|  | (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 presents the results of regression analyses that investigate the relationship between various financial and ESG-related variables with the number of loan covenants (numcov1). The dependent variable across all models is numcov1, which is the count of covenants attached to loans, reflecting the level of restrictions or requirements lenders impose on borrowers.

In column (1), the focus is on the relationship between the environmental score and the number of loan covenants. The coefficient for the log of the environment score is -0.733, which is highly significant (p < 0.001). This indicates a strong negative relationship, suggesting that higher environmental scores are associated with fewer loan covenants. Specifically, a 1% increase in the environmental score results in approximately 0.733 fewer covenants. This implies that firms with better environmental performance may be perceived as less risky, leading lenders to impose fewer restrictions.

Column (2) introduces additional financial variables, including the loan facility amount (log\_facilityamt), the number of lenders (log\_num\_lenders), profitability (profitability\_w), leverage (leverage\_w), firm size (log\_size), and industry effects. The environmental score remains significant but with a reduced coefficient of -0.423 (p < 0.001), indicating that the environmental impact on covenants is somewhat moderated by these financial factors. Among the control variables, the number of lenders has a significant positive relationship with the number of covenants, with a coefficient of 0.063 (p < 0.001), indicating that loans involving more lenders tend to have more covenants, likely due to the complexity of coordinating multiple stakeholders. Profitability shows a significant negative relationship with covenants, suggesting that more profitable firms face fewer restrictions.

Column (3) focuses on the social score, revealing a significant negative relationship with the number of covenants (coefficient of -0.683, p < 0.001). This indicates that better social performance is also associated with fewer loan covenants. Similar to previous models, the number of lenders positively influences the number of covenants, while profitability negatively affects the count of covenants.

In column (4), the governance score is examined, showing a significant negative effect on loan covenants (coefficient of -0.748, p < 0.001). This suggests that firms with better governance practices tend to have fewer covenants attached to their loans. The effects of other variables remain consistent, with the number of lenders positively and profitability negatively influencing the number of covenants.

Column (5) analyzes the combined effects of environmental and governance scores. The results indicate that both scores significantly reduce the number of covenants, with coefficients of -0.423 (p < 0.001) for the environment score and -0.748 (p < 0.001) for the governance score. This suggests that strong environmental and governance practices jointly contribute to a reduction in loan restrictions. The other control variables maintain their effects, with the number of lenders and profitability remaining significant predictors of the number of covenants.

Finally, column (6) includes all three ESG components: environmental, social, and governance scores. In this comprehensive model, the environmental score and governance score continue to show significant negative relationships with the number of covenants, with coefficients of -0.570 (p < 0.001) and -0.748 (p < 0.001), respectively. The social score also remains significant, indicating that all three ESG components are important factors in determining the extent of loan restrictions.

Across all models, the goodness-of-fit metrics, such as R-squared and adjusted R-squared, improve with the inclusion of additional variables, suggesting better explanatory power. The Akaike Information Criterion (AIC) and Bayesian Information Criterion (BIC) values decrease as more variables are included, indicating better model fit. The Root Mean Square Error (RMSE) remains relatively stable, suggesting consistent predictive accuracy across the models.

In summary, the results highlight that firms with higher ESG scores, particularly in governance and environmental aspects, tend to face fewer loan covenants. This reflects a growing recognition by lenders of the importance of ESG factors in assessing risk, although traditional financial metrics such as profitability and the number of lenders continue to play a significant role in determining loan covenants. The findings underscore the integration of ESG considerations into financial decision-making, particularly in the context of loan agreements where risk mitigation is a primary concern for lenders.