Abstract

This study examined the impact of green financing mechanisms on the financial performance of commercial banks in Kenya. A descriptive research design was applied, focusing on Tier 1 banks as key players in green finance, with secondary data obtained from Central Bank of Kenya (CBK)-assessed financial statements covering 2019–2023. Panel data regression models were employed to analyze the relationship between green financing and financial performance, while the regulatory environment was considered as a moderating variable. Robustness of the models was ensured through diagnostic tests, including the Hausman, Breusch-Pagan, multicollinearity, autocorrelation, and linearity tests. The findings revealed that green bonds, green mortgages, and carbon assets collectively influence bank performance, and that green financing significantly improves the financial performance of commercial banks. Furthermore, the regulatory environment was found to play a moderating role in strengthening this relationship, highlighting the importance of effective oversight and supportive policy frameworks. The study concludes that stronger regulatory support and targeted policy interventions are vital in enhancing banks' participation in sustainable projects while safeguarding profitability. It recommends that regulatory bodies refine existing policies to align green financing with financial stability and that the government consider introducing stimulus packages to encourage greater investment by commercial banks in green finance. These insights add to the discourse on sustainable finance and provide practical implications for policymakers, regulators, and financial institutions seeking to balance profitability with sustainability.