|  | (1)  numcov1 | (2)  numcov1 | (3)  numcov1 | (4)  numcov1 | (5)  numcov1 | (6)  numcov1 |
| --- | --- | --- | --- | --- | --- | --- |
| (Intercept) | 4.561\*\*\* | 5.293\*\*\* | 4.407\*\*\* | 5.741\*\*\* | 4.823\*\*\* | 6.324\*\*\* |
|  | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| log\_environment\_score | -0.733\*\*\* | -0.423\*\*\* |  |  |  |  |
|  | (<0.001) | (<0.001) |  |  |  |  |
| log\_facilityamt |  | -0.014 |  | -0.023\* |  | -0.023\* |
|  |  | (0.267) |  | (0.076) |  | (0.083) |
| log\_num\_lenders |  | 0.063\*\*\* |  | 0.071\*\*\* |  | 0.069\*\*\* |
|  |  | (<0.001) |  | (<0.001) |  | (<0.001) |
| profitability\_w |  | -0.329\*\*\* |  | -0.266\*\*\* |  | -0.275\*\*\* |
|  |  | (<0.001) |  | (0.002) |  | (0.001) |
| leverage\_w |  | 0.049 |  | 0.049 |  | 0.087 |
|  |  | (0.428) |  | (0.426) |  | (0.156) |
| log\_size |  | -0.197\*\*\* |  | -0.209\*\*\* |  | -0.218\*\*\* |
|  |  | (<0.001) |  | (<0.001) |  | (<0.001) |
| industry |  | 0.003 |  | 0.001 |  | 0.009 |
|  |  | (0.612) |  | (0.892) |  | (0.115) |
| log\_social\_score |  |  | -0.683\*\*\* | -0.463\*\*\* |  |  |
|  |  |  | (<0.001) | (<0.001) |  |  |
| log\_governance\_score |  |  |  |  | -0.748\*\*\* | -0.570\*\*\* |
|  |  |  |  |  | (<0.001) | (<0.001) |
| Num.Obs. | 2560 | 2554 | 2560 | 2554 | 2560 | 2554 |
| R2 | 0.072 | 0.201 | 0.043 | 0.199 | 0.021 | 0.193 |
| R2 Adj. | 0.072 | 0.199 | 0.043 | 0.197 | 0.020 | 0.190 |
| AIC | 4587.4 | 4210.5 | 4666.2 | 4217.1 | 4726.1 | 4237.5 |
| BIC | 4599.1 | 4257.2 | 4677.9 | 4263.8 | 4737.8 | 4284.2 |
| RMSE | 0.59 | 0.55 | 0.60 | 0.55 | 0.61 | 0.55 |
| Std.Errors | IID | IID | IID | IID | IID | IID |
| * p < 0.1, \*\* p < 0.05, \*\*\* p < 0.01 | | | | | | |

The table provides results from regression analyses that examine the relationship between various ESG components and the number of covenant restrictions (numcov1) on loans. The dependent variable across all models is the number of covenant restrictions, allowing for an analysis of how changes in ESG components and financial variables influence the strictness of loan covenants.S

In the first model, the analysis focuses on the relationship between the environmental component of ESG scores and the number of covenants. The coefficient for the logarithm of the environmental score is -0.733, which is highly significant (p < 0.001). This indicates that a 1% increase in a borrower’s environmental score leads to a decrease of approximately 0.733 in the number of covenants. This suggests that firms with better environmental practices face fewer covenant restrictions, possibly due to perceived lower risk by lenders.

Column (2) extends the analysis by including additional variables such as the log of facility amount, the log of the number of lenders, profitability, leverage, firm size, and industry effects. The coefficient for the environmental score remains negative and significant, though it is reduced to -0.423 (p < 0.001). This reduction suggests that while environmental factors influence covenant restrictions, their impact is less pronounced when other key financial indicators are considered. Among the added variables, the log of the number of lenders (log\_num\_lenders) has a significant positive effect on the number of covenants, with a coefficient of 0.063 (p < 0.001), indicating that loans involving more lenders tend to have more covenants. Profitability continues to exhibit a significant negative relationship with covenant restrictions, with a coefficient of -0.329 (p < 0.001), implying that more profitable firms face fewer covenants.

In the third model, the analysis shifts to the social component of ESG scores. The coefficient for the logarithm of the social score is -0.683, which is highly significant (p < 0.001). This suggests that firms with stronger social practices face fewer covenants, possibly due to lower perceived risks in these firms’ operations and reputation.

Column (4) includes the same control variables as in column (2) but focuses on the social score. The coefficient for the social score decreases to -0.463 (p < 0.001) when controls are added, indicating that social factors are important, but their effect is moderated by other financial metrics. Profitability and the number of lenders continue to show significant impacts on covenant restrictions, reinforcing their roles in lenders' risk assessments.

The fifth model examines the governance component of ESG scores. The coefficient for the governance score is -0.748, which is highly significant (p < 0.001). This indicates that firms with better governance practices face fewer covenant restrictions, reflecting lenders’ confidence in the management and oversight of such firms.

In the final model, the analysis includes all control variables and continues to focus on the governance score. The coefficient for governance remains negative and significant, though slightly reduced to -0.570 (p < 0.001), suggesting that governance remains a strong determinant of covenant restrictions even when other factors are controlled for.

Across all models, the control variables consistently exhibit significant relationships with covenant restrictions. **Profitability** is negatively related to covenant restrictions in all models, indicating that more profitable firms face fewer covenants. **The number of lenders** positively correlates with covenant restrictions, suggesting that loans involving more lenders are subject to stricter covenant terms. **Firm size** shows a significant negative impact on covenant restrictions, implying that larger firms, seen as more stable, encounter fewer covenants. The **industry** variable does not show a significant impact in most models, suggesting that industry-specific factors may not be as influential in determining covenant restrictions.

Goodness-of-fit metrics, such as **R-squared** and **adjusted R-squared**, improve when control variables are included, indicating that these variables enhance the model's explanatory power. Lower values of the **Akaike Information Criterion (AIC)** and **Bayesian Information Criterion (BIC)** in models with controls suggest better model fit. The **Root Mean Square Error (RMSE)** remains stable across models, indicating consistent prediction accuracy.

In summary, while ESG components are important in determining the number of covenant restrictions, traditional financial metrics such as profitability, the number of lenders, and firm size remain significant factors. This highlights that while ESG factors are becoming more relevant, lenders still rely heavily on established financial indicators in their risk assessments and decision-making processes.