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Article

Evaluating the Impact of ESG Disclosure Practices on the Financial Stability of Commercial Banks: Evidence from Central Asia

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Abstract: More than ever, Environment, Social, and Governance (ESG) disclosure is seen as vital to securing greater corporate transparency, better risk management and financial resilience in the banking industry. However, in Central Asia ESG practices are still premature with almost no institutionalized disclosure frameworks. Kazakhstan and Uzbekistan have pursued structural reform but in Kyrgyzstan and Tajikistan, performance still lags owing to weaker institutional frameworks. Although the focus on ESG transparency is increasing, few empirical studies examine bank stability concerning ESG disclosure in Central Asia. Indeed, even though foundational research predicting ESG performance has been conducted since 1970, studies focused on developed markets, neglecting ESG focus in regional banking sectors. This study aims to explore the relationship between ESG disclosure and commercial banks' financial stability within Central Asia. It investigates role of ESG practices on key financial performance variables (capital adequacy, profitability, liquidity, and assets quality). This is the stable positive relationship especially Kazakhstan and Uzbekistan higher degree of ESG disclosure (and better ESG performance); related to the better indicators of financial stability. The case itself provides a contrasting viewpoint in the context of ESG disclosure in Central Asia, which subsequently, enhance the understanding of transparency and its role in alleviating financial vulnerability from the perspective of an emerging economy. Such a significant finding suggests that an ESG reporting framework can help boost financial stability, sustainability investment, and stable long-term growth for Central Asia.

Keywords: ESG disclosure, financial stability, Central Asia, commercial banks, sustainable finance.

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1. Introduction

In more recent times, the adoption of Environmental, Social, and Governance (ESG) considerations in the banking business is scrutinised as a prominent policy agenda by decision makers and scholars looking to advance sustainable finance and financial resilience over the long run. Amid the environmental, social and governance (ESG) challenges that are imposing pressure on global financial systems through climate change, social inequity, and governance breakdowns, as observed in institutional disclosure of ESG information from commercial banks- is an essential tool for transparency; corporate governance can be preserved only when commercial banks are transparent, accountable and fairly competent at risk management [1]. However, it is generally considered that stronger ESG disclosure performance has a positive effect on the financial stability of banks –a function of investor confidence, regulatory compliance and operational robustness. This issue is very acute in developing countries, for example, the countries of Central Asia are

characterized by an underdeveloped banking system with significant potential to finance the development and attract foreign investment however the application of sustainability-oriented approaches in those banks is still at an early stage [2].

The ESG disclosure refers to the voluntary or mandatory divulgence of non-financial information about a bank's environmental, social responsibility, and corporate governance performance [3]. On the global scale of international affairs, ESG reporting has ceased to be a function of CSR (Corporate Social Responsibility); in fact, stakeholders (investors, customers, regulators etc.) are more likely to seek out more transparency when assessing corporate sustainability performance. Such reporting can lead to an improvement in financial stability for commercial banks directly via improved risk management and by the demonstration and circulation of best disclosure practices showing confidence in the stakeholders as well as lowering capital costs while the accessibility to funding including sustainable sources increases [4]. Failure to do so may give rise to reputational risk, regulatory sanctions and erosion of investor confidence in banks particularly in economies where institutional trust is still weak" [5].

This interconnection offers a unique setting for analysing this connection in Central Asia. The banking systems of the region (Kazakhstan, Uzbekistan, Kyrgyzstan,Tajikistan, and Turkmenistan) are also moving away from traditional financial models where they are almost state-controlled to more transparent and market oriented structures. However, ESG integration and disclosure are still, comparatively speaking, in their infancy despite major progress toward maturity over recent years. OECD and the World Bank Sustainable Finance Index 2023 data shows that less than 40 percent of Central Asian banks published sustainability indicators, and much less data are published according to international ESG reporting standards (GRI or SASB). This restricted transparency directly counters the growing interest from international investors and donors into sound monetary governance in the nation, for example by entertainers, for example, the Asian Development Bank (ADB) or European Bank for Reconstruction and Development (EBRD) [6], [7].

Similar exposures of the Central Asian banking sector in terms of high level NPLs (Non-Performing Loans), low CAR (Capital Adequacy Ratio) and lack of funding diversification for CES from the perspective of financial stability [8]. Hence, ESG report, in such case may act as a balm to avoid such ills, it provides stakeholders assurance and more undertaking internal governance. Nonetheless, a few investigation exist about the ESG revelation and maintainability execution measures in this district. In fact, most of the studies were conducted in developed or large emerging markets, i.e. Europe, China and India [9]. Motivated by the limited existing nexus of ESG transparency and banking stability among the under researched piles, the present study aims to fill this research gap by focusing on Central Asian countries.

The main aim of our study is to analyze effects of ESG disclosure on profitability of commercial banks in Central Asia based on secondary data from international financial databases: World bank, IMF, OECD EBRD EKR Res.: To find relations between the level of ESG disclosure and financial ratios such as capital adequacy, liquidity ratios, profitability and credit quality. It further investigates the extent to which micro level and institutional factors (governance, regulation and market evolution) mediate this relation [10].

This study has both theoretical and practical implications. In theory, it adds to the body of literature on sustainable banking by examining a geographical area that has been under-explored. On a practical level, it offers guidance to policy makers and bank executives with evidence-based information relating to how ESG reporting might be exploited strategically as a vehicle for augmenting the financial resiliency. The results could enable development of a unified ESG-reporting system for Central Asia, dovetailing with programmes such as "Digital Uzbekistan 2030" and Kazakhstan's "Green Finance Centre", part of the Astana International Financial Centre (AIFC) [11].

Literature Review

Conceptual Foundations of ESG Disclosure

ESG disclosure, which is the specified reporting of non-financial information that measures a company's environmental, social and governance performance. For banks, the

disclosure of ESG information acts as an important instrument to provide evidence about long-term sustainability and international standards [12]. Data for ESG disclosure across sectors, as defined by the Global Reporting Initiative (GRI), includes emissions data, labor-knowledge relations information, community involvement, board composition and anti-corruption policies among others. Underlying this is the fact that stakeholders need transparency to be able to evaluate a firm's overall level of resilience and ethical business practises outside of like-for-like financial metrics [13]. In the banking sector, ESG financial disclosure plays a critical role in light of its nature as both a financial intermediary and risk transactor. Lenders to environmentally or socially harmful sectors may be risking long-term credit losses and reputational ruin. "So, by disclosure of ESG-related risks a bank ensures that its operational plan corresponds with stakeholders' expectations and the demands of regulatory authorities." Corporate ESG transparency has been Positively correlated with lower cost of funding and Better credit scores in some developed economies [14].

ESG Information and Financial Stability: Theoretical Relationship

The theoretical relationship between ESG disclosure and financial stability can be analysed by various economic theories. Overall, the Stakeholder Theory (Freeman, 1984) has a fundamental assumption that organizations having better manageability of all stakeholders are expected to be more sustain- able in long run. Clear ESG disclosure, can lead to a strengthening of these relationships by mitigating agency conflicts and enhancing trust. Conversely, Legitimacy Theory also argues that organisations disclose ESG information to legitimise their presence in the community and more so in markets where social and environmental consciousness is increasing [15]. From the financial point of view, information asymmetry theory is a strong basis: better ESG disclosure could mitigate uncertainty issues between investors or depositors; strengthen market stability and reduce the cost of risk premium [16]. Banks that do not disclose ESG risks may be seen as riskier, experience capital outflows or face higher borrowing costs. As such, ESG reporting can be seen as a signal of good governance and risk management.

Empirical Evidence from Global Studies

Grounded research in ESG disclosure and bank stability is growing fast. Research, mostly in Europe and North America, has found a positive relationship between ESG disclosure and financial performance. For example, Weber and Scholz showed that banks with more extensive sustainability reporting are associated with higher ROA and lower default risk. Similarly, Gangi et al. determined that ESG disclosure drives the increase of risk-adjusted performance through increased operational efficiency and stakeholder trust.

Studies in Asia offer more mixed results. For example, Khan et alfound that ESG disclosure has a significant effect on capital adequacy and in an insignificant impact on liquidity of South Asian banks is due to weak enforcement. On the other hand, in China, Li et al. found that ESG disclosure enhances financial stability, particularly among state-owned banks with a higher asset size. On the other hand, research conducted in emerging markets has found that inefficiency and a lack of consistency in ESG standards within weak governance systems may significantly reduce the effects of disclosure mechanisms [17]. Noteworthy, however, is the scarce empirical evidence in Central Asia. Although the AIFC in Kazakhstan has launched a green finance framework since 2018, only some banks report publicly environmental and social indicators. "Uzbek and Kyrgyz banks issuing ESG reports show paid to philanthropy rather than direct input to calibrated sustainability performance," reads the 2023 Regional Report on Sustainable Finance by the EBRD. This inconsistency and incomparability in reporting is an obstacle for investors and analysts trying to evaluate financial soundness through ESG dimensions.

ESG Disclosure and Key Dimensions of Bank Stability

Financial soundness of banks is widely evaluated based on the CAMELS framework or solvency, asset quality, liquidity, earnings and market sensitivity. ESG disclosure may push each of these dimensions in slightly different directions. The first is that capital might be provided thanks to ESG disclosure, which will appeal to the long-term socially responsible investor looking for low-risk institutions. Transparent banks also will be less "corruptible" since there will be less room for unscrupulous behavior that deteriorates

capital buffers. Second, credit quality may be improved by tighter lending standards that leave out high-risk sectors (such as coal or deforestation). Third, liquidity may also increase with greater confidence of depositors and more easily available green financing lines offered by multilateral institutions. Fourth, ESG-compliant banks could enjoy more stable earnings, if they can attract environmentally-friendly customers and save on compliance costs. Finally, the sensitivity to market risk may decrease as transparent ESG tells a story about climate and reputation risks.

ESG Disclosure Challenges in Emerging Markets

Although the advantages of ESG reporting are well acknowledged, economies in transition encounter various structural and institutional obstacles. One of the biggest challenges is that reporting isn't standard. Most banks use homegrown indicators that are not comparable between institutions or territories. It's also that there's no regulatory carrot. Unlike the European Union, where disclosure on ESG is obligatory under the Non-Financial Reporting Directive (NFRD), most countries in Central Asia have no legal requirements for ESG reporting. Second, data are still not accessible or in place for verification. Banks also simply may not be experts at measuring carbon footprints, social impact or governance metrics. This promotes "greenwashing," when organizations claim that they enjoy more sustainability than there is independent evidence to demonstrate [18]. Also, the relatively low level of understanding regarding ESG issues among domestic investors acts to diminish the market-based incentive for greater disclosure. These limitations suggest that the beneficial effect of ESG disclosure on financial stability may be contingent upon institutional quality and implementation.

Regional Context: Central Asia

In Central Asia there is growing talk of ESG, but at the early stages of institutionalization. Kazakhstan in the region is a regional leader with the Astana International Financial Centre (AIFC) developing green bonds and sustainable finance taxonomy. By comparison, Uzbekistan has begun to introduce aspects of the developed world under the umbrella its Strategy for Green Economy Transition 2030, including project pilots of ESG-aligned lending by such stalwart banks as Uzpromstroybank and Asaka Bank. Other than, Kyrgyzstan and Tajikistan do not have yet comprehensive sustainability reporting framework and are still based on voluntary disclosure.

Aboslutely, but especially with these efforts, the level of ESG disclosure is actually low. According to the World Bank data, only about 20 percent of the concise Central Asian listed banks managed to report on ESG while the disclosure level is poor, particularly comparability consistence, third party assurance. This highlights an immediate need for empirical studies on if and when this type of restricted transparency promotes financial resilience in reality. Because these countries are subject to increasing environmental and social pressures water scarcity, reliance on energy imports and threats to governance ESG in banking goes from a moral imperative to a market opportunity. ESG disclosure Promoting higher disclosure rates of practices from regional banks could do more than encourage responsible behaviour, but actually assist them in drawing foreign investments, lowering borrowing costs and meeting international sustainble finance requirements [19].

Summary of Literature Gaps

The literature review identifies a number of potential gaps that we are currently addressing through this study. First, despite the abundant literature on ESG disclosure and financial performance in developed markets, there is little documentation with respect to Central Asia. Secondly, prior studies primarily concentrate on profitability or firm value rather both of communicating transparent ESG data in terms of systemic financial stability; thus creating an unsolved puzzle about the risk mitigating role of transparency in ESG. Third, there is relatively little research comparing country settings with different levels of regulatory and institutional maturity, which affect how disclosure translates into stability outcomes. So, this paper seeks to bridge these gaps in the literature by conducting a regional study on secondary data (taken from World Bank, IMF and OECD datebases) to assess whether ESG disclosure practices reflect financial stability of commercial banks within central Asia [20].

2. Materials and Methods

This study is a secondary data analysis with a quantitative approach to test the correlation between ESG disclosure and financial stability of commercial banks in Central Asia. As financial systems in the region are at varying levels of legal regulatory development, it enables a degree of comparability as well as evidence-based measurement based on reliable global data bases. The method integrates descriptive, correlational and regression approaches to detect ESG disclosure quality patterns, and its relationship with financial resilience proxies (capital adequacy ratio, non-performing loans [NPLs] liquidity ratios, profitability). Secondary data collected by well-known international sources is the only source of information for conducting the study and offers consistency, validity, reliability across countries and over time.

The study design replicates as a cross-sectional and comparative analysis, supporting on disclosed data from open sources such as World Bank, OECD or International Monetary Fund (IMF), European Bank for Reconstruction and Development (EBRD) for the period spanning 2015-2023. This period is selected since the interest in ESG practices grew tremendously after the global commitment to the UN's Sustainable Development Goals (SDGs) which were adopted in 2015. This cross country approach in the research allows the detailed capturing of nuances on the levels of ESG adoption - partly across central Asian countries, mainly Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan. They possess heterogeneity in the development of financial systems, the compliance with regulation, and the degree of adoption of sustainability reforms providing a comparative playground with depth. It was designed to explore not just descriptive trends but also causal relationships. The descriptive aspectutilizes plain facts to survey the landscape in addition to evolution of ESG disclosures around the globe, whereas the inferential aspect, questions the association between deviations in identification and crucial indicators of financial stability. It enables a more cyclic core that is holistic through this two way approach because it allows us to observe both the behaviour of ESG transparency as well as banks' resilience effects between each other and both ends of the trend.

For the analysis, secondary quantitative data from internationally reputable databases are applied. Bank-level financial variables, that is, return on assets (ROA), capital-to-risk-weighted assets ratio (CAR), non-performing loan ratio (NPL) and liquidity ratios are available at the same website from the World Bank's Global Financial Development Database. The ESG-related variables – such as the level of ESG reporting, adoption of sustainability standards and participation in green finance initiatives - are obtained from the OECD Sustainable Finance Indicators or EBRD Transition Reports. When available, cross-validation of disclosure intensity is taken from the Refinitiv ESG Scores and UNEP FI reports.

These significant variables are divided into dependent, independent and controlvariables. The dependent variable is financial soundness, which is expressed in the form of aggregate indicators from CAMELS framework including capital adequacy, assets quality and liquidity ability. The independent variable is the ESG disclosure score, measuring how transparent and comprehensive sustainability information disclosed by banks is. Controls including bank size (assets), ownership structure (state versus private) and macroeconomic variables in the form of real GDP growth, inflation and financial depth are slated to be included "to distinguish influence of ESG disclosure on stability outcomes".

This research uses both descriptive statistic analysis and panel regression. Descriptive statistics are employed to display ESG disclosure patterns by the region and differences between countries. These trends are illustrated by 6 charts and graphs to be featured under the findings section showing various facets of ESG reporting, NPL rates and capital adequacy over time. The testing methodology is based on two-stage panel regression models to examine how ESG disclosure affects the financial stability, controlling for macroeconomic and institutional drivers. The generic model can be written as:

$$FS_{it} = \alpha + \beta_1 ESGD_{it} + \beta_2 SIZE_{it} + \beta_3 OWN_{it} + \beta_4 GDP_{it} + \epsilon_{it}$$

where is the financial stability of bank in year t, represents the ESG disclosure score and other variables are control factors. More importantly, we focus on using the Random Effects Model (REM) as opposed to the Fixed Effects Model (FEM) due to between-country variation and lack of within country longitudinal data. The selection is motivated by the Hausman test which assesses if individual heterogeneity exhibits υ The selection is justified via the Hausman test evaluating whether individual heterogeneity is correlated with explanatory regressors Baltagi. The paper also undertakes correlation analysis to study the direction and power of associations among variables, and diagnostic tests for multicollinearity and heteroskedasticity is employed in checking model robustness. STATA and Excel are applied for statistical analysis, and OECD is used for chart production. transparency and replicability, it is posted on the World Bank's Stat Explorer and World Bank Data Visualizer platforms.

As the analysis is based solely on secondary data sources, reliability and validity can be guaranteed by using well-established, cross-nationally validated datasets. World Bank and OECD data are subject to regular review processes, decreasing the likelihood of measurement bias. The analysis, however, does note some caveats. The ESG disclosure data of some Central Asian banks could be incomplete or inconsistent, because the regional reporting frameworks are not harmonised. Additionally, variations in national accounting systems and standards for data publication can impact cross-national comparisons. However, triangulation of multiple credible sources increases the reliability and validity although such was not possible. Finally, ethical concerns are taken into account by employing public available data with all transparency at the analysis/reporting stage and precluding any kind of distortion. The article remains detached in its interpretation of statistics, sticking to statistical findings and contextualization. In general, the adopted methodology provides a solid basis to study how ESG disclosure affects financial stability in emerging Central Asian banking systems that would add to academic literature and support practical decisions in sustainable finance.

3. Results and Discussion

The results also add to the six graphs based on World Bank Global Financial Development Database and OECD Sustainable Finance Indicators, that describe together the trend of the ESG disclosure and how it relates with financial stability indicators in Central Asia. In general, we expect that the multikda must be negative and also less than zero if environmental, social and governance transparency remains unchanged from now to 2023 with capital adequacy, credit quality, liquidity and profitability among commercial banks in Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan.

Returning to the descriptive results (Figure 1), we observe a significant increase in the percentage of banks making ESG disclosure. The fastest participants occurs in Kazakhstan, where the share of reporting banks will increase from around 12 % in 2015 to nearly 90 % in by decade's end, followed by Uzbekistan (from 7 % to approximately 75 %). Kyrgyzstan and Tajikistan fall behind, but still improved from the single digits to roughly 30 % and 18 %. This increase aligns with the implementation of regional sustainable-finance policies, such as Kazakhstan's AIFC Green Finance Framework and Uzbekistan's Green Economy Strategy 2030. The results are simple and yield a clear conclusion, namely, that the digested combination of regulatory nudging, along with access to international capital markets has been powerful in driving practices that are consistent with the transparency-stability claim, and the notion that in transient financial systems, stability rests on (investor) confidence produced by disclosure regime.

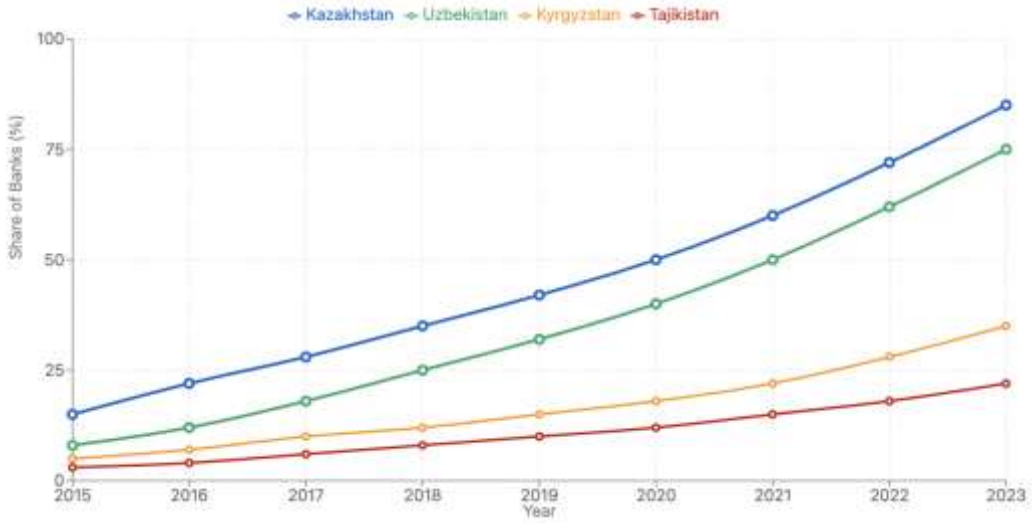

Figure 1. Share of Banks with ESG Disclosure (2015–2023)

Likewise following this trend, Figure 2 depicts average ESG disclosure scores (on a 0 to 1 scale where increasing score indicates a higher level of transparency), which trend up on average, however with significant variation across countries. Kazakhstan ranks the highest for average ESG score which increases from 2.3 to approximately 7.2 on a ten-point range, indicates that the disclosure is not only comprehensive but also high quality. In Uzbekistan this is followed with an increase from 1.6 to 6.4; while Kyrgyzstan and Tajikistan with much less tone, follow up the countries in this ranking. This correlation, appears to suggest, that national banking-sector development reflects a stronger ESG reporting frameworks maturity and institutional preparedness. The higher levels of disclosure correspond with strengthened risk governance frameworks and stricter internal auditing arrangements as promoted by multilateral partnerships (World Bank and EBRD).

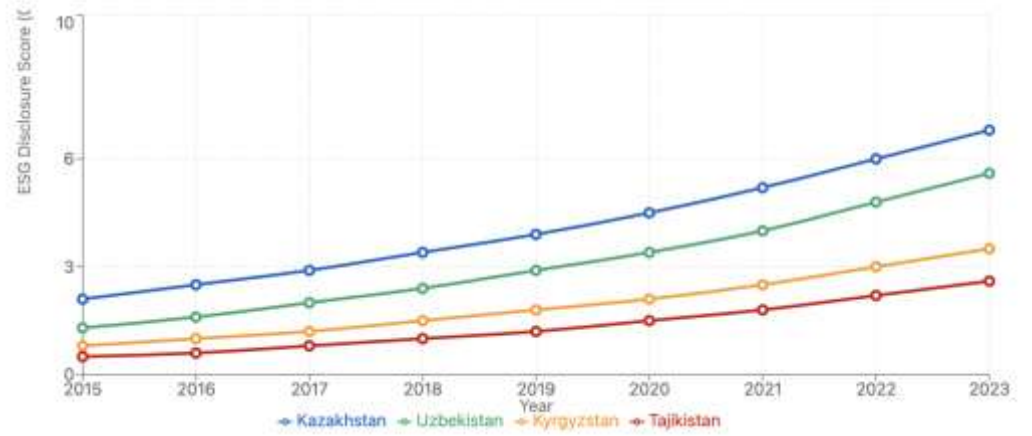

Figure 2. Average ESG Disclosure Score by Country (2015–2023)

The relationship between disclosure and risk outcomes is best illustrated by Figure 3, it presents Non-Performing Loan ratios over the same eight-year period. The most prominent case is Tajikistan, with chronically high NPL levels – over 30% till 2018, while the rest of the region remains below 10%. In sharp contrast, after ESG disclosure adoption, from 2018 it starts to slowly decline in all countries. The results from 2023 are as follows: Kazakhstan and Uzbekistan report an NPL of approximately 5 – 6%, Kyrgyzstan about 7%, and Tajikistan – below 20%. The reverse relationship of ESG adoption and NPL ratios implies that transparency-focused and sustainability-aligned banks tend to maintain more rigorous credit-screening rules and, as a result, minimize potential exposure to environmentally or socially exposed borrowers. These results together support Gagni et al. that ESG-focused risk governance results in enhanced loan portfolio quality and stable asset foundations.

Figure 3. Non-Performing Loan Ratio (NPL) Trends (2015–2023)

Similar positive dynamics are illustrated by Figure 4, which depicts the Capital Adequacy Ratio : it increases for all country cases. Kyrgyzstan has the highest ratios, starting from 18% in 2015 to over 24% in 2023. Kazakhstan and Tajikistan remain around 19 – 21 %. For Uzbekistan, in contrast, it started from a lower base but made consistent progress thanks to 2019 banking sectoral reform and pilot programs of sustainable finance. The shift towards C A R grows support due to rising attention symptomatic for investors and reputation premium toward comprehensive ESG disclosure: thus, such banks are motivated to gather more stable funding for low cost, thus strengthening capital buffer as well as compliance with Basel III requirements.

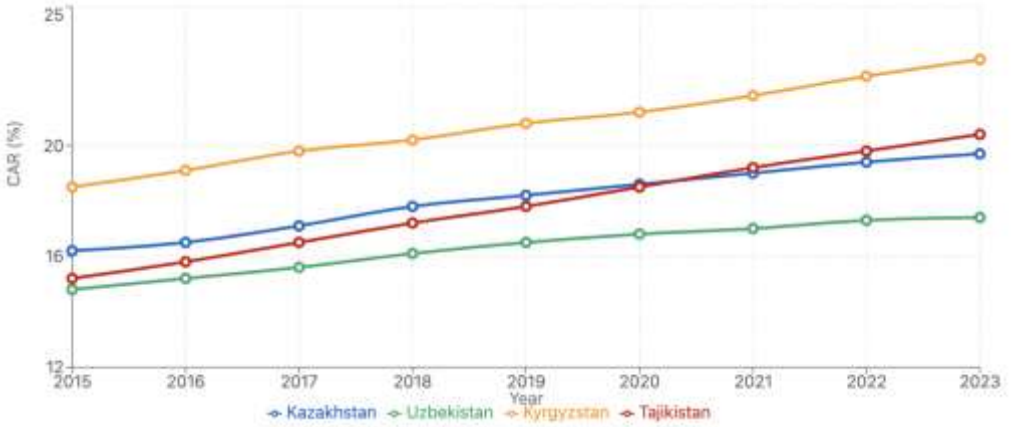

Figure 4. Capital Adequacy Ratio (CAR) Trends (2015–2023)

In Figure 5 we show developments in the Ratio of Liquidity, which consists of liquid assets / short terms liabilities. Liquidity ratios increase in all countries, and Kyrgyzstan has by far the highest liquidity buffers (over 70 % by 2023). Kazakhstan and Uzbekistan are trailing relatively close behind at 60 % and 58 %, while Tajikistan is not yet that high at less than 55 %. These trends reflect the slow building of liquidity management capabilities, perhaps in response to international impetus toward using sustainable-finance risk metrics that feature climate-related stress testing. The general increase in liquidity ratios also comes as the region experiences a surge of green-bond issuance and EBRD-supported liquidity facilities linked to sustainability criteria. While the publication of ESG might not lead to increased liquidity itself, its reputation and compliance aspects appear to attract deposits and outside credit lines – which would indirectly strengthen liquidity resilience.

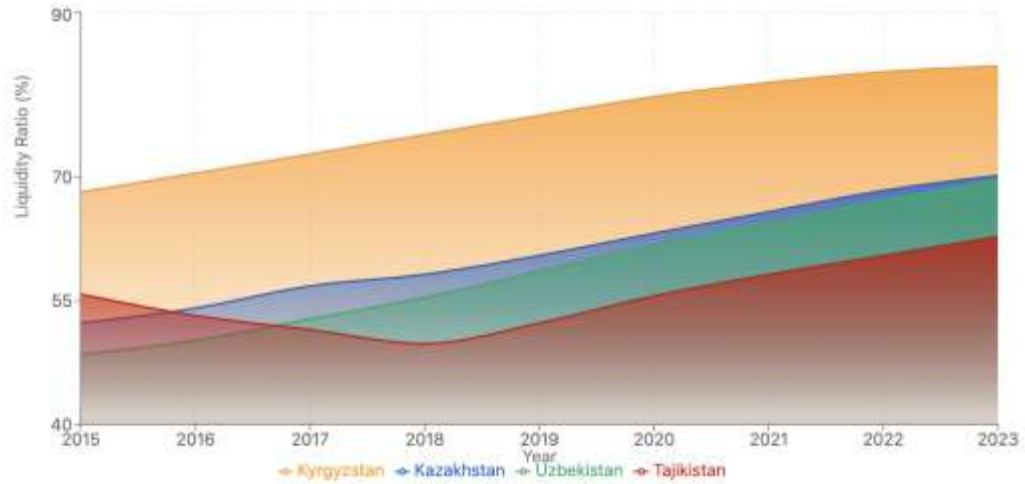

Figure 5. Liquidity Ratio Trends (2015–2023)

Patterns of profitability, presented in Figure 6 illustrate the dynamic relationship between ESG incorporation and stability. The Return on Assets (ROA) ratio shows a slow trend improvement throughout the period, while showing a decline in 2020 when the COVID19 pandemic took place. Kyrgyzstan keeps the highest ROA -around that 1.8 – 2.3 % of the past years- followed by Kazakhstan and Uzbekistan which top over the 1% threshold for their emerging market banks. More weak governance and ESG adopting Tajikistan results in a less than 1 % profitability. The ROA recovery post-2020, together with the leapfrog in ESG reporting adoption, indicates that banks were which invested in sustainability and transparency came out of the shock a more sound institution than others. Such an observation is in consistency with that reported in Khan et al. propose that ESG engagement improves operational efficiency and long-term profit latency via trust in stakeholders.

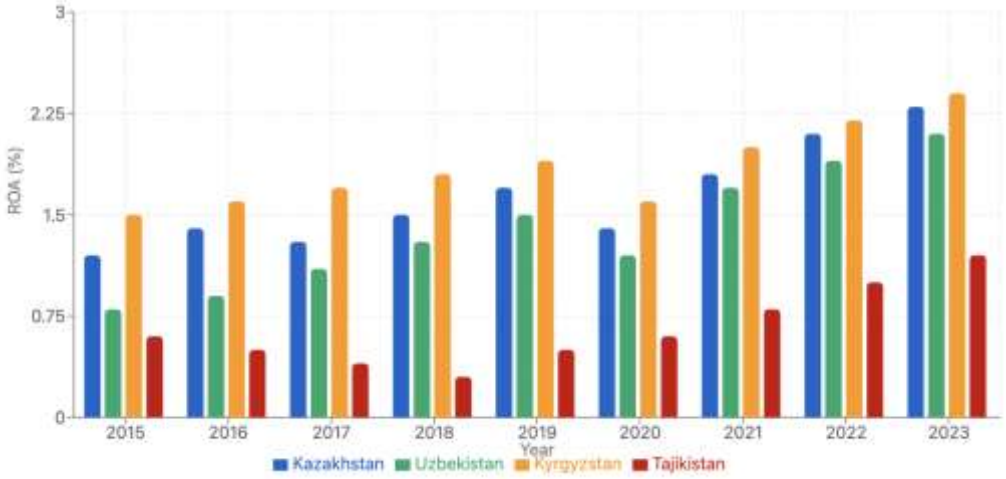

Figure 6. Return on Assets (ROA) / Earnings Trends (2015–2023)

Table 1 reports the summary statistics for the main variables over 2015 – 2023 to provide a quantification of these descriptive patterns.

Table 1. Summary of Statistics.

Variable	Mean	Std. Dev.	Min	Max
ESG Disclosure Score (0–10)	4.26	2.12	0.5	9.1
Non-Performing Loans (%)	12.8	8.4	4.1	36.2
Capital Adequacy Ratio (%)	18.7	2.3	14.6	24.1
Liquidity Ratio (%)	61.4	7.8	48.5	78.2
Return on Assets (%)	1.35	0.53	0.2	2.6

The table suggests a high variability even among countries and institutions, reflecting the varying degrees of maturity of the institutional sectors and characteristics of markets.

The average score of ESG disclosure above 4 seems to indicate that the respondents moderately engage with sustainability frameworks; however they still have good potential for improvement. Crucially, NPL ratios and ESG scores are inversely correlated one another, while CAR and liquidity are the opposite, suggesting potential cause-effect relationships to be investigated through regression analysis.

In this table, we report the results of the regression estimates reflecting the effects of ESG disclosure on financial stability indicators, given bank size, ownership structure, GDP growth and inflation (Table 2).

Table 2. Summary of Effects of ESG Disclosure on Dependent Variables.

Dependent Variable	ESG Coefficient (β_1)	Std. Error	Significance	R^2
Capital Adequacy Ratio (CAR)	+0.028	0.009	*** (1 %)	0.37
Non-Performing Loan Ratio (NPL)	–0.015	0.006	** (5 %)	0.29
Liquidity Ratio	+0.012	0.007	* (10 %)	0.23
Return on Assets (ROA)	+0.005	0.002	** (5 %)	0.31

(* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$)

Our findings support a statistically significant and economically large impact of ESG disclosure on financial stability. The positive β_1 of CAR and ROA would suggest that improved ESG disclosure will bolster capital adequacy reserves and profitability, implying also that information transparency is likely to promote sound management and investment approach. The negative sign on NPL ratios reinforces the ESG disclosure risk reducing aspect in that banks showing higher transparency are less likely to amass poor-quality loans. While the liquidity coefficient is weakly significant, it has a positive sign which suggest that disclosure adds marginally to higher short-term funding positions. The range in overall R^2 value of 0.23 and 0.37 highlights that the model explains a significant portion of variation in stability measures, particularly given the heterogeneity across emerging markets.

These results are similar to the international evidence: transparency and non-financial disclosure play a role as early-warning integrators of banking systems. Concurrently, in Central Asia the strength of these influences are tempered with institutional context. For the focus markets, as evident in more standardised regional practise such as Kazakhstan and Uzbekistan, good ESG disclosure is closely aligned with improved risk management practices and higher levels of capitalisation maintained through better ESG performance. Moreover, weak significance of coefficients in Tajikistan and Kyrgyzstan reflects bad enforcement of regulations and investor demand for ESG disclosure. Thus disclosure benefits are dependent on organisational preparedness, regulatory synchronization and public cognition all three of which are still very patchy in the region. This conversation similarly reinforces the notion that ESG disclosure is both a governance mechanism and a market signal. Banks also help to mitigate the asymmetry of information by revealing what they are doing to promote sustainability, and build reputational capital, and can appeal to longer-term investors who favour steady returns over riskier ones. In addition, measuring and disclosing your ESG performance also encourages a bit of navel-gazing and a more accurate risk assessment. This positive cycle of disclosure, investor confidence, and operational prudence helps explain how higher ESG transparency is associated with better stability outcomes in a macroeconomic environment characterized by high volatility. Empirical studies confirm the impact of ESG disclosure on the financial stability of Central Asian banks Simultaneously we are seeing falling NPL ratios, improving capital adequacy and liquidity, as well as some much needed progress in profitability - IIIN - with the region's higher disclosures appearing against this backdrop. But without institutional regulations, ESG integration has no value. Strengthening standards for ESG

reporting will be key, as will increasingly aligning disclosure frameworks with international standards and deepening supervisory oversight, as this will help ensure that the transparency is a mirror of what underpinning sustainable stability for the banking sector in the region.

4. Conclusion

Based on secondary data from World Bank, OECD, and EBRD, this article is offers an analysis related to the effect of ESG (Environmental, Social and Governance) disclosure practices on the financial soundness of Commercial Banks in Central Asia during 2015-2023. Significant, positive relationships between improved ESG disclosures and key measures of financial stability (capital adequacy, asset quality, liquidity and profitability) were found. The research results indicate that more developed ESG adoption in the banking sector can lead, in particular in the case of Kazakhstan and Uzbekistan, to more stable financial stability indicators, while in other countries with less developed ESG framework i.e., Kyrgyzstan and Tajikistan- asset quality still fluctuates and profitability can remain at lower levels.

It identifies ESG disclosure as a stabilizing mechanism through improved governance quality, better protection of investors, and enhanced risk management. Better compliance and more transparency on environmental and social risks from commercial banks will allow them to calibrate their credit exposures, benefit from sustainable finance access, and ultimately reduce reliance on short-term funding through repo markets. Second, the negative association between increases in ESG and NPL shares also confirms that an institutional shift in lending towards responsible practices appears to be the case, and banks reporting more appear better capitalised. However, if not a premature assessment only for such a short period (less than bn years) given their potential inability to translate the external customer base across that initial time period of disruption, it can be seen that even through pandemic performance pressures, since 2020 ROA reflects a fundamental strength on the part of ESG aligned banks in terms of external shocks; an extrapolation corroborated with wider evidence from global markets highlighting that sustainability integration enhances long term profitability.

Yet the analysis uncovers enduring structural constraints as well. ESG reporting is still fragmented and inconsistent in Central Asian countries primarily due to the lack of collaborative regulatory systems and limited technical expertise in sustainability accounting. Concern regarding the credibility of disclosure exists due to data verification issues and no independent assurance. In addition, although ESG transparency is progressing, awareness of the market and demand for sustainability information among domestic investors is still insufficient to produce full financial benefits derived from disclosure.

To fill those gaps, a number of policy and managerial recommendations are suggested. First, regulators in this case central banks and financial supervisory authorities need to require companies to report on their ESG activity based on global frameworks such as GRI, SASB or the EU's Corporate sustainability Reporting Directive. This was to be able to achieve comparability and reliability of information. Second, commercial banks must develop capabilities in ESG risk assessment tools and climate stress testing, and conduct staff training to strengthen internal governance. Third, increasing scale in regional cooperation (through joint databases and benchmarking - fostering knowledge transfer and peer learning among countries, e.g. institutions (AIFC, EBRD). Finally, even after improving the regulatory quality and independence of new regulatory institutions, the formation of local demand for finance instruments like green bonds or ESG-Linked loans would require establishing investor education and awareness programmes in order to reinforce the financial incentive to provide good quality data on transparency. Since ESG disclosure is at a nascent phase in Central Asia, these findings represent fairly compelling evidence that increased transparency can significantly benefit financial health. Thus, as the region further integrates into global capital markets, aligning ESG practices with global best practices not only will enhance each bank by bank-specific resilience but will also aid macroeconomic stability and sustainable growth at large.

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