

The Effect of Environmental, Social, and Governance (ESG) Performance on the Financial Performance of Banks; Evidence from the banking sector of Bangladesh

Sanita Ceramics Pvt. Ltd

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Submitted in Partial Fulfillment of the Requirements for the Degree
Bachelor of Business Administration



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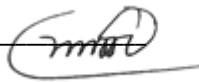
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Letter of Transmittal

April, 2026

Sarwar Uddin Ahmed, PhD

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Subject: Submission of Project report on “The Impact of Environmental, Social, and Governance (ESG) Performance on the Financial Performance of Banks”

Dear Sir,

I am pleased to submit this research report titled "The Impact of ESG Performance on the Financial Performance of Banks in Bangladesh" which has been prepared as a prerequisite for the completion of my undergraduate program Bachelor of Business Administration (BBA) at the University of Liberal Arts Bangladesh (ULAB).

This report examines the impact of ESG performance on the financial performance of 38 banks in Bangladesh using Return on Assets (ROA) as the measure of profitability. The study uses descriptive statistics, correlation analysis, and OLS regression to analyze the data and draw meaningful conclusions.

I have tried my best to complete this report accurately and thoroughly. I acknowledge that this report may have some limitations and I humbly request your kind consideration in this regard.

I am truly grateful for your constant guidance, valuable feedback, and encouragement throughout this research. Without your supervision, the completion of this report would not have been possible.

I sincerely hope this report meets your expectations.

Yours sincerely,

Md Sabbir

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I would like to say that I would like to thank everyone who supported and helped me during this research project on the impact of ESG performance on financial performance of banks in Bangladesh.

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I would also wish to convey my sincere gratitude to the faculty members of the School of Business, ULAB, to have given me a sound academic background in finance, accounting, and methodology in research. The skills and knowledge gained in their courses played a crucial role in developing my grasp of ESG structures and financial analysis.

I would like to express my appreciation to the management and employees of the 38 commercial banks that participated in this study by availing their annual reports to the public. These institutions have transparency and disclosure practices that helped me to gather the required information in this empirical analysis.

This research is not only an academic achievement but also a personal dedication to comprehending the role of sustainable business practices in determining the financial performance in the environment of the developing banking sector in Bangladesh.

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Part A

Chapter 1 : Internship Preparation

In this part I will talk about my internship motivation, experiences that I had faced to search for an internship.

1.1 Internship motivation

Internship is like a bridge that reduces the gap of theoretical knowledge gained from academic studies and real world professional experience. We know that most of the time bookish knowledge and practical experience defer a lot. To cover up the gap internship period is a great opportunity and from the internship I want to gain practical business experience, enhance my technical and analytical skills.

I especially want to learn how businesses handle their day to day operations and how they implement their strategy to get a positive outcome. Moreover I think this internship will help me to improve my problem solving skills and communication skills. As I have to work with others, I hope this will help me to express my thoughts publicly which will improve my public speaking ability. Since I will work in a business environment with different perspective people it will improve my adaptability skills also. By the end of this experience, I want to gain real life business related knowledge which will help me to be a suitable candidate for the future career opportunities.

1.2 Internship search process

The internship searching process is lengthy. I had looked for internship circular in social media ,Bd jobs and LinkedIn. I also dropped a CV in the ULAB career services office. I applied to many organizations like Bkash, Grameen phone , Banglalink ,Brac EPL investment banking, Data path etc. Though I got a call for an interview from Bkash ,Brac EPL and datapath , I failed to secure the internship. Among this interview, the Brac Epl interview went perfectly. In the interview they asked me about investment banking, stock market and main problems faced by Bangladeshi banks etc. Datapath internship recruitment process is also excellent. Their recruitment process is divided into three parts which are typing test, Excel test and IQ test. Then they arrange a viva for the participants who clear the previous steps and in the viva they ask basic questions. Moreover, I was able to reach the Bkash FGD round but couldn't go further. All these failures made me frustrated. Then through my brother in law connection I got a chance in the Account and Finance department at Sanita Ceramics Pvt. Ltd. and it is located in Nilphamari.

1.3 About the organization

Sanita Ceramics mainly produce wall tiles, floor tiles, homogeneous ceramic tiles, wash basins, Asian pan styles, and urinals. The company operates two production factories, one producing sanitary ware items and other producing ceramic tiles. The tiles factory is much larger than the sanitary ware factory. Approximately 400 to 500 people are connected to the company including contractual employees and monthly paid employees and they have dealers all over Bangladesh. As my hometown is in Thakurgaon, it was easy for me to work from home but I stayed most of the days in my brother-in-law's home during the internship period.

1.4 Internship interview experience

On 4th January I went to the company and informed the security guard that I came for an internship program. Then the guard called in the office to verify and after verifying he guided me to the waiting room where I waited for 8 to 10 minutes. After that a staff member took me to the manager's desk. First I gave a salam and the manager answered the salam with a smile. Though he knew why I came still asked why I came to him. I answered that I am looking for an internship opportunity at his company and handed over my printed CV to him. After looking at my CV he asked about my future goal and some basic personal information. He also asked about my Excel skill, basic accounting formula and which department I am interested in. Moreover he also mentioned that I had to follow all the office rules and regulations strictly and had to come to the office before 10 am. If I failed to arrive on time , I would be marked absent in the attendance sheet. He also informed me that I would receive 7000 tk per month as internship allowance along with free lunch at noon and tea and biscuits in the afternoon. After that he told me to come to the office from the next day, which is 5th January 2026. Before leaving, the manager instructed the guard to show me the office room and the sanitary ware factory.

Chapter 2: About The Internship

This part focuses on my overall internship role and responsibilities with Sanita Ceramics a leading ceramics manufacturing company in Bangladesh. During my internship I have gained knowledge about the administrative and operation function of the company. This part is divided into three sub sections – first one is my position as an intern, office description, work environment and daily duties, second one is things I learned and contribution to the company, third one focuses on relating educational learning with internship role and responsibilities.

2.1 Office description, Position, Duties and work environment

2.1.1 Office description:

My internship journey officially started on 5th January and I reached the office on time. In the main gate two security guards are appointed whose duty is to keep record of the employees arrival time. In the entry register I entered my name and arrival time then the guard allowed me to enter the company. After that I went to the first floor waiting room and waited for the manager. The manager Mr. Hachanur Jaman came within one or two minutes and took me to the office room and there he introduced me to Mr. Harun who is in charge of the accounting and finance sector of the company. As the desk is large enough, he placed a chair beside him and instructed me to use it. The office building is three stories.

- Ground floor : On the ground floor a room is allocated for the store keeper and the rest space is used to display final goods of the sanitary ware. This gives a clear view of the final finished products to the clients.
- First floor : The 1st floor doesn't have any separate room except the kitchen and washroom, instead glass partitions are used to divide the desks of different departments. The first floor consists of individual desks for Account and Finance, Tax and Audit, IT, manager and the head production supervisor and each sector is managed by a different individual. There is also a waiting room which is made entirely of glass.
- Second floor : The second floor has three separate rooms, one for the managing director (MD), one for general manager (GM) and one for Production Manager (PM).

Moreover, the balconies of the first and second floor are decorated with different types of potted trees and the first floor balcony is my favourite place in the entire office.

2.1.2 Position and Duties at the company:

My position as an intern was not fixed as I had to work with the Accounting and finance department, IT department, Taxation department and the manager as a helping hand. First some days I was assigned to the Accounting and finance department and there my duty was to prepare invoices, do necessary photocopies and prepare transport slips. After one week they rotated my duties in the IT department where my responsibility was to update stock records and update the products price in their price sheet. Moreover, I was assigned to cross check the stock records by physically visiting the storehouse. Again under the manager's guidance I had to collect all the employees CV from the security guard and update the salary sheet by tracking the submitted CVs and had to ensure the presence of the Managing Director's (MD) signature and had to update the salary in the sheet if the salary had increased or department changed. Moreover in time of salary giving, I was assigned to count absence, overtime and advances and update in the salary sheet. During the internship period I also had to maintain ledger books for purchase and sales, update the daily transaction register and maintain supplier and dealer balance sheets in the company's software system. Another important duty was to recalculate the cash inflow and outflow to ensure accuracy in the financial records. Sometimes I needed to pay a visit inside the factory to see whether the employees were working or not.

Additionally, I gained knowledge about the operation and production process of a ceramic factory including raw material preparation, molding, drying, polishing and glazing, firing, quality control and storage of the finished goods. During the inspection time, I observed how raw materials like clay, feldspar and fine stone powder are mixed in the giant rolling machine with water and made a thin paste mixture. Then the mixture is poured into the readymade molds and left for drying. After the drying process, the unfired product goes to the polishing sectors where workers polish and glaze the products and then products are fired at a high temperature to produce durable tiles and sanitary ware. This insight helped me to understand the practical operations of a manufacturing company beyond the desk responsibility.

2.1.3 Work environment:

The work environment is good enough. The entire office along with the factory is under CCTV surveillance and the system is controlled and monitored by the Managing Director and this helps to identify individuals responsible for any misconduct and allows management to take appropriate disciplinary action against them. For our recreation, a carrom board is available on the ground floor where the employees occasionally play in the launch break. Moreover all the employees in the office including the top management shows a positive attitude towards me. During the internship period the manager took me out for afternoon snacks four times. Moreover on 9th March the Managing Director invited all the

office employees to his house on the occasion of his daughter's birthday. Though sometimes small conflicts, miscommunications arise between the employees but it never turns into a serious issue in front of me. Overall the working environment is friendly and supportive.

2.2 Skills learned and contribution to the company

2.2.1 Skills learned at the company:

Throughout the internship period, I developed and applied multiple skills while performing my daily assigned tasks. Some of the learned skills are –

1. **Accounting and record keeping:** During my internship I managed ledger books for purchase and sales. Moreover, I maintained daily registers and prepared sales invoices.
2. **Stock and Inventory management :** I was assigned to update the products' stocks regularly and cross check it by physical visit to the storehouse. From this I was able to know which product and model had the most demand in the market.
3. **Software Proficiency :** As sometimes I had to maintain the supplier and dealer balance sheets in the company's software, it helps me to gain knowledge about practical experience in digital record keeping.
4. **Analytical Skills:** I had to verify financial transactions to ensure accuracy and identify any mismatch in the records.
5. **Communication and Teamwork:** In the internship, I had to work not only with the Accounting and Finance department but also with other departments which improved my team work skill. Moreover, I have learned how to interact professionally with colleagues which improves my communicational skills.
6. **Time management and Discipline:** I had to manage multiple tasks daily and finish them on time which improves my time management skill. Moreover , the office time table, rules and regulations made me disciplined.

2.2.2 Contribution to the company:

During my internship, I contributed to maintaining accuracy of the company's financial records. Daily I updated the ledger books, stock records and transaction register. I tried to ensure that all the data was recorded properly with zero errors. This helped the company to maintain reliable data for its daily operations.

I also helped in preparing invoices and other daily necessary documents required for the company's daily operations. My involvement in documentation ensures that records are easily accessible in time of need.

Moreover, I was assigned to keep all the records digitally recorded in the company's software system which will reduce manual errors and make it easier for the management to keep track of the financial information.

These responsibilities help me to gain real world business operation experience. They also helped me to understand the importance of accuracy and discipline to maintain a well organized workplace.

2. 3 Relation Between Educational Learning and Internship

This internship allows me to apply my theoretical academic knowledge in the real world. Concepts learned in the courses such as Financial accounting and Operations Management were applied while maintaining ledger books, checking daily cash inflow and outflow and managing stock records. Moreover, understanding double entry book keeping in class helped me to record daily purchase and sales transactions accurately and the knowledge of financial statements helped me to maintain supplier and dealer balance sheets efficiently. Again the basic accounting equation that I have learned helped me to enter variables in the company's software system accurately which eventually helped me to maintain digital records more efficiently.

Though I rarely found similarities between my Finance major courses academic knowledge and the work that I performed during my internship period, this internship developed my problem solving skills. Overall, the internship at Sanita Ceramics helped me to connect some academic concepts with practical tasks and gain insight into how a manufacturing company operates. Moreover, It helped me to develop essential professional skills that will help me in the long run in my future career.

Chapter 3 : Self Reflection

This chapter reflects my observations and experiences during the internship period at Sanita Ceramics.

3.1 Things I liked and disliked at the internship

3.1.1 Things I liked at the internship

1. **Structured work environment:** As the office has product display on the ground floor, administrative activities on the first floor and managerial activities on the second floor, it ensures a smooth workflow. Moreover the first floor desks have a glass partition which creates a balanced environment as privacy is maintained without limiting the visibility.
2. **Hand on learning opportunity:** All the staff were very cooperative and helpful. In the beginning days the supervisor taught me everything very politely. If I made a mistake in the ledger book entry, preparing invoices, updating the price and stocks of products, they helped me to find the problem and fix it. Moreover, working with the digital record keeping system improved my technical skills also.
3. **Exposure to factory operation :** Beyond the office work, I got an opportunity to know about the manufacturing activities of the company. I got basic knowledge of the process from raw materials to finished goods. This experience helped me understand how coordination between administrative and operation units is important for achieving organizational goals.

3.1.2 Things I disliked at the internship :

1. **Work schedule :** As it is a manufacturing company, the production process is a continuous operation and for this no off day is given in the weekend when the company is in full operation. But when the production is off, the employees can take half day off on Friday. Moreover, In the time of my joining, the Production manager (PM) post was vacant and for this extra work pressure occurred on the existing employees. In the first half month of the internship, I needed to stay at the office till 9 to 9:30 pm with others until the finished products came out from the firing section which were put in the fire section in the morning and after checking and counting the good products production supervisor had to write it in a register and need to take a signature from the manager. Moreover, every section has a supervisor and each supervisor had to write about the tasks performed by the laborers under their supervision throughout the day in the daily work register and after that they had to take the manager's signature under the written daily tasks.

2. **Double entry:** Though the company has a digital record system, it also maintains manually written transactions in the register. Separate registers are used for ledger entries, cash inflow and outflow, sales transactions and purchase transactions. Because of manual entry, it causes a lot of time which may reduce employees' work efficiency.
3. **Late salary payment:** During my internship period, I show that the management disbursed the salary 10 to 13 days after the end of the previous month.

3.2 How could I do better and the Organization could utilize me better

To improve my performance during the internship, I believe that I could be more proactive by taking other tasks beyond my assigned tasks. Moreover, seeking weekly feedback from the manager and other staff would have helped me to identify my weaknesses earlier and improve my performance. Moreover, if I could give more focus on the time management skills, I would complete the tasks more quickly while maintaining accuracy. Again spending more time on observing the production process and quality control could have enhanced my knowledge about manufacturing companies.

To utilize my potential the company could provide clear guidance on role and responsibilities. Providing structured training on internal systems and procedures would enhance my efficiency and accuracy in the daily duties. Moreover, daily feedback and guidance would improve my performance. If they give me more responsibility, proper guidance and learning opportunities, they can make better use of my skills which will also help me to grow professionally.

3.3 Recommendation

Based on my internship experience, I would like to suggest some recommendations to the management committee that will make the internship program more effective.

Firstly, the company could assign small analytical tasks such as preparing simple reports to the interns which will help the interns to improve problem solving skills and also make the internship program more engaging and practical.

Secondly, clear instructions and proper communication should be maintained so that the interns can complete their assigned tasks without any confusion.

Thirdly, they should ensure that the employees get their salary by the 10th of each month. It will improve employee satisfaction which will lead to higher work efficiency.

Finally, they need to ensure that unfinished work doesn't become a burden for other employees. Moreover, by introducing a task based reward system will make the employees more motivated and energetic to complete their tasks on time.

Chapter 4: Personal Development Plan

This chapter focuses on my future plan and course of action and the technical and interpersonal skills that I aim to develop.

4.1 Career Plan and Future Course of Action:

As my major is in Finance, I plan to build a career in the field of finance. My short time goal is to secure an entry level job in the finance department where I can enhance my practical knowledge. Moreover, I will admit myself to some online and offline courses where I can get guidelines on how to prepare for job exams and what things I need to study. I am interested in building my career in the banking sector or in a multinational company and my ultimate career goal is to be a capital market analyst or investment analyst. To reach my goal the first step will be pursuing an MBA degree from a reputable university which will enhance my career opportunity. I also aim to continuously update my knowledge to keep up with the changing trends and developments in the financial sector.

4.2 Skills Development for Career Growth :

In recent times technical and interpersonal skills are very important for securing employment and lagging in skills slow down career growth.

4.2.1 Technical Skills:

To improve my technical skills I will do some courses on the following topics –

Data Analysis: I will take courses in data analysis to improve my ability to analyze financial data, understand data patterns and interpret results efficiently.

Data Visualization: I will take courses in data visualization to learn how to present data more professionally using charts, graphs and dashboards with tools like Tableau and Google Data Studio.

Advanced Microsoft office: I will enroll in advanced Microsoft office courses to improve my skills in using formulas, pivot tables and financial function for data analysis and I want to learn how to add animation in presentation slides to make the slides more attractive.

Financial Forecasting: From online available courses I will try to learn how to predict future financial performance using historical data and trends

Investment Analysis: I want to learn how to analyse stocks, bonds and other investments options and for this I will enroll in courses because I have a great interest in the stock market.

4.2.2 Interpersonal Skills:

Alongside with my technical skills, I want to improve my communication skills as I have some lacking in public speaking and for this I want to take English speaking courses. Moreover, I want to improve my team work and collaboration skills by involving in social activities.

I also want to focus on time management as it is an important factor that defines work efficiency. I will try to improve my adaptability skills which is important to survive in the new environment. Moreover I aim to practice self care and maintain my mental, emotional and physical well being to stay focused to achieve my personal and professional goals.

The Effect of Environmental, Social, and Governance (ESG) Performance on the Financial Performance of Banks; Evidence from the banking sector of Bangladesh

Executive summary

This study displays the effect of Environmental, Social and Governance (ESG) performance on the financial performance of banks in Bangladesh using a quantitative research design. The study analyses cross sectional data from 38 banks for the year 2024 and data is retrieved from the annual reports of banks. ESG performance is measured through a structured questionnaire which contains 20 indicators. The score is given on a scale of 1 to 5. In this report ROA is used as a substitute for financial performance and bank size, age, and non-performing loan (NPL) ratio are taken as control variables and logarithm value of total asset is used as a substitute for bank size. Descriptive statistics, correlation analysis and Least Squares regression are used to analyse the collected data. After the analysis, the result indicates that overall ESG performance has a statistically significant negative influence on Return on Asset (ROA) as its coefficient is -0.067 and p value is 0.03. The component that has the most significant negative relationship with profitability is the environmental factor (coefficient -0.14 & p value<0.05) and it is because short term environmental activities act as a burden and take time to generate return but social (coefficient 0.04, p value > 0.05) and governance (coefficient 0.11 , p value > 0.05) factors reflect a positive influence but they have statistically insignificant influence on ROA. So, in the short term, social and governance factors help to increase profit slightly. Moreover, bank size (coefficient 1 , p value > 0.05) has a strong positive influence on ROA while the NPL ratio (coefficient -0.082 , p value > 0.05) has a significant negative influence which indicates that higher credit risk reduces profitability and these two variables are the main drivers of profitability in this study. Bank age has no significant influence on ROA. The study will enhance our understanding of the recent situation of ESG practices in the Bangladeshi banking sector where ESG practices are still at an evolving stage. It will also provide useful insights for bank managers, regulators and policymakers who want to understand whether investing in ESG actually improves or reduces banks financial performance in the context of Bangladesh.

1. Introduction

1.1 Background of the study

The banking sector has an important role in the development of any country's economy as it supports trade, investment and industrial growth. To achieve economical stability it is very important to have a strong banking system . In recent years the performance of Bangladeshi banks hampers because of the raising of bad loans. 35% of the total outstanding loans in 2025 are non performing loans which is one of the main reasons for low profitability. So, to solve this issue and improve banks performance becomes one of the most talked about topics. One of the ways is implementing Environment, Social and Governance (ESG) practices in bank operation and it is considered as one of the most important analytical tools to measure long term sustainability. It also indicates how organizations are handling environmental issues, responding to social needs and maintaining the transparency and responsibility of the governing body.

According Ahmed et al. (2018), ESG not only improves the chance of profitability but also improves the governance and social responsibility factors which will eventually affect the banks financial performance. Moreover, it helps banks to make more prudent lending decisions and it leads to better financial performance. Some studies identified that ESG has a positive effect on financial performance and among the ESG components social factors have the most influence on banks profitability (Mateev, M et al. , 2026).

There are some disputes about the relation between bank performance and ESG. Some studies show a positive relationship between them, and some show a weak relationship. Again, some studies recommend that the effect of ESG depends on different institutional and regulatory environments (Shakil,et al. , 2019).

This study focuses on conducting an empirical research on the effects of ESG performance on the Bangladeshi banking system and the performance is going to be determined by Return on Assets (ROA) as it is straightforward and uniform across firms and industries (Ahmed et al. , 2018). Moreover, this study also tries to identify the relationship between the individual component of ESG with Return on Asset (ROA).

1.2. Research Question

What is the effect of ESG performance on the financial performance of banks ?

1.3. Research objective

To examine the effect of ESG performance on banks financial performance.

2. Literature Review

There are a lot of research papers where researchers try to analyse the relationship between ESG performance and bank performance among them some use primary data and some use secondary data or buy ESG data from verified sources. Some research papers are based on global context and some based on specific countries.

2.1 Global Context

A study was conducted to see the relation between ESG factors and banks financial performance during the Covid-19 pandemic and they took data from 333 banks located in 53 countries in Asia, Europe and America. They took Return on Asset (ROA) , Return on Equity (ROE), Earning per Share (EPS) as dependent variable, ESG and its components as independent variable and bank size, leverage, loan to total deposit ratio, GDP per capita as their control variable. Moreover, they took the data of ESG from Refinitiv Eikon. From analysing the data, they found that environmental performance had a negative influence on profitability but social expenditure had a positive influence on banks profitability (Dragomir et al. , 2022). Moreover , according to Menicucci and Paolucci (2023) ESG policies had a negative impact on the market performance of the banking sector in Italy for the period of 2016 to 2020 but the individual component of ESG had mixed impact. Among environmental indicators emission and waste reduction had a positive impact on financial and operating performance but social activities reduced performance.

Another study was conducted based on 660 global banks for the period of 2002 to 2023 and found that banks performance and stability is improved by ESG but it depends on the individualistic cultures of a country. Moreover they also found that countries with strong governance and culture showed more effectiveness in improving bank stability (Liaqat et al. , 2025). Zaman et al. (2022) reported that ESG had a positive influence on the financial performance of UAE banks for the period of 2014-2019. For the research they extracted data from Bloomberg terminal and took ROA, ROE as dependent variable, ESG and its component as independent variable and size, age, leverage as control variable. They also found

that environmental and governance factors didn't have a significant influence on banks' performance. Again a study on 108 listed banks in Europe and United States for the period of 2011 to 2016 was conducted by Birindelli et al. (2018) who found that banks ESG performance is highest when the board size is large and gender balanced and it has CSR committees and it indicates good corporate governance increases the chances of banks sustainability. A similar study was conducted in the MENA region bank by Mateev et al. (2026) and found that ESG had a positive but non linear impact on banks performance and among the ESG components social factor had the most influence on bank profitability. Moreover bank size also had a significant influence on performance. They also found that ESG impact on Islamic and Conventional banks performance had no major differences.

2.2 Asian Context

A research was conducted based on 24 Vietnamese commercial banks from 2018-2022 to identify the influence of ESG disclosure on banks financial performance in terms of ROA, ROE and NIM and found that the environmental and governance component of ESG has a great influence on ROE but social factors failed to show significant impact (Anh et al. , 2024). To find out the effect of ESG on financial performance of Indonesian banks, Gutiérrez.Ponce et al. (2023) conducted a research and took ROA, ROE and Tobin's Q to measure financial performance and took size and leverage as control variables. Analysing the data, they found that ESG had a negative influence on banks financial performance but the social component had a positive influence on ROA and ROE. Moreover, governance had a negative influence on Tobin's Q while environmental factors had no significant influence on banks performance.

Another study was carried out on the effect of ESG practices and green innovation in enhancing firms financial performance and to conduct it they took data of non financial firms listed on Pakistan Stock Exchange. They had collected primary data and analyzed them by Least Square regression model and found that ESG components had a meaningful positive influence on ROA but they had a meaningful negative impact on ROE. Moreover, they acknowledged that ESG in emerging economies was not widely accepted but can be used through green innovation to improve financial performance (Bashir et al. , 2025). According to Farooq (2015), ESG disclosure practice had a negative influence on firm performance for the period of 2005 to 2010 in India and this inverse relation is observed because ESG activities were considered as an extra cost in the emerging market. Another significant finding of the researcher was that ESG had a negative relation with firm performance in environments with fewer information gaps but it had no significant impact in environments with higher information differences. Another research was conducted on 30 private commercial banks in Bangladesh in 2018 on considering ESG factors in banks lending and found that considering ESG factors in lending helps to improve banks

Return on Asset by 5.8% and among the ESG components governance had the most significant positive influence. The researchers took age and turnover as a proxy of bank size as control variables and discovered that age had a negative influence on performance but size had a positive effect on performance. They also found that new generation banks had a positive attitude towards ESG components (Ahmed et al., 2018). According to Hania et al. (2023), both conventional and Islamic banks showed similar results in terms of ESG influence on bank performance. The study also showed that leverage positively affects commercial banks performance but negatively affects Islamic banks and ESG is positively related to firm size and board size which means larger banks with bigger boards disclose more ESG practices which increase banks Return on Equity (ROE).

So, research connected to ESG practice and bank performance is in the evolving stage. Previous studies show that ESG improves bank performance but its effectiveness is limited due to weak regulatory framework, data limitation and external influences. Moreover, the adaptation of ESG practices is not widely accepted in the Bangladeshi banking sector but Bangladesh Bank introduced the Green Banking Guideline in 2011 and from 2013-2014 banks were strictly instructed to publish sustainability reports every year and banks must invest at least 5% of their total loans in green financing. From that every bank tries to follow the guidelines but the implementation remains uneven across banks. There is some research on the effect of ESG practice on banks financial performance in Bangladesh. So, this study focuses to find out the effect of ESG and its individual components on banks financial performance in Bangladesh for the year of 2024 and here ROA will be used to measure the bank performance as it remains constant across firms and industries.

3. Research Hypothesis:

Depending on the theoretical analysis of ESG and banks profitability the following hypothesis can be proposed –

Hypothesis: Higher ESG performance leads to better financial performance of the banking system in Bangladesh. (Ahmed. U et al, 2028)

This hypothesis can be converted into the functional model–

$ROA = f[ESG, \text{control variable (size, age, NPL ratio)}]$

Here, ROA is taken to measure performance and ESG is taken as an independent variable and bank size, age and NPL ratio as control variables.

4. Methodology

This study uses a descriptive quantitative research design where secondary data is used to find the influence of Environmental, Social, and Governance (ESG) performance on banks financial performance in Bangladesh. This report is focused on a total of 38 banks fully operating in Bangladesh and they are selected based on the required data disclosure. The report covers the year 2024 only and the data is collected from the annually published financial statements of banks.

4.1 Sampling Method

Purposive sampling method is used to source data and it is a non probability sampling technique where samples are selected based on their connection to the research objectives and the availability of the required information. This method is used because not every bank publishes their annual report every year and it also ensures that the analysis is conducted on reliable and comparable data which is very important to find the real effect of ESG on ROA.

4.2 Variables

4.2.1 Dependent variables: Here Financial performance is taken as the dependent variable and it is going to be measured by Return on Asset.

$$\text{Return on Asset (ROA)} = \frac{\text{Net Income}}{\text{Total Asset}}$$

It shows management effectiveness in utilizing assets to generate earnings. It is considered as a superior proxy of profitability as it remains unaffected by differences in capital structure or leverage ratio. Higher ROA indicates effective utilization of assets and managerial competence while negative ROA indicates operational inefficiency and poor asset quality.

4.2.2 Independent Variable: ESG and its components are taken as the independent variable.

Here ESG score is given based on readers perspective means the more descriptive way banks describe their environmental, social and governance issues will get better score. A questionnaire was made of a total 20 questions to measure ESG and each question was scored on a scale from 1 (lowest) to 5 (highest). So the range of ESG score lies between 20 to 100 as minimum value can be 20 and highest value can be 100.

Table 1: Factors that are considered in calculation of ESG score

ESG components	Minimum Score	Maximum Score
Environmental Issues		
Green financing disclosure	1	5
Waste management initiatives (recycling)	1	5
Carbon emission and GHG management	1	5
Renewable or energy-efficient financing	1	5
Climate change initiatives	1	5
Awareness programs	1	5
Energy efficiency measures (e.g., renewable energy, wastewater treatment)	1	5
Compliance with environmental laws & risk policies	1	5
Total score in Environmental score	8	40
Social Issues		
Employee recruitment processes disclosure	1	5
Employee training programs and skill development initiatives	1	5
Workplace health, safety & equal/disabled opportunity	1	5
CSR activities and associated expenditures disclosure	1	5
Employee retirement plans and benefits	1	5
Sustainability reporting practices	1	5
Total score in Social score	6	30

Table 1: Factors that are considered in calculation of ESG score

ESG components	Minimum Score	Maximum Score
Governance Issues		
Independent directors disclosure	1	5
Audit committees structure and role	1	5
Risk management committee activities	1	5
Separation of chairperson and CEO roles	1	5
Board meeting attendance and decisions	1	5
Annual report regular disclosure	1	5
Total score in Governance score	6	30

We put 40% weight on environmental factors and 30% each on social and governance and the reason to put more weight on the environmental factor is environmental risk directly affects the borrowers and increases loan default risk. Moreover investors now are more focused on environmental issues which makes it more important for enhancing banks performance.

4.2.3 Control Variable: It helps to keep things fair. The control variables are Bank size, age and NPL ratio.

Logarithmic value of total assets is taken as a substitute for bank size and it is taken as a control variable because large banks have better diversification and better access to the capital market compared to small banks which may give advantage to large banks in terms of profitability. So, considering bank size as a control variable will help to identify the true effect of ESG and its component on banks financial performance.

Age is also an important control variable because many older banks have more experience, reputation and customer loyalty than new banks. So including age ensures that customer biasness and operational experience doesn't influence ESG impact on banks profitability.

NPL ratio quantifies credit risk and it has a direct impact on banks profitability. Higher NPL ratio shows poor loan recovery and it drives towards higher credit risk. Moreover, it has a direct influence on financial performance so controlling it helps to ensure that differences in profitability are caused by ESG practices not by other factors.

4.3 Model Specification

In the research, we ran the regression model two times. First we ran the model to see the effect of ESG on ROA and second time to see ENV, SOC and GOV effect on ROA.

ESG impact on ROA

$$ROA = \alpha + \beta \text{ ESG} + \beta \text{ SIZE} + \beta \text{ AGE} + \beta \text{ NPL_ratio} + \varepsilon$$

Environment, Social and Governmental factors impact on ROA

$$ROA = \alpha + \beta \text{ ENV} + \beta \text{ SOC} + \beta \text{ GOV} + \beta \text{ SIZE} + \beta \text{ AGE} + \beta \text{ NPL ratio} + \varepsilon$$

4.4 Data analysis technique

This is a quantitative analysis to identify the connection between ESG and Bank performance. The data analysis part is divided into three stages. In the first stage, descriptive statistics are calculated to understand the fundamental features of the data like mean, minimum, maximum, standard deviation. In the second stage, a correlation matrix is generated to analyse the relationship between all variables and thirdly, two separate regression models are estimated using Least Squares method to identify the effect of ESG and its individual component on bank performance.

4.5 Data Analysis Tools

To analyze the data EViews 14 student version is used. In EViews, descriptive analysis, correlation matrix and Least squares regression method is used to see the distribution of variables, connection among all the variables and the effect of ESG and its component on banks profitability.

5. Finding and Discussion

5.1 Descriptive Statistics

Table 2: Descriptive statistics of the variables

	ROA	ESG_SCORE	ENV	SOC	GOV	SIZE	AGE	NPL_RATIO
Mean	-0.4974774...	81.2631578...	27.4210526...	25.1578947...	28.6842105...	26.3084092...	29.5789473...	21.4848304...
Median	0.35100593...	81	26	26	29	26.7102131...	26.5	14.8568472...
Maximum	1.73639424...	99	39	30	30	28.4474036...	59	68.5517478...
Minimum	-10.146987...	64	13	16	25	22.4600949...	5	1.28773612...
Std. Dev.	2.58650993...	10.7695371...	7.06965949...	4.14941425...	1.59569121...	1.45885799...	14.2632235...	22.0756720...
Skewness	-2.3408752...	0.01814286...	0.06459072...	-0.7644246...	-1.1295106...	-1.0706480...	0.20618050...	1.16242171...
Kurtosis	7.96171524...	1.81088334...	2.01609254...	2.56762754...	3.12373895...	3.76055306...	2.21287703...	2.94328740...
Jarque-Bera	73.6842261...	2.24091553...	1.55920606...	3.99684954...	8.10427305...	8.17568378...	1.25020661...	8.56284603...
Probability	9.99248673...	0.32613046...	0.45858801...	0.13554863...	0.01738519...	0.01677539...	0.53520613...	0.01382297...
Sum	-18.904141...	3088	1042	956	1090	999.719551...	1124	816.423555...
Sum Sq.	256.935627...	255232	30422	24688	31360	26379.7769...	40774	35572.1276...
Sum Sq. Dev.	247.531244...	4291.36842...	1849.26315...	637.052631...	94.2105263...	78.7458656...	7527.26315...	18031.4060...
Observations	38	38	38	38	38	38	38	38

Table 2 represents the descriptive statistics of all indicators used in this study including dependent variable ROA, independent variable ESG and its component and the control variables which are bank size, age and NPL ratio.

Return on Assets (ROA)

It measures how much profit a bank makes from its total assets. In this study the mean of ROA is -0.497 and the median is 0.35. Here the mean is negative but the median is positive which indicates that some banks have very large losses that are pulling down the overall average of ROA. Most of the banks in the sample are making profit. Moreover, maximum ROA value is 1.74 and minimum value is -10.15. It shows that some banks are doing good and some are facing huge losses. The standard deviation is 2.59 which shows ROA varies a lot across banks.

ESG Score

It measures the overall sustainability performance of each bank. ESG score mean is 81.26 and median is 81. The values are very close which indicates that ESG data is evenly distributed. The lowest ESG score is 64 and highest is 99. So all the banks in the sample perform well on ESG. The standard deviation is 10.77 which shows moderate variation meaning most of the banks follow ESG practices but there are some differences in their performance.

Environmental Score (ENV)

It measures how well a bank handles its effect on the environment. The mean of environmental score is 27.42 and the median is 26. Moreover, the environmental component has a minimum value of 13 and maximum 39 and the value of standard deviation is 7.07 which is highest among the three ESG components which indicates that this component varies the most across banks. It also indicates some banks do heavy investment in sustainable and green practices and some do very little.

Social Score (SOC)

It measures how banks handle their employees and improve work culture and contribute to society. The mean of social score is 25.16 and the median is 26. The social factor has the minimum value of 16 and maximum of 30. Its standard deviation is 4.15 which means most of the banks have similar social performance with a small variance among them. Moreover, the social component has the lowest mean among the three components of ESG which indicates that banks focus less on social activities compared to environmental and governance factors.

Governance Score (GOV)

It measures the quality of banks internal management, board structure and transparency. The mean of this component is 28.68 and the median is 29. It has the highest mean among the ESG components which indicates that banks give the most focus in this area. The maximum value is 30 and minimum is 25. The standard deviation of 1.6 indicates a little variation across banks and it is because banks are regulated strictly and all banks must meet a certain governance standards.

Bank Size (SIZE)

It is calculated as the log value of the total asset. Its mean value is 26.31 and median is 26.71. Moreover, it has a maximum value of 28.45 and minimum of 22.46 and standard deviation value is 1.46 which indicates banks included in this study are similar in terms of their asset size and only a little differences among banks.

Bank Age (AGE)

It shows how long each bank is operating. The mean of bank age is 29.58 and the median is 26.5. Among the sample, the youngest bank is only 5 years old and the oldest is 59 years old. In the sample the youngest bank is Community Bank Bangladesh and the oldest bank is Uttara Bank. The standard deviation of age is 14.26 which indicates a high level of variation in the ages of the banks means the sample includes both very old and relatively new banks.

Non-Performing Loan Ratio (NPL Ratio)

It measures the percentage of banks' total loans that are not repaid on time. Higher NPL ratio means banks have a lot of bad loans and face serious credit risk and lower NPL ratio indicates better credit management. The mean of the NPL ratio of this study is 21.48 and the median is 14.86. So, there is a large gap between these two values which means fewer banks with higher NPL ratio are pulling up the average. Its maximum value is 68.55 and minimum value is 1.29 and standard deviation is 22.08 which indicates a very high level of variation in non performing loans among the banks.

5.2 Correlation Matrix

Table 3: Analysing the correlation among all the variables

	ROA	ESG_SCORE	ENV	SOC	GOV	SIZE	AGE	NPL_RATIO
ROA	1	0.07685656...	0.00583362...	0.13969039...	0.12962071...	0.38681275...	-0.1959351...	-0.5861797...
ESG ...	0.07685656...	1	0.93884489...	0.86149512...	0.34939294...	0.26685253...	0.10067911...	-0.3091675...
ENV	0.00583362...	0.93884489...	1	0.67023989...	0.16304063...	0.29804342...	0.18192128...	-0.2528410...
SOC	0.13969039...	0.86149512...	0.67023989...	1	0.24448447...	0.24074902...	0.04225314...	-0.2663236...
GOV	0.12962071...	0.34939294...	0.16304063...	0.24448447...	1	-0.1454885...	-0.2363739...	-0.2738650...
SIZE	0.38681275...	0.26685253...	0.29804342...	0.24074902...	-0.1454885...	1	0.38164276...	0.09395907...
AGE	-0.1959351...	0.10067911...	0.18192128...	0.04225314...	-0.2363739...	0.38164276...	1	0.46662241...
NPL_...	-0.5861797...	-0.3091675...	-0.2528410...	-0.2663236...	-0.2738650...	0.09395907...	0.46662241...	1

Table 3 presents the correlation coefficients among all the variables used in this study. The correlation value lies between -1 to +1. Positive value means both variables move in the same patterns and negative value means they move in opposite patterns. When a value becomes too close to 0 (zero), it indicates slightly or no relation between the two variables.

Correlations with ROA

ESG and its components with ROA

ROA and ESG score has a correlation value of 0.077 which shows a weak positive relationship. It also indicates that banks with higher ESG scores tend to have slightly higher ROA. The correlation value between ROA and ENV is 0.006 which is almost zero and it shows no or slightly positive relationship with banks profitability. The correlation between ROA and SOC is 0.14 and it shows a weak positive relationship. So banks with higher social activities tend to have better performance. Moreover, social factors have the most positive relation with ROA among the ESG components. The correlation between ROA and GOV is 0.13 which indicates a weak positive relationship among them. So, banks with good governance are likely to have slightly higher ROA.

Bank size with ROA

The correlation between ROA and size is 0.39 which indicates moderate positive relation with ROA. Moreover, it has the highest positive relationship with ROA compared to all other variables. Large banks are likely to have more profit as they have better diversification and better access to the capital market.

Bank age with ROA

The correlation between ROA and age is -0.196 which shows a weak negative relationship. Old banks tend to have lower ROA. Many older banks have high operational inefficiency and slower technology adaptation which are main reasons not to attract new customers which eventually reduce the chance of earning profit.

NPL ratio with ROA

The correlation between ROA and NPL ratio is -0.59 which shows a strong negative relationship and it is the strongest correlation in the entire matrix. So, banks with high NPL ratios are significantly less profitable. The result confirms that NPL ratio is the most dominant determinant in this study model.

Correlations with ESG score

ESG components with ESG score

The correlation between ESG score and ENV is 0.94 which indicates strong positive correlation. It also indicates that ESG score is heavily dominated by environmental components. Similarly, The correlation between ESG score and SOC is 0.86 which also indicates strong positive correlation but slightly less dominant compared to environmental components. The correlation between ESG score and GOV is 0.35 which indicates moderate positive correlation. From the result, we can say that environmental and social components are mainly responsible for the ESG score.

Bank size with ESG

The correlation between ESG score and bank size is 0.27 which indicates weak positive correlation. Larger banks usually have slightly higher ESG scores as they have more resources to invest in green and sustainability projects. Moreover large banks treat their employees better and do activities to improve their surroundings which further help the bank to perform financially well.

Bank age with ESG score

The correlation between ESG score and bank age is 0.101 which indicates weak positive correlation. Moreover with ENV and SCO, it has weak positive relations and with governance it has weak negative correlation. Moreover, older banks show less interest in spending money on ESG related activities like sustainability initiatives, social responsibility programs etc.

NPL ratio with ESG score

The correlation between ESG score and NPL ratio is -0.309 which indicates weak to moderate negative relationship. Banks who maintain higher ESG practices are expected to have lower NPL ratios. So, banks should consider ESG practice for more responsible lending.

5.3 Regression analysis

5.3.1 Model 1 : ESG impact on Return on Asset (ROA)

Model 1 analyses the effects of ESG on banks profitability and here ROA is a dependent variable and ESG score is the independent variable. Moreover, bank size, age and NPL ratio are taken as a control variable. To analyse the data Ordinary Least Square regression method is used here and the outcomes are presented in table 4.

Table 4: ESG effect on ROA

Dependent Variable: ROA
Method: Least Squares
Date: 04/18/26 Time: 19:26
Sample: 1 38
Included observations: 38

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-18.46897	5.421277	-3.406755	0.0017
ESG_SCORE	-0.067472	0.029448	-2.291204	0.0285
SIZE	0.968595	0.215120	4.502582	0.0001
AGE	-0.008842	0.024592	-0.359531	0.7215
NPL_RATIO	-0.082205	0.015738	-5.223505	0.0000
R-squared	0.610555	Mean dependent var	-0.497477	
Adjusted R-squared	0.563350	S.D. dependent var	2.586510	
S.E. of regression	1.709153	Akaike info criterion	4.031953	
Sum squared resid	96.39977	Schwarz criterion	4.247424	
Log likelihood	-71.60710	Hannan-Quinn criter.	4.108616	
F-statistic	12.93400	Durbin-Watson stat	1.891683	
Prob(F-statistic)	0.000002			

Constant

The constant is -18.47 and it is statistically significant as its p value is 0.002. The constant value indicates if independent and control variables become 0, the predicted ROA will be -18.47. But this can't be practical as all the variable values can't be zero at the same time.

ESG Score

ESG score coefficient is -0.067 which is negative which means one unit rise in ESG score will cause 0.067 unit fall in banks ROA. This may be surprising as we may expect that banks with higher sustainability activities tend to have better profitability but here the outcome is opposite and there are several reasons for this negative relation. Achieving a higher ESG score requires huge investment and banks must spend money on reducing carbon footprint, waste management, renewable projects, awareness programs, improving workplace health, improving employee welfare programs and upgrading governance framework etc. and these costs reduce profit in the short term. As the study is focused on 2024 only, this may be the main reason for the negative relation. So, in the short run higher ESG performance imposes financial burden on banks.

Standard deviation of ESG score is 0.03 which suggests the result is precise and not highly spread out. The t value is -2.29 which suggests that the ESG negatively affects the dependent variable. The p value is 0.028 which is less than 0.05 and it indicates ESG has a meaningful influence on ROA.

Bank Size (SIZE)

Bank size coefficient value is 0.969 means if one unit increases in bank size, will result in an increase of ROA by 0.97 units. It shows that large banks are likely to have higher profitability and the reason for this relation is large banks benefit from economies of scale and they have better diversification which reduces the chances of heavy loss from one sector. Large banks tend to have better staff, advanced technology and better risk management which reduce the chance of loan default.

Its standard deviation value is 0.22 which shows that the estimate of the correlation is reliable and doesn't vary much. The t statistic value is 4.50 which indicates a strong influence of size on ROA. The p value is 0.0001 which is almost zero and it is the most significant variable in the entire model.

Bank Age (AGE)

Age doesn't have much influence on banks performance in this model. Its coefficient is -0.009 which suggests that older banks tend to have lower ROA and this happens because most of the old banks have

outdated operation systems, higher non performing loans and slower technology adaptation. For these reasons they failed to attract new customers. Moreover these negative impacts overshadow the positive effect of experience and stability.

The value of the standard deviation is 0.025 and its p value is 0.72 which is very high and it indicates age has no meaningful influence on ROA.

Non-Performing Loan Ratio (NPL Ratio)

The coefficient of NPL ratio is -0.082 means one unit increase in NPL ratio will cause 0.082 unit decrease in banks ROA. So, when a bank has more non performing loans, it loses the interest income it expected to receive from those loans. The standard deviation is 0.02 which shows that the estimation is precise and reliable and it doesn't vary much. The t value is -5.22 which indicates a very strong effect and the p value is almost zero which means the result is statistically significant. Though its coefficient value is smaller than size, it varies a lot across banks. Because of this variation, its overall impact on ROA is very large.

Regression Equation

Based on the estimated coefficients, the regression equation for Model 1 can be presented as –

$$\text{ROA} = -18.47 - 0.067 (\text{ESG Score}) + 0.97 (\text{Size}) - 0.009 (\text{Age}) - 0.082 (\text{NPL Ratio})$$

This equation tells us that ROA increases with bank size and falls with higher ESG practices, age and NPL ratio. ESG score, size and NPL ratio are the significant predictors of banks ROA while age doesn't contribute significantly to this model.

Overall Model 1 Significance

The R-squared value of this model is 0.611 means this model explains almost 61.1% of the total variation in ROA across banks. So, more than half of the differences in bank profitability can be explained by this model. The value of adjusted R square is 0.56 which is slightly less than the R square and it is a usual situation as adjusted R Square falls when variables that have less influence are added in the model. Moreover, it shows the actual quality of the model. The adjusted R square value suggests that the model has moderate to strong explanatory power to describe the relation between ESG and banks performance. The remaining 38.9% variation in the ROA relies on other indicators that are not included in the model. The F statistic value is 12.93 and its probability value is close to zero which suggests that the overall regression model is statistically significant and independent and control variables jointly have a significant effect on ROA.

5.3.2 Model 2: Environmental, Social and Governance impact on ROA

In this model ESG is divided into its three individual components. The dependent variable is still ROA and independent variables are Environmental (ENV), Social (SOC) and Governance (GOV). Bank size, age and NPL ratio are kept as a control variable. To analyse the data Ordinary Least Square regression model is also used here. In this model, we try to find out the relation between the Environmental, Social and Governance components and ROA and the reason to run separate models to avoid multicollinearity as ENV (0.94) and SOC (0.86) have strong correlation with ESG score. The output of Model 2 is displayed in table 4 –

Table 4: Environmental, Social and Governance impact on ROA

Dependent Variable: ROA
Method: Least Squares
Date: 04/18/26 Time: 19:27
Sample: 1 38
Included observations: 38

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-25.26303	7.896783	-3.199154	0.0032
ENV	-0.144588	0.055956	-2.583976	0.0147
SOC	0.040090	0.092435	0.433717	0.6675
GOV	0.110383	0.187893	0.587480	0.5611
SIZE	1.000213	0.215038	4.651331	0.0001
AGE	0.000516	0.024779	0.020836	0.9835
NPL_RATIO	-0.082562	0.015508	-5.323719	0.0000
R-squared	0.646224	Mean dependent var	-0.497477	
Adjusted R-squared	0.577751	S.D. dependent var	2.586510	
S.E. of regression	1.680732	Akaike info criterion	4.041158	
Sum squared resid	87.57065	Schwarz criterion	4.342818	
Log likelihood	-69.78200	Hannan-Quinn criter.	4.148486	
F-statistic	9.437673	Durbin-Watson stat	1.845701	
Prob(F-statistic)	0.000007			

Constant

The constant value is -25.26 and it is statistically significant as its p value is 0.003. The constant value is more negative than model 1 and this is because Model 2 uses more variables than Model 1. The constant value means if all variable values become zero, the predicted ROA value will be -18.47 but it can't be practical.

Environmental Score (ENV)

The coefficient value of environmental score is -0.145 which indicates that if one unit increases in environmental factor, banks ROA will be decreased by -0.145 units. The negative relation indicates greater environmental practices lead to lower profitability in the short run.

The standard deviation value is 0.06 which indicates precise and reliable estimation and doesn't vary too much. The t value is -2.58 indicates the coefficient is about 2.58 standard errors away from zero and ENV has a negative relationship with ROA. Its p value is 0.015 which is less than 0.05 and it represents that ENV has a statistically meaningful influence on ROA.

Among the components of ESG, ENV is the most significant variable in Model 2. It also tells us that the negative influence of ESG on financial performance that we found in Model 1 is primarily driven by environmental dimension. Banks that invest more in environmental practices such as green financing, reducing carbon emissions, managing climate related risk tend to have less profit in the short run. Another reason for the negative relation is banks with higher environmental scores avoid investing in projects that harms the environment like gas, oil industries which eliminates the chance of making more profit.

Social Score (SOC)

Social activities have a positive coefficient value with ROA and the value is 0.04 which means that if we increase social activities by 1 unit, ROA will be increased by 0.04 units. It indicates better social performance helps to gain slightly higher profitability.

The standard deviation value is 0.09 which indicates estimation doesn't vary too much. The p value is 0.67 which is higher than 0.05 and it indicates this factor doesn't have a meaningful effect on ROA. The main reason for the weak relationship is this report is based on a single year of data as banks that treat their employees well, provide a healthy workplace and do CSR activities don't get full benefit from it within a year.

Governance Score (GOV)

The coefficient value of governance score is 0.11 means GOV has a weak positive relation with ROA. So, banks who have better governance scores are expected to have better financial performance. The standard deviation value is 0.19 indicates moderate level of uncertainty and the t value is 0.59 shows weaker influence. The p value is 0.56 means it doesn't have a notable influence on ROA. As most of the

banks are bound to the same regulatory rules, their governance practices are almost similar which reduces variance in the governance component and makes its effect weaker on banks financial performance.

Bank Size (SIZE)

The coefficient value of size is 1.0002 and its p value is 0.0001 which is less than 0.05 meaning it is statistically important. It stands out as the most important determinant in Model 2. The positive relation means larger banks usually have higher ROA and the coefficient value indicates one unit rise in size will cause 1.0002 unit rise in ROA. Moreover, in model 1 size is also the most important determinant. So, we can say that bank size drives profitability.

Bank Age (AGE)

The coefficient of age is 0.0005 means age has a very small positive effect on banks ROA. The p value is 0.98 which shows it is not statistically significant. So, bank age has no meaningful effect on ROA in this study. Similarly, age also has no significant impact in Model 1. This indicates that the length of time a bank has been operating doesn't give any significant financial advantage.

Non Performing Loan Ratio (NPL Ratio)

The coefficient value of NPL ratio is -0.083 means 1 unit increase in NPL ratio will result in a decrease of banks ROA by 0.083 units and its p value is almost zero means it has statistically significant impact on ROA. This result is similar to Model 1 where the coefficient was - 0.082. Since the results are identical in both models which means credit risk is a very reliable factor and managing it is very important for banks profitability.

Regression Equation

Based on the estimated coefficients, the regression equation for Model 2 can be presented as –

$$\text{ROA} = -25.26 - 0.145(\text{ENV}) + 0.04(\text{SOC}) + 0.11(\text{GOV}) + 1.0002(\text{Size}) - 0.0005(\text{Age}) - 0.083(\text{NPL Ratio})$$

This equation tells us that ROA decreases with higher environmental score, age and higher NPL ratios. It increases with better social score, better governance score and large bank size. However, ENV score, size and NPL ratio are the significant predictors of banks ROA. SOC, GOV and age don't contribute significantly to this model.

Overall Model 2 Significance

The R-squared value 0.646 indicates that the model can illustrate almost 65% of the total variation in ROA across banks. This is slightly higher than model 1 which had a R squared value of 0.611. So model 2

explains more of the changes in ROA. Model 2 adjusted R square value (0.58) is higher than model 1 (0.56) meaning when ESG is divided into three individual components, the model becomes more useful in explaining banks profitability.

The F statistic value is 9.44 and its probability value is close to zero which reflects that the overall regression model is statistically meaningful and independent and control variables jointly have a notable influence on ROA.

5.3.3 Overall Findings of the models :

ESG score has statistically significant negative effect on ROA and environmental (ENV) component is the main determinant for the negative relation of ESG and ROA. It also reflects that in the short term ESG practices impose extra burden to banks financial performance. SOC and GOV don't have a significant impact on profitability but they have weak positive correlation with ROA. This means SOC and GOV activities boost the banks image and stakeholder's confidence which help to improve profitability slightly.

Bank size has a strong positive influence on banks performance and it is the most influential variable in this study. Large banks can utilize their assets more effectively which help them to stand out. Bank age has no significant impact on ROA. Moreover, the NPL ratio has a strong negative influence on ROA and it is the second most influential factor. The Bangladeshi banking sector has a big problem with bad loans because of the poor lending decision and political influence in some banks and for this NPL has a strong negative impact on profitability.

Finally, the models used in this study can explain more than half of the overall variation of ROA in banks which makes them a meaningful and reliable source for understanding the influence of ESG performance on banks financial performance.

6. Recommendations

The outcomes of this report provides some important information about the relationship between ESG performance and bank financial performance. Based on the outcomes the following recommendations are made –

ESG as long term investment strategy

The regression models show that ESG practice has an adverse influence on banks performance in the short run. As the initial cost is quite large, it takes time to generate a return. So, bank managers should keep in mind that ESG is a long term investment plan for the banks rather than a short term profit making investment.

More priority to reduce NPL ratio

The results of the models show that the NPL ratio has a strong adverse effect on banks profitability. This means that reducing the amount of bad loans is an effective action to improve profitability. For this, bank managers should give more focus on their lending criteria and loan monitoring system. Moreover, they should take strict action to recover the existing non performing loans.

Short Term focus on SOC and GOV activities

From the insights, we found that social and governance factors have weak positive impact on the ROA but they are not statistically significant. The positive relation suggests that social and governance activities can generate profit sooner than the environmental factor. So, bank managers should focus on improving governance and social activities and also have to be aware that excessive investment in social and governance activities can reduce banks profitability.

Careful Environmental investments

In this study we found that the environmental component is the leading determinant for the adverse relationship of ESG performance and banks financial performance. Short term environment friendly investments may be costly but in the long run they help to reduce costs. Moreover, if the investments are not properly planned and monitored, these can cause huge losses. So, managers need to handle environmental investments more carefully.

7. Conclusion:

7.1 Main Findings

The study's main objective was to analyse the ESG performance influence on banks financial performance in Bangladesh. Profitability is measured via Return on asset(ROA) and ESG rating was given based on the level of ESG disclosure in each bank's annual report and the data was analysed using the Least Square method on E-views. The outcomes show that overall ESG score has an adverse influence on ROA in the short run and this negative influence is primarily driven by the environmental component of ESG. Bank size is found to be the strong and significant driver of profitability means larger banks perform better financially. The NPL ratio has a strong adverse influence on ROA. So, credit risk remains the most serious threat to banks profitability in Bangladesh. On the other hand, bank age doesn't show any significant influence on financial performance. The two regression models together explain between 60% to 65% of the overall variation in ROA and the remaining 35 to 40% variation in ROA is described by other indicators that are not added in the models.

7.2 Policy Implications

The outcomes of this study gives valuable insights to the policymakers. First, banks regulators and policymakers should be aware that ESG practices reduce profitability in the short run and the cost of this becomes a burden to the small banks compared to the larger banks. Second, the bank managers should focus on social and governance practices as they have positive effects on profitability. Third, they should give more attention to reducing the non performing loans as they have a strong effect on profitability. Moreover, they should consider ESG as a long term strategic investment.

7.3 Limitation

This report has some lackings. Since the study is focused on a single year of data, it may not fully represent the long term benefit of ESG investment as environmental and social expenditure take a good amount of time to generate financial returns. Moreover, the report is based on secondary data from the published annual reports and many banks may not fully disclose ESG related information which can lead to incomplete measurement of ESG score. Another drawback of this study is its small sample size as only 38 banks data is taken as a sample. Furthermore, this study doesn't include country level factors such as GDP, inflation, interest rate, political stability etc which may influence both ESG practices and banks profitability.

7.4 Future Directions

Future research should focus on fulfilling these drawbacks by using larger sample size and longer time period and include other variables such as microeconomic factors and banks specific factors like Capital adequacy ratio and Cost to income ratio to have a more in depth analysis on the relationship between ESG performance and bank financial performance in Bangladesh.

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Appendices

Questionnaire for ESG measurement of banks

Here 1 indicates not disclosed and 5 indicates excellent practice

Score	Indication	Reason
1	No disclosure	No information found in the annual report
2	Limited disclosure (Weak practice)	Mention but no details
3	Basic disclosure (Moderate practice)	Some activity mention but limited details
4	Comprehensive disclosure (Good practice)	Activities mentioned in detailed
5	Extensive disclosure (Excellent practice)	Well documented disclosure

Environmental 8

1. Green financing activities are disclosed in the annual report.

1. No disclosure
2. Limited disclosure
3. Basic disclosure
4. Comprehensive disclosure
5. Extensive disclosure

2. The initiatives of proper waste management systems like recycling etc. are mentioned in the annual report.

1. No disclosure
2. Limited disclosure
3. Basic disclosure
4. Comprehensive disclosure
5. Extensive disclosure

3. The existence of Carbon Emission & GHG Management activities in the annual report.

1. No disclosure
2. Limited disclosure
3. Basic disclosure
4. Comprehensive disclosure
5. Extensive disclosure

4. Financing for renewable or energy efficient projects is disclosed.

1. No disclosure
2. Limited disclosure
3. Basic disclosure
4. Comprehensive disclosure
5. Extensive disclosure

5. The annual report discloses the bank climate change initiatives and related activities.

1. No disclosure
2. Limited disclosure
3. Basic disclosure
4. Comprehensive disclosure
5. Extensive disclosure

6. The presence of Environmental awareness programs in the annual report.

1. No disclosure
2. Limited disclosure
3. Basic disclosure
4. Comprehensive disclosure
5. Extensive disclosure

7. Bank's energy efficiency measures: solar panel, renewable energy, waste water treatment plant.

1. No disclosure
2. Limited disclosure
3. Basic disclosure

4. Comprehensive disclosure
 5. Extensive disclosure
8. The annual report discloses compliance with environmental laws, regulations, and environmental risk management policies.
 1. No disclosure
 2. Limited disclosure
 3. Basic disclosure
 4. Comprehensive disclosure
 5. Extensive disclosure

Social 6

Recruitment, development, retirement, health, csr spending and activities, sustainability report

1. Information on employee recruitment processes and strategies is reported in the annual report.
 1. No disclosure
 2. Limited disclosure
 3. Basic disclosure
 4. Comprehensive disclosure
 5. Extensive disclosure
2. Information on employee training programs and skill development initiatives is reported in the annual report.
 1. No disclosure
 2. Limited disclosure
 3. Basic disclosure
 4. Comprehensive disclosure
 5. Extensive disclosure
3. The practice of disclosing information about workplace health and safety initiatives and equal/disabled people opportunity policies in the annual report.
 1. No disclosure
 2. Limited disclosure
 3. Basic disclosure
 4. Comprehensive disclosure
 5. Extensive disclosure
4. The annual report provides information on the bank's CSR activities and associated expenditures.

1. No disclosure
2. Limited disclosure
3. Basic disclosure
4. Comprehensive disclosure
5. Extensive disclosure

5. The annual report provides details regarding retirement plans and benefits offered to employees.

1. No disclosure
2. Limited disclosure
3. Basic disclosure
4. Comprehensive disclosure
5. Extensive disclosure

6. The organization reports on its sustainability practices, policies and outcomes in a sustainability report.

1. No disclosure
2. Limited disclosure
3. Basic disclosure
4. Comprehensive disclosure
5. Extensive disclosure

Governance 6

Disclosure: Annual report, sustainability report; quality of independent director

1. The presence of Independent directors and their quality in the management committee of the bank.

1. No disclosure
2. Limited disclosure
3. Basic disclosure
4. Comprehensive disclosure
5. Extensive disclosure

2. The existence of disclosing information about the internal and external audit committees, including their composition and roles in the annual report.

1. No disclosure
2. Limited disclosure

3. Basic disclosure
 4. Comprehensive disclosure
 5. Extensive disclosure
3. Information regarding the risk management committee and its oversight activities is disclosed in the annual report.
 1. No disclosure
 2. Limited disclosure
 3. Basic disclosure
 4. Comprehensive disclosure
 5. Extensive disclosure
4. The annual report discloses whether the roles of the chairperson and CEO are held by separate individuals.
 1. No disclosure
 2. Limited disclosure
 3. Basic disclosure
 4. Comprehensive disclosure
 5. Extensive disclosure
5. The bank discloses details regarding board meeting attendance and decisions in the annual report.
 1. No disclosure
 2. Limited disclosure
 3. Basic disclosure
 4. Comprehensive disclosure
 5. Extensive disclosure
6. The bank publishes an annual report every year disclosing financial performance.
 1. No disclosure
 2. Limited disclosure
 3. Basic disclosure
 4. Comprehensive disclosure
 5. Extensive disclosure

List of the 38 banks that are taken as sample in this study

Brac Bank	Dutch Bangla Bank	National Bank
Eastern Bank Limited	NRBC Bank	Bangladesh Commerce bank
United commercial bank	Southeast Bank	Pubali Bank
City Bank	AB Bank	Rupali Bank
Dhaka Bank	Mercantile Bank	Sonali Bank
Prime Bank	Shahjalal Islamic Bank	Janata Bank
Bank Asia	Agrani Bank	Standard Bank
IFIC Bank	NRB Bank	Community Bank Bangladesh
Islami Bank	Shimanto Bank	Meghna Bank
Trust Bank	Midland Bank	National Credit and Commerce Bank
Mutual Trust Bank	Uttara Bank	South Bangla Agriculture and Commerce Bank
Premier Bank	One Bank	BASIC Bank
Jamuna Bank	Modhumoti Bank	

Date: 20/12/2025

To,
Md. Sabbir,
Bachelor of Business Administration (BBA)
Major in Finance.
University of Liberal Arts of Bangladesh (ULAB)
Dhaka, Bangladesh.

Subject: Internship Acceptance Letter.

Dear Mr. Sabbir,
We are pleased to inform you that you have been accepted as an Intern in the Finance & Accounts Department of Sanita Ceramics Pvt. Ltd., New Babu Para, Nilphamari, Bangladesh.

Your internship will commence on 05 January 2026 and will continue for a period of three (03) months, ending on 04 April 2026. During this period, you will work under the supervision of the concerned department and will be involved in practical learning related to accounting, finance operations, reporting, and other relevant activities as assigned by the department.

This internship is intended solely for educational and professional development purposes. You are expected to comply with all company rules, regulations, and confidentiality policies throughout the internship period.

We believe this opportunity will help you enhance your practical knowledge and professional skills, and we wish you a successful learning experience with Sanita Ceramics Pvt. Ltd.

Sincerely,

A handwritten signature in black ink, appearing to read "Samiul Islam Saon".

Md. Samiul Islam Saon
Managing Director
Sanita Ceramics Pvt. Ltd.
New Babu Para, Nilphamari
Email: sanitaceramicssanitaryware@gmail.com