ABSTRACT

The study utilises quantitative techniques, namely multiple linear regression and Moderated Regression Analysis (MRA), investigating the correlation between liquidity risk and 43 conventional banks using data collected over a six-year period, credit risk, and financial performance in the banking sector listed on the Indonesia Stock Exchange from 2018 to 2023, with capital structure as a moderating variable. Liquidity risk is quantified by the Loan to Deposit Ratio (LDR), credit risk is indicated by the Non-Performing Loan (NPL) ratio, financial performance is assessed by Return on Assets (ROA), and capital structure is represented by the Debt to Equity Ratio (DER).

The findings indicate that both LDR and NPL exert a substantial risky outcome on ROA, suggesting that inadequate risk management diminishes profitability. The Debt-to-Equity Ratio (DER) significantly enhances Return on Assets (ROA), indicating that an optimal capital structure improves performance. Even while DER significantly lessens the correlation between NPL and ROA, it has no effect on how LDR affects ROA. These findings emphasize the necessity of a well-balanced capital structure and effective risk management to improve banks' financial performance.

Keywords: *Liquidity Risk, Credit Risk, Capital Structure, Financial Performance, Banking Sector, Indonesia Stock Exchange.*