

ABSTRACT

This research aims to examine the role of micro credit allocation-based efficiency (AKME) in mediating the impact of total assets (TA), intensity of credit (IK), non performing loan (NPL), and micro business sector's growth (PSUM) on bank profitability (ROA). AKME is proposed as a new concept which is expected to play a mediating role on the impact of total assets, intensity of credit, Non Performing Loan, and growth of the micro business sector on bank profitability.

This research uses 26 national commercial banks as a sample with an period observation from 2017 to 2022. There are 6 main variables used in this research. The nine hypotheses tested in the research were tested using Covariance-Based Structural Equation Modeling (CB-SEM). According to the research findings, bank profitability is directly impacted by total asset, intensity of credit, NPL, and micro business sector's growth. The impact of total asset, intensity of credit, NPL, micro business sector's growth on bank profitability can all be mediated by efficiency-based microcredit allocation. If the portion of microcredit increased and managed efficiently by banks, it will increased the profitability of commercial banks. The size of commercial bank profits is greatly influenced by the amount of credit disbursed. The greater the amount of credit disbursed, the greater the profits earned by commercial banks. The greater the distribution of credit, the greater the market potential and the profits of commercial banks will increase. With an increasingly developed market, micro business sector credit generates increasingly large revenues, thereby increasing the profitability of commercial banks. The intensity of credit distributed by commercial banks to the public is expected to increase every year.

Overall, AKME's mediation role in mediating the influence of total assets, intensity of credit, NPL, and growth of the micro business sector on bank profitability can be a concern for national commercial banks, especially for policy makers at the regulatory or authority level.

Keywords: *Intensity of Credit, Total Asset, Non Performing Loan, Micro Business Sector's Growth, Micro Credit Allocation-Based Efficiency, Return On Asset*