

The Effect of Green Banking Practices on Banks' Financial Performance: Evidence from Licensed Banks of Sri Lanka

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Abstract

Introduction: This study explores the impact of green banking practices on the financial performance of licensed banks in Sri Lanka, focusing on three key dimensions: green costs, country regulations, and corporate social responsibility (CSR) initiatives. The objectives are to examine how green costs affect financial performance, assess the moderating effect of country regulations on this relationship, and analyze the role of corporate social responsibility spending in enhancing financial performance. The research aims to provide actionable insights for the banking industry and policymakers to implement financial strategies with sustainability goals by addressing these objectives.

Methodology: The study adopts a quantitative methodology, utilizing secondary data from the annual reports of ten licensed local banks with the highest market capitalization in Sri Lanka from 2018 to 2023 and also Worldwide Governance Indicators. The data sample of the study is the ten Licensed Domestic Banks with the highest total market capital in Sri Lankan banking industry. Descriptive statistics and regression analysis were used to assess the relationships between variables, and structural equation modeling was used to ensure the robustness of the results.

Findings: The findings show a positive significant relationship between green costs and financial performance, with sustainable investments enhancing profitability through operational efficiency. CSR activities also show a strong positive impact, reinforcing the value of corporate accountability in driving financial growth. On the other hand, strict country regulations were found to have a negative impact on financial performance, highlighting the challenges of balancing environmental compliance with operational flexibility.

Conclusion: The study concludes that green banking practices, especially when combined with strategic CSR initiatives, offer significant financial and reputational benefits. Policymakers are encouraged to design balanced regulatory frameworks that promote environmental objectives while minimizing compliance costs for banks. These findings highlight the strategic importance of sustainability in achieving long-term financial and environmental goals.

Keywords: Green Banking Practices, Banks' financial performance, Green Cost, Corporate Social Responsibility initiatives, Country Regulations