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**Islamic Financial Literacy and Sustainable Financial
Performance: The Mediating Role of Green Banking**

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Abstract: This study examines the effect of Islamic financial literacy on sustainable financial performance, with green banking as a mediating variable in Islamic banking institutions in Semarang City, Indonesia. A quantitative approach was employed using a survey of 100 employees from Islamic banking institutions. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results indicate that Islamic financial literacy has a positive and significant effect on green banking practices and sustainable financial performance. Furthermore, green banking practices have a positive and significant effect on sustainable financial performance and partially mediate the relationship between Islamic financial literacy and sustainable financial performance. These findings emphasize that enhancing employee financial literacy and strengthening sustainable banking practices are important strategies for promoting the resilience and sustainability of Islamic banks' financial performance. This study also contributes to the literature on sustainable banking based on Islamic principles and offers managerial implications for developing internal banking policies.

Keywords: Green Banking, Islamic Financial Literacy, Sustainable Financial Performance

Introduction

Banks play an important role in the national economy by serving as financial intermediaries that collect and distribute funds, thereby promoting stability in the real sector and the financial system (Dalimunthe & Lubis, 2023). As the global economy increasingly emphasizes sustainability principles, banking performance is no longer assessed solely by profitability but also by its contributions to social and environmental dimensions (Alharbi, 2021). Global pressures stemming from climate change, worsening environmental degradation, and growing demands for sustainable governance and social responsibility have prompted financial institutions to integrate sustainability principles into their operations and decision-making (Saputra & Fasa, 2024). Environmental degradation and

sustainability have become global issues receiving significant attention across various sectors, including finance and banking (Advincula & Cayabat, 2025).

Islamic banking has characteristics that align with the concept of sustainability, which is grounded in the Islamic principles of justice, utility, and *maqasid al-Shariah* (Masnur et al., 2025). These principles demonstrate that Islamic banking prioritizes not only profit generation but also a balance among economic, social, and environmental factors (Mardini, 2025). Data from the Financial Services Authority (OJK, 2021) indicate that Indonesia's Islamic banking assets reached IDR 967.33 trillion as of June 2025, representing a 7.41% market share of the national banking sector. Despite this positive growth, Islamic banking's contribution to national sustainability still needs to be strengthened through the implementation of sustainable finance practices (OJK, 2025).

Based on Financial Services Authority Regulation No. 51/POJK.03/2017, financial services institutions are required to incorporate sustainable finance principles into their operations and decision-making processes (OJK, 2017). Integrating sustainability principles into the banking sector is both a legal obligation and a strategic approach to enhancing competitiveness and ensuring the long-term viability of financial institutions (Fatmawati et al., 2024). In this context, green banking refers to the implementation of sustainable finance in the Islamic banking sector, encompassing green financing policies, service digitalization, energy efficiency, and environmental risk management (Adlina, 2023).

The Financial Services Authority (Otoritas Jasa Keuangan or OJK), through the Banking Sustainability Maturity Assessment Report (SMART) published in March 2026, identified that Indonesia's banking industry has made progress in its sustainability commitments and governance, including the integration of environmental, social, and governance (ESG) aspects into internal policies and improvements in reporting quality. However, further efforts are needed to integrate climate and sustainability risks into core risk management, measure portfolio impacts, and align business strategies with the transition target of achieving net-zero emissions by 2060 (OJK, 2017). These findings indicate that the challenges of sustainable finance are not limited to the existence of policies but also involve the ability of banking institutions to translate sustainability commitments into operational processes, risk management, and business decision-making. Sustainable financing has continued to grow; however, its growth rate has declined year over year. The growth rate was 19.80% in 2020–2021, 15.33% in 2021–2022, 9.26% in 2022–2023, and 6.87% in 2023–2024. In the banking context, this condition provides a basis for examining the role of green banking practices in implementing sustainability at the organizational level.

Sustainable Islamic banking performance is associated with the effectiveness of risk management, operational efficiency, and the quality of financing (Sutrisno, 2020). Performance stability reflects a bank's ability to maintain growth and resilience amid economic pressures (Judijanto, 2024). In this context, human resources' understanding of Islamic financing principles is an important factor in supporting the resilience of Islamic banking and achieving stable, sustainable financial performance (Mardhiyaturrositaningsih, 2022). Therefore, employees' understanding of Islamic finance principles is relevant to further investigation, particularly regarding the implementation of sustainability practices within banking institutions.

Empirical evidence regarding the challenges of implementing green banking in Islamic banking in Semarang is provided by (Arsy et al., 2023), who analyzed the influence of knowledge and policies on the implementation of green banking at Bank Syariah Indonesia branch offices in Semarang. Their study found that knowledge did not have a significant effect on green banking implementation, whereas policies had a positive and significant effect. These findings indicate that individual knowledge alone may not be sufficient to encourage the adoption of green banking practices without organizational support. Thus, a challenge remains in bridging the gap between employees' understanding and the operational implementation of sustainability practices. Although the study provides evidence on the roles of knowledge and policies, it does not directly examine the relationship between employees' Islamic financial literacy and sustainable financial performance, with green banking practices as a mediating variable. This issue, therefore, warrants further investigation in the context of Islamic banking institutions in Semarang City.

Previous studies have shown that the relationship between green banking and financial performance has produced inconsistent findings. (Rahman et al., 2025) found that green banking and the capital adequacy ratio had significant effects on the profitability of Islamic commercial banks in Indonesia. In contrast, (Putri & Pramesti, 2025) found that the disclosure of green banking policies did not significantly affect profitability in the banking sample they examined. These differences indicate that the relationship between sustainability practices and financial performance needs to be understood in terms of the indicators, sample characteristics, and measurement methods employed. The disclosure of sustainability policies does not necessarily reflect the extent to which operational practices are implemented, while accounting-based profitability differs from employees' perceptions of sustainable financial performance. Therefore, further research is needed to examine the relationships among employees' Islamic financial literacy, green banking practices, and perceptions of sustainable financial performance within a single empirical model, particularly in Islamic banking institutions in Semarang City.

In addition to external factors, internal factors, such as employees' Islamic financial literacy, are also relevant to supporting the implementation of sustainability in banks. Islamic financial literacy refers to the level of understanding of financial concepts and the implications of financial products that comply with Islamic principles in economic decision-making (Hilal & Bafadal, 2025). Strengthening such literacy is important given the need to enhance employee capabilities in Islamic banking. Therefore, the development of Islamic banking requires not only technical banking competencies but also an adequate understanding of Islamic principles as the foundation of banking operations (Yuningrum et al., 2020).

According to the National Survey of Financial Literacy and Inclusion (Survei Nasional Literasi & Inklusi Keuangan, or SNLIK), the Islamic financial literacy index increased from 39.11% in 2024 to 43.42% in 2025. These figures reflect the financial literacy levels of the general public and cannot be used directly to infer literacy levels among Islamic banking employees. Nevertheless, the data indicate that strengthening Islamic financial literacy remains a relevant issue in Indonesia. Within the banking sector, the challenge is not only to ensure that employees understand Islamic financial principles but also to determine how this understanding is applied to financing decisions, operational efficiency, environmental risk management, and the implementation of sustainability policies. Individual knowledge

can serve as a foundation for supporting responsible practices, but its implementation may also depend on organizational policies, work procedures, and management support. Therefore, the relationship between Islamic financial literacy and sustainable financial performance should be examined by considering green banking practices as a potential organizational mechanism linking the two variables.

Employees of Islamic banking institutions play a strategic role in financing decisions and the implementation of operational policies. Adequate Islamic financial literacy can support the implementation of responsible financing and the efficient use of resources in banking operations (Ardiansyah & Fasa, 2025). Improvements in individual knowledge may also influence participation in financial activities and encourage better financial behavior (Ratna Juwita, 2025). In this context, employees' Islamic financial literacy is expected to be associated with the implementation of green banking practices and perceptions of sustainable financial performance (Advincula & Cayabat, 2025).

Previous studies examining the relationship between financial literacy and performance have also reported mixed findings. (Misda & Chairiyaton, 2024) found a relationship between financial literacy, employee performance, and financial performance at Bank Syariah Indonesia, Blangpidie Sub-Branch Office. In contrast, (Julistiana et al., 2024) reported that Islamic financial literacy did not have a significant effect on employee performance at Bank Sumsel Babel, Palembang Sharia Branch Office. These differing findings indicate that the relationship between financial knowledge and performance outcomes may not be consistent across research contexts. Furthermore, these studies have not simultaneously examined employees' Islamic financial literacy, green banking practices, and perceptions of sustainable financial performance within a single mediation model involving Islamic banking institutions in Semarang City.

Based on this background, this study aims to examine the relationship between employees' Islamic financial literacy and their perceptions of sustainable financial performance, and to analyze the mediating role of green banking practices in Islamic banking institutions in Semarang, Indonesia. This study makes three contributions to the literature. First, it incorporates Islamic financial literacy into discussions of Islamic banking sustainability by examining its relationship to perceptions of sustainable financial performance among bank employees. Second, it examines green banking practices as a mediating mechanism to determine whether the relationship between Islamic financial literacy and perceptions of sustainable financial performance is direct or mediated by sustainability-oriented banking practices. Third, this study provides empirical evidence from employees of Islamic banking institutions in Semarang, complementing previous research that has focused on green banking policies or bank-level financial indicators.

The results show that green banking practices partially mediate the relationship between Islamic financial literacy and perceptions of sustainable financial performance. These findings provide insights into how employees' financial knowledge is associated with perceptions of sustainability in Islamic banking. From a practical perspective, the findings may inform bank management's consideration of integrating employee competency development with the implementation of green banking practices. Since sustainable financial performance is measured based on respondents' perceptions, the results should be interpreted as relationships among variables as perceived by employees, rather than as direct evidence of changes in banks' actual financial performance.

Literature Review

Sustainable Development Theory and Sustainable Banking

The fundamental principle of long-term development, according to sustainable development theory, is the intersection of social well-being, environmental preservation, and economic progress (Hassan et al., 2024). This concept holds that sustainable development aims to meet present needs without compromising the ability of future generations to meet their own needs (Heller et al., 2013). The theory positions banks as development agents within the financial sector, emphasizing the strategic allocation of their resources to sustainable economic activities (Zulbetti et al., 2025).

Furthermore, the concept of sustainable banking emphasizes integrating environmental, social, and governance (ESG) factors into corporate strategies, decision-making processes, and bank performance evaluations. Accordingly, bank performance is assessed not only through financial indicators but also through the ability to manage social and environmental risks while creating long-term value (Sari & Valdiansyah, 2025). Nevertheless, the implementation of sustainable banking varies across countries and institutions, particularly in terms of performance measurement and the integration of environmental risks into business models. This situation indicates the need for further research, particularly within the framework of Islamic banking.

Islamic Financial Literacy

Islamic financial literacy refers to an individual's understanding of Islamic-compliant financial concepts, products, and operational structures, as well as the economic, social, and environmental implications of financial decisions (Kaweesaa et al., 2024). Individuals with high levels of Islamic financial literacy tend to make prudent, informed, and Sharia-compliant financial choices. Competent employees can facilitate the implementation of green banking practices and responsible financial policies within the framework of Islamic banking.

The Theory of Planned Behavior suggests that individuals' knowledge and understanding influence how they form attitudes, perceive social norms, and assess their behavioral control when making decisions (Ajzen, 1991). Islamic financial literacy can foster pro-sustainability attitudes that encourage the adoption of responsible banking practices, including green banking, and improve the quality of financing decisions. Numerous studies have shown that financial literacy does not always influence performance directly; rather, this relationship may be mediated by certain characteristics (Julistiana et al., 2024).

Islamic financial literacy may be associated with sustainable financial performance because an understanding of Islamic financial principles provides employees with a foundation for Sharia compliance, transparency, and responsible financial decision-making. In the context of Islamic banking, this understanding is relevant to operational decisions and activities that must consider not only economic aspects but also social and environmental responsibilities, as well as the institution's long-term sustainability. Employees who understand Islamic financial principles may be better equipped to recognize the importance of responsible financing, the application of Sharia principles, and the appropriate management of resources. Thus, Islamic financial literacy may theoretically be directly

associated with perceptions of sustainable financial performance through its contribution to responsible understanding and decision-making. This argument is consistent with the sustainable banking perspective, which positions environmental, social, and governance aspects as integral components of institutional sustainability assessment (Oanh et al., 2025). Nevertheless, individual knowledge is not always directly reflected in organizational outcomes, as its application also depends on institutional policies, authority, and support. Therefore, the direct relationship between Islamic financial literacy and sustainable financial performance needs to be tested empirically.

Green Banking

The concept of green banking is grounded in the principles of sustainable growth, which emphasize the balance among economic, social, and ecological factors in corporate operations (Fitriyani et al., 2025). In the financial industry, green banking refers to initiatives that integrate environmental considerations into business operations and policies to promote sustainable development (Shaumya, 2017). Green banking aims not only to reduce harmful environmental impacts but also encompasses various practices, such as financing environmentally friendly projects, improving energy efficiency, digitalizing banking services, and implementing environmental risk management in lending activities. Through these practices, banks can help reduce carbon emissions while improving operational efficiency (Muchiri et al., 2025).

The implementation of green banking strategies is also related to corporate accountability toward stakeholders, including society and the environment (Jillani et al., 2024). From this perspective, green banking serves as an environmental and economic strategy that can enhance the reputation, consumer trust, and competitiveness of financial institutions (Rahmamita & Kahar, 2024). Therefore, green banking is an integral part of sustainable finance practices that can improve long-term financial performance (Ulfa et al., 2025).

In this study, green banking practices are positioned as an organizational mechanism that may link Islamic financial literacy to sustainable financial performance. Islamic financial literacy represents individuals' understanding of Islamic financial principles and responsibilities, whereas green banking is reflected in the implementation of policies and operational activities that consider environmental impacts, such as service digitalization, efficient resource use, and financing that supports environmentally friendly activities. Employees with an understanding of Islamic finance may be better equipped to recognize the relevance of responsible financial decisions. However, translating this understanding into green banking practices remains dependent on organizational policies, management support, and resource availability. Accordingly, Islamic financial literacy is expected to be associated with green banking through the potential translation of individual understanding into responsible operational practices. Furthermore, the implementation of green banking may be associated with sustainable financial performance through operational efficiency, increased attention to environmental risks, and stronger stakeholder trust. Nevertheless, these benefits are not always directly reflected in conventional financial indicators. For example, several green banking indicators examined did not have a significant effect on the return on assets of Islamic commercial banks in Indonesia. Meanwhile, (Widiyanti et al., 2025) demonstrated that green banking practices and disclosures in Indonesian Islamic banks still require further strengthening. These findings indicate that the relationship between green banking and performance needs to be examined in light of the specific

context and measures used, rather than being assumed to be consistently positive. Therefore, green banking is relevant to examine as a mediating mechanism, but its mediating role must be established empirically.

Previous studies have shown that financial literacy can support better financial decision-making, although its implications for financial performance depend on the context and outcomes examined. (Halim et al., 2022) found that financial literacy significantly improves the quality of investment decision-making, while (Nareswari & Winarsih, 2024) reported a positive relationship between financial literacy and financial performance. These findings suggest that financial knowledge can contribute to better financial outcomes. However, the two studies examined different outcomes and do not directly establish the relationship between Islamic financial literacy and sustainable financial performance in Islamic banking institutions. Furthermore, (Huston, 2010) conceptualized financial literacy in terms of financial knowledge and its application to financial management. Nevertheless, general financial literacy cannot automatically be equated with Islamic financial literacy, which also encompasses an understanding of Sharia principles. Therefore, further empirical investigation is needed to determine whether Islamic financial literacy is associated with employees' perceptions of sustainable financial performance in Islamic banking.

Previous studies have identified a positive relationship between green banking and financial performance, but these findings should be interpreted in light of the specific outcomes and contexts examined. (Shaumya, 2017) associated green banking with operational efficiency and organizational effectiveness, while (Anggraini, 2019) reported a positive relationship between green banking practices and financial performance in the banking sector. (Salsabila et al., 2024) also highlighted the relevance of green Islamic banking to the financial stability and performance of Islamic banks. Nevertheless, these findings do not imply that every green banking practice directly improves financial performance, as implementation costs, institutional conditions, and performance measurement indicators may vary. This is consistent with the findings of , who demonstrated that several green banking indicators did not have a statistically significant effect on return on assets among Islamic commercial banks in Indonesia. Thus, previous research suggests that the relationship between green banking and financial performance may depend on the practices implemented and the performance measures employed. Furthermore, whether green banking practices mediate the relationship between Islamic financial literacy and sustainable financial performance remains an empirical question that needs to be examined in this study.

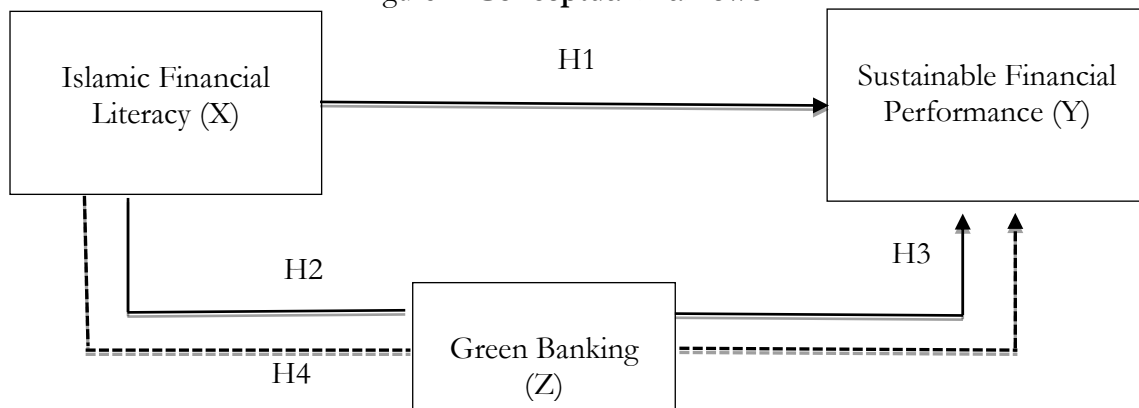
Based on the theoretical foundations and previous studies, the relationship between Islamic financial literacy and sustainable financial performance can be explained through both direct and indirect pathways. The direct pathway suggests that employees' understanding of Islamic financial principles may be associated with their perceptions of sustainable financial performance, through increased awareness of Sharia compliance, transparency, responsible financial decision-making, and the institution's long-term sustainability. However, this relationship may depend on how employees' knowledge is translated into organizational practices.

The indirect pathway suggests that Islamic financial literacy may be associated with green banking practices, which in turn may be related to sustainable financial performance through operational efficiency, environmental risk management, and stakeholder trust. In

this context, green banking is positioned as a potential mediating mechanism through which individual financial knowledge may be reflected in organizational practices.

Based on these considerations, this study examines the direct relationship between Islamic financial literacy and sustainable financial performance, the relationship between Islamic financial literacy and green banking practices, and the relationship between green banking practices and sustainable financial performance. It also investigates whether green banking practices mediate the relationship between Islamic financial literacy and sustainable financial performance among employees of Islamic banking institutions in Semarang, Indonesia. The proposed relationships in this study are presented in Figure 1.

Figure 1. **Conceptual Framework**



Based on the theoretical arguments and empirical evidence discussed, this research framework proposes that Islamic financial literacy is associated with sustainable financial performance both directly and indirectly through green banking practices. The model examines the relationships among Islamic financial literacy, sustainable financial performance, and green banking, as well as the indirect effect of green banking. Based on this framework, the research hypotheses are formulated as follows:

- H1: Islamic financial literacy has a substantial and significant effect on the sustainable financial performance of Islamic banks.
- H2: Islamic financial literacy has a positive and substantial effect on green banking practices in Islamic banks.
- H3: Green banking has a positive and significant effect on the sustainable financial performance of Islamic banks.
- H4: Islamic financial literacy has a significant effect on sustainable financial performance in Islamic banks, mediated by green banking practices.

Methods

The target population in this study consists of employees working at Islamic banking institutions operating in Semarang City, Indonesia. Data were collected by distributing questionnaires to employees at 11 Islamic banking institutions in the area. Including multiple Islamic banking institutions was intended to obtain employee perspectives from diverse organizational environments.

This study employed purposive sampling, a technique in which respondents are selected based on criteria relevant to the research objectives. Eligible respondents were employees who had worked at Islamic banking institutions in Semarang for at least 1 year and were employed in operational divisions. These criteria were established to ensure that respondents had relevant experience in assessing Islamic financial literacy, green banking practices, and perceived sustainable financial performance.

The study population comprised all employees of Islamic banks in Semarang who met the eligibility criteria. The Lemeshow method was used to determine the sample size, resulting in a total of 100 respondents. The collected data were then used to analyze the relationships among Islamic financial literacy, green banking practices, and perceived sustainable financial performance using the PLS-SEM approach. Accordingly, the unit of analysis in this study is the individual Islamic banking employee, rather than the banking institution as an organization.

Measurement Instrument

Primary data were collected from January to March 2026 through online and in-person questionnaire distribution. The questionnaire consisted of a respondent profile section and measurement items covering three constructs: Islamic financial literacy, green banking practices, and perceived sustainable financial performance. Each item was assessed using a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree).

Islamic financial literacy (X) was measured using six indicators included in the final PLS-SEM model, based on a measurement instrument adapted from (Rahim et al., 2016). These indicators covered respondents' understanding of uncertainty in financial contracts, the prohibition of *riba* (interest), halal investment activities, asset-based Islamic financing, the availability of Islamic financial instruments, and trust in financial transactions. Green banking practices (Z) were measured using seven indicators adapted from (Rehman et al., 2021). These indicators covered paper-use reduction, environmentally friendly banking processes, environmental awareness activities, financing for environmental protection and energy efficiency, green credit facilities, environmentally friendly procurement, and environmental policies.

Perceived sustainable financial performance (Y) was measured using eight indicators adapted from (Oanh et al., 2025). These indicators assessed support for environmentally friendly financing, environmentally responsible operational activities, social welfare programs, financial inclusion, community engagement, transparency, regulatory compliance, and long-term financial sustainability. Since the data were collected through an employee questionnaire, sustainable financial performance in this study reflects employees' perceptions rather than objective financial performance calculated from audited financial statements. In total, 21 indicators were included in the final PLS-SEM model. One item from the initial questionnaire concerning Islamic financial literacy was excluded from the model and was therefore not evaluated in the measurement model.

Table 1. Measurement of variables

Variable	Definition	Aspects Measured
Islamic Financial Literacy (X) (Rahim et al., 2016)	An individual's knowledge, understanding, and ability to manage finances based on Islamic Sharia principles.	1. Contractual uncertainty; 2. Riba (interest); 3. Halal investments; 4. Asset-based financing; 5. Islamic financial instruments; 6. and Trust in financial transactions.
Green Banking (Z) (Rehman et al., 2021)	Banking practices that apply environmentally friendly principles to operational activities and financing activities	1. Paper-use reduction; 2. Environmentally friendly banking processes; 3. Environmental education; 4. Green financing; 5. Green credit; 6. Environmentally friendly procurement; 7. And Environmental policies.
Sustainable Financial Performance (Y) (Oanh et al., 2025)	A bank's ability to maintain financial performance sustainably while considering economic, social, and environmental aspects	1. Green financing; 2. Environmentally friendly operations; 3. Social programs; 4. Financial inclusion; 5. Community engagement; 6. Transparency; 7. Regulatory compliance; 8. And Financial sustainability

PLS-SEM was used as the data analysis technique. This method was selected because it can be used to evaluate mediation effects and other relationships between latent constructs and is considered suitable for research involving relatively small sample sizes. Version 3 of the PLS-SEM software was used for data processing (Subhaktiyasa, 2024). The model was evaluated through outer model testing, including construct reliability, convergent validity, and discriminant validity, as well as inner model testing to examine relationships among variables and the significance of mediation effects (Hair et al., 2013)

Findings

This section presents the findings obtained from the PLS-SEM analysis (Zhu et al., 2025). The analysis aims to examine the research hypotheses, assess the measurement and structural models, and test the mediating role of green banking practices in the relationship between Islamic financial literacy and the sustainable financial performance of Islamic banks (Oanh et al., 2025). The measurement model explains the relationships between latent constructs and their corresponding measurement indicator (Hair et al., 2013).

The model assessment was conducted to confirm the reliability and validity of the constructs employed in this study. Data processing was performed using SmartPLS 3 software. The initial stage of the PLS-SEM analysis involved testing construct reliability and validity (Zhu et al., 2025). Construct reliability and validity were assessed using Cronbach's alpha (CA), composite reliability (CR), and average variance extracted (AVE), with detailed results reported, followed by hypothesis testing using the bootstrapping method. This structured approach (Hair et al., 2013) is consistent with best practices in PLS-SEM and enables a rigorous examination of the direct and mediation effects proposed in the conceptual model.

Table 2. **Respondent's Profiles**

	Category	Percentage (%)
Gender	Male	49
	Female	51
Age (in years)	< 20 years old	1
	20 – 25 years	18
	25 – 30 years	31
	30 – 35 years old	26
	>35 years old	24
Departments	Staff	39
	Marketing	14
	Frontliner	19
	Management	16
	Other	9
Tenure	< 3 years	24
	3-5 years	42
	>5 years	34
Educational qualifications	Senior High School	13
	D3	15
	S1	62
	S2	10
	S3	-
Islamic banks	Bank Syariah Indonesia	50
	Bank Mega Syariah	10
	Bank BCA Syariah	4
	Bank Muamalat	7
	Bank BNI Syariah	2
	Bank Danamon Syariah	4
	KB Bank Syariah	4
	BTPN Syariah	5
	BPRS Mitra Harmoni	5
	BPRS Bina Finansia	3
	BPRS Kedung Arto	6

Source: Primary data processed (2026)

Table 2 presents the demographic characteristics of the participants in this study, including gender, age, length of service, educational attainment, and affiliated bank. The gender distribution shows a relatively balanced representation of male and female respondents, thereby reducing potential gender bias in the study. The majority of respondents were aged 25–30, representing a productive age group with a reasonable level of professional

competence. Furthermore, most respondents had 3–5 years of professional experience, indicating an adequate understanding of Islamic banking operations. Most respondents held bachelor's degrees, suggesting that they had the educational background necessary to understand the concepts of Islamic financial literacy, green banking, and sustainable financial performance. Overall, the respondents' characteristics were considered representative and supportive of the analysis conducted.

Tabel 3. Convergent Validity and Reliability Results

Variable	Items	Outor Loading	AVE	CA	CR	Description
Recommended thresholds		0>0,7	>0,5	>0,7	>0,7	
Green Banking (GB)	GB1	0.681	0.563	0.870	0.900	Legitimate
	GB2	0.733				Legitimate
	GB3	0.652				Legitimate
	GB4	0.791				Legitimate
	GB5	0.810				Legitimate
	GB6	0.778				Legitimate
	GB7	0.792				Legitimate
Sustainable Finance Performance (SFP)	SFP1	0.779	0.639	0.918	0.934	Legitimate
	SFP2	0.857				Legitimate
	SFP3	0.798				Legitimate
	SFP4	0.762				Legitimate
	SFP5	0.667				Legitimate
	SFP6	0.855				Legitimate
	SFP7	0.812				Legitimate
	SFP8	0.845				Legitimate
Islamic Financial Literacy (IFL)	IFL1	0.508	0.530	0.709	0.818	Dropped
	IFL2	0.684				Legitimate
	IFL3	0.597				Dropped
	IFL4	0.664				Legitimate
	IFL5	0.703				Legitimate
	IFL6	0.768				Legitimate

Source: SmartPLS Data Processing Results (2026)

The measurement model (outer model) in this study followed the criteria established by (Hair et al., 2013) to ensure that each indicator reliably and accurately represents its corresponding latent construct. Convergent validity was assessed by examining factor loadings, composite reliability (CR), and average variance extracted (AVE). The recommended thresholds are outer loadings greater than 0.70, CR greater than 0.70, and AVE greater than 0.50 (Hair et al., 2013).

Table 3 illustrates that most indicators of the Islamic Financial Literacy (IFL), Green Banking (GB), and Sustainable Financial Performance (SFP) variables have factor loadings greater than 0.70, indicating that they adequately represent their respective latent constructs. Nevertheless, indicators with loadings ranging from 0.40 to 0.70 may be retained, provided that their inclusion does not reduce AVE and CR below the recommended thresholds (Subhaktiyasa, 2024). In this study, indicators with loadings below 0.60, specifically IFL1 and IFL3, were removed from the model. Following their removal, all constructs achieved AVE values greater than 0.50, thereby satisfying the criteria for convergent validity.

Furthermore, the reliability test results indicate that all variables meet the construct reliability criteria. The Green Banking variable has a Cronbach's alpha (CA) of 0.870 and a CR of 0.900. The Sustainable Financial Performance variable has a CA of 0.918 and a CR of 0.934. Meanwhile, the Islamic Financial Literacy variable has a CA of 0.709 and a CR of 0.818. These results indicate that all constructs have CA and CR values greater than 0.70, demonstrating satisfactory internal consistency and suitability for further analysis.

Table 4. Fornell-Larcker

	GB	SFP	IFL
GB	0.750		
SFP	0.761	0.799	
IFL	0.598	0.647	0.728

Source: SmartPLS Data Processing Results (2026)

Table 4 presents the results of the Fornell–Larcker criterion, which assesses discriminant validity by comparing the square root of the average variance extracted (AVE) for each construct with the correlations between that construct and the other constructs in the model (Claes et al., 2012). The findings indicate that the square root of the AVE is 0.750 for Green Banking, 0.799 for Sustainable Financial Performance, and 0.728 for Islamic Financial Literacy. All these values are higher than the correlations between each construct and the other variables in the model. This indicates that each construct has sufficient discriminant validity, thereby satisfying the Fornell–Larcker criterion. The heterotrait–monotrait ratio (HTMT), recognized as an alternative, more robust criterion for assessing discriminant validity, was also calculated. The results are presented in Table 4.

Table 5. Discriminant Validity of HTMT

	GB	SFP	IFL
GB			
SFP	0.841		
IFL	0.733	0.774	

Source: SmartPLS Data Processing Results (2026)

According to Table 5, the HTMT values are 0.733 for Islamic Financial Literacy and Green Banking, 0.774 for Islamic Financial Literacy and Sustainable Financial Performance (SFP), and 0.841 for Green Banking and SFP. All these values are below 0.90.

According to (Henseler et al., 2015), HTMT values below 0.90 indicate that discriminant validity has been established. The findings demonstrate that each construct exhibits robust discriminant validity and is empirically distinguishable from the others. No evidence of multicollinearity among these constructs was identified, indicating that each variable represents a distinct concept. Therefore, all constructs in this study satisfy the criteria for discriminant validity based on the HTMT approach.

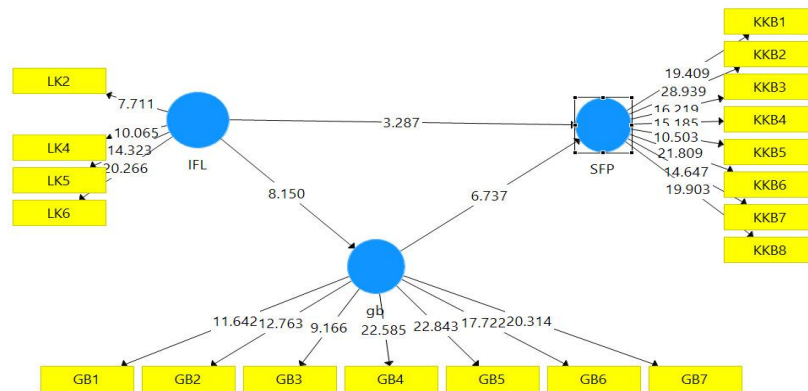
Furthermore, the coefficient of determination (R^2) was assessed by examining the R^2 values, which indicate the proportion of variance in endogenous constructs explained by exogenous constructs, in accordance with (Hair et al., 2013).

Table 6. **R² values**

	R ²	R-Square Adjusted
GB	0.357	0.351
SFP	0.637	0.629

Source: SmartPLS Data Processing Results (2026)

Table 6 shows that the R² value for Green Banking (GB) is 0.357, indicating that Islamic Financial Literacy (IFL) explains 35.7% of the variance in GB, with the remaining 64.3% attributable to factors not included in the model. Furthermore, the R² value for Sustainable Financial Performance (SFP) is 0.637, indicating that Islamic Financial Literacy and Green Banking jointly explain 63.7% of the variance in SFP, with the remaining 36.3% attributable to other factors outside the scope of this study. According to (Hair et al., 2013), R² values reflect a model's explanatory power for its dependent variables, with higher R² values indicating greater predictive capability.

Figure 2. **Path Model (Bootstrapping)**

Source: SmartPLS Bootstrapping Results (2026)

To examine the causal relationships among the latent variables in the research model, the inner model was tested. The purpose of structural model evaluation in the PLS-SEM approach is to assess the predictive power of exogenous constructs for endogenous constructs (Hair et al., 2013). The analysis examined path coefficients, t-statistics, and p-values from hypothesis tests using bootstrapping, which served as the basis for assessing the significance of relationships among variables (Henseler et al., 2015).

Table 7. **Path Analysis Results**

Hypothesis	Original sample	Mean	STDEV	T-Value	P-Values	Decision
GB → SFP	0.583	0.581	0.082	7.145	0.000	Supported
IFL → GB	0.598	0.609	0.072	8.349	0.000	Supported
IFL → SFP	0.299	0.299	0.083	3.595	0.001	Supported

Source: SmartPLS Data Processing Results (2026)

This study employed hypothesis testing using the bootstrapping method in SmartPLS Version 3, as illustrated in Table 7. Hypothesis testing was conducted to obtain path coefficients, t-values, and p-values. The results indicate that all relationships between the variables are positive, as evidenced by t-values greater than 1.96 and p-values below 0.05 at the 5% significance level (Hair et al., 2013).

The analysis shows that Islamic financial literacy has a positive and significant effect on green banking, with a path coefficient of 0.598 ($t = 8.349$; $p = 0.000$). This indicates that a greater understanding of Islamic financial principles is associated with increased adoption of green banking techniques in banking operations.

Furthermore, green banking has a substantial and significant effect on sustainable financial performance, as indicated by a path coefficient of 0.583 ($t = 7.145$; $p = 0.000$). This finding suggests that implementing green banking practices is associated with improved sustainable financial performance.

In addition, Islamic financial literacy directly influences sustainable financial performance, as indicated by a path coefficient of 0.299 ($t = 3.595$; $p = 0.001$). This suggests that Islamic financial literacy is directly associated with sustainable financial performance, in addition to its relationship with green banking. The data also indicate that green banking mediates the relationship between Islamic financial literacy and sustainable financial performance, as assessed by the indirect effect.

Table 8. **Indirect effect**

Hypothesis	Original sample	Mean	STDEV	T- Value	P- Value	Decision
IFL→GB →SFP	0.348	0.358	0.061	5.677	0.000	Supported

Source: SmartPLS Data Processing Results (2026)

Table 8 presents the findings of the indirect effect analysis in the structural model, specifically examining the mediating role of green banking in the relationship between Islamic financial literacy and sustainable financial performance. The mediation test was conducted using the bootstrapping technique with 5,000 resamples, as recommended by (Hair et al., 2013). The analysis results show that the IFL → GB → SFP pathway has a coefficient of $\beta = 0.348$, with a t-statistic of 5.677 and a p-value of 0.000 ($p < 0.05$). These findings indicate that the indirect effect is positive and significant, confirming that green banking effectively mediates the relationship between Islamic financial literacy and sustainable financial performance.

Furthermore, considering the previous test results showing that the direct effect remains significant (Table 6), green banking is classified as a partial mediator in this study. This indicates that green banking serves as a strategic mechanism that strengthens the relationship between Islamic financial literacy and sustainable financial performance, but it is not the only pathway through which this relationship occurs.

Table 9. **Summarized results of hypothesis testing**

Hypothesis	Path	Coefficient	T-Value	P- Value	Decision
H1	IFL →SFP	0.299	3.595	0.001	Supported
H2	IFL →GB	0.598	8.349	0.000	Supported
H3	GB →SFP	0.583	7.145	0.000	Supported
H4	IFL →GB →SFP	0.348	5.677	0.000	Supported

Source: SmartPLS Data Processing Results (2026)

Table 9 shows that all hypotheses are supported, as each relationship exhibits a positive coefficient, a t-value greater than 1.96, and a p-value below 0.05.

Discussion

Islamic Financial Literacy and Sustainable Financial Performance

The test results support the first hypothesis (H1), indicating that Islamic financial literacy has a positive and significant relationship with employees' perceived sustainable financial performance ($\beta = 0.299$, $t = 3.595$, $p = 0.001$). This finding suggests that employees who report a better understanding of Islamic financial principles tend to provide more positive assessments of the sustainability performance of the banks where they work. This relationship may underscore the importance of understanding *riba*, Sharia-compliant transactions, asset-based financing, and financial responsibility for compliance and responsible banking practices.

However, these results should not be interpreted as evidence that Islamic financial literacy directly increases banks' actual profitability. The dependent variable in this study measures employees' perceptions of environmental, social, and governance aspects, as well as long-term financial sustainability, rather than objective financial indicators such as Return on Assets (ROA) or Return on Equity (ROE). This distinction is important when comparing the findings with studies that use accounting-based financial performance measures. Financial knowledge may be associated with employees' perceptions of institutional sustainability practices, but it does not necessarily lead directly to improvements in financial ratios.

This finding contributes to previous research by positioning Islamic financial literacy within the organizational context of banking, rather than focusing solely on financial knowledge and individual financial decision-making. Nevertheless, this relationship should be interpreted with caution because this study has not directly examined the mechanisms linking employee literacy to institution-level outcomes. Management support, internal controls, employee authority, and organizational policies may influence how knowledge is translated into banking practices. Therefore, future research could examine these organizational factors as additional explanatory variables.

Islamic Financial Literacy and Green Banking Practices

H2 is supported by the positive and significant relationship between Islamic financial literacy and green banking practices ($\beta = 0.598$, $t = 8.349$, $p < 0.001$). Among the three direct relationships in the model, this pathway has the largest coefficient. The results indicate that higher levels of Islamic financial literacy reported by employees are associated with more positive assessments of green banking practices at their respective institutions.

One possible explanation is that an understanding of Islamic financial principles is associated with awareness of ethical responsibilities and the broader impacts of financial decisions. In practice, this awareness may be relevant to employees' understanding of paper-use reduction, the implementation of digital banking processes, environmental policies, and financing for projects that provide environmental benefits. This interpretation is consistent with (Příhodová & Preiss, 2020) Theory of Planned Behavior, which explains

how beliefs may be associated with behavior. However, this study did not measure all components of the theory, including subjective norms, behavioral intentions, and perceived behavioral control. Therefore, the findings are more appropriately viewed as being consistent with a potential relationship between knowledge and practices, rather than as a direct test of the theory in its entirety.

These findings should also be distinguished from studies examining the implementation of green banking itself. (Rehman et al., 2021) investigated green banking practices in Pakistan and highlighted the relevance of environmental policies, day-to-day operational practices, and investment activities. Their study provides an empirical foundation for understanding green banking as a multidimensional organizational construct. The present study extends this discussion by examining whether Islamic financial literacy is associated with employees' perceptions of green banking practices in Islamic banking institutions in Indonesia. However, the two studies examine different relationships. The findings of the present study do not establish Islamic financial literacy as the sole or primary determinant of green banking implementation.

From a managerial perspective, programs designed to improve employees' Islamic financial literacy can be linked to concrete sustainability procedures. Nevertheless, a significant coefficient does not prove that training alone will change organizational behavior. Formal policies, management commitment, the availability of operational resources, and monitoring systems may still be necessary to ensure that employees' knowledge is consistently translated into practice.

Green Banking Practices and Sustainable Financial Performance

The test results support the third hypothesis (H3), indicating that green banking practices are positively and significantly related to employees' perceived sustainable financial performance ($\beta = 0.583$, $t = 7.145$, $p < 0.001$). This finding suggests that employees who report better implementation of green banking practices also tend to assess their institutions' sustainability performance more positively, particularly in terms of environmental responsibility, social contributions, governance, and long-term financial sustainability.

These findings are generally consistent with those of (Rehman et al., 2021), who examined green banking practices and environmental performance in Pakistan. Their study emphasized the importance of environmental policies, operational practices, and investment activities in implementing green banking. The present study extends this discussion by examining employees' perceived sustainable financial performance in Indonesian Islamic banking institutions. Nevertheless, environmental performance and employees' perceived sustainable financial performance are not entirely equivalent constructs. Environmental performance focuses on environmental outcomes, whereas the construct in this study encompasses perceptions of environmental, social, governance, and financial sustainability.

Comparisons with studies on the Indonesian banking sector also indicate that the relationship between green banking and financial outcomes should be interpreted with caution. (Rehman et al., 2021) reported a positive relationship between green banking and profitability among Islamic commercial banks in Indonesia. In contrast, (Putri & Pramesti,

2025) found that the disclosure of green banking policies was not significantly related to profitability in the Indonesian banking sample they examined. These differences suggest that the observed relationship may depend on how green banking is measured, the type of performance assessed, and the characteristics of the sample and the research design.

The findings of this study do not necessarily contradict those of (Putri & Pramesti, 2025). Their study examined the disclosure of green banking policies in relation to accounting-based profitability, whereas the present study examines employees' perceptions of a broader sustainable performance construct. The existence or disclosure of environmental policies does not automatically demonstrate that those policies have generated measurable financial gains. Similarly, employees' positive assessments of green banking and sustainability are insufficient to establish actual cost savings, reduced environmental impacts, or increased profitability. Thus, the contribution of this study lies in providing evidence of a positive relationship between employees' perceived green banking practices and their perceived sustainable financial performance, rather than demonstrating improvements in actual financial performance.

The Mediating Role of Green Banking in the Relationship between Islamic Financial Literacy and Sustainable Financial Performance

The mediation test results support the fourth hypothesis (H4). The indirect relationship between Islamic financial literacy and sustainable financial performance, mediated by green banking practices, is positive and significant ($\beta = 0.348$, $t = 5.677$, $p < 0.001$). Since the direct relationship between Islamic financial literacy and sustainable financial performance remains significant after accounting for the mediating variable ($\beta = 0.299$, $p = 0.001$), these results are statistically consistent with partial mediation.

These findings provide a more specific contribution than examining only the direct relationships between constructs. The results indicate that green banking practices statistically explain part of the relationship between Islamic financial literacy and employees' perceived sustainable financial performance. In other words, employees' reported Islamic financial literacy is associated with their perceptions of sustainability outcomes, both directly and through the green banking practices reported at their institutions. This finding supports the importance of considering organizational practices when examining the relationship between individual knowledge and perceptions of institutional sustainability.

However, partial mediation cannot be interpreted as evidence that employees' knowledge causes the adoption of green banking practices, which subsequently leads to improved financial performance. The data were collected through a cross-sectional survey, and all three constructs were measured using an employee questionnaire. Therefore, the temporal sequence of these relationships cannot be established. The use of the same measurement source may also influence the observed relationships. Furthermore, the indirect coefficient does not establish that green banking is the only mechanism linking Islamic financial literacy to employees' perceived sustainable financial performance.

These results should be considered alongside previous studies that employed different performance measures. Studies examining environmental performance or accounting-based profitability do not test the same mediation pathway as the present study. Accordingly, this

analysis provides evidence of a statistically significant indirect relationship between Islamic financial literacy and employees' perceived sustainable financial performance, mediated by green banking practices, in the context of Islamic banking in Indonesia. Future research could examine this relationship using longitudinal data, respondents from different organizational stakeholder groups, and objective institutional indicators to assess whether the same pattern of relationships persists across different measurement methods and research designs.

Conclusion

This study highlights the role of Islamic financial literacy in supporting perceived sustainable financial performance in Islamic banking, both directly and indirectly through green banking practices. The findings indicate that Islamic financial literacy is not merely an individual competency in understanding financial principles but may also serve as an important foundation for promoting sustainability-oriented operational practices within Islamic banking organizations. Employees with a better understanding of Islamic financial principles may be better equipped to recognize the importance of responsible financial decision-making, ethical business conduct, and environmental considerations in banking operations.

The findings also indicate that the relationship between Islamic financial literacy and perceived sustainable financial performance is strengthened through green banking practices. The significant indirect relationship suggests that financial knowledge becomes more relevant to organizational sustainability when translated into operational practices that incorporate environmental responsibility. Thus, green banking represents one mechanism that may explain the relationship between Islamic financial literacy and sustainable financial performance. However, the persistence of a significant direct relationship suggests that green banking does not fully account for it. This suggests that other organizational factors may also contribute to the relationship between Islamic financial literacy and perceived sustainable financial performance.

These findings have broader implications for Islamic banking institutions. Efforts to improve sustainability should not focus solely on enhancing financial knowledge or implementing environmentally oriented policies in isolation. Instead, Islamic banks may benefit from integrating employee financial literacy development, implementing green banking practices, and advancing organizational sustainability objectives. Such integration may help connect the ethical principles and responsibilities underlying Islamic finance with their application in day-to-day banking operations.

Nevertheless, the findings should be interpreted within the scope of the study. This research used cross-sectional survey data from employees of Islamic banking institutions in Semarang; therefore, the measurement of sustainable financial performance reflects employees' perceptions rather than independently verified financial performance indicators. Accordingly, the findings demonstrate statistically significant relationships within the proposed model but do not establish causal relationships or confirm improvements in objective financial performance. Future research could strengthen these findings by using longitudinal data, objective financial indicators, and samples encompassing a larger number of Islamic banking institutions.

Overall, this study contributes to the literature on Islamic banking sustainability by demonstrating that Islamic financial literacy is associated with perceived sustainable financial performance, while green banking practices serve as a significant mediating pathway. The main implication is that the potential contribution of Islamic financial literacy to banking sustainability can be better understood by examining financial knowledge alongside its application in environmentally responsible banking operations. Based on these findings, we recommend that Islamic commercial banks develop policies to enhance employees' Islamic financial literacy as part of their efforts to improve sustainable financial performance.

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