Independent study title	DOES ESG PERFORMANCE IMPACT CREDIT RISK?: EVIDENCE FROM ASEAN MARKETS
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ABSTRACT

This study examines the relationship between Environmental, Social, and Governance (ESG) performance and credit risk within the ASEAN region, utilizing data from 2002 to 2022. Through regression analysis and the inclusion of control variables, the research investigates the influence of overall ESG scores and individual pillar scores on credit risk metrics, including the Altman Z-score and the Kaplan-Zingales Index (KZ index). The findings reveal a significant negative correlation between ESG performance and credit risk, indicating that higher ESG scores are associated with reduced credit risk. The study particularly highlights the Social and Environmental pillars as having the most substantial impact on mitigating credit risk, whereas the Governance pillar demonstrates a lesser effect. This underscores the importance of prioritizing initiatives in the Environmental and Social pillars to achieve the most significant improvements in credit risk mitigation. Additionally, the study explores the moderating effect of cash holdings and finds that, the interaction term between ESG performance and cash holdings on credit risk indicates that for firms with low cash holdings, investment in ESG may increase credit risk, although this effect is not statistically significant. This research provides valuable insights into how ESG

practices can effectively manage credit risk, especially within the ASEAN region, thereby enhancing our understanding of sustainability in financial landscapes.

Keywords: ESG performance, Credit risk, ASEAN