

IMPACT OF ESG DISCLOSURES ON THE FINANCIAL PERFORMANCE OF LICENSED COMMERCIAL BANKS IN SRI LANKA

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1. Introduction

Commercial banks worldwide increasingly recognizing the significance of Environmental, Social, and Governance (ESG) reporting in shaping their corporate practices and reputations. There is a dearth of studies related to ESG Reporting and Financial Performance in Sri Lanka. By examining the relationship between ESG disclosures and financial outcomes, this study aims to shed light on the potential value that robust ESG reporting can bring to these banks and contribute to understanding sustainable business practices within the local banking sector.

2. Research Methodology

The study utilizes secondary data collection, employing a dataset covering five years (2018-2022) with data gathered from 24 licensed commercial banks in Sri Lanka. A panel data regression model was employed to explore the nuances of this relationship. FE model explores the significant results; Return on Assets (ROA) is used as the proxy for financial performance, while Environmental Disclosures (ED), Social Disclosures (SD), and Governance Disclosures (GS) were used as independent variables.

3. Findings and Discussion

The findings offer significant insights specific to the context of Sri Lanka. The results of the panel data analysis indicate a statistically significant positive association between ROA and all three independent variables, indicating that banks with better ESG ratings outperform others in terms of asset returns.

4. Conclusion and Implications

The research concludes the importance of ESG integration for Sri Lankan investors and provides investors in Sri Lanka with an empirical basis for incorporating ESG factors into their investment strategies. Policymakers can promote sustainable development and responsible business behavior by introducing ESG reporting standards and incentives for ESG activities. Commercial banks can benefit from understanding the financial advantages of ESG practices, including enhanced performance and improved stakeholder engagement.

Keywords: Commercial banks, ESG disclosures, Environmental reporting, Financial performance