

GREEN BANKING PRACTICES, ESSENTIAL TOOLS FOR ATTAINING THE SUSTAINABLE DEVELOPMENT OBJECTIVES OF THE EUROPEAN TAXONOMY

Anda GHEORGHIU

National University of Political Studies and Public Administration
30 A Expoziției Blvd, sector 1, 012104 Bucharest, RO
anda.gheorghiu@facultateademangement.ro

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Abstract

Although banks do not significantly impact the natural environment, they have an indirect intermediary role in promoting sustainability issues by financing environmental-friendly businesses. The paper aims to briefly clarify notions such as green banking, ESG, and European Taxonomy and analyze the progress made by Romanian banks in implementing them. For the time being, the scientific literature lacks a systematic analysis of green banking correlated to the sustainable development objectives of the European Taxonomy. The research hypotheses of the paper are a comparison of green banking practices of the top ten Romanian banks and the degree to which banks in Romania have achieved the six main environmental objectives established by article no. 9 of Regulation (EU) 2020/852, namely: mitigation of climate change, adaptation to it, sustainable use of waters, protection of water and marine resources, transition to a circular economy, prevention and control of pollution and protection and restoration of biodiversity and ecosystems. For both hypotheses, most data were collected by the author from the annual reports published by the banks, referring to the year 2022, and then classified and analyzed to reach a conclusion. The study reveals that most Romanian banks have implemented or are in the process of implementing the objectives of the European Taxonomy and the 2030 Agenda. Regrettably, very little was done in the domains of sustainable use and protection of water and marine resources or the protection and restoration of biodiversity and ecosystems, so, in future years, banks should try to focus more on these objectives. Banks should also concentrate their efforts on financing sustainable projects, responsible lending that avoids funding projects that damage the environment or violate social standards, and minimizing the environmental footprint of banks by implementing energy-efficient practices.

Keywords

green banking; ESG; sustainability; european taxonomy; green loans.

Introduction

Climate change and environmental risks are more and more recognized as a concern for the world economy and society because its effects can be dramatic: climate change can raise global temperatures and sea levels, affect air quality, exacerbate erosion, disruption of ecosystems, organic matter loss, salinization, ocean acidification, loss of soil biodiversity, landslides, desertification, and flooding. Moreover, they can lead to extreme weather events, such as hurricanes, droughts, and heavy rainfall. Climate change can affect human health, lead to crop failures, and increase the costs of infrastructure maintenance and disaster recovery costs. Also, vulnerable populations

with limited resources and access to information can have consequences migrations and conflicts.

Taking measures to limit the effects of climate change and the irrational use of planetary resources to any extent is strictly necessary by focusing decision-makers on sustainable economic and social measures. The idea of sustainability is not new. In 1987, the World Commission on Environment and Development released a report (Brundtland Report, also called “Our Common Future”) that introduced the concept of sustainable development as the “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

Later, in 2015, at the UN General Assembly in New York, the 2030 Agenda for Sustainable Development, which proposes 17 Sustainable Development Goals (SDGs), was adopted (United Nations, 2015). The European Union approved the 2030 Agenda. Thus, the 2030 Agenda is implemented through the European Ecological Pact³, which aims to transform the EU into a modern economy, efficient from the point of view of resource use, with net zero emissions of greenhouse gases in the year 2050 (“net zero” by 2050). However, these generous objectives are somehow called into question following the geopolitical changes following the adoption of the 2030 Agenda, such as the COVID-19 pandemic, the military conflict in Ukraine, the food and energy crisis, and others. Romania attaches great importance to the UN, an organization with a universal vocation that supports long-term development, and consequently, Romania is committed to implementing the Sustainable Development Goals at the national level (Ministerul Afacerilor Externe, 2023).

Among the organizations that must implement the 2030 Agenda are the banks. However, they do not directly impact the natural environment; they have an indirect intermediary role in promoting sustainability issues through financial activities in environmentally sensitive companies and projects (Biswas, 2011). Consequently, banks are often criticized for contributing to global warming because they do not realize the carbon consequences of their lending process (Ackeman, 2014). Banks do not significantly pollute themselves, but they are engaged in lending practices associated with commercial activities that depreciate the environment. Therefore, banks should be encouraged to adopt eco-friendly policies as it not only benefits them but also benefits the general public in the form of a cleaner world, and there is evidence that such policies can lead to a reduced tail risk of the banks (Chaudhry, Saeed, & Ahmed, 2021).

Moreover, the adoption of ecological financing policies would be in the interest of the banks themselves; an extended study of 251 banks over the period 2011–2017 from 44 emerging economies examining the relationship between environmental, social, and governance (ESG) activity and bank value shows that environmentally friendly activities have the most significant effect on bank value (Azmi, Kabir Hassan, Reza Houston, & Karim, 2021). A recent study showed that environmental supporting strategies and policies significantly influence a bank’s environmental performance and reputation (Taneja & Özen, 2023). In general CSR activities, with which ESG is associated, are considered profitable and business wise (Kim, Rhou, Uysal, & Kwon, 2017; Marcu, Zbucnea, & Oprescu, 2022; Rashid, Khalid, & Rahman, 2015).

Green Banking, a vital approach for financing sustainable and environmental-friendly businesses

In recent years, more and more financiers have begun to understand the importance of financing sustainable businesses that respect specific ecological requirements, and thus, the concept of green banking appeared. Green banking was first introduced by a Dutch bank, Triodos Bank, in 1980 (Yadav & Pathak, 2013). Green banking has been defined in a diversity of ways by academics. However, the overall focus has been on complete banking systems, ensuring significant economic growth while improving environmentally friendly practices (Lalon, 2015).

Green banking, also known as sustainable banking or ethical banking, refers to the practice of including environmental and social considerations in financial decisions and operations within the banking sector. Green banking aims to encourage environmentally friendly and socially responsible practices, both in the internal operations of banks and the services they offer clients. Banks should be involved in banking activities that implement eco-friendly technologies to decrease carbon emissions and improve environmental management in bank transactions both internally and externally.

The principles of green banking are strongly related to the concept of sustainable development, which pursues to meet the needs of the present without compromising the ability of future generations to satisfy their own needs. Green banking tries to balance economic, social, and environmental considerations in banking operations and decision-making; the principles of GB include environmental responsibility, social responsibility, economic viability, and stakeholder engagement (Chen et al., 2022). From this point of view, green banking is an expression of the ESG concept, as it was for the first time described by the United Nations in 2005 (United Nations, 2005). Environmental, social, and governance (ESG) investing refers to a set of standards for an organization's sustainability through the lens of environmental, social, and governance. When these matrices are complete, the data is gathered in a single report, and based on these, investors choose whether or not to continue investing in an organization.

Although some bank managers may fear that implementing ecological principles in terms of customer financing could lead to a decrease in market share and profits, the results of some recent research prove the opposite. Green banking improves the bank's image by demonstrating its environmental commitment; it decreases operational costs and increases employee efficiency through technology. It also protects forestry by diminishing paper usage, reduces greenhouse gas emissions by teleconferencing and using intelligent buildings that save energy, and develops clients' ecological awareness by organizing awareness programs. Green banking programs include energy efficiency, recycling, and environmentally responsible lending. A recent study reveals that the commitment to climate issues lowers the risk level of bank loans when banks have a medium-high level of attention to these issues (Birindelli, Bonanno, Dell'Atti, & Iannuzzi, 2022). Moreover, a positive and noteworthy relationship exists between banks' environmental and corporate governance performance with Tobin's Q ratio and, consequently, with shareholder value creation (Miralles-Quirós, Miralles-Quirós, & Redondo, 2019).

For the countries of the European Union, accelerating the transition to green energy and sustainable activities is an urgent necessity to reduce the dependence on fossil fuel imports. To facilitate the transition to a green, sustainable economy, the European Union adopted Regulation 2020/852, also called the European Taxonomy, which defines a list of environmentally friendly activities that meet specific environmental objectives and technical criteria of performance to be achieved. The list contains three types of activities: primary ones, which contribute directly to the achievement of the objectives, transitional ones, for which there is no technologically and economically viable low-carbon alternative, but which support the transition to an economy neutral from the point of view of CO₂ emissions by establishing thresholds for determining the best-performing companies in the industry, and the supporting ones, which indirectly facilitate the primary activities. The regulation also establishes in article 9 a set of six environmental objectives, namely: mitigation of climate change, adaptation to it, sustainable use of waters, protection of water and marine resources, transition to a circular economy, prevention and control of pollution and protection and restoration of biodiversity and ecosystems (European Parliament & Council of the European Union, 2020).

Companies must calculate the degree of alignment to the taxonomy of their performance indicators – turnover, investment, and operational expenses, aspects that can show stakeholders, such as investors, banks, business partners, legislators, or NGOs, the level of sustainability of economic activity. Organizations must meet four mandatory conditions to qualify as sustainable: their activity must contribute significantly to at least one of the six climate goals, not harm the other five goals, must meet the minimum conditions of social responsibility, and must comply with the technical examination criteria. These four conditions apply to turnover, investment, and operating expenditure. If one of the four conditions is not met, the activity under evaluation is considered eligible but not aligned. The assessment result must be published in the non-financial statement or a sustainability report.

For the time being, the scientific literature lacks a systematic analysis of green banking correlated to the sustainable development objectives of the European Taxonomy.

Research methodology

The current research paper is based on a thorough literature review, data collection from primary sources (data directly from the bank's financial statements, annual reports, sustainability reports), and secondary sources (publicly available data, especially from the Bucharest Stock Exchange, Ministry of Public Finance). The research hypotheses compare green banking practices of the top ten Romanian banks and the degree to which banks in Romania have achieved the six main environmental objectives established by article no. 9 of Regulation (EU) 2020/852, which I have previously mentioned. For both hypotheses, most data were collected by the author from the annual reports published by the banks, referring to the year 2022, and then classified and analyzed to reach a conclusion.

The banking system in Romania consists of a network of banks and financial institutions, being a complex, competitive, and dynamic sector of the economy, which was reborn after the communist period when there were only a few state-owned banks. The banking system in Romania is characterized by the diversity of financial

institutions (commercial banks, investment banks, savings banks, credit cooperatives, etc.), the wide range of services banking (current accounts, loans, credit/debit cards, payment services, investment services, and others). In recent years, the banking system in Romania has adopted innovative technologies, such as blockchain and fintech technologies, and has focused on digitization to facilitate customers' access to as many online and mobile financial services as possible.

The first place in the top of bank in Romania is occupied by Banca Transilvania (with assets of 134 billion RON and a profit of 2.2 billion RON recorded at the end of 2022). As can be seen from Table 1, this bank is followed by the Romanian Commercial Bank (BCR), the Romanian Development Bank (BRD), ING Bank, Raiffeisen Bank, CEC Bank, Unicredit Bank, Eximbank, Alpha Bank, OTP Bank. The total market share of these ten banks is over 85%.

Table 1. Top of Romanian Banks
(Source: data published by the banks/Ministry of Finance)

Ranking	Name of the bank	Assets in 2002 (billions of RON)	Profit in 2022 (billions of RON)
1	Banca Transilvania	134	2,2
2	BCR	97,8	1,8
3	BRD	71,5	1,3
4	ING Bank	63,1	1,06
5	Raiffeisen Bank	62	1,2
6	CEC Bank	61,8	0,4
7	Unicredit Bank	60	0,9
8	Eximbank	23	0,04
9	Alpha Bank	21,3	0,2
10	OTP Bank	20	0,03

Results and discussion

Research hypothesis I. Comparison of green banking practices in Romania

As presented in Table 2, green banking initiatives of the top ten Romanian banks can be classified as follows: green loans, green bonds, reduction of CO2 emissions from the bank's activities, digital transformation, green awareness programs, and others.

Table 2. Green banking initiatives and practices of Romanian banks
(Source: Authors' own research results)

Green banking initiatives	Green practices	Banks that have implemented green banking initiatives
Green Loans, Green bonds	Loans for renewable energies- wind, sun through photovoltaic panels, biomass, biogas, for investments in increasing energy efficiency, for green transport such as electric and/or hybrid cars, for financing the construction of green buildings, for investments leading to increased	BTR, BCR, Raiffaisen, ING, Unicredit, Alpha Bank, CEC

	water efficiency, for investments in increasing adaptation to climate change	
Reduction of CO2 emissions from the bank's activities	Intelligent lighting, energy-efficient equipment and buildings, employee training, cards made of 100% recycled plastic, energy-efficient car fleet, saving energy and paper	BTR, BCR, BRD, Raiffaisen, ING, Unicredit, Eximbank, Alpha Bank, OTP
Digital transformation	Digital enrollment, electronic account statements, card PINs via SMS, Internet and Mobile Banking, digital onboarding, Contact Center digital branch, Paperless banking	All banks
Green awareness programs	Educational seminars to increase green awareness for clients and the general public	BTR, BRD, Raiffaisen, Unicredit
Others	Assessment and management of risks and opportunities associated with climate change, analysis of climate and environmental risks, volunteering	BTR, BCR, BRD, ING

Further, a summary of the best practice models of the first ten Romanian banks, which support the data in Table 2, is shown.

Banca Transilvania has adopted a series of good practice models, which generate positive impact at the community level through environmental performance. Thus, in 2022, Banca Transilvania granted 371 green and sustainable loans worth 790 million RON. 260 SME and Micro customers and 111 Corporate customers were credited. Also, in 2022, Banca Transilvania granted a volume of 846 million RON in green mortgage/real estate loans, of which 560 million RON were aligned with the EU taxonomy (partial alignment); at the end of 2022, the retail loan portfolio contained approx.. 7% green credits. The waste recycled by Banca Transilvania materialized in 2022 in 1051.64 tons of paper, 0.2 tons of lighting fixtures, and 0.2 tons of batteries; some of the cards issued were made from 100% recycled plastic, and savings were made on electricity consumption. The bank also considers the assessment and management of the risks and opportunities associated with climate change from two perspectives: at the client level and the portfolio level, based on a "heat map" that reflects the environmental, social, and governance risks associated with the sectorial distribution of the portfolio of credits (Banca Transilvania, 2023).

Banca Comercială Română (BCR) follows the actions of its parent company, Erste Group Bank AG, which joined the Net-Zero Banking Alliance, committing to achieve a net-zero carbon footprint by 2050 at the latest. In June 2022, BCR issued an issue of non-privileged senior green bonds worth 702 million RON. BCR increased its share of energy purchased from renewable sources to 70%. In 2022, 100% of the electricity used in both buildings of the headquarters in Bucharest came from renewable sources, the old air conditioning system was modernized, and new sensors were installed for lighting the logos. For December 2022, BCR applied the exemption regarding the presentation of any quantitative information required by EU Regulation 852/2020,

according to the provisions of article 19a of the European Directive 2013/34/EU, because the information is presented in the consolidated non-financial report of the parent company Erste (BCR, 2023).

BRD. Following the policy of the Société Générale Group, the parent company of BRD, the Romanian Development Bank (BRD) has introduced since 2020 the calculation of a climate vulnerability index (CVI), which reflects the transition risk associated with a client or a group of clients. CVI is represented on a 7-step impact scale for the following portfolios: oil and gas, electricity production, metals and mining, automobiles, maritime transport, and aircraft. BRD considers environmental risks in lending decisions related to corporate clients and applies the nine sectoral environmental policies of the Group in its evaluations. In 2022, the parent company of BRD, Société Générale, strengthened its commitment to contribute to sustainable financing with 300 billion euros until 2025. BRD initiated and executed in 2022 a volume of sustainable funding of EUR 119.2 million for corporations and EUR 96 million for retail. Also, BRD organized specific events, mainly for SMEs, such as a sustainable financing session within "ZF for SMEs" (>40,000 people in the audience) and the first Forum on climate change in Romania, with an audience of almost 1 million people on all channels. BRD has set out to reduce CO2 emissions from its activities constantly, and for this, it uses Planethic Reporting - an internal online tool that measures indicators related to energy and the building management system (BRD – Groupe Société Générale S.A., 2023)

Raiffeisen Bank. In 2022, all the companies that are part of the Raiffeisen Bank International Group analyzed the portfolio's impact on sustainable development. Raiffeisen Bank was the first bank in Romania to issue green bonds, and the funds were used for green buildings, ecological transport, and sustainable agriculture. In 2022, Raiffeisen Bank successfully placed a new issue of corporate bonds in RON aimed at institutional investors. It attracted 525 million RON at a maturity of 5 years, with a fixed annual coupon of 8.927%, which stood at approximately 0.95 p.p. over the yield of reference government securities in RON, with the same maturity. With a total demand of over 550 million RON, the issue was oversubscribed 1.85 times compared to the amount initially announced at the opening of the private placement. The bonds were dual listed on the Luxembourg (LuxSE) and Bucharest (BVB) stock exchanges. Raiffeisen Bank supports the Black Sea ClimAccelerator, which is part of the largest European green accelerator and offers total funding of 300,000 euros, mentoring programs, specialized consulting, and training for attracting investments; local start-ups are invited to apply with solutions of eco-innovation. In 2022, Raiffeisen Bank and its partners invited farmers to participate in a program dedicated to sustainable agriculture, GreenFields Academy (Raiffeisen Bank, 2022).

ING Romania declares that sustainability is at the center of ING's values and strategy, globally and locally, by contributing to combating climate change through sustainable financing decisions, actions to reduce the carbon footprint generated by ING Bank Romania, and by involving employees in voluntary actions. ING Bank was interested in the first issue of green bonds, with a value of 500 million euros, for refinancing the portfolio of sustainable buildings and energy efficiency projects of the NEPI Rockcastle group - the largest owner of shopping centers in Romania. Expo Business Park, the new headquarters of ING Bank, has been certified as Outstanding – the highest score offered by BREEAM, one of the most comprehensive methods for evaluating the ecological performance of a building (ING Bank, 2023).

CEC Bank did not provide information related to environmental protection measures in the financial statements and transparency reports from the end of 2022, but posted on its website on February 22, 2022, information related to the fact that CEC Bank finances projects involving green purchases with funds and guarantees provided by the European Investment Bank Group. The maximum value of the investment loan or credit lines is 699,000 RON, and free European guarantees can be obtained through the COSME Program for up to 50% of the financing amount. 0.75 percentage points reduce the interest rate for green loans compared to the standard one. The agreement between CEC Bank and the EIB has a value of 50 million euros (CEC Bank, 2023).

UniCredit. One of UniCredit's priorities in 2022 was implementing the local ESG strategy. Businesses in green energy, renewable energy, and energy efficiency were financed, and the green loans with mortgages intended for individuals continued to be one of the requested products. The implementation of the local strategy regarding reducing the carbon footprint has started, in line with that of the UniCredit group, which joined the Net Zero Banking Alliance. Part of the ESG strategy are the financial and entrepreneurial education programs for high school students with a technical profile. In 2022, more than 5,000 students from 67 technological high schools and disadvantaged areas benefited from the Start Major program (Unicredit, 2023)

EximBank developed and implemented a sustainability strategy for the 2022-2025 period. During 2022, at the level of EximBank and the absorbed bank (Banca Românească), paper consumption decreased due to the digital transformation process (digital enrollment, account statements in electronic format, card PINs via SMS, etc.). Digitization considers an approach both at the client level (through the implementation of Internet and Mobile Banking solutions, digital onboarding, Contact Center digital branch) and at the process level (the development of digital flow and content management solutions - Business Process Management, Enterprise Content Management, streamlining internal processes through RPA-type solutions and automating reporting systems). In 2022, a project was initiated to replace the classic lighting in the headquarters with lighting with LED technology (EximBank, 2023).

Alpha Bank. At the end of 2022, the eligible assets from the point of view of the EU Taxonomy included the portfolio of mortgage loans in the amount of 17.9 million RON, car loans in the amount of 0.02 RON, and exposures to NFRD entities of 0.07 million RON. Alpha Bank's investments included a balance of RON 21 million for sustainability-related bonds issued by a renowned company with Romanian capital. The sustainability performance objective of the bonds is to reduce the average CO2 emissions of the operational fleet by 25% by 2025. The bank pays particular attention to the energy-efficient mortgage sector, being the only bank in Romania that has joined the Energy Efficient Mortgage Label certification system, it is a member of the Romanian Council for Green Buildings (RoGBC) and a participant in the European Initiative for energy-efficient mortgages (Alpha Bank, 2023).

OTP Bank Romania has allocated considerable investments in technology and maintained a customer-centric approach, defined ESG (environmental, social, governance) principles, aimed at integrating the best sustainability practices in the organization and designed to contribute to a balanced transition to a healthy low-carbon economy, to encourage responsible behaviors of employees and customers

(OTP Bank, 2023). The annual report for social sustainability for 2022 has not been published on the bank's website, but previous reports can be consulted.

Research hypothesis II. The degree to which banks in Romania have achieved the six main environmental objectives established by Article No. 9 of Regulation (EU) 2020/852

Pieces of information provided by the banks at the end of 2022 regarding how they were trying to reach the objectives of the European Taxonomy were collected and then classified and analyzed to conclude. The data made publicly available by the banks do not always clearly refer to the six objectives of the Taxonomy. However, they were ranked this way after interpreting the reported information. The conclusion is that most Romanian banks have implemented or are implementing three of the European Taxonomy's objectives: mitigating climate change and adaptation to climate change, and the transition to a circular economy. The outcome demonstrates the progress made by the Romanian banking system in adopting practices that support the 2030 Agenda. Financial institutions thus have a remarkable role in facilitating the transition to a secure, climate-neutral, climate-resilient, more resource-efficient, and circular economy by financing green projects.

Unfortunately, Romanian banking practices focused to a small extent on the sustainable use and protection of water and marine resources or the protection and restoration of biodiversity and ecosystems. The result is somehow expected since these objectives are rather specific to some public institutions, which have considerable resources to implement them. If they need additional financing, they very rarely turn to commercial banks.

Table 3. The degree to which banks in Romania have achieved the six main environmental objectives established by Article No. 9 of Regulation (EU) 2020/852 (Source: Authors' own research results)

Bank	Objectives of the European Taxonomy				
	1. Mitigating climate change and 2. Adaptation to climate change	3. Sustainable use and protection of water and marine resources	4. The transition to a circular economy	5. Pollution prevention and control	6. Protection and restoration of biodiversity and ecosystems
BTR	X	X	X		
BCR	X		X		
BRD	X		X		
ING	X		X		
Raiffeisen	X	X	X	X	X
CEC	X		X		
Unicredit	X		X	X	
Eximbank	X		X		
Alpha Bank	X		X		
OTP	X		X		

Research limitations

The present paper focuses only on Romanian banks' green banking practices, which limits the conclusion and interpretation of the outcome to some extent. Future research can be conducted through a comparative study of other European banks implementing Regulation 2020/852.

Conclusions and recommendations

Most Romanian banks have implemented three of the European Taxonomy's objectives: mitigating and adapting to climate change and transitioning to a circular economy. Romanian banks have excellent results in digital transformation, green awareness programs, and reduction of CO₂ emissions from their activities; they are also progressing in green financing (green loans, green bonds).

Regrettably, very little was done in the domains of sustainable use and protection of water and marine resources or the protection and restoration of biodiversity and ecosystems, so, in future years, banks should try to focus more on these objectives. Banks should also concentrate their efforts on financing sustainable projects, responsible lending that avoids funding projects that damage the environment or violate social standards, and minimizing the environmental footprint of banks by implementing energy-efficient practices. Green banking also means engagement and advocacy on behalf of clients so policymakers can adopt sustainable practices and environmental regulations.

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