

Impact of Green Loans on Financial Performance: Evidence from Sri Lankan Licensed Commercial Banks

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To examine the impact of Green Loans on the Financial Performance, through examining the complex relationship between green credit and the financial performance of licensed commercial banks. This study includes ten private sector banks and two public sector banks for the period 2015 to 2022. Financial performance measured using Return on Assets (ROA) and Return on Equity (ROE). Regression analysis through two models for ROA and ROE were used for analyzing the acquired data and in addition normality test, hausman test and interdependency test were performed. As there are several articles on green banking concept and how its impact on financial and non-financial performances, this study investigates the relationship between green loans and financial performance, and the impact of green loans and financial performance. Although the previous literatures' results are inconclusive, this research study shows that there is a significant negative impact of Green Loans on the Financial Performance of the Licensed Commercial Banks in Sri Lanka. This research navigates the complex landscape of green loans and their impact on the financial performance of Sri Lankan banking sector, providing nuanced insights into both academic discourse and practical decision-making in the financial sector.

Keywords: *Green Loans, Return on Assets, Return on Equity, Non-Performing Loans, Sustainable Development, Green Banking Products*

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Introduction

In the banking sector, sustainability has become integral to day-to-day operations. Sustainability is not only the conservation of natural resources but also the utilization of social and economic resources to meet the needs of the present without compromising the ability of future generations to meet their own needs (Saxena, 2021). It extends beyond environmental issues and is characterized by a focus on social justice and economic development. Although sustainability is a relatively recent concept, it is based on historical movements rooted in social justice, conservatism, internationalism, and other ideologies. As we approach the end of the twentieth century, these ideas have gained considerable momentum, leading us to pursue ‘sustainable development’.

Green banking is one of the most trending concepts in today’s banking industry. Green banks are mission-driven institutions that use innovative financing to accelerate the transition to clean energy and fight climate change. Being mission-driven means green banks are more concerned with deploying clean energy than maximizing profits. Green banking initiatives are eco-friendly, online and mobile banking facilities that offer paperless banking services like special savings accounts, utility bill settlement, loan repayment, credit card balance, account balance enquiries, and discounted transaction statements instead of branch banks, E-statements, SMS bank alerts, electronic fund transfers etc. (Rahman, 2023).

Green loans, also known as sustainable or eco-friendly loans, are financial products designed to support environmentally friendly projects and initiatives. Banks and financial institutions usually offer these loans and are used to finance projects that positively impact the environment or promote sustainability. The main objective of green loans is to encourage and support the development of projects that contribute to environmental sustainability. These projects may include renewable energy installations (such as solar or wind farms), construction of energy-efficient buildings, waste management initiatives, sustainable agricultural practices, and

other environmentally friendly ventures. As green loans are financial products aimed at funding projects that support environmental sustainability, such as renewable energy initiatives, energy efficiency, and pollution prevention, they are closely connected to sustainability because they are specifically structured to support environmentally beneficial projects. These loans are used to fund initiatives that have a positive environmental impact, helping businesses and the government's transition towards more sustainable practices. Green loans often finance projects that involve renewable energy sources such as solar, wind, or hydroelectric power. By funding these projects, green loans help reduce reliance on fossil fuels, lower greenhouse gas emissions, and promote clean energy solutions. This directly contributes to global efforts to mitigate climate change. Green loans are aligned with broader sustainability frameworks like Environmental, Social, and Governance (ESG) criteria and the United Nations' Sustainable Development Goals (SDGs). By providing financial incentives for green projects, green loans encourage companies and governments to adopt strategies that promote long-term environmental stewardship and social responsibility. (ICMA, 2021).

There are a lot of articles on green banking concept and how its impact on financial and non-financial performances. Those articles focus on the green banking concept and its impacts, relationship between green loans and financial performance etc. When it comes to green banking products such as green loans, green accounts, green bonds, very few articles on can be found on those topics, but there are no articles about the relationship between green loans and financial performance. Sri Lanka, like many other countries, is moving towards sustainability in alignment with global trends. The Central Bank of Sri Lanka, along with other regulators, is promoting green finance initiatives, including green bonds and loans to build a reputation as responsible financial institutions, attracting eco-conscious customers and investors. Therefore, the problem statement is the Impact of green loans on financial performance: evidence from Sri Lankan commercial banks. To bridge the research gap, the current study focuses on examining impact between green loans on financial

performance of Sri Lankan licensed commercial banks in Sri Lanka.

This article explores the concept of green banking, which refers to a banking approach that emphasizes environmental responsibility and sustainability in its operations. It sheds light on the importance of incorporating sustainable practices into the financial sector and highlights the role of green credit as a key component of this paradigm. Green loans, as discussed in the article, are financial products specifically designed to finance environmentally friendly projects or initiatives such as renewable energy businesses, energy efficient infrastructure, and sustainable agriculture. Furthermore, the article explores the concept of sustainability in the context of green banking. Sustainability is the balanced balance between economic development, social progress and environmental conservation. The article provides a comprehensive understanding of the various dimensions of sustainability and how they intersect with green banking and green lending practices. In addition to explaining the green banking concept and sustainability, this paper also investigates the impact of green credit on firms' financial performance, particularly return on equity (ROE) and return on assets (ROA) of banks. Through empirical analysis and robust statistical methods, the paper investigates the relationship between banks' use of green credit and their financial performance. The findings presented in the paper provide valuable insights into the impact of green credit on banks' financial performance. This information is particularly relevant for financial institutions looking to integrate sustainable practices into their operations while simultaneously maintaining a strong financial position. By delving into these various topics, the article equips readers with a comprehensive understanding of the concept of green banking, the importance of green credit and the broader concept of sustainability. Additionally, it provides critical insight into how green credit affects banks' financial performance, particularly in terms of ROE and ROA. Such knowledge can serve as a valuable resource for researchers, policymakers and financial institutions, enabling them to make informed decisions and effect positive change for a more sustainable future.

This research paper is structured into five different sections, each of which contributes to a comprehensive understanding and analysis of the subject matter. The first section of the article consists of an introduction that serves as a basic framework to establish the context and purpose of the study. The second section of the article is devoted to the literature review. This section refers to an in-depth investigation of existing academic works, scholarly publications and relevant sources of information. Also, the third section of the article focuses on the research methodology employed in the study and the fourth section of the article includes the findings and discussion section where the results and findings obtained through the research methodology are presented and interpreted. Finally, the fifth and final section of the article is the conclusion. This chapter presents a brief summary of the main findings of the study.

Literature Review | Conceptualization & Hypotheses Development

Sustainability

Sustainability in the banking sector is the integration of environmental, social and governance (ESG) considerations into banks' core business operations, decision-making processes and risk management practices. This includes aligning financial industry activities with sustainable development goals, addressing environmental challenges, promoting social responsibility and ensuring good governance practices. Here are some key points about sustainability in the banking sector:

Environmental Responsibility is when banks can contribute to sustainability by financing and investing in environmentally friendly projects and businesses. This includes funding renewable energy projects, supporting energy efficiency initiatives, promoting sustainable agriculture and forestry, and financing green infrastructure. Banks can adopt environmentally responsible practices such as reducing their carbon footprint and managing waste and resource consumption (Shaumya, 2017).

Social Impact: Banks have the opportunity to support social progress and inclusive growth through their lending and investment decisions. This may include financing projects that address social challenges such as affordable housing, healthcare, education and community development. Banks can promote financial inclusion by providing access to banking services to underserved populations and by supporting microfinance initiatives.

Green banking concept

Green banking is about promoting environmentally friendly practices and reducing the carbon footprint of banking activities (Nizam, 2013). It is also known as ethical banking or sustainable banking. Green banking is a process implemented by banks to make the planet eco-friendly and safe for all life on Earth. A green bank considers all social and environmental/environmental factors in its normal banking operations (Krishore Kumar, 2021). Caring for Earth's environment/habitat/resources. Green banking includes the principles of sustainability, ethical investment, conservation and energy efficiency to protect the environment and natural resources.

Green banking, also known as sustainable banking or ethical banking, is a concept that promotes environmentally and socially responsible practices in the banking industry (Choudhury, Influence of Stakeholders in Developing Green Banking Products in Bangladesh. Influence of Stakeholders in Developing Green Banking Products in Bangladesh., 2013). It involves integrating environmental, social and governance (ESG) considerations into banks' core operations, strategies and decision-making processes. The main objective of green banking is to ensure that financial institutions operate sustainably and contribute to the transition towards a greener and more inclusive economy (Nazamul Hoque, 2019)

Green loans in the banking sector

Green loans in the banking sector are financial products designed to support and

finance environmentally friendly projects and initiatives. Banks and financial institutions offer these loans to individuals, businesses and organizations that aim to implement projects with positive environmental impacts (R.Suresh, 2020). Green loans fund renewable energy installations, energy-efficient upgrades, green building construction, sustainable agriculture initiatives, waste management projects and many other sustainability-focused projects.

A green loan is similar to a green bond that raises capital for green-worthy projects (R.Suresh, 2020). However, a green loan is usually based on a loan to a smaller and private operation rather than a bond. A green bond typically has a large volume, may have high transaction costs and may be held on an exchange or privately. Green debt and green bonds also follow different but consistent principles: the Green Debt Principles and the International Capital Markets Association (ICMA) Green Bond Principles (GBP), (Bank, 2021). Both instruments specify that 100% of the revenue should be used for green activities only.

Firms' financial performance

Financial performance measures the financial health of a company based on assets, liabilities, revenue, expenses, equity and profitability (Choubey, p. 2024). It is an in-depth analysis of the company's financial statements. Analysts examine a company's income statement, cash flow statement, balance sheet, and annual report. Financial performance refers to a company's ability to manage its finances. Based on the analysis, companies develop strategies to improve capital structure, increase revenue, improve cash flow and reduce costs.

The financial performance of the banking sector is usually measured using various key performance indicators (KPIs) and financial metrics (Osama Mohamed Ahmed Enad, 2022). Net Interest Margin (NIM) measures the difference between a bank's interest income and interest expense, expressed as a percentage of its interest-earning assets. It reflects the bank's ability to generate profits from its core lending

and investment activities. ROA is a profitability ratio that calculates a bank's net income as a percentage of its average total assets. It shows how effectively a bank is using its assets to generate profits. ROE measures a bank's profitability by comparing its net income to shareholders' equity. It shows the bank's ability to generate returns for its shareholders.

Return on Equity (ROE)

The return on equity (ROE) method measures the net profit a company generates based on each equity investment contributed by shareholders. Usually expressed as a percentage, the ROE measure can be useful for measuring the management team's capital allocation decisions and ability to create shareholder value (Gallo, 2016). Return on equity, or “ROE,” is a metric that depicts how profitable a company is after considering the contributions of its shareholders. “How much net profit does the company earn for each dollar shareholders invest?”. The ROE metric answers the question. Therefore, the ROE measures the percentage of invested capital converted into net income on a dollar basis, which helps show how efficiently the company is handling its given equity capital.

Return on Assets (ROA)

The return on assets (ROA) ratio is a metric used to assess how efficiently a company can generate profits with the assets it owns. It usually measures a company's net operating profit after tax as a percentage of annual income from all business operations and investments over a three-year period. ROA shows what happened with a company's historically acquired resources. It gives an idea of how efficient the management is in using its assets to generate earnings. Expressed as a percentage, a higher ROA indicates more efficient use of company resources (Gallo, 2016).

Non-Performing Loan (NPL)

A non-performing loan (NPL) is a loan where the borrower has failed to meet scheduled payments for a specified period of time, leading to a state of default. The critical element that defines non-performing status usually revolves around the failure of the borrower to pay principal or interest within the stipulated period. (saba & kouser, 2012) The specific elements that determine non-performance may vary depending on the specific terms set out in the loan agreement. Generally, the threshold for non-performing status is set at zero principal or interest payments during a specified period.

Development of Research Hypothesis

This study develops two research hypotheses to examine the impact of green loans on the financial performance of Sri Lankan Licensed commercial banks in Sri Lanka. Adopting environmental practices and principles such as the Equatorial Principles can lead to improved liquidity and profitability for banks. Applying green energy policies in banks has the potential to stimulate long-term profitability (Arulrajah, 2016). A longitudinal study carried out in 2020 which examined the impact of green loans on bank profitability over time, revealed a significant negative effect on financial performance metrics (Wang, 2020). Paying more attention to the environment can lead to higher quality products and services and ultimately less profit (Choudhury, 2013). The study examines the impact of green loans on bank profitability, finding a positive correlation between green lending activities and financial performance. (Smith, 2021) Green debt, in particular, has been found to improve financial performance indicators such as return on assets and net interest margin. The study which investigated the trade-off between sustainability and profitability in the context of green loans, demonstrating a significant negative impact on the financial performance of banks. (Wu, 2019). A study focused on the Sri Lankan banking sector between 2015 and 2022 showed that green banking

practices, including day-to-day operations, capital adequacy and liquidity, negatively affect a bank's profitability. Although an increased focus on green lending may adversely affect profitability, it is vital to empower banks to promote environmental issues with public and government support. The study identified several factors contributing to a bank's green performance (Gallo, 2016). These factors include bank size, reputation, age, profitability and investor response. These elements can act as catalysts to enhance a bank's green performance. Furthermore, another study on commercial banks in Bangladesh revealed that various profiles of bank employees, daily operations and green banking practices significantly and positively impact green finance. According to a research which investigated the relationship between environmental responsibility, as reflected in green loans, and financial performance in the banking sector, provides evidence of a significant negative impact on profitability (Liu, 2018). Focusing on developed economies, a research analyzes the relationship between green lending activities and bank profitability, revealing a significant negative impact on financial performance. (Park, 2021). Overall, the passage suggests that adopting green credit policies and engaging in green banking practices can have a positive impact on a bank's performance, including its profitability and financial indicators.

Accordingly, we hypothesize,

H1: There is a significant impact of green credit on the return on assets of Sri Lankan Licensed Commercial Banks (ROA)

H2: There is a significant impact of green credit on the return on equity of Sri Lankan Licensed Commercial Banks (ROE)

Research Methodology

This study follows a positivistic research philosophy, and the deductive approach was considered most suitable for this research. Using a deductive approach, the study begins with existing theories and hypotheses and then designs a research

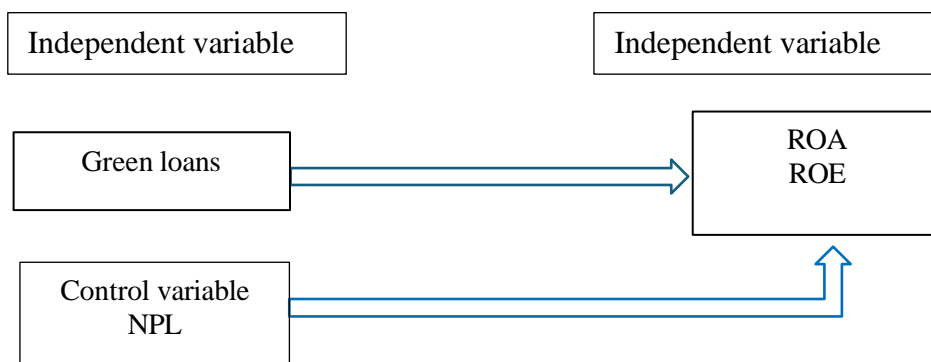
strategy to test these hypotheses.

The research approach used in this study is quantitative and this paper involved using secondary data obtained from annual reports and related articles. Researchers have relied on existing sources of information rather than collecting primary data. Quantitative data were obtained from the financial statements of ten private sector banks and two public sector banks were chosen from among those trading on the Colombo stock market and were categorized by the Global Industry Classification System (GICS) for the period 2015 to 2022. (Krejcie R. V & Morgan, 1970). The data analysis includes the regression analysis to investigate the impact between the dependent and independent variables. In addition, the Normality test, Hausman test and Cross Dependency tests are also performed to further strengthen the data analysis.

Conceptual framework

Figure 1

Conceptual framework



Source: (Xiaoyan Gao, Yiyang Guo, 2022)

Operationalization of the variables

Green loan which is an independent variable is measured using the total amount of green loans issuance by a bank and the Dependent variables such as ROA and ROE are measured using The return of assets $[(\text{Net Income} / \text{Average Total Assets}) * 100]$ and return of equity of a bank $[(\text{Net Income} / \text{Shareholders' Equity}) * 100]$. Non-performing loan, which is a controlling variable is measured using the Non-Performing Loans Ratio of a bank.

Findings and Discussion

Normality Test

In a normal test such as the Jarque-Bera test, the null hypothesis usually states that the data follow a normal distribution (Thadewald, 2007). The Jarque-Bera test statistic is then used to assess whether there is sufficient evidence to reject this null hypothesis. In this case, the Jarque-Bera test statistic for the Return on Equity (ROE) variable is reported as 7.5004. Now, interpretation involves comparing these test statistics to a critical value or, more commonly, examining the associated p-value. The p-value indicates the probability that a test statistic calculated assuming the null hypothesis is true is observed to be extreme or extreme. In the null hypothesis, if the p-value exceeds the chosen significance level (usually 0.05), the null hypothesis will not be rejected. So, the dataset follows a normal distribution.

Hausman test- ROE

This thesis analysis used Stata and conducted a Hausman test to decide between fixed effects and random effects models for modeling return on assets (ROA) in panel data (Pillai N, 2017). The Hausman test gave a p-value of 0.1849. Consistent with conventional statistical significance thresholds, this result led to acceptance of the null hypothesis and rejection of the alternative hypothesis.

H0= Random effect is appropriate

H1= fixed effect is appropriate

This decision to favor the random effects model was based on the statistical interpretation of the Hausman test. A high p value suggests no systematic difference between the two models. Consequently, since the p-value did not reach significance leading to rejection of the null hypothesis, the random effects model was considered more appropriate for the analysis.

Cross sectional Dependence

The p-value of 0.1249 obtained from the Pearson test indicates that there is insufficient evidence to reject the null hypothesis. The null hypothesis generally posits the absence of cross-sectional dependence between units in panel data with a p-value of 0.1249, which is higher than conventional significance levels such as 0.05, the researchers would fail to reject the null hypothesis This indicates that, based on the available data, there is insufficient statistical evidence to conclude that cross-sectional dependence exists between units within the same cross-section.

Table 01

ROE model testing results

Dependent variable: ROE				
Independent variables	Estimates (1)	Robust Standard errors (2)	T-values (3)	P- values (4)
GL	-8.550*	0.070	-2.78	0.005
NPL	-6.564*	0.129	-5.06	0.000
CONSTANT	0.155*	0.029	5.26	0.000
Estimation	Random Effect model			

No.	of	12
groups		
No.	of	96
observations		
P-value		0.000
R-square		0.4730

Source: Author compiled

Equation 01

$$\text{ROE}_{it} = 0.155 - 8.55\text{GL}_{it} - 6.564\text{NPL}_{it} \varepsilon_{it}$$

A p-value of 0.000 indicates a robust statistical significance in the relationship between green credit and non-performing credit with the independent variables in the regression model. In simpler terms, these combined independent variables significantly and meaningfully contribute to explaining the return on equity (ROE) for licensed commercial banks in Sri Lanka.

Consequently, the hypothesized model achieves a significance level of 1%, confirming the strength and validity of the proposed relationships in the regression analysis. This result underscores the meaningful impact of both green loans and non-performing loans in explaining differences in ROE among the surveyed banks.

The R-squared value of 0.4730 reveals that approximately 47.3% of the variation in equity returns among licensed commercial banks is explained by the independent variables incorporated in the regression model.

This observation suggests that the model exhibits a reasonably strong fit to the data, indicating that the selected independent variables effectively capture and explain a significant portion of the variation in ROE.

Table 02*ROA model testing results*

Dependent variable: ROA (Cluster applied)				
Independent variables	Estimates (1)	Robust Standard errors (2)	T-values (3)	P- values (4)
GL	-0.00172*	0.00093	-1.84	0.0006
NPL	-0.0028*	0.00165	-1.72	0.0086
CONSTANT	0.5201**	0.0213	2.44	0.015
Estimation	Random Effect model			
No. of groups	12			
No. of observations	96			
P-value	0.0006			
R-square	0.1709			

Equation 02

$$ROA_{it} = 0.5201 - 0.0017GL_{it} - 0.0028NPL_{it} \epsilon_{it}$$

A p-value of 0.000 for the coefficients associated with green loans and non-performing loans in the regression model highlights strong statistical significance. Simply put, these independent variables collectively have a significant and significant impact on the Return on Assets (ROA) for licensed commercial banks in Sri Lanka.

The hypothesized model achieves a significant significance of 1%, confirming the strength and validity of the relationships proposed in the regression analysis. This result highlights the significant effect of both green loans and non-performing loans in explaining the differences in ROA among the surveyed banks.

Considering the R squared value of 0.1709 for ROA, it suggests that approximately 17.09% of the variance in return on assets among licensed commercial banks is explained by the independent variables in the regression model. This indicates a moderate fit to the data while capturing the selected independent variables and playing a meaningful role in explaining a significant portion of the variation in ROA. The p-value of 0.0006 further strengthens the statistical significance of these independent variables, confirming their influence in explaining the observed changes in ROA.

Hypothesis 01 testing

H1: Specific green credit has a significant effect on bank's return on Equity (ROE).

Independent factor	Correlation coefficient	Statistic t	P
GL	-8.55	-1.86	0.000

The negative coefficient of -8.55 indicates that, on average, for a unit increase in specific green loans, banks' return on assets decreases by 8.55 units. A t value of -1.86 with a low p value of 0.000 provides strong evidence to reject the null hypothesis. This implies that specific green loans have a statistically significant effect on banks' return on Equity. The established statistical significance of the negative impact of specific green loans on return on assets (ROE) for the studied banks marks a critical milestone in understanding the complex relationship between sustainable finance initiatives and financial performance. This negative coefficient, illustrated by a significant decrease in ROE for each unit increase in green credit,

signals a potential trade-off that should be carefully considered.

The incorporation of low interest rates associated with green loans and the paperwork-intensive nature of the loan issuance process adds layers of complexity. It suggests that while green loans contribute to environmental objectives, they simultaneously affect banks' overall profitability and operational efficiency. The consumer utility sector further underscores the multiple implications, emphasizing the need for strategic decision-making to navigate the delicate balance between sustainability goals and financial health. By rejecting the null hypothesis, these findings illuminate an avenue for further investigation and discussion. Consideration of contextual factors such as market dynamics and regulatory landscapes is fundamental to a comprehensive understanding of the observed relationship.

Assessing short-term versus long-term implications and understanding the role of policies and regulations in shaping outcomes are critical components of strategic planning. This rejection prompts a nuanced exploration that asks stakeholders to delve into the complexities of sustainable finance, offering valuable insights that can inform not only banking practices but also broader discussions within the sustainable finance ecosystem.

Hypothesis 02 testing

H2: Specific green credit has a significant effect on bank's return on assets (ROA).

Independent factor	Correlation coefficient	Statistic t	P
GL	-0.0017	-1.84	0.0006

The negative correlation coefficient of -0.0017 indicates that there is a small but detectable inverse relationship between specific green credit (GL) and return on assets (ROA). In other words, as specific green credit levels increase, there is a

tendency for the return on assets to decrease slightly for the banks under consideration. The t-statistic of -1.84 calculates how many standard deviations the estimated coefficient is from zero. In this case, negative t-statistics suggest that the effect of specific green credit on return on assets is statistically significant. However, it is important to note that the magnitude of the t-statistic is relatively modest. The p-value associated with the t-statistic is a critical indicator of hypothesis testing. The p-value of 0.0006 is well below the common significance threshold of 0.05. This low p-value provides strong evidence against the null hypothesis, indicating that the observed negative correlation cannot be the result of chance. The result is therefore statistically significant and supports the alternative hypothesis that specific green debt has a significant effect on asset returns.

In summary, the data suggest that the negative correlation between specific green credit and return on assets is not merely coincidental and indicates a statistically significant relationship. Although the size of the effect may be relatively small, the evidence is strong enough to reject the notion that specific green credit does not have a significant effect on return on assets for the examined banks.

The hypothesis testing results are consistent with the findings in the related literature showing the significant impact of specific green loans on return on assets (ROA). (Choudhury, Influence of Stakeholders in Developing Green Banking Products in Bangladesh. Influence of Stakeholders in Developing Green Banking Products in Bangladesh, 2013) Shedding light on the importance of sustainable practices in the banking sector. The study emphasized the role of green initiatives in enhancing financial performance, which resonates with the negative correlation observed between specific green debt and ROA in the present analysis.

This supports the idea that incorporating environmentally friendly practices as captured by green credit can have a meaningful impact on a bank's financial results.

Furthermore, a study on the impact of the COVID-19 pandemic on the banking

sector in China (dong, 2021) and the United States provides insight into the evolving dynamics of the banking industry. Although not directly focused on green debt, it underscores the broader relevance of strategic decision-making in response to external shocks. The observed negative correlation between specific green credit and ROA can be seen as a strategic move by banks to address environmental considerations, aligning with broader trends in banking resilience highlighted in the literature.

Finally, the hypothesized results find a resonance in the existing literature emphasizing the importance of sustainable banking practices for financial performance. The cited studies provide context and support for the observed negative correlation, suggesting that banks that focus on specific green loans may experience a truly unique effect on their return on assets.

This discussion contributes to the broader narrative of the intersection of sustainability and financial outcomes in the banking sector.

Conclusion | Limitations & Future Research Directions

The study “Impact of Green Credit on Financial Performance: Evidence from Licensed Commercial Banks in Sri Lanka” provides a detailed analysis of the complex dynamics between green credit, moderate impact on financial performance (ROA/ROE) and default. Loans (NPL). In the investigation, hypothesis testing is used to examine the impact of green credit on return on assets (ROA) and return on equity (ROE). The final output showed a negative correlation coefficient between specific green credit and ROA, statistically significant which emphasizes the potential impact of green credit on financial performance. This aligns seamlessly with existing literature, as demonstrated by studies such as “Stakeholder Influence in Developing Green Banking Products in Bangladesh” by (Choudhury, 2013) and “The Impact of the COVID-19 Pandemic on the Banking Sector: Evidence from China and the United States.” by (dong, 2021)

The study's focus on licensed commercial banks in Sri Lanka limits the generalizability of the findings to other regions or global contexts. Differences in economic conditions, regulatory frameworks and consumer behavior across countries may affect the applicability of the results beyond the Sri Lankan banking sector and future research could explore the policy implications of promoting green credit, considering how government initiatives, regulatory frameworks, and incentives affect banks' sustainability practices and subsequent financial outcomes.

Finally, this paper unfolds as a detailed and nuanced exploration of the impact of green credit on the financial performance of licensed commercial banks in Sri Lanka. A combination of robust statistical analysis, alignment with existing literature, and strategic model selection increases the credibility of the findings. This research provides valuable insights to inform decision-making for policymakers, practitioners and researchers interested in sustainable banking practices. This journey through the analysis highlights the depth and breadth of the study, providing a nuanced understanding of the complex relationships within this evolving landscape.

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