# *ABSTRACT*

*This study aims to examine the effect of Credit Risk, Income Diversification, and Liquidity Coverage Ratio (LCR) on bank profitability, measured by Return on Assets (ROA), as well as to analyze the moderating role of Capital Adequacy Ratio (CAR). The study employs panel data from 43 commercial banks listed on the Indonesia Stock Exchange (IDX) over the period of 2020–2024, resulting in 215 observations. The analytical method used is panel data regression with the Common Effect Model (CEM), which is selected based on the model selection tests, while the moderating effect is examined using Moderated Regression Analysis (MRA).*

*The results indicate that Credit Risk has a negative and significant effect on profitability, suggesting that an increase in Credit Risk reduces banks' ability to generate profits. Income Diversification also has a negative and significant effect on profitability, indicating that diversification into non-interest income activities does not necessarily improve bank profitability due to potential increases in operational costs and complexity. Furthermore, Liquidity Coverage Ratio has a negative and significant effect on profitability, reflecting the trade-off between maintaining liquidity buffers and allocating funds to more productive assets. The results also demonstrate that Capital Adequacy Ratio significantly moderates the relationships between Credit Risk, Income Diversification, and Liquidity Coverage Ratio and profitability. Higher capital adequacy enables banks to better absorb risks, support diversified business activities, and manage liquidity requirements while reducing their adverse effects on profitability.*

*This study implies that bank management should maintain effective Credit Risk management, develop Income Diversification selectively, and optimize liquidity management while maintaining adequate capital buffers. Capital adequacy is not only essential for financial resilience but also plays a strategic role in mitigating the impact of risk and operational decisions on bank profitability.*



***Keywords:*** *Credit Risk, Income Diversification, Liquidity Coverage Ratio, Capital Adequacy Ratio, Return on Assets, Bank Profitability*