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The Evolving Landscape of Environmental, Social, and Governance (ESG) Practices and Their Impact on The Banking Industry: A Review with a Focus on Nepal

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Abstract

The objective of this article is to explore the growing field of Environmental, Social, and Governance (ESG) practices worldwide, with a particular focus on their application within the Nepalese banking industry, detailing its evolution from Corporate Social Responsibility (CSR) and its critical role in assessing sustainability. This study is an attempt to investigate the effects of ESG on the profitability of Nepalese Bank. A narrative review methodology has been employed by selecting the articles from 2003-2026 in the study. It delves into the components of ESG, the obligation of disclosure, and the complex relationship between ESG performance and financial outcomes globally. This study focuses on the emerging stage of ESG adoption and current practices within the Nepalese banking industry, regulatory influences, and the challenges it has faced. The study found that Nepal's banking industry, a cornerstone of its developing economy, is currently in the introductory stage of ESG adoption, primarily relying on voluntary CSR disclosures rather than mandatory ESG reporting. The discussion underscores the necessity of integrating ESG principles into core business strategies for sustainable growth and enhanced stakeholder trust, particularly in developing country like Nepal. Finally, it identifies gaps in current literature and proposes future research directions to further elucidate the dynamics of ESG in the financial sector.

Introduction

ESG is a framework of Environmental, Social, and Governance obligations which must be embedded into business policy and practice, it is based on the principle of corporate responsibility to incorporate social, environmental and governance concerns into the business strategies and decision-making practices (Au et al., 2023). In an era of increasing global interconnectedness and awareness, stakeholders across various firms are paying greater attention to their company's sustainability performance. The traditional focus on financial metrics is expanding to encompass broader aspects of corporate conduct, reflected in the rising prominence of Environmental, Social, and Governance (ESG) ratings (Koury, et al., 2021; Ehrenhard & Fiorito, 2018). ESG has emerged as a widely recognized and developing standard for assessing enterprise sustainability, evolving from the

earlier concept of Corporate Social Responsibility (CSR) in business (Alfalih, 2023). While CSR traditionally focused on a company's responsibility to society, reputation, and framework in resolving social and environmental challenges, fostering accountability, ESG offers a more structured and comprehensive approach to integrating these concerns into core business operations (Li et al., 2021).

Sustainability reporting indicates the different benefits by improving transparency about the business organizations ESG activities, environmental impact, CSR and governance practices. According to the United Nations Industrial Development Organization (UNIDO, 2002), Corporate Social Responsibility (CSR) is a management concept where businesses integrate social and environmental concerns into their operations and interactions with stakeholders (Ortas et al., 2015). Firms adopting CSR are often organized to operate in a socially responsible way and positively impact the world. This concept underpins the belief that businesses have a responsibility to society, reputation, and framework in resolving social and environmental challenges, thereby fostering accountability (Galant & Cadez, 2017).

ESG, on the other hand, comprises Environmental (E), Social (S), and Governance (G) criteria that investors use to assess firm valuation, evaluate sustainability performance, and monitor responsibility (Bate et al., 2021). It is considered an emerging management paradigm that stresses the importance of ethical business practices, transparency in company operations, stakeholder participation, and a suitable and favorable business environment (Tahmid et al., 2022). ESG goes beyond CSR by incorporating the concept of corporate sustainable development across multiple dimensions, including social, environmental, and internal governance (Maqbool & Zameer, 2018).

This study aims to review the current practices of ESG globally and specifically within the Nepalese banking industry. This article traces out the key ESG factors highlighted in the literature analyze their relationship with profitability and sustainability of the banking industry. This paper is designed as introduction with definition of ESG in first section, literature is reviewed regarding the dimensions of environmental, social and governance aspects of ESG in second section. Third section is about the discussion, conclusions and future research dimensions in ESG analysis. It investigates the importance of ESG disclosure for consistent growth, openness, eligibility for government subsidies, and increasing investor trust. Despite its growing global significance, there has been limited research on ESG issues in Nepal.

Literature Review

ESG represents a holistic framework that guides businesses towards sustainable and responsible operations. It is not merely a philanthropic endeavor but a strategic approach that impacts a company's long-term shareholder value and its broader societal influence (Khandelwal et al., 2023). Freeman (1984) introduced the stakeholders' theories to identify that all stakeholders are not only equity holders that should be taken in top-level decisioning.

CSR emphasizes a company's responsibility to society and its role in addressing social and environmental challenges (Carroll, 1999; McWilliams & Siegel, 2001; Godos-Diez et al., 2018; Elali, 2021) it does not provide a structured or comprehensive measure of organizational sustainability. ESG, therefore, not only encompasses CSR but also integrates the broader notion of sustainable corporate development across social, environmental, and governance dimensions (Wu & Shen, 2013). The disclosure of ESG practices highlights that ethical business conduct, transparency in

operations, stakeholder engagement, and the creation of a conducive business environment are emerging challenges that the financial institutions must address (Kabir & Thai, 2017). The concept of ESG has its roots in the older idea of corporate social responsibility (CSR).

Traditionally, CSR has attracted significant scholarly and practical attention, with themes such as theories, ethical business and corporate social performances are core area focus (Wu et al., 2017; Godos-Diez et al., 2018). Gradually researchers have systematically collected information on social characteristics of products and CSR activity to test hypotheses and determine how much consumers and other stakeholders are willing to pay for CSR attributes. CSR objectives can be achieved by considering various theories such as agency, stakeholder, and resource-dependence, to create a comprehensive theoretical framework (Gangi et al., 2019).

ESG Disclosures

ESG disclosures have changed from being initially voluntary to a more stringer and mandatory requirements (Jin & Lei, 2023). Majority of the researchers has explored that soundness and fairness of corporate activities, social activities, consumer protection activities, employee satisfaction, environmental protection activities under ESG practice are primary activities under ESG which are undertaken to evaluate institutions financial and market performance measurements (Ramirez et al., 2022; Aldieri et al., 2023; Yang & Han, 2023). ESG encompasses three distinct yet interconnected pillars (Hai et al., 2022) which are Environmental (E) Concerns: This pillar focuses on how a company performs as a steward of nature. Key issues include Environmental obligation, Changes in climate, Release of greenhouse gases, Resource depletion, Deforestation, Production of eco-friendly products, and corporate environmental management (Cankaya & Simsek, 2021) France, Japan, Canada, Russia, the United Kingdom and the United States.

Social (S) pillar examines a company's relationships with its employees, suppliers, customers, and the communities where it operates (Cornett et al., 2016; Bressan, 2023). Important aspects in this pillar include workforce and diversity, product safety, customer engagement, data and privacy security, financial product safety, stakeholder opposition, community involvement, social opportunities, healthcare and nutrition, communications, human capital, a healthy working environment, labor management, and human rights, a higher ESG indicators increase the value of the firms (Koo & Kim, 2023). However, Zhu and Jin 2023 observed that the digital transformation activities have improved banks efficiency in terms of internal governance, service efficiency and business handling efficiency but less impact on bank efficiency.

Governance (G) Concerns: ESG, governance performance has the strongest impact on financial performances comparison to environmental and social performances (Velte, 2017). This pillar deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights (Edmans, 2023). Key elements include openness and transparency, timely reporting, stakeholder involvement, social audits, tax transparency, executive remuneration, ethical business practices, financial and operational risk management, Governance structure, Democratic board of directors' selection, and Board independence (Auer & Schuhmacher, 2016).

Combining these three pillars of ESG collectively represents the fundamental structure for enterprises to pursue environmentally friendly development and achieving long term societal goals. The future of ESG will involve integrating these variables into investment decision-making processes, developing standardized sustainability reporting frameworks, and including ESG issues

into corporate governance procedures (Friede et al., 2015; Alfalih, 2023). The imperative of ESG disclosure is increasingly seen as crucial for business success and sustainability. It provides vital information to a wide range of stakeholders, from investors to regulators, and plays a significant role in shaping a company's reputation and long-term viability (Scholtens & Klooster, 2019).

Benefits of ESG Disclosure

ESG disclosure is necessary for consistent growth, openness, eligibility for government subsidies, and increasing investor trust in sustainable businesses. It is also critical to maintain a firm's worth and goodwill in society (Alfalih, 2023). By disclosing their activities, firms demonstrate transparency and clarify their corporate goals to society. Reliable and diversified information from ESG scores helps investors make informed investment decisions for sustainable firm development (Centobelli et al., 2020) including strategic management, operations management, and technology management. It requires companies to design their business model (i.e., the value network, the relationships with the supply chain partners, and the value propositions towards customers. A socially responsible company with high ESG scores demonstrates a positive corporate image, contributing to the success of core business operations and sustainability. Research indicates a positive relationship between ESG scores and firm value. Sustainable finance significantly influences firm value, with banks prioritizing it due to its positive impact on operations (Pulino et al., 2022). Integrating ESG factors into overall firm strategy and operations reduces firm risk, potentially leading to lower costs of capital. Banks with high sustainability scores have lower default risk and contribute less to financial system risk.

Digital transformation in banks has improved efficiency, particularly in internal governance, customer service, and business handling, which in turn relates to bank ESG performance (Youssef & Diab, 2021; Li et al., 2024). CSR disclosure can be associated with competitive advantages, manifesting through differences in performance metrics (Jo et al., 2015; Galant & Cadez, 2017; (Ehrenhard & Fiorito, 2018). It can also positively influence employee behavior and establish a corporate image and sustainability.

Challenges and Mandates in Disclosure

Despite the clear benefits, companies face challenges related to ESG disclosure. It is widely held that complying with ESG and CSR mandates will increase a company's running costs, posing a financial burden and potentially limiting its earnings capacity (Mohd., 2023). Collecting numerous components to meet ESG requirements established by various regulatory authorities also adds to this financial burden.

Globally, there is a transition from voluntary to mandatory ESG disclosure (Sensharma et al., 2022). For example, the government has mandated the top 1000 listed companies in the Indian capital markets to disclose ESG-related information starting fiscal year 2022-2023. This shift is due to increasingly rigorous disclosure requirements on various exchanges. However, in some contexts, particularly developing nations, many companies hesitate to disclose their activities due to factors like unstable governments and insufficient or unsupportive business policies (Naffa & Fain, 2020; Perdana et al., 2023).

While some advocate for mandatory disclosure, others suggest that CSR disclosure should remain voluntary rather than becoming mandatory. Oncioiu et al. (2020) argued that the predominant

view in the sources points towards the increasing necessity of structured disclosure for sustainable development. The transparency and comparability of ESG ratings are crucial to prevent confusion in the ESG transition.

ESG and Financial Performance: A Global Perspective

The relationship between ESG performance and financial performance (FP) is a widely debated topic in academic literature, with varying findings across different studies and regions, ESG ratings can prevent the ambiguity in the ESG transition (Koo & Kim, 2023; Sassen et al., 2016). Different studies explore the link between ESG and FP. Ghosh (2018) observed ESG and FP often show a positive relationship. For instance, one study found a positive relationship between ESG scores and firm value. Similarly, corporate environmental management (CEM) has been observed to have a positive relationship with corporate financial management (Aldieri et al., 2023).

Environmental and social pillars of ESG disclosure have been found to have a positive impact on firm performance. In some European banks, environmental factors were positively related to profitability ratios. The social score has shown a positive and significant relationship with both Return on Assets and Return on Equity (Kilic et al., 2022). Sustainability performance has a significant impact on financial performance, particularly ROA. Banks with high sustainability scores demonstrate lower default risk and lower contribution to financial system risk, with the social dimension being particularly important ((Albertini, 2013; Kamatra & Kartikaningdyah, 2015; Cannon et al., 2020)as do an activity that can improve the welfare of local communities and protecting the environment, providing scholarships to children in the area are not able to fund for the maintenance of public facilities, donations to build a village/community facilities that are social and useful for many people, especially people who are in the vicinity of the company is located. CSR is a phenomenon and strategies that companies use to accommodate the needs and interests of its stakeholders. Implementation of CSR by companies can be realized with CSR disclosure disseminated to the public in the annual report (annual report. Long-term responsible investing is considered necessary for rational investors to fulfil fiduciary duties and better connect investor interests with societal goals.

The relationship between CSR and FP is often positive and bidirectional, implying that “the social is profitable, and the profitable is social”. Companies performing well in social responsibility also tend to perform well financially. CSR activities can ultimately be beneficial for a firm’s FP (Buallay et al., 2020)social and governance (ESG).

Negative or Insignificant Relationship:

The governance score has sometimes shown a negative and significant relationship with both ROA and ROE, though it was not statistically significant for both variables in one study. However, another study found that governance practices explain negative profitability, while social and environmental scores showed an inverse relationship with the cost of capital for Latin American firms (Gangi et al., 2019; Nobanee & Ellili, 2016). In European banks, the governance score was a significant negative predictor of stock market returns.

In some cases, the environmental score has shown a negative and significant relationship with both ROA and ROE. The stock market performance of individual stocks and portfolios did not positively or negatively depend on high or low ESG ratings in certain analyses. Investing in

ESG firm-based portfolios can generate good performance, but there is no conclusive evidence to support a positive correlation between ESG features and financial performance in Japan (Matuszak & Rozanska, 2017) new non-financial reporting requirements were implemented in the Polish Accounting Act (PAA). A negative relationship between ESG activities and financial performance has been observed in Southeast Asian The impact of environmental involvement disclosure on accounting profitability can be non-linear, potentially convex (U-curve) or concave (inverse U-curve), this indicates that too little of too much ESG engagement can harm profitability, while the right balance enhances both financial and reputational outcomes banks (Toti & Johan, 2022). Likewise, Hai et al., (2022) observed the relationship between CSR and FP can be influenced by contemporary and contextual factors, with contrasting performance differences found in low CSR regimes. Ensign (2022), reviewed on geographical spread can impact the positive relationship between ESG and FP, though it doesn't prevent companies from obtaining financial benefits.

Several factors can moderate or influence the relationship between ESG performance and financial outcomes (Han et al., 2016; Cornett et al., 2016). Corporate governance has a positive impact on the relationship between CSR and FP, particularly for manufacturing firms. Key moderating factors include ownership identity, board size, and independence (Aydogmus et al., 2022; Aldieri et al., 2023) argued the firm size, capital employed can moderate the relationship between sustainability performance and financial performance, with large-sized companies showing a positive relationship in South Korea and Turkey.

Companies' commitment to the United Nations Global Compact (UNGC) has a positive impact on their ESG performance, providing non-financial initiatives for strategic management (Nizam et al., 2019). The regulatory environment is a variable that can influence the relationship between sustainability reporting and performance, particularly for banks. Corporate governance reforms emphasizing disclosure of risk factors and board independence are key variables affecting bank behavior and their profitability and stability. The digital transformation of banks has improved bank efficiency, particularly internal governance, customer service, and business efficiency (Alsayegh et al., 2023). Banks' corporate values can provide a solid channel for envisioning equity, fairness, and openness in engaging with stakeholders (Mahmood & Ditta, 2021). However, corporate values alone are insufficient to prevent wrongdoing and can lead to an image of hypocrisy, as seen with severe internal rule violations and fines for European banks. Overall, the evidence suggests that while there is a general trend towards a positive relationship between ESG and financial performance (Flamini et al., 2009), the exact nature of this relationship can be complex, influenced by specific ESG pillars, industry context, geographic location, and other internal and external factors.

ESG Practices Across Asian Countries

The adoption and integration of ESG principles are gaining momentum across Asian economies, though at varying paces and with unique challenges, there is a negative relationship between ESG and financial performance in South-East Asian banks indicating that there is much room for improvement in ESG practices (Maqbool & Zameer, 2018; Guiterrez & Wibowo, 2023).

India is at the forefront of mandatory ESG disclosure in Asia (Maqbool & Zameer, 2018; Saxena et al., 2021). The government has mandated the top 1000 listed companies in the Indian capital markets to disclose ESG-related information beginning the fiscal year 2022-2023 risks (

Kirchmaier & Gerner-Beuerle, 2021). Banks in India are recommended to incorporate the ESG framework into their daily operations and strategic aspects, adopting sustainable banking practices to promote sustainable development. Regulators like the Government of India, the Reserve Bank of India (RBI), and the Indian Bank Association are also encouraged to play a more active role. CSR activities, including education, health care, environmental protection, skill development, and farmers' welfare, are important for Indian banks, and their consistent practice can significantly impact financial performance (Durrani et al., 2022). A multi-stakeholder approach involving company representatives, policymakers, and local NGOs can be highly beneficial for reducing greenwashing in the Indian business environment.

The private commercial banks in Bangladesh are advised to focus on CSR activities in critical areas such as education, health, sports, environment, and disaster relief to improve performance and enhance employee retention. CSR is seen as a tool to gain competitive advantages and positively influence employee behavior (Margolis et al., 2009; Ferdous, 2012).

There is an emerging trend in corporate sustainability reporting by enterprises in Pakistan, with environmental sustainability indicators being disclosed more than social and health and safety indicators. Incorporating corporate sustainability reporting methods into company strategy has economic implications (Naz & Mumtaz, 2025). Business in Pakistan's corporate sectors is required to transform to integrate environmental consciousness as a central dimension of SDGs (Hongming et al., 2020). While socially responsible investment (SRI) portfolios have achieved high performance in Japan, there is no conclusive evidence to support a positive correlation between ESG features and financial performance (Louche et al., 2008). Sustainability performance has a significant impact on financial performance, particularly on the return on assets (ROA) of companies in these countries, with the relationship moderated by firm size, showing a positive link for large-sized companies.

The average ESG score of banks in Southeast Asia is around 50 out of 100, indicating significant room for improvement in ESG practices (Kim & Lyon, 2015). Notably, a negative relationship has been observed between ESG activities and financial performance in these banks (Torricelli & Bertelli, 2022).

Challenges in Developing Economies

Developing countries, including many in Asia, face specific challenges in enhancing their sustainable development performance due to the weak institutional frameworks that can hinder effective ESG implementation and disclosure (The World Bank, 2005). There is often a lack of awareness and interest in sustainability issues among businesses and stakeholders. Insufficient legislation and limited enforcement capabilities can impede the adoption of mandatory ESG practices (Tandukar et al., 2021). Many companies in developing nations, including Nepal, show a common hesitation in disclosing their activities due to factors like unstable government and insufficient or unsupportive business policies (Nepal Economic Forum, 2026). These challenges underscore the need for stronger regulatory frameworks, increased awareness campaigns, and capacity building to foster robust ESG practices across developing Asian economies.

ESG Landscape in the Nepalese Banking Industry

Nepal, as a developing economy, is at an introductory stage in its journey towards comprehensive

ESG adoption, particularly within its dominant banking sector (Dahal & Mukherjee, 2015). The Nepalese banking industry plays a vital role in financial intermediation. Commercial banks are rapidly expanding and are significant players in the Nepalese financial market, occupying around 65% of total deposits and credits (Pokharel, 2026). However, the increase in size and number of commercial banks is often limited to urban areas, making banking services less accessible to the general public.

Despite the global trend, ESG is an emerging concept of management, which is currently in its introductory stage in Nepal. Nepalese enterprises have freely disclosed their CSR and ESG efforts, but there has been no mandatory disclosure of ESG scores in the Nepalese banking industry. Instead, Nepalese companies, across different industries, prefer voluntary disclosure of CSR activities. This voluntary approach is often driven by a common hesitation in developing nations to disclose activities, attributed to unstable governments and unsupportive business policies development (Hongming et al., 2020).

The current practice indicates that while some companies have met the minimum CSR goals and ESG rating requirements set by Nepal Rastra Bank (NRB) and the Securities Board of Nepal, the overall engagement is not yet deeply integrated. For example, Nepalese banks have CSR programs, such as helping schools, but they are generally perceived as not taking it seriously. A robust strategy requires putting ESG at the heart of the banking strategy, ensuring everyone in the organization understands it, rather than just setting up a small sustainability department.

Regulatory Framework and Sustainable Development Goals (SDGs)

The Nepal Rastra Bank (NRB) holds a crucial regulatory authority with responsibility for significant resource mobilization. It is recommended that NRB mandatorily consider climate change due to ecological urgency, threats to its core objectives (price stability and financial sector stability), legal mandate, and reputational risk (NRB, 2020). Regarding green banking practices, a study on Nepalese commercial banks indicated a lack of awareness among bankers in the Kathmandu valley regarding Nepal Rastra Bank regulations on green banking. This suggests a gap between regulatory directives and on-the-ground implementation and awareness.

The broader context for sustainable development in Nepal is framed by the Sustainable Development Goals (SDGs). Achieving these goals requires cooperation among governments, the private sector, civil society, and citizens. The UN in Nepal has been actively involved in inspiring responsible business practices and SDG-oriented investments, partnering with the Government to nationalize SDG targets, implement them, mobilize resources, and monitor progress towards the 2030 deadline (Pokhrel, 2026). The SDGs are particularly important for Nepal as it aims to graduate from a Least Developed Country (LDC) status in the coming years, aspire to become a middle-income country by 2030, and a developed nation by 2043.

Materials and Methods

The methodology adopted in this research was a narrative review, content analysis process (Miles et al., 2014), which is designed to deepen comprehension of ESG practices through critical analysis. This research begins after collecting peer-reviewed articles on ESG and banking from global, South Asian, and Nepal specific context, along with reports published from World Bank, Nepal Rastra Bank, and IMF. The study systematically analyzed environmental, social and

governance related variables that influencing Nepal's banking profitability and sustainability. Samples were conveniently selected using inclusion and exclusion criteria (Page et al., 2020). The data were collected from the Scopus, Web of Science, and Google Scholar publications between 2004 and 2026. The findings highlight their potential output and serve as a call to action for Nepalese banking sectors.

Result and Discussion

The adoption of ESG indicators in evaluating organizational sustainability is not only a matter of CSR, however it is a serving as strategic tool for gaining competitive advantages and helpful in risk mitigation (Chuna et al., 2025). The Nepalese banking industry faces several challenges. The absence of a mandatory ESG disclosure framework hinders consistent growth, transparency, and investor trust. Despite regulations, there is a low awareness of green banking practices and a general perception that CSR/ESG efforts are not deeply integrated into core strategies (Buallay, 2019). Unstable government and insufficient business policies contribute to companies' hesitation in fully disclosing their activities (Dahal & Mukherjee, 2015). The concentration of banking services in urban areas limits accessibility for the public and remote population face financial exclusion, economic inequalities, and reliance on informal lenders available in the area.

Systematically addressing the identified gaps in the existing literature on this topic is crucial. A specific analysis of the causal factors triggering the impact of ESG on financial performance is warranted, focusing on specific actions such as emissions reduction, innovation, resource usage, human rights, workforce practices, product responsibility, and community engagement (Ghosh, 2018; Li et al., 2021). "Doing Good and Doing Well": Research should shift focus from merely establishing a link between Corporate Social Performance (CSP) (Godos et al., 2018; Barnett et al., 2012) and Corporate Financial Performance (CFP) to investigating how companies can both "do good and do well" simultaneously, thereby accomplishing more than simply extending the historical quest for a link.

Explore the relationship between social and environmental sustainability performance and bank performance determinants, as well as the impact of the United Nations' Sustainable Development Goals on bank financial performance (Tandukar et al., 2021). Reconciling Practice with Theory: Empirical research is needed to reconcile the practical application of CSR with theoretical frameworks, especially in the context of emerging economies.

Further research on how greater disclosure of CSR information could improve the validity of testing the CSR-FP relationship is beneficial. Regulatory Environment Influence: Studies should account for variables such as the regulatory environment in Nepalese banking, which may influence research results due to limited sample sizes compared to developed capital markets. A deeper investigation into the awareness, implementation, and impact of Nepal Rastra Bank's green banking regulations is necessary. Research into how multi-stakeholder approaches, like those proposed in India, could reduce greenwashing and develop robust ESG frameworks in Nepal. Addressing these research directions will provide valuable insights into the effective integration of ESG principles within the Nepalese banking industry and contribute to its sustainable development and financial resilience.

However, these challenges also present opportunities, Nepal can learn from the global shift towards mandatory ESG reporting and integrate best practices. The nationalization and

implementation of SDGs provide a strong framework for driving responsible business practices and sustainable finance initiatives (Gupta et al., 2017; Atif & Ali, 2023). NRB has a critical role in strengthening regulations, especially concerning climate change and green finance, and ensuring awareness and compliance. As global studies suggest a positive link between ESG and financial performance, embracing ESG can lead to economic benefits for Nepalese banks. ESG score determination is important for value reporting and good financial performance (Karmacharya et al., 2025; Nepal economic forum, 2026). With sustainable investing becoming mainstream globally, foreign investors increasingly use ESG requirements. Nepal needs to embrace this practice to attract such investments.

To secure the financial health and sustainability of the Nepalese banking industry, it needs to be aware of the importance of diversifying its holdings, keeping cash on hand when needed, and effectively authorizing and managing loans. Furthermore, moving towards mandatory and comprehensive ESG disclosure is vital for future growth and integrating into the global sustainable finance landscape.

Conclusion

Environmental, Social, and Governance (ESG) is an emerging and globally recognized management concept that has evolved from CSR. The study aligns with earlier research, emphasizing that ESG compliances can act as a catalyst for increasing financial performance (Karki et al., 2025). It provides a comprehensive framework for assessing enterprise sustainability, demanding ethical business practices, transparency, and stakeholder involvement. Globally, the trend is shifting towards mandatory ESG disclosure, driven by the need for consistent growth, openness, and increased investor trust, despite the associated financial burdens.

The relationship between ESG performance and financial performance is complex and varied, with studies indicating both positive and, in some contexts, negative or insignificant correlations depending on the specific ESG pillar, geographical location, and other influencing factors (Karmacharya et al., 2025). However, the overarching evidence suggests that improving ESG levels can significantly enhance corporate value, reduce firm risk, and contribute to long-term financial success.

In Asian countries, the adoption of ESG practices is evident, with some nations like India leading with mandatory disclosure requirements (Arora & Mishra, 2019), while others, particularly developing economies, face challenges related to institutional conditions, awareness, and regulatory enforcement (Cernev & Fenner, 2020). Nepal's banking industry, a cornerstone of its developing economy, is currently in the introductory stage of ESG adoption, primarily relying on voluntary CSR disclosures rather than mandatory ESG reporting. There is a noted lack of awareness regarding existing green banking regulations among bankers (Lee et al., 2016), the Nepalese government's commitment to achieving the Sustainable Development Goals (SDGs) by 2030 provides a significant opportunity and imperative for deeper ESG integration.

For Nepalese banks to thrive sustainably, it is critical to move beyond perfunctory CSR activities and embed ESG principles at the core of their strategies, ensuring organization-wide understanding and adherence (Azad et al., 2022; Kafle, 2016). The Nepal Rastra Bank has a pivotal role in mandating climate change considerations and promoting sustainable finance practices. Ultimately, mandatory disclosure of a company's CSR and ESG rating is critical to maintaining the firm's

worth and goodwill in society, fostering investor trust, and facilitating sustainable development in Nepal's financial sector.

Future Research Directions

This study will be valuable for future scholars in guiding the selecting relevant ESG aspects and theories for sustainable banking research. The existing literature, particularly concerning ESG practices in Nepal, highlights several areas ripe for future investigation: Impact of ESG on Nepalese Banks' Financial Performance: Comprehensive studies are needed to investigate the specific effect of ESG scores on the Financial Performance (FP) of Nepalese commercial banks, moving beyond general observations to detailed empirical analysis. Future research should identify the specific factors within the Nepalese context that influence the relationship between ESG and financial performance, considering unique regulatory, economic, and social elements.

Conflict of interest:

Author declares no conflict of interest.

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