

ABSTRACT

This study aims to examine the relationship between green banking practices—reflected in the implementation of Environmental, Social, and Governance (ESG) principles—and firm value in the Asia-Pacific banking sector. It also introduces a novel concept, Credit-based Loan Loss Provision (CLLP), as a mediating variable linking green banking practices to firm value, measured using Tobin's Q ratio.

Financial institutions, particularly banks, play a crucial role in the economy by providing funding and driving sustainable development. Green banking practices, which emphasize environmentally responsible policies, are increasingly embraced as an integral part of banking strategies. Although ESG implementation is generally expected to enhance firm value, previous research has yielded mixed results. Therefore, this study seeks to further explore the impact of green banking on firm value by incorporating CLLP as a mediating mechanism.

This research is grounded in three main theoretical frameworks: the Resource-Based View (RBV), Stakeholder Theory, and Legitimacy Theory. RBV underscores the importance of managing internal resources to gain a competitive advantage. Stakeholder Theory highlights the need for firms to address the interests of various stakeholders in their operations, while Legitimacy Theory suggests that alignment with social norms can enhance corporate legitimacy.

A quantitative approach is employed using an unbalanced panel dataset that combines cross-sectional and time-series dimensions. The data were obtained from the annual reports of 249 banks operating in the Asia-Pacific region from 2009 to 2023, yielding a total of 3,735 annual observations. The key variables representing green banking practices include the Environment Disclosure Score (EDS), Social Disclosure Score (SDS), Governance Disclosure Score (GDS), and the overall ESG score. Firm value is measured using Tobin's Q ratio, while CLLP is calculated as the ratio of total loans to Loan Loss Provisions (LLP). The analytical methods include panel regression with robust standard errors, two-stage mediation analysis, and sensitivity tests such as 5% winsorization and diagnostic checks. All statistical analyses were conducted using STATA version 17.0.

The results show that green banking, as captured by EDS, SDS, GDS, and the total ESG score, has a significant negative direct effect on firm value (Tobin's Q) across developed, developing, and combined country categories. On the other hand, CLLP exhibits a significantly positive effect on firm value in emerging Asia-Pacific countries but remains insignificant in developed and combined categories. CLLP mediation strengthens the relationships between both EDS and SDS disclosures and firm value across all country groups. Furthermore, CLLP mediates the impact of GDS in developed and combined country categories positively, while having a significantly negative effect in developing countries. Conversely, total ESG shows a significantly positive mediated effect through CLLP in developing countries, but a significantly negative one in developed and combined categories. These varying results highlight the pivotal role of credit risk management, as reflected in CLLP, in shaping the effectiveness of green banking practices.

Additional nonlinear analysis reveals an inverted U-shaped relationship in several categories, indicating that moderate ESG disclosure enhances firm value, while excessive disclosure may diminish it.

This study provides valuable implications for banks, regulators, and policymakers. For banks, the findings emphasize the importance of effective credit risk management—reflected in an optimal CLLP ratio—as part of green banking implementation, as well as the need to design balanced ESG disclosure policies to support long-term financial performance. For regulators, the study recommends the development of sustainability-oriented banking policies by integrating ESG principles into credit risk management frameworks. Overall, the success of green banking in enhancing firm value largely depends on strategic credit risk management, with CLLP functioning as a key mechanism that bridges this relationship.

Keywords: *Asia-Pacific, Green Banking, ESG (Environmental, Social, and Governance), Credit-based Loan Loss Provision (CLLP), Firm Value, Tobin's Q, Credit Risk Management.*

