THE INTERACTION OF GREEN BANKING INITIATIVE, ESG DISCLOSURE, AND ENVIRONMENTAL PERFORMANCE ON NET INCOME OF THE STRONGEST BANKS IN ASIA

Andika Rendra Bimantara[1], Ely Windarti Hastuti[2], Hartomi Maulana[3], dan Fahmilia Rahmanita[4]

[1,3,4]Universitas Darussalam Gontor
Jl. Raya Siman, Dusun I, Demangan, Kec. Siman, Kab. Ponorogo, Jawa Timur, Indonesia
[2]Universitas Mataram
Jl. Majapahit No.62, Gomong, Kec. Selaparang, Kota Mataram, NTB, Indonesia
Email: andikarendrabimantara@unida.gontor.ac.id

ABSTRACT

Today's environmental issues require quick and precise handling. Although it is not the leading cause of natural disasters, the banking sector must still practice sustainable development without abandoning its role as a profit institution. The objective of this research is to examine the influence of green banking initiation, ESG disclosure, and environmental performance to net income. This study uses a quantitative method, with content analysis of the annual reports and Sustainability Reports of 10 Islamic banks, sampled purposively, and employs panel data analysis. The study's results are mixed. Green Banking and environmental performance variables each negatively affect the Net Income variable, with each t value lower than the t table value and a significance value greater than 0.05. In contrast, the effect of the ESG Disclosure variable on the Net Income variable is positive and significant. These results are similar to those of the simultaneous test. Simultaneously, the Green Banking, ESG Disclosure, and Environmental Performance variables have a positive and significant effect on Net Income. If Islamic Banking aims to achieve an optimal level of profitability while aligning with sustainable development practices, it can pursue these three elements simultaneously. That is, carrying out Green Banking practices, disclosing ESG practices, and maximizing environmental performance.

Keywords: Green Banking, ESG Disclosure, Environmental Performance, Net Income

ABSTRAK

Isu lingkungan hidup di masa kini membutuhkan penanganan-penanganan yang cepat dan tepat. Meskipun bukan sebagai aktor utama kerusakan alam, sektor Perbankan tetap harus mempraktikkan Pembangunan berkelanjutan tanpa melepaskan fungsinya sebagai lembaga profit. Penelitian ini menggunakan metode kuantitatif dengan analisis konten pada laporan tahunan dan *Sustainability Report* sejumlah 10 bank Islam yang menjadi sampel dengan *purposive sampling* sebagai Teknik sampelnya. Teknik analisis data menggunakan *panel data analysis*. Hasil penelitian dapat disimpulkan bahwa secara parsial terdapat hasil yang beragam. Variabel *Green Banking* dan performa lingkungan masing-masing berpengaruh negatif terhadap variabel *Net Income* dengan masing-masing nilai t hitung lebih rendah dari nilai t tabel serta nilai signifikansi yang

lebih besar dari 0.05. Berbeda halnya dengan pengaruh antara variabel Pengungkapan ESG terhadap variabel *Net Income* yang berpengaruh positif dan signifikan. Hasil ini serupa dengan hasil uji secara simultan. Secara simultan, variabel *Green Banking,* Pengungkapan *ESG,* dan Performa Lingkungan berpengaruh positif dan signifikan terhadap variabel *Net Income.* Sehingga dapat disimpulkan jika Perbankan Islam hendak mencapai Tingkat profitabilitas yang optimal sekaligus sejalan dengan praktik Pembangunan berkelanjutan, maka Perbankan Islam dapat mengupayakan ketiga elemen ini secara bersamaan. Yaitu menjalankan praktik *Green Banking,* mengungkapkan praktik ESG, serta memaksimalkan performa lingkungannya.

Kata kunci: Green Banking, Pengungkapan ESG, Performa Lingkungan, Net Income

1. INTRODUCTION

Today's environmental issues require quick and precise handling. The World Health Organization (WHO) states that more than 7 million people die every year due to environmental pollution and damage (Andarsari et al., 2020). Another supporting reason why sustainability activities must be implemented immediately is that, for the first time in history, global temperatures exceeded the 1.5 degrees Celsius annual threshold set in the 2015 Paris Climate Agreement (Kementerian Lingkungan Hidup dan Kehutanan, 2016). From here, the banking industry plays a vital role in promoting sustainable development by integrating environmental, social, and governance factors into its operational decisions. In recent times, the concept of Green Banking has gained significant attention, as financial institutions seek to reduce the environmental impact of their activities and contribute to a transition towards a more sustainable economy. Indirectly, banks are not classified as contributors to environmental pollution, unlike textile factories, mining, and processing industries. However, banks should not let things go their own way; for example, in lending to customers, they can encourage customers to undertake activities that affect the environment (Ningsih et al., 2020). In the future, of course, there will be many challenges for Green Banking practices, including a lack of customer awareness, excessive profit orientation, high competition, and an inadequate regulatory framework (Kulsum & Huda, 2018).

Likewise, Environmental, Social, and Governance (ESG) has become an investment trend, especially in Asia, where more than 5,000 investors are interested in entities that prioritize ESG-based sustainability principles (HSBC, 2021). Environmental indicators examine how the business operates and its impact on the environment; social indicators monitor how the Company treats its people, diversity, and relationships, as well as occupational health and safety; and Governance indicators control how the Company governs itself (Bella & Etty Murwaningsari, 2023). Studies have shown that ESG practices can reduce managers' tendency to engage in illegal activities (Cho & Chun, 2016). According to ethical, political, and integrative theories, managers of companies with higher ESG scores are perceived as honest, trustworthy, and moral, and thus tend to provide more transparent information to stakeholders.

Such companies tend to abstain from earnings manipulation that could damage their relationships with key stakeholders (Scholtens & FC, 2013). Green Banking and ESG are sustainability principles that also relate to environmental performance. Environmental performance is a management effort to prevent environmental damage and preserve the environment. The greater the Company's responsibility for environmental preservation, the better its image (Hariati & Rihatiningtyas, 2016). Companies that have good environmental performance will get positive feedback from investors, so that the Company's value can be optimized through an increase in stock prices (Ani, 2021)

One study found that Islamic banks that prioritize sustainability practices and environmental initiatives tend to earn higher net profits than those that do not (Zyadat, 2018). By integrating environmental and social objectives into their operations, Islamic banks can attract a broader customer base, increase customer loyalty, and ultimately improve their financial performance. Likewise, Islamic banks in the Gulf Cooperation Council region reported that sustainable banking practices, such as investments in renewable energy and green infrastructure, are positively correlated with profitability measures, including return on assets (Budiman et al., 2021). Apart from the Gulf countries, it is also important to promote sustainable practices in Southeast Asia due to several urgent needs. For instance, the region is highly vulnerable to the adverse impacts of climate change, including sea level rise, extreme weather events, and water scarcity. By implementing Green Banking, Islamic banks can help mitigate these environmental challenges and support the transition to a sustainable economy.

Another interesting correlation is between environmental and financial profitability. Some papers have translated ecological factors into profitability for Islamic banks, finding that Islamic banks that prioritize sustainability and environmental initiatives tend to achieve higher net profits than those that do not (Zyadat, 2018). Likewise, another study on Islamic banks in the Gulf Cooperation Council found that sustainable banking practices, such as investments in renewable energy and green infrastructure, are positively associated with profitability measures, including return on assets (Budiman et al., 2021). However, another study on the efficiency of Islamic banks during the financial crisis in Middle Eastern and Asian countries found that profitability and capitalization are the main determinants of Islamic banking efficiency, and that there may be a negative relationship between environmental performance and profitability (Rosman et al., 2014). The varying acceptance and treatment of sustainability initiatives across countries reveal different things. However, the focus of initiatives in each country varies depending on the challenges faced. Sustainable finance issues should be integrated into the company's work practices to achieve better results (Jajang, 2024).

Thus, the dynamics of the relationship between environmental practices and profitability are sufficiently diverse to warrant further research. Many different results lead researchers to seek results that match the original conditions in the annual reports. Researchers used the Tab Insights website

page titled *"Strongest Islamic Bank in 2024"* as a sample using a purposive sampling technique. This article uses Green Banking variables, ESG initiatives, environmental performance, and net income.

2. LITERATURE REVIEW

2.1 AGENCY THEORY

Agency theory describes the relationship between the Company's management, acting as an agent, and its owner, serving as the principal. The head is the party that gives the agent orders to carry out all operations on its behalf. With the media accountability report prepared by management as an agent, the head receives the information needed, as well as an assessment tool for the agent's performance over a period. The higher the achievement of the head's goals, the higher the compensation received by the agent (Amrulloh & Amalia, 2020). Agency theory also concerns employment contracts that regulate the distribution of utility between the parties while accounting for overall benefits. A good employment contract is a balanced agreement between the head and the agent that systematically balances the agent's optimal performance of obligations and the provision of special incentives by the head. (Lesmono & Siregar, 2021).

In practice, an imbalance in control over information can lead to a condition called information asymmetry. Agency theory also relates to information asymmetry theory, insider trading, GCG theory in general, and accounting fraud theory in particular. Agency theory is further expanded by corporate responsibility to stakeholders beyond shareholders. Eventually, there was an increasing global awareness of the destruction of the earth and the breakdown of social order, which was welcomed by the United Nations, leading to the emergence of CSR, environmental management accounting, and sustainability reporting (Purba, 2023).

2.2 SIGNALING THEORY

Signal theory describes how information senders can convey signals to signal receivers, conveying useful information from information owners. Signal theory holds that management uses signals to reduce potential information asymmetry, as the information here consists of records, details, and conditions of the Company from the past and future. This information is essential for investors and stakeholders (Brigham & Houston, 2012). Signal theory can also be seen in business risk, where high business risk is considered harmful by potential investors, which can affect their intention to invest (Mahendra & Daljono, 2023). The link in this study is that sustainability reports and annual reports can provide strong signals to investors and other stakeholders that the Company concerned has recognized the environmental crisis and is implementing sustainability practices.

Another link to this research is the profitability ratio. High and low profitability values can signal to stakeholders that financial distress is present.

If the profitability value is high, the Company can send positive signals to stakeholders because it indicates a low likelihood of financial distress. Previous studies reveal that profitability ratios affect financial distress. (Handayani, 2020). Stakeholders usually want information about the Company's strong prospects (good news). About signal theory, the market is expected to sort out the quality of the Company from the signals disclosed by the Company because, in general, a quality Company will always disclose signals to a broad audience so that the market can find out the Company's prospects in the future (Hartono et al., 2016).

2.3 GREEN BANKING

Green Banking, or Eco-friendly Banking, is an effort to optimize operations and technology while encouraging customers to adopt environmentally friendly practices to reduce the carbon footprint of their activities. Banks can reduce carbon emissions by implementing strategies such as transitioning to paperless operations, promoting energy efficiency, using public transport, building green facilities, shifting services online, and adopting renewable energy sources such as solar and wind power (Shaumya & Arulrajah, 2016). The Green Banking measurement tool in this study is the Green Coin Rating (GCR). GCR itself consists of 6 indicators, namely:

1) Carbon Emission comes from activities that emit gases, namely carbon dioxide and methane, into the atmosphere. These gases are often called greenhouse gases (Sirait, 2023).
2) Green Rewards involve recognizing companies that engage in environmentally sustainable business operations (Ningsih et al., 2020).
3) Green Building is the practice of creating and using more resource-efficient models of construction, operation, maintenance, and dismantling (Ragheb et al., 2016).
4) 3R (Reduce, Reuse, Recycle) is a combination of three words: Reduce is the minimization of the number of goods used, Reuse is the extension of the life of goods by maintenance, and recycle means efforts to minimize waste by recycling (Riyansari, 2013).
5) Paperwork/Paperless: minimizing paper use is expected to help the company and all lines maintain environmental sustainability, as paper is processed from tree fibers that take years to grow back (Ningsih et al., 2020).
6) Green Investment, a socially responsible investment approach, or a long-term sustainable investment model (World Economic Forum, 2013).

By adopting these indicators, banks can certainly improve their environmental responsibility while promoting a culture of sustainability among stakeholders. Ultimately, implementing environmentally friendly practices creates long-term financial resilience and increased profitability for banks. The proactive role of banks in promoting an environmentally friendly economy goes beyond their operational activities and includes participation in environmentally friendly finance (Hossain et al., 2020).

<div align="center">2.4 ESG DISCLOSURE</div>

ESG disclosure is the Company's disclosure system based on ESG, namely environment, social, and governance, in its business activities. In practice, the Company is not only committed to profit but also committed to sustainable environmental and social aspects (Bella & Etty Murwaningsari, 2023). Issues addressed in the environmental standard include the Company's energy use, operational waste, pollution, protection of natural resources, and management practices that affect flora and fauna. Social criteria describe the Company's relationship with external parties, namely communities, suppliers, community groups, and other legal entities with which the Company is associated. Then, the governance standard recognizes the process of managing a viable and sustainable company (Ningwati et al., 2022). The indicators in this variable are taken from the ESG Reporting Guide 2.0 2019, which contains 30 sub-indicators as follows.

<div align="center">Table 1. ESG Indicator</div>

Environmental (E)	Social (S)	Corporate Governance (G)
E1. GHG Emissions	S1. CEO Pay Ratio	G1. Board Diversity
E2. Emissions Intensity	S2. Gender Pay Ratio	G2. Board Independence
E3. Energy Usage	S3. Employee Turnover	G3. Incentivized Pay
E4. Energy Intensity	S4. Gender Diversity	G4. Collective Bergaining
E5. Energy Mix	S5. Temporary Worker Ratio	G5. Supplier Code of Conduct
E6. Water Usage	S6. Non-Discrimination	G6. Ethics & Anti Corruption
E7. Environmental Operations	S7. Injury Rate	G7. Data Privacy
E8. Climate Oversight/Board	S8. Global Health & Safety	G8. ESG Reporting
E9. Climate Oversight/Management	S9. Child & Forces Labor	G9. Disclosure Practices
E10. Climate Risk Mitigation	S10. Human Rights	G10. External Assurance

<div align="center">Source: ESG Reporting Guide</div>

Recent studies show a positive correlation between ESG performance and a company's financial performance (Löw et al., 2024). This study is also

supported by a study by Aydoğmuş (2022), which found that both the combined ESG score and each score are positively and significantly related to a company's profitability (Aydoğmuş et al., 2022). However, other studies also show that the G indicator is not significant for company profitability (Tahmid et al., 2022). However, the same study argues that the E and S scores are positively correlated with company value. There are differences among the indicators, so that gaps can be explored in the future.

2.5 ENVIRONMENTAL PERFORMANCE

Environmental performance among Islamic banks has become an important issue in recent times. Individual development, human and environmental collectivity, and social betterment are the objectives. This aligns with the principles of justice and equity in Islam, which prohibit monopolies and overconsumption to ensure equitable sharing of natural resources among all communities (Al-Roubaie & M. Sarea, 2019). Environmental performance is the Company's effort to create a good environment by controlling various environmental aspects, including environmental policies, objectives, and targets (Haholongan, 2016). Another study explained that environmental performance is a mechanism for companies to integrate environmental concerns into their voluntary work practices, including their interactions with stakeholders (Suratno et al., 2006).

In practice, the concept of environmental performance may vary depending on the type of Company. For example, a manufacturing company will measure its environmental performance differently from a banking company. Communities living around the Company are interested in the social and environmental effects arising from the Company's activities (Untung, 2012). The Company's awareness of achieving optimal environmental performance is a manifestation and a meeting point between the interests of business actors and the essence of sustainable development strategies, namely through integration measures across economic, social, community, and environmental development (Haholongan, 2016).

The banking sector is uniquely positioned to drive economic development and to meet the needs of stakeholders. Islamic banks can proactively participate in green finance by implementing reforms to advance a greener economy alongside their operational activities (Hossain et al., 2020). Islamic banking has taken on a dual role as both a business operator and an environmental compliance operator. This dual role requires a comprehensive understanding of how environmental performance affects financial results in the banking sector. Previous research has found a positive correlation between green banking practices and financial performance, indicating that investing in environmental sustainability can yield tangible financial benefits (Nagendrakumar et al., 2022).

2.6 NET INCOME

Net profit is one of the elements in financial statements. According to Kasmir (2019), Financial statements are reports that show a company's financial

position over a given period. Profit is the excess of revenue over the Company's operating expenses. Net income is the excess of all revenues and overall costs in a specific period after deducting income tax displayed on the income statement (Muhajir, 2020). To achieve its goals, the Company must plan carefully. By maintaining the stability and continuity of the Company's finances, profits enable the Company to develop optimally and become a well-established and advanced Company (Diana, 2020).

The role of net income is to serve as a measure of the Company's ability to generate profits and to answer all questions about how successful the Company is in managing its business. Net profit is often associated with increases in the Company's assets and equity, as well as with attracting potential new investors who expect dividends from optimized operations in future periods (Septian, 2010). In this study, net profit was extracted from the relevant Company's annual report.

3. RESEARCH METHODS

3.1 DATA

The objective of this research is to examine the influence of green banking initiation, ESG disclosure, and environmental performance to net income. This study uses a quantitative approach with panel data as its data model; thus, in its flow, the appropriate model is first determined among the *Common Equity Model* (CEM), *Fixed Effect Model* (FEM), and *Random Effect Model* (REM). Then, the data in this study are secondary, in the form of Annual Reports or Sustainability Reports for the last 3 years, covering Islamic banks in each country that are members of the top 20 Strongest Islamic Banks in Asia ranking in 2024. Selecting data from the last 3 years aims to capture current conditions and trends in the field of study. In some studies, long historical data can become less relevant as economic, social, or policy contexts change. So that a sample of 10 Islamic banks is obtained as follows.

Table 2. Research Sample

No.	Name of Banks	Strongest IB 2024 List	Country
1	Alinma	5	Saudi Arabia
2	Turkye Emlak	2	Turkey
3	KFH	4	Quwait
4	QIB	6	Qatar
5	Meezan Bank	7	Pakistan
6	Ahli United Bank	10	Bahrain
7	Dubai Islamic Bank	14	UEA
8	BSI	15	Indonesia
9	Abu Dhabi Islamic	16	Egypt

	Bank		
10	Maybank Islamic	20	Malaysia

Source: TabInsight

The indicators in each variable are taken from several sources. The Green Banking variable uses the Green Coin Rating indicator, the ESG Disclosure variable uses 30 sub-indicators from the ESG Reporting Guide 2.0 2019, the Environmental Performance variable uses indicators from the Sustainable Banking Assessment 2022 issued by WWF, and the Net Income variable is taken from the Annual Report of each research sample in the form of the difference between gross profit and tax expense. The rest is presented in the table below.

Table 3. Research Indicators

Variable	Indicators	Proxied By	Data Sources
X1	Green Coin Rating	Triodos Bank	Vikas Nath, Nitin Nayak, & Ankit Goel
X2	ESG Metric	Nasdaq	ESG Reporting Guide 2.0
X3	SUSBA Frameworks	World Wide Fund of Nature	Sustainable Banking Assesment
Y	Net Income	David Durand	Needles, Powers, & Crosson

Sources: Data Set

3.1 REGRESSION MODEL

This research uses multiple linear regression. Multiple linear regression is a regression that has one dependent variable and two or more independent variables. Multiple linear regression helps predict or show the relationship between two or more variables, using data collected from multiple objects at a specific point in time (Sugiyono, 2016). In this study, the regression equation obtained is as follows.

$$Y = \alpha + \beta_1 GBI + \beta_2 ESG + \beta_3 EP + ER$$

Y   : Dependent Variable (Net Income)
A   : Constant
$\beta 1$: Regression coefficient of X1 (Green Banking Initiative)
$\beta 2$: Regression coefficient of X2 (ESG Disclosure)
$\beta 3$: Regression coefficient of X3 (Environmental Performance)
ER   : Error

The regression model used is panel data regression. Panel data is a combination of cross-sectional and time-series data, enabling it to provide more data and achieve higher degrees of freedom (Widarjono, 2005). Because

the research data are panel data, this study uses panel data analysis to determine which model is appropriate, including the Common Equity Model (CEM), Fixed-Effects Model (FEM), and Random-Effects Model (REM.

Testing these models then goes through 3 steps. First, the Chow test is used to determine which model is better, the Fixed Effect Model (FEM) or the Common Equity Model (CEM), for panel data regression. The conditions are as follows.

1. If the Prob. F $\geq$ 0.05, then the Common Equity Model (CEM) is chosen.
2. If the Prob. If F value $\leq$ 0.05, the Fixed Effect Model (FEM) is selected

Second, the Hausman test is used to determine which model is best: the Fixed-Effects Model (FEM) or the Random-Effects Model (REM). The conditions are as follows.

1. If the random cross-section value $\geq$ 0.05, the Random Effect Model (REM) is chosen.
2. If the random cross-section value $\leq$ 0.05, the Fixed Effect Model (FEM) is selected.

Then, the third is the Lagrange Multiplier test, which is used to determine whether the Random Effect Model (REM) or the Common Equity Model (CEM) is feasible. The conditions are as follows.

1. If the Breusch-pagan cross-section value $\geq$ 0.05, the Common Equity Model (CEM) is selected.
2. If the Breusch-pagan cross-section value $\leq$ 0.05, the Random Effect Model (REM) is selected.

4. RESULTS AND DISCUSSION

Because the research data are panel data, this study uses panel data analysis to determine which model is appropriate, including the Common Equity Model, Fixed-Effects Model, and Random-Effects Model. The following is a summary of the test selection test results table.

Table 4. Summary of Test Selection Results

Test Category	Prob. Value	Selected Model
Chow Test	0.0365	FEM
Hausman Test	0.2758	REM
Lagrange Test	0.9009	CEM

Sources: Data Set

From all the tests conducted, the choice of model fell on the CEM (Common Equity Model) because it passed the test requirements, starting with the Chow Test and Hausman Test, and ending with the Lagrange Test, with a Prob. Value of 0.9009, which is greater than the standard error of 0.05, so the CEM Model was chosen. If the CEM Model is selected, then the classical assumption tests used are the Multicollinearity Test and the Heteroscedasticity Test (Basuki & Yuliadi, 2014). The respective test outputs are as follows.

Table 5. Multicollinearity Test

	X1	X2	X3
X1	1.000000	0.569624	0.287095
X2	0.569624	1.000000	0.390865
X3	0.287095	0.390865	1.000000

Sources: Eviews13 Output

The results of this test indicate that the correlation coefficient between X1 and X2 is 0.569624 < 0.85; between X1 and X3 is 0.287095 < 0.85; and between X2 and X3 is 0.390865. This study is free of multicollinearity.

Table 6. Heteroscedasticity Test

Variables	Prob.
C	0.9992
X1	0.6581
X2	0.3926
X3	0.7025

Sources: Eviews13 Output

The interpretation of this output is reflected in the prob value. All variables X1, X2, and X3 have values of 0.6581, 0.3926, and 0.7025, respectively, all of which are greater than 0.05, so they pass the Heteroscedasticity test. Results, partial and simultaneous test interpretations, and conclusions will be discussed in the next sub-chapter. After obtaining the Common Equity Model (CEM) panel data, the next step is to determine the panel data regression and the effect of each variable. The output from Eviews13 is as follows.

$$Y = 3453396.04 - 221757294.186 * X1 + 3001944417.76 * X2 + 469118105.554 * X3$$

This regression formula can be interpreted as follows:

1. The constant can be interpreted when the variables X1, X2, and X3 are 0, then the value of Y is estimated at 3453396.04
2. In the X1 coefficient, each increase of 1 unit of X1 is associated with a decrease in Y of 221757294.186 units, assuming other variables remain constant. The negative symbol means that the relationship between X1 and Y is negative. The greater X1, the more Y tends to decrease.
3. In the X2 coefficient, every 1 unit increase in X2 is associated with an increase in Y worth 3001944417.76 units. Assuming other variables remain constant. The positive symbol means that the relationship between X2 and Y is positive. The greater X2, the more Y will increase.
4. X3 coefficient: every 1-unit increase in X3 is associated with an increase in Y of 469118105.554 units. Assuming other variables remain constant.

The positive symbol means that the relationship between X3 and Y is positive. The greater X3, the greater Y will also be.

4.1 INFLUENCE OF GREEN BANKING INITIATIVE ON NET INCOME

In the first section, the researchers tested the hypothesis, and the results were quite diverse. There are several effects found. The following are the output results from EViews 13.

Table 7. Partial Test Output of X1 on Y

Variables	Coefficient	t-Statistic	Prob.
C	3453396	0.005168	0.9959
X1	-2.22E+08	-1.318848	0.1987

Sources: Eviews13

First, the effect of variable X1 on Y can be seen from the calculated t value of 1.318848 < t table of 2.048407 and the significance value of 0.1987 > 0.05. These results indicate that the influence between the two variables is not significant, as the probability value is greater than 0.05 and the relationship is negative. So, the Green Banking variable does not affect the Net Profit variable. These results are in line with other studies, which show that Islamic Banking profitability is not affected by Green Banking practices. Plus, in the period after the COVID-19 outbreak hit, the reaction to finance was quite significant. Islamic banks must highlight the improvement of their financial performance in the future by strengthening green management and understanding the implications of Green Banking (Indarningsih & Rokhimah, 2024).

Research conducted by Fathihani et al. (2024) also has similar results. This research, which focuses on the impact of Green Banking on the profitability of Islamic commercial banks, shows that Green Banking practices have a negative, insignificant effect on Islamic banking performance. This is because the higher the Islamic bank focuses on environmental practices in monitoring its clients' project funding practices, the higher the bank's expenses, which, of course, automatically results in a decrease in bank profits. Research by Halimatussadiah et al. (2018) also found no relationship between green banking practices and profitability. In addition, other studies have also found that Islamic banks in Bangladesh have not fully embraced green financing, indicating that there is still room for improvement in aligning their operations to green policies (Julia & Kassim, 2019).

4.2 INFLUENCE OF ESG DISCLOSURE ON NET INCOME

The following are the results of the partial hypothesis test for the relationship between the ESG Disclosure variable and the Net Income variable.

Table 8. Partial Test Output of X2 and Y

Variables	Coefficient	t-Statistic	Prob.

C	3453396	0.005168	0.9959
X1	3.00E+09	3.484747	0.0018

Sources: Eviews13

The interpretation of the results of this test is the calculated t value on the X2 variable of 3.484747 > t table of 2.048407 and a significance value of 0.0018 < 0.05. This means that the relationship between the two variables is significant because the p-value is less than 0.05, and they influence each other. The ESG Disclosure variable has a significant effect on Net Income. Several studies have found a positive relationship between ESG disclosure variables and companies' business practices. The first is a study conducted by Alam et al. (2022), which examined the impact of ESG activities on the efficiency measures of conventional and Islamic banks. The study found that ESG activities have a positive impact on the efficiency of conventional banks, but the impact is not significant for Islamic banks. Another finding of the study, specifically the positive effect of ESG on efficiency, is more pronounced in conventional banks than in Islamic banks. This is because Islamic banks' practices tend to be ethical and socially responsible, so the additional impact of ESG is lower. Other studies have also found that environmental and social performance disclosure has a positive impact on the financial performance of firms in developing countries (Sharma et al., 2019).

Other concurrent studies have also shown that ESG performance is a significant predictor of bank performance. The findings of this study serve an important purpose for stakeholders such as bank managers, regulators, and policy makers who are responsible for promoting sustainable banking practices and ensuring that the banking sector remains stable and resilient (Koapaha, 2023). Although they differ in terms, when viewed from the goal, Corporate Social Responsibility (CSR) and ESG also share the same purpose. Research by Shalbayeva et al. (2024) revealed that CSR practices and company performance are correlated. The correlation shows a positive relationship between the variables studied. Corporate social responsibility must be considered in two aspects, namely as a necessary cost item and as a strategic investment that helps create a more sustainable global world and is positively correlated with the company's financial position.

4.3 INFLUENCE OF ENVIRONMENTAL PERFORMANCE ON NET INCOME

Next, researchers examine the relationship between the Environmental Performance variable (X3) and the Net Income variable (Y). The following are the output results of the partial test in EViews 13.

Table 9. Partial Test Output of X3 andY

Variables	Coefficient	t-Statistic	Prob.
C	3453396	0.005168	0.9959
X1	4.69E+08	0.875661	0.3892

Sources: Eviews13

The output results indicate that the calculated t value for the Environmental Performance variable is 0.875661 < the t table value of 2.048407, and the significance value is 0.3892 > 0.05. The interpretation is that the relationship between the variables is not significant because the probability is above 0.05, indicating no effect, and that the Environmental Performance variable does not affect the Net Profit variable. According to research conducted by Buallay et al. (2020), the negative impact is due to the additional costs associated with implementing and maintaining environmentally friendly sustainability practices.

Furthermore, Jan et al. (2019) highlighted the need for a framework to measure a separate Shariah-based sustainability process for Islamic banks, as existing frameworks may not adequately capture the unique aspects of Islamic finance. Islamic banks should carefully consider the potential trade-offs between environmental and financial performance when developing their sustainability strategies. Policymakers should also consider offering incentives or support for Islamic banks to adopt environmentally sustainable practices without compromising their financial viability.

4.4 GREEN BANKING, ESG DISCLOSURE, AND ENVIRONMENTAL PERFORMANCE ON NET INCOME

Simultaneously, this study found several findings that will be the final answer to the diverse results of the previous partial tests. The following are the output results from EViews 13.

Table 10. Simultant Test Output

F-statistic	5.804672
Prob (F-statistic)	0.003550

Sources: EViews13

The interpretation that can be obtained from this output result is the calculated F value of 5.804672 > F table value of 2.975154 and a significance value of 0.003550 < 0.05, so simultaneously, all relationships between variables are significant and positive. So, variables Green Banking, ESG Disclosure, and Environmental Performance affect Net Income. These results are in line with research initiated by Bukhari et al. (2020), which found a positive correlation between sustainability practices and the financial performance of banks. Islamic banks, in particular, can utilize their unique principles to gain a competitive advantage through sustainability initiatives. Practices such as financing renewable energy projects and implementing environmentally friendly operations have been shown to improve banks' financial performance.

Given the mixed results of previous tests, this simultaneous result is the final answer. Islamic banking in Asia is expected to carry out all its sustainability activities thoroughly. Both in terms of implementing Green Banking practices, disclosing ESG practices thoroughly and systematically,

and improving their environmental performance with reference to available measurement tools. So that obstacles such as additional costs associated with implementing sustainability practices and the burden banks incur in monitoring their clients can be offset by the high investor attention to green banking policies as a whole.

Such as the results of a study conducted by Sánchez-Flores et al. (2020). Investors are increasingly interested in companies that integrate sustainability into their core business model. Today, sustainability practices have become a strategic imperative for Companies. This is because stakeholders realize its potential in long-term value creation. The literature shows that stakeholders are increasingly interested in companies that practice sustainability holistically, balancing economic, environmental, and social considerations in their operational decision-making. Investors are often the most hesitant stakeholders when it comes to sustainable innovation, while customers, clients, or clients tend to be more receptive and eager to engage.

5. CONCLUSION

This study aims to determine the effects of Green Banking Initiation, ESG Disclosure, and Environmental Performance on Net Income at the Strongest Islamic Banks in Asia, using panel data analysis across three periods (2021-2023) and 10 Islamic Bank samples selected through the Purposive Sampling Technique. Based on the research results, the following conclusions can be drawn.

1. There is no significant effect of Green Banking Initiation on Net Profit. This is due to additional costs, as Islamic banks focus on monitoring their customers' project funding, thereby increasing their costs.
2. ESG Disclosure has a significant effect on Net Profit. This relationship arises because ESG is a predictor of Bank performance. So, the higher the ESG disclosure value, the higher the bank's performance.
3. There is no significant effect of Environmental Performance on Net Profit. This is due to additional costs associated with implementing and maintaining environmentally friendly sustainability practices.
4. In simultaneous testing, Green Banking Initiation, ESG Disclosure, and Environmental Performance have a significant effect on Net Profit. These results are driven by the attitudes of Investors, who are increasingly interested in companies that integrate sustainability into their core business models. Because at this time, sustainability practices have become a strategic imperative for Companies, including Green Banking, ESG Disclosure, and Environmental Performance.

The findings of this study will contribute to the growing body of scientific literature on the relationship between sustainable banking practices and materialistic finance, offering valuable insights for Islamic banks and policymakers as they navigate the evolving green finance landscape. In its finalization, this study seeks to provide a comprehensive understanding of the

relationship between sustainability initiatives and the financial performance of Islamic banks, to inform strategic decision-making and policy development in green finance. The limitations of this study are in the relatively medium-term data period. Another limitation is the general nature of the dependent variables, without specific indicators that other researchers can use to address this study's limitations and shortcomings in the future.

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