

ABSTRACT

Over the past few decades, the financial sector, particularly the banking sector in both emerging and established nations, has undergone significant transformations. As a result of globalization, rising competition, and deregulatory efforts, banks have increased their focus on diverse business lines in addition to traditional interest-based activities. In response to shifting market conditions, banks have shifted their concentration from traditional lending to non-interest businesses. By executing new operations, such as offering brokerage, investment, and underwriting services and trading securities, banks can diversify their portfolios of assets and income sources. Due to the economic constraints caused by the COVID-19 pandemic, Indonesian banks deployed digital banking during the onset of the pandemic, resulting in a significant increase in digital banking transactions during the pandemic. This advantage has influenced the expansion of fee-based income to the point where the majority of Indonesian banks rely on non-interest income to fund their income. This study seeks to examine the effect of Indonesian banking income and asset diversification on profitability. Based on data published for the years 2020-2021.

This study's population is a foreign exchange bank in Indonesia in 2020–2021. Sampling criterion adopting judgment sampling with listed banks on Bursa Efek Indonesia (BEI), with report provided in the years 2020 to 2021. Observational study of 184 by sampling 23 banking firms. In this investigation, multiple linear regression was employed. The variables of this study are Income Diversification (ID), Assets Diversification (AD), Capital Adequacy Ratio (CAR), Operating Expenses to Operating Income (BOPO), and Bank Size (CS), and Return on Assets (ROA).

The results of the study showed that Income Diversification no significant effect on bank profitability while Assets Diversification has a positive and significant effect on bank profitability. In addition, variable control Capital Adequacy Ratio (CAR) and Operating Expenses to Operating Income (BOPO) has a negative and significant impact on the level of bank profitability. Bank size as control variable has a positive and significant effect on bank profitability.

Keywords: Income Diversification, Assets Diversification, Profitability, ROA