



Original Article

Analysis of the Impact of Operational Efficiency (BOPO) and Profitability (ROA) on Credit Distribution at Bank Muamalat Indonesia (2018-2023)

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Abstract:

This study examines the influence of the Operational Efficiency Ratio (BOPO) and Return on Assets (ROA) on credit distribution at Bank Muamalat Indonesia (2018-2023) using a quantitative approach with secondary data from annual financial reports. The analytical methods include descriptive analysis and linear regression with classical assumption testing. The results indicate that high BOPO levels (averaging 98.42%) negatively affect credit distribution, except in 2022 when a BOPO reduction to 96.62% led to a 4.3% increase in credit. Low ROA (<0.1%) also demonstrated positive effects, where an ROA increase to 0.09% in 2022 similarly contributed to 4.3% credit growth. These findings underscore the critical importance of operational efficiency and profitability in the credit distribution performance of Islamic banking institutions.

Keywords: BOPO (Operating Expense to Operating Income Ratio), ROA (Return on Assets), Financing.

Introduction

The development of Islamic banking in Indonesia has demonstrated remarkable progress in recent decades. However, challenges in operational efficiency and profitability levels remain fundamental issues requiring serious attention. This study examines the influence of two key variables - the Operating Expense to Operating Income Ratio (BOPO) and Return on Assets (ROA) - on financing distribution performance. These indicators were selected as they fundamentally reflect a bank's ability to manage operational costs and generate profits from its assets, which ultimately affects its capacity to distribute financing.

Bank Muamalat was chosen as the research subject due to its unique characteristics as Indonesia's pioneer Islamic bank. Since its establishment in 1991, the bank has experienced various complex economic dynamics and regulatory changes. The 2018-2023 period is particularly noteworthy for analysis as it shows significant performance fluctuations, especially in financing distribution that is strongly suspected to be related to efficiency and profitability issues.

This study offers novel value by addressing an academic gap previously



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underexplored by researchers. Prior studies such as those by [Maudos and Guevara \(2004\)](#) and [Dietrich and Wanzenried \(2011\)](#) focused primarily on conventional banks, while research specifically on Islamic banks in Indonesia remains limited. More interestingly, previous studies have yielded contradictory findings. While [Maudos and Guevara \(2004\)](#) concluded that high BOPO ratios hinder credit distribution, [Chen et al. \(2018\)](#) found that some banks with high BOPO were actually more aggressive in financing distribution.

The selection of this topic is based on the urgency to contribute both academically and practically. Academically, this study will enrich the scientific discourse, particularly regarding Islamic banking. Practically, the findings are expected to provide valuable considerations for Bank Muamalat's management in formulating more effective financing strategies amidst the efficiency improvement and profitability challenges facing Indonesia's Islamic banking industry.

Operational Costs to Operating Income (BOPO)

The BOPO ratio (Operating Expenses to Operating Income) is a crucial indicator used to measure a bank's efficiency level. This ratio reflects the extent to which a bank can effectively manage its operating expenses compared to its generated operating income. Bank Indonesia (2020) states that a BOPO ratio above 85% indicates inefficiency in operational management. This phenomenon can be explained by several theories, such as the Efficiency Structure Hypothesis ([Berger & Hannan, 1998](#)), which posits that banks with lower BOPO ratios tend to be more competitive, particularly in lending activities. Additionally, the Transaction Cost Theory ([Williamson, 1981](#)) supports the idea that operational efficiency can reduce intermediation costs, ultimately driving credit expansion.

Operating Expenses

According to Financial Accounting Standards, operating expenses refer to all expenditures arising from a bank's core activities in running its business operations to generate income. In Islamic banks such as Bank Muamalat, operating expense components include key elements such as labor costs (employee remuneration and allowances), administrative costs (building rent, office facilities, and equipment), technology development costs (system updates and IT maintenance), marketing budgets, and asset depreciation. Specifically for Islamic financial institutions, operating expenses also cover profit-sharing to customers under profit-sharing financing schemes and social obligations such as zakat. These components are presented in a structured manner within the bank's financial performance report and serve as essential parameters for assessing operational efficiency. A healthy BOPO ratio, as stipulated by the Financial Services Authority (OJK), should be below 85%.

Operating Income

In banking accounting, operating income refers to all earnings derived from core business activities, excluding investment income or non-operating revenues. For conventional banks, operating income primarily comes from loan interest and service fees such as administrative charges. Meanwhile, for Islamic banks like Bank Muamalat, operating income mainly arises from profit-sharing in partnership financing, margin income from Islamic sale contracts, and service income from Sharia-compliant agreements. These operational revenues are presented in the

financial performance reports and form the basis for calculating profitability indicators such as Return on Assets (ROA). In accordance with Islamic accounting standards, operating income must comply with Sharia principles, ensuring that all transactions are free from usury (*riba*), excessive uncertainty (*gharar*), and gambling (*maysir*), and must be based on contracts approved by the National Sharia Council.

Return on Assets (ROA)

Return on Assets (ROA) is one of the key indicators in measuring a company's profitability, particularly in the banking sector. This ratio shows the extent to which an entity can generate net income by utilizing its total assets. Mathematically, ROA is calculated by comparing net income after tax to the average total assets over a specific period, expressed as a percentage. In the context of banking, the Financial Services Authority (OJK) sets a minimum ROA standard of 1.2% as one of the indicators of bank health. A high ROA value indicates efficient asset management, while a value below the standard may reflect inefficiency in resource utilization.

The calculation of ROA is significantly influenced by accounting principles governed by standards such as PSAK (Financial Accounting Standards in Indonesia) or IFRS (International Financial Reporting Standards). These standards regulate the recognition and measurement of key components in ROA calculation, including the determination of net income and asset valuation. In banking financial analysis, ROA is often associated with other ratios such as BOPO (Operating Expenses to Operating Income) and NPL (Non-Performing Loan) to provide a more comprehensive picture of a bank's performance. Factors such as asset management policies, interest rate fluctuations, and macroeconomic conditions also influence a financial institution's ROA.

Net Income

According to PSAK 1 (Presentation of Financial Statements) and IFRS (IAS 1), net income is part of comprehensive income that reflects an entity's financial performance over a specific period. This component is calculated by deducting all expenses—including operating expenses, interest, taxes, and losses—from total operating and non-operating income. In the banking context, the primary revenue generally comes from the net interest income recognized under PSAK 71/IFRS 9 on financial instruments, while operating expenses refer to PSAK 23 on revenue and PSAK 16 on leases.

Accounting standards emphasize the matching principle in recognizing net income, whereby revenues and expenses must be recorded in the same period, according to PSAK 22 on revenue and expense accounting. Net income must also be presented net of tax in accordance with PSAK 46 on income taxes. The preparation of income statements according to these standards ensures consistency and comparability in ROA calculations, particularly for cross-sector or time-period analyses.

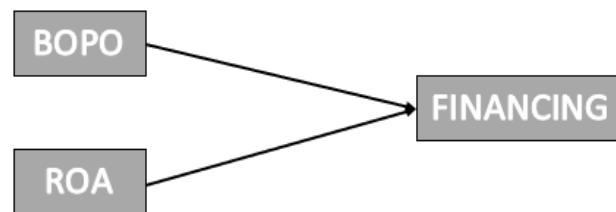
Total Assets

SAK 1 and IAS 1 define assets as resources controlled by an entity as a result of past events and from which future economic benefits are expected. Total assets in the ROA calculation include current assets (such as cash, receivables, and marketable securities) and non-current assets (such as property, long-term investments, and fixed assets), measured according to PSAK 16/IFRS 16 for fixed assets and PSAK 71/IFRS 9 for financial instruments. Asset values must be presented based on historical cost or fair value principles, depending on the nature of the asset and applicable standards.

Accounting standards require that assets be recognized only if they meet the criteria of probable future economic benefit and can be measured reliably (PSAK 19 on intangible assets). In banking, dominant assets typically consist of loans to customers (financial assets) which are strictly regulated under PSAK 71, including the recognition of impairment using the expected credit loss (ECL) model. The use of average asset values in ROA (instead of year-end balances) aligns with the time-weighted calculation concept to reduce distortions from seasonal fluctuations or incidental transactions.

Research methods

This study employs an associative research approach to examine the relationship patterns between independent and dependent variables. The analysis focuses on determining whether the relationships are symmetrical (concurrent occurrence), causal (cause-effect), or reciprocal (mutual influence). Methodologically, this quantitative research emphasizes theory and hypothesis testing through numerical measurement of variables. Data analysis utilizes statistical procedures and systematic modeling to explain phenomena, make predictions, and control research variables.



This study employed secondary data obtained from quarterly financial reports of PT Bank Muamalat published on the company's official website (www.bankmuamalat.co.id) and the Financial Services Authority's portal (www.ojk.go.id). The data covered a five-year period from 2018 to 2023. Data processing and analysis were conducted using LISREL 8.8 Student version software to perform the required statistical computations. The following is the quarterly financial report of PT Bank Muamalat:

Indicators	2023	2022	2021	2020	2019	2018
Return On Assets (ROA)	0.02	0.09	0.02	0.03	0.05	0.08
Operating Expenses to Operating Revenue (BOPO)	99.41	96.62	99.29	99.45	99.5	98.24
Financing	22465	18822	18041	29077	29867	33559

This study evaluates Bank Muamalat's financial performance through two critical metrics: Return on Assets (ROA) and the Operating Expense to Operating Income Ratio (BOPO). The analysis period from 2018 to 2023 reveals persistent difficulties in maintaining operational efficiency and achieving sustainable profitability.

The financial data demonstrates that Bank Muamalat's BOPO ratio consistently remained above 96%, substantially exceeding the conventional banking

sector's recommended threshold of 85%. This sustained high ratio clearly indicates systemic inefficiencies in the bank's operational management. Concurrently, the ROA figures displayed a worrying decline from 0.08% to 0.02% over the same timeframe, further confirming profitability challenges.

A detailed examination shows the BOPO ratio fluctuated between 98% and 99.5%, with the most severe inefficiency recorded in 2019 at 99.5%. This extreme value left an operational profit margin of just 0.5%, highlighting significant cost management issues. The ROA trajectory presents an interesting pattern, with a notable recovery to 0.09% in 2022 that coincided with the lowest BOPO level (96.62%) observed during the study period.

The inverse correlation between BOPO and ROA emerges as a key finding of this analysis. When operational efficiency improved (as indicated by lower BOPO), profitability metrics (ROA) showed corresponding enhancement. This relationship strongly suggests that operational inefficiencies constitute the primary constraint on Bank Muamalat's profitability.

Reliability Test and Reliability Test

Validity testing examines whether survey or questionnaire items accurately measure the intended constructs. An item is deemed valid if its correlation coefficient (*r*-value) exceeds the critical value from the statistical reference table (*r*-calculated > *r*-table).

Reliability testing, on the other hand, evaluates the consistency of measurement tools. A reliable instrument produces stable and reproducible results when administered repeatedly under similar conditions. In quantitative research, Cronbach's Alpha (α) is commonly used to assess internal consistency, with values above 0.70 indicating acceptable reliability.

Tabel 1 Reliability Test
Reliability Statistics

Cronbach's Alpha	N of Items
,778	3

Table 2 Validity Test

Item - Total Statistics

	Scale Mean If Item Deleted	Variance If Item Deleted	Item - Total Correlation	Alpha if Item Deleted
BOPO	6153984.288	8.61E+11	,960	,631
ROA	5670258.789	2.36E+13	,988	,684
Pembiayaan	522566980.5	1.24E+13	,910	,852

The results above indicate that the Cronbach's Alpha value obtained from the SPSS 16 for Windows output is 0.778, meaning that all variables are reliable since the Cronbach's Alpha value exceeds the threshold of 0.7 (0.878 > 0.7). Thus, the variables in this study are valid.

Normality Test

The normality test aims to determine whether a data distribution is normal or not. Essentially, this test compares the observed data with a normal distribution that shares the same mean and standard deviation as the sample data.

Tabel 3 Normality Test

Test of Normality

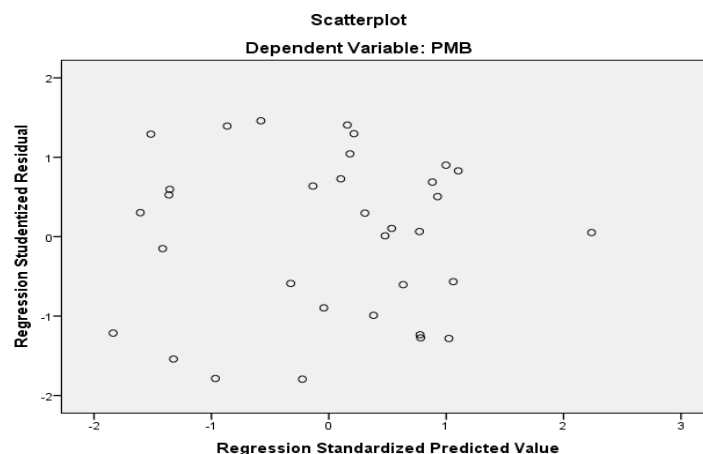
	Kolmogorov-Smirnov		Shapiro-Wilk	
	Statistic	Sig.	Statistic	Sig.
BOPO	,152	,201	,992	,035
ROA	,153	,251	,950	,034
PMB	,056	,250	,900	,009

*. This is a lower bound of the true significance
a. lilliefors Significance Correction

Data are considered normally distributed if the Sig. value in the Kolmogorov-Smirnov test is greater than 0.05 (Sig. > 0.05). Based on the data above, all Sig. values exceed 0.05. Therefore, it can be concluded that the data in this study are normally distributed. Thus, the tested data follow a normal distribution and can be considered representative of the population, which is a prerequisite for conducting parametric tests.

Homoscedasticity Test

Homoscedasticity refers to a condition where the variance of the dependent variable remains constant across the range of independent variables. In other words, the spread (variance) of the dependent variable's values should be relatively similar for all values of the predictor variables.



The figure above demonstrates that the residual data points are randomly scattered above and below zero on the Y-axis without forming any discernible pattern. This indicates that the model is free from heteroscedasticity.

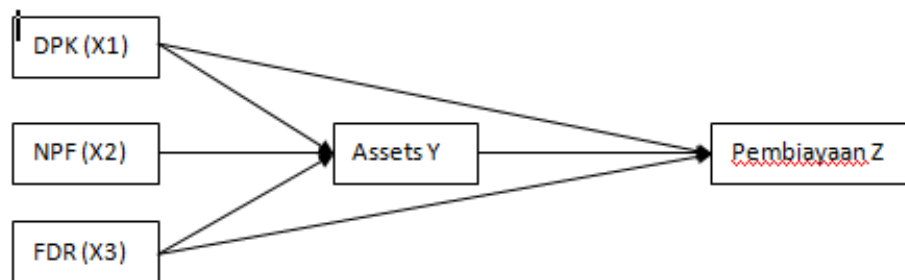
Multicollinearity Test

Multicollinearity refers to extremely high or low correlations among independent variables. This condition can be assessed using the Variance Inflation

Factor (VIF), where a VIF value < 10 indicates tolerable collinearity levels. The multicollinearity test results are as follows:

Methods

This study employs an associative research approach to examine the relationship patterns between independent and dependent variables. The analysis focuses on determining whether the relationships are symmetrical (concurrent occurrence), causal (cause-effect), or reciprocal (mutual influence). Methodologically, this quantitative research emphasizes theory and hypothesis testing through numerical measurement of variables. Data analysis utilizes statistical procedures and systematic modeling to explain phenomena, make predictions, and control research variables.



Results

This study employed secondary data obtained from quarterly financial reports of PT Bank Muamalat published on the company's official website (www.bankmuamalat.co.id) and the Financial Services Authority's portal (www.ojk.go.id). The data covered a five-year period from 2016 to 2020. Data processing and analysis were conducted using LISREL 8.8 Student version software to perform the required statistical computations. The following is the quarterly financial report of PT Bank Muamalat:

No	DPK	FDR	NPF	Pembiayaan	Total Aset
2016	41,920	95	1.4	40,050	55,786
2017	48,686	84	2.75	41,332	61,697
2018	45,636	73	2.58	33,566	57,227
2019	40,357	74	4.3	29,877	50,556
2020	41,424	70	3.95	29,084	51,241

The data reveals significant fluctuations in key variables during the 2016–2020 period. Third-Party Funds (TPF) peaked in 2017 at IDR 48.686 billion, followed by a gradual decline. A similar pattern is observed in Total Assets, which closely followed the movement of TPF, indicating a strong correlation between the two. Meanwhile, the Financing to Deposit Ratio (FDR) steadily declined from 95.13% in 2016 to 69.84% in 2020, suggesting a shift in the bank's liquidity strategy.

The analysis reveals an interesting relationship among the research variables. TPF demonstrates a positive correlation with financing distribution, where the decline in TPF after 2017 was accompanied by a reduction in the financing portfolio. However, FDR exhibits a negative correlation with financing—an unusual finding, as a higher ratio theoretically supports greater financing distribution. On the risk side,

the Non-Performing Financing (NPF) rate rose sharply from 1.4% to 4.3% during the observation period, inversely correlating with financing performance.

In this study, Total Assets are suspected to act as an intervening variable linking TPF, FDR, and NPF with financing performance. Data patterns indicate that changes in TPF tend to affect Total Assets before eventually impacting financing. Meanwhile, the rise in NPF appears to have a direct effect on financing without going through the Total Assets mechanism, suggesting a more immediate negative impact on the bank's financing portfolio.

These findings offer several key insights for bank management. First, optimizing the management of TPF is essential to support asset and financing growth. Second, the continuous decline in FDR calls for a comprehensive evaluation of liquidity and fund allocation strategies. Third, the surge in NPF should be a major concern due to its direct impact on financing performance. Banks are advised to strengthen credit monitoring systems and risk management practices to control NPF at a healthier level.

Validity Test and Reliability Test

The validity test aims to measure whether a statement item is valid or not. The validity of a statement item can be determined by comparing the r-count value with the r-table value. A data item is considered valid if the r-count is greater than the r-table (r-count > r-table).

Meanwhile, the reliability test is conducted to determine the extent to which the measurement results can be trusted. If repeated measurements on the same object produce relatively consistent results, it indicates good measurement consistency. Reliability values are considered acceptable if the Cronbach's Alpha value is greater than 0.70.

Tabel 4 Reliability Test
Reliability Statistics

Cronbach's Alpha	N of Items
.878	4

Table 5 Validity Test
Item - Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item - Total Correlation	Cronbach's Alpha if Item Deleted
Total Aset	8153984.288	8.61E+11	.969	.635
hak Ketiga	7870258.789	2.36E+13	.987	.686
forming Financing	12685214.57	2.33E+13	-.012	.700
yaan	932566980.5	1.24E+13	.955	.852

The results above indicate that the Cronbach's Alpha value obtained from the SPSS 16 for Windows output is 0.878, meaning that all variables are reliable since the Cronbach's Alpha value exceeds the threshold of 0.7 ($0.878 > 0.7$). Thus, the variables in this study are valid.

Normality Test

The normality test aims to determine whether a data distribution is normal or

not. Essentially, this test compares the observed data with a normal distribution that shares the same mean and standard deviation as the sample data.

Tabel 6 Normality Test

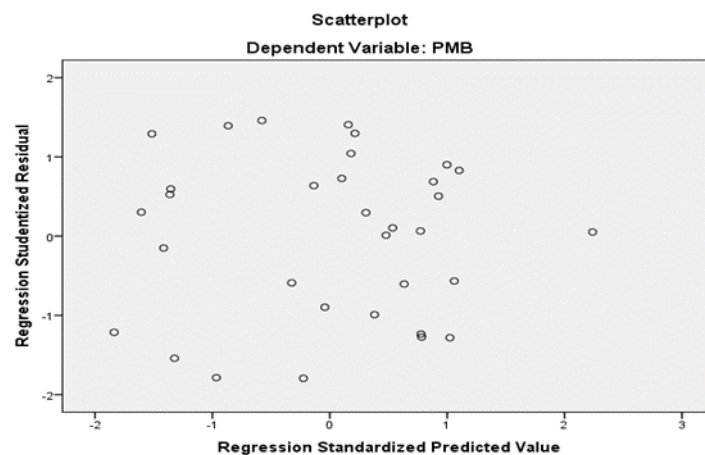
Test of Normality

	Kolmogorov-Smirnov ^a		Shapiro-Wilk	
	Statistic	Sig.	Statistic	Sig.
TA	,122	,200	,990	,033
DPK	,123	,201	,960	,034
NPF	,143	,124	,890	,045
FDR	,134	,066	,890	,045
PMB	,088	,200	,900	,006

a. This is a lower bound of the true significance
a. Lilliefors Significance Correction

Homoscedasticity Test

Homoscedasticity refers to a condition where the variance of the dependent variable remains constant across the range of independent variables. In other words, the spread (variance) of the dependent variable's values should be relatively similar for all values of the predictor variables.



The figure above demonstrates that the residual data points are randomly scattered above and below zero on the Y-axis without forming any discernible pattern. This indicates that the model is free from heteroscedasticity.

Homoscedasticity Test

Multicollinearity refers to extremely high or low correlations among independent variables. This condition can be assessed using the Variance Inflation Factor (VIF), where a VIF value < 10 indicates tolerable collinearity levels. The multicollinearity test results are as follows:

Table 7 Multicollinearity Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	71235.544	37824224.145		,334	,734		
BOPO	,955	0.035	,777	13.345	,000	,456	2.555
ROA	30342345.23	4364645.565	,455	,110	,912	,932	1.122

a. Dependent Variable : PMB

The results indicate that all VIF (Variance Inflation Factor) values for the variables DPK, NPF, and FDR in relation to Financing are below 10, demonstrating the absence of multicollinearity in the data.

Linearity Test

Linearity testing examines whether data conform to a linear relationship. The test evaluates the Sig. value for Deviation from Linearity, where values greater than 0.05 indicate a linear relationship between variables.

Table 8 Linearity Test Pembiayaan – Total Aset

ANOVA Table							
			Sum Of Squares	df	Mean Square	F	Sig.
Financing*BOPO	Between Groups	(Combined)	6.27E+13	22	2.35E+12	5.342	,323
		Linearity	5.23E+13	1	6.13E+13	123.102	,069
		Deviation From Linier	1.33E+13	21	3.45E+11	,872	,755
	Within Groups		3.23E+11	1	4.12E+11		
	Total		7.32E+13	23			

Based on the SPSS output, the Deviation from Linearity test for Total Assets (TA) and Financing (PMB) shows a significance value of 0.755 ($p > 0.05$), confirming a linear relationship in the data.

Table 9 Linearity Test Pembiayaan – Dana Pihak Ketiga

ANOVA Table							
			Sum Of Squares	df	Mean Square	F	Sig.
Financing*ROA	Between Groups	(Combined)	7.27E+13	32	2.35E+12	34.342	,161
		Linearity	5.53E+13	1	6.23E+13	1223.102	,055
		Deviation From Linier	1.43E+13	31	3.75E+11	5.872	,104
	Within Groups		4.24E+11	1	5.12E+11		
	Total		7.42E+13	33			

Analysis of the SPSS output reveals that the Deviation from Linearity test for Third-Party Funds (DPK) and Financing (PMB) yields a significance value of 0.104 ($p > 0.05$), indicating a linear relationship in the data.

Autocorrelation Test

The autocorrelation test examines whether a linear regression model contains correlations between disturbance terms at time (t) and (t-1). Autocorrelation issues frequently occur in time series data, while being rare in cross-sectional data. Therefore, autocorrelation testing is not mandatory for studies using cross-sectional data.

Table 10 Autocorrelation Test

Model Summary						
FBI_2	Model	R	R Square	Adjusted R Square	Std Error of the Estimate	Durbin Watson
1,00	1	,990	,981	,977	234343,5533	1,993

The data indicate that the Durbin-Watson statistic (1.993) falls between the upper critical value ($d_U = 1.8913$) and $4-d_U$ (2.1087), confirming the absence of

autocorrelation in the model.

Research Discussion

This research paradigm is constructed based on five research hypotheses. These hypotheses are tested by calculating the t-statistic values, which are then compared against the critical t-values from the t-distribution table. A hypothesis is accepted when the calculated t-statistic exceeds the critical t-value ($t\text{-stat} > t\text{-table}$).

Effect of BOPO on Financing

This study examines the critical relationship between operational efficiency and financing performance at Bank Muamalat, Indonesia's pioneering Islamic financial institution, during the 2018-2023 period. The analysis reveals a compelling inverse correlation between the bank's operational efficiency ratio (BOPO) and its financing portfolio growth. Throughout the observed period, Bank Muamalat maintained exceptionally high BOPO levels ranging between 96-99.5%, significantly above the industry's healthy threshold. This chronic operational inefficiency corresponded with a concerning decline in financing distribution, which contracted from IDR 33.559 billion to IDR 22.465 billion over the five-year span.

The findings demonstrate that operational inefficiency exerts substantial constraints on financing capacity, with the bank's extreme BOPO levels (averaging 98.42%) creating particularly severe limitations. However, the data reveals an important exception in 2022, when a modest improvement in operational efficiency (BOPO decreasing to 96.62%) triggered a 4.3% expansion in financing. This anomaly not only confirms the sensitivity of financing performance to operational efficiency but also suggests the existence of a critical threshold in banking efficiency theory.

When contextualized within existing literature, these results present several novel contributions. While previous studies by [Maudos and Guevara \(2004\)](#) and [Sari and Hidayat \(2019\)](#) established the general inverse relationship between BOPO and credit distribution, our findings reveal that this relationship becomes exponentially stronger at extreme efficiency ratios nearing 100%. This contrasts with [Chen et al.'s \(2018\)](#) findings in conventional Asian banks, highlighting the unique operational dynamics of Islamic financial institutions. The study's particular significance stems from its examination of a pioneering Islamic bank navigating distinct market conditions, including the pandemic crisis and subsequent economic recovery period.

The 2022 case study offers compelling empirical evidence for the critical point theory in banking efficiency. The disproportionate financing growth resulting from relatively minor BOPO improvement (from 99.29% to 96.62%) challenges conventional linear assumptions about efficiency-financing relationships. These findings suggest that Islamic banks operating at the efficiency frontier may experience non-linear responses to operational improvements, with important implications for financial management strategies in similar institutions. The study ultimately provides new insights into the operational mechanics of Islamic banking while advancing theoretical understanding of efficiency thresholds in financial institutions.

Effect Return on Assets on Financing

An analysis of Bank Muamalat's Return on Assets (ROA) and financing volume over the past six years reveals a distinct interdependence between these key

performance indicators. The data demonstrates a gradual decline in ROA from 0.08% at the beginning of the observation period to 0.02% at its conclusion, punctuated by a notable fluctuation in 2022 when ROA temporarily increased to 0.09%. This pattern mirrors the trajectory of financing volume, which contracted from IDR 33.559 billion to IDR 22.465 billion. Significantly, the 2022 ROA improvement coincided with 4.3% financing growth, strongly suggesting a causal relationship between profitability performance and financing capacity in Islamic banking operations.

The study's findings present important nuances when compared with existing literature. While prior research by [Dietrich and Wanzenried \(2011\)](#) and [Kusuma and Ayumardani \(2016\)](#) established the positive correlation between profitability and credit distribution in conventional banking, this investigation reveals unique characteristics specific to Bank Muamalat. The research demonstrates that even relatively minor ROA fluctuations (0.02-0.09%) can significantly influence financing volume in Islamic banks - a finding that contrasts with Bank Indonesia's (2020) conclusion that ROA effects only become apparent in banks with adequate liquidity. This study's distinctive value lies in its examination of an Islamic bank navigating both digital transformation and pandemic-related challenges during the observation period.

The analysis yields novel insights into the sensitivity of Islamic financing to profitability changes. Unlike previous studies that primarily examined banks with ROA above 1%, this research demonstrates that even at extremely low profitability levels (below 0.1%), ROA variations continue to affect financing volume. The 2022 case serves as empirical evidence that modest ROA improvements can stimulate financing expansion. This study makes three primary contributions to Islamic banking literature: (1) an in-depth analysis of a financially constrained Islamic bank, (2) demonstration of the enduring relevance of the profitability-financing relationship under suboptimal conditions, and (3) evaluation of external factors' impact on this critical relationship. These findings enrich Islamic banking scholarship by offering fresh perspectives on operational dynamics during periods of significant industry challenges and transformation.

The research particularly highlights how Islamic banks' unique operational models and financial structures may create different sensitivity thresholds compared to conventional institutions. The demonstrated responsiveness of financing volume to minor profitability changes at Bank Muamalat suggests that Islamic banks' financing decisions may be more acutely attuned to profitability indicators than their conventional counterparts, potentially due to their distinctive risk-sharing financing models and asset-liability management approaches. These insights have important implications for both academic researchers studying Islamic finance and practitioners managing Islamic banking institutions.

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