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DISCLOSURE OF BANK MUAMALAT'S CAPITAL ADEQUACY TO SUPPORT SUSTAINABILITY AND STRENGTHENING THE BANKING SYSTEM IN INDONESIA

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Abstract

This research aims to determine and analyze the capital adequacy of Bank Muamalat and reveal the adequacy of existing capital for the sustainability and strengthening of the banking system in Indonesia in the future. This research employs a qualitative methodology with a descriptive orientation. The data source in this research uses secondary data obtained from texts, manuscripts, online newspapers and documents, which in this research are the monthly financial reports of the Bank Muamalat company for the 2017-2022 period. The data analysis technique used is a triangulation (combined) technique. The results of this research are that disclosure of capital adequacy has a positive impact on encouraging sustainability and strengthening the existing banking system in Indonesia. Because this will help investors, potential investors and the public to entrust their funds to be managed by Bank Muamalat.

Keywords: *CapitalAdequancy, Banking Sustainability, System Strengthening*

1. INTRODUCTION

Revealing Bank Muamalat's capital adequacy to promote sustainability and enhance the Indonesian banking system is vital for the progress of the banking sector. A bank, being a financial institution, has a crucial function of gathering cash from individuals with excess funds and giving them to individuals in need. Additionally, banks provide various financial services with the aim of achieving profitability while contributing to social aspects to enhance people's standards of living.

In Indonesia, banks function according to two principles: traditional banking and Sharia banking. Sharia banks operate their business activities in alignment with Islamic standards., as outlined in Law No. 21 of 2008. Conventional banks are also directed by Law No. 10 of 1998 to establish Sharia branches or business units (UUS) or convert to full-fledged Sharia banks. Sharia Banks in Indonesia are categorized into Sharia Commercial Banks (BUS) and Sharia People's Financing Banks (BPRS).

Banks, including Sharia banks, play a pivotal role in the national economy. As noted by (Wijaya & Tiyas, 2016),banks serve as the heart of the national economy by channeling money into the economic system, facilitating various economic activities. The continuous development of banks, however, brings about challenges that these financial institutions, entrusted with the public's trust, must address.

Sharia banking, being an integral part of Indonesia's banking industry, shares the same fundamental role as conventional banks. Nevertheless, Sharia banks operate under a distinct operational system. They are obligated to efficiently and effectively channel funds from surplus customers to those in need. Effectiveness refers to accurately providing financing to parties requiring it, while efficiency emphasizes the appropriateness of the outcomes in relation to the inputs utilized (Basse &Mulazid, 2017).

Bank Muamalat Indonesia, founded in 1991 AD or 24 Rabiul Akhir 1412 Hijriah, is the pioneer Sharia bank in Indonesia. The establishment of the bank occurred in the presence of YudoParipurno, SH, a Notary, in Jakarta. The deed of establishment was approved by the Minister of Justice of the Republic of Indonesia through Decree No. C2-2413.HT.01.01 of 1992, which was issued on 21 March 1992.

The establishment deed was later recorded at the Central Jakarta District Court office on 30 March 1992 with the registration number 970/1992. The formal declaration of this institution was published in the State Gazette of the Republic of Indonesia, specifically in issue No. 34, dated 28 April 1992, with an extra reference of No. 1919A. This event signified the official acknowledgment and lawful foundation of Bank Muamalat Indonesia as the first Sharia bank in the nation.

Bank Muamalat Indonesia, initiated by the Indonesian Ulema Council (MUI), commenced its operations on May 1, 1992. Being a new Sharia bank, Muamalat Bank was mandated to act as an "agent of development," supporting national economic growth and enhancing the overall efficiency and professionalism of Sharia banks. This includes navigating competition, both within the Sharia banking sector and against conventional banks.

Bank Muamalat, although a publicly traded firm, does not have its shares listed on the Indonesia Stock Exchange (BEI). However, starting from October 27, 1994, the

In addressing capital issues at Bank Muamalat, the Financial Services Authority

bank has been functioning as a foreign exchange bank according to Bank Indonesia Directors' Decree No. 27/76/KEP/DIR, which designated PT Bank Muamalat Indonesia as a Foreign Exchange Bank. Furthermore, the corporation was legally designated as the State Treasury Foreign Exchange Bank by the Minister of Finance's Decree No. S-79/MK.03/1995, which was issued on February 6, 1995.

As a key player in driving the national economy, Bank Muamalat is obligated to fulfill its duties in accordance with banking regulations. This necessitates a continuous assessment of its financial performance to ensure the maintenance of operational activity conditions over time. Bank Muamalat, one of the largest private banks in Indonesia that operates based on Sharia principles, has successfully built a strong and reliable structure. Capital sufficiency is of utmost importance in the banking industry, as it plays a critical role in safeguarding the bank's financial stability and long-term operational efficiency. Financial institution.

The importance of capital adequacy in guaranteeing the uninterrupted operation of banks and acting as a safeguard against potential losses is paramount. Adequate capital adequacy reflects the bank's ability to protect itself from unforeseen losses.(Jinggili et al., 2022)

Factors influencing the strengthening of bank operational systems include capital adequacy. This factor is pivotal in determining the performance of a banking institution. An increase in a bank's capital corresponds to improved performance and operations, signifying better overall bank performance.

As a financial institution, a bank is obligated to maximize its company value. High company value attracts investors, and maintaining it is essential to uphold trust from customers and institutions. If a bank fails to maintain its corporate value, it may struggle to attract profitable assets. Therefore, banks must engage in activities to both preserve and increase their company value.

(OJK) is advised to consider a change in approach, shifting from a supervision approach to a more proactive supervisory approach.

The Capital Adequacy Ratio (CAR) is a vital financial ratio used in banking to assess a bank's capacity to fund its operations through its capital holdings(Fahmi, 2014). The bank's level of capital serves as an indicator of its ability to maintain an adequate amount of capital. Effective bank management plays a crucial role in recognizing, overseeing, and controlling risks that could affect the bank's capital. The source is from Sufa in 2008. The banking financial ratio used to assess the degree of capital adequacy is known as the Capital Adequacy Ratio (CAR ratio).

The study conducted by Pipin Nugrahanti et al (Nugrahanti et al. 2018) titled "The Effect of Capital Adequacy on Profitability in Sharia Commercial Banks" demonstrates a favorable impact of capital adequacy on profitability. The results indicate that a higher Capital Adequacy Ratio (CAR) is associated with enhanced profitability, as measured by Return on Assets (ROA).

In a study conducted by (Tedi Rustendi 2019), titled "The Effect of Capital Adequacy on the Financial Stability of Rural Banks," it was found that there is a strong and meaningful correlation between capital adequacy and the financial stability of banks in rural areas. Capital adequacy (X) positively affects the financial stability of Rural Banks (BPRs) in this scenario.

Given these research findings, the objective of the current research is to assess and analyze the capital adequacy of Bank Muamalat. The goal is to uncover the current status of capital adequacy and its implications for the sustainability and strengthening of the banking system in Indonesia in the future. Additionally, the research aims to identify strategies to enhance the overall strength of the banking system for long-term sustainability and resilience in the Indonesian banking sector.

The temporary suspicion or hypothesis from this research suggests that the capital stakeholders in assessing the financial well-being and stability of a bank. Complying with the necessary capital adequacy rules is crucial to shortage experienced by Bank Muamalat is attributed to the reluctance of old shareholders to inject fresh funds into the bank. This reluctance, in turn, results in a reduction of available capital at Bank Muamalat. The research aims to investigate and provide insights into the reasons behind this potential shortage of capital, shedding light on the dynamics between the bank and its existing shareholders in terms of fund injection. Further analysis and findings from the research may provide a clearer understanding of the challenges faced by Bank Muamalat in maintaining optimal capital adequacy.

2. LITERATURE REVIEW

2.1. Capital Adequacy

Undoubtedly, capital is an essential element for the long-term viability and advancement of the financial system. It is crucial for sustaining public trust and confidence in financial institutions. Capital adequacy is a crucial measure that indicates a bank's capacity to keep a sufficient amount of capital. It also demonstrates the effectiveness of bank management in recognizing, overseeing, and managing risks that could potentially affect the bank's capital.

The maintenance of this equilibrium is crucial in guaranteeing the stability, robustness, and reliability of the banking system. Regulatory authorities frequently establish capital adequacy standards to protect the financial well-being of banks and uphold the general stability of the financial system.

Capital sufficiency is a crucial aspect of banking legislation that establishes the criteria for how banks and depository institutions handle their capital. The Capital Adequacy Ratio (CAR) is a precise measure of a bank's ability to finance company growth and handle potential losses resulting from operational activity(Nurkhalifa et al., 2021).

The CAR, or Capital Adequacy Ratio, is a crucial indicator that quantifies the ratio of a bank's capital to its risk-weighted assets. By doing this, it assists regulators and

ensure that a bank can absorb any losses, sustain its operations, and continue to facilitate economic activities without jeopardizing the safety and stability of the wider financial system(Masyud Ali, 2004).

The Capital Adequacy Ratio (CAR) is commonly determined by comparing a bank's aggregate capital to its assets that have been assigned a risk weight. The formula for calculating the Capital Adequacy Ratio is (Pratiwi et al., 2023) :

$$Capital\ Adequacy\ Ratio = \frac{\text{Total Modal}}{\text{ATMR}} \times 100\%$$

- Total Capital represents the sum of a bank's Tier 1 capital (core capital) and Tier 2 capital (supplementary capital).
- Risk-Weighted Assets refers to the total assets of a bank, where each category of assets is assigned a risk weight based on its credit risk.

The outcome is shown as a percentage, denoting the ratio of a bank's capital to its risk-weighted assets. Regulators frequently establish minimum standards for the Capital Adequacy Ratio to guarantee that banks possess a sufficient cushion to absorb potential losses and uphold financial stability.

Absolutely, your statement captures the essential role of capital in banking and its broader application to companies. Capital acts as a buffer against potential losses, providing a financial cushion that safeguards the institution's stability and ability to fulfill its obligations. Beyond mitigating risks, capital is integral to maintaining trust in banking activities, especially in the intermediation of funds received from customers.

The Capital Adequacy Ratio (CAR) is a regulatory metric designed to guarantee that banks maintain a satisfactory level of capital to withstand possible losses resulting from their operations. The capital adequacy ratio, determined by regulatory bodies, mandates the minimum capital that a bank must maintain in proportion to its assets adjusted for risk. By maintaining a satisfactory Capital Adequacy

By upholding a robust Capital Adequacy Ratio (CAR), banks can showcase their capacity to back assets that entail risk, such

Ratio, banks can demonstrate their ability to weather financial shocks and fulfill their role as financial intermediaries with resilience. This regulatory framework contributes to the overall stability and confidence in the banking sector (Samantha, 2015).

Bank Indonesia, like many other central banks around the world, follows international standards, particularly those set by the Bank for International Settlements (BIS), to regulate and ensure the financial stability of commercial banks. One of the key regulatory standards established by the BIS is the minimum capital requirement.

According to the BIS rules, commercial banks are generally obligated to maintain a minimum capital adequacy ratio (CAR) of 8% of their total Risk-Weighted Assets (RWA). This ratio guarantees that banks possess a sufficient capital reserve to absorb any losses resulting from credit, market, and operational risks. Risk-Weighted Assets are determined by evaluating the level of risk linked to several types of a bank's assets.

Meeting or surpassing the minimum capital requirements is crucial for banks to guarantee their financial stability, safeguard depositors, and uphold the general stability of the financial system. Bank Indonesia and other regulatory bodies consistently oversee banks to ensure adherence to these criteria.

The Capital Adequacy Ratio (CAR) is a vital performance indicator for banks. It measures the degree to which a bank's assets, especially those with risk such as financing, investments, securities, and claims on other banks, are funded by its capital funds. This ratio offers a glimpse into the bank's capacity to mitigate possible losses linked to several categories of risks.

Essentially, the CAR is the ratio of a bank's capital to its risk-weighted assets, with higher weights allocated to more risky assets. The bank's financial health and resilience are measured by its ability to withstand losses and continue operating without compromising the interests of depositors and other stakeholders.

as the funding they offer. Regulatory authorities frequently establish minimum capital adequacy ratio (CAR) criteria to guarantee that banks possess a sufficient cushion to endure potential shocks and contribute to the stability of the broader financial system. The CAR ratio is a metric used to evaluate the financial performance of a bank. In addition, CAR also encompasses financial situations such as:

a. This refers to the assessment of whether the amount of capital available is sufficient to offset any losses that may occur from investing cash in productive assets, as any loss incurred will directly decrease the amount of capital. The Capital Adequacy Ratio (CAR) is a metric used to assess a bank's capacity to withstand a decrease in assets and mitigate potential losses in funding. A high capital adequacy ratio (CAR) indicates a stronger capital position, as capital can be utilized to ensure the availability of funding. A low capital adequacy ratio (CAR) indicates that the bank's capital is insufficient, making it less capable of mitigating the risk of financing failures.
b. The capacity to fund operational activities and acquire the necessary fixed assets and bank inventories. A high capital adequacy ratio (CAR) shows that there is enough money available to support corporate operations and facilitate business growth and expansion with greater security.
c. The bank's capacity to enhance profitability. A high capital adequacy ratio (CAR) signifies that the bank possesses a sufficient amount of capital to bolster its cash reserves, enabling it to enhance its lending activities. This, in turn, creates more avenues for the bank to augment its profitability.
d. Enhancing the robustness and effectiveness of banking operations. If the Capital Adequacy Ratio (CAR) is low, the bank's resilience to withstand losses is likewise diminished. The bank's own capital depletes rapidly in order to offset the incurred losses, leading to a disruption in the bank's business continuity.

Your observation is absolutely correct. customers who prefer Islamic finance but also contribute to the overall development and sustainability of the Islamic banking industry.

The Capital Adequacy Ratio (CAR) is In the world of finance and banking, every asset, while having the potential to generate profits, also comes with inherent risks. This dual nature of assets necessitates a careful and balanced approach in managing capital.

Capital in a financial institution serves not only as a means to generate profits but also as a crucial buffer against potential risks and losses associated with various assets and investments. It acts as a form of financial cushion, providing the institution with the resilience to absorb unexpected shocks or downturns in the market.

The consideration of risks is paramount in financial decision-making. Banks and financial institutions must conduct thorough risk assessments and adopt risk management strategies to protect the interests of fund owners, which include depositors and investors. By deploying capital prudently and having effective risk management practices in place, financial institutions can strive to strike a balance between generating profits and safeguarding against potential losses, contributing to the overall stability and sustainability of the financial system.

In Islamic finance, profit and loss sharing is a fundamental principle, and Sharia banks operate on the basis of adhering to Islamic principles and avoiding interest-based transactions. To assess the financial performance of Sharia banks, analyzing published financial reports is indeed a common and critical practice. These reports provide insights into various financial metrics, including profitability, liquidity, solvency, and asset quality. Additionally, they offer a view into how well the bank is adhering to Sharia principles in its operations.

Efficient fund management, adherence to Sharia principles, and transparency in financial reporting are crucial elements in enhancing the financial performance of Sharia banks. By providing optimal profit-sharing arrangements and maintaining sound financial practices, these banks can not only attract

determined by dividing a bank's capital by its risk-weighted assets (RWA). The ratio is presented as a percentage and acts as a crucial measure of a bank's financial robustness and its capacity to withstand potential losses resulting from different risks.

A greater Capital Adequacy Ratio (CAR) signifies a superior capacity of the bank to withstand the risk linked to its producing assets. It indicates a more robust financial standing, giving the bank a larger cushion to withstand possible losses. Regulatory authorities frequently establish minimum capital adequacy ratio (CAR) criteria to guarantee that banks retain an adequate amount of capital to sustain their operations and safeguard against unforeseen hazards.

A strong Capital Adequacy Ratio (CAR) is not only a mandatory regulation but also a crucial element in building trust among depositors, investors, and other stakeholders, hence enhancing the overall stability of the banking system.

The capital condition of Bank Muamalat Indonesia was restored through the signature of a Master Restructuring Agreement (MRA) by PT Perusahaan Pengelola Aset (Persero), Bank Muamalat, and the Hajj Financial Management Agency (BPKH). The signing is closely linked to the Covid-19 pandemic, which has had a substantial influence on the national economy, especially the banking sector. Consequently, Bank Muamalat is certain that it can enhance its financial performance through this MRA.

The Chief Executive of OJK Banking Supervision explained that Bank Muamalat has four elements of shareholders. First, the Islamic Development Bank (IDB) is 32.74% of the total shares. Second, two banks from Kuwait with shares reaching 30%, namely The National Bank of Kuwait and Boubyan Bank. Third, Saudi Economic and Development Company (SEDCO) amounted to 17.91%. Fourth, individual owners with a share portion of 19% consisting of domestic individuals 12.58% and foreign individuals 6.23%.

Maximizing company value is indeed a role.

b. Management Policy Decisions: Investors assess the decisions and strategies implemented by the company's management. Effective and strategic decision-making can positively impact the

crucial objective for banks, as it attracts investor interest and fosters trust among customers and institutions. Maintaining and enhancing corporate value in the banking sector is multifaceted. It involves not only financial performance but also factors like reputation, customer satisfaction, risk management, and adherence to regulatory standards. A bank's ability to generate profits, manage risks effectively, and provide excellent customer service contributes to building and sustaining its corporate value.

When a bank succeeds in maintaining high corporate value, it can attract investments and deposits, allowing it to access funds for further growth and development. Conversely, a decline in corporate value can erode trust and confidence, potentially leading to a reduction in deposits and a lack of profitable assets.

Strategic and prudent management practices, transparent financial reporting, and a commitment to ethical and responsible banking are key elements in ensuring that a bank not only preserves but also increases its corporate value over time. This, in turn, contributes to the long-term viability and success of the financial institution.

2.2. Banking Sustainability

Absolutely, you've provided a comprehensive understanding of how company value is often assessed, particularly in the context of publicly traded companies where share prices are a key indicator. Share prices are influenced by a combination of internal and external factors.

Internal factors :

a. Company Performance Projections: Investors closely evaluate a company's future performance, including revenue growth, profitability, and strategic plans. Projections and guidance provided by the company's management play a crucial company's value.

c. Fundamentals: Fundamental factors such as earnings, revenue, and overall financial health contribute to the assessment of a company's value. Strong fundamentals are often associated with a higher perceived value.

Financial Ratios:
Financial ratios provide a quantitative means of analyzing a company's financial performance. Key ratios include:

a. Profitability ratios, such as Return on Equity (ROE), Return on Assets (ROA), and Net Profit Margin, assess a company's capacity to make profits.
b. Activity Ratios: Such as Inventory Turnover and Receivables Turnover, which measure how efficiently a company manages its assets.
c. Leverage Ratios: Such as Debt-to-Equity Ratio, which assesses the level of debt in relation to equity, providing insights into financial risk.
d. Liquidity ratios, such as the current ratio and quick ratio, assess a company's capacity to fulfill its immediate financial obligations.

External factors:
External factors, such as economic conditions, industry trends, and geopolitical events, can also influence share prices.

For investors and stakeholders, a holistic analysis incorporating both qualitative and quantitative factors provides a more comprehensive view of a company's value and future potential(Oktaviani et al., 2023).

Sustainability reports that reflect the company's responsibility in environmental, social and economic aspects are expected to provide positive appreciation from stakeholders so that it will increase the company's value. Explained the importance of building strong branding to create specific company value. The social dimension that is built is also able to create a healthy competitive work environment. Social activities from CSR programs are able to increase the number of investors because the responsibilities carried by the company are real. Nonetheless, proves that there is no influence between corporate sustainability reporting and corporate value/PBV.(Oktaviani et al., 2023)

Financial performance assessment is one of the important factors for banks to see the bank's performance. Apart from that, an assessment can also be carried out to determine the level of bank profitability or profits by comparing profit results in a particular year with profits in previous and subsequent years or comparing the performance of one bank with another.

The banking industry is a sector that has relatively small profit margins and is vulnerable to systemic risk. Therefore, this industry is one that is highly regulated by policy makers. The continuity of banking operations is supported by sufficient capital, so that by having sufficient capital, banks are able to cover existing operational costs as appropriate.

Meanwhile, Bank Muamalat is currently facing capital problems. This problem related to capital arose because many large customers experienced cash flow difficulties and this resulted in a decline in commodity prices. To encourage sustainable operations, Bank Muamalat is looking for strategies to deal with capital problems.

The importance of Bank Muamalat is to be quick and responsive in dealing with existing problems with various strategies needed to maintain the bank's sustainability.

2.3. System Strengthening

System strengthening means doing everything to repair vulnerabilities that will occur in an institution. In the banking world, it is important to strengthen this system in order to improve the system that is not good at the bank itself.

To strengthen this system, valid data on bank capital is needed, so that the shortcomings and problems that exist in the bank can be seen. Because, in the world of banking, capital is something that is vulnerable to problems. The function of capital in banking is to fulfill various objectives in carrying out bank operational activities. By strengthening the system, the bank's performance will be better.

The Financial Services Authority (OJK) has evaluated that Bank Muamalat's efforts to increase its capital could mark a new phase in the improved management of Indonesia's first sharia bank. The capital condition of Bank Muamalat Indonesia was restored through the signature of a Master Restructuring Agreement (MRA) by PT Perusahaan Pengelola Aset (Persero), Bank Muamalat, and the Hajj Financial Management Agency (BPKH).

The signing is closely linked to the Covid-19 pandemic, which has had a substantial influence on the national economy, especially the banking sector. Therefore, through this MRA, Bank Muamalat is optimistic that it can improve its financial performance. MRA will regulate and document all stages and series of transactions in the management of low quality financing assets belonging to Bank Muamalat. Apart from that, the MRA also regulates legal relations as a basis for carrying out transactions, which will be carried out separately at a later date, such as the issuance and purchase of sukuk, as well as the management of low quality financing assets belonging to Bank Muamalat.

PT Bank Muamalat Indonesia Tbk, although classified as a public business, has not yet been included in the listing of the Indonesia Stock Exchange (BEI). Bank Muamalat plans to carry out its first Initial Public Offering (IPO) in 2023, following the participation of the Hajj Financial Management Agency (BPKH) as the main shareholder. Since then, Bank Muamalat has continued to justify increasing the strengthening of its operational system by take various strategic steps.

3. Research Method

The research focuses on analyzing Bank Muamalat, Tbk as the primary unit of analysis. The data obtained consists of Bank Muamalat, Tbk's financial reports spanning the period from 2017 to 2021. This study utilizes panel data as the time frame for analysis. Panel data happens continuously, it will have an adverse impact on a bank's performance, resulting in a decrease in return on assets(Fadhila & Christiana, 2020). The cause of the capital shortage is first, existing shareholders have not increased their capital. Second, new investors never come in, for various reasons. refers to a type of research that involves collecting data at multiple points in time, including elements of both time series and cross-sectional analysis.

The research method used in this research is a qualitative method with a descriptive approach. The qualitative descriptive approach is suitable for examining the conditions of natural objects in-depth. It allows for a comprehensive exploration of the setting and individuals involved. This approach is particularly well-suited for understanding the complexities and nuances of the research problem (Aditama, 2014). Based on field data or often called field research.

The research utilizes secondary data as its source. Secondary data sources refer to data that researchers get indirectly through intermediary media, which have been obtained and recorded by other individuals. The research collected secondary data in the form of monthly financial reports of the Bank Muamalat company for the period of 2017-2022. This data was taken via texts, manuscripts, online publications, and documents.

Documentation approaches involve the gathering of Bank Muamalat's yearly financial reports. The data collection approach employed in this research was doing a comprehensive evaluation of online newspapers, texts, manuscripts, and documents. The employed data analysis strategy is a triangulation method, which involves combining multiple approaches. Data analysis is characterized by its inductive and qualitative nature, where the emphasis is placed on extracting meaning rather than making generalizations(Sugiyono, 2018).

4. Result

In 2017-2022 Bank Muamalat experienced a decline in capital. If this

Bank Muamalat's capital adequacy ratio (CAR) decreased to 11.58% in 2017. The current value of this statistic is still within the acceptable range, but it meets the minimum requirement of 12% under Basel III regulations to handle potential risks associated with economic cycles. The Countercyclical Buffer, as explained by Bank Indonesia, is an extra amount of capital that serves as a safeguard against potential losses in case of excessive credit expansion or disruptions in banking funding that could jeopardize the stability of the financial system.

Based on financial reports as of September 2021, CAR BMI was at the level of 15.26%, better than the position in September 2020 of 12.48%. The decline in Bank Muamalat shares from year to year has forced the government to make improvements in terms of capital. Because this problem is the most serious and frequently occurs at Bank Muamalat from 2017-2022

The company's capital adequacy ratio (CAR) rose by 8.94% (year over year) from 23.76% on December 31, 2021, to 32.70% at the end of December 2022. The rise was a result of the recognition of an additional IDR 2 trillion in tier 2 capital. Bank Muamalat's total capital as of December 31, 2022, amounted to IDR 6.97 trillion, representing a 34.4% growth compared to the preceding period's capital of IDR 5.19 trillion.

As of June 30, 2023, Bank Muamalat's total capital amounted to IDR 7.0 trillion. The capital adequacy ratio (CAR) stood at 31.28% as of June 30, 2023, significantly exceeding the legal level.

In August 2022, Bank Muamalat obtained an idA+ rating from PT PemeringkatEfek Indonesia (Pefindo), indicating a steady outlook for the company. This grade is also applicable to Sharia-compliant assets, specifically Sukuk Mudharabah 2021.Anggito Abimanyu as Head of the BPKH Executive Board explained that, after the allotment of the rights issue which will be carried out on January 7 2022, BPKH will own around 82.7% of Bank Muamalat's shares. After the entire series of corporate actions are completed, Bank Muamalat's capital adequacy ratio (CAR) is estimated to be around 30%.

Capital strengthening is very necessary because as a pioneer of sharia banking in Indonesia, it is very natural that if Bank Muamalat decides to grow and develop more optimally, it is necessary to look for new funding sources or submit a capital restructuring plan to shareholders

In 2022, Bank Muamalat's business growth will begin to find momentum again, following the completion of the capital increase process through PMTHMETD and the issuance of sukuk. The controlling shareholder, the Hajj Financial Management Agency (BPKH), bolstered the Bank's capital by conducting a rights issue and issuing subordinated sukuk, amounting to a total of IDR 3 trillion.

Until the end of 2022, Bank Muamalat continues to strengthen capabilities and synergies, expand business expansion by intensifying banking services to the Hajj and Umrah ecosystem as well as various sectors in the halal/Sharia ecosystem, and has succeeded in recording a significant increase in performance from the previous year. Bank Muamalat is experiencing capital difficulties amidst conditions of high non-performing financing (NPF) or problematic funding, aka bad credit.

Disclosure of capital adequacy needs to be done to see the bank's existing capital adequacy. Because, by revealing the amount of existing capital, it will increase the confidence of potential investors to inject their funds, and this will certainly increase the confidence of potential Bank Muamalat customers to entrust their assets to Bank Muamalat to be managed. With this, it will be possible to improve the performance and operations of Bank Muamalat, so that it can encourage the

continued strengthening of the existing banking system in Indonesia.

Bank Muamalat shifted focus from corporate funding to retail financing to reduce problematic financing. The bank has implemented a new 5-year strategic plan that places greater emphasis on strengthening the bank in advancing a more sustainable future. Bank Muamalat has increased its capital adequacy ratio (CAR) from 23.76% in December 2021 to 32.70% in December 2022.

In overcoming its problems, Bank Muamalat has implemented various strategies to overcome past problems and improve its financial performance(Sabardin, 2023).

a. Implement a more diversified financing portfolio to reduce dependence on corporate funding and mitigate problematic financing
b. Develop a long-term strategic plan that emphasizes continuity and resilience in bank operations
c. Improve risk management practices to increase capital adequacy and profitability
d. Focus on operational efficiency to reduce costs and increase profitability
e. Increase engagement with stakeholders, including government, frontliners and the community, to build support and trust

Overall, these theoretical management strategies can help Bank Muamalat overcome its past problems and improve its financial performance. By diversifying its financing portfolio, developing long-term strategic plans, improving risk management practices, focusing on operational efficiency, and increasing stakeholder engagement, banks can become more resilient and sustainable in the long term.

The research findings indicating that the disclosure of capital adequacy has a positive impact on sustainability and strengthening the existing banking system in Indonesia align with the general principles of transparency and investor confidence in the financial sector. Here are some key points related to the positive impact of capital adequacy disclosure:

a. Investor Confidence:

   Clear disclosure of capital adequacy levels instills confidence in investors and potential investors. When financial institutions, such as Bank Muamalat, openly communicate their capital strength, it builds trust and encourages investors to consider the bank as a reliable investment option.
b. Risk Mitigation and Asset Entrustment:
g. Systemic Resilience:

   The positive impact on the banking system's strength extends beyond individual banks. A well-disclosed and well-capitalized banking sector contributes to the overall resilience of the financial system, fostering economic stability and growth.

   Investors and the public, when aware of a bank's robust capital position, are more likely to entrust their funds to the bank. The disclosure serves as a risk mitigation measure, assuring stakeholders that the bank has the financial capacity to absorb potential losses and safeguard their assets.
c. Mutual Profits and Sustainability:

   The positive impact on sustainability arises from the ability of the bank to attract funds and investments. With a strengthened capital base, the bank can deploy resources more effectively, contributing to sustainable operations, profitability, and long-term growth.
d. Public Trust and Reputation:

   Transparency in disclosing capital adequacy enhances the bank's reputation and fosters public trust. A bank that openly communicates its financial health signals accountability and responsibility, which are crucial factors for maintaining a positive image in the eyes of the public.
e. Regulatory Compliance and Industry Standards:

   Compliance with regulatory requirements regarding capital adequacy disclosure is essential. By adhering to industry standards and fulfilling regulatory obligations, banks contribute to the stability and integrity of the broader financial system.
f. Market Competitiveness:

   Banks that actively disclose their capital adequacy levels position themselves competitively in the market. This transparency distinguishes them as financially sound institutions, potentially attracting a larger customer base and establishing a competitive edge.

In summary, the positive impact of capital adequacy disclosure on sustainability and strengthening the banking system reflects the interconnected nature of financial institutions, investors, and the public. Transparent communication about financial health not only benefits individual banks but also supports the broader goals of a stable and resilient banking industry in Indonesia/

As of June 30, 2023, Bank Muamalat's total capital amounted to IDR 7.0 trillion. The capital adequacy ratio (CAR) stood at 31.28% as of June 30, 2023, significantly surpassing the statutory requirement.

5. Conclusion

Based on the results of research that has been carried out regarding the disclosure of capital adequacy using the Bank Muamalat CAR indicator to encourage sustainability and strengthen the existing banking system in Indonesia, it can be used as consideration for management at Bank Muamalat to continue to innovate in overcoming existing problems. The cause of the lack of capital at Bank Muamalat is because the shareholders have not added new capital, and then new investors have not come in for various reasons.

The result of a lack of capital will hamper bank performance and operational activities. Because by disclosing capital adequacy, it will make the public and potential investors trust Bank Muamalat as a financial institution that can be trusted to manage their funds.

In overcoming its problems, Bank Muamalat has implemented various strategies to overcome past problems and improve its financial performance.

1. Implement a more diversified financing portfolio to reduce dependence on corporate funding and mitigate problematic financing
2. Develop a long-term strategic plan that emphasizes continuity and resilience in bank operations
3. Improve risk management practices to increase capital adequacy and profitability
4. Focus on operational efficiency to reduce costs and increase profitability
5. Increase engagement with stakeholders, including government, frontliners and the community, to build support and trust.

Based on the conclusions above, several suggestions that might be put forward are as follows:

1. Bank management must prioritize monitoring their capital levels, ensuring effective allocation of funds towards productive assets to maximize earnings, while adhering to the minimal thresholds established by Bank Indonesia.
2. For future researchers who are interested in examining the effect of capital adequacy levels on the profitability of Islamic banks, it is recommended that they also examine other factors that influence profitability such as asset quality and liquidity or increase the observation period.

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