

ABSTRACT

Financial performance is an important indicator in assessing the health and stability of a company, including banking institutions. In an effort to improve financial performance and manage risk, one of the most widely applied financial strategies is portfolio diversification. With this strategy, investors and institutions such as commercial banks can mitigate the impact of market volatility on investment returns. This study aims to identify the moderating effect of bank size on the relationship between portfolio diversification and financial performance in the Indonesian banking industry during the period 2014–2023. This study examines the influence of the independent variable of portfolio diversification on the financial performance of banks in Indonesia, measured through the dependent variable Return on Assets (ROA), moderated by bank size and using the control variables Non-Performing Loan (NPL), Capital Adequacy Ratio (CAR), and Loan to Deposit Ratio (LDR). A quantitative approach was used with the population consisting of all conventional banks in Indonesia that have conducted an Initial Public Offering (IPO). The sample was selected using purposive sampling to ensure alignment with the study's focus and parameters. Multiple panel data analysis and a moderation regression model were employed to test the relationships among the variables. The findings of this study are expected to contribute to academics and practitioners for further research. The results show that portfolio diversification has a significant and positive effect on ROA. Bank size has a positive but insignificant effect on ROA. The Capital Adequacy Ratio (CAR) shows a negative but insignificant effect on ROA, while Non-Performing Loans (NPL) have a very significant negative effect on ROA. The Loan to Deposit Ratio (LDR) has a positive but insignificant effect on ROA. Additionally, the moderation analysis results indicate that bank size significantly moderates the effect of portfolio diversification on profitability in a negative direction, suggesting that the larger the bank size, the weaker the effect of portfolio diversification on profitability.

Keywords: Bank Size, Capital Adequacy Ratio, Portfolio Diversification, Financial Performance, Loan to Deposit Ratio, Non-Performing Loan, Banking