

ESG Performance and its Impact of on Corporate Performance: Take China Everbright Bank as an Example

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Abstract. This paper has investigated China Everbright Bank (CEB)'s performance on ESG and analyzed the impact of ESG performance on CEB's financial outcome. During the reported period, CEB has been performing well on ESG, especially on social perspective. From environmental perspective, CEB took proactive steps to mitigate its negative environmental impact. This included reducing emission by strictly conduct regulation within the company, assessing environmental risks associated with key industries and clients and setting rules on energy conservation. The bank also prioritized compliance with environmental standards, pollution control, and ecological protection in its credit approval processes. From social perspective, CEB has been actively promoting democracy and equality in employment by combating various discrimination, and continuously ensuring employee welfare besides wages, such as health care and skill training. Regarding governance, CEB has adopted strict supervision on its supply chain, strengthening the management of the procurement process by establishing an intelligent procurement platform. It has also emphasized supplier risk management. Considering the financial metrics of CEB in last years, the study suggests that the long-term profitability, operational capacity and growth potential of CEB have been positively affected, while the market value and the solvency are not. The paper concludes that ESG criteria can be considered as a reliable tool in business evaluation of potential and sustainability, therefore incorporated into business operation and investment.

Keywords: ESG investment, Information disclosure, China Everbright Bank.

1. Introduction

Environmental, Social and Governance (ESG) factors, are a non-financial indicator that measures a company's sense of social responsibility and management. In recent years, with the implementation of the concept of environmental protection in society and the establishment of the 17 Sustainable Development Goals of the United Nations, ESG has received more and more attention in the international community, and Chinese enterprises have begun to implement relevant policies. Velte's research shows that ESG performance can have a positive impact on a company's return on assets [1]. Broadstock pointed out that ESG performance is particularly important during crises to mitigate risks [2].

This paper examines China Everbright Bank, a listed joint-stock commercial bank in China, with the aim of disclosing its ESG performance and exploring the correlation between ESG performance and corporate performance. China Everbright Bank is ranked 28th in the 2023 Global 1000 and 25th in the 2021 Global 500 Banks by Brand Value.

This article will disclose information related to China Everbright Bank's ESG performance from four aspects: overall evaluation, environmental, social and governance, and analyze the impact of the above performance on corporate value, solvency, profitability, operating ability and growth ability, and summarize the relationship between ESG performance and financial performance.

2. China Everbright Bank's ESG Rating and Information Disclosure

2.1. ESG Score

2.1.1. General score

The MSCI ESG Rating is based on the potential material ESG risks faced by a company, the quality of the associated management and governance structure, and, where applicable, the positioning of products and services that make a positive contribution to the environment or society to meet market needs using a seven-point global scale, from AAA (highest ESG rating) to CCC (lowest ESG rating) [3]. According to MSCI ratings, China Everbright Bank has an ESG rating of A in the first quarter of 2024, ranking 13th out of 36 companies in the banking industry. To be emphasized, According to Escrig-Olmedo et al., the standards of mainstream ESG rating agencies can be updated with the times, but they do not cover all sustainability principles [4].

2.1.2. Score for environmental performance

The MSCI Environmental Rating examines a company's multifaceted impact on the environment and its acceptance of green economic opportunities. Among the 36 companies in the same industry, China Everbright Bank ranked 14th in terms of environment.

2.1.3. Score for social performance

The MSCI Social Ratings look at the impact of companies on issues such as employment in society and other controversial events. Among the 36 enterprises in the same industry, China Everbright Bank ranked 9th in terms of social responsibility.

2.1.4. Score for governance performance

The MSCI Governance Rating looks at a company's strategy, policies, initiatives and performance. Among the 36 companies in the same industry, China Everbright Bank ranked 23rd in terms of governance.

2.2. ESG Information Disclosure

2.2.1. Specific manifestations of environmental performance

In terms of emission treatment, CEB has carried out a bank-wide carbon emission inventory for two consecutive years, and completed the 2022 carbon emission verification of energy-using units, the assessment of responsibility for energy-saving targets, the reporting of energy preparedness and the monitoring of energy conservation in accordance with the requirements of Beijing's carbon peak and carbon neutrality work.

During the reported period of 2021 to 2022, CEB dynamically reduced its impact on the environment and natural resources, as shown by figure 1-4, by assessing the environmental and climate risks of key industries and customers, and regarded compliance with environmental testing standards, pollution control effects and ecological protection as important prerequisites for credit approval, and strictly restricted credit allocation to industries with high energy consumption, high emissions and serious overcapacity, so as to prevent various risks caused by the transition to carbon peak and carbon neutrality.

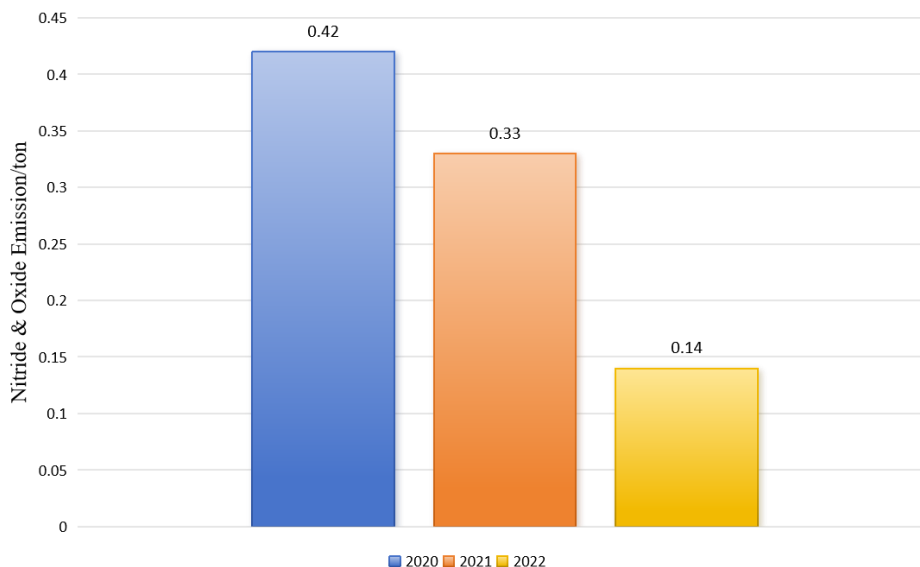


Fig. 1 CEB Nitride & Oxide Emission

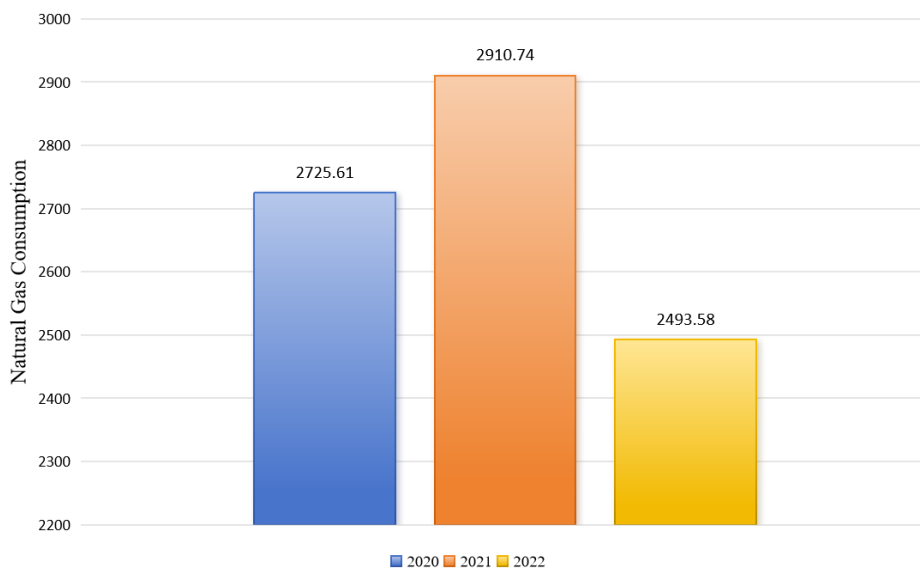


Fig. 2 CEB Natural Gas Consumption

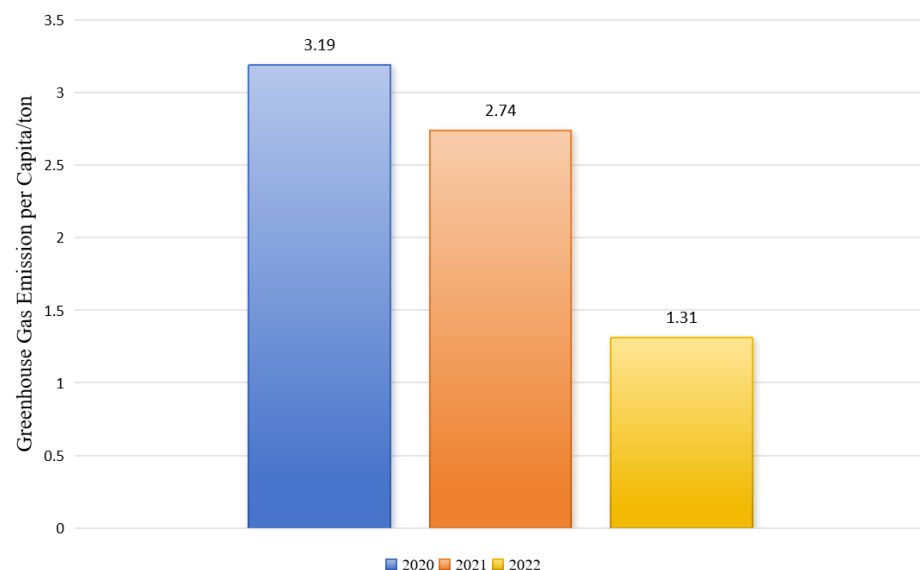


Fig. 3 CEB Greenhouse Gas Emission per Capita

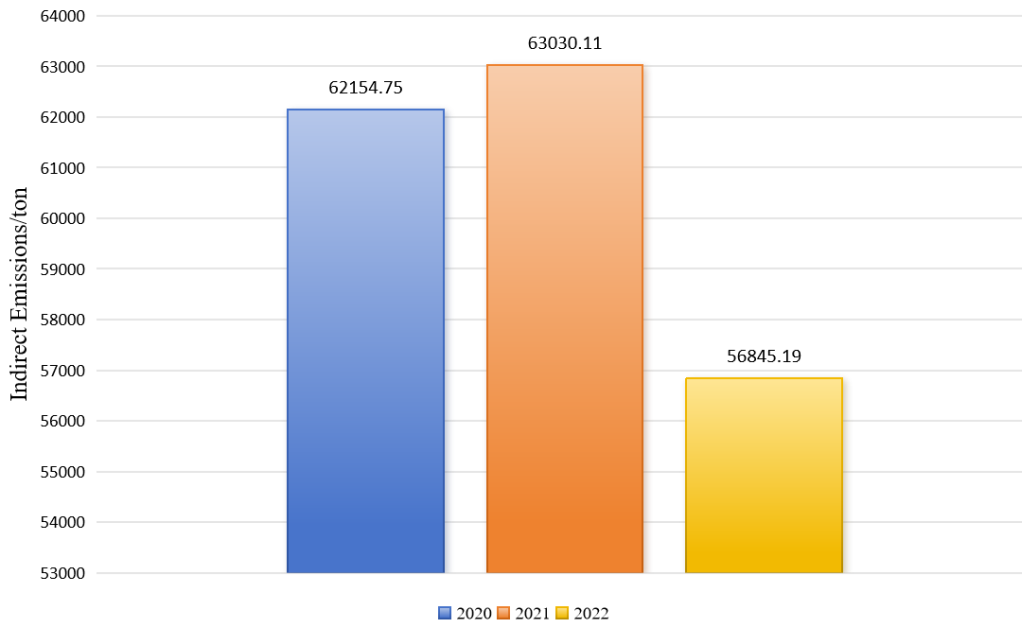


Fig. 4 CEB Indirect Emissions

At the same time, in accordance with the Implementation Measures for Strict Conservation and Opposition to Waste issued by CEB, CEB strictly abides by the requirements for official business: promoting the application of energy-saving technologies and renewable energy products, eliminating energy-intensive facilities and equipment, using water-saving appliances, strengthening sewage treatment and reclaimed water recycling, formulating electricity consumption rules and other resource use specifications, optimizing the allocation of electricity such as lighting and air conditioning in office areas, and reducing unnecessary waste of resources. The reduction of direct energy consumption and copy paper use is shown in figure 5-6.

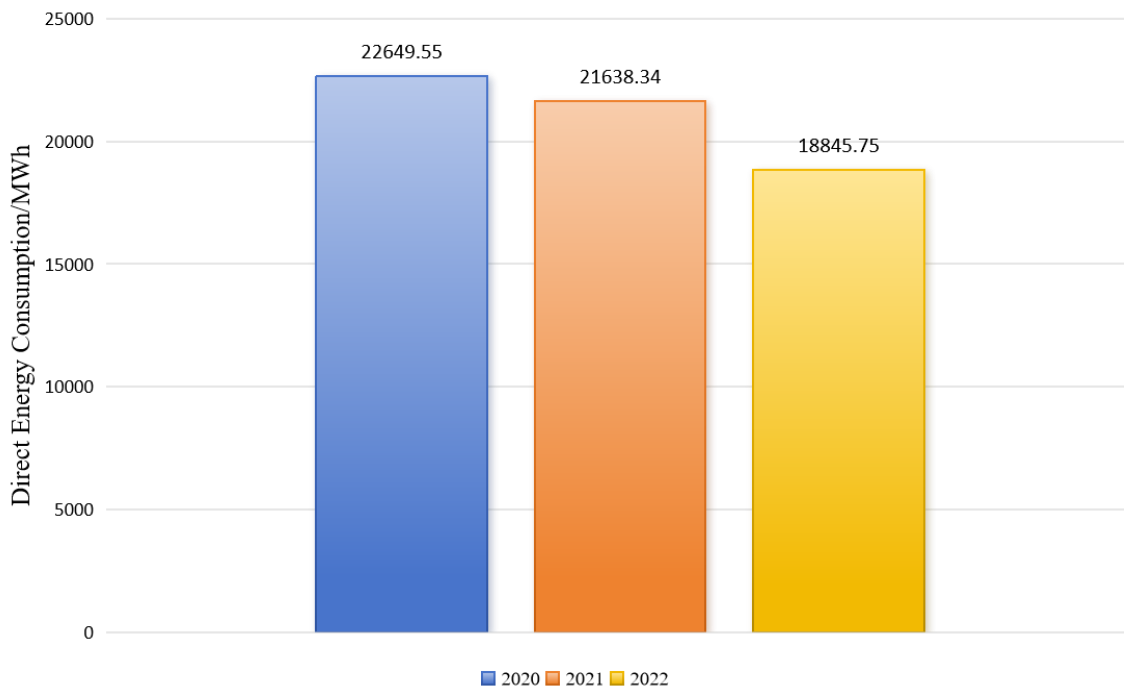


Fig. 5 CEB Direct Energy Consumption

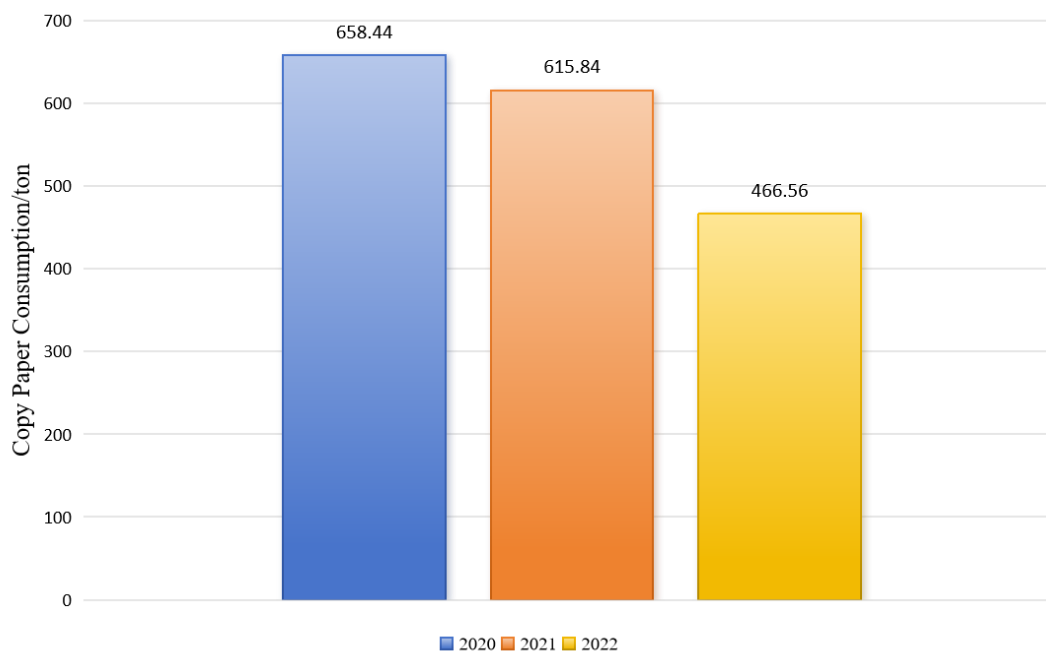


Fig. 6 CEB Copy Paper Consumption

2.2.2. Specific manifestations of social performance

In 2022, CEB issued the Measures for the Administration of Employee Recruitment of China Everbright Bank (2022 Revised Edition) to improve the equal and democratic employee recruitment and management system, strive to eliminate discrimination in employment based on gender, age, ethnicity, family status, religion, sexual orientation, social origin, etc., and strictly prohibit forced labor and child labor.

During the reported period, CEB improved the construction of the non-wage welfare system to ensure employees' statutory leave benefits, improved the multi-pillar pension security system, established a supplementary pension insurance system and a supplementary medical insurance system on the basis of the basic pension insurance and medical system, and optimized medical security to meet the personalized medical security needs of employees and improve employee satisfaction and sense of belonging. As of the end of December 2022, the "Green Service Channel" health service has helped more than 2,800 employees register for medical treatment.

In terms of employee career development, CEB has established a sound employee career development system to promote the flow of talents, broaden the channels for talent development, and has successively revised or issued documents like the Administrative Measures for the Exchange of Cadres and Talents. The bank effectively optimized the training management mechanism, innovated the training model, and improved the construction of the digital learning ecosystem. As of the end of December 2022, CEB had conducted 193 sessions of live training, with 2,660 online courses and a total of 1,655,100 hours of employee learning. At the same time, the bank is actively building an international talent pool and a retail finance talent pool, and plans to establish a bank-wide talent pool for scientific and technological innovation and risk compliance, and will soon carry out the selection work.

2.2.3. Specific manifestations of governance performance

During 2021 to 2022, CEB actively carried out supplier social responsibility management, clarified the centralized procurement catalogue and quota, standardized the centralized procurement procedures, the approval process, the rules of procedure for collective approval of the bidding and procurement working committee, and the applicable conditions of various procurement methods, and strengthened the management of branches. At the same time, the bank has established an intelligent collection platform system to realize the functions of online order procurement, order management, and logistics information docking for employees.

CEB advocates the concept of green environmental protection, and gives priority to suppliers with more environmental protection and sustainable development concepts under the condition of meeting procurement requirements, quality and service standards. The bank actively promotes green procurement, shifts from traditional departmental offline procurement to bank-wide online centralized procurement, establishes an intelligent centralized procurement platform, and conducts unified procurement at the head office, saving procurement costs and improving the procurement efficiency of the whole bank.

According to the report, the bank is committed to social risk management, practices responsible procurement, requires suppliers to inform in advance of important matters such as changes in major investors, shareholders and legal persons, requires suppliers to ensure labor safety, and requires potential bidders to quote and participate in the evaluation of social responsibility indicators or elements such as the proportion of employee remuneration in some bidding documents involving personnel outsourcing services, and clarifies that potential suppliers are given priority when they have the corresponding qualifications issued by the state in terms of occupational health and safety management.

3. The Impact of China Everbright Bank's ESG Performance on Corporate Financial Performance

3.1. Impact on Market Value

According to the financial analysis report of China Everbright Bank [5], the bank's stock market value has shown significant cyclical ups and downs from 2021 to 2023 (see Figure 7). According to KPMG China's 2023 China Banking Survey, China's banking sector has been facing multiple pressures in 2022, including slow economic growth, widening monetary policy divergence between China and the United States, and geopolitical instability, and overall instability [6]. Therefore, it is induced that the fluctuation of CEB's market value is due to the environmental factor rather than its own operation.

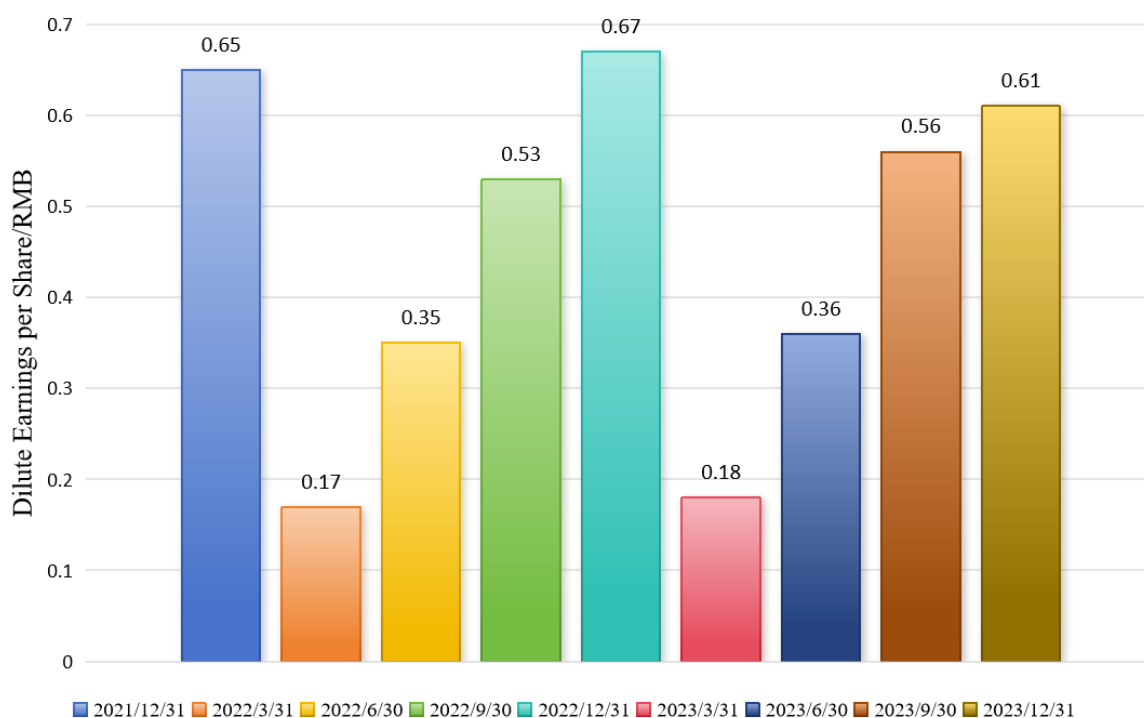


Fig. 7 CEB Dilute Earnings per Share

3.2. Impact on Solvency

Figure 8 shows that during the implementation of ESG policies, the asset-liability ratio of China Everbright Bank has not fluctuated significantly. According to the Sina financial report, the bank's net operating cash flow to debt ratios in the fourth quarter of 2022 were -0.0378%, -0.031%, -0.0225%, and -0.0097%, respectively [7]. Based on its relatively stable debt situation and cash flow, this paper argues that the ESG policy implemented by China Everbright Bank has not had a significant impact on its solvency

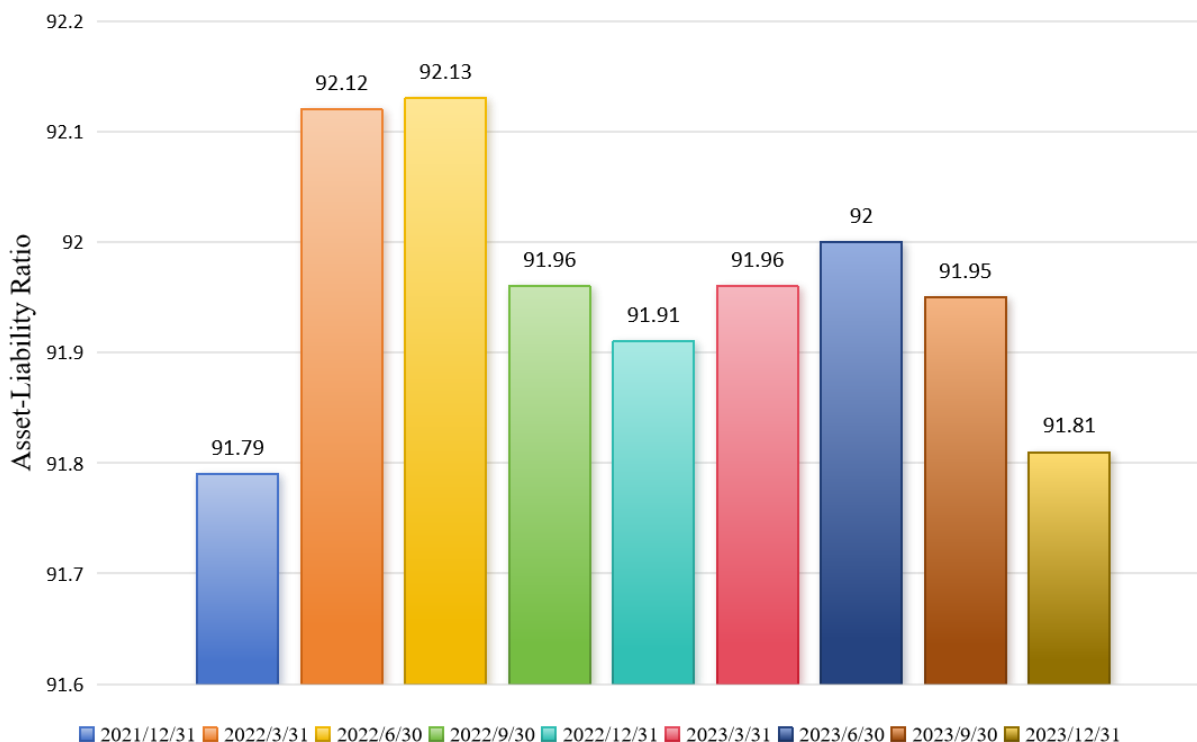


Fig. 8 CEB Asset-Liability Ratio

3.3. Impact on Profitability

In the Impact of ESG performance on firm value and profitability, Aydoğmuş pointed out that a company's ESG performance is positively and significantly correlated with its earnings, with social responsibility ratings having the greatest impact [8]. Figure 9 shows that China Everbright Bank's attributable net profit and non-net profit have shown cyclical growth and decline during the implementation of ESG standards. The results of the analysis suggest that ESG investments may be a burden on the bank, but also provide opportunities for long-term profitability growth. Scholars believe that, according to the data envelopment analysis model (DEA), CEB should lay off employees to fully enjoy the dividends of Internet finance [9], while CEB's employment policy emphasizes employment protection and high-level employee benefits, resulting in an increase in its costs and a decrease in short-term profits. At the same time, based on the bank's high social responsibility ranking in the industry, its future profitability is expected to increase.

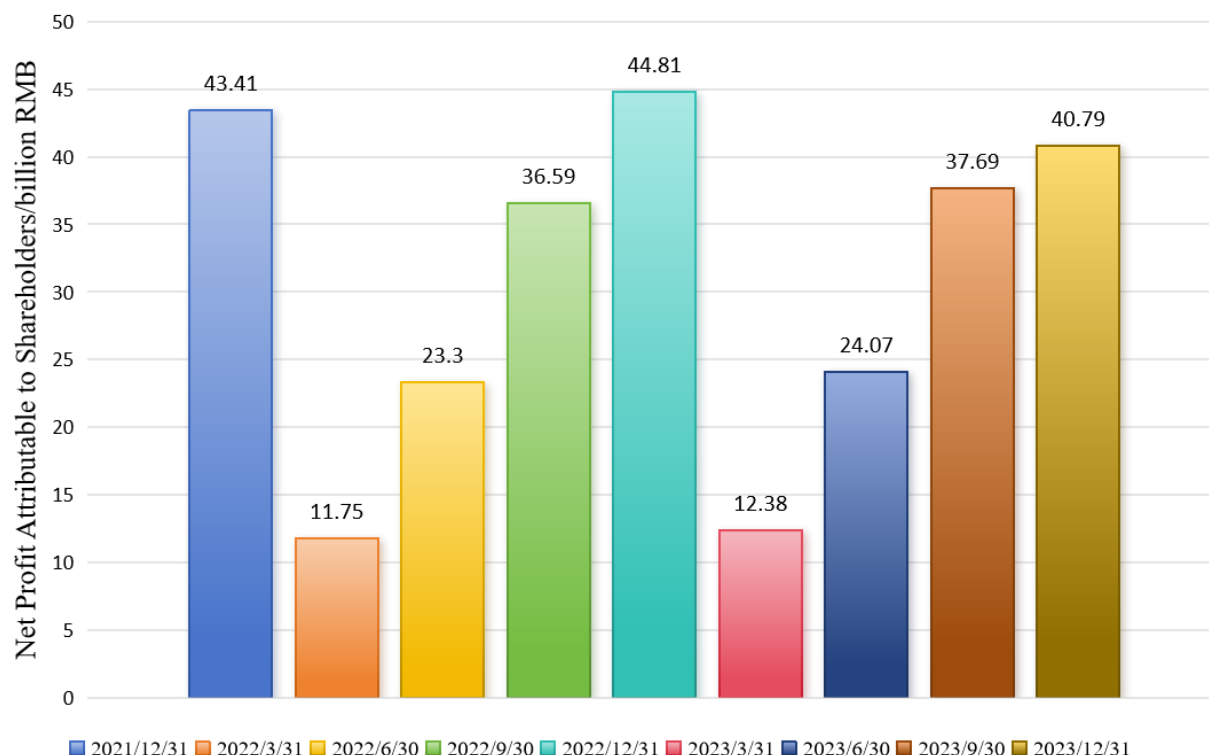


Fig. 9 CEB Net Profit Attributable to Shareholders

3.4. Impact on Operational Capacity

The financial report from Sina finance shows that the return on operating cash flow of China Everbright Bank in the 2022-2023 fiscal year is on an upward trend as a whole: -0.0348, -0.0286, -0.0207, -0.009 in the four quarters of 2022, and -0.0025, 0.0105, 0.0114, -0.0005 in the four quarters of 2023, respectively [7]. According to Deloitte China's "Improving Quality While Maintaining Stability, Gaining Momentum: A Review and Outlook for the Development of China's Banking Industry in the First Half of 2023", the overall income of China's banking industry in the first half of 2023 decreased slightly, while expenses increased slightly [10]. Based on the report, China Everbright Bank's operational performance is higher than the industry level. Therefore, this paper argues that the bank's ESG performance has a positive impact on its operational capabilities.

3.5. Impact on the ability to grow

Figure 10 shows the year-on-year growth rate of attributable net profit, suggesting that the growth rate of China Everbright Bank's non-net profit after deduction has decreased significantly compared with 2021 in the 2022-2023 fiscal year, and has shown negative growth in the fourth quarter of 2023. Based on the conclusions of KPMG China and Deloitte China on the banking environment in China about the external objection to enterprise growth [6,10], this paper argues that the sluggish growth trend is mainly due to market factors rather than ESG policy factors.

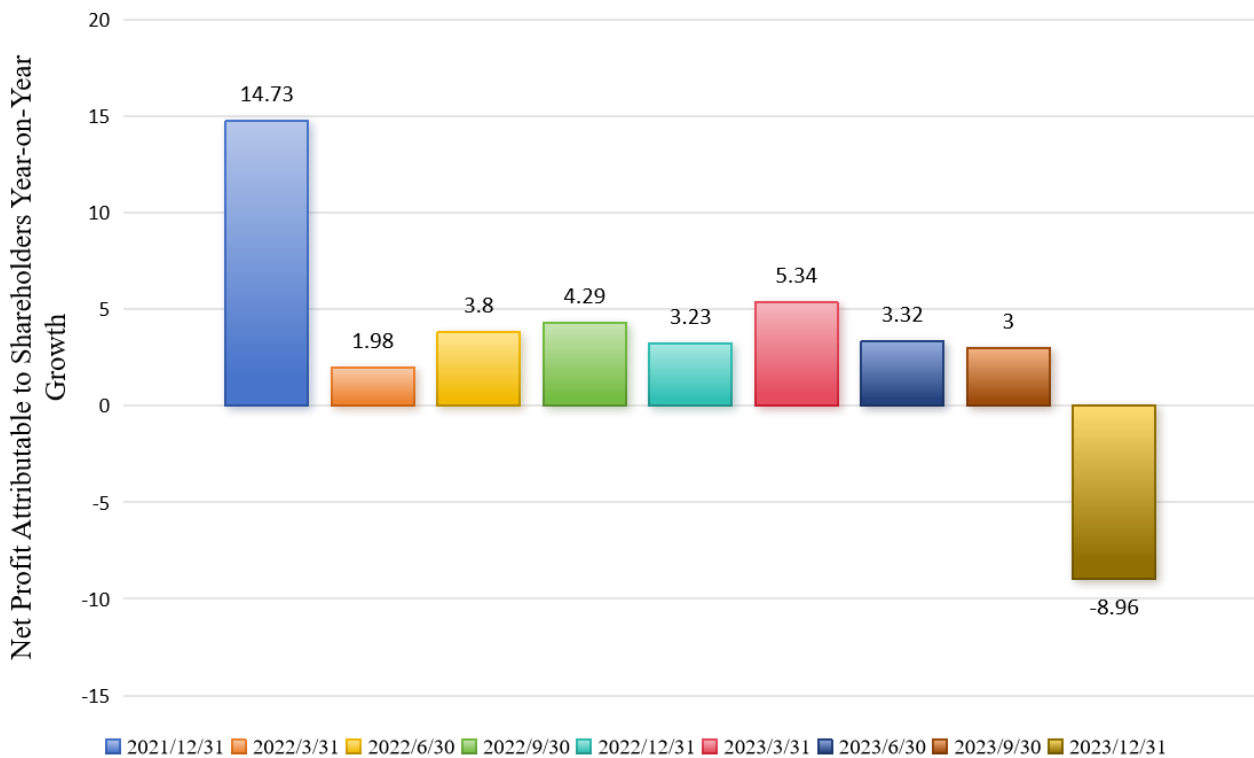


Fig. 10 CEB Net Profit Attributable to Shareholders Year-on-Year Growth

4. Conclusion

By disclosing the ESG performance of China Everbright Bank in detail and analyzing its impact on the performance of the enterprise in five aspects: corporate value, solvency, profitability, operating ability and growth ability, this paper argues that investment in ESG performance has a positive effect on improving corporate performance. In the case of China Everbright Bank, the bank has good ESG performance, and has improved its operational capabilities and development potential through ESG investment, and strengthened its ability to cope with adverse factors such as slow economic development. The research shows that ESG performance can be used as a reliable reference factor for enterprise value and subsequent value-added potential, and should be included in the investment consideration of business operations and investors as the main indicator of corporate sustainable development.

At the same time, it is important to point out the possible flaws and limitations of this article. , so the analysis based on existing ESG ratings may be inadequate.

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