The Influence of Credit Ratio, Liquidity Ratio, and Capital on Green Credit in Islamic Commercial Banks

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Abstract
This study examines the influence of the credit ratio (NPF), liquidity ratio (FDR), and capital adequacy ratio (CAR) on the distribution of green financing among Islamic commercial banks in Indonesia during 2021–2024. This research is motivated by the increasing emphasis on sustainable finance and the strategic role of Islamic banking in supporting green economic development. Using a quantitative approach, panel data regression analysis was conducted with EViews 13 on a sample of 9 Islamic commercial banks selected from a population of 14 banks. The results indicate that NPF, FDR, and CAR do not have a significant effect on green credit, suggesting that the distribution of green financing in Islamic commercial banks is not yet driven by internal financial performance. These findings imply that Islamic bank management needs to integrate sustainability considerations more systematically into financing policies, as conventional financial ratios have not been effective in encouraging greater green financing.

Keywords: Capital, Credit Ratio, Green Credit, Islamic Commercial Banks, Liquidity Ratio

INTRODUCTION

The biggest challenge facing the entire world today lies in sustainable environmental management, particularly in reducing damage to natural resources and the impact of global warming (Nursabna et al., 2023). The issue of climate change is now a major concern at the global level because the increase in carbon emissions and the rise in the average temperature of the earth not only threaten environmental sustainability but also have the potential to cause instability in the economy. The resulting impact can disrupt monetary stability and the financial system as a whole, prompting various parties to devise sustainable strategies to minimize the risks (Oktaviani, 2024).

The objectives of Sharia law are in line with the principle of sustainability because they emphasize the protection of life, intellect, property, and the environment as the basis for achieving prosperity. In the context of sustainable development, maqashid syariah becomes an ethical foundation that strengthens social and environmental commitments through Islamic financial instruments such as green sukuk, zakat, and productive waqf that support the achievement of SDGs (A'ini et al., 2024). The Qur'an, which is operationalized through

maqashid syariah, also directs the realization of sustainable environmental development as part of the 2030 SDGs (Firdaus, 2022). Thus, maqashid syariah provides a normative foundation that encourages harmony between Islamic values and global development goals.

Banking has an impact on the environment through both its operational activities and the distribution of financing. Banking digitalization can reduce emissions from transportation and paper use, but it also increases digital energy consumption, so it still has the potential to generate carbon emissions. Therefore, the implementation of green banking is necessary so that banks can conduct business while preserving the environment, particularly by channelling financing to sectors that support sustainable development (Kurniadi et al., 2024). In implementing sustainable finance, banks channel credit that supports environmentally-friendly business activities. This financing is based on OJK guidelines through the Sustainable Business Activity Category (KKUB) as the basis for assessing sustainability (Afifah et al., 2023).

Banking, as part of the financial sector, has a strategic role in promoting ecological sustainability and is required to change its business practices to be more environmentally friendly (Dewi, 2023). In line with this, Bank Indonesia has issued environmental regulations to encourage the implementation of sustainable finance in harmony with economic development (Rahman et al., 2025). This commitment is reinforced by the government through POJK Number 51/POJK.03/2017, which emphasizes the importance of the banking sector's role in responding to environmental and social issues, so that financial institutions not only pursue financial profits but also pay attention to ecological sustainability and community welfare (Khamilia dan Nor, 2020).

Sharia banking plays an important role in supporting Sustainable Development Goals (SDGs) through green credit that complies with sharia principles while promoting economic and environmental sustainability (Husen & Fitrijanti, 2024). Green credit is a financial instrument that encourages companies to invest in environmentally-oriented projects through loan facilities with incentives in the form of low interest rates and longer repayment periods. This instrument is gaining global attention because it channels funds to environmentally friendly sectors, including renewable energy, energy efficiency, and pollution control (Chen et al., 2025).

Although the operational activities of banks do not have as significant an environmental impact as the extractive sector, their intermediary function means that they are still linked to

issues of environmental damage. If banks are not selective, the financing they provide could support activities that damage ecosystems. Therefore, banks have a moral and strategic responsibility to ensure that the credit they provide is not only financially profitable but also takes environmental sustainability into account (Sanda et al., 2023).

Table 1. Growth of Green Credit

Years	Conventional Commercial Banks (%)	Islamic Commercial Banks (%)
2021	98,10	1,90
2022	97,65	2,35
2023	96,51	3,49
2024	95,97	4,03

Source: Sustainability Reports of Conventional and Islamic Commercial Banks (2021–2024)

Based on the contribution percentage table, the distribution of green financing during the 2021–2024 period is still dominated by Conventional Commercial Banks. Although the proportion shows a downward trend from year to year, conventional banks remain the main contributors to total green financing. In contrast, Islamic Commercial Banks show a consistent increase in contribution throughout the observation period. The contribution of Islamic banks increased from around 1.90% in 2021 to 4.03% in 2024, reflecting the strengthening role of Islamic banks in supporting sustainable financing. Although their proportion is still relatively small compared to conventional banks, this upward trend indicates positive development and opens opportunities for Islamic banks to gradually narrow the contribution gap in green financing distribution in the future.

The concept of green credit is an innovation in the banking world that combines economic orientation with a commitment to environmental preservation. Through financing based on sustainability principles, banks can channel funds to environmentally friendly projects either independently or through collaboration with the government, non-governmental organizations, and local communities. In addition, the involvement of banks in environmental programs and campaigns helps strengthen the image of the institution and supports the sustainability of the ecosystem in the future (Alfarizi et al., 2023).

Previous research conducted by Citraningtyas et al. (2024) found that Non-Performing Loans (NPL) have a negative effect on green banking disclosure, meaning that the higher the credit risk, the lower the bank's ability to carry out green financing. This is in line with research by Zhou et al. (2022), which examined the effectiveness of green credit policy implementation in commercial banks in China and also found a negative relationship, whereby an increase in credit risk actually hinders the effectiveness of green lending, especially in banks with weaker

credit quality. The results of both studies show that the higher the NPF, the greater the ratio of credit borne by banks, thereby reducing their ability to channel green financing.

Research conducted by Yasmin & Akhter (2021) found that the liquidity ratio, proxied by the Loan to Deposit Ratio (LDR), has a positive effect on the distribution of green credit in Bangladesh. This shows that banks with higher liquidity tend to be more aggressive in distributing green financing. These findings are in line with the research by Mustika et al. (2025), which shows a correlation between liquidity ratios and sustainable financing activities in Indonesian banks. The results of this study indicate that higher liquidity ratios reflect an increase in banks' capacity to distribute financing, including green financing. Both studies confirm that liquidity ratios are an important factor in driving the increase in green credit.

Research conducted by Linh (2025) on the effect of capital on commercial banks in Vietnam shows that the capital adequacy ratio (CAR) has a positive effect on the distribution of green credit. In line with these findings, research by Sun et al. (2025) on bank competitiveness also found that CAR contributes to an increase in green credit, which ultimately strengthens the position of banks. Both studies confirm that strong capital is an important factor for banks in expanding green financing.

So far, research on the influence of internal factors on green credit is still limited (Harahap et al., 2023). Most previous studies have focused on efficiency, credit ratios, liquidity ratios, and capitalization in the context of foreign banking or an financial performance in general, rather than on green financing specifically. In addition, comprehensive research examining the impact of internal financial ratios on green credit distribution at Islamic Commercial Banks in Indonesia remains very limited. Thus, there is a research gap regarding empirical evidence on whether internal financial performance indicators influence the distribution of green financing in Islamic banking in Indonesia.

Based on the gaps, this study aims to empirically examine the effect of credit ratios (NPF), liquidity ratios (FDR), and capital ratios (CAR) on the distribution of green credit at Islamic Commercial Banks in Indonesia for the period 2021–2024 using secondary data obtained from financial reports and annual publications. This study is expected to contribute theoretically to the development of the green finance literature, particularly in the context of Islamic banking in Indonesia, and to provide practical implications for regulators and bank management in formulating strategies to strengthen sustainable financing. The focus on the Islamic banking sector was chosen because these institutions play a strategic role in

promoting sustainable financing in line with Islamic principles. Through green credit instruments, Islamic banks are increasingly encouraged to strengthen their contribution to sustainable development goals and more responsible environmental management (Husen & Fitrijanti, 2024).

LITERATURE REVIEW

Green Credit in Theoretical Perspective

Inegbedion (2024) states that green banking practices are a means for companies to improve environmental and economic performance through green financing and its implementation, while also playing a role in cost efficiency to improve financial performance. In the context of banking, green banking focuses on adjusting internal banking procedures to reduce the environmental footprint of financial activities. This approach includes evaluating the environmental risks associated with a project before approving financing, as well as actively supporting green initiatives (Gazi et al., 2025).

One aspect of measuring the implementation of green banking can be done by assessing the extent of green credit performance implemented by banks. Green credit is a financial service provided by banks to encourage borrowers to invest in environmentally friendly projects and contribute to sustainable development (He et al., 2024). This takes the form of special loan products, policies, standards, evaluation systems, and regulatory measures. This process encourages economic transformation towards more environmentally friendly practices by encouraging investments that focus on reducing pollution, resource efficiency, and emission reduction (Yu et al., 2025).

Theoretically, the distributions of green credit can be analyzed through the perspectives of Risk Management Theory, Stakeholder Theory, and Green Finance Theory. Risk Management Theory explains that banks must conduct comprehensive risk management to maintain asset health and financial stability (Smith & Stulz, 1985). In the context of green credit, credit risk is a major challenge because green financing has its own risk characteristics, requiring adequate risk management capacity to ensure the sustainability of the bank's financing portfolio. Green financing can reduce credit risk if banks are able to conduct proper risk analysis, but it can actually increase risk if the information available to banks is still limited (Di Tommaso et al., 2025).

Stakeholder Theory states that companies must consider the interests of all stakeholders, including the community and the environment, in every decision they make

(Freeman & McVea, 1984). In the banking industry, the distribution of green credit is a form of environmental and social responsibility to ensure that the financing provided does not have a negative impact on the ecosystem, as well as a response to stakeholder pressure and expectations to implement sustainable practices (Jillani et al., 2024).

Green Finance Theory explains that financial institutions have a strategic role in promoting sustainable development by channelling financing to projects that support environmental protection and energy efficiency (D. Zhang et al., 2019). In the context of Islamic banking, green credit is an important instrument for increasing contributions to green economic development. Research by X. Zhang et al. (2022) shows that green finance can increase environmentally friendly innovation and environmental performance, so that the better the financial capacity of banks, the greater their ability to optimally increase the distribution of green credit.

Green credit is calculated using the following formula:

$$GCR = \frac{Total\ Green\ Financing}{Total\ Financing} \times 100\%$$

Credit Ratio and Green Credit

The credit ratio is a measure used to assess the risk of a debtor defaulting on their loan obligations, which is generally measured through Non-Performing Finance (NPF) as a percentage of non-performing loans against total loans disbursed (Matondang, 2020). According to Yuniarto & 'Aini (2025), Non-Performing Financing (NPF) is a ratio that describes the proportion of financing that is in a problematic condition at a banking institution. This ratio reflects the level of financing that has encountered obstacles in the repayment process, whether due to intentional or unintentional factors on the part of the debtor. Financing risk tends to increase if banks do not implement strict selection procedures in disbursing funds to prospective debtors who are likely to default on their payment obligations. An increase in this ratio indicates a decline in the quality of financing at Islamic banks. If the NPF value exceeds the 5% limit set by Bank Indonesia, the bank is considered to have high financing risk (Yulianti et al., 2023).

From the perspective of Risk Management Theory (Smith & Stulz, 1985), high NPF reflects increased credit risk, which can reduce a bank's ability to expand financing. Given that green credit has its own risk characteristics (Di Tommaso et al., 2025), an increase in NPF

will theoretically make banks more cautious in providing green financing. NPF is calculated using the following formula:

$$NPF = \frac{Total\ Non\ Performing\ Financing}{Total\ Financing} \times 100\%$$

H1: The credit ratio has a negative and significant effect on green credit.

Liquidity Ratio and Green Credit

The liquidity ratio is a measure used to assess a company's ability to meet its short-term obligations with its current assets (Rismawati et al., 2024). According to Ubaidillah (2021), the Financing to Deposit Ratio (FDR), which is equivalent to the Loan to Deposit Ratio in conventional banks, describes the level of financing disbursed by banks compared to third-party funds that have been successfully collected. A low FDR value indicates that the bank has not been optimal in disbursing its financing. In general, if the FDR or LDR ratio of Islamic commercial banks is below the standard limit of 100% set by Bank Indonesia, the bank's profit potential will tend to increase (provided that financing is distributed effectively).

Based on Risk Management Theory (Smith & Stulz, 1985), adequate liquidity enables banks to maintain operational stability while expanding financing. In addition, Green Finance Theory (D. Zhang et al., 2019) emphasizes that good intermediation capacity enables financial institutions to promote sustainable projects. Therefore, the better a bank's liquidity capacity, the greater the opportunity to increase green credit. FDR is calculated using the following formula:

$$FDR = \frac{Total\ Financing}{Total\ Deposits} \times 100\%$$

H2: Liquidity ratio has a positive and significant effect on green credit.

Capital and Green Credit

According to Riyadi et al. (2022), capital or capital in the form of money is needed to finance various business needs, such as pre-investment costs, licensing, investment in fixed assets, and the provision of working capital. CAR reflects a company's commitment to contributing to environmental and social issues (Aulia & Savitri, 2025). The level of capital adequacy reflects a bank's ability to bear potential losses so that it can maintain its stability (Zuhroh, 2022). The CAR ratio reflects a bank's ability to provide its capital. This ratio illustrates the quality of a bank's capital strength, where good capital conditions enable banks to finance more business sectors (Aini & Mauliyah, 2023).

Within the framework of Risk Management Theory (Smith & Stulz, 1985), strong capital increases a bank's ability to absorb risk. Meanwhile, Stakeholder Theory (Freeman & McVea, 1984) and Green Finance Theory (D. Zhang et al., 2019) emphasize that financial institutions have a responsibility and strategic role in supporting sustainable development. With better capital capacity, banks have greater flexibility and ability to increase green credit distribution (X. Zhang et al., 2022). CAR is calculated using the following formula:

$$CAR = \frac{Total\ Capital}{Risk\ Weighted\ Assets} \times 100\%$$

H3: Capital has a positive and significant effect on green credit.

METHOD

This study uses a descriptive approach with quantitative methods. Quantitative research methods are based on the positivism paradigm, which views phenomena as categorizable, relatively stable, concrete, observable, measurable, and having causal relationships between variables (Astuti, 2020). The research data used secondary data obtained from the annual reports of Islamic Commercial Banks officially published by the Otoritas Jasa Keuangan (OJK) and the sustainability reports of each bank for the period 2021–2024.

The population in this study consists of 14 Islamic Commercial Banks operating in Indonesia. However, of these banks, only 13 reported or implemented green credit based on published financial reports. Therefore, sampling was conducted using purposive sampling, in which samples were deliberately selected based on specific criteria relevant to the research needs (Subhaktiyasa, 2024). Based on the consistency of green credit implementation and data completeness for the 2021–2024 period, 9 banks were selected as research samples. Data analysis was performed using multiple linear regression using EViews version 13.

RESULT AND DISCUSSION

Table 2. Result of Descriptive Statistic Analysis

	GCR	NPF	FDR	CAR
Mean	25.55678	-0.9956806	4.423322	3.405083
Median	26.75230	-0.579950	4.407000	3.246500
Maximum	30.27610	1.313700	4.680700	5.008500
Minimum	18.98190	-4.605200	4.000600	2.928500
Std. Dev.	3.006628	1.621099	0.148407	0.448951

Source: Data Processed Using EViews 13

Statistical analysis is used to provide an overview of the characteristics of research data through the presentation of measures of central tendency and dispersion, such as mean, median, standard deviation, and maximum and minimum values (Kurniawan et al., 2025). The variables analyzed in this study include the Green Credit Ratio (Y), Non-Performing Financing (X1), Financing to Deposit Ratio (X2), and Capital Adequacy Ratio (X3).

Based on descriptive statistics, the GCR variable has an average value of 25.56, with a maximum value of 30.28 and a minimum of 18.98, indicating variations in green financing levels among banks during the study period. The NPF variable has an average value of -1.00, with a maximum value of 1.31 and a minimum value of -4.61, reflecting differences in financing risk levels between banks. Furthermore, FDR has an average value of 4.42, with a minimum value range of 4.00 and a maximum value range of 4.68, indicating a relatively stable level of financing distribution. Meanwhile, CAR has an average value of 3.41, with a maximum value of 5.01 and a minimum of 2.93, indicating that bank capital is at a fairly diverse level but still within safe limits. The standard deviation values for each variable show different levels of data dispersion, with NPF having the highest variation compared to other variables.

Regression model estimation using panel data can be done through three approaches, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). To determine the model that best suits the research, a series of model selection tests tailored to the characteristics of the data used is required (Kurniawan et al., 2025). The determination of the panel data regression model is carried out through three types of tests, namely the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test. The following presents the results of these three tests in determining the most appropriate panel data regression model.

Table 3. Chow Test

Effect Test	Statistic	d.f.	Prob.
Cross-section F	92.330228	(8,24)	0.0000
Cross-section Chi-Square	124.514448	8	0.0000

Source: Data Processed Using EViews 13

Based on the Chow test results presented in Table 3 above, the Cross-section F probability value is 0.0000, which is smaller than the significance level of 0.05. This indicates that the most appropriate model used in this study is FEM compared to CEM. Therefore, the next stage of panel data regression model testing is continued with the Hausman test to determine the most appropriate estimation model.

Table 4. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq d.f.	Prob.
Cross-section random	1.197199	3	0.7537

Source: Data Processed Using EViews 13

Based on the results of the Hausman test processed using EViews 13, a probability value (p-value) of 0.7537 was obtained in the cross-section random test. This probability value is greater than the significance level of 0.05, so it can be concluded that REM is more appropriate to use than FEM. Thus, the estimation model selected in this study is REM. Furthermore, to ensure the feasibility of using this model, a Lagrange Multiplier (LM) test was conducted as a follow-up stage in determining the panel data regression model.

Table 5. Lagrange Multiplier Test

	Cross-section
Breusch-Pagan	44.05881
(Probability)	(0.0000)

Source: Data Processed Using EViews 13

The Lagrange Multiplier (LM) test results presented in the table show that the Breusch-Pagan probability value is 0.0000. This probability value is smaller than the significance level of 0.05, so it can be concluded that the more appropriate regression model to use is REM rather than FEM. Thus, the panel data regression model used in this study is REM because it is able to better explain the variation in data between cross-section units.

Based on the results of model selection testing, it can be concluded that two of the three tests used show support for the Random Effect Model (REM) as the most appropriate estimation method. Therefore, this study uses REM in panel data regression analysis. The REM method applies the Generalized Least Squares (GLS) approach, which is capable of overcoming the problems of autocorrelation and heteroscedasticity, so that testing of these classical assumptions is not necessary in this study.
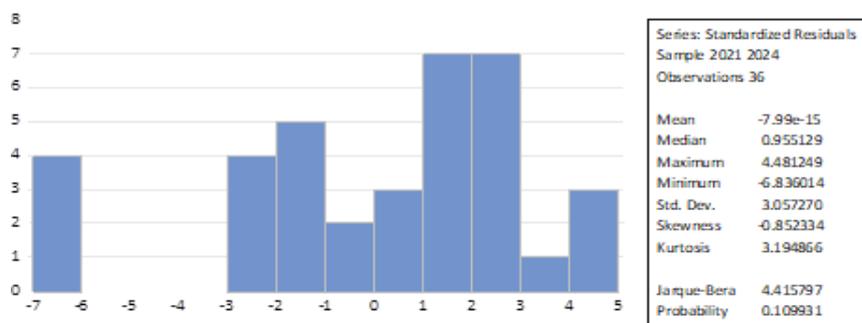
Source: Data Processed Using EViews 13
Figure 1. Result of Normality Test

Based on the normality test results shown in the figure, testing using the Jarque-Bera method shows a probability value of 0.109931. This probability value is greater than the significance level of 0.05, so the test results are not statistically significant. Thus, it can be concluded that the research residuals are normally distributed and have met one of the basic assumptions in panel data regression, so the data is suitable for further analysis.

Table 6. Result of Multicollinearity Test

	NPF	FDR	CAR
NPF	1.000000	0.039374	-0194590
FDR	0.039374	1.000000	0.199926
CAR	-0.194590	0.199926	1.000000

Source: Data Processed Using EViews 13

Based on the results of the multicollinearity test presented in the table, the correlation values between the independent variables NPF, FDR, and CAR show relatively low numbers. The correlation between NPF and FDR is 0.039, between NPF and CALR is -0.195, and between FDR and CAR is 0.200, all of which are below the tolerance limit of 0.90. This multicollinearity test uses correlation matrix analysis to examine the relationship between independent variables. Thus, it can be concluded that the regression model does not experience multicollinearity problems, so that independent variables can be used simultaneously in regression analysis.

Table 7. Result of Partial Test (Uji t)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	20.29448	5.152925	3.938439	0.0004
NPF	0.107620	0.125079	0.860414	0.3960
FDR	1.616271	1.118641	1.444852	0.1582
CAR	-0.523928	0.539162	-0.971745	0.3385

Source: Data Processed Using EViews 13

Based on the results of the partial test (t-test), it shows that:

The NPF variable has a coefficient value of 0.107620 with a probability value of 0.3960, which is greater than the significance level of 0.05. This indicates that NPF (X1) does not have a significant effect on GCR (Y), so that changes in the level of non-performing financing do not directly affect green financing in Islamic banks.

The FDR variable has a coefficient value of 1.616271 with a probability value of 0.1582, which is also greater than 0.05. Thus, it can be concluded that FDR (X2) does not have a significant

effect on GCR (Y), indicating that the level of financing distribution is not yet able to explain the variation in green financing partially.

The CAR variable has a coefficient value of -0.523928 with a probability value of 0.3385, which is greater than 0.05. This result shows that CAR (X3) does not have a significant effect on GCR (Y), so that the level of capital adequacy does not have a direct effect on green financing.

Coefficient of Determination Test (R^2)

Based on the results of the coefficient of determination test on the panel data regression model, an R-squared value of 0.103527 and an Adjusted R-squared value of 0.019483 were obtained. These results indicate that the independent variables NPF, FDR, and CAR are able to explain 10.35% of the variation in the dependent variable GCR. Meanwhile, 89.65% of the variation in GCR is influenced by other factors outside the scope of this study. Thus, it can be concluded that the ability of independent variables to explain changes in green credit is still relatively limited, so that there are other factors that have the potential to influence GCR in Islamic banks.

Simultaneous Test (Uji F)

The simultaneous test results show that the F-statistic value is 1.231820 with an F-statistic probability of 0.314252. This probability value is greater than the significance level of 0.05, so it can be concluded that NPF, FDR, and CAR together do not have a significant effect on GCR. Thus, the panel data regression model used in this study has not been able to explain the relationship between the independent and dependent variables simultaneously.

Based on the results of panel data regression testing, it is known that the credit ratio, liquidity ratio, and capital ratio do not show a significant effect on the distribution of green credit in Islamic commercial banks for the period 2021–2024. This finding indicates that changes in the bank's internal financial indicators are not yet able to explain the variation in green financing statistically. The rejection of the hypothesis in this study does not necessarily indicate a failure of the theory, but may indicate that the relationship between variables has not yet emerged significantly (Haura Hanifah et al., 2025) in the context of Islamic banking green financing.

One of the main factors that can explain these results is the low proportion of green financing compared to the total financing disbursed by Islamic commercial banks (Nilna et al., 2025). This condition is in line with the fact that in 2024, the total green credit of Islamic Commercial Banks was recorded at IDR 20.41 trillion, which is much smaller than the total

non-green credit which reached IDR 915.43 trillion, meaning that the total green credit was only around 2.23% of the total non-green credit disbursed. Therefore, green financing has not become a dominant component in the financing portfolio, so that fluctuations in credit ratios, liquidity, and capital better represent the condition of non-green financing. As a result, the influence of financial variables on green financing is less significantly detected, especially in a relatively limited research period.

Non-green credit research on Islamic commercial banks by Andiantono et al. (2025), Amin et al. (2022), and Noegraha & Nana Diana (2021), shows that NPF, FDR, and CAR generally have a significant effect on total Islamic bank financing. This difference indicates that green financing has different characteristics compared to overall financing, as its proportion is still relatively small in the bank's financing portfolio. As a result, fluctuations in NPF, FDR, and CAR reflect the conditions of non-green financing more than green financing. Thus, the insignificance of these three ratios does not indicate that NPF, FDR, and CALR are not important in the Islamic banking system, but rather reflects that green financing has not been optimally integrated into the bank's intermediation and financing decision-making mechanisms.

Research on green credit in conventional commercial banks conducted by Furqan & Sutrisno (2024) shows that the credit risk ratio (NPL), liquidity ratio (LDR), and capital adequacy ratio (CAR) do not have a significant effect on the distribution of green credit in Indonesian banks. NPL and LDR, which represent the general credit risk and liquidity conditions of banks, more closely reflect conventional financing performance, so that their fluctuations do not directly affect green credit distribution decisions, which still account for a relatively small portion of bank financing portfolios. Meanwhile, the research results show that CAR has no effect, indicating that the amount of bank capital does not automatically encourage an increase in green financing, because green credit is still selective and highly dependent on internal policies and the readiness to implement sustainable financing. This condition indicates that green financing has not been fully integrated into the banking intermediation mechanism and is more influenced by policy factors and the regulatory framework than by the bank's internal financial ratios.

In Islamic banking practices, the application of the principle of prudence is an important aspect in the distribution of green financing, especially when there are business entities that are known to have business relationships with banks without a clear designation as recipients

of green financing (Vitriani & Fasa, 2025). In this regard, Bank Syariah Indonesia explained that the recording of PT Tusam Hutani Lestari as a related party in its financial statements was based on banking regulations applicable in the Aceh region and was not related to the disbursement of green financing to the company (Perspektif, 2025). This confirms that regulatory disclosure of an affiliate relationship cannot automatically be interpreted as a green credit practice, thus requiring the strengthening of technical regulations and green financing classification mechanisms to ensure that their implementation is truly in line with the principles of ecological sustainability.

Otoritas Jasa Keuangan (OJK) through OJK Regulation Number 51/POJK.03/2017 has established an initial framework for sustainable finance that aims to encourage financial services institutions, including Islamic commercial banks, to integrate environmental aspects into their financing activities. However, as emphasized by the OJK in the Phase II Sustainable Finance Roadmap for the 2021–2025 period, the implementation of this sustainable finance policy still faces various challenges at the operational level, particularly in ensuring that the green financing disbursed truly meets ecological sustainability principles and is not merely administrative in nature.

Bank Indonesia, through the Indonesian Green Taxonomy, plays a role in providing a reference for the classification of sustainable economic activities as a basis for the development of green financing. Although this taxonomy aims to improve the quality and credibility of green financing, its application in Islamic banking still requires further adjustments so that it can be effectively translated into bank financing and risk management policies, thereby enabling a measurable impact on green economic development.

Overall, the insignificant effect of credit, liquidity, and capital ratios on green credit distribution indicates that green financing has not been optimally integrated into the intermediation mechanism of Islamic commercial banks. The relatively small proportion of green financing means that the banks' internal financial indicators are not yet able to statistically explain the variation in green financing. This finding indicates that the development of green credit is more influenced by sustainability policies and regulatory frameworks than by the financial performance of banks alone.

On the other hand, harmonization between sustainable finance regulations and the implementation of the Indonesian Green Taxonomy is also important to ensure clearer green finance classification and avoid ambiguity in practice. For Sharia Commercial Bank

management, these results emphasize the need to integrate green financing into long-term business strategies, including financing planning, risk management, and the development of sustainability-based products. Without such strategic commitment, green financing has the potential to remain a marginal component that is unable to reflect a real transformation towards a sustainable sharia banking system.

CONCLUSION

The test results show that credit, liquidity, and capital ratios do not have a significant effect on green financing distribution, indicating that changes in banks internal financial performance have not directly affected the development of green credit. This finding shows that green financing has different characteristics compared to general banking financing, mainly because its proportion is still relatively small in banks financing portfolio, so that the influence of financial ratios has not been statistically significant. In line with the discussion of regulations, the development of green credit in Islamic banking has been regulated by Otoritas Jasa Keuangan and Bank Indonesia compared to the bank's financial performance.

Based on these findings, Islamic commercial banks are advised to strengthen the integration of green financing into their business strategies and risk management in a more systematic manner so that its distribution is not merely administrative in nature, but becomes part of their main financing portfolio. Regulators, particularly the Otoritas Jasa Keuangan and Bank Indonesia, are expected to clarify the standards, classification, and supervisory mechanisms for green financing to ensure compliance with environmental sustainability principles. However, this study still has limitations, including a relatively short observation period and a limited number of bank samples meeting the purposive sampling criteria, so the findings need to be generalized with caution. Therefore, further research is recommended to expand the object and observation period and add other financial and non-financial variables in order to obtain a more comprehensive understanding of the determinants of green financing in the banking sector.

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