

## ESG RISK, NET INTEREST INCOME AND FINANCIAL PERFORMANCE OF EUROPEAN BANKS

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### ABSTRACT

This study examines the relationship of ESG risk and net interest income with the performance of 187 European. Cross-sectional regression analysis is applied. Financial performance is computed as ROA and ROE. The explanatory variables used are Morningstar's ESG risk, net interest income, efficiency ratio, size and leverage ratio. The results reveal that financial performance is negatively related to ESG risk and positively related to net interest income and efficiency ratio. Size seems to exert some negative impact on financial performance. Interestingly enough, the impact of leverage on ROA and ROE is negative and positive, respectively. At the country level, banks from Western and Northern Europe present lower ESG risk than banks from Southern and Eastern Europe.

**Keywords:** Financial Performance, ESG Risk, Net Interest Income, European Banks

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