

THE RELATIONSHIP BETWEEN ESG SCORES, RISK, AND BANK PERFORMANCE: A NARRATIVE LITERATURE REVIEW

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Purpose: The aim of this article is to identify and assess the relationship between a bank's ESG score and its risk and performance.

Design/methodology/approach: The study utilized a narrative literature review. Articles were searched in the Web of Science database.

Findings: Most of the reviewed studies show that engaging with ESG issues in the banking sector not only helps mitigate negative environmental and social impacts but also positively influences banks' risk-taking behavior. The relationship between ESG scores and bank performance is ambiguous.

Research limitations/implications: Articles used in the review were obtained from only one database.

Practical implications: The results of this study may have significant implications for banks and regulators. For banks, understanding the relationship between ESG scores, risk, and performance can be useful in further improving their ESG strategies, non-financial reporting processes, monitoring ESG risk exposure, and promoting sustainability initiatives. For regulators, evidence that ESG scores are crucial to the business success of financial institutions can provide a basis for developing regulations that will facilitate banks' implementation of sustainable practices and transparent ESG reporting.

Originality/value: The review synthesized existing research, identified existing research gaps, and suggested directions for further research. This article is intended for ESG researchers, banks, investors, and regulators.

Keywords: ESG, banks, bank performance, bank risk, narrative literature review.

Category of the paper: Literature review.

1. Introduction

The rationale for selecting the topic of this study is the special role assigned to banks in supporting sustainable development. Banks are themselves the subject of investment and simultaneously determine the allocation of resources in the economy by selecting investments, entities, and activities that merit financing (Beck et al., 2010). If they choose to finance the green transformation (Kalfaoglou, Faidon, 2021), they can significantly contribute to solving

environmental and social problems, increasing social well-being (Olteanu (Burcă) et al., 2023), and building a more sustainable and inclusive global economy. Government enforcement through regulatory bodies is driving banks to prioritize ESG (Environmental, Social, and Governance) as a value driving performance improvement (Nathania, Ekawati, 2024; Guo et al., 2025; Boudawara et al., 2023). Customer and investor pressure on financial institutions is also growing. Today's customers expect banks to take action to mitigate and adapt to climate change, protect ecosystems, and transition to a circular economy (Birindelli et al., 2022; Yu et al., 2022). Investors apply ESG criteria when selecting their investment portfolios. They are more likely to engage with banks that implement corporate social responsibility (CSR) policies that promote improved management transparency and build social awareness. Self-regulation also plays a significant role in promoting ESG in the banking sector. They are perceived as a credible signal of responsible banking practices (Manos et al., 2024).

Banks' activities in the area of environmental, social, and corporate governance are often associated with the ability to reduce systemic risk, improve financial performance, financial stability, create shareholder value, and generate reputational benefits. A key question is whether, how, and why bank sustainability translates into the benefits listed above.

This article provides an overview of existing research on the relationship between banks' ESG activities and risk and performance. The research question is formulated as follows: What is the relationship between ESG scores and bank risk and performance? To address this issue, a narrative review approach was employed. The review synthesized existing research, identified existing research gaps, and identified directions for further research.

2. Theoretical Background

Banks' interest in ESG issues is underpinned by legal regulations and the benefits that implementing sustainable development principles can bring. A noticeable increase in banks' interest in sustainable development occurred following the establishment of the Sustainable Development Goals (Agenda 2030) in 2015 and the signing of the Paris Climate Agreement (UN, 2015) by international financial organizations, states, and central banks that same year. Institutions such as the European Commission (EC), the European Parliament (EP), the European Banking Authority (EBA), and the European Central Bank (ECB) are involved in the legislative process shaping sustainable finance in the European Union. In March 2018, the European Commission adopted the Sustainable Finance Action Plan (European Commission, 2018). The plan outlines a comprehensive strategy aimed at linking finance with sustainable development. The implementation of sustainable development principles in banking operations in European Union countries is stimulated by regulations such as the 2019 Regulation on Sustainability-Related Disclosures in the Financial Services Sector (SFDR

Regulation (EU) 2019/2088), the 2019 European Green Deal, the EU Taxonomy (Regulation (EU) 2020/852), the Corporate Sustainability Reporting Directive and its complementary ESRS standards (CSRD Directive - (EU) 2022/2464), and the CSDDD Directive of 4 May 2024 on Corporate Due Diligence for Sustainable Development, which requires companies to counteract the negative impacts of their activities on the environment, human rights, workers' rights, and social rights (EC/2022/0071).

Initially, research on sustainable development in the banking sector focused on social responsibility. It primarily analyzed the correlation between banks' financial performance and the integration of social responsibility principles into management processes and systems. These studies have led to divergent conclusions. Simpsons and Kohers (2002) found a strong positive correlation between the introduction of social responsibility practices and banks' financial performance. However, Esteban-Sánchez et al.'s (2017) study, conducted between 2005 and 2010 on a sample of 154 banks from 22 countries that had implemented social responsibility principles, found no positive relationship between the adoption of these principles and banks' financial performance. Over time, researchers have broadened their scope of research to encompass all three pillars of ESG, i.e., environmental (e.g., environmental impact, resource consumption, biodiversity impact, and waste management), social (e.g., community and supplier impact, working conditions, and other social impacts), and corporate governance (e.g., organizational transparency, relationships with shareholders and management, executive compensation, and board diversity) (Clément et al., 2022).

The relationship between board diversity and ESG performance has been raised in the work of many researchers. It turns out that board size, the ratio of women and the ratio of independent directors on the board are positively and significantly associated with environmental and social governance performance (Gurol, Lagasio, 2023). There is a positive relationship between cultural and gender diversity of boards and ESG performance, but their combined effect is negative (Paolone et al., 2024). The positive impact of women on boards on ESG performance appears only when there are at least three women on the board. The social pillar of ESG is particularly sensitive to the proportion of women on the board (Menicucci, Paolucci, 2023, 2024). Studies show that board size and independence and the existence of a CSR/sustainability committee positively influence banks' ESG performance, while there is no significant relationship between the average age of board members and ESG performance. Other studies (Remo-Diez et al., 2025) analyzed the combined effect of board member characteristics (specific skills, seniority, gender diversity and (connections) and the CEO's power (formal and informal) to achieve a high ESG score. It has been noted that regardless of the CEO's formal power, banks need an informally influential CEO or board members with important advisory competencies to support managers in decision-making.

Soana (2011), Matuszak and Róžańska (2017) found no significant relationship between ESG and bank financial performance at the country level. However, Wu and Shen (2013), who examined the relationship for 162 banks in 22 countries, Cornett, Erhemjamts, and Tehranian (2016), who studied American banks, and Akdogan, Selimoglu, and Turkcan (2020) for Turkey, found a positive relationship. Miralles-Quirós et al. (2019) found a positive correlation between banks' Tobin's Q index and the adoption of ESG principles. At the same time, they found a negative correlation between the adoption of these principles and creating shareholder value.

The ambiguity described above between the integration of ESG issues into banks' operational practices and their performance prompted a narrative literature review.

3. Methodological Approach and Results

The narrative review method was used in the literature search. Narrative reviews, also known as non-systematic narrative reviews (Oxman et al., 1994), are comprehensive narrative syntheses of previously published information. This type of literature review presents the author's research findings in a condensed form, typically summarizing the content of each article. Some researchers (Helewa, Walker, 2000) suggest that a proper narrative review should include a critical assessment of each included study. However, Day (1998), DePoy and Gitlin (1993) argue that this is not necessary.

Narrative review is a flexible and widely used method of knowledge synthesis that allows for the interpretation and critical analysis of existing research in a given field, taking into account the historical and organizational context (Sukhera, 2022a; Ahmad, 2025; Sukhera, 2022b; Greenhalgh et al., 2018). Unlike systematic reviews, there are no universally accepted guidelines for conducting a narrative review. However, it is recommended to clearly define the purpose, scope, search strategy, and rationale for literature selection (Ferrari, 2015; Green et al., 2006; Baethge et al., 2019). An example procedure is presented in Figure 1.

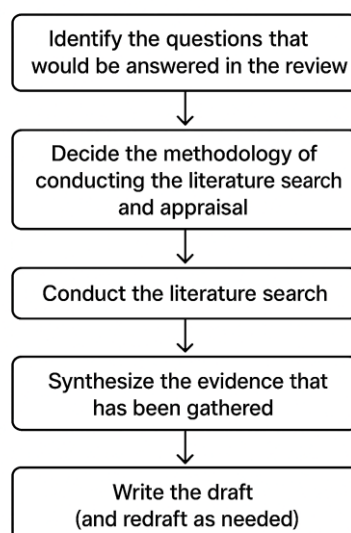


Figure 1. Steps of writing a narrative review.

Source: (Siddharth, Gayatri, 2021).

The purpose of the review conducted for this study was to identify and assess the relationship between ESG scores and banks' risk and performance. The following research questions were formulated:

Q1: What is the relationship between a bank's ESG score and risk?

Q2: What is the relationship between a bank's ESG score and operational, financial, and market performance?

The Web of Science research database was selected for the study. The search was conducted based on the following keywords: "ESG AND financial performance" AND banks, "ESG disclosure" AND "banking sector", "sustainable finance" AND "bank performance", "ESG rating" AND profitability, "non-financial performance" AND banks, and "CSR in banking" AND performance.

The search was limited to peer-reviewed scientific publications resulting from empirical research (quantitative and qualitative) published in English between 2016 and the first half of 2025. The document types analyzed were: Article, Review Article, and Proceeding Paper. The search was based on papers from fields such as Business Finance, Environmental Studies, Business, Management, and Economics. Exclusion criteria included articles not related to the banking sector, non-empirical works (e.g., essays, commentaries without data), and articles without an explicit description of the relationship between ESG and bank risk and/or performance. The search yielded 89 papers.

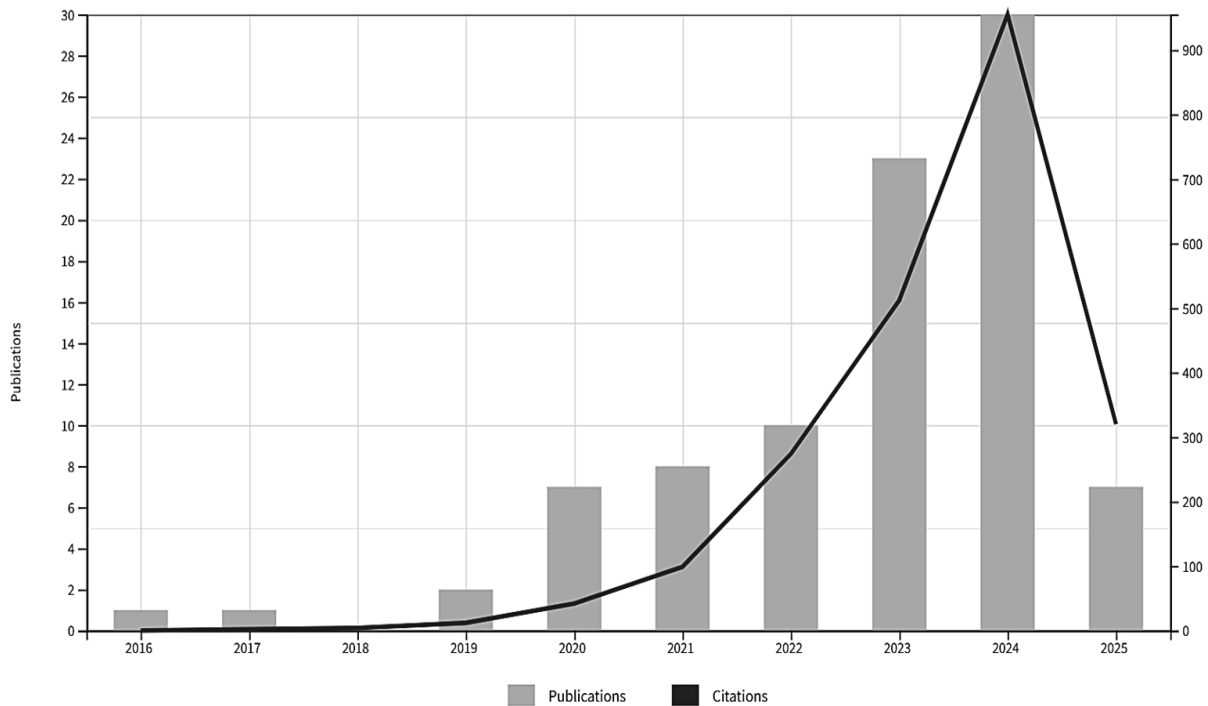


Figure 2. Number of publications and citations on ESG and bank risk and/or performance, 2016–H1 2025.

Source: own study.

Figure 2 shows the number of publications and their citations in the analyzed years. The majority of the generated documents were published in 2024 (30 articles) and 2023 (23 articles). After a detailed analysis of abstracts and the removal of irrelevant items, 40 publications were accepted for final analysis.

Based on a preliminary content analysis of the 40 publications, the publications were classified into two main research streams: bank ESG score and risk, and bank ESG score and its performance (operational, financial, market).

3.1. Bank ESG Score and Risk

The majority of the analyzed articles indicate a positive relationship between banks' ESG scores and the risks they take. Banks with higher ESG scores are perceived by the market as less risky, therefore, it can be concluded that ESG factors mitigate risk. Studies (Horobet et al., 2025; Manta et al., 2025; Porzio, Battaglia, 2024). There is a correlation between a country's cultural characteristics and the ESG risk assessment of banks registered in that jurisdiction, as well as between ESG risk and credit risk. Niedziółka et al.'s (2023) study of 330 banks from 50 countries found that the region with the highest ESG risk attributed to banks was Arab countries, while the regions with the lowest ESG risk were Western European and Nordic countries. ESG risk is linked to the credit risk reflected in an external credit rating, as evidenced by the fact that a one-unit improvement in a credit rating reduces the chance of a bank being classified as high or medium ESG risk by approximately 25% compared to being classified as low ESG risk. Aevoae et al. (2023), using a dynamic panel model (the sample consisted

of 367 public banks from 47 countries from 2007 to 2020), demonstrated the positive impact of the combined ESG score and the corporate governance pillar on reducing overall systemic risk. Gangwani and Kashiramka (2024) reached similar conclusions by examining 178 commercial banks listed on stock exchanges in 20 of the largest emerging market (EME) economies from 2015 to 2021. They found that higher ESG scores were associated with lower default risk, leverage, and liquidity.

The impact of the ESG pillar scores on banks' risk profiles varies across bank types (Palmieri et al., 2024). Research on a sample of 639 EU banks from 2013 to 2022 shows that commercial banks can reduce the risk of insolvency by improving their performance in the environmental pillar, while investment banks can reduce their performance in the area of corporate governance. Basar et al.'s (2025) research, conducted on a sample of 117 banks from 29 less developed countries from 2015 to 2022, indicates a bidirectional relationship between ESG and the Z-score risk indicator. This applies to both private and state-owned banks. Banks with fewer ESG controversies take less risk (Galletta, Mazzù, 2022). This suggests the need to integrate social, corporate governance, and environmental risks into banks' risk management.

Banks' ESG activities influence lending during financial crises. Analyzing the ESG ratings of European banks from 2002 to 2020, Danisman and Tarazi (2022) found that banks with higher ESG commitments reduce lending less during crises than banks with lower ESG commitments. Their study showed that during crises, banks with high ESG ratings are less exposed to credit risk, asset value risk, and profitability risk. Some studies do not support a clearly positive relationship between ESG performance, banks' social responsibility, and risk taking. Hojer and Mataigne (2024) examined the impact of ESG performance on European banks' risk appetite using panel data from 2005 to 2022. They observed an inverted U-shaped relationship between ESG and risk and a direct negative effect of CSR on risk density. Korzeb et al.'s (2025) research indicates a positive impact of ESG activities on bank insolvency risk; however, this relationship shifts to a negative one depending on the specific pillars of the bank's sustainability policy. Banks facing ESG controversies are exposed to increased risk, and corporate governance plays a key role in moderating these effects. Strong corporate governance structures, characterized by board diversity and independence, mitigate the financial risks associated with ESG controversies, while weak governance amplifies these risks (Del Sarto, 2025).

Di Tommaso and Thornton (2020), analyzing the impact of European banks' environmental, social, and governance indicators on their risk appetite and market value, found that high ESG ratings are associated with a moderate decrease in risk appetite, and their impact depends on board characteristics. These results are consistent with the stakeholder theory of ESG activities. High ESG ratings are also associated with a decline in bank value, consistent with the ESG overinvestment theory, which posits that limited resources are drawn away from investments. This decline in bank value occurs despite the positive indirect effect of ESG scores

on bank value through their impact on risk levels. Therefore, there is a trade-off between reducing banks' risk appetite and financial system stability on the one hand, and bank value on the other. Trinh et al. (2023), using a sample of 244 banks listed on 52 stock markets, examined the impact of corporate social responsibility on bank risk exposure during stable and turbulent times. Their study found no significant evidence that CSR intensity protects banks from extreme risk ex ante or during the global financial crisis of 2007-2009. However, investors appear to be more tolerant and lenient towards banks with stronger CSR after an economic recession, reducing the likelihood of extreme stock devaluation. Researchers have observed that banks with higher social capital and trust resulting from conducting socially responsible activities experienced lower idiosyncratic and systemic extreme risks during the COVID-19 pandemic in 2020.

To meet the increasing number of regulations, both hard and soft, banks must incorporate ESG factors into their compliance processes. Implementing ESG practices can reduce the risk of non-compliance¹ through its impact on reputation. A study by Mure et al. (2021) shows that ESG scores and the likelihood of sanctions are positively correlated. This relationship is statistically significant. Receiving financial penalties damages banks' reputations and forces them to improve their image by adopting ESG practices. According to the researchers, integrating ESG criteria is important not only for sustainable development but also for correcting unfair practices.

3.2. ESG Score and Bank Performance (Operational, Financial, Market)

Many studies indicate that pro-environmental, pro-social, and governance activities not only benefit the planet but can also positively impact banks' financial performance (Prorokowski, 2016; Porzio, Battaglia, 2024; Brogi, Lagasio, 2019; Afzal et al., 2024; Gangwani, Kashiramka, 2024), build reputation, and strengthen competitive advantage (Sain, Kashiramka, 2024). In particular, implementing a cybersecurity policy, as an element of corporate governance, improves banks' financial stability and compliance, thus increasing the bank's operational resilience (Bruno et al., 2024). ESG factors play a key role in banking performance, even in a period of rising interest rates (Sun et al., 2024). An analysis of the impact of ESG on the financial performance of Islamic banks in the GCC² countries from 2010 to 2021 showed that the social component of ESG positively affects performance indicators, the governance pillar affects ROE, and the environmental factor correlates positively with Tobin's Q (Alghafes et al., 2024). Nathania and Ekawati (2024) reached similar conclusions when examining the impact of ESG performance on bank performance in five countries of the Association of Southeast Asian Nations (ASEAN): Indonesia, Malaysia, Singapore, Thailand, and the Philippines. Their study showed that ESG performance has a significant positive impact on banks' financial performance, measured by return on assets (ROA), return on equity (ROE), and price-to-book value (PBV). The positive impact of ESG performance on bank performance is stronger for state-owned banks than for private banks. Shaddady and Alnori (2024), analyzing

the impact of Saudi banks' ESG policies on their performance, demonstrated that ESG activities play a significant role in increasing bank efficiency. Banks' ESG policies have sustained their performance during the decline in oil prices and the COVID-19 pandemic.

Effective corporate governance of financial institutions is crucial for the stability of the financial system and the prevention of financial crises. According to the study by Komath et al. (2023) (a sample of 242 banks from 43 countries) found a positive and statistically significant relationship between CSR strategy performance and bank market value, as well as between governance performance and bank market value. Furthermore, there was a statistically significant relationship between corporate governance controversy performance and bank market value.

Tasnia et al. (2021) examined CSR on the stock price volatility of 37 US banks from 2013 to 2017. The researchers found a significant and positive relationship between CSR and stock price volatility. Shareholders of US banks do not accept an excessive focus on CSR due to the additional investment costs associated with CSR implementation. Sustainable practices contribute not only to the growth of tangible assets and profitability but also to intangible assets (Lapinskaitė et al., 2025).

ESG practices positively impact the stability of financial institutions. Chiaramonte et al. (2021), analyzing the performance of European banks operating in 21 countries between 2005 and 2017, found that the overall ESG assessment, including its three pillars, reduces bank fragility. Tutar et al. (2025) reached similar conclusions when analyzing the relationship between the financial stability of banks in Turkey, assessed using the CAMELS framework, and ESG scores. The results indicate a statistically significant relationship between CAMELS indicators and ESG scores. Banks with higher CAMELS³ scores achieved better ESG scores, although this relationship was not linear. Comparative studies of "conventional" and Islamic banks showed that the environmental pillar is particularly important in conventional banking, while in Islamic banking, stability is positively correlated with the social pillar (Sendi et al., 2024).

ESG practices appear to influence the costs of debt financing in the banking sector. Agnese and Giacomini (2023), using a dataset of 19,106 fixed-rate senior bonds issued by 63 EU banks between 2006 and 2021, found that the cost of issuance was lower for banks with higher ESG ratings. These results were not due to the issuer's environmental credentials, but rather to high corporate governance standards and ESG reporting and transparency practices.

Some studies indicate an ambiguous relationship between ESG and bank performance. La Torre et al. (2021), using data from European banks listed in the STOXX Europe 600 between 2008 and 2019, examined the relationship between environmental, social, and governance (ESGP) performance and corporate financial performance (CFP). They considered various dimensions of financial performance – both accounting-based (ROA and ROE) and market-based (capitalization to book value, Tobin's Q). The results of his

study show a positive and statistically significant relationship between ESGP and VBM (Value-Based Metrics) represented by EVA Spread, and no relationship with accounting-based performance. Surprisingly, the study found a negative and very weak relationship between both dependent variables chosen to represent a bank's market performance and ESGP. According to the study's authors, the main factor "forcing" banks to adopt a sustainable business model is the actions of banking supervisors.

El Khoury et al. (2021) analyzed the impact of ESG on bank performance in the Middle East, North Africa, and Turkey (MENAT) region. Their sample included 46 publicly listed banks from 2007 to 2019. Their results indicate a nonlinear relationship between ESG and bank financial performance, with ESG investments yielding benefits up to a certain inflection point. The governance pillar exhibits a concave relationship with accounting performance, while the environmental pillar exhibits a convex relationship with market returns. Hojer and Mataigne's (2024) study of European banks covering the period 2005-2022 confirmed a U-shaped relationship between ESG and financial performance. No relationship was found between CSR initiatives and the financial performance of European banks. Furthermore, research (Jaiwani, Gopalkrishnan, 2025) conducted among Indian banks revealed that the impact of ESG on financial performance varies depending on ownership structure. In private banks, the impact of ESG on financial performance is negative but positively impacts efficiency, while in state-owned banks, environmental performance is positively correlated with return on equity and asset quality. The ambiguous impact of ESG performance on bank performance is also indicated by Bui et al. (2024). Their study aimed to assess the impact of ESG on the financial performance of 24 Vietnamese commercial banks in terms of return on assets (ROA), return on equity (ROE), and net interest margin (NIM). The study showed a positive impact of ESG policies and individual environmental (E) and corporate governance (G) disclosures on banks' financial performance. In particular, E and G have the greatest impact on ROE. However, no statistically significant relationship between social disclosure and financial performance was found. Horobet et al. (2025) obtained different results. Analyzing data from 61 European banks, they found that better environmental and social performance leads to higher ROE, while higher governance scores reduce ROE.

The aim of Halim et al. (2024) study was to examine whether sustainability reporting leads to better performance and creates value for investors in emerging markets. Analyzing data from 32 banks in Bangladesh, the authors concluded that environmental, social, and governance indicators reduce both bank profitability and value. Their study also revealed a lack of correlation between environmental and corporate governance disclosures and bank performance (ROE).

The empirical findings of Buallay et al. (2020) indicate a significant positive impact of ESG on performance and economic benefits for shareholders. However, the relationship between ESG disclosures varies across entities. The authors find that social performance plays a negative role in determining bank profitability and value. Furthermore, the authors provide evidence supporting the influence of bank- and country-specific factors on bank performance.

4. Conclusions

The aim of the review conducted for this study was to identify and assess the relationship between ESG performance and bank risk and performance. The following research questions were sought:

Q1: What is the relationship between a bank's ESG performance and risk?

Q2: What is the relationship between a bank's ESG performance and operational, financial, and market performance?

The review shows that existing research on banks' engagement in ESG activities and the relationship between ESG performance and risk and performance is fragmented, based on various methods and indicators. Typically, it is unidirectional, i.e., authors focus on the impact of banks' ESG on risk and performance, and less frequently identify factors influencing banks' ESG.

Various types of banks (private/state, commercial/investment) are explored in various regions of the world (EU member states, GCC, MENAT, ASEAN). Most studies have been limited to a selected geographic area – there is relatively little comparative research between different regions. The advantage of European banks in implementing sustainable development principles over banks in other regions is emphasized (Niedziółka et al., 2023; Basar et al., 2025). The region with the highest ESG risk attributed to banks is Arab countries, while the regions with the lowest ESG risk are Western European and Nordic countries. The actions of banking supervisors are considered the main factor "forcing" banks to adopt a sustainable business model (La Torre et al., 2021).

In answering the research questions, it should be noted that:

- *Firstly (Q1)*, most of the analyzed studies show that engagement with ESG issues in the banking sector not only helps reduce negative environmental and social impacts but also positively influences the risk they take. Banks with higher ESG scores are perceived by the market as less risky, which supports the notion that ESG factors mitigate risk (Horobet et al., 2025; Manta et al., 2025; Porzio, Battaglia, 2024; Aevoae et al., 2023; Gangwani, Kashiramka, 2024). The impact of individual ESG pillars on risk varies across different types of banks (Palmieri et al., 2024). Commercial banks can reduce default risk by improving their performance in the environmental pillar, while investment banks can do so in the area of corporate governance. Banks' ESG activities influence lending during financial crises (Danisman, Tarazi, 2022). During crises, banks with high ESG ratings are less exposed to credit risk, asset value risk, and profitability risk.

There are also studies that do not clearly confirm a positive relationship between ESG performance and risk (Hojer, Mataigne, 2024; Korzeb et al., 2025; Del Sarto, 2025; Di Tommaso, Thornton, 2020; Trinh et al., 2023). Researchers have found that high

ESG ratings are associated with a moderate decrease in risk appetite, and their impact depends on factors such as management board characteristics.

- *Secondly (Q2)*, the relationship between ESG scores and bank performance is ambiguous. Many studies indicate that pro-environmental, pro-social, and governance activities positively impact banks' financial performance (Prorokowski, 2016; Porzio, Battaglia, 2024; Brogi, Lagasio, 2019; Afzal et al., 2024; Gangwani, Kashiramka, 2024; Agnese, Giacomini, 2023), reputation, and competitive advantage (Sain, Kashiramka, 2024). A significant and positive relationship has been found between CSR and stock price volatility (Tasnia et al., 2021). It has also been noted that sustainable practices contribute not only to the growth of tangible assets and profitability but also to the intangible value of banks (Lapinskaitė et al., 2025). The studies by Bui et al. (2024), Buallay et al. (2020) and Horobet et al. (2025) show that the impact of each of the three ESG pillars on bank financial performance varies.

Reasons for these varied research results can be traced to measurement issues. Mostly it is unknown if the underlying score measures input, output, outcome or impact. One reason can be that not every question behind each data point in ESG databases is transparent for scholars (Drempetic et al., 2020). Dobrik et al. (2023) examined the relationship between company size and sustainability ratings using Refinitiv (now LSEG) ESG, E, G, and S scores. The researchers noted that there is a size bias in Refinitiv's E, G, and S scores. A one unit increase in company size corresponds to an increase in the ESG (E) score of around 5.8 (6.7) compared with previous 3.5 (4) in Drempetic et al. (2020). For G and S it is 3.7 and 6.3, respectively. To remedy the size error problem, researchers recommend that users of this database apply a correction factor that takes into account the presence of size error. Bruno et al. (2024) note that banks have considerable discretion in classifying their investments as "sustainable", which makes ESG scores somewhat imprecise. Liang and Renneboog (2017) demonstrate that CSR ratings and legal regulations in the organization's country of origin are strongly correlated. In particular, companies from common law countries exhibit lower levels of CSR than companies from civil law countries.

The findings in this study could have significant implications for banks and policymakers. For banks, understanding the impact of ESG on risk and performance could prove useful in further improving their ESG strategies, non-financial reporting processes, monitoring ESG risk exposures, and promoting sustainable development initiatives. For policymakers, evidence that ESG performance is crucial to financial institutions' business success could inform regulations that facilitate banks' implementation of sustainable practices and transparent ESG reporting. Therefore, further research could focus on national institutional frameworks governing banks' ESG activities. There is also a need for comparative studies, for example between the European Union and other regions of the world, as well as the use of data analysis methods such as multilevel modeling.

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Footnotes

- ¹ The risk of non-compliance - the risk of legal or regulatory sanctions, financial losses or loss of reputation that a bank may incur as a result of non-compliance with all applicable laws, regulations, codes of conduct and standards of good practice”, and therefore as a combination of reputational and financial elements (Basel Committee on Banking Supervision, 2003).
- ² GCC - Gulf Cooperation Council is composed of six member states: Saudi Arabia, Bahrain, Qatar, Kuwait, Oman and the United Arab Emirates.
- ³ CAMELS is an international rating system for financial institutions such as banks and credit unions, based on six key factors: Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk.