiency	Material use		
Clients	Information and communication	Ratio of renewable and non- renewable resources		
Suppliers	Material productivity	Use of renewable energy		
Volume of orders	Spatial relation	Use of water (amount)		

https://www.researchgate.net/publication/227837025_Incorporating_Sustainability_Criteria_into_Credit_Risk_Management

Sustainability Criteria & Credit Risk Management



Key Findings

ESG criteria qualify risks better than traditional criteria

- Correct risk classification ESG criteria: 87%
- Correct risk classification traditional: 79%
- Wrong risk classification decreased by 23%

Variables	Group	N	Mean	Std deviation
Traditional criteria	all	180	3.42	0.53
	default	67	3.00	0.45
	non-default	113	3.67	0.39
Economic sustainability	all	178	3.36	0.48
	default	66	3.03	0.41
	non-default	112	3.56	0.41
Environmental sustainability	all	122	3.20	0.62
	default	43	3.18	0.66
	non-default	79	3.22	0.61
Social sustainability	all	159	3.14	0.65
	default	56	2.71	0.56
	non-default	103	3.38	0.57

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urnal of Sustainable Finance & Investment



ESG and financial performance: aggregated evidence from more than 2000 empirical studies

Gunnar Friede, Timo Busch & Alexander Bassen

To cite this article: Gunnar Friede, Timo Busch & Alexander Bassen (2015) ESG and financial performance: aggregated evidence from more than 2000 empirical studies, Journal of Sustainable Finance & Investment, 5.4, 210-233, DOI: 10.1080/20430798.2015.1118917.

To link to this article: https://doi.org/10.1080/20430795.2015.1118917

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Published online: 15 Dec 2015.

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Juniorus Strotogy and the Environment But, Strat. Env. 19, 39–30 (2010) Published online 27 November 2008 in Wiley InterScience lowww.interscience.wiley.com) DOI: 10.1002/bse.636

Incorporating Sustainability Criteria into Credit Risk Management

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Does a commercial debtor's economic environmental and social performance in terms of sustainability affect its credit risk rating? Does adding criteria aimed at assessing a lender's environmental, social or sustainability practices provide added value to traditional financial rating criteria? Many analyses have reported that a correlation exists between companies' environmental and their financial performance. We checked out the assertion that it 'pays to be sustainable' by analyzing the role that criteria pertaining to sustainability and envi ronmental orientation play in the commercial credit risk management process. Our results show that sustainability criteria can be used to predict the financial performance of a debtor and improve the predictive validity of the credit rating process. We conclude that the sustainability a firm demonstrates influences its creditworthiness as part of its financial performance. Copyright © 2008 John Wiley & Sons, Ltd and ERP Environment.

Received 20 September 2007: revised 16 September 2008: accepted 16 September 2008 Keywords: sustainability; banking; loan; risk; rating; decision making; credit

HE CRISIS ABOUT ASSET BACKED SECURITIES BASED ON RISKY MORTGAGES IN 2007 SHOWED THAT PRUDENT RISK He CRISS AROUT ASSET MACIO SECURITIS SMEED ON RISEM MORFACES IN 2005 SHORING THAT PREDICTIF THE management practices in the credit rating process are more important han ever. This is wild not only for notagoes, but also for learn to small and medium sized enterprises (SMEs) that are difficult to rate with respect to their credit standings swell. This was analyzed the influence of commercial debro's escomonic, environmental and social risks in terms of sustainability on its credit risk rating. Furthermore, if this is the case, the question of whether adding criteria aimed at assessing a learler's environmental, or sustainability, practices to

une question or wineture auoning criteria aimora at assessing a tenuer's environmenta, or statatinaturity, practices to the classical credit rating criteria improves the risk ratinga ability should be answered.

A number of academic surveys have identified a positive correlation between environmental performance and financial performance (Annandale et al., 2001; Dasgupta et al., 2002; Dowell et al., 2005; Klassen and McLaughlin, 1996; Nakao et al., 2007; Mulles have been done on the chain of cause and effect between environmental proposition. performance and financial performance (Bansal and Roth, 2000; Lankoski, in press; Reinhardt, 1999; Steger, 2000) as well as on factors that influence the strength of the correlation (Russo and Fouts, 1997). Other analyses suggest that a positive environmental performance can be associated with neutral to positive conomic (Illinities).

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Journal of Geoscience and Environment Protection, 2018, 6, 111-119

Analysis of the Problems and Countermeasures of China's Green Credit

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How to cite this paper: Wu, X.J. and Abstract Zhang, X.H. (2018) Analysis of the Prob-

sures of China's At present, China's green credit market is the most important channel for green financing and has a great influence on the development of China's green finance. Based on the collection and arrangement of the related data and information, the paper points out the main problems which is existing in China's green credit by figures and examples from aspects of detail standards of policies, the matching level between deposits and loans and the management ability of avoiding environmental risk. Furthermore, the paper puts forward corresponding countermeasures of the problems.

Green Credit, Environmental Financial Policies, Environmental Risk Management, Commercial Banks

1. Introduction

Green credit originates from Western countries. With the rise of public campaigns such as environmental protection and human rights, banks in Western countries have to face the risk of the project being stranded due to customer environmental problems and the risk of affecting their reputation or even losing other customers [1]. In order to avoid these risks and achieve their own sustain able development, banks have to carry out green credit. In 2003, 10 banks such as Citibank, Barclays Bank and ABN AMRO announced the implementation of the "Equator Principles" (EPs), which formally incorporated the concept of green finance into a standard bank risk management framework [2]. At present, the "Equator Principles" has become the industry benchmark for international banks to practice green credit. Different from other countries' "bottom-up" approach, the development of green credit in China began with the introduction of



The Impact of Green Lending on Credit Risk in China

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Received: 26 April 2018; Accepted: 11 June 2018; Published: 14 June 2018



Abstract: This study explores China's green credit policy from a credit risk perspective. Green finance has been growing rapidly in China since the government issued its Green Credit Policy. The objective of this study is to explore whether green loans are less risky than non-green loans. Based on a five-year dataset of 24 Chinese banks, we used panel regression techniques, including two-stage least square regression analysis and random-effect panel regression to examine whether a higher percent credit ratio reduces a bank's non-performing loan ratio (NPL ratio). The results suggest that allocating more green loans to the total loan portfolio does reduce a bank's NPL ratio. We conclude that institutional green noise to me touch so the persons to person to the reduce a contribute so NFL rand. We conclude our institutional pressure by the Chinese Green Credit Policy has a positive effect on both the environmental and the financial performance of banks. The study contributes to the literature on the correlation between green lending and credit risks, as well as to the literature on the impact of institutional pressure on

Keywords: green finance; green credit policy; non-performing loan ratio; environmental risk

The financial sector can both promote and hinder a cleaner environment [1]. Banks, for instance, can choose to lend money to clean or dirty industries. Due to their key role in providing capital to all economic sectors, banks and other financial institutions have a great deal of leverage in transitioning

no greener economy.

For Z's years, banks and other investors have addressed environmental issues through voluntary codes of conduct, such as the United Nation's (UN) Environment Programme's Financial Initiative [21], the Equator Principles for Reyolect Finance [3], and the UN Principles for Responsible Investment [3]. (UNPRI) (www.unpri.org). Involvement in these voluntary initiatives helps signatories improve their reputation, public recognition, and risk management when coupled with stricter standards and

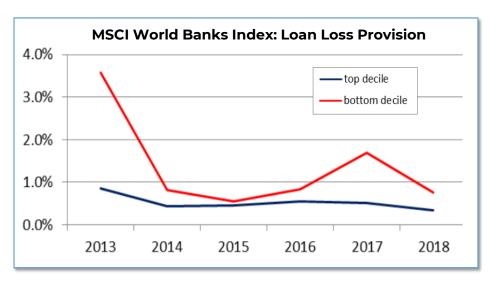
Newer developments have gone beyond voluntary codes of conduct to establish regulations and mandatory guidelines for green financing. Both the European Union and the European Barking Federation have issued guidelines for green and sustainable finance [5,6], and a number of largely industrializing countries, mostly members of the Sustainable Barking, Network hosted by the International Finance Corporation (IFC), have introduced sustainability regulations for banks. China is the largest member of this group, and their 2007 Green Credit Policy has been addressed in many academic studies. The Green Credit Policy requires banks to offer green credit for ntal protection, emission reduction, and energy conservation projects, as well as restrict loans to high-pollution, high-emission, and overcapacity industries. In addition to reducing environmental

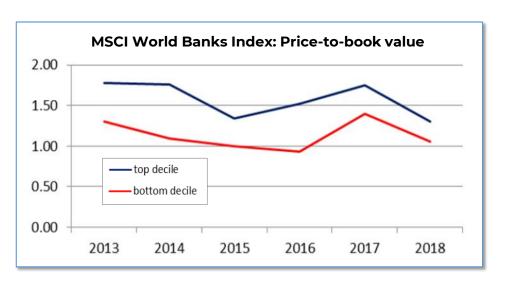


Summary of Results

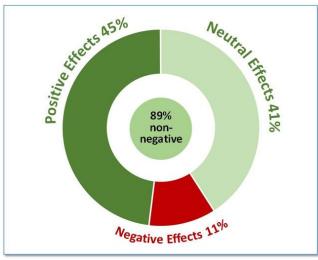
Summary of Results







Meta Study: ESG Effect on CFP *



* Corporate Financial Performance

