



Article

IMPACT OF ESG ON BANK PROFITABILITY AND RISK MANAGEMENT.

Article History:

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Abstract: The paper has shown the effects of Environmental, Social, and Governance (ESG) investments on the profitability and risk management of modern banking institutions. In modernized world, sustainability has become a central element of financial decision making, so banks have to incorporate ESG principles in their investment choices as well as in their operations models. The empirical investigation is based on a sample of twelve public sector commercial banks during the financial years 2023 to 2025. This study based on secondary data which is sourced from banks publicly disclosed report. A Mixed Linear Model is used to investigate the connection between ESG performance and profitability indicators (Return on Assets), as well as risk management indicators (Capital Adequacy Ratio). The research aims to identify whether high rates of ESG investment positively relate to the increase in financial stability and high long-term profitability.

Keywords: Sustainable finance, Risk management, ESG investments, Bank profitability.

INTRODUCTION

During the past few decades, the ESG investing has coagulated itself as an unavoidable aspect of corporate performance metrics especially in the banking sphere. The increased awareness of the environmental degradation, societal inequalities, and lack of governance has influenced institutions to justify the actions they undertake in operations and investments to meet the ESG principles. Such alignment is an indicator of conjuncture between financial success and sustainability, which is creating long-term value-creation and stakeholder trust. In the financial services environment, ESG issues provide a holistic prism to gauge the effect of an institution on the environment, its contribution to the society, and ethical standards of conduct. Integration

of ESG into consideration is not just corporate

altruism but has become a strategic risk management and decision-making strategy. By using ESG criteria in credit underwriting, investment selection and policy design, banks are able to determine and avert weaknesses linked to environmental damage, societal instability or governance failures and, thereby, preserve profitability. Furthermore, ESG integration leads to transparency, increased trust between the parties involved, and long-term stability, which allow completing the journey through the regulatory environment and aligning with the global sustainability goals, including climate risk mitigation and inclusive growth. Banking has a central role to play in the process of sustainable economic development by funding responsible projects. ESG-based investment approaches enable the banks to promote the ethical progress and, at the same time, increase their profitability and reduce risks. They

also add reputational capital and more trust with the clients and investors, which solidify the position of the institutions in the market.

LITERATURE REVIEW:

This literature has a very significant amount of work done with regards to the relation between ESG dimensions and corporate financial performance with various results. According to Buallay (2019), the relationship between ESG practices and performance metrics in the European banking institutions has remained positive. Similarly, Ahmad (2021) has shown that there is a reinforcement effect between ESG activities and the financial performance of the firm. However, Velte (2019) found a counterargument conclusion as ESG performance has a negative impact on AEM and no statistically significant effect on REM. Adegbayibi (2022) also explained the role of corporate governance and found that it is a moderating variable between intellectual capital investment and financial performance in the nexus.

OBJECTIVES OF STUDY:

- To analyse the impact of ESG investments on the profitability of Indian public sector bank.
- To examine the relationship between the individual ESG dimensions — Environment, Social, and Governance scores and the financial performance of banks.
- To evaluate the trend and consistency of ESG performance across Indian banks using CRISIL ESG Scores.

RESEARCH METHODOLOGY

This study is experiential in nature and analysis of data has been done with the help of secondary data from 1st April 2023 to 31st March 2025. For this study it has composed twelve public sector banks. This study adopts a quantitative, empirical research design to examine the impact of ESG investments on bank profitability and risk management.

DATA ANALYSIS

Table1: Return on Assets (ROA) and Total Assets of Public Sector Banks in India (2023–2025)

Public Sector Bank	Return on Assets [%]			Total Assets (in Crores)		
	2023	2024	2025	2023	2024	2025
Bank of Baroda	1.03	1.17	1.16	14,58,562	15,85,797	17,81,247
Bank of India	0.49	0.70	0.90	8,15,556	9,12,598	10,42,582
Bank of Maharashtra	1.10	1.50	1.75	2,67,651	3,07,138	3,69,142
Canara Bank	0.81	1.01	1.09	13,45,732	14,91,541	16,82,850
Central Bank of India	0.44	0.63	0.86	4,06,165	4,46,673	4,79,128
Indian Bank	0.77	1.07	1.32	7,10,501	7,92,619	8,73,411
Indian Overseas Bank	0.68	0.81	0.92	3,13,746	3,52,034	3,95,015
Punjab & Sind Bank	0.98	0.41	0.67	1,36,455	1,47,657	1,61,815
Punjab & Sind Bank	0.18	0.54	0.97	14,61,831	15,61,835	18,18,171
UCO Bank	0.62	0.56	0.76	3,00,863	3,23,691	3,62,481
Union Bank of India	0.69	1.03	1.26	12,80,752	13,91,958	14,99,856
State Bank of India	0.96	1.04	1.10	55,16,979	61,79,694	66,76,053

Sources: <https://www.iba.org.in/depart-res-stcs/key-bus-stcs.html>

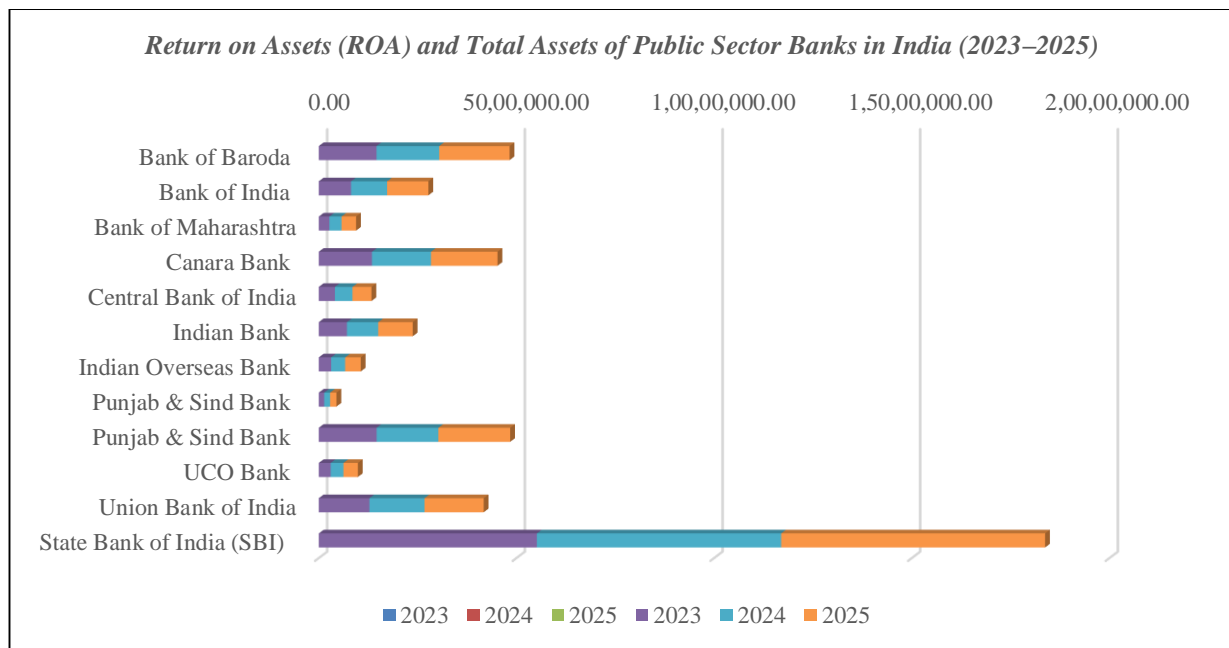


Figure 1: Graphical Representation of ROA and Total Assets of Public Sector Banks in India

The table shows the Return on Assets (ROA) and total assets of public sector banks in India from 2023 to 2025. ROA measures how profitably banks use their assets, while total assets show their financial size. Most banks record rising ROA, showing better efficiency. Bank of Maharashtra’s ROA grows from 1.10% to 1.75%, and Union Bank and Indian Bank also improve. SBI keeps a steady 1% ROA while its assets grow strongly. Overall, banks show expanding assets and steady profitability growth across these three years.

Table 2: CRISIL ESG Scores of Public Sector Banks in India (2023–2025)

Public Sector Bank	Crisil Score - 2023				Crisil Score - 2024				Crisil Score - 2025			
	Env.	Social	Gov.	ESG	Env.	Social	Gov.	ESG	Env.	Social	Gov.	ESG
Bank of Baroda	59	66	61	62	59	66	61	62	59	67	56	60
Bank of India	47	56	61	55	47	56	61	55	56	63	67	62
Bank of Maharashtra	49	62	61	57	49	62	61	57	57	58	58	57
Canara Bank	51	68	68	62	51	68	68	62	56	67	69	64
Central Bank	55	65	63	61	55	65	63	61	58	66	62	62
Indian Bank	55	64	60	59	55	64	60	59	61	63	57	60
Indian Overseas Bank	54	63	58	58	54	63	58	58	50	63	59	57
Punjab and Sind Bank	53	58	58	58	53	58	61	58	57	58	56	57
Punjab National Bank	49	64	62	58	49	64	62	58	55	62	61	59
UCO Bank	52	62	63	59	52	62	63	59	59	61	64	62
Union Bank of India	51	64	65	60	51	64	65	60	51	63	71	62
State Bank of India	60	68	67	65	60	68	67	65	60	71	67	65

Sources: <https://www.crisilesg.com/en/home/esg-ratings.html>

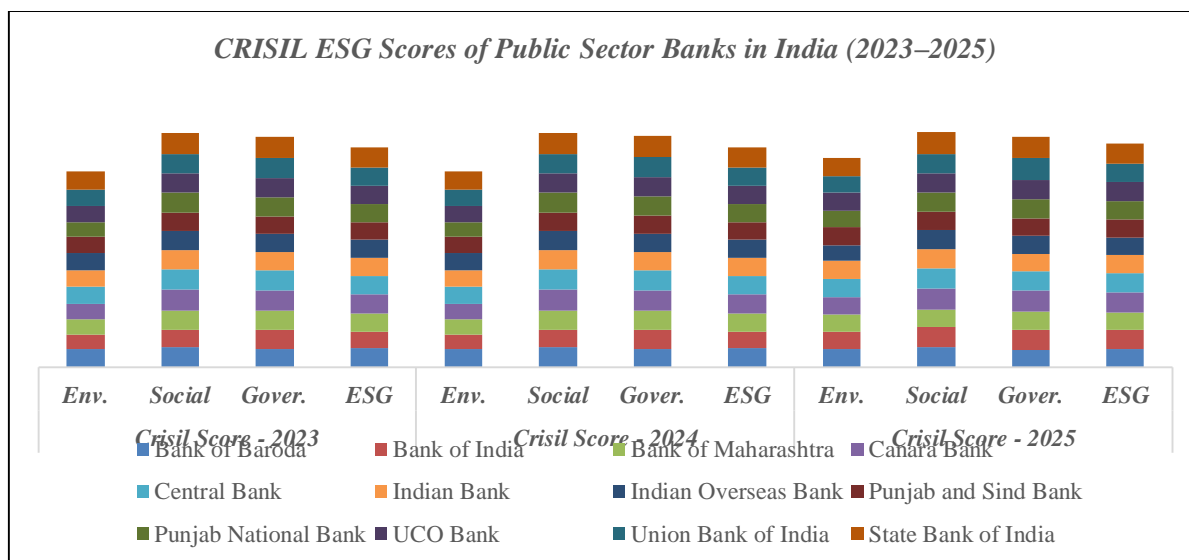


Figure 2: CRISIL ESG Scores of Public Sector Banks in India

The table shows the ESG scores alongside with the respective CRISIL ESG scores of twelve public sector banks in India from year 2023 to 2025. The performance of most institutions is either stable or improved. State bank of India takes the lead with a constant score of 65 in the three years, which has been supported by its good social and governance score. Bank of Baroda and Canara Bank are also doing well with a range score of 62-64. Indian Overseas bank and Punjab and Sind bank record a lesser score at around 57- 58. In general, the social aspect turns out to be the strongest throughout the research of the discussed banks.

Table 3: Descriptive Statistics of Public Sector Banks in India (2023–2025)

	N	Minimum	Maximum	Mean		Std. Deviation
				Statistic	Std. Error	
ESG Score	36	55	68	62	0.5	3.17
Environment Score	36	47	61	54	0.7	4.04
Social Score	36	56	71	63	0.6	3.54
Governance Score	36	56	71	62	0.6	3.75
ROA	36	0.18	1.75	0.9	0.1	0.32
Valid N (listwise)	36					

Sources: Author’s Calculation

The table of descriptive statistics summarizes the data of thirty-six observations. The average ESG Score is 61.58 with a difference of 55 to 68 which implies that the performance of the company is generally satisfactory in the environment, social and governance areas. The least mean (54.14), and the highest variation (SD = 4.04) are the environment component, and the highest mean (63.39) is the social component. Governance scores have the average of 62.42 and the medium standard deviation (SD = 3.75). Lastly, the Return on Assets (ROA) mean is 0.8883 with a range of 0.18 to 1.75 as the best indicator of the financial performance showing variability but generally positive results in the sample.

Table 4: Information Criteria of Public Sector Banks in India (2023–2025)

	Information Criteria
-2 Restricted Log Likelihood	22.429
Akaike's Information Criterion (AIC)	28.429
Hurvich and Tsai's Criterion (AICC)	29.203
Bozdogan's Criterion (CAIC)	36.095
Schwarz's Bayesian Criterion (BIC)	33.095
*Dependent Variable: ROA.	

Sources: Author’s Calculation

The table illustrates the extent to which the model fits into the data, with ROA as the dependent variable. The

Restricted Log Likelihood value is 22.429, with the Information Criteria (AIC, AICC, CAIC, BIC) is an acceptable fit. When these criteria have lower values, this means that it is a more parsimonious model and the reported numbers indicate that the model is able to capture the dynamics of ROA in respect to the public sector banks.

Table 5: Type III Tests of Fixed Effects

Source	Numerator df	Denominator df	F	Sig.
Intercept	1	34.494	276.43	0.000
*Dependent Variable: ROA				

Sources: Author's Calculation

The Type III test of fixed effects of the ROA model reveals that the intercept is the only variable of interest with an F -value of 276.430 and p -value of .000. This is a very important finding that proves the fact that the mean ROA of the banks in the public sector is not equal to zero and, therefore, this fact is substantive and material.

Table 6: Estimates of Covariance Parameters

Parameter		Estimate	Std. Error
Repeated Measures	Var: [Year=2023]	0.091702	0.042198
	Var: [Year=2024]	0.095082	0.039023
	Var: [Year=2025]	0.115729	0.053326
*Dependent Variable: ROA			

Sources: Author's Calculation

The table also shows the forecasted variances of ROA of the public sector banks in the year 2023 to 2025. Without any time connection, the variance is 0.0917 in 2023, 0.0951 in 2024, and increases marginally to 0.1157 in 2025, which means that the inter-bank dispersion of ROA grows slightly over time.

FINDINGS

The review shows that ESG investments and bank profitability (ROA) have a positive relationship among Indian banks between 2023 and 2025. A score of 61.58 on ESG with the social factor scoring the best is consistent with the fact that the ROA of banks like Bank of Maharashtra and Indian bank is on the increase, whereas SBI is level. Diagnostic tests of the models and tests of significance have a high level of strong results, which support the validity of these results. Therefore, the ESG practices seem to be increasing the profitability, governance, and social responsibility and, consequently, creating the long-term financial stability and sustainability of the Indian banking industry.

CONCLUSION

The study arrives at the conclusion that ESG investments positively affect the profitability and risk management of banks and pay attention to the increased significance of sustainable finance in the banking industry. Higher ESG bank show stronger governance, responsibility and better financial stability. These results confirm that the ESG integration is not only a reinforcement of risk management practices, but also the key to long-term profitability and trust in the stakeholders. In general, ESG-based policies are essential in the creation of sustainable development within the banking sector of India.

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