

ABSTARCT

This thesis studies the effect of loan restructuring and income diversification in the Indonesian banking sector during the COVID-19 pandemic on their profitability and credit risk. The study analyzed the quarterly reports of 95 commercial banks from 2019 to 2021 with 1140 observations using panel data analysis with fixed effect model.

This study has found that loan restructuring is negatively associated with lower profitability and higher credit risk, while income diversification is positively associated with better profitability. No meaningful connections were found between income diversification and credit risk. Additionally, controlling variables of bank size, equity to total ratio (EQTA), and capital adequacy ratio (CAR) is also analyzed. Bank size is linked with better profitability and lower credit risk, while EQTA is associated with higher credit risk and CAR is associated with lower credit risk.

Keywords: *Bank loan restructuring, income diversification, COVID-19 pandemic*

