Abstract

This thesis proposes a theoretical framework for application of ethics in banking and analyses effects of such application on financial performance of banks. A sentiments-adjusted economic motivation enables employment of ethical concepts, such as universality and humanity, in economics as well as banking. Then, using Bankscope data of more than 80,000 bank-year observations for the years 2003-2013, it is shown that banks applying ethics have higher exposure to real economy and less volatile Return on Equity. A consequent analysis revealed that in comparison with their closest peers those banks have lower profitability caused by higher relative costs that conversely result in lower loan losses.

JEL Classification A13, B12, B16, G21, Q56

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