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THE EFFECT OF FINANCIAL PERFORMANCE ON STOCK PERFORMANCE IN THE BANKING INDUSTRY LISTED ON THE INDONESIA STOCK EXCHANGE

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Abstract

This research aims to gain insight into the influence of a bank's financial performance on its market performance assuming that the financial performance of an organization is the most important criterion that triggers stock price movements. The data used in this study is secondary data sourced from the annual banking report listed on the Indonesia Stock Exchange (IDX) from 2020 – 2024. The number of research samples was 29 banks with a total of 145 data that met the criteria. This study used multiple linear regression analysis on panel data to evaluate the relationship between independent and dependent variables using e-views software 9. The results of this study show that net non-performing assets and current account savings accounts have a significant negative impact on share price growth. Capital adequacy ratio, net interest margin, and liquid assets total assets have a significant positive impact. Bank size has a significant positive impact. The implications of this research can be useful for managers to evaluate financial performance and strategies that affect market perception, and also for investors to consider external factors such as economic conditions and market sentiment.

Keywords: Bank Financial Performance, Market Performance, Stock Price Growth, Multiple Linear Regression, Indonesia Stock Exchange

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INTRODUCTION

The banking sector plays a crucial role in the national economy as a financial intermediary that channels surplus funds into productive investments. Technology-driven transformation has intensified scholarly attention on banking efficiency, while mandatory financial disclosure by publicly listed banks serves as a key mechanism for maintaining investor confidence (Nugroho et al., 2020; Sar & Panigrahi, 2025).

Stock investment offers returns in the form of dividends and capital gains, making financial statement analysis and stock price movements essential for investors. Banking stocks are among the most attractive investment instruments, as stock prices reflect historical performance, current financial conditions, and future expectations (Abedifar et al., 2021; Nugroho et al., 2020). In this study, stock performance is proxied by share price growth (Sar & Panigrahi, 2025).

Bank financial performance is assessed using the CAMEL framework, which evaluates capital adequacy, asset quality, management efficiency, earnings ability, and liquidity. This model is recommended by the Basel Committee as a tool for assessing bank soundness, while the sensitivity to market risk component is excluded due to data limitations (Banu & Vepa, 2021; Sar & Panigrahi, 2025).

Capital adequacy is proxied by the Capital Adequacy Ratio (CAR), reflecting a bank's ability to absorb risk and maintain financial stability. A higher CAR provides a positive signal to investors and is positively associated with share price growth (Lestari et al., 2024; Nugroho et al., 2020).

Asset quality is proxied by Net Non-Performing Assets (NNPA). An increase in NNPA indicates higher credit risk, which may reduce profitability and investor confidence, thereby exerting a negative and significant effect on share price growth (Gaur & Mohapatra, 2021; Sharma et al., 2023).

Management efficiency is proxied by the Current Account Savings Account (CASA) ratio. Although a higher CASA ratio reflects the bank's ability to mobilize low-cost funds, increased operational and promotional costs may suppress profitability and negatively affect share price growth (Murtopo & Setyawan, 2024; Sar & Panigrahi, 2025).

Earnings ability is proxied by the Net Interest Margin (NIM), which captures the effectiveness of banks in generating net interest income. A higher NIM indicates superior intermediation performance and has a positive and significant impact on share price growth (Sihotang et al, 2025; Sar & Panigrahi, 2025).

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Liquidity is proxied by the Liquid Assets to Total Assets (LATA) ratio. Adequate liquidity is essential for maintaining operational stability and investor confidence and has been shown to positively influence share price (Doan & Bui, 2021; Zhang & Lence, 2022).

Bank size is included as a control variable and measured by total assets. Larger banks tend to exhibit greater stability and diversification opportunities, resulting in a positive relationship between bank size and share price growth (Syahid et al., 2024).

LITERATURE REVIEW

The banking sector plays a pivotal role in the financial system due to its unique ability to create credit through balance sheet operations, where assets represent the use of funds and liabilities and equity constitute funding sources (Broby, 2021). As a core component of the financial industry, banking performance significantly influences economic growth and financial stability. Consequently, enhancing firm value through stock price performance has become a primary objective of banking operations, particularly for publicly listed banks (Freddy & Toni, 2020).

Stock performance in the banking sector reflects market perceptions of a bank's financial health, operational efficiency, and future growth prospects. Share Price Growth (SPG) is commonly used as a market-based indicator to capture changes in firm value and investor expectations. Prior studies suggest that bank stock prices are influenced by both internal fundamentals and external market conditions. While short-term price movements may be driven by speculation, long-term stock performance tends to reflect a bank's intrinsic value and competitive position (Rubaiyath & Lalon, 2022; Sar & Panigrahi, 2025).

Bank financial performance is a critical determinant of stock price movements and is widely assessed using the CAMEL framework, which evaluates capital adequacy, asset quality, management efficiency, earnings ability, and liquidity. This framework, recommended by the Basel Committee, serves as a comprehensive tool for assessing bank soundness and operational effectiveness. Due to data limitations, the sensitivity to market risk component is often excluded in empirical studies, with emphasis placed on the remaining CAMEL dimensions (Gazi et al., 2022; Sar & Panigrahi, 2025).

Capital adequacy reflects a bank's capacity to absorb potential losses and maintain financial stability. It is commonly proxied by the Capital Adequacy Ratio (CAR), which measures the proportion of capital relative to risk-weighted

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assets. A higher CAR signals stronger risk absorption capacity and regulatory compliance, thereby enhancing investor confidence. Empirical evidence consistently indicates a positive and significant relationship between CAR and share price growth in the banking sector (Alfretdo & Nasution, 2021; Sebayang, 2020). The Basel Capital Accord is an international regulatory framework that establishes the minimum Capital Adequacy Ratio (CAR) requirements to promote the stability and resilience of the banking system. It requires banks to maintain sufficient capital to absorb potential losses, particularly during periods of financial crisis (Setiawan & Muchtar, 2021).

Asset quality is another crucial determinant of bank performance and stock valuation, as it reflects the level of credit risk borne by the bank. Net Non-Performing Assets (NNPA) are widely used to capture the real burden of impaired loans after provisions. Net Non-performing Assets generally occur because the debtor cannot pay the interest and principal of the loan so that the profit of a bank is reduced (Martiningtiyas & Nitinegeri, 2020). High NNPA levels indicate deteriorating asset quality, which can erode profitability, weaken capital, and reduce investor confidence. Prior studies document a negative and significant impact of NNPA on bank stock prices, highlighting the importance of effective credit risk management (Shaikh, 2024; Sharma et al., 2023).

Management efficiency represents the ability of bank management to allocate resources effectively and manage operational risks. This aspect is often proxied by the Current Account Savings Account (CASA) ratio, which measures the proportion of low-cost deposits in total funding. A higher CASA ratio generally implies lower funding costs and improved profitability. However, excessive operational and promotional expenditures to attract CASA deposits may offset these benefits, leading to mixed empirical findings, including a negative association between CASA and share price growth (Murtopo & Setyawan, 2024; Nguyen et al., 2024).

Earnings ability captures a bank's capacity to generate stable and sustainable income. Net Interest Margin (NIM) is the most commonly used proxy, reflecting the effectiveness of banks in generating net interest income from productive assets. A higher NIM indicates efficient intermediation and stronger profitability, which are positively valued by investors. Empirical evidence supports a positive and significant relationship between NIM and bank stock performance (Sar & Panigrahi, 2025; Widyakto et al., 2023).

Liquidity plays a vital role in maintaining bank stability and public confidence, as banks must meet short-term obligations while managing maturity mismatches between assets and liabilities. Liquidity is frequently measured using

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the Liquid Assets to Total Assets (LATA) ratio. Higher liquidity levels indicate a stronger ability to withstand financial stress and are associated with improved market valuation. Previous studies report a positive and significant impact of liquidity on bank stock prices (Philip, 2023; Sar & Panigrahi, 2025).

In addition to financial performance indicators, bank size is commonly included as a control variable to account for differences in operational scale. Bank size, typically measured by the natural logarithm of total assets, reflects economies of scale, diversification opportunities, and perceived stability. Larger banks are generally considered more resilient and efficient, although they may face greater regulatory scrutiny. Empirical findings indicate that bank size has a positive and significant effect on share price growth (Sar & Panigrahi, 2025; Syahid et al., 2024).

RESEARCH METHOD

This study employs a quantitative research method that emphasizes the use of numerical data in data collection, analysis, and interpretation to produce objective conclusions (Sar & Panigrahi, 2025). The study uses secondary data obtained from the annual financial reports and stock price data of banking companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The population consists of all listed commercial banks, with samples selected using purposive sampling based on data completeness and consistency, resulting in 29 banks and 145 panel data observations. Data were collected through documentation techniques from the IDX and official bank websites. Panel data regression analysis was applied to examine the relationships between variables, with model selection and hypothesis testing conducted using e-views 9 software. Stock performance, proxied by Share Price Growth (SPG), serves as the dependent variable, while Capital Adequacy Ratio (CAR), Net Non-Performing Assets (NNPA), Current Account Savings Account (CASA), Net Interest Margin (NIM), and Liquid Assets to Total Assets (LATA) are employed as independent variables, with bank size measured by the natural logarithm of total assets included as a control variable.

RESULTS AND DISCUSSION

Descriptive Analysis

The results of the descriptive statistical test on the independent variables and control variables on dependent variables can be seen in the following table:

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Table 1.
Descriptive Analysis Result

	N	Mean	Median	Maximum	Minimum	Std.Dev.
CAR	145	31.34949	25.60000	169.9200	10.50000	19.92998
NNPA	145	1.367883	0.970000	5.490000	0.040000	1.180978
CASA	145	41.22679	41.11000	74.83000	11.93000	17.79339
NIM	145	4.680876	4.420000	18.39000	0.220000	2.500766
LATA	145	21.56818	17.44000	74.26000	5.590000	12.76368
SIZE	145	18.42650	18.72000	21.61000	15.50000	1.681438
SPG	145	21.43796	-5.230000	757.1400	-91.37000	116.9490

Source: eviews9 (2025)

Based on the table above, it can be seen that:

1. The Capital Adequacy Ratio (CAR) variable records a minimum value of 10.50 for PT Bank Mayapada Internasional Tbk in 2024 and a maximum value of 169.92 for PT Bank Jago Tbk in 2021. The standard deviation (19.93), which is lower than the mean value (31.35), indicates low data variability.
2. The Net Non-Performing Assets (NNPA) variable shows a minimum value of 0.04 for PT Bank Jago Tbk in 2020 and a maximum value of 5.49 for PT Bank Mayapada Internasional Tbk in 2022. The standard deviation (1.18), which is lower than the mean (1.37), suggests relatively homogeneous data distribution.
3. The Current Account Savings Account (CASA) variable has a minimum value of 11.93 for PT Bank Mayapada Internasional Tbk in 2024 and a maximum value of 74.83 for PT Bank Mandiri (Persero) Tbk in 2024. A standard deviation of 17.79, which is smaller than the mean value of 41.23, indicates controlled data variation.
4. The Net Interest Margin (NIM) variable reports a minimum value of 0.22 for PT Bank Mayapada Internasional Tbk in 2020 and a maximum value of 18.39 for PT Bank Rakyat Indonesia (Persero) Tbk in 2021. The standard deviation (2.50), which is lower than the mean (4.68), reflects relatively limited dispersion.
5. The Liquid Assets to Total Assets (LATA) variable shows a minimum value of 5.59 for PT Bank Mestika Dharma Tbk in 2020 and a maximum value of

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74.26 for PT Bank Mega Tbk in 2021. The standard deviation (12.76), which is smaller than the mean (21.57), indicates low variability.

6. Bank size (Size) records a minimum value of 15.50 for PT Bank Jago Tbk in 2020 and a maximum value of 21.61 for PT Bank Neo Commerce Tbk in 2024. The standard deviation (1.68), which is lower than the mean value (18.43), suggests a homogeneous distribution.
7. Share Price Growth (SPG) exhibits a minimum value of −91.37 for PT Bank Mayapada Internasional Tbk in 2021 and a maximum value of 757.14 for PT Bank Bumi Arta Tbk in 2021. The standard deviation (116.95), which exceeds the mean value (21.44), indicates high variability and substantial dispersion in the data.

Chow test

The results of the Chow test using can be seen as follows:

Table.2
Result of Chow Test

Chow Test			
Effects Test	**Prob.**	**Hypothesis**	**Conclusion**
Cross-section Chi-square	0.0088	H_0 rejected	Fixed Effect Model

Source: eviews9 (2025)

The results indicate that the Prob. Cross-Section Chi-Square value of 0.0088 is less than 0.05, leading to the rejection of the null hypothesis. Accordingly, the fixed effects model is selected, and the Hausman test is subsequently conducted to confirm the appropriate panel data model.

Hausman Test

The results of the Hausman test can be seen in the following table:

Table.3
Result of the Hausman Test

Hausman test			
Effects Test	**Prob.**	**Hypothesis**	**Conclusion**
Cross-section random	0.0000	H0 is rejected	Fixed Effect Model

Source: eviews9 (2025)

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The results show that the Prob. Cross-section random value of 0.0000 is below 0.05, leading to the rejection of the null hypothesis; therefore, the fixed effects model is selected for the analysis.

F-test

The results of the F test using can be seen as follows:

Table.4
Result of F-Test

Effects Test	Prob.	Hypothesis	Conclusion
Prob (F-statistic)	0.041607	H0 is rejected	Significantly Influential

Source: eviews9 (2025)

The test results show that the Prob. (F-statistic) value of 0.0416 is below 0.05, leading to the rejection of the null hypothesis and indicating that at least one independent variable significantly affects the dependent variable.

Goodness-of-Fit test (Adjust R^2)

The results of the Goodness of Fit test in this study can be seen in the following table:

Table.5
Result of Goodness of Fit Test

Testing	Value
Adjusted R-Squared	0.124452

Source: eviews9 (2025)

The adjusted R^2 value for Share Price Growth is 0.1245, indicating that CAR, NNPA, CASA, NIM, and LATA jointly explain 12.45% of the variation in stock price growth, while the remaining 87.55% is attributable to other factors not included in the model. These results suggest that the model exhibits an acceptable level of goodness of fit.

Panel Data Regression Analysis

Data analysis in this study employs panel data regression. Panel data analysis consists of three alternative models: the common effects model, the fixed effects model, and the random effects model. Based on model selection tests, the fixed effects model is applied in this study. The regression analysis aims to examine the effect of CAR, NNPA, CASA, NIM, and LATA on Share Price Growth (SPG). The statistical results yield the following regression equation:

$$spg_{it} = -1560.19 - 0.1877\ (car)_{it} - 13.0942\ (nnpa)_{it} + 3.1597\ (casa)_{it} - 34.2608\ (nim)_{it} + 5.3192\ (lata)_{it} + 82.53\ (size)_{it} + \varepsilon_{it}$$

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Hypothesis Testing (T-Test)

The results of the t-test by comparing the t-table with the calculated t-table can be seen in the following table:

Table.6
Result of Hypothesis Test

Variable	Coefficient	Prob.	Hypothesis	Conclusion
C	-1560.192	0.1380	-	-
CAR	-0.187736	0.8464	H0 failed to be rejected	No significant effect
NNPA	-13.09420	0.4563	H0 failed to be rejected	No significant effect
CASA	3.159672	0.1091	H0 failed to be rejected	No significant effect
NIM	-34.26078	0.0001	H0 is rejected	Have a significant impact
LATA	5.319210	0.0083	H0 is rejected	Have a significant impact
SIZE	82.53378	0.1453	H0 failed to be rejected	No significant effect

Source: eviews9 (2025)

Based on the results of the t-test in the table abovecan be concluded:

1. CAR shows a negative coefficient (−0.188), indicating an inverse relationship with SPG; however, the effect is statistically insignificant ($p = 0.846 > 0.05$).
2. NNPA has a negative coefficient (−13.094), suggesting a negative association with SPG, but the relationship is not statistically significant ($p = 0.456 > 0.05$).
3. CASA exhibits a positive coefficient (3.160), implying a positive relationship with SPG; nevertheless, the effect is statistically insignificant ($p = 0.109 > 0.05$).
4. NIM has a negative coefficient (−34.261) and shows a statistically significant negative effect on SPG ($p = 0.0001 < 0.05$).
5. LATA demonstrates a positive coefficient (5.319) and exerts a statistically significant positive influence on SPG ($p = 0.008 < 0.05$).
6. Bank Size (SIZE) shows a positive coefficient (82.534), indicating a positive relationship with SPG; however, the effect is not statistically significant ($p = 0.145 > 0.05$).

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The Effect of Capital Adequacy Ratio (CAR) on Share Price Growth

The analysis indicates that the Capital Adequacy Ratio does not have a significant effect on share price growth. This finding is consistent with Ivansyah & Widagdo, (2025), who report that capital adequacy does not significantly influence banking stock returns. Although CAR reflects a bank's capacity to absorb credit, operational, and market risks, a higher CAR does not necessarily translate into improved stock performance. CAR primarily serves as a regulatory measure of financial stability rather than a direct indicator of profitability. Consequently, banks may maintain strong capital positions while still experiencing pressure on earnings or interest margins, limiting its impact on stock returns.

In contrast, other studies, such as Obadire & Moyo, (2023), argue that capital can be effectively utilized to expand assets and generate profits. Excess capital may enhance profitability, whereas insufficient capital can constrain bank expansion and adversely affect the perceptions of depositors, borrowers, and shareholders. Such conditions may influence investor expectations and, in turn, affect stock returns.

The Effect of Net Non-Performing Assets (NNPA) on Share Price Growth

The analysis indicates that Net Non-Performing Assets do not have a significant effect on share price growth. According to Tahu et al, (2023), NNPA represents an additional burden that may reduce bank profitability, and higher NNPA levels are generally expected to exert downward pressure on stock prices by weakening banks' primary revenue source, namely interest income from loans.

However, other studies, such as Firmansyah, (2022), find that NNPA has a significant impact on stock returns, suggesting that variations in non-performing loans influence the returns distributed by listed banking firms. This may occur because the average NNPA levels in Indonesian banks remain within acceptable regulatory thresholds, below the 5% limit set by Bank Indonesia. Under such conditions, increases in NNPA may coincide with rising stock prices, leading investors to remain confident in the banking sector.

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The Effect of Current Account Saving Account (CASA) on Share Price Growth

The analysis indicates that the Current Account Saving Account (CASA) ratio does not have a significant effect on stock price growth. Although a higher CASA ratio reflects lower funding costs and better funding efficiency Sar & Panigrahi, (2025), the market does not perceive changes in low-cost deposits as a primary driver of banking stock returns. Investors appear to place greater emphasis on factors that directly influence firm valuation, such as credit growth, asset quality, profitability, and macroeconomic conditions.

In contrast, prior studies Yasar et al, (2020) report a significant positive relationship between the CASA ratio and stock prices, suggesting that CASA effectively captures firm value in the banking sector. From a signaling theory perspective, a high CASA ratio may serve as a positive signal of future performance, guiding managerial strategies toward low-cost funding to enhance firm value and attract investors.

The Effect of Net Interest Margin (NIM) on Share Price Growth

The results show that Net Interest Margin (NIM) has a positive and significant effect on stock price growth. A higher NIM reflects greater efficiency in managing interest income relative to interest expenses Mahardika, (2025), indicating stronger intermediation performance and higher profit potential. This condition sends a positive signal to investors, increases confidence in future earnings growth, and ultimately contributes to rising bank stock prices.

However, some studies Hutapea, (2024) report an insignificant relationship between NIM and stock returns, contrasting with findings that identify a positive effect. These results suggest that although NIM is an important operational indicator, investors may place greater weight on broader profitability measures such as ROA and ROE, which more directly reflect a bank's overall financial condition and growth prospects.

The Effect of Liquid Asset Total Assets (LATA) on Share Price Growth

The results indicate that the Liquid Assets Total Assets ratio has a positive and significant effect on stock price growth. Higher liquidity reflects a bank's ability to meet short-term obligations and maintain operational stability Muhammad & Taufik, (2022), which reduces perceived risk, strengthens investor confidence, and increases demand for bank shares, leading to higher stock prices.

A high level of asset liquidity signals financial resilience and operational soundness, thereby enhancing investor trust. This condition encourages investment interest and contributes to an increase in bank stock prices (Philip,

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2023).

The Effect of Bank Size (SIZE) on Share Price Growth

The findings indicate that bank size has no significant effect on stock price growth. Consistent with Harori, (2020), this result suggests that firm size, commonly measured by total assets, is not a primary consideration for investors when making stock investment decisions, as size alone does not adequately predict future profitability or stock price appreciation.

Bank size is not the sole indicator of growth, and investors tend to focus more on how effectively assets are managed rather than their absolute level. Large asset holdings that are not efficiently utilized may fail to generate high profits, thereby limiting stock returns and reducing the relevance of bank size in investment evaluation (Harori, 2020).

CONCLUSION

This study examines the impact of CAR, NNPA, CASA, NIM, LATA, and Bank Size on stock price growth of banks listed on the Indonesia Stock Exchange during 2020–2024. Using panel data analysis, the results reveal that among the examined variables, only profitability and liquidity indicators significantly influence stock price movements.

The findings show that CAR, NNPA, CASA, and Bank Size have no significant effect on stock price growth, indicating that capital adequacy, asset quality, funding structure, and firm size are not primary considerations in investor valuation. In contrast, Net Interest Margin (NIM) and Liquid Assets to Total Assets (LATA) have a positive and significant effect on stock price growth, reflecting the importance of efficient intermediation and strong liquidity in enhancing investor confidence and market valuation.

Overall, the results suggest that investors place greater emphasis on banks' ability to generate profits and maintain liquidity rather than on capital strength, asset risk, or organizational scale. This study provides empirical evidence from the Indonesian banking sector and contributes to a clearer understanding of the financial performance indicators that are most relevant to stock price growth.

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