

The Role of Green Financing on Bank Performance and Stability: Literature Review

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ABSTRACT

This study aims to analyze the role of green financing on bank performance and stability and evaluate its function as a strategic mechanism in integrating sustainability practices with financial performance. The method used is a literature review of 18 international journal articles relevant to the topic of green financing in the banking sector. These articles were analyzed using a thematic approach and narrative synthesis to identify patterns of relationships between green financing, financial performance, risk, bank stability, and sustainability performance. The results show that green financing is consistently positively correlated with environmental performance, stability, and sustainability performance of banks. Furthermore, empirical findings based on panel data indicate that increasing green exposure is associated with an increase in intermediation spreads and a decrease in default risk. Green financing is also influenced by internal factors such as governance and financial capacity, as well as external factors such as regulations and policy incentives. Green financing plays a strategic role in supporting bank performance and stability while strengthening the integration of sustainability into banking business models. This study contributes to the sustainable finance literature by integrating environmental, financial, and risk dimensions within a single analytical framework.

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1. INTRODUCTION

The development of green financing in the banking sector is a strategic response to the increasing urgency of the transition to a sustainable and low-carbon economy. The current global financial system is no longer solely oriented towards conventional economic growth, but also towards environmental sustainability and long-term stability. Miroshnichenko and Brand (2021) emphasize that banks hold a central position in green economy financing due to their role as key intermediaries in the financial system. This transformation is characterized by the shift from traditional financial products to environmentally oriented instruments such as green bonds, green loans, green deposits, and eco-leasing. Similarly, Ali et al. (2024) show that the green finance literature has grown rapidly following the global commitment to the Sustainable Development Goals (SDGs) and the Paris Agreement, which positioned the financial sector as a key driver of green investment. Choyal (2025) emphasizes that green finance has become a key pillar in the transformation of the sustainable banking industry through the integration of ESG into credit and investment policies. Thus, green financing is no longer viewed as an additional instrument but as an integral part of the modern banking business model. This paradigm shift demonstrates that bank performance is measured not only by profitability but also by its contribution to financial system stability and environmental sustainability.

Empirically, most studies show that green financing plays a significant role in improving banks' environmental performance and sustainability performance. Naibi and Khel (2025) found that green financing mediates the relationship between green banking practices and environmental performance using a SEM approach. Similar findings were obtained by Zhang et al. (2022) and Chen et al. (2022), who showed that green banking practices increase green financing, which in turn improves banks' environmental

performance. In Nepal, Karki et al. (2025) demonstrated that green finance acts as a partial mediator in the relationship between green banking practices and environmental performance. Zheng et al. (2021b) also showed that the economic, social, and environmental dimensions of green finance significantly influence the sustainability performance of financial institutions. Siddquee (2025) reinforced these findings by demonstrating that green loans and environmental risk management positively impact the corporate sustainability of the banking sector. Overall, these findings confirm that green financing has a significant contribution to the non-financial dimensions of sustainability. However, the dominant focus of the literature on environmental and sustainability performance aspects indicates that there is a research area that has not been widely explored, particularly regarding the dimensions of financial performance and bank risk stability.

Several studies have begun to link green financing with financial and risk aspects, although they are still limited. Chen et al. (2022), in the context of GCC countries, found that increasing green exposure positively impacts intermediation spreads and reduces bank default risk. These findings suggest that green financing is not only oriented towards sustainability but can also improve profitability and financial stability. Gör and Tekin (2023) show that internal factors such as bank size, equity, governance, and the presence of an audit committee influence the adoption of green finance, which is implicitly related to the bank's capacity to manage risk and performance. Rahman et al. (2023) and Joshi and Jain (2024) emphasize the importance of regulation and policy incentives in encouraging green financing. Nouvan (2025) also highlights that regulatory support is key to the successful implementation of sustainable finance. At the global level, Akomolehin (2025) shows that financial institutions play a catalytic role in mobilizing green financing by reducing risk and increasing market confidence. However, the literature explicitly examining the relationship between green financing and bank financial performance and stability in a comprehensive manner remains relatively limited and fragmented.

Based on the above description, there are several important reasons why this research is necessary. First, previous literature has focused more on the impact of green financing on environmental performance and sustainability performance, while its influence on financial performance and risk stability has not been systematically studied. Second, most studies use a survey approach based on respondent perceptions (Naibi & Khel, 2025; Zhang et al., 2022; Zheng et al., 2021b), so a literature synthesis that more comprehensively integrates conceptual and empirical findings is still needed. Third, there is a need to understand whether green financing truly provides financial benefits for banks or is merely a regulatory obligation. Fourth, regulatory and governance dynamics indicate that green financing is not only an environmental issue but also an issue of financial system stability (Miroshnichenko & Brand, 2021). Therefore, this research is crucial to provide a comprehensive understanding of the role of green financing in the context of bank performance and stability.

The purpose of this study is to synthesize the existing literature to answer three main questions: how does green financing affect bank financial performance? How does green financing affect bank risk and stability? And does green financing serve as a strategic mechanism for integrating sustainability practices with bank financial performance? Using a literature review approach, this study aims to identify patterns of findings, consistency of results, and research gaps in green financing studies. Furthermore, this study attempts to connect the conceptual literature (Ali et al., 2024; Choyal, 2025; Miroshnichenko & Brand, 2021) with the empirical literature (Chen et al., 2022; Naibi & Khel, 2025; Zhang et al., 2022; Zheng et al., 2021b). This study also considers internal and external determinants as identified by Gör and Tekin (2023), Rahman et al. (2023), and Joshi and Jain (2024). Thus, this study not only maps the literature, but also integrates various perspectives to provide a more comprehensive understanding.

This research's relationship with existing literature lies in its effort to broaden the focus of green financing studies from non-financial sustainability dimensions to its integration with banking performance and stability. Previous literature has shown that green financing plays a mediating role in improving environmental performance (Karki et al., 2025; Naibi & Khel, 2025; Zhang et al., 2022). Other literature indicates that green financing contributes to sustainability performance (Zheng et al., 2021b; Siddquee, 2025). Meanwhile, some studies have begun to link it to profitability and risk (Chen et al., 2022), but not yet within a comprehensive synthesis framework. Therefore, this study seeks to bridge the sustainability and banking finance literature by positioning green financing as a strategic variable influencing bank performance and stability. Therefore, this research is expected to provide theoretical contributions to enrich the green finance literature and practical contributions to the banking sector and regulators in formulating sustainable financing strategies.

2. LITERATURE REVIEW

The development of the green financing concept in the banking sector is inextricably linked to the transformation of the global financial system toward a sustainable economy. Green finance is positioned as a strategic instrument in supporting the transition to a low-carbon economy and achieving the Sustainable Development Goals (SDGs). Miroshnichenko and Brand (2021) emphasize that the banking sector plays a central role in financing a green economy by transforming financial products into environmentally friendly instruments such as green bonds and green loans. Ali et al. (2024) demonstrate that the green finance literature is growing rapidly in line with increasing global attention to sustainability issues, with studies predominantly focused on green bonds and sustainable finance. Choyal (2025) emphasizes that green finance has become a key pillar in the transformation of the sustainable banking industry through the integration of ESG into financing policies. Thus, conceptually, green financing has evolved from a mere ethical initiative to an integral part of modern banking business models. This shift demonstrates that sustainability is becoming

a crucial component of long-term banking strategies. Therefore, green financing is seen as an instrument that connects financial system stability with the global sustainability agenda.

In an empirical context, several studies have shown that green financing has a close relationship with banks' environmental performance and sustainability performance. Naibi and Khel (2025) found that green financing acts as a partial mediator between green banking practices and environmental performance using a SEM approach. Zhang et al. (2022) and Chen et al. (2022) also showed that green banking practices increase green financing, which in turn has a positive impact on banks' environmental performance. Karki et al. (2025) reported a similar mediation pattern using PLS-SEM in the Nepalese context. Zheng et al. (2021b) showed that the economic, social, and environmental dimensions of green finance significantly influence the sustainability performance of financial institutions. Siddquee (2025) also found that green loans and environmental risk management have a positive relationship with corporate sustainability in the banking sector. These results indicate that green financing serves as a connecting mechanism between sustainability practices and environmental performance outcomes. Thus, the empirical literature consistently positions green financing as a strategic variable in banking sustainability models.

In addition to its impact on environmental performance, the literature also shows that green financing has implications for bank financial performance and risk. Chen et al. (2022), in a panel data study of GCC countries, found that increasing green exposure improves intermediation spreads and lowers default risk. These findings suggest that green financing not only impacts environmental aspects but also provides measurable financial benefits. Gör and Tekin (2023) found that bank size, equity, and corporate governance influence green finance adoption, suggesting that banks' internal capacity plays a role in optimizing the benefits of green financing. Rahman et al. (2023) showed that regulatory policies influence the intensity of green banking implementation across countries. Joshi and Jain (2024) emphasized the importance of regulatory incentives in encouraging green financing in the Indian banking sector. Nouvan (2025) also emphasized that national regulatory support strengthens the implementation of sustainable finance in the banking system. Thus, the literature indicates that green financing is influenced by a combination of interacting internal and external factors.

At the global level, the role of financial institutions in promoting green financing has also been discussed in various studies. Akomolehin (2025) found that International Development Banks use green bonds and blended finance to mobilize green funding and reduce investment risks. Sule et al. (2024) identified green bonds and sustainability-linked loans as key instruments in climate change mitigation. Asha and Beriwala (2025) showed that private banks are more innovative than public banks in developing green finance strategies. Zheng et al. (2021a) reported that Private Commercial Banks account for the majority of national green financing in Bangladesh. These findings demonstrate that green financing has a global dimension and involves various actors in the financial ecosystem.

Overall, the literature review indicates that green financing has a multidimensional role in the banking sector. Conceptual literature emphasizes the transformation of banks' business models towards sustainability (Ali et al., 2024; Choyal, 2025; Miroshnichenko & Brand, 2021), while empirical literature demonstrates a positive relationship between green financing and environmental performance, sustainability performance, profitability, and risk stability (Chen et al., 2022; Naibi & Khel, 2025; Zhang et al., 2022; Zheng et al., 2021b). Furthermore, both internal and external determinants influence the successful implementation of green financing (Gör & Tekin, 2023; Rahman et al., 2023; Joshi & Jain, 2024; Nouvan, 2025). Thus, green financing can be positioned as a central element in the integration of sustainability and bank financial performance. The existing literature demonstrates a consistent positive direction of influence, despite varying geographic contexts and research methods. Therefore, this study strengthens the understanding that green financing is a strategic instrument in transforming the banking system towards long-term sustainability and stability.

3. RESEARCH METHODS

The research method in this study uses a narrative literature review approach that aims to analyze, compare, and synthesize the findings of 18 international journal articles that have been compiled based on consensus as stated in the synthesis document, literature table, and previous research review. The research design is qualitative-descriptive with an integrative analytical approach, where the main focus is to understand the pattern of the relationship between green financing, financial performance, and bank stability based on the results of previous research. The research sample consists of 18 international journal articles relevant to the topic of green financing in the banking sector, both empirical and conceptual. The article selection criteria include: discussing green financing or green banking in the banking context; examining its impact on environmental performance, sustainability performance, profitability, risk, or stability; and having findings that can be compared conceptually. The articles analyzed include SEM-based studies such as Naibi and Khel (2025), Zhang et al. (2022), Zheng et al. (2021b), panel data studies such as Chen et al. (2022), logistic regression such as Gör and Tekin (2023), as well as conceptual and bibliometric studies such as Miroshnichenko and Brand (2021), Ali et al. (2024), Choyal (2025), and Sule et al. (2024).

The research instrument was a literature review matrix, used to record the title, research objectives, variables studied, analytical methods, main results, and limitations of each study. The data collection procedure was carried out through in-depth reading of each article, identifying key variables related to green financing, and grouping the findings into major themes: impact on environmental

and sustainability performance, impact on financial performance, risk and stability, and internal and external determinants of green financing implementation. The analytical methods used were thematic analysis and narrative synthesis, in which research results were compared to identify consistent patterns, differences in findings, and research gaps. The synthesis was carried out by integrating conceptual and empirical literature into an analytical framework that answered the three research questions of this study. The validity of the study was maintained through cross-source comparisons and consistent interpretation of previous research findings. With the stages of article identification, recording in the matrix, thematic grouping, and systematic narrative synthesis, this method can be replicated by other researchers to study the topic of green financing in different contexts in a transparent and structured manner.

4. RESULTS

4.1. Green Financing and Environmental Performance

Several studies have shown a direct and indirect relationship between green financing and bank environmental performance. Naibi and Khel (2025) found that green financing acts as a partial mediator between green banking practices and environmental performance using a multi-pronged approach. Zhang et al. (2022) also reported that green financing significantly mediates the relationship between green banking activities and environmental performance. Chen et al. (2022) showed that green banking operational practices and policies enhance green financing, which in turn positively impacts environmental performance. Karki et al. (2025) in Nepal found a similar mediation pattern. These results indicate that green financing is consistently identified as a connecting variable between green banking practices and improved environmental performance. Overall, the empirical findings indicate that green financing has a measurable contribution to improving bank environmental performance.

In a comparative study, Rahman et al. (2023) reported that the State Bank of India demonstrated a more aggressive implementation of green project funding than Bangladesh Bank in supporting sustainability initiatives. Zheng et al. (2021a) found that Private Commercial Banks (PCBs) contributed approximately 74% of total national green financing in Bangladesh based on a CFA analysis of 296 bank staff. Zheng et al. (2021b) also reported that the economic, social, and environmental dimensions of green finance significantly influenced the sustainability performance of financial institutions. Siddquee (2025) showed that green loans and environmental risk management were positively related to corporate sustainability. These findings indicate a positive relationship between green financing allocation and organizational sustainability indicators. The results are reported in the form of path coefficients and statistical significance. The primary data found indicate a consistent direction of the positive influence between green financing and environmental performance.

4.2. Green Financing and Bank Financial Performance

Chen et al. (2022), in a study of GCC countries, found that increasing a bank's green exposure resulted in an increase in the intermediation spread. The study also reported a decrease in default risk for banks with higher green exposure. These results were obtained through panel regression analysis of bank financial data. The study showed that green financing has a positive correlation with profitability while reducing credit risk. Gör and Tekin (2023), using logistic regression, found that bank size, equity, and governance influence green finance adoption. The data showed that banks with stronger internal capacity tended to be more active in green financing. These results are reported as regression coefficients and significance levels. These empirical findings demonstrate a relationship between green financing and bank financial indicators.

Choyal (2025) reported in a conceptual study that green finance improves banks' competitiveness and reputation. Ali et al. (2024) in a bibliometric analysis showed the dominance of green bonds and sustainable loans in the global green finance literature. Miroshnichenko and Brand (2021) reported that transforming bank products into eco-oriented instruments contributes to the long-term stability of the financial system. Asha and Beriwal (2025) found that private banks are more innovative in implementing green finance than public banks. Joshi and Jain (2024) reported that regulatory incentives play a role in encouraging carbon footprint reduction through green banking. Nouvan (2025) showed that Bank Indonesia and OJK regulations support sustainable finance. The primary data from these studies include policy descriptions, secondary analysis, and conceptual frameworks. The reported results indicate that green financing is associated with improved reputation, performance, competitiveness, and potential financial stability.

4.3. Green Financing and Bank Risk and Stability

Chen et al. (2022) reported that increasing green exposure reduces default risk based on a panel data analysis. The study showed that banks with a higher green financing portfolio have a lower credit risk profile. Akomolehin (2025) found that International Development Banks (IDBs) use green bonds and blended finance to reduce the risk of green investments. These studies used a panel data approach, comparative studies, and policy analysis. The primary data showed that green financing is associated with reduced credit risk and increased financing stability. The results are reported in the form of risk indicators, spreads, and descriptions of financing mechanisms.

Sule et al. (2024) identified green bonds, sustainability-linked loans, and renewable financing as key instruments in climate change mitigation. This study reports that these instruments are used to support renewable energy and energy efficiency projects. Miroshnichenko and Brand (2021) note that macroprudential regulations are beginning to integrate sustainability aspects into banking policies. Rahman et al. (2023) report differences in green banking policies across countries that affect implementation

stability. Zheng et al. (2021b) show that the economic dimension of green finance is a dominant factor in bankers' perceptions. These results are reported through an analysis of literature, surveys, and secondary data. The findings demonstrate a link between policies, green finance instruments, and banking system stability.

4.4. Determinants of Green Financing Implementation

Gör and Tekin (2023) report that bank size, equity, female representation on boards, and audit committees influence green finance implementation. Zheng et al. (2021a) show that the economic dimension is a dominant factor in the development of green finance in Bangladesh. Rahman et al. (2023) note differences in regulatory approaches between India and Bangladesh. Joshi and Jain (2024) emphasize the importance of regulatory incentives in encouraging green financing. Nouvan (2025) reports national regulatory support for sustainable finance. Asha and Beriwal (2025) note differences in the strategies of public and private banks in implementing green finance. These results are reported in the form of logistic regression, secondary analysis, and policy studies. The primary data show that both internal and external factors influence the adoption of green financing.

Overall, the primary data found in 18 articles indicate that green financing is associated with improved environmental performance, sustainability performance, intermediation spreads, and reduced default risk. The analytical methods used include SEM, PLS-SEM, CFA, logistic regression, panel data, surveys, and policy analysis. The reported results largely indicate a positive direction of influence between green financing and performance and stability indicators. The geographic contexts vary, including Bangladesh, Nepal, Afghanistan, India, Turkey, the GCC, Indonesia, and global studies. The dominant green financing instruments include green bonds, green loans, sustainability-linked loans, and blended finance. The primary data are presented in the form of path coefficients, regressions, spreads, default risk, and policy descriptions. All findings demonstrate a consistent relationship between green financing and sustainability indicators and bank performance.

Answer to RQ1: How does green financing affect bank financial performance?

Based on all the literature analyzed, the effect of green financing on bank financial performance shows a positive trend, although the intensity and form of the effect vary across studies. Chen et al. (2022), in a panel data study of banks in GCC countries, found that increasing green exposure significantly improves the intermediation spread, an indicator of bank earnings performance. The study also reported that banks with a higher green financing portfolio experienced a lower default risk, which indirectly strengthened earnings stability. These findings provide empirical evidence that green financing not only impacts environmental sustainability but also contributes to financial indicators. Miroshnichenko and Brand (2021) confirmed that the transformation of bank products into eco-oriented instruments such as green bonds and green loans contributes to the long-term stability of the banking system. Ali et al. (2024) showed that green finance drives innovation and more efficient capital allocation in the financial system, potentially enhancing bank competitiveness. Choyal (2025) also confirmed that green finance enhances banks' reputation and competitiveness in the sustainable banking industry. Thus, the literature shows that green financing has a positive relationship with financial performance, both through increasing spreads and strengthening reputation and competitiveness.

In addition to direct indicators such as spreads and default risk, bank financial performance is also influenced by internal determinants that support the implementation of green financing. Gör and Tekin (2023) found that bank size, equity, and corporate governance influence the adoption of green finance, suggesting that internal financial capacity influences the success of green financing strategies. Asha and Beriwal (2025) showed that private banks are more innovative in implementing green finance than public banks, potentially impacting competitive dynamics and profitability. Joshi and Jain (2024) reported that regulatory incentives can encourage carbon footprint reduction through green banking, which has implications for long-term operational efficiency. Nouvan (2025) showed that regulatory support strengthens the implementation of sustainable finance in the banking system. Zheng et al. (2021a) also found that the economic dimension is a dominant factor in the development of green finance in Bangladesh, indicating that financial considerations remain a priority in green financing decisions. Overall, the literature indicates that green financing can improve bank financial performance through various mechanisms, both directly through increased revenue and indirectly through efficiency, reputation, and risk stability.

Answer to RQ2: How does green financing affect bank risk and stability?

The analyzed literature shows that green financing has a significant relationship with bank risk and stability. Chen et al. (2022) found that increasing a bank's green exposure correlates with a decrease in default risk, indicating that green financing contributes to improving the quality of its loan portfolio. This finding suggests that integrating environmental considerations into the lending process can reduce long-term credit risk. Akomolehin (2025) found that International Development Banks use green bonds and blended finance to reduce the risk of green investments and increase private sector participation. Thus, the literature indicates that green financing impacts not only environmental aspects but also financial system stability through risk reduction.

In the context of organizational sustainability, Zheng et al. (2021b) found that the social, economic, and environmental dimensions of green finance significantly influence the sustainability performance of financial institutions. Siddquee (2025) also showed that green loans and environmental risk management have a positive impact on the corporate sustainability of the banking sector. Naibi and Khel (2025) and Zhang et al. (2022) found that green financing mediates the relationship between green banking practices and environmental performance, indicating that green financing strengthens organizational resilience to environmental

risks. Karki et al. (2025) reported similar results in the context of Nepal. Rahman et al. (2023) showed that variations in green banking policies across countries affect the effectiveness of green financing implementation and stability. Nouvan (2025) emphasized that national regulatory support is a crucial factor in maintaining the stability of a sustainability-based financial system. Overall, the literature indicates that green financing contributes to strengthening bank stability by reducing credit risk, improving portfolio quality, and strengthening the regulatory and governance framework.

Answer RQ3: Does green financing play a role as a strategic mechanism in integrating sustainability practices with bank financial performance?

Based on all the references analyzed, green financing can be positioned as a strategic mechanism that integrates sustainability practices with bank financial performance. Naibi and Khel (2025), Zhang et al. (2022), and Chen et al. (2022) show that green financing acts as a mediating variable between green banking practices and environmental performance. This suggests that green financing bridges internal environmental commitments and measurable performance outcomes. Ali et al. (2024) show that green finance serves as an instrument for innovation and capital allocation that supports the transition to a low-carbon economy. Miroshnichenko and Brand (2021) state that transforming banks' business models toward eco-oriented products is part of the financial system's long-term strategy. Choyal (2025) asserts that green finance enhances banks' reputation and competitiveness, which impacts their competitive position in the industry. Chen et al. (2022) show that green exposure not only improves spreads but also lowers default risk, demonstrating the integration of sustainability and financial performance. Thus, green financing serves as a mechanism that unifies the dimensions of sustainability and financial performance.

Furthermore, internal and external factors also strengthen the strategic role of green financing. Gör and Tekin (2023) show that corporate governance and internal capacity influence the implementation of green finance. Rahman et al. (2023) and Joshi and Jain (2024) indicate that regulatory support and policy incentives are key factors in the success of green financing. Sule et al. (2024) identify green bonds and sustainability-linked loans as key instruments in climate change mitigation. Akomolehin (2025) suggests that financial institutions play a catalytic role in mobilizing green financing by reducing risk and increasing market confidence. Zheng et al. (2021a) demonstrate that the economic dimension remains a dominant factor in bankers' perceptions of green finance. Thus, the literature demonstrates that green financing serves as a strategic mechanism that integrates sustainability practices with financial performance through regulatory support, governance, and innovation in financial instruments.

Overall, the answers to the three research questions indicate that green financing has a positive relationship with bank financial performance, risk, and stability, and serves as a strategic mechanism for integrating sustainability practices with financial performance. All these findings are supported by empirical and conceptual results from the 18 articles analyzed. Thus, green financing can be positioned as a central element in the banking transformation towards a sustainable and stable financial system.

5. DISCUSSION

5.1. The Impact of Green Financing on Bank Financial Performance

The findings of this study indicate that green financing has a positive relationship with bank financial performance, both directly and indirectly through mechanisms of strengthening reputation, efficiency, and risk stability. These results are consistent with Chen et al. (2022), who found that increased green exposure contributes to improved intermediation spreads and reduced default risk in GCC countries. Thus, green financing not only impacts the environmental dimension but also provides measurable financial benefits. These findings reinforce the argument of Miroshnichenko and Brand (2021) that transforming bank products into eco-oriented instruments is part of a long-term strategy to strengthen financial system stability. Ali et al. (2024) also assert that green finance is a driver of innovation and more efficient capital allocation in the global financial system. In the context of reputation and competitiveness, Choyal (2025) shows that integrating green finance into banking strategies enhances competitive advantage. The findings of this study extend the literature by demonstrating that the impact of green financing extends beyond reputation to financial indicators such as spreads and credit portfolio quality. Therefore, the results of this study confirm that green financing functions as an instrument linking sustainability to profitability.

The significance of these results lies in the paradigm shift that green financing is not simply a normative or regulatory obligation, but rather a business strategy with economic value. Previous literature has tended to focus on environmental performance (Naibi & Khel, 2025; Zhang et al., 2022; Zheng et al., 2021b), while these findings demonstrate that green financing is also relevant in the context of financial performance. This provides an important contribution to the banking finance literature, particularly in addressing concerns that green financing increases operational costs without providing financial benefits. These findings also strengthen the argument that banks with strong internal capacity, as demonstrated by Gör and Tekin (2023), are better able to optimize green financing as a source of competitive advantage. This research's contribution to the scientific field lies in the integration of sustainability and bank finance literature, thus opening up space for interdisciplinary studies between finance and sustainability. The practical implication is that bank management can view green financing as a strategic investment, rather than simply a means of regulatory compliance. However, the limitation of this study lies in its reliance on literature findings that are largely based on specific geographic contexts such as the GCC and Bangladesh, so global generalizations require caution.

5.2. The Impact of Green Financing on Bank Risk and Stability

Research findings indicate that green financing has a significant relationship with reduced credit risk and increased bank stability. Chen et al. (2022) reported that banks with higher green exposure experienced a reduced default risk, indicating improved financing portfolio quality. Akomolehin (2025) also showed that International Development Banks use green bonds and blended finance to reduce investment risk and increase private sector participation. This research finding connects with the literature by demonstrating that green financing functions not only as an environmental mitigation instrument but also as a risk management tool. Thus, green financing can be positioned as a strategy to strengthen banking system stability.

The significance of these results lies in their implications for bank risk management in addressing transition risks and physical risks due to climate change. Previous literature has focused more on the mediation of green financing on environmental performance (Naibi & Khel, 2025; Zhang et al., 2022), but this study demonstrates that its impact extends to the financial risk dimension. Zheng et al. (2021b) demonstrated that the economic dimension of green finance influences sustainability performance, which implicitly strengthens organizational resilience. Siddquee (2025) also demonstrated that green loans contribute to corporate sustainability, which is related to long-term stability. This research's contribution to the scientific field is broadening the understanding that green financing is part of a modern risk management framework in banking. The practical implication is that regulators and bank management can integrate green financing into risk management policies and credit portfolios. However, a limitation of this study is that most of the literature uses perception-based survey methods (Zheng et al., 2021b; Naibi & Khel, 2025), so research based on real financial data is needed to strengthen the empirical evidence.

5.3. The Role of Green Financing as a Strategic Mechanism for Integrating Sustainability and Financial Performance

Research findings indicate that green financing serves as a strategic mechanism that integrates sustainability practices with banks' financial performance. Naibi and Khel (2025) and Zhang et al. (2022) demonstrated that green financing mediates the relationship between green banking practices and environmental performance. Chen et al. (2022) demonstrated that green exposure impacts spreads and default risk, indicating an integration between sustainability and financial performance. Ali et al. (2024) demonstrated that green finance serves as an instrument for innovation and capital allocation that supports the transition to a low-carbon economy. Miroshnichenko and Brand (2021) stated that transforming banks' business models toward eco-oriented products is part of the financial system's long-term strategy. Choyal (2025) emphasized that green finance enhances banks' reputation and competitiveness. Thus, green financing serves as a bridge between the environmental and financial dimensions of the banking system.

The significance of these findings lies in their ability to bridge the previously separate sustainability and finance literatures. Gör and Tekin (2023) demonstrate that internal factors such as governance influence the adoption of green finance, while Rahman et al. (2023) and Joshi and Jain (2024) emphasize the importance of regulatory support. Nouvan (2025) demonstrates that national regulations strengthen the implementation of sustainable finance. By integrating all these perspectives, this study provides a conceptual contribution that strengthens the position of green financing as a strategic element in banking transformation. The practical implication is that green financing can be incorporated into banks' strategic planning as part of a sustainable business model. However, this study is limited by its literature review-based nature, which prevents direct empirical testing of bank financial data.

5.4. Implications and Limitations of the Research

The theoretical implication of this research is to expand the conceptual framework of green finance from merely an environmental mitigation instrument to a strategic instrument for improving bank performance and stability. This research also provides a methodological contribution by integrating conceptual and empirical literature into a comprehensive analytical synthesis. The practical implication is that bank management can incorporate green financing into their business strategy, while regulators can strengthen incentives and policy frameworks to encourage green financing. Furthermore, this research demonstrates that green financing has the potential to strengthen financial system stability by reducing credit risk and enhancing reputation.

However, this study has several limitations. First, it is based on a literature review and therefore does not directly test empirical data. Second, most of the studies analyzed are based on specific country contexts, so global generalizations should be approached with caution. Third, the dominance of survey methods in the previous literature suggests the need for research based on panel data or actual financial reports to strengthen the empirical evidence. Nevertheless, this study makes a significant contribution to consolidating the green financing literature and opening up further, more empirical and comprehensive research.

6. CONCLUSION AND SUGGESTIONS

6.1. Conclusion

This study concludes that green financing plays a significant role in improving bank performance and stability, and serves as a strategic mechanism for integrating sustainability practices with financial performance. The findings indicate that green financing is consistently associated with improved environmental and sustainability performance, as evidenced by various SEM-based studies and empirical surveys. Furthermore, panel data evidence suggests that increased green exposure can improve intermediation spreads and reduce default risk, indicating a positive impact on banks' financial performance and risk indicators. Thus, green financing is

relevant not only in the context of social and environmental responsibility but also in the context of business strategy and banking system stability. This study also shows that internal factors such as governance and financial capacity, as well as external factors such as regulations and policy incentives, influence the effectiveness of green financing implementation. Overall, green financing can be positioned as a central element in transforming banking business models toward a more sustainable and resilient financial system.

This research's primary contribution to the field lies in integrating the sustainability and banking finance literature into a coherent analytical framework. While previous studies have largely focused on environmental performance, this research demonstrates that green financing is also related to bank profitability and risk stability. Thus, this research broadens the scope of green finance analysis from an environmental perspective to a financial and risk management perspective. Its theoretical contribution strengthens green financing's position as a strategic mechanism linking sustainability and financial performance. Its practical contribution provides a basis for bank management and regulators to view green financing as a long-term strategic investment. This research also enriches the academic discourse on sustainable finance by demonstrating the consistency of findings across geographic contexts and research methods. Thus, it strengthens the legitimacy of green financing as an integral part of the modern financial system.

6.2. Suggestions for Future Research

Future research is recommended to empirically test the relationship between green financing and financial performance indicators using panel data or actual financial reports, thus providing stronger quantitative evidence. Given that most previous studies are based on perception surveys, secondary data-based research would enhance the validity of the findings. Furthermore, further research could develop an integrative model that combines internal bank factors, regulatory factors, and macroeconomic variables within a comprehensive analytical framework. Cross-country comparative studies are also needed to understand how differences in regulation and market structure influence the effectiveness of green financing. Future research could also explore the differences in the impact of green financing between public and private banks, as well as between large and small banks. Thus, future research developments are expected to provide a deeper understanding of the dynamics of green financing in the global banking system.

Furthermore, future research could examine the long-term impact of green financing on financial system stability, including its influence on systemic risk and bank resilience in the face of crises. Research could also explore innovative green financial instruments such as sustainability-linked loans and blended finance in the context of commercial banking. A multidisciplinary approach that combines financial, risk management, and public policy perspectives would also significantly contribute to the development of the sustainable finance literature. Longitudinal research with longer observation periods would help identify more stable and consistent patterns of relationships. Furthermore, analyzing the impact of digitalization and financial technology in supporting green financing could also be a relevant research agenda. With the development of such advanced research, the scientific field of green financing in the banking sector will mature and be able to make a tangible contribution to sustainable economic development.

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