

The Influence of Non-Interest Income on the Profitability of Conventional Banks Listed on the Indonesia Stock Exchange

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ABSTRACT

This study analyzes the factors that influence the profitability of conventional banks in Indonesia with Return on Assets (ROA) as the main measure. This study uses a quantitative method with panel data regression to examine the effect of Non-Interest Income (NII), bank size, Loan Loss Provision (LLP), Capital Adequacy Ratio (CAR), and overhead costs on the profitability of conventional banks listed on the Indonesia Stock Exchange (IDX) in the period 2019–2024. Data were obtained from annual financial reports and other secondary sources such as IDX, Bank Indonesia, and the World Bank. The results showed that NII did not have a significant effect on profitability, indicating that conventional banks still rely on interest income as the main source of profit. Bank size has a positive effect on ROA, with larger banks benefiting from economies of scale and operational efficiency. LLP has a negative effect on profitability, indicating that increasing loan loss provisions reduce bank profits. CAR has a positive effect, indicating that strong capitalization increases investor confidence and financial stability. Meanwhile, overhead costs have a negative effect on ROA, emphasizing the importance of operational efficiency in increasing profitability. This study recommends further research considering Islamic banks and macroeconomic factors for a more comprehensive understanding of banking profitability in Indonesia.

Keywords: Non-Interest Income, Profitability, Bank Size, Loan Loss Provision

ABSTRAK

Penelitian ini menganalisis faktor-faktor yang mempengaruhi profitabilitas bank konvensional di Indonesia dengan Return on Assets (ROA) sebagai ukuran utama. Studi ini menggunakan metode kuantitatif dengan regresi data panel untuk menguji pengaruh Non-Interest Income (NII), ukuran bank, Loan Loss Provision (LLP), Capital Adequacy Ratio (CAR), dan biaya overhead terhadap profitabilitas bank konvensional yang terdaftar di Bursa Efek Indonesia (BEI) pada periode 2019–2024. Data diperoleh dari laporan keuangan tahunan dan sumber sekunder lainnya seperti BEI, Bank Indonesia, dan World Bank. Hasil penelitian menunjukkan bahwa NII tidak berpengaruh signifikan terhadap profitabilitas, menunjukkan bahwa bank konvensional masih bergantung pada pendapatan bunga sebagai sumber utama keuntungan. Ukuran bank berpengaruh positif terhadap ROA, dengan bank yang lebih besar mendapatkan manfaat dari skala ekonomi dan efisiensi operasional. LLP berpengaruh negatif terhadap profitabilitas, menunjukkan bahwa peningkatan cadangan kerugian kredit mengurangi laba bank. CAR berpengaruh positif, menunjukkan bahwa permodalan yang kuat meningkatkan kepercayaan investor dan stabilitas keuangan. Sementara itu, biaya overhead berpengaruh negatif terhadap ROA, menekankan pentingnya efisiensi operasional dalam meningkatkan profitabilitas. Studi ini merekomendasikan penelitian lanjutan dengan mempertimbangkan bank syariah dan faktor-faktor makroekonomi untuk pemahaman yang lebih komprehensif tentang profitabilitas perbankan di Indonesia.

Kata kunci: Non-Interest Income, Profitabilitas, Bank Size, Loan Loss Provision

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INTRODUCTION

The economy is currently growing rapidly, particularly in the banking and financial institution sectors. The banking industry is one of the key sectors that significantly impacts the economies of various countries. Many aspects of the economy, both directly and indirectly, are driven by banking. In Indonesia, this sector plays a crucial role in supporting societal progress. Article 4 of Banking Law Number 10 of 1998 states that the purpose of Indonesian banking is to support national development by promoting equity, economic growth, and national stability for the welfare of the people. Amid global uncertainty, Indonesian banks have demonstrated strong performance, with credit growth of approximately 10% year-on-year, reflecting a significant recovery since the pandemic. This growth has been supported by stable interest rate policies and various initiatives that have strengthened public confidence, thereby contributing to national financial stability. Additionally, government policies aimed at expanding access to credit for MSMEs have further boosted credit growth in the real sector, underscoring the banking sector's vital role in the economy (Sofyan & Alamsyah, 2021; Marnilin, 2023).

According to Khalaf and Awad (2024), the increase in ROA is closely linked to the revenue diversification strategy, which contributes positively to the stability and profitability of the bank. Phan et al. (2022) also show that banks that are able to optimize non-interest income tend to have higher ROA, indicating more effective asset management to generate profits. The study found that increasing non-interest income not only supports bank profitability but also increases financial stability in the face of market fluctuations. Non-interest income is an important aspect of diversifying sources of income for Indonesian conventional banks due to the strategic role conventional banks play in a country's economy. In addition to income from main activities such as lending or financing, banks can also earn profits through other service transactions (Andrzejuk, 2018; Sudradjat, 2022). Previous research shows that non-interest income has a positive influence on return on assets (ROA), where the greater the non-interest income, the higher the bank's profitability (Sun et al., 2017). Research by Minh and Thanh (2020) reinforces this finding by stating that non-interest income has a positive impact on the operational efficiency of commercial banks, as shown through increased profitability. However, Mehzabin et al. (2023) revealed that non-interest income can negatively impact bank profitability under certain conditions or in specific regions.

Banks with larger assets have a greater opportunity to earn high income. This is because the resources owned by large banks can generate significant returns if managed properly (Khalaf & Awad, 2024). Research conducted by Tran & Nguyen (2025) shows that there is a positive influence of bank size on profitability. Additionally, several studies conducted in Indonesia have also found that bank size has a positive effect on Return on Assets (ROA). According to Antao & Karnik (2022), bank size has a significant impact on the financial performance of banks. Their research indicates that larger bank sizes often correlate with a better ability to generate non-interest income, which, in turn, can improve overall profitability. Loan Loss Provision plays a crucial role in strengthening the financial position of banks. Banks must provide Loan Loss Provision (LLP) to address loan defaults, which helps protect the bank's financial position in terms of profitability (Ozili, 2022). Saleh & Paz (2023) demonstrated that there is a positive influence on profitability. Given this gap, banks need to conduct more in-depth studies to make more informed decisions in managing their credit risk.

CAR requirements are regulated by international banking authorities such as the Basel Committee on Banking Supervision, which, through the Basel I, Basel II, and Basel III agreements, provide minimum standards that must be met. Generally, Basel III sets a minimum CAR of 8%, but many countries apply higher provisions to add a layer of security (Minh, 2021). According to OJK data, the capital adequacy ratio in January 2021 was 24.50%. In January 2022, it increased by 1.5%, reaching 26%. However, in January 2023, the capital adequacy ratio decreased to 25.88%. This decrease indicates that the bank's capital ratio may not be sufficient to bear the risk of loss from the capital side. According to Shrestha (2023), CAR has a positive influence on profitability. The results of this study contradict the research by Nagaraju & Boateng (2018), which found a negative influence of CAR on profitability.

High overhead costs can negatively impact a bank's Return on Assets (ROA) because they increase operating costs. Research shows that in the Middle East and North Africa region, increased overhead reduces banks' operational efficiency, which, in turn, depresses profitability and makes banks more vulnerable to economic fluctuations (Khalaf & Awad, 2024). The effect of overhead on ROA depends on its usage. Based on previous research examining Non-Interest Income and its effect on Return on Assets, the study uses Return on Assets as the dependent

variable, and Non-Interest Income, Bank Size, Loan Loss Provision, Capital Adequacy Ratio, and Overhead as the independent variables. Researchers conducted a follow-up study in Indonesia regarding the effect of non-interest income on the profitability of conventional banks listed on the Indonesian Stock Exchange.

LITERATURE REVIEW

According to Law Number 10 of 1998 concerning Banking, banks are institutions that collect funds from the public in the form of deposits and channel them back in the form of credit or other forms of financing. Banks are financial institutions that conduct business by collecting funds from the public in the form of deposits and channeling them in the form of credit or financing. In addition, banks also provide various financial services, such as investment, insurance, and payment services. In Indonesian banking, Non-Interest Income is increasingly considered an important element in enhancing profitability. This income, which includes fees, commissions, and transaction services, serves as a source that can reduce banks' dependence on interest-based income. Several studies have shown that an increase in Non-Interest Income can have a positive impact on a bank's financial performance, especially in increasing Return on Assets (ROA), as income diversification helps banks overcome risks arising from interest rate volatility and economic uncertainty (Fisabilillah et al., 2020; Hidayat et al., 2024).

A high Return on Assets (ROA) indicates that the company has an efficient asset management strategy and is able to generate profits consistently from its assets. ROA is used to measure the efficiency of banks in generating profits from their assets, which reflects how bank management is able to optimize existing resources to achieve strong financial performance (Suhardono et al., 2023). For banks, a higher ROA value signifies a better ability to manage assets to generate profits, which is important for attracting investors and strengthening the bank's competitive position in the industry. In general, a good return on assets (ROA) is 5% or more, and anything above 20% is considered very good. Return on assets (ROA) shows the level of efficiency with which banks use their assets and indicates how much income the bank generates from its investments. ROA aims to measure the company's ability to generate profits by utilizing its assets. Banks need to increase their profits in order to develop in the financial industry. Non-Interest Income is the ratio between non-interest income and total assets held by the bank. In addition to income from its main activities, such as lending or financing, banks can also benefit from transactions provided through other bank services. Banks that diversify their income are expected to increase profitability and also reduce financial risk. Mehzabin et al. (2023) suggest that the non-interest income ratio can be measured by non-interest income as a percentage of total assets.

Bank size is an important characteristic of a bank in understanding the scale of operations, which can help manage risk better. According to Gupta & Mahakud (2020), bank size is defined as the size of the bank, which is reflected through total assets and ownership of its own capital. The study by Koju et al. (2018) measures bank size by using the natural logarithm of total assets. Mehzabin et al. (2023) explain that larger bank sizes tend to have better economies of scale and higher operational efficiency, which contribute to increased profitability and financial performance, as measured by Return on Assets. Loan Loss Provision (LLP) is the amount of funds that bank should set aside as a precautionary measure against expected credit losses in their loan portfolio. LLP is recognized as an important accounting entry in the banking sector, and loan loss provisions are of significant interest to accounting standard setters due to their potential to affect reported financial figures. When overestimated, LLP can reduce the quality of earnings and financial reporting. Danisman et al. (2021) revealed that an effective Loan Loss Provision is essential for maintaining banking stability and ensuring that banks can fulfill their financial obligations to depositors and other stakeholders. According to Darlami (2023), Loan Loss Provision (LLP) has a negative and significant influence on Return on Assets (ROA). The study shows that an increase in loan loss provisions will reduce bank profitability, which is reflected in a decrease in ROA.

According to Ajayi et al. (2019), the Capital Adequacy Ratio measures the financial strength of a bank by evaluating its capital in relation to its assets. It is used to promote the stability and efficiency of financial systems worldwide. The Capital Adequacy Ratio serves as an important indicator of a bank's financial health and its ability to operate effectively in the long term (Ajayi et al., 2019). Mehzabin et al. (2023) stated that capital adequacy has a significant positive effect on profitability. The higher the capital adequacy ratio, the better the bank's ability to bear the risks associated with each risky productive asset. Strong capital adequacy also reflects the trust of stakeholders, which can contribute to the growth of the bank's overall financial performance.

Overhead expenses consist of various components, including general administrative costs, technology infrastructure costs, and office administration costs. An increase in overhead expenses can arise from expenditures needed to maintain the day-to-day operations of the bank, such as physical and technology security costs, data center management costs, or office administration costs. According to Antwi & Frank (2019), high overhead costs can be an indicator of less efficient management, which, in turn, can reduce a bank's net profit. In this context, effective overhead management is critical to improving the financial performance of banks. This suggests that the management of overhead costs not only affects the internal profitability of the bank but can also impact the bank's relationship with customers and its competitiveness in the market. Overhead expenses include a wide range of operating costs that are not directly related to managing assets or providing direct services to customers. The effect of overhead expenses on banking profitability is a critical aspect of analyzing the financial performance of a financial institution. In this context, understanding how overhead expenses can affect Return on Assets (ROA) is important to evaluate the financial health and operational efficiency of banks (Neng, 2023). According to Ramadita et al. (2022), factory overhead costs have a significant negative effect on profitability (ROA). The results of the analysis show that when overhead costs increase, ROA tends to decrease.

Research conducted by Khalaf (2024) on commercial banks in the Middle East and North Africa states that overheads and loan loss provisions have a negative effect on return on assets (ROA), while non-interest income, bank size, and the capital adequacy ratio have a positive effect on ROA. When considering the key indicators used to assess financial performance, it can be noted that profitability is one of the core areas. The main indicators used to analyze profitability are the return on equity (ROE) and return on assets (ROA) ratios. At the same time, one can observe a fundamental inconsistency in the results of research studies related to the financial performance of banks and non-interest income. For instance, Phan et al. (2022) conducted a study that found a positive relationship between non-interest income and financial performance.

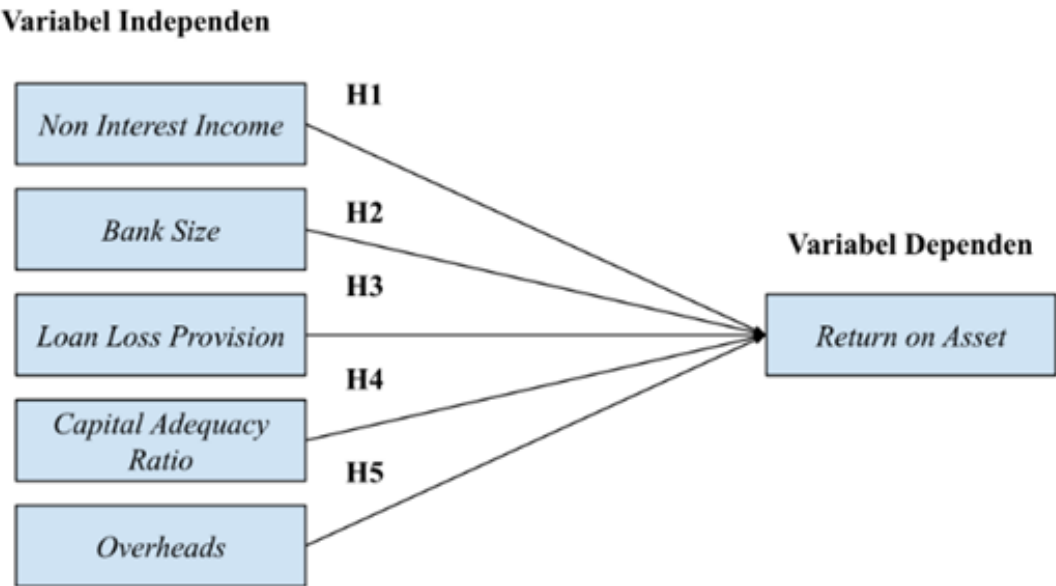


Figure 1. Framework

- H1:** Non-Interest Income has a significant effect on Profitability
- H2:** Bank Size has a significant effect on Profitability
- H3:** Loan Loss Provision has a significant effect on Profitability
- H4:** Capital Adequacy Ratio has a significant effect on profitability
- H5:** Overhead Costs have a significant effect on Profitability

METHODS

This study employs a quantitative method with hypothesis testing to assess the impact of independent variables such as Non-Interest Income (NII), bank size, Loan Loss Provision (LLP), Capital Adequacy Ratio (CAR), and overhead costs on the profitability of conventional banks

listed on the Indonesia Stock Exchange from 2019 to 2024. The analysis uses panel data regression, with data obtained from secondary sources, including financial and annual reports of commercial banks, and websites such as the Indonesia Stock Exchange (www.idx.co.id), Bank Indonesia (www.bi.go.id), and the World Bank (data.worldbank.org). The dependent variable, Return on Assets (ROA), is calculated as the ratio of profit after tax to total assets, based on the methodology of Muhammed et al. (2024). Independent variables include NII, measured as the ratio of non-interest income to total assets (Jordy & Muchtar, 2024); bank size (Size), calculated using the natural logarithm of total assets; and LLP, which reflects the provision for credit losses as the ratio of loan loss provisions to total loans (Ozili & Peterson, 2017). The Capital Adequacy Ratio (CAR) is determined as the ratio of Tier 1 and Tier 2 capital to total assets, following the approach of Muhammed et al. (2024), and overhead (OA), which represents operational efficiency, is measured as the ratio of operating expenses to total assets (Fajriati, 2022). This study uses purposive sampling, selecting conventional banks listed on the Indonesia Stock Exchange for at least five years (2019-2024), ensuring data consistency and completeness. Banks that were delisted during this period or did not have the required data were excluded. The figures used in this study are all expressed in Rupiah.

RESULTS

The Chow test hypothesis aims to assess whether there are differences in data behavior between individuals and time. The null hypothesis (H_0) posits no such differences, while the alternative hypothesis (H_a) suggests their existence, indicating the need for a Fixed Effect Model. The decision-making process involves analyzing the chi-square test's cross-section probability value. If this value is below 0.05, H_0 is rejected, implying significant differences and necessitating the Hausman Test. If the value is above 0.05, H_0 is not rejected, suggesting no significant differences and prompting further analysis with the Lagrange Multiplier test. The Hausman test evaluates whether errors correlate with independent variables. If the chi-square test's probability is below 0.05, H_0 is rejected, indicating correlation and favoring the Fixed Effect Model. If the probability is above 0.05, H_0 is not rejected, suggesting no correlation and favoring the Random Effect Model. The Lagrange Multiplier test determines whether the Common Effect Model or the Random Effect Model is more suitable. If the probability from the Breusch-Pagan test is below 0.05, H_0 is rejected, favoring the Random Effect Model. If the probability exceeds 0.05, H_0 is accepted, indicating the Common Effect Model is preferable.

Table 1. Chow Test, Hausman Test and Lagrange Multiplier Test Result

Variable	Chi-square	Breusch Pagan Cross-Section	Probability	Decision
Chow Test	62.140739		0.0044	H_0 rejected
Hausman Test	4.307411		0.5061	H_0 failed to reject
Lagrange Multiplier Test		0.0006		H_0 failed to reject

The Chow Test value is less than 0.05, so H_0 is rejected, which implies that there is a significant difference in characteristics between individuals, and the Hausman Test must be carried out. The Hausman Test value is also less than 0.05, leading to the rejection of H_0 , which indicates that the error is correlated with the independent variable, making the Fixed Effect Model the appropriate choice. Finally, the Lagrange Multiplier Test value is less than 0.05, so H_0 is rejected, indicating that the Random Effect Model is more appropriate for the study.

The F-test is used to determine whether the independent variables collectively influence the dependent variable in the regression model. The null hypothesis (H_0) states that none of the independent variables affect the dependent variable, while the alternative hypothesis (H_a) suggests that at least one independent variable has a significant influence. The decision-making process is based on the probability value of the F-statistic. If this probability value is less than 0.05, H_0 is rejected, indicating that at least one independent variable influences the dependent variable and that the regression model is feasible for use. Conversely, if the probability value is greater than 0.05, H_0 is not rejected, meaning that none of the independent variables have an effect on the dependent variable, rendering the regression model unsuitable for analysis.

Table 2. F Test Result and Adjusted R²

F-Statistic	11.88456
Prob (F-Statistic)	0.000000
Adjusted R ²	0.228262

The Adjusted R^2 value is 0.00000. This means that the independent variable is able to explain 0.000% of the variation in the dependent variable, and the remaining 100.00% can be influenced by other factors not included in this research model. Descriptive statistical analysis is a statistical technique used to describe and analyze data that has been collected through data processing using software such as EViews. This study uses six variables, namely ROA, NII, SIZE, LLP, CAR, and OA. The purpose of this test is to provide an overview of the data that has been collected. Data distribution shows how the data is spread. If the data is normally distributed, the average, minimum, and maximum values of the data will tend to be similar. Conversely, if the data is not normally distributed, the mean, minimum, and maximum values tend to differ.

Table 3. Descriptive Statistics Test Results

Variable	N	Mean	Min	Max	Std. Dev
ROA	185	0.004332	-0.180600	0.078900	0.025806
NII	185	0.028752	0.000000	0.683300	0.068344
SIZE	185	13.70341	12.12000	15.34000	0.751294
LLP	185	0.037568	0.00000	0.170000	0.030624
CAR	185	0.323579	0.107800	1.699200	0.214640
OVERHEAD	185	0.034996	0.00000	0.226000	0.027771

The descriptive statistical analysis in this study provides an overview of the characteristics of each research variable. For the Return on Assets (ROA) variable, the minimum value was recorded at -18.06%, observed at PT Bank Raya Indonesia Tbk in 2021, while the maximum value was 7.89%, achieved by the same bank in 2022. The standard deviation for ROA is 2.57%, with an average value of 0.41%. The Non-Interest Income (NII) variable had a minimum value of 0.0000%, recorded at PT Bank Maspion Tbk and PT Bank Victoria International in 2019 and 2023, respectively, while the maximum value was 6.83%, achieved by PT Bank Jago Tbk in 2022. The standard deviation for NII is 6.83%, with an average value of 2.87%. The Bank Size variable recorded a minimum value of 27.91% at PT Bank Jago Tbk in 2019, while the maximum value was 35.32%, observed at PT Bank Mandiri (Persero) Tbk in 2023. The standard deviation for this variable is 1.704%, with an average value of 31.54%. For the Loan Loss Provision (LLP) variable, the minimum value was 0.0000%, recorded at PT Bank Maspion Tbk in 2019, while the maximum value was 1.70%, observed at PT Bank Raya Tbk in 2021. The standard deviation for LLP is 3.0%, with an average value of 3.7%. The Capital Adequacy Ratio (CAR) variable had a minimum value of 10.78%, observed at PT Bank Mayapada Internasional Tbk in 2023, while the maximum value was 169.92%, recorded by PT Bank Jago Tbk in 2021. The standard deviation for CAR is 21.40%, with an average value of 32.35%. Lastly, the Overhead variable had a minimum value of 0.28%, recorded at PT Bank Maspion Internasional Tbk in 2019, while the maximum value was 22.64%, observed at PT Bank Neo Commerce Tbk in 2023. The standard deviation for Overhead is 20.90%, with an average value of 31.85%. These descriptive statistics provide insight into the distribution and variation of the financial performance indicators used in this study.

The T-test (or individual significance test) is used to evaluate the significant effect of each independent variable, namely Non-Interest Income, Bank Size, Loan Loss Provision, Capital Adequacy Ratio, and Overhead, on the dependent variable Return on Assets (ROA). Through the T-test, it can be interpreted to what extent each independent variable individually influences the dependent variable. The explanation of the T-test results is as follows.

Table 4. T Test Results

Variable	Coefficient	Probability	Conclusion
C	-0.2330	0.1947	
Non Interest Income	-0.012688	00.6763	NII has no effect
Bank Size	0.015040	00.0000	Bank Size has a positive effect
Loan Loss Provision	-22.0755	00.0005	LLP has a negative effect
Capital Adequacy Ratio	0.032585	00.0008	CAR has a positive effect
Overhead	-0.221347	00.0026	Overhead has a negative effect

Several conclusions can be drawn regarding the effects of different variables on Return on Assets (ROA). Non-Interest Income has a probability value of 0.1747, which is greater than 0.05, indicating that Non-Interest Income does not have a significant effect on ROA. On the other

hand, Bank Size has a probability value of 0.0000, which is less than 0.05, suggesting that Bank Size positively affects ROA. Loan Loss Provision has a probability value of 0.0005, also less than 0.05, indicating that it has a negative effect on ROA. The Capital Adequacy Ratio, with a probability value of 0.0008, positively affects ROA, as it is significantly lower than 0.05. Lastly, Overhead has a probability value of 0.0026, which is also less than 0.05, indicating that Overhead negatively impacts ROA. These results suggest that factors such as Bank Size and Capital Adequacy Ratio positively influence profitability, while Loan Loss Provision and Overhead have negative impacts.

Research shows that non-interest income does not always have a significant effect on ROA. In line with Andrzejuk (2018), who states that there is no significant relationship between non-interest income and profitability, as measured by net income from fees and commissions relative to assets under management. This finding challenges the dominant view that non-interest income has a positive influence on profitability in the banking sector. Additionally, research by Kaur & Kaur (2020) revealed that despite an increasing trend in fee-based income, the correlation between growth in interest income and non-interest income is not strong enough to show a significant impact on ROA. Furthermore, an analysis of public sector banks showed that factors such as GDP growth and inflation have a greater influence on bank performance than non-interest income, suggesting that non-interest income may not be the main determinant of ROA (Singh & Milan, 2023). This indicates that while diversification into non-interest income can be beneficial up to a point, over-reliance on such income may result in diminishing returns in terms of profitability. Moreover, the significant negative effect of non-interest income on ROA reinforces the view that non-interest income is not always positively correlated with bank efficiency and profitability.

Research shows that LLP has a significant negative effect on ROA. In line with Zulfikar & Sri (2019), it is shown that loan loss provisions have a negative impact on profitability, as measured by ROA. Their findings indicate that effective loan loss provision management can increase return on investment, which in turn has a positive impact on ROA. This suggests that a well-managed loan loss provision can serve as a buffer against potential losses, thereby stabilizing bank income and increasing profitability. In line with previous research, Alhadab & Alsahawneh (2016) stated that LLP has a negative impact on commercial bank profitability. They concluded that an increase in LLP tends to decrease bank ROA. This is not in line with Gurung et al. (2023), who found that loan loss provisions significantly affect the profitability of conventional banks. The study suggests that an effective allowance strategy is essential to maintain financial stability and improve ROA. This confirms the importance of loan loss allowance as a tool for banks to manage credit risk and improve their financial performance. This finding is supported by Sharma (2024), who said that higher loan loss allowance ratios are positively correlated with ROA, suggesting that banks that prudently manage their allowances can achieve better profitability results.

Research shows that CAR has a significant positive effect on ROA. In line with this, Charisma et al. (2022) found that the Capital Adequacy Ratio (CAR) significantly affects ROA in state-owned banks in Indonesia. Their analysis shows that a higher CAR increases the bank's ability to absorb potential losses, thus improving profitability metrics such as ROA. This finding is consistent with the study by Tami & Riska Kumala Dewi (2022), who also reported a significant positive effect of CAR on ROA in banking companies. Their study emphasized that maintaining an adequate CAR is essential for banks to effectively manage risk and maintain profitability. Similarly, a study by Sudarno et al. (2021) showed that CAR, along with other financial ratios, significantly affects ROA in banks listed on the Indonesia Stock Exchange. Their findings imply that a strong CAR not only supports financial stability but is also positively correlated with profitability, reinforcing the idea that banks with higher levels of capital adequacy are better able to generate returns on their assets. This research is supported by the findings of Hasan & Reswanty (2021), which show that CAR has a significant effect on ROA in Islamic community financing banks, indicating that an adequate level of capital adequacy is crucial for increasing profitability. This finding is in line with the results of Minh (2021), which noted that a strong CAR contributes to financial stability and positively affects ROA at banks in Vietnam, indicating that compliance with capital adequacy standards provides benefits to bank performance.

The T-test (or individual significance test) is used to evaluate the significant effect of each independent variable—namely, Non-Interest Income, Bank Size, Loan Loss Provision, Capital Adequacy Ratio, and Overhead—on the dependent variable, Return on Assets (ROA). Through

the T-test, the extent to which each independent variable individually influences the dependent variable can be interpreted. The explanation of the T-test results is as follows.

CONCLUSION

This study examines the factors affecting the profitability of conventional banks in Indonesia, using Return on Assets (ROA) as a measure. The research analyzes data from 38 banks over the period 2019-2023, sourced from the Indonesia Stock Exchange. Key variables investigated include Non-Interest Income (NII), Bank Size, Loan Loss Provision (LLP), Capital Adequacy Ratio (CAR), and Overhead. The findings indicate that NII does not significantly influence profitability. While it is an important revenue source, the study suggests that banks may rely more on interest income from loans, which overshadows the impact of non-interest income streams like fees and commissions. In contrast, Bank Size positively affects profitability, with larger banks benefiting from economies of scale, a broader customer base, and more efficient management of operational costs. The study also finds that Loan Loss Provision (LLP) negatively impacts profitability. Banks with higher provisions typically anticipate more loan defaults, reducing their overall profitability. The Capital Adequacy Ratio (CAR) is positively correlated with profitability, as a higher CAR indicates a stronger capital base, boosting investor confidence and providing a buffer against financial shocks. Overhead costs have a negative impact on profitability. Banks with higher operational costs relative to their assets tend to be less profitable, emphasizing the importance of managing expenses efficiently. The study suggests areas for future research, including expanding the sample to include Islamic banks and exploring additional factors like operational efficiency, managerial policies, and macroeconomic conditions. This broader approach could provide more comprehensive insights into the factors influencing profitability in the Indonesian banking sector.

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