Does The Bank Soundness Reflect The Firm Value?

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Abstract

This study aims to examine the effect of bank soundness on firm value. This study uses components of bank soundness assessment, namely risk profile, good corporate governance, earnings, and capital provision to examine its effect on investor decision making so that it affects firm value. The population of this research is all banking companies in Indonesia that are listed on the Indonesia Stock Exchange and the sample is selected using purposive sampling technique in the research period 2015 to 2020. Data analysis uses panel data regression. The results showed that the risk profile as measured by the non-loan profile had an effect on firm value, while the proportion of the board of commissioners, the ratio of operating costs to operating income, and the bank's capital adequacy ratio had no effect on firm value. It can be concluded from the results of the study that investors do not use the health component information partially but by integrating all bank health information. This is reflected from the study results that simultaneously all variables affect the value of the company. The results of this study imply that credit risk management and lending policies are the main considerations investor decision making. Thus, banks need to maintain the optimization of lending while maintaining the provision of capital and liquidity and managing credit risk.

Keywords
Bank, Capital Adequacy Ratio, Firm Value, Independent Commissioner, Non Performing Loan

1. Introduction

The large role of the banking sector in a country's economy makes the sector an interesting subject of study. In 2021, the financial sector in Indonesia is one of the sectors experiencing an increase in return year over year after the technology sector during the pandemic that hit the whole world (IDX, 2021). Banks that are part of the financial sector, in 2020 and 2021 continue to strive to promote economic recovery Indonesia during a pandemic Covid 19. This is done by lowering the interest rates for the loans and deposits of 8,9% to trigger the level of credit and revitalizing activities business. In Indonesia, efforts to recover the economy as a result of the pandemic are being carried out by the Financial System Stability Committee in collaboration with banks. This shows the large role of banking in the economic recovery process, which in 2021 has increased by 7%. This can be a good signal for shareholders so that they can increase company value in the financial sector.

The value of the company is a reflection of the company's performance that can affect investors' perceptions of the company. The value of the company will give a positive signal in the eyes of investors to invest in the company (Maheswari, 2016). This is in accordance with the signaling theory applied to the relationship between company management and investors. Signaling theory is a theory that discusses how companies provide signals in the form of success and failure to investors. The signal conveyed in the form of information can be in the form of financial reports or annual reports by management. In addition, other signals can come from new policy information from

companies or government policies that affect companies. Both positive and negative signals will be one of the considerations for investors in making investment decisions (Widagdo, 2020).

In the banking sector, the soundness of the bank is one of the factors influencing the value of the company which can be measured by the risk-based bank rating method with the components of the Risk Profile, Good Corporate Governance, Earning, and Capital (RGEC). The sound condition of a bank is good enough to attract interest and trust in the bank from both internal and external parties. A good bank soundness level will increase the trust of customers and shareholders. In addition, assessing the health of the bank can be a means to evaluate the conditions and risks faced by the bank (Kadim, 2018). Research by Yasa (2015) and Dewi (2016) shows that the bank soundness component (RGEC) can be used as a proxy for assessing the soundness of a bank that can affect changes in stock prices. This shows that shareholders use RGEC valuation for their investment decisions. Thus, the higher the level of performance of a bank affects the stock price of the bank in the capital market (Irma, 2016).

The banking sector continues to face challenges arising from dynamic economic conditions. For example, external economic shocks stemming from subprime mortgage payments in the United States caused severe instability during 2008 (Irma et al., 2016). In 2020, since the COVID-19 pandemic, there has been a decline in the demand for goods and investment due to disruptions in business activities which have led to a decline in people's purchasing power. This condition caused slow credit growth, which only grew by 1,49 % (yoy). However, third party funds (savings) grew by 7,95 % (yoy). This impact on the bank loan to deposit ratio to a level of 88,64 %. It shows the resilience of the banking liquidity conditions and remain preserved with CAR stood at 22,50 % (OJK, 2020). With good liquidity and bank capital conditions in 2020 but stock returns in the financial sector has decreased. These conditions indicate that there is an inconsistent condition between the results of previous studies that the soundness of the bank affects the firm value. The following is presented data related to bank soundness components and firm value in 2015 to 2020 which shows an increase in earnings and capital that is not accompanied by an increase in firm value. In addition, in 2017 the company's value increased precisely when earnings and GCG values decreased. In the data, only NPLs show consistency with company value, namely when NPLs increase, it shows that credit risk is high which reduces investor confidence so that company value tends to decrease.

1.1 Objectives

This research objectives is to analyze the impact of risk profile, good corporate governance, earning, capital of bank as components of bank soundness on company value.

2. Literature Review

Bank soundness assessment is a means for supervisory authorities in determining strategy and focus of supervision on banks (OJK, 2011). The soundness of a bank is the result of an assessment of the bank's condition that is carried out on the risk and performance of the bank which is concluded with a composite rating as the final ranking of the results of the assessment of the bank's soundness level. OJK requires a risk-based bank soundness assessment with assessment components consisting of a risk profile, good corporate governance, profitability, and capital provision.

Risk Profile is an assessment of the risks inherent in the bank's business activities, both quantifiable and non-quantifiable, which have the potential to affect the bank's financial position. Determination of the level of risk associated profile and quality of implementation of m anagement composite risk dilakuka n based on a comprehensive analysis and terst ruktur the level of risk associated. In order for credit disbursement to be carried out consistently and based on sound crediting principles, each bank is required to make a written credit policy that can be used as a guideline in day-to-day lending. In this study, the risk profile used as a measure is credit risk. Credit risk is the risk of loss caused by the inability of the debtor or other party to fulfill their obligations to the bank. Credit risk is a loss caused by the inability of the debtor or other party to fulfill their obligations to the bank.

Low banking risk can indicate that management is able to overcome and minimize the inherent risks in banking. The manager's ability shows that the bank's future prospects will be in good condition. The existence of low risk profile information in the financial statements will provide a signal to stakeholders and will be responded to through the price of banking shares in the market which affects the soundness of the bank. The increase in stock prices will have an impact on increasing the value of the company, which will result in a negative relationship between the risk profile and the value of the company in banking (Wardoyo, 2015). Research conducted by Lestari (2018) shows that the risk profile has an effect on firm value, meaning that the magnitude of banking risk will result in a decrease in firm value. So that the lower risk profile will make the higher the value of the company.

Based on the results of the study, it can be concluded that Good Corporate Governance (GCG) has a positive and significant effect on firm value. GCG values are formed by indicators of the board of directors and managerial ownership, meaning that the better the board of directors and the greater the managerial ownership, the better the management of the company to increase the value of the company. This shows that investors or markets give a higher valuation to companies that implement GCG. This research is in line with agency theory in minimizing conflicts of interest between managers and owners by implementing a supervisory mechanism for the company. The oversight mechanism can be carried out with the existence of a board of directors and managerial ownership, so as to foster a sense of belonging and responsibility to manage the company.

Good company management can increase company value (Worokinasih, 2020). The corporate governance mechanism includes many things, for example the number of the board of commissioners, the independence of the board of commissioners, the size of the board of directors, and the existence of the audit committee. With the existence of one of the good corporate governance mechanisms, it is hoped that monitoring of company managers can be more effective so that they can improve company performance and company value. So if the company implements a good corporate governance system, it is expected that the performance will increase for the better, with increasing company performance it is also expected to increase the company's stock price as an indicator of company value so that company value will be achieved (Wardoyo, 2015). According to research conducted by Wulandari & Mertha (2017), it shows the results that Good Corporate Governance has a significant influence on financial performance. This proves that the better corporate governance, the higher the performance and will increase the value of the company banking finance. So, good corporate governance influences the value of the company.

In this study, the profitability of banks is measured by using the operating expense ratio (OER). OER is a ratio that compares operating costs with operating income, with the aim of knowing how much the company's ability to manage operating costs so as not to swell. The greater the OER value, the more inefficient the bank's management in managing its operational costs. OER which tends to increase continuously indicates that bank management is not able to maximize higher income in order to cover its operational costs. Good OER then ROA ratio is getting smaller. The OER ratio means that the company is able to reduce operating expenses and maximize revenue (Yuni, 2019). Thus, the greater the OER value will reduce the value of the company because it is considered that the company's burden is getting bigger and the profit is getting smaller so that the prosperity of shareholders will decrease.

Operating Expense Ratio (OER) is measured quantitatively using the efficiency ratio. Through this ratio is measured whether bank management has used all factors of production effectively and efficiently (Tulung & Ramdani, 2016) . Bank operational efficiency performance is measured using the ratio of operating costs compared to bank operating income (OER). OER ratio is the ratio between total bank operating costs and total operating income. OER ratio is used to measure the level of operational efficiency and the ability of banks to perform their functions as financial intermediaries. Considering that the main activities of banks act as intermediaries of collecting and distributing third party funds, operational costs and revenues are dominated by interest costs and interest yields. Any increase in operating costs will result in a reduction in profit before tax which will ultimately reduce the profit or profitability (ROA) of the bank concerned (Kadim et al., 2018). The success of a bank based on the quantitative evaluation of the bank which can be measured by using the ratio of operational cost towards the operational income. The ratio of operational cost is used to measure the efficiency level of a bank and the ability of the bank in running the activities. OER is called the efficiency ratio and this ratio is used to measure the management of the bank in controlling the operational cost towards the operational income. Research conducted by Dewi (2016) shows that OER has a significant effect on firm value. This means that the higher the OER ratio means the more inefficient the bank's operational costs are, so the possibility of the bank to earn a profit is smaller and will have an impact on firm value.

Capital adequacy indicates the bank's ability to maintain sufficient capital and the ability of bank management to identify, measure, monitor and control the risks that arise and can affect the size of the bank's capital. The Capital Adequacy Ratio (CAR) shows how large the total bank assets that contain risks are also financed from own capital in addition to funds from sources outside the bank. The smaller the risk, the higher the profit earned, so the higher the CAR achieved by the bank, the better the bank's performance. The appropriate capital adequacy can illustrate that the company can run its operations, either to cover a decrease in assets or increase banking profits (Yasa, 2015). Ardianingtyas (2020) stated that the capital significantly influence the value of the company, means that the banks' capital as measured by CAR can raise the value of the company, because the company's stakeholders considered sufficient capital to cover depreciation of assets or provide banking big profits. Thus, the research hypothesis is formulated as follows.

H 1 : Non-performing loans affect firm value

H 2 : The proportion of independent commissioners affects the value of the company
H 3 : Operating revenue ratio affects firm value
H 4 : The ratio of availability of capital affects the value of the company
H 5 : Four components of bank soundness simultaneously affect firm value.

3. Methods

This is a verification research with explanatory survey method. The research object are variables that include risk profile, good corporate governance, earnings, capital, and firm value.The data that has been collected regarding all research variables is then analyzed by panel data regression analysis.

The independent variables in this study are components in the bank's health assessment consisting of a risk profile, good corporate governance, earnings, and capital. The dependent variable in this study is firm value which is measured using Tobin's Q because it includes all elements of debt and all company capital, including company assets. Tobins'Q can be calculated in following formula.

$$\textbf{Tobins}'\textbf{Q} = \frac{\boldsymbol{Market\ Value\ of\ All\ Outstanding\ Check\ +\ Book\ Value\ of\ All\ Debt}}{\boldsymbol{Book\ Value\ of\ total\ asset}} \quad (\mathbf{1})$$

Risk profile was measured using the non-performing loan (NPL) value of bank management's ability to manage non-performing loans provided by banks. NPL is measured by the following formula.

$$\boldsymbol{NPL} = \frac{\boldsymbol{Non-performing\ Loans}}{\boldsymbol{Total\ Credits\ granted}} \mathbf{x\ 100\%} \quad (\mathbf{2})$$

Good corporate governance is measured by the proportion of independent commissioners who are responsible for supervising and providing advice to the board of directors and ensuring that the company implements GCG. GCC is measured by the following formula.

$$ICB = \frac{Independent\ Commissioner}{Company\ Commissioner} x\ 100\% \quad (3)$$

Earnings are measured using the ratio of operational costs to operating income (OER), which is a ratio that compares operating costs with operating income, with the aim of knowing how much the company's ability to manage operating expenses so as not to swell. OER is measured by the following formula.

$$OER = \frac{Operational\ Cost}{Operating\ Income} \text{x } 100\% \quad (4)$$

The capital ratio is measured using the Capital Adequacy Ratio (CAR) which can show the bank's ability to maintain capital and in identifying, measuring, monitoring, and controlling risks that can affect the amount of bank capital. CAR is measured by the following formula.

$$CAR = \frac{Capital}{Risk\ Weighted\ Assets} \text{x } 100\% \quad (5)$$

4. Data Collection

Research population are all banking companies listed on the Indonesia Stock Exchange (IDX). The sample was selected using a purposive sampling method with the following criteria: (1) conventional (non-Islamic) banking companies, (2) banking companies registered and issuing financial statements on the IDX for the 2015-2020 period, (3) companies that did not suffer losses during the research period, (3) the company's financial statements are presented in rupiah. The type of data used is quantitative and secondary data in the form of company annual report data containing management information and company financial reports. Data is obtained by downloading data on the Indonesian Stock Exchange.

5. Results and Discussion

5.1 Descriptive Statistic

In the following, the results of descriptive statistical tests are presented to show the condition of the data.

Table 1. Descriptive Statistic

	Firm Value	Risk Profile	GCG	Earning	Capital
Mean	2,98	2,98	54,10	66,15	21,49
Median	3,00	3,00	55,00	65,00	21,37
Maximum	4,56	4,56	63,00	95,00	31,04
Minimum	0,91	0,74	33,00	45,00	15,17
Std. Dev.	0,19	0,88	6,02	11,89	2,97

Table 1 shows that the market (investors) gives a good assessment of the research sample with an average firm value of above one. This shows that the market value of the company is 2,98% greater than the cost of acquiring the company's assets. The risk profile value as measured by NPL shows the average NPL is below 5%, which is 2,98 with a maximum value which is also below 5%, which is 4,56%. This shows that all of the sample banks have NPL values as required by Bank Indonesia (2021), namely the NPL/NPF ratio for total credit/financing on a gross basis of less than 5%.

The GCG value shows that the average research sample has a proportion of independent commissioners of 54%, which means half of the total company's board of commissioners are independent commissioners. The average value of earnings shows that the average operating expense amounted to 66,15 % of operating income. The average value and minimum value for bank capital adequacy (CAR) are above the minimum value set by Bank Indonesia, which is 8%-11%. Thus, the results of the descriptive test of research data indicate that all research samples are in a healthy condition.

5.2 Model Selection

This study uses multiple regression analysis model of panel data. Data testing begins with selecting the best panel data regression model, among common effects, fixed effects or random effects. The model selection method uses the Chow test and the Hausman test. The following table presents the results of the panel data regression model selection.

Table 2. Panel Data Model Test Result

No	Method	Criteria	Prob.	Conclusion
1	Uji Chow	H_0: common effect model H_1: fixed effect model	0,00	fixed effect model
2	Uji Hausman	H_0: random effect model H_1: fixed effect model	0,00	fixed effect model
			Selected Model	fixed effect model

The first test uses the Chow test with the criteria that if the probability value is > 0,05, then H_0 (common effect model) is accepted and H_1 (fixed effect model) is rejected. If probability value <0,05, then H_0 (common effect model) in the starting and H_1 (fixed effect model) is received. Table 3 showed the value of the probability of cross-section F = 0,00, which means <0,05 so that H_0 is rejected and H_1 is accepted then the selected model is the fixed effect model (FEM).

The second test is Hausman test with the criteria if the probability value <0,05, then H_0 (random effect model) is rejected and H_1 (fixed effect model) is received. If the probability value> 0,05 then H_0 (random effect model) is received and H_1 (fixed effect model) is rejected. Based on table 2 the results of Hausman test shows probability

value of 0,00 which means a probability value > 0,05 so H_0 is rejected and H_1 is accepted, then the model chosen is the fixed effect model. Thus, the panel data regression model used is the fixed effect model (FEM).

5.3 Hypothesis Testing and Discussion

Partial test (t Test)

Hypothesis testing is proven by referring to the probability value in the model used, namely the fix effect model. The testing criteria is if a probability value below 0,05 means that H_0 is rejected and H_1 is accepted and if the probability value above 0,05 means that H_0 is accepted and H_1 is rejected.

Table 3. Statictical Test t

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Conclusion
Risk Profile	-0,006	0,023	-0,282	0,040	Accepted
GCG	-0,000	0,002	-0,095	0,924	Rejected
Earning	-0,001	0,001	-1,039	0,304	Rejected
Capital	0,003	0,005	0,759	0,451	Rejected
Simultant			F-statistic	0,022	Accepted

The test results show that three research independent variables have values above 0,05, so three hypotheses are rejected. This means that the bank's health component which consists of good corporate governance, earnings, and capital provision partially does not affect firm value. Risk profile as measure by non performance loand has vale below 0,05 which means the first hypothesis is accepted. However, simultaneously variables of bank health can affect firm value.

Coefficient of Determination (R^2)

The next test examines how much the bank's health variable affects firm value. The determination test shows a value of 0,124 or 12,40%, which means that the bank's soundness component only affects the firm value of 12,4% and another 87,6% is influenced by other factors not tested in this study.

Table 4. Coefficient of Determination (R^2)

R-squared	0,184
Adjusted R-squared	0,124

5.4 Discussion

The results show that the risk profile as measured by non-performing loans (NPL) affects firm value. This means that the higher the risk profile, the value of the company will decrease and vice versa. The high value of NPL indicates the poor quality of bank credit, thereby increasing the risk of non-performing loans. Investors tend to choose companies with a low level of risk , the lower the NPL value will attract investors. Increased investor interest will increase stock prices which are correlated with firm value. A low NPL value indicates that management is capable of overcoming and minimizing the inherent risks in banking. The manager's ability shows that the bank has good prospects in the future.

In accordance with signaling theory, the high value of bank NPL will be considered a signal of "bad news" by investors (Wardoyo & Agustini, 2015). The high credit risk of the bank will give a signal that the company's condition is not good. Banks will be considered not to have adequate risk management in managing possible risks that occur in the company. This can be one of the predictors of bankruptcy (Wulandari & Mertha, 2018). Therefore, the higher the risk profile will reduce the distrust of stakeholders in the sustainability of the company and especially investors in buying shares in banking companies. As a result, the stock price will be undervalued in the market . The study results support Lestari (2018) and Nurjanah, et. al. (2017) that stated good bank soundness is able to attract good interest and trust from investors. A good bank's financial performance is able to reflect the health condition of a good banking company. The existence of a good bank performance will provide an increase in stock prices with

and the affected the firm value, so investors will be interested in investing in the company. NPL is considered to be able to influence the company's efforts to maximize the wealth of shareholders' funds (Adebisi, 2015). Based on his research, Adebisi (2015) revealed that NPL have an impact on the return on equity (ROE), the lower the value of NPL it would increase the value of ROE. The higher the ROE value, the higher the prosperity of shareholders. The ROE value that is close to 100% indicates the greater the profit for the shareholders which also indicates the high value of the company.

Other variables, namely good corporate governance (GCG), earnings, and capital, each partially does not affect the firm value. GCG in this study is measured by the proportion of independent commissioners. The board of commissioners is responsible and authorized to oversee the actions of management and provide advice to management if deemed necessary by the board of commissioners. Oversight function that indicates that the board of directors not directly involved with the company's operations so that the proportion of the commissioners deemed not affect the value of a company. The results of this study consistent with the Siahaan (2013), namely the proportion of independent board in a company is not a guarantee that the company's performance will be better and no unfair play in the company's financial reporting.

The research of Werdayanthi & Damayanti (2016) also shows that there is no influence of the proportion of independent commissioners on firm value. Most of the purposes of appointing and adding independent commissioners are only to fulfill government regulations so that the supervisory function is not optimal. The existence of supervision carried out by an independent board of commissioners does not prevent the behavior of managers from maximizing their personal interests so that the company's target to maximize the value of the company is difficult to achieve if there are such differences in interests. In addition, the function of the independent board of commissioners is still weak in carrying out the aspirations or interests of non-controlling shareholders (Werdayanthi & Damayanti, 2016; Amaliyah & Herwiyanti, 2019; Agustina, 2017).

Earning in this study is measured by the ratio of operating income (OER). Conceptually, OER stated that the greater this ratio means that bank management tends to generate relatively smaller operating profits as a result of less efficient operations or relatively larger operating costs, this ratio means management is increasingly operating less efficiently so that the final profit will be smaller. The assessment of the company's ability to generate profits as measured by this ratio does not show any effect on the value of the company. In the assessment using OER, the main focus is only on operating costs, so it is possible that this ratio cannot be caught on its influence on firm value. In other words, investors do not base their decisions solely on operating expenses. The biggest concern to shareholders is credit risk. This research is appropriate (consistent) with research Wardoyo and Agustin (2015) which states that the variable earnings have a significant effect on the value of the company.

Capital adequacy in this study is measured by the variable capital adequacy ratio (CAR). CAR has an important role, namely to develop the bank's business and accommodate losses from business activities. Basically, the capital owned by the bank must be sufficient to cover all business risks faced by the bank. The importance of adequate capital provision by banks requires the government to regulate the minimum value of capital provision by banks. This is in order that in order to create a sound banking system that is able to develop and compete nationally and internationally, banks need to increase their ability to absorb risks caused by crisis conditions and/or excessive bank credit growth (OJK, 2016).

The results of the study show that the CAR variable does not affect the value of the company, namely when the CAR value increases, the value of the company decreases. This is because a CAR value that is too high also indicates bad conditions. Basically, when the CAR has increased, it indicates a good bank capital supply with good liquidity. A high CAR value tends to be due to a low weighted asset (which is a capital divider) to have a low value. Meanwhile, the declining CAR indicates higher credit due to the higher weighted assets in the form of loans. Thus, high CAR value indicates weak lending, which can also affect the national economy. This condition can be a signal for investors when the CAR is high, credit distribution is not optimal which can also affect bank income (low ROE or ROA). On the other hand, when the CAR decreases (but is still above the limit set by the OJK) it indicates that the bank's capital flows into lending. Optimal lending will increase bank income (ROE or ROA increases).

The results of this study indicate that partially the components of GCG, earnings, and capital do not affect firm value. However, simultaneously or together the components of bank health, namely RGEC (risk profile, good corporate governance, earnings, and capital) can affect firm value. This shows that investors do not base their investment decisions on a single measure of bank health. Assessment of the Bank's Soundness Level using a risk-based approach is a comprehensive and structured assessment of the results of the integration of risk profiles and performance which includes the implementation of good governance, profitability, and capital. In addition, the adjusted R square value shows a fairly low value, namely 12,4%, which means that only 12,4% of the RGEC

variable affects firm value and 87,6% is influenced by variables not examined. In determining their investment in the banking sector, investors do not only refer to the health of the bank but also other factors such as government policies and the current business climate. The consideration is quite complex because the characteristics of the bank's business are very dynamic.

Banking conditions in Indonesia are quite good because all components of bank soundness show good scores above the minimum value required by regulations. Even when the COVID-19 pandemic hit, the soundness of banks in Indonesia was still good (2019 and 2020) with the NPL value increasing, indicating high non-performing loans during the pandemic and an increase in CAR due to non-optimal lending. However, the value of the company has decreased. Weak demand and business activities during the pandemic resulted in a slowdown in credit growth which only grew by 1,49 % (yoy), while third party funds (DPK) grew at a higher rate of 7,95% (yoy). This resulted in a decline LDR to the level of 88,64 %, which indicates that the funding banks are quite good while the lending sector is limited. Liquidity and capital conditions were maintained due to weak lending. In addition, banking resilience in general is also maintained, supported by the condition of bank capital which is quite solid with a CAR of 22,50 %.

Banks competition in Indonesia are not healthy enough to get funding third party / deposits. The first is due to reduced liquidity of small banks due to their slow rate of raising interest rates compared to large banks which can quickly raise deposit rates. The large banks tend to place excess funds to the letter valuable than the loan portfolio. Meanwhile, small banks tend to be more disbursed to the micro, small, and medium entity sector. Second, there was a policy of BI and the government in 2018 which intensively issued SBI and SBN with interest reaching 8% while bank deposit interest was only 5,8% per year. This encourages the inter-bank deposit interest game. The impact of these two conditions is that if banks do not increase deposit rates, liquidity will be disrupted. To maintain liquidity, banks will not be too aggressive in lending, so credit growth will slow down and affect the economy as a whole. This needs to be a consideration for investors because the slow credit distribution can affect bank profitability.

6. Conclusion (12 font)

The results showed that the proportion of independent commissioners, profitability, and availability of capital partially did not affect firm value. This shows that shareholders do not base their investment-related decisions on information from the three variables partially. Proportion of independent board in a company is not a guarantee that the company's performance will be better and no unfair play in the company's financial reporting. The assessment of the company's ability to generate profits as measured by this ratio does not show any effect on the value of the company. In the assessment using OER, the main focus is only on operating costs, so it is possible that this ratio cannot be caught on its influence on firm value. The high value of CAR does not always indicate the good performance of the bank so as to increase the value of the company. High CAR value indicates weak lending. This condition can be a signal for investors when the CAR is high, credit distribution is not optimal which can also affect bank income (low ROE or ROA). On the other hand, when the CAR decreases (but is still above the limit set by the OJK) it indicates that the bank's capital flows into lending.

One of the variables that are of concern to shareholders is non-performing loan which is an assessment of credit risk. The non-performing loan variable shows an effect on firm value. The high value of NPL indicates the poor quality of bank credit, thereby increasing the risk of non-performing loans. Investors tend to choose companies with a low level of risk, the lower the NPL value will attract investors. Increased investor interest will increase stock prices which are correlated with firm value. Low NPL value indicates that management is capable of overcoming and minimizing the inherent risks in banking.

In addition, simultaneously all variables affect the value of the company. This means that shareholders assess all components of the bank's health in an integrated manner. Thus, shareholders can have more comprehensive information. This is because one of the bank's health variables cannot reflect the overall condition of the bank, for example, a high CAR value does not mean that the bank is in a very good condition but may indicate that credit distribution is not optimal. The declining NPL does not necessarily indicate the good performance of the bank in managing credit, but because of the stagnation of credit distribution. The results of this study imply that credit risk management and lending policies are the main considerations in investor decision making. Thus, banks need to maintain the optimization of lending while maintaining the provision of capital and liquidity and managing credit risk.

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