

Abstract

This thesis examines the impact of Environmental, Social, Governance (ESG) factors on the financial performance of European banks, focusing on the Weighted average cost of capital and abnormal (WACC) returns during regulatory changes and the COVID-19 pandemic. Using data from 2014 to 2022, the study employs fixed effects models and event study methodologies to analyze the relationship between ESG scores and financial metrics. The findings reveal a complex nonlinear relationship between ESG scores and WACC, suggesting an optimal ESG threshold that minimizes WACC. The study also finds weak correlations between ESG scores and ROE, indicating limited direct effects on financial outcomes. The results of periods of regulatory change and the COVID-19 crisis show inconsistent patterns in abnormal returns without clear evidence that higher ESG scores provide financial resilience. These insights challenge the assumption that higher ESG scores consistently correlate with better financial performance, highlighting the need for more research in different conditions and longer periods of time.

Keywords Profitability, ESG, Sustainability, Bank

Title Exploring the Impact of ESG Ratings in Banking: A Study of European Banks

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