



Green banking, financial performance, and corporate governance

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Abstract

Purpose — This study examines how profitability, firm size, and leverage influence green banking practices and investigates the moderating role of Good Corporate Governance (GCG) in the Indonesian Islamic banking sector.

Method — Using data from a sharia bank for 2016–2021, the study applies multiple regression and moderated regression analysis to assess the direct and moderating effects of financial and governance factors on green banking disclosure.

Findings — Profitability has a significant positive effect on green banking, whereas firm size and leverage have significant negative effects. GCG significantly moderates these relationships by strengthening the positive effect of profitability while negatively moderating the effects of firm size and leverage on green banking practices.

Implications — The findings highlight the importance of strengthening corporate governance and improving financial management to support the integration of sustainability principles into Islamic banking operations. Banks should align profitability, capital structure, and governance mechanisms with their environmental strategies to enhance sustainable banking practices.

Originality — This study contributes to the green banking literature by integrating financial characteristics and corporate governance within a moderating framework, providing empirical evidence on how GCG shapes the relationship between bank-specific factors and green banking practices in an emerging Islamic banking context.

Keywords: Green Banking, Profitability, Firm Size, Leverage, Good Corporate Governance

JEL Classification: G21; G32; G34; Q56

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Introduction

The increasing urgency of climate change has intensified global attention to the role of financial institutions in supporting the transition toward sustainable economic development. Banks are no longer perceived solely as financial intermediaries; their financing and investment decisions can also influence the direction of economic activities and, consequently, their environmental and social impacts.

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This expanding responsibility has encouraged the banking industry to incorporate sustainability considerations into its operational and strategic decision-making processes. One increasingly prominent approach is green banking, which integrates environmental considerations into banking operations, financing activities, products, services, and business strategies (Carrington, 2023; Ratnasari et al., 2021). Green banking represents an important mechanism through which financial institutions can contribute to sustainable development while simultaneously strengthening their organizational resilience.

Its implementation may include reducing paper consumption, improving energy efficiency, developing environmentally oriented financial products and services, and incorporating environmental considerations into financing decisions. These practices can potentially generate strategic benefits for banks, including enhanced corporate reputation, stronger customer loyalty, improved operational efficiency, and better management of environmental risks (Ratnasari et al., 2021). Therefore, green banking should not be viewed merely as an environmental initiative, but as a broader strategic response to the growing integration of sustainability considerations into contemporary banking practices.

The relevance of green banking is particularly pronounced within Islamic banking. In addition to maintaining financial sustainability, Islamic banking institutions operate within a framework that emphasizes responsible economic activities and broader societal interests. The integration of environmental considerations into Islamic banking practices can therefore reinforce the role of Islamic financial institutions in promoting sustainable development. Nevertheless, translating these principles into actual banking practices remains challenging. The implementation of green banking may require substantial initial investment, technological capacity, organizational adjustment, and mechanisms capable of assessing the environmental implications of banking activities. At the same time, Islamic banks must maintain their financial competitiveness and operational performance in an increasingly dynamic banking environment.

These challenges suggest that the implementation of green banking may depend, at least partly, on banks' internal financial capacity and characteristics. Relevant financial characteristics include profitability, bank size, and leverage. Profitability reflects a bank's ability to generate earnings from the assets under its management and can be represented by return on assets (ROA). Stronger profitability may provide banks with greater financial flexibility to support sustainability-oriented initiatives. Bank size, commonly reflected by the scale of total assets, may indicate the availability of organizational resources and operational capacity required to implement environmental programs. In contrast, leverage reflects the extent to which banking activities depend on external financing and may affect the degree of financial flexibility available for sustainability-related investments (Andhari et al., 2022).

However, financial resources alone may not necessarily lead to stronger green banking implementation. How organizational resources are managed, monitored, and allocated may also depend on the quality of corporate governance (GCG). Corporate governance establishes relationships and responsibilities among shareholders, boards of commissioners, directors, employees, customers, regulators, and other stakeholders. Effective governance can strengthen transparency, accountability, credibility, and managerial effectiveness, thereby influencing organizational decision-making and the utilization of corporate resources (Hanif et al., 2021).

In the context of green banking, the role of GCG becomes particularly important because the implementation of environmental initiatives requires not only sufficient financial capacity but also appropriate strategic oversight and managerial commitment. Strong governance may encourage banks to allocate resources more responsibly and integrate environmental considerations into long-term business strategies. Consequently, the effects of profitability, bank size, and leverage on green banking implementation may vary depending on the quality of corporate governance. A stronger governance framework may facilitate the translation of financial capacity into sustainability-oriented banking practices, whereas weaker governance may limit the effectiveness of such resources in supporting environmental initiatives.

The interaction between financial characteristics and corporate governance is therefore important for understanding variations in green banking implementation among Islamic banks. Profitability may provide greater financial capacity, while bank size may reflect broader organizational resources and operational capabilities. Conversely, higher leverage may constrain the financial flexibility required to undertake sustainability-related investments. Nevertheless, the extent to which these financial characteristics influence green banking practices may depend on governance mechanisms that determine how resources, risks, and organizational priorities are managed.

This issue is particularly relevant to the Indonesian Islamic banking industry, where sustainability, financial performance, and corporate governance increasingly represent interconnected strategic concerns. Green banking can support Islamic banks in strengthening reputation, improving customer loyalty, enhancing cost efficiency, and mitigating environmental risks, while effective corporate governance can improve resource and risk management and strengthen stakeholder confidence (Susila, 2019). Understanding the interaction between these dimensions is therefore essential for explaining the institutional conditions under which Islamic banks are better positioned to adopt environmentally responsible banking practices.

Against this background, this study examines the effects of profitability, bank size, and leverage on green banking implementation in Islamic banks, while investigating good corporate governance as a moderating mechanism in these relationships. By positioning corporate governance as a factor that may alter the relationship between banks' financial characteristics and their green banking practices, this study seeks to provide a more integrated understanding of how financial capacity, financial constraints, and governance quality jointly shape sustainability-oriented banking decisions.

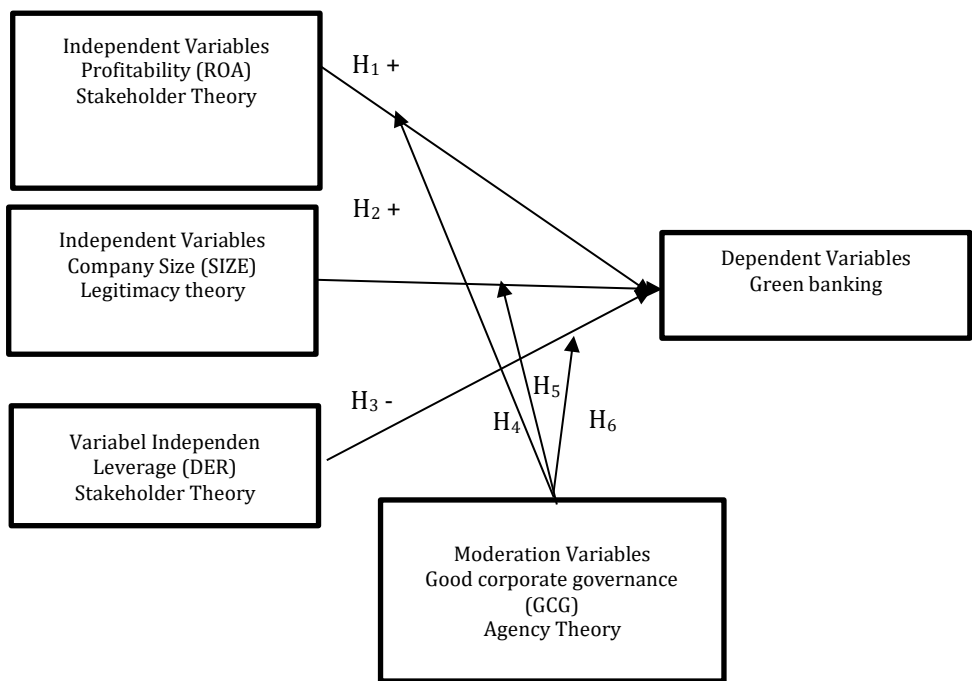
The study is expected to contribute to the Islamic banking and sustainable finance literature by providing a framework that connects bank-specific financial characteristics with green banking implementation while explicitly considering the conditional role of corporate governance. From a practical perspective, the findings may provide relevant insights for Islamic bank management and other stakeholders on the importance of aligning financial capacity, governance quality, and environmental responsibility to develop more sustainable banking practices.

Methodology

This study uses secondary data, specifically time data. This research data comes from annual bank reports and other official website sources that support this research. The population is a comprehensive set of elements and generally consists of individuals, objects, transactions, or events that are the focus of the research

(Kuncoro, 2013). In this study, the population used as the object of research is eight developing countries (eight developing countries) referring to eight OIC member countries included in the category of developing countries. The sample is a representation of the entire population because the sample is taken from a portion of the population for research (Sekaran & Bougie, 2013). This study uses purposive sampling method with consideration of government-owned sharia banks (SOEs) and sharia banks that publish financial statements and sustainability reports starting from 2016 because state-owned sharia banks began to publish SR that year. Based on this method, the selected sample is a sharia bank in Indonesia.

Figure 1. Frame of Mind



Source: Processed by Author

In this study, this type of data analysis uses multiple linear regression analysis and Multiple Regression Analysis (MRA). This study used EViews 10 for analytical tests. Equation model

$$GB = \alpha + \beta1.ROA + \beta2.SIZE + \beta3.DER + \beta4.GCG + e \tag{1}$$

In the regression model, GB represents Green Banking as the dependent variable, reflecting the extent to which environmentally responsible and sustainability-oriented banking practices are implemented and disclosed by the bank. The symbol α represents the constant or intercept, which indicates the expected value of Green Banking when the explanatory variables included in the model are assumed to have a value of zero. Meanwhile, $\beta1$ – $\beta5$ represent the regression coefficients that capture the magnitude and direction of the relationship between the explanatory variables

and Green Banking. A positive regression coefficient indicates that an increase in the corresponding explanatory variable is associated with an increase in Green Banking, whereas a negative coefficient indicates an inverse relationship. ROA represents Profitability, measured using Return on Assets, and reflects the bank's ability to generate earnings from the assets under its management. A higher ROA generally indicates greater efficiency in utilizing assets to generate financial returns.

$$GB = \alpha + \beta1.GCG + \beta2.ROA.GCG + \beta3.SIZE.GCG + \beta4.DER.GCG + e$$

SIZE represents Company Size and reflects the scale of the bank's operations based on its total assets. This variable captures differences in organizational financial capacity that may influence the ability of the bank to undertake sustainability-related activities. DER represents Leverage, measured using the Debt-to-Equity Ratio, and indicates the extent to which the bank relies on liabilities relative to its equity in financing its activities. GCG represents Good Corporate Governance, which reflects the quality of governance mechanisms related to transparency, accountability, responsibility, managerial oversight, and effective decision-making. In this study, GCG is also employed as a moderating variable to assess whether governance quality alters the relationship between profitability, company size, leverage, and Green Banking. Finally, e represents the error term, which captures variations in Green Banking that the variables explicitly included in the regression model cannot explain.

Results and Discussion

This section presents and discusses the empirical findings of the study. The analysis begins with an overview of the characteristics and distribution of the variables during the observation period, followed by an examination of the effects of profitability, firm size, and leverage on green banking disclosure. The analysis then evaluates the moderating role of Good Corporate Governance (GCG) in shaping these relationships.

Table 1. Descriptive Statistics

	GB	ROA	SIZE	DER	GCG	ROACGPI	SIZECGPI	DERCGPI
Mean	85.715	0.643	107.500	10.063	8,885.333	57.202	9,766.714	894.101
Median	88.095	0.415	40.500	10.605	8,815.000	37.996	3,571.557	947.727
Maximum	100.000	1.880	265.300	12.120	9,501.000	167.113	2,3582.52	1,049.350
Minimum	66.670	0.180	27.600	7.540	8,634.000	15.970	2,382.984	660.353
Std. Dev.	12.417	0.629	112.697	1.710	3,19.4681	55.800	10,399.78	153.231
Observations	6	6	6	6	6	6	6	6

Source: Processed by Author

The average green banking value of Indonesian Islamic banks during the period 2016 to 2021 is 85.715, or 85.71%. The highest value reached 100.000, or 100%, while the lowest was 66.670, or 66.67%. This shows that the lowest implementation of green banking of Indonesian Islamic banks in this study reached 66.67% during the period. In addition, the average green banking value of Indonesian Islamic banks during the period 2016-2021 was 85.71%, which is greater than the standard deviation of 12.41%.

The average profitability of Indonesian Islamic banks during 2016 to 2021 was 0.643, or 0.64%. The highest value was 1.880 (1.88%), while the lowest was 0.180 (0.18%). This shows that the lowest profitability of Indonesian Islamic banks in this study reached 0.18% during the period. In addition, the average profitability of Indonesian Islamic banks during 2016-2021 was 0.64%, which is greater than the standard deviation of 0.62%.

Figure 2. Development of each variable



Source: Processed by Author

The average value of the company size in this case, calculated from the total assets of Indonesian Islamic banks during 2016 to 2021, is 107,500, or IDR107,5 billion. The highest amount reached 265,300 or IDR265,3 billion, while the lowest amount was 27,600 or IDR27.6 billion. This shows that the lowest company size of Indonesian Islamic banks in this study reached IDR27.6 billion during the period. In addition, the average company size of Indonesian Islamic banks during 2016-2021 was IDR107 billion.

The average leverage value of Indonesian Islamic banks during the period 2016 to 2021 was 10.063, or 10.06%. The highest number reached 12.120 or 12.12%, while the lowest number was 7.540 or 7.54%. This shows that the lowest leverage of Indonesian Islamic banks in this study reached 7.54% during the period. In addition, the average leverage value in Indonesian Islamic banks during 2016-2021 was 10.06%, which is greater than the standard deviation of 1.71%.

The average level of good corporate governance of Indonesian Islamic banks during the period 2016 to 2021 was 88.853 or 88.85%. The highest score was 95.010 (95.01%), while the lowest was 86.340 (86.34%). This shows that the lowest good corporate governance score of Indonesian Islamic banks in this study reached 86.34% during the period. In addition, the average value of the good corporate governance score during 2016-2021 was 88.85%, which is greater than the standard deviation of 31.94%.

Based on the EViews 10 output, the analysis of each independent variable shows that profitability (ROA) affects green banking disclosure. The results of the analysis show that profitability has a significant positive effect on green banking, as indicated by the value of Prob. of $0.046 < 0.05$ and the value of the coefficient of 53.869. Thus, if profitability increases by 1%, it will increase the application of the green banking concept by 53.87%.

The effect of company size (SIZE) on Green Banking disclosure. The results of the analysis show that company size of the company has a significant negative

effect on green banking, as indicated by the value of Prob. of $0.042 < 0.05$ and the value of the coefficient of -0.475 . Thus, if the size of the company increases by 1%, it will reduce the application of the green banking concept by 0.4 to 8%.

Table 2. Multiple Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1,123.960	68.622	-16.379	0.039
ROA	53.869	3.865	13.937	0.046
SIZE	-0.475	0.031	-15.291	0.042
DER	-3.228	0.232	-13.891	0.046
GCG	0.142	0.008	18.223	0.035

Source: Processed by Author

The effect of leverage (DER) on Green Banking disclosure. The results of the analysis show that leverage has a significant negative effect on green banking, as indicated by a Prob. value of $0.0458 < 0.05$ and a coefficient value of -3.227765 . Thus, if leverage increases by 1%, it will reduce the application of the green banking concept by 3.23%.

Table 3. Multiple Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1,297.016	42.476	-30.535	0.021
GCG	0.161	0.005	33.502	0.019
ROA*GCG	0.006	0.000	25.399	0.025
SIZE*GCG	-0.000	0.000	-27.714	0.023
DER*GCG	-0.000	0.000	-20.965	0.030

Source: Processed by Author

The calculation of the effect of the moderation variable of good corporate governance (GCG) obtained a value of Prob. = $0.025 < 0.05$. This indicates that good corporate governance (GCG) strengthens the relationship between profitability and Green Banking. The value of the coefficient also shows that good corporate governance has a value of 0.006, meaning that for every 1 percent increase in good corporate governance as a moderation effect, the value of implementing green banking will increase by 0.006.

This moderation is also included in the category of quasi-moderation, a concept that refers to variables that function as moderators between the independent and dependent variables. In this context, quasi-moderation, or pseudo-moderation, means that the variable Good Corporate Governance acts as both an independent variable and a moderation variable simultaneously. Furthermore, the moderation variable of good corporate governance obtained a value of Prob. = $0.023 < 0.05$.

Although the coefficient value of this moderation result is -0.000 , which shows the negative influence of GCG as a moderator on the relationship between company size and green banking. Moderation is also quasi-moderation, a concept that refers to variables that moderate the relationship between the independent variable and the dependent variable. Quasi-moderation or pseudo-moderation can be interpreted as a variable that is simultaneously an independent variable and a moderation variable.

The calculation of the effect of the moderation variable of good corporate

governance obtained a value of $\text{Prob.} = 0.030 < 0.05$. Although the coefficient value of this moderation result is -0.000 , this shows the negative influence of good corporate governance as a moderation factor on the relationship of leverage with green banking. This finding also indicates quasi-moderation, because the moderator variables and interaction variables have the same significance.

The findings provide valuable insights into the impact of profitability on the disclosure of green banking concepts within the Indonesian Islamic banking industry. The explanation of the meaning of profitability that has been put forward by [Coulon \(2020\)](#) is in line with the results of this study, which clearly shows that the level of profitability, especially as measured through Return on Assets (ROA), plays a central role in measuring the ability of a bank to generate profits from its assets. The findings of this study confirm that profitability has a significant and positive influence on the level of green banking disclosure. A 1% increase in profitability significantly increased the application of green banking principles by 53.87%, showing that the higher the profitability level of a bank, the more likely it is to integrate green banking principles as an integral component of its business strategy.

These results align with findings in previous literature, as discussed by [Putri et al. \(2022\)](#). This indicates that green banking brings substantial benefits to banking institutions, including improved reputation, customer loyalty, operational cost savings, and contributions to overall sustainable development. By having a high level of profitability, banks can more effectively allocate resources and investments to encourage the implementation of green banking principles, which will ultimately result in improvements in financial performance and stronger social responsibility.

The findings also point to the importance of focusing on efforts to increase profitability to encourage adoption of green banking principles among banking institutions. Stakeholders in the banking industry need to realize that the implementation of green banking principles not only supports social and environmental responsibility but also has the potential to have a positive impact on financial performance. Therefore, bank management should consider strategies that improve operational efficiency and asset management to support increased profitability and more active involvement in green banking.

This research also found that the size of Islamic banks negatively affects the disclosure of green banking implementation in Indonesia; this aligns with the views of several previous studies. Such as [Gunawan et al. \(2022\)](#) suggests that firm size, measured by the natural logarithm metric of total assets, may indicate greater growth potential of business entities. However, the study found a negative relationship between company size and Green Banking practices. These findings offer a new perspective: larger banking institutions may face barriers to integrating green banking practices into their operations, even though they have broader resources and technology.

This approach to findings can be reinforced by the view put forward by [Park & Kim \(2020\)](#), which implies that smaller-scale banks tend to focus more on economic dimensions than social and environmental aspects. In contrast, larger banking institutions have greater responsibility to stakeholders and society, which in turn encourages more serious involvement in Green Banking practices. Thus, the negative results between company size and Green Banking disclosures in this study may indicate the challenges large banks face in integrating the concept of Green Banking comprehensively.

These findings suggest that larger banks should identify barriers and challenges affecting the integration of green banking into their operational strategies. Remedial steps and practical recommendations include a better understanding of the

constraints faced, increasing environmental awareness across the organization, and improving organizational structures to support more effective collaboration in implementing Green Banking practices. Furthermore, ongoing research can deepen understanding of the factors influencing the relationship between company size and Green Banking disclosures, resulting in more comprehensive insights. Leverage also has a significant negative influence on the disclosure of green banking practices.

The findings show a significant negative influence of leverage (measured using the Debt-to-Equity Ratio) on the level of green banking disclosure. These results are in line with the theoretical foundations that have been put forward by Kobor et al., (2010), Nissim & Penman (2003) and Kim (2018). Leverage, as a measure of the proportion of funding through loans in a company's financial structure, plays a key role in shaping the direction of a bank's financial and operational policies. In the context of a banking industry highly dependent on fund flows and liquidity, leverage-related decisions can strongly affect banks' ability to manage financial risk and maintain operational stability. The results of this study reveal that the higher the leverage ratio (DER) of a bank, the lower the possibility of disclosure of green banking practices.

This reflects the fact that banks with higher debt levels tend to face obstacles in allocating funds to green banking practices. Most of their funds may have to be diverted to paying interest on debt, which will ultimately hinder their efforts to implement sustainability-focused practices. This finding aligns with observations by Kim (2018), which indicate that banks with lower leverage tend to have greater financial flexibility to invest in green banking. These findings highlight the importance of carefully managing capital and funding structures within Islamic banks. Although leverage can maximize profit opportunities, improper management can also increase the risk of loss. Thus, smart leverage-regulation policies are critical, especially in the context of green banking.

As the main subject of this study, needs to reflect on strategies to optimize the use of funds and reduce dependence on debt to implement green banking practices more effectively as an integral part of its social and environmental responsibilities. Based on the findings, Good Corporate Governance (GCG) has a significant impact in strengthening the relationship between profitability and green banking. This result aligns with the previously stated theory that companies with good governance tend to be more motivated to adopt green banking practices as a form of social and environmental responsibility, as well as to improve performance and competitiveness (O'Connell & Ward, 2020).

In this context, banks with strong governance are more likely to integrate the green banking dimension into their operations, which can improve the achievement of sustainability goals and financial performance. In the context of the relationship between company size and green banking, the results show the significant role of GCG as a moderation factor. Although the moderation results reveal the negative influence of GCG on the relationship between company size and green banking, i.e., the better GCG, the weaker the relationship between company size and green banking, this does not reduce the significance of GCG's role in directing companies towards green banking practices.

This finding reflects that good corporate governance can influence the influence of company size on the implementation of green banking, indicating that banks with better GCG tend to focus more on sustainable practices without depending too much on their size (Kurniyati & Khairiyani, 2020). The moderation results revealing the negative influence of GCG on the relationship between leverage and green banking provide valuable insights. Although the moderation coefficients

are negative, they indicate that banks with better governance can mitigate the negative impact of leverage levels on green banking. This indicates that GCG can be a control tool to reduce potential environmental risks that can arise due to high leverage (Widyaningsih et al, 2022).

Overall, the findings of this study are reinforced by the literature presented, showing the importance of the role of GCG as a moderating factor in encouraging green banking practices in the banking industry. This research provides a more comprehensive look at how GCG affects the relationship between profitability, company size, leverage, and green banking, and its important implications in the development of business sustainability and the environment.

Conclusion

Profitability has a positive effect on green banking disclosure in Indonesia's Islamic banking sector. The positive relationship between higher profitability and green banking practices means that banks with strong financial performance are more likely to adopt a sustainable approach. Therefore, efforts to increase profitability should be emphasized to encourage the application of green banking principles among banking institutions.

In addition, the results of the study also confirm the importance of good corporate governance (GCG) as a controller in the relationship between company size and green banking. Although GCG has a negative impact on the relationship, the implication is that banks with strong governance tend to focus more on sustainable practices, rather than relying solely on size. Therefore, bank management must formulate strategies to improve operational efficiency and asset management so that the implementation of green banking can be implemented more effectively. Furthermore, the finding that GCG has a negative effect in the relationship between leverage and green banking also has important implications. Banks that have good governance can reduce the negative impact of leverage levels on the implementation of green banking.

This demonstrates the need to manage capital and funding structures carefully in an Islamic banking environment. By maximizing the use of funds and reducing dependence on debt, banks can more effectively integrate green banking practices as part of their social and environmental responsibilities.

Overall, the findings of this study show how important it is to consider profitability, good corporate governance, and leverage when improving green banking practices in the banking sector. This implies that banks need to understand the interrelationships between these factors in the context of sustainable development and the adoption of social and environmental responsibility.

AI declaration

The authors declare that artificial intelligence (AI) tools were used solely to assist in language refinement, grammar checking, and improving the clarity of writing. The use of AI did not influence the research design, data collection, data analysis, interpretation of results, or the development of conclusions. All intellectual contributions, including conceptualization, methodology, analysis, and final content, remain the full responsibility of the authors.

Conflict Interest

The authors declare that there are no conflicts of interest regarding the publication of this paper. The research was conducted independently without any financial, commercial, or personal relationships that could be construed as a potential conflict of interest.

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