

THE EFFECT OF GREEN BANKING DISCLOSURE, LEVERAGE, AND CORPORATE GOVERNANCE ON ISLAMIC BANKS' FINANCIAL PERFORMANCE

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Abstract : In recent years, Islamic Commercial Banks in Indonesia have faced increasing pressure to enhance financial performance while complying with sustainability principles and sound corporate governance. The implementation of green banking practices, effective leverage management, and good corporate governance (GCG) are considered crucial factors in maintaining competitiveness and long-term stability in the Islamic banking industry. This study aims to analyze the effect of Green Banking Disclosure, Leverage, and Good Corporate Governance (GCG) on the financial performance of Islamic Commercial Banks (ICB) in Indonesia during the 2020–2023 period. This study employs a quantitative research design with an explanatory approach. Data were collected using the documentation method, consisting of financial statements and annual reports of Islamic Commercial Banks registered with the Financial Services Authority (OJK) for the 2020–2023 period. Data analysis was conducted using panel data regression techniques with statistical software. The results show that Green Banking Disclosure does not have a significant effect on the financial performance of Islamic Commercial Banks, as indicated by a significance value above 0.05. In contrast, Leverage and Good Corporate Governance (GCG) have a negative and significant effect on financial performance. Simultaneously, Green Banking Disclosure, Leverage, and GCG significantly affect financial performance. These findings indicate the importance of effective leverage management and strong corporate governance in improving the financial performance of Islamic Commercial Banks.

Keywords : **Green Banking Disclosure; Leverage; Good Corporate Governance (GCG); Financial Performance; Islamic Commercial Banks**

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1. INTRODUCTION

Islamic Commercial Banks (ICBs) play a vital role in Indonesia's economy by mobilizing public funds and channeling them into financing activities that support economic growth and financial inclusion. As financial intermediaries, Islamic banks rely heavily on public trust to sustain their operations. This role is reflected in the consistent growth of Islamic banking assets in Indonesia. Based on data presented in this study, the total assets of Islamic Commercial Banks increased from approximately IDR 593 trillion in 2021 to around IDR 782 trillion in 2023, indicating rising public confidence in Islamic financial institutions. Previous studies emphasize that ethical values,

transparency, and compliance with sharia principles strengthen trust and support the development of Islamic banking (Iswandari & Anan, 2017).

Despite the growth in assets and financing, Islamic Commercial Banks continue to face challenges in improving financial performance. The average Return on Assets (ROA) of Islamic Commercial Banks during the observed period remained at 1.71%, lower than the 2.15% average ROA of conventional banks, suggesting that asset growth has not been fully translated into profitability. This condition indicates inefficiencies in asset utilization and operational performance. Empirical evidence in this study aligns with prior findings that structural inefficiencies and governance-related issues limit the ability of Islamic banks to enhance profitability (Rahmamita & Kahar, 2024).

Operational inefficiency remains one of the main factors affecting the financial performance of Islamic banks. Data in this study show that the Operating Expenses to Operating Income (BOPO) ratio remained relatively high, declining only from 85.55% in 2020 to 77.28% in 2022, reflecting limited improvements in cost efficiency. In addition, the nominal value of Non-Performing Financing (NPF) increased from IDR 11.625 trillion in January 2023 to IDR 11.751 trillion in January 2024, indicating that credit risk remains a concern despite a slight decline in the NPF ratio. These findings are consistent with studies highlighting that inefficiency and financing risk constrain Islamic banks' ability to improve performance (Rahmamita & Kahar, 2024).

Good Corporate Governance (GCG) is a concept aimed at enhancing corporate performance through oversight, accountability, and financial reporting transparency, thereby fostering economic growth and generating benefits for various stakeholders. Within an Islamic context, this concept is known as Islamic Corporate Governance; grounded in the principles of the Quran and Hadith, it differs from conventional Good Corporate Governance (GCG). In practice, corporate governance involves the synergy of various parties and the application of principles such as transparency, accountability, responsibility, professionalism, and fairness. In Islamic banking, Good Corporate Governance (GCG) is grounded in the principles of *shidiq* (truthfulness), *tabligh* (communicativeness), *amanah* (trustworthiness), and *fathonah* (wisdom/intelligence), complemented by transparency, prudence, and discipline. Key elements of Good Corporate Governance (GCG) include the board of commissioners, the board of directors, the Sharia supervisory board, and the audit committee. (Amelinda & Rachmawati, 2021)

One of the issues in the implementation of Good Corporate Governance (GCG) in Indonesia is the emergence of accounting scandals that have eroded public trust—particularly that of investors—in corporate financial statements. An example is the case of PT Garuda Indonesia in 2019, where the 2018 financial statements recorded a profit based on amounts that should have been classified as receivables but were instead recognized as revenue. Another instance is the case of PT Hanson International in 2016, which recognized revenue from land plot sales using the full accrual method, resulting in an overstatement of the financial statements. (Ferry Sandria, 2021)

Previous literature identifies internal managerial factors as key determinants of financial performance in Islamic banking. Green Banking Disclosure has been promoted as a strategy to enhance sustainability, transparency, and stakeholder trust. However, empirical findings suggest that its short-term impact on profitability remains limited, as the benefits tend to materialize over the long term (Karyani & O'Brien, 2020). Meanwhile, leverage decisions significantly influence financial stability, where excessive reliance on debt increases financial risk and reduces profitability (Rahmamita & Kahar, 2024). Furthermore, the implementation of Good Corporate

Governance (GCG) is expected to strengthen accountability, yet several studies indicate that governance mechanisms may increase coordination and compliance costs in the short term.

Effective implementation of Good Corporate Governance (GCG)—which improves economic efficiency and fosters constructive relationships among corporate stakeholders such as directors, commissioners, and shareholders to boost company performance—can reduce accounting scandals that undermine public trust, particularly among investors, in corporate financial statements. Research by Ningrum and Rasmini, as well as Haryani and Susilawati, shows that board size positively influences financial performance. In contrast, Okoye et al. find that the board of directors has a negative, non-significant impact on Sharia banks' financial performance (Olokoyo et al., 2020).

In recent years, attention toward sustainability in the banking sector has grown, prompting banks to integrate eco-friendly principles through Green Banking Disclosure (GBD). Transparency in sustainability practices enhances public trust and competitiveness. Meanwhile, leverage affects financial stability through debt reliance, whereas the implementation of Good Corporate Governance (GCG) ensures accountable and transparent management. Although these three factors significantly impact financial performance, research regarding their influence on Sharia Commercial Banks remains limited, despite the unique challenges these banks face compared to conventional banks.

Although the three factors above—Green Banking Disclosure, Leverage, and GCG—have been widely discussed individually in previous studies, empirical research that examines their simultaneous effect on the financial performance of Islamic Commercial Banks in Indonesia remains limited. Therefore, this study aims to fill that gap by analyzing the combined influence of these three variables on the financial performance of Islamic Commercial Banks during the 2020–2023 period.

The advantage of this study over others lies in the selection of independent variables; specifically, it combines Green Banking Disclosure, leverage, and Good Corporate Governance—a combination of variables that has not been used in any previous study.

2. TEORI DAN METODE

2.1 Signaling Theory

Signaling Theory explains how companies convey information to external stakeholders to reduce information asymmetry between management and investors. In Islamic banking, disclosures related to Green Banking, Leverage, and Good Corporate Governance serve as signals that reflect managerial quality and financial conditions, which may influence stakeholders' assessments of financial performance (Suganda, 2018). Transparent and consistent disclosures are expected to enhance investor confidence and support better financial performance (Rodrigues & Guest, 2024).

In practice, signaling theory is widely used in investment decision-making. Effective signals must possess the characteristics of credibility, consistency, and relevance. Credibility means the information conveyed must be trustworthy to the signal recipient; consistency means the information provided must align with the company's policies and actions; and relevance means the signal must be pertinent to the interests of investors and other stakeholders. For example, transparent and timely financial reporting can serve as a positive signal to investors regarding the company's financial health (Rodrigues & Guest, 2024).

2.2 Green Banking Disclosure

Green Banking Disclosure refers to the disclosure of environmentally responsible banking practices that integrate economic, social, and environmental considerations (Romli & Reza Zaputra, 2022). Such disclosures signal a bank's commitment to sustainability and ethical operations, which may enhance public trust and financial performance. In this study, Green Banking Disclosure is measured using a disclosure index based on annual reports, where each disclosed item is scored one and undisclosed items are scored zero (Bose et al., 2018).

JF. Houston found that the value of the continued role of community-oriented banking persists despite the ongoing consolidation within the industry, and provides an interesting backdrop to consider the impact of continued technological changes that have dramatically transformed the various ways in which banks interact with their customers.

2.3 Leverage

Financial performance reflects how well a company manages and controls its resources, as evidenced by financial statements such as the balance sheet, income statement, cash flow statement, and statement of changes in equity. Assessing financial performance plays a crucial role for management in evaluating business strategies and for investors in assessing potential investment returns. This analysis typically involves financial ratios, including profitability, liquidity, solvency, and operational efficiency (Hartanty & Ompusungu, 2023).

Leverage reflects the extent to which a company finances its assets through debt. High leverage may increase potential returns but also raises financial risk, which can negatively affect financial performance if not managed prudently (Harahap, n.d., 2010). Therefore, leverage management is crucial in maintaining financial stability in Islamic banking. Hutabarat says that financial performance is an analytical process used to assess the extent to which a company has effectively and correctly applied financial standards; simultaneously, capital structure, company growth, liquidity ratios, and sales growth impact profitability (Hutabarat, Purnsari, Panjaitan, 2021).

2.4 Good Corporate Governance (GCG)

Good Corporate Governance (GCG) refers to a system that regulates relationships among stakeholders to ensure transparency, accountability, and fairness in corporate management (Dwiridotjahjono, 2009). Effective GCG reduces agency conflicts, enhances operational efficiency, and strengthens investor confidence, which can positively influence financial performance. In Islamic banking, GCG implementation is evaluated using self-assessment ratings based on Bank Indonesia regulations.

Good Corporate Governance (GCG) ensures transparency, accountability, and efficiency in banking operations. Effective implementation fosters trust, financial stability, and long-term growth. This chapter discusses definitions and concepts, the benefits and objectives of implementation, principles, mechanisms, and performance measurement within Sharia banking, aiming to understand the role of GCG in maintaining the sustainability and competitiveness of banks. According to the World Bank, Good Corporate Governance (GCG) is a set of laws, regulations, and principles that must be adhered to foster the efficient use of corporate resources and create sustainable economic value for shareholders and society. Its objectives are to support corporate development, manage resources and risks efficiently, and ensure accountability to shareholders and stakeholders.

In Dwiridotjahjono (2009) According to the Forum for Corporate Governance in Indonesia (FCGI), Good Corporate Governance (GCG) is a set of rules governing the relationships among shareholders, company management, creditors, the government, employees, and other parties regarding their respective rights and obligations; it can also be described as a system for managing a company. Meanwhile, according to the National Committee on Corporate Governance Policy (KNKCG), GCG refers to the processes and structures employed by corporate bodies to create long-term, sustainable value for shareholders while simultaneously considering the interests of other stakeholders in accordance with applicable laws and norms.

According to Suyanti & Rahmawati, corporate governance mechanisms refer to a set of mechanisms that influence managerial decisions, particularly when there is a separation between ownership and control. There are four Good Corporate Governance mechanisms commonly used in research to mitigate agency conflicts: audit committees, independent commissioners, institutional ownership, and managerial ownership (Suyanti & Rahmawati, 2010).

2.5 Financial Performance

Financial performance reflects a bank's ability to generate profits efficiently while maintaining operational stability. Return on Assets (ROA) is commonly used to assess financial performance, as it measures management's effectiveness in utilizing total assets to generate net income (Kasmir, 2019). In Herispon (2016), the importance of financial performance is: a) Financial statements serve as an indicator for assessing a company's overall progress, catering to both external and internal interests. Externally, parties outside the company—such as creditors and investors—can monitor the company's condition through these statements as an initial step in considering an investment. b) Financial statements serve as a tool for management to demonstrate accountability to company owners regarding the trust placed in the company's leadership or managers. c) Financial statements provide a periodic overview or progress report on the company's performance as managed by the leadership; thus, financial statements are historical in nature.

2.6 Green Banking

According to the Green Banking Report, banks bear not only the financial responsibility of managing their businesses to generate maximum profit for shareholders but also the responsibility to preserve the environment (the planet) and enhance social well-being. (Nath & Nayak, Vikas Goel, 2017). Green Banking disclosure is also implemented as part of the company's objective to meet stakeholder demands and contribute to preserving environmental sustainability within the community. (Claduri & Rahayu, 2025). One important effort to enhance transparency and sustainability in the banking sector is through Green Banking Disclosure—specifically, the disclosure of bank policies, programs, and activities oriented towards environmental preservation.

Furthermore, Zenkina writes in the Journal of Science that Corporate Risk Disclosure (CRD) has become an integral part of corporate accountability for communicating the risks faced—ranging from market and operational risks to strategic risks (Scientists, 2023). In Riskadani, the study concludes that Green Banking Disclosure has a positive impact on firm value, whereas Corporate Risk Disclosure has a negative impact. Therefore, Sharia banks need to adopt a more prudent communication strategy regarding risk disclosure to avoid creating uncertainty among investors. The study recommends that regulators and Sharia bank management place

greater emphasis on transparency in sustainability reports to enhance competitiveness and market confidence (Claduri & Rahayu, 2025).

The Green Banking Disclosure Index is assessed by assigning a score of 1 for each disclosed item and a score of 0. The following are Bose et al., (2018) 14 points of the Green Banking disclosure items: The Information regarding environmental conservation policies and efforts to address climate change; the information regarding project financing, environmentally conscious projects, and the monitoring of eco-friendly initiatives; efforts to reduce paper waste through waste management and by encouraging internal communication, the Information regarding policy implementation and the use of relevant technologies to reduce environmental impact within the bank's internal operations, including electronic office systems, Information regarding the use of environmentally friendly materials, Information regarding energy-saving efforts in operational activities, Information on steps employees can take to curb climate change and reduce emissions, Information regarding the introduction of various eco-friendly products, Reporting on the bank's initiatives and participation regarding environmental issues, The Assessment of the impact resulting from a client's business activities prior to the granting of financing facilities, The Information regarding the conduct or planning of training to raise environmental awareness, The Banks' contributions to environmental conservation activities or initiatives, The Information regarding awards received for environmental conservation efforts, Provision of facilities that support environmental programs, The establishment of a climate change fund, the information regarding Green Branch arrangements, the implementation of eco-friendly marketing strategies, the bank initiatives and participation in employee training to support the Green Movement, The annual budget amount allocated for Green Banking practices, the information regarding the actual amount spent on Green Banking activities, and The use of a dedicated section in the annual report for Green Banking reporting.

2.7 Method

This research used a quantitative approach with an explanatory research design to analyze the effect of Green Banking Disclosure, Leverage, and Good Corporate Governance (GCG) on the financial performance of Islamic Commercial Banks in Indonesia during 2020–2023. This study uses a quantitative approach and secondary data from annual financial statements, sustainability reports, and corporate governance reports published on official bank websites and the Financial Services Authority (OJK). The population consists of 14 Islamic Commercial Banks, and the researcher choice 11 banks through purposive sampling over 4 year and the result is 44 panel data observations. The Purposive sampling of this research was choice which Consistently published sustainability reports on the company's official website or that of Bank Indonesia for the 2020–2023 period. The banks are:

Table 1. The List of The Sample

No	Banks	Code
1	PT Bank Aceh Syariah	BAS
2	PT Bank Muamalat Indonesia	BMI
3	PT Bank Victoria Syariah	BVS
4	PT Bank Jabar Banten Syariah	BJBS
5	PT Bank Syariah Indonesia Tbk	BSI
6	PT Bank Mega Syariah	BMS
7	PT Bank Panin Dubai Syariah Tbk	BPDS
8	PT Bank Syariah Bukopin	BSB

No	Banks	Code
9	PT BCA Syariah	BCAS
10	PT Bank Tabungan Pensiunan Nasional	BTPN
11	PT Bank Aladin Syariah Tbk	BASy

Source: www.ojk.go.id

Microsoft Excel is used for initial data processing and tabulation, while panel data regression analysis is conducted using EViews 12 software. The data obtained is processed using the EViews application. The approach used in this study is analytical; namely, the results of the processed data is described based on real conditions in the field. For the data collection method, the researcher uses library data obtained from annual financial reports and GCG reports published by these banks (Imam Ghozali, 2011).

3. RESULTS AND DISCUSSION

3.1 Analysis of Estimation Methods in Panel Data Regression

Chow Test: The Chow Test is used to determine which model—Common Effect Model (CEM) or Fixed Effect Model (FEM)—is more suitable for the data. The following table presents the results of the Chow Test conducted in this study:

Table 2. Chow Test Results

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	6.635175	(10,30)	0.0000
Cross-section Chi-square	51.339561	10	0.0000

Source: data processed by EViews 12

The null hypothesis (H_0) indicates that the appropriate model is the Common Effect Model (CEM), while the alternative hypothesis (H_1) suggests that the suitable model is the Fixed Effect Model (FEM). Based on the test results, the probability value obtained was 0.0000, which is smaller than 0.05. Therefore, H_0 is rejected, and the chosen model is Fixed Effect Model (FEM). The next step is to perform the Hausman Test.

Table 3. Hausman Test Results

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.759498	3	0.4302

Source: data processed by EViews 12

Hausman Test: The Hausman Test is conducted to determine whether the Fixed Effect Model (FEM) or Random Effect Model (REM) is more appropriate. Based on the Hausman Test, the probability value obtained was $0.4302 > 0.05$, meaning H_0 is accepted and H_1 is rejected. Hence, the appropriate model is the Random Effect Model

(REM). However, since the results differ from the Chow Test, further testing using the Lagrange Multiplier (LM) Test is required.

Lagrange Multiplier (LM) Test: The Hausman Test was conducted to determine the most appropriate model between the Random Effect Model (REM) and the Fixed Effect Model (FEM). Based on the test results, the probability value obtained was $0.4302 > 0.05$, indicating that H_0 is accepted and H_1 is rejected. Therefore, the selected model is the Random Effects Model (REM). However, since this model does not fully align with the results of the Chow and Hausman Tests, further testing must be carried out using the Lagrange Multiplier (LM) Test.

Table 4. Lagrange Multiplier (LM) Test Results

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	17.77871 (0.0000)	0.058993 (0.8081)	17.83770 (0.0000)
Honda	4.216480 (0.0000)	-0.242884 (0.5960)	2.809757 (0.0025)
King-Wu	4.216480 (0.0000)	-0.242884 (0.5960)	1.812508 (0.0350)
Standardized Honda	5.166082 (0.0000)	0.234326 (0.4074)	0.617840 (0.2683)
Standardized King-Wu	5.166082 (0.0000)	0.234326 (0.4074)	-0.206301 (0.5817)
Gourieroux, et al.	—	—	17.77871 (0.0000)

Source: data processed by EViews 12

The LM Test determines whether the appropriate model is Common Effect or Random Effect. The results show a probability value of $0.0000 < 0.05$, meaning H_0 is rejected, and H_1 is accepted. Therefore, the chosen model is the Random Effect Model (REM).

3.2 Classical Assumption Tests

3.2.1 Normality Test

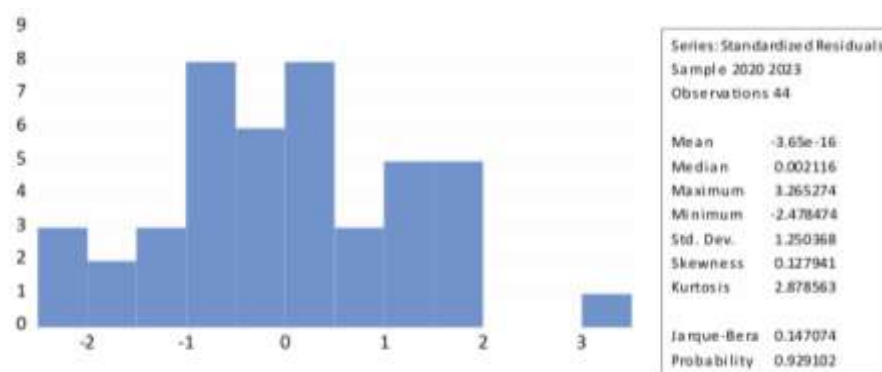


Figure 1. Normality Test Results

Source: data processed by EViews 12

Data are considered normally distributed when the probability value exceeds 0.05. Based on the results, the Jarque-Bera probability value is 0.929102, which is greater than 0.05. Thus, the data are normally distributed and suitable for further analysis.

3.2.2 Multicollinearity Test

Table 5. Multicollinearity Test Results

	X1	X2	X3
X1	1.000000	-0.220652	0.329243
X2	-0.220652	1.000000	-0.273094
X3	0.329243	-0.273094	1.000000

Sumber: Olah Data Eviews 12

Source: data processed by EViews 12

The correlation coefficients between the independent variables are as follows: X_1 and $X_2 = -0.220652$; X_1 and $X_3 = 0.329243$; X_2 and $X_3 = -0.273094$. Since all values are below 0.90, there is no strong correlation among the independent variables. Therefore, the model does not experience multicollinearity issues and is considered stable.

3.2.3 Autocorrelation Test

Table 6. Autocorrelation Test Results

Dependent Variable: ABS(RESID)				
Method: Panel Least Squares				
Date: 03/14/25 Time: 00:34				
Sample: 2020 2023				
Periods included: 4				
Cross-sections included: 11				
Total panel (balanced) observations: 44				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.994727	1.394476	2.864679	0.0066
X1	-1.130506	1.271726	-0.888953	0.3793
X2	-2.615685	0.832529	-3.141856	0.1031
X3	-0.029302	0.574812	-0.050977	0.9596
Root MSE	1.557319	R-squared		0.205559
Mean dependent var	2.117683	Adjusted R-squared		0.145976
S.D. dependent var	1.767417	S.E. of regression		1.633330
Akaike info criterion	3.905627	Sum squared resid		106.7107
Schwarz criterion	4.067826	Log likelihood		-81.92380
Hannan-Quinn criter.	3.965778	F-statistic		3.449964
Durbin-Watson stat	1.670186	Prob(F-statistic)		0.025368

Source: data processed by EViews 12

Based on the results, the Durbin–Watson value is 1.670186. Since this value lies between -2 and $+2$, the data do not suffer from autocorrelation problems. Hence, the regression model is valid and unaffected by serial correlation errors.

3.2.4 Heteroskedasticity Test

Table 7. Heteroskedasticity Test Results

Dependent Variable: ABS(RESID)				
Method: Panel Least Squares				
Date: 03/14/25 Time: 00:34				
Sample: 2020 2023				
Periods included: 4				
Cross-sections included: 11				
Total panel (balanced) observations: 44				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.994727	1.394476	2.864679	0.0066
X1	-1.130506	1.271726	-0.888953	0.3793
X2	-2.615685	0.832529	-3.141856	0.1031
X3	-0.029302	0.574812	-0.050977	0.9596

Source: data processed by EViews 12

The probability values for $X_1 = 0.3793$, $X_2 = 0.1031$, and $X_3 = 0.9596$ are all greater than 0.05, indicating that the residual variances are homogeneous and evenly distributed across predicted values. Therefore, the regression model is free from heteroskedasticity issues and is considered valid.

3.3 Regression Equation Results

Table 8. Multiple Linear Regression Results

Dependent Variable: Y				
Method: Panel Least Squares				
Date: 03/14/25 Time: 00:56				
Sample: 2020 2023				
Periods included: 4				
Cross-sections included: 11				
Total panel (balanced) observations: 44				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.276305	0.751180	-0.367829	0.7149
X1	0.067690	0.639971	0.105771	0.9163
X2	-1.352567	0.234834	-5.759676	0.0000
X3	-1.832255	0.872079	-2.101020	0.0420
Root MSE	1.236078	R-squared		0.748133
Mean dependent var	0.176849	Adjusted R-squared		0.756152
S.D. dependent var	1.696650	S.E. of regression		1.296409
Akaike info criterion	3.443581	Sum squared resid		67.22706
Schwarz criterion	3.605780	Log likelihood		-71.75879
Hannan-Quinn criter.	3.503733	F-statistic		11.21644
Durbin-Watson stat	1.374375	Prob(F-statistic)		0.000018

Source: data processed by EViews 12

From the results, the panel data regression equation can be formulated as follows:

$$ROA = -0.276305 + 0.067690(GBD) - 1.352567(LEV) - 1.832255(GCG) + e$$

- The constant (α) of -0.276305 indicates the average effect of the independent variables on the dependent variable. In other words, if Green Banking Disclosure (X_1), Leverage (X_2), and Good Corporate Governance (X_3) are not included, the financial performance (ROA) would decrease by 27.6%.
- The coefficient for Green Banking Disclosure (GBD) (X_1) is +0.067690, meaning that every one-unit increase in GBD raises financial performance (ROA) by 6.7%, assuming other variables remain constant (*ceteris paribus*).
- The coefficient for Leverage (X_2) is -1.352567, indicating that a 1% increase in leverage reduces financial performance (ROA) by 1.35%, assuming other variables remain constant.
- The coefficient for Good Corporate Governance (GCG) (X_3) is -1.832255, implying that an increase in GCG weight decreases financial performance (ROA) by 1.83%, *ceteris paribus*.

3.3 Hypothesis Testing

3.3.1 Coefficient of Determination (R^2). The R-squared value of 0.748133 indicates that 74.81% of the variation in the dependent variable (financial performance) can be explained by the independent variables in the model, while the remaining 25.19% is influenced by other factors not included in this study. The adjusted R^2 of 0.756152

shows that the model remains strong even after adjusting for the number of variables and observations.

3.3.2 F-Test (Simultaneous Test). The *F*-test results show an *F*-statistic value of 11.21644 with a probability of 0.000018 (< 0.05), indicating that all independent variables jointly have a significant effect on financial performance. Thus, the regression model is valid and effectively explains the relationship between the variables.

3.3.3 t-Test (Partial Test). Based on Table 8, the *t*-test results show that the Green Banking Disclosure variable has a *t*-value of $0.105771 < 2.01954$ and a probability of $0.9163 > 0.05$. This means it has no significant effect on financial performance, and thus H_1 is rejected. The Leverage variable has a *t*-value of $-5.759676 < -2.01954$ with a probability of $0.0000 < 0.05$, indicating a negative and significant effect on financial performance. Therefore, H_2 is accepted. The Good Corporate Governance (GCG) variable has a *t*-value of $-2.101020 < -2.01954$ with a probability of $0.0420 < 0.05$, also showing a negative and significant effect on financial performance. Hence, H_3 is accepted.

3.5 Discussion

3.5.1 Effect of Green Banking Disclosure on Financial Performance.

The empirical results indicate that Green Banking Disclosure does not have a significant effect on the financial performance of Islamic Commercial Banks during the 2020–2023 period. This finding suggests that sustainability-related disclosures have not yet translated into immediate profitability improvements, as measured by Return on Assets (ROA).

This result is consistent with the findings of Rahmamita and Kahar (2024) and Romli and Saputra (2021), who argue that green banking initiatives primarily generate long-term reputational and legitimacy benefits rather than short-term financial returns. From an analytical perspective, this insignificant effect may be explained by the relatively high initial costs associated with implementing green banking practices, such as investments in environmentally friendly technologies, sustainability reporting, and social programs. These costs may suppress short-term profitability, especially in Islamic banks that already operate with tighter margins.

Furthermore, market appreciation of sustainability disclosure in Indonesia remains limited. Investors and stakeholders still tend to prioritize conventional financial indicators over non-financial disclosures, including environmental performance. As a result, although Green Banking Disclosure enhances ethical positioning and compliance with sharia values, its financial contribution appears to be indirect and long-term. This finding indicates that Green Banking Disclosure alone is insufficient to improve financial performance without being supported by efficiency and risk management strategies.

3.5.2 Effect of Leverage on Financial Performance.

The results show that Leverage has a negative and significant effect on the financial performance of Islamic Commercial Banks. This indicates that higher reliance on debt financing reduces profitability, as reflected in lower ROA.

This finding supports previous studies by Nasution et al. (2019) and Rahmadita and Kahar (2024), which demonstrate that excessive leverage increases financial risk and interest-related burdens, thereby reducing net income. In the context of Islamic

banking, high leverage limits financial flexibility because a substantial portion of earnings must be allocated to financing obligations rather than productive expansion.

From an analytical standpoint, excessive leverage also signals higher financial risk to investors and regulators, potentially reducing confidence and market attractiveness. Although leverage can enhance returns when managed optimally, the findings of this study indicate that Islamic Commercial Banks during the observed period have not yet achieved an optimal capital structure. Consequently, leverage functions as a constraining factor rather than a driver of financial performance.

3.5.3 Effect of Good Corporate Governance (GCG) on Financial Performance.

The results indicate that Good Corporate Governance (GCG) has a negative and significant effect on financial performance. This finding suggests that higher GCG self-assessment scores are associated with lower Return on Assets (ROA) in Islamic Commercial Banks during the study period.

This result aligns with the findings of Asytuti, (2019), who reports that certain governance mechanisms—such as board size, governance disclosure intensity, and compliance requirements—may increase coordination, monitoring, and administrative costs. These additional costs can reduce operational efficiency and weaken short-term profitability.

Analytically, the negative relationship may also reflect the implementation-oriented nature of GCG in Islamic banking, where governance practices are often treated primarily as regulatory compliance rather than as strategic value-creation tools. While GCG strengthens transparency and accountability, its financial benefits tend to materialize gradually rather than immediately. This interpretation is supported by Hasan et al., (2020), who find that the implementation of Islamic corporate governance does not necessarily lead to short-term improvements in financial performance due to increased monitoring and compliance costs. Similarly, Faisal et al., (2026) emphasizes that although Islamic corporate governance enhances transparency and accountability, its positive impact on bank performance is more evident in the long run. Therefore, the negative effect observed in this study does not undermine the importance of GCG but highlights the need for more efficient and value-oriented governance implementation in Islamic Commercial Banks.

4. CONCLUSION

The conclusion of this article is that the Green Banking Disclosure variable does not have a significant effect on the financial performance of Sharia Commercial Banks. These findings indicate that Green Banking disclosure has not had a significant impact on the financial performance of Sharia Commercial Banks during the 2020–2023 period. The leverage variable has a significant and has a negative effect on the financial performance of Sharia Commercial Banks during the 2020–2023 period. The Green Banking Disclosure variable does not have a significant effect on the financial performance of Sharia Commercial Banks. These findings indicate that Green Banking disclosure has not had a significant impact on the financial performance of Sharia Commercial Banks during the 2020–2023 period. The Good Corporate Governance variable has a significant and has a negative effect on the financial performance of Sharia Commercial Banks for the 2020–2023 period.

The author recommends that future research include other independent variables or add a moderating variable to enhance the study's comprehensiveness. Future research could utilize the most recent time periods, include additional banks, or make comparisons with conventional banks. Based on the findings, Islamic Commercial Banks are encouraged to improve the quality and transparency of Green Banking Disclosure to enhance stakeholder appreciation. Leverage should be managed prudently to maintain financial stability and profitability, while the implementation of Good Corporate Governance (GCG) should focus on improving operational efficiency. Future studies are recommended to extend the research period and include additional variables to provide a more comprehensive understanding of financial performance in Islamic banking.

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