

Report on Bachelor Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Gabriela Bošňáková
Advisor:	prof. PhDr. Petr Teplý, Ph.D.
Title of the thesis:	Exploring the Impact of ESG Ratings in Banking: A Study of European Banks

Short summary

This thesis investigates the impact of ESG ratings on the financial performance of European banks, particularly focusing on the Weighted Average Cost of Capital (WACC) and abnormal returns during significant regulatory changes and the COVID-19 pandemic. Using panel data from 2014-2022 covering 52 banks, the study employs fixed-effects regression models to analyze the influence of ESG scores and their individual pillars on financial metrics. The findings indicate complex and nuanced relationships between ESG factors and bank performance, with mixed results regarding the hypotheses tested.

Contribution

The thesis makes a significant contribution by exploring the under-researched area of ESG impacts on WACC, providing valuable insights into how ESG factors influence financial metrics in the banking sector. It also uniquely examines the effects of regulatory changes, specifically CSRD and ESRS, and the COVID-19 pandemic on abnormal returns, filling a gap in the existing literature. The study's focus on European banks allows for a detailed understanding of ESG impacts within a specific regulatory and economic context.

Methods

The study employs standard panel data methods, specifically the fixed-effects model, to analyze the impact of ESG scores on WACC and other financial metrics. It adjusts for serial correlation and heteroskedasticity to ensure the reliability of the results. For hypothesis testing, Pearson's correlation was used to explore relationships between ROE, WACC, and ESG scores. Additionally, event study methodology was applied to assess abnormal returns during specific periods of regulatory changes and the pandemic, providing a robust approach to examining the research questions.

Literature

The literature review is comprehensive, contextualizing the study within existing research on ESG and bank performance. It references relevant studies such as Chiaramonte et al. (2021) and Bolibok (2014), comparing their findings with the current study's results.

Manuscript Form

The manuscript is well-structured and clearly written, with logical flow and coherence across chapters. The use of tables and figures is effective in presenting data and results, enhancing the clarity of the analysis. However, some sections could be streamlined to avoid redundancy and improve readability. The discussion and conclusion sections effectively summarize the findings and their implications, although they could be expanded to include more detailed recommendations for future research.

Summary and suggested questions for the discussion during the defense

To summarize, Gabriela has developed a solid academic approach, reviewed the existing literature, identified and investigated open questions and drew relevant conclusions from that. This thesis provides valuable insights into the impact of ESG ratings on bank financial performance in Europe, highlighting the complexity of these relationships. While some hypotheses were rejected due to lack of statistical significance, the study contributes to the literature by examining the nuanced effects of ESG factors on WACC and abnormal returns during periods of regulatory change and the COVID-19 pandemic. In my view, the thesis fulfills the requirements for a bachelor thesis at IES, Faculty of Social Sciences, Charles University, I recommend it for the defense and suggest **a grade A**.

The results of the Turnitin analysis indicate 28% text similarity with other available sources. Since this similarity comes from multiple sources, I do not see it as a problem.

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Questions to the defense:

- 1) Can you elaborate on the potential reasons behind the nonlinear relationship between ESG scores and WACC observed in your study?
- 2) What factors might explain the weak correlation between ROE and ESG scores, contrary to expectations based on previous literature?
- 3) How could the methodology be improved or expanded in future research to enhance the robustness and significance of the findings?

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
Contribution (max. 30 points)	29
Methods (max. 30 points)	28
Literature (max. 20 points)	19
Manuscript Form (max. 20 points)	18
TOTAL POINTS (max. 100 points)	94
GRADE (A – B – C – D – E – F)	A

NAME OF THE REFEREE: Prof. PhDr. Petr Teplý, Ph.D.

Digitálně podepsáno (30. 5. 2024)
Petr Teplý

DATE OF EVALUATION: May 30, 2024

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	0

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	0

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	0

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	0

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F