

Liquidity, Solvency, and Profitability as Determinants of Financial Performance in Indonesian Banking Sub-Sectors

Siti Inayatul Maula¹

Janiman Lie²

^{1,2}Faculty of Economics and Business, Universitas Swadaya Gunung Jati, Indonesia

*Correspondences : siti.122040081@ugj.ac.id

ABSTRACT

Banking financial performance plays a crucial role in maintaining economic stability, particularly during the dynamic post-pandemic period. This study aims to analyze the impact of liquidity, solvency, and profitability on the financial performance of banks listed on the Indonesia Stock Exchange for the 2020–2024 period. This study is grounded in agency theory, which explains the relationship between management and shareholders in corporate governance. The research sample consists of 26 banks selected based on specific criteria from a total population of 45. The study employs multiple linear regression analysis using SPSS Statistics 27, supported by classical assumption tests. The results indicate that liquidity has a significant negative effect on financial performance, while solvency and profitability have a significant positive effect.

Keywords: Liquidity; Solvency; Profitability; Financial performance

Likuiditas, Solvabilitas, dan Profitabilitas sebagai Penentu Kinerja Keuangan pada Sub-sektor Perbankan di Indonesia

ABSTRAK

Kinerja keuangan perbankan memainkan peran penting dalam menjaga stabilitas ekonomi, terutama selama periode pasca pandemi yang dinamis. Penelitian ini bertujuan untuk menganalisis dampak likuiditas, solvabilitas, dan profitabilitas terhadap kinerja keuangan bank-bank yang terdaftar di Bursa Efek Indonesia selama periode 2020–2024. Penelitian ini didasarkan pada teori agensi, yang menjelaskan hubungan antara manajemen dan pemegang saham dalam tata kelola perusahaan. Sampel penelitian terdiri dari 26 bank yang dipilih berdasarkan kriteria tertentu dari total populasi sebanyak 45 bank. Penelitian ini menggunakan analisis regresi linier berganda dengan SPSS Statistics 27, didukung oleh uji asumsi klasik. Hasil penelitian menunjukkan bahwa likuiditas memiliki pengaruh negatif yang signifikan terhadap kinerja keuangan, sedangkan solvabilitas dan profitabilitas memiliki pengaruh positif yang signifikan.

Kata Kunci: Likuiditas; Solvabilitas; Profitabilitas; Kinerja Keuangan

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INTRODUCTION

The Indonesian financial sector, especially the banking sub-sector, plays a strategic role in maintaining economic stability and supporting national growth (Kasri & Azzahra, 2020; Otoritas Jasa Keuangan, 2024). Stable and efficient banking performance is a key indicator of the country's financial health (Wamalwa et al., 2020). In recent years, the focus on banking stability and performance has increased sharply, driven by post-pandemic digital transformation, global monetary policy changes, and uncertain economic dynamics. Based on data (Otoritas Jasa Keuangan, 2025), banking credit growth reached 7.56% yoy with a non-performing loan ratio of 2.28%, which indicates the stability of the sector but is not yet fully optimal in terms of efficiency and profitability.

The phenomenon of banking financial performance can also be seen from the movement of Return on Equity (ROE) as an indicator of return on capital for shareholders. A number of large banks such as BRI, BNI, and Bank Mandiri experienced a decline in ROE compared to the previous period, while several other banks were still able to maintain or increase their ROE amid operational cost pressures and interest rate fluctuations (Kontan, 2025). This condition indicates that macroeconomic stability does not always result in uniform equity returns among banks. These differences reflect variations in management effectiveness in managing capital structure, assets, and funding sources to generate optimal profits. Macroeconomic instability and global interest rate changes have a significant impact on the profitability of banks in developing countries (Nguyen & Vu, 2025). The success of banks in maintaining liquidity, solvency, and profitability is a key factor in maintaining healthy and sustainable financial performance (Brigham & Houston, 2022).

Indonesia is currently in a phase of digital transformation after the pandemic. Various empirical studies show variations in performance between banks, reflecting differences in management's ability to manage financial ratios proportionally. This phenomenon indicates that existing financial theories are not yet fully capable of explaining empirical conditions in the field. Banks with high liquidity do not necessarily have good financial performance, while banks with high leverage are able to generate greater profits. Several previous studies have shown that there are various factors that affect a company's financial performance. (Az-Zahra & Yuniningsih, 2025) found that liquidity has a positive effect on financial performance, while (Wandhini & Kusuma, 2024) showed that the effect is insignificant. (Soraya et al., 2025) reported that solvency has a negative and insignificant effect on financial performance, in contrast to the findings of (Nikmah et al., 2022) which showed a positive effect on financial performance. Similarly, according to (Meli et al., 2024), profitability has a positive and significant effect on financial performance, while according to (Herlina et al., 2024), profitability does not have a significant effect on a company's financial performance. These differing results indicate inconsistency in empirical findings and show that the relationship between financial ratios and financial performance is contextual, especially amid the development of digitalization in the financial sector.

The research gap lies in the limited studies that simultaneously examine the effect of liquidity, solvency, and profitability on financial performance in the Indonesian banking sector. Previous studies generally analyzed these financial ratios

separately in partial models, where each variable was tested individually against financial performance. In contrast, this study employs a simultaneous regression model by incorporating liquidity, solvency, and profitability within a single framework to examine their combined effect on financial performance as measured by Return on Equity (ROE). In addition, most previous studies were conducted using pre-pandemic or short-term data, which do not fully capture the post-pandemic dynamics from 2020 to 2024. Furthermore, limited research has focused on banking companies listed on the Indonesia Stock Exchange (IDX) during this period using ROE as a proxy for financial performance within a comprehensive empirical model.

This study is based on the Agency Theory by (Jensen & Meckling, 1976), which explains the relationship between shareholders as principals and managers as agents in company management. Financial ratios such as liquidity, solvency, and profitability reflect management's ability to manage company resources. Misalignment of interests can arise from suboptimal financial decisions, such as excessive liquidity, excessive use of debt, or a focus on short-term profits. Imbalances in liquidity management, funding structure, and profitability have the potential to cause agency conflicts if they are not aligned with the goal of increasing company value. Therefore, agency theory is considered more relevant than other theories because this study focuses on the consequences of internal management decisions on financial performance, rather than on the mechanism of conveying information to external parties.

Financial performance in this study refers to the company's ability to generate returns for shareholders, which reflects the effectiveness of management in utilizing corporate resources. In the context of agency theory, financial performance becomes an important outcome that reflects whether managers (agents) are able to act in accordance with the interests of shareholders (principals), namely maximizing firm value (Jensen & Meckling, 1976). This study uses Return on Equity (ROE) as a proxy for financial performance because ROE measures how efficiently a company generates net income from shareholders' equity. ROE is widely recognized in corporate finance as a key indicator of shareholder return and firm profitability (Brealey et al., 2020; Brigham & Houston, 2022; Gitman & Zutter Chad J, 2015). Previous studies also confirm that ROE is commonly used as a measure of banking financial performance due to its ability to reflect the effectiveness of equity utilization in generating profit (Haeril & Albar, 2021; Sang Kiprono Charles et al., 2023).

Agency theory explains that managerial decisions in managing liquidity reflect the behavior of agents in balancing risk and return for shareholders (Jensen & Meckling, 1976). Managers may maintain adequate liquidity to ensure operational stability, while excessive liquidity can indicate inefficient asset utilization that reduces potential shareholder returns. Liquidity is a company's ability to meet its short-term obligations with its current assets (Gitman & Zutter Chad J, 2015). The indicator used is the Current Ratio (CR) because it shows a company's ability to pay current liabilities using current assets (Brigham & Houston, 2022). A maintained level of liquidity reflects cash flow stability and effective current asset management, which ultimately supports the company's operational continuity. A number of empirical studies show that optimally managed liquidity has a positive effect on a company's financial performance, although excessively high liquidity levels also have the potential to reduce asset utilization efficiency (Khoza, 2025).

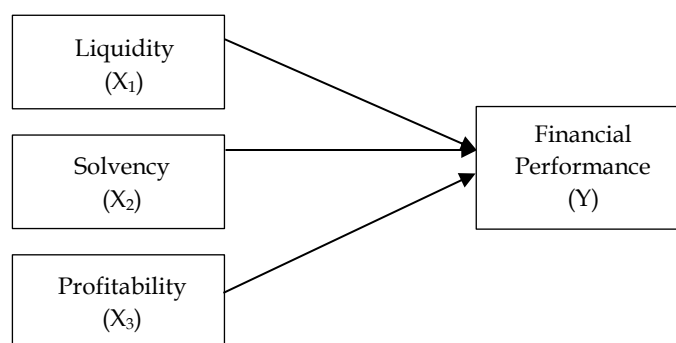
H₁: Liquidity affects the financial performance of banking companies.

Agency theory explains that capital structure decisions reflect managerial behavior in managing company funding sources. Debt usage may function as a disciplinary mechanism that reduces agency conflicts by forcing managers to operate more efficiently due to fixed obligations to creditors (Jensen & Meckling, 1976). Excessive leverage, however, increases financial risk and may reduce shareholder returns (Alimah Salsabila, 2025). Solvency indicates a company's ability to meet its long-term obligations and manage its capital structure effectively (Brealey et al., 2020). The indicator used is the Debt to Equity Ratio (DER) because this ratio directly measures the ratio between total debt and equity, thereby reflecting the company's level of financial risk (Brigham & Houston, 2022). DER was chosen over other ratios such as the Debt to Asset Ratio because it more accurately shows the extent to which a company relies on debt financing over owner's equity (Kusumadewi et al., 2023). In the context of banking, a healthy capital structure allows companies to better absorb financial risk while optimally utilizing debt to improve financial performance.

H₂: Solvency affects the financial performance of banking companies.

Agency theory explains that profitability reflects the alignment between managerial decisions and shareholder interests in maximizing firm value (Jensen & Meckling, 1976). Higher profitability indicates effective managerial performance in utilizing company resources, thereby reducing agency conflicts between managers and shareholders (Lusiana Yulianti et al., 2026). Profitability describes a company's ability to generate profits from its assets (Gitman & Zutter Chad J, 2015). Within the DuPont Analysis framework, ROA represents a key component of profitability that directly contributes to ROE as an indicator of financial performance (Brigham & Houston, 2022). A higher ROA indicates better asset utilization, which ultimately leads to higher returns for shareholders. Therefore, ROA is considered a relevant variable in explaining financial performance (Brealey et al., 2020). In addition, (Nurjanah et al., 2021) emphasized that the higher the ROA value, the greater the profit that a company can generate, thus reflecting the effectiveness of asset management in creating profits. Similar findings were also reported by (Khotijah et al., 2025), that ROA has a positive and significant effect on a company's financial performance. Thus, ROA is considered the most representative indicator for measuring the effectiveness of asset utilization in generating company profits.

H₃: Profitability affects the financial performance of banking companies.



Picture 1. Research Framework

Source: Research Data, 2026

RESEARCH METHOD

This study uses quantitative research with an associative approach (Explanatory Research). According to (Sugiyono, 2023), associative research is research that aims to determine the relationship or influence between two or more variables. In this study, a quantitative approach is used to objectively measure the relationship and influence between the variables of liquidity, solvency, and profitability on the financial performance of financial sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2020-2024.

The selection of the 2020-2024 period is based on the consideration that this timeframe covers significant economic conditions, including the COVID-19 pandemic period and the subsequent economic recovery phase. These conditions are expected to influence company financial performance, particularly in the financial sector, which is highly sensitive to macroeconomic changes. The data used in this study are secondary data obtained from audited annual financial statements accessed through the official website of the Indonesia Stock Exchange www.idx.co.id and the respective company websites. The Proxies used for each variable are presented in Table 1.

Table 1. Operational Definition of Variables

| Variable Type | Variable Name | Measurement |
|------------------|-----------------------|--|
| Independent (X1) | Liquidity | $CR = \frac{\text{Current Assets}}{\text{Current Liability}}$ |
| Independent (X2) | Solvency | $DER = \frac{\text{Total Liability}}{\text{Total Equity}}$ |
| Independent (X3) | Profitability | $ROA = \frac{\text{Net Income}}{\text{Total Assets}} \times 100\%$ |
| Dependent (Y) | Financial Performance | $ROE = \frac{\text{Net Income}}{\text{Total Equity}} \times 100\%$ |

Source: Research Data, 2026

The data analysis technique used in this study is multiple linear regression analysis. This method is employed because it is appropriate for examining the effect of more than one independent variable on a dependent variable in a partial manner (Ghozali, 2021), specifically to determine the individual influence of liquidity, solvency, and profitability on financial performance. Data processing in this study is conducted using SPSS Statistics 27 software. The use of SPSS is based on its capability to estimate multiple linear regression models in accordance with standard statistical procedures, particularly in supporting partial hypothesis testing using the t-test and calculating the coefficient of determination (R^2).

The data analysis process consists of several stages. First, descriptive statistical analysis is used to describe the characteristics of each research variable, including minimum, maximum, mean, and standard deviation values, to provide an initial overview of data distribution (Ghozali, 2021). Second, classical assumption tests are conducted to ensure that the regression model meets the Best Linear Unbiased Estimator (BLUE) criteria, including tests of normality, multicollinearity, heteroscedasticity, and autocorrelation. Finally, hypothesis testing is performed using the t-test to examine the partial effect of each independent variable on the dependent variable. In addition, the coefficient of determination (R^2) is used to measure the extent to which the independent variables explain the variation in the dependent variable within the model.

The population used in this study was all banking companies listed on the Indonesia Stock Exchange during the 2020-2024 period. The selection of banking companies was also based on the fact that the stability and performance of the financial sector are greatly influenced by banking conditions, as banks play a key role in the economy by creating liquidity and extending credit to support investment and economic activities (Thakor & Yu, 2024). The sampling technique used in this study is purposive sampling, where the sample is selected based on specific criteria relevant to the research objectives. According to (Etikan, 2016), purposive sampling is a non-probability sampling technique in which researchers deliberately select samples based on certain characteristics that are considered most relevant to the purpose of the study and capable of providing rich and accurate information.

Table. 2 Criteria of Sample

| Criteria | Amount |
|--|--------|
| Banking companies listed on the IDX during the 2020-2024 period | 45 |
| Companies that did not publish annual reports during the 2020-2024 period | 5 |
| Companies that do not have complete data related to the variables used | 1 |
| Companies that experienced negative net income during the 2020-2024 period | 13 |
| Final sample size | 26 |
| Total sample (n x research period) (26 x 5 years) | 130 |

Source: Research Data, 2026

The sample was selected based on specific criteria, including the exclusion of firms with negative net income to avoid distortion in profitability ratios such as ROA. For instance, PT Bank Jago Tbk reported a net loss of IDR 38.13 billion in 2021 (Tempo, 2021), indicating potential outliers. (Ghozali, 2021) states that data containing abnormal or non-normal values may violate classical assumptions in regression analysis, thereby leading to biased estimation results. Therefore, excluding such companies is considered necessary to preserve data quality, ensure that regression assumptions are satisfied, and generate more accurate as well as interpretable empirical results.

RESULTS AND DISCUSSION

Descriptive analysis is used to provide an initial overview of data characteristics through measures of central tendency such as mean, maximum and minimum values, and standard deviation (Ghozali, 2021).

Table.3 Descriptive Statistics

| | ROE | CR | DER | ROA |
|---------------------|--------|-------|--------|-------|
| <i>Mean</i> | 8.444 | 1.452 | 4.762 | 1.608 |
| <i>Maximum</i> | 21.170 | 8.190 | 16.080 | 8.410 |
| <i>Minimum</i> | 0.280 | 0.520 | 0.300 | 0.060 |
| <i>Std. Dev</i> | 5.990 | 1.258 | 2.821 | 1.451 |
| <i>Observations</i> | 130 | 130 | 130 | 130 |

Source: Research Data, 2026

The liquidity variable (CR) has a minimum value of 0.52 and a maximum value of 8.19 with an average value of 1.452 and a standard deviation of 1.258. The standard deviation value is smaller than the average value, indicating that the CR data is relatively not too scattered and tends to be homogeneous. The solvency variable (DER) has a minimum value of 0.30 and a maximum of 16.08 with an average

of 4.762 and a standard deviation of 2.821. This indicates that there is variation in the level of the company's funding structure, but it is still within reasonable limits. Furthermore, the profitability variable (ROA) shows a minimum value of 0.06 and a maximum of 8.41 with an average value of 1.608 and a standard deviation of 1.451, indicating a relatively moderate variation in the company's profitability performance. Meanwhile, the financial performance variable (ROE) has a minimum value of 0.28 and a maximum of 21.17 with an average value of 8.444 and a standard deviation of 5.990. The large standard deviation value reflects differences in the level of return on equity between companies in the research sample.

Before conducting hypothesis testing, the quality of the regression model needs to be tested through classical assumption testing, which includes testing for normality, multicollinearity, autocorrelation, and heteroscedasticity. The results of the Kolmogorov-Smirnov test in SPSS show that the normality test on the variables of liquidity (X_1), solvency (X_2), and profitability (X_3) against Y produces an Asymp.Sig. (2-tailed) value of 0.060. This value indicates a significance level greater than 0.05, so which mean that the residual data is normally distributed and the regression model used has met the normality assumption. The multicollinearity test show that there are no problems with the relationship between independent variables in this regression model. The tolerance values are -6.230 for liquidity, 9.613 for solvency, and 24.329 for profitability. In addition, the Variance Inflation Factor (VIF) values for all variables are also less than 10, namely 1.414, 1.140, and 1.498, so it can be concluded that the regression model is free from multicollinearity

The scatterplot graph between the standardized residuals and the predicted values, it can be seen that observations are scattered irregularly on both sides of the zero axis, and do not form a specific pattern. The residual distribution also appears to be evenly distributed across all predicted values. This indicates that there is no heteroscedasticity in the regression model used. Thus, the homoscedasticity assumption has been fulfilled, so the regression model is suitable for further analysis. The autocorrelation test in this study was conducted using the Durbin-Watson (DW) test. The test results show a DW value of 1.802, which is above the DU value of 1.7610 and less than 4-DU ($4 - 1.7610 = 2.239$). Thus, the current DW value is $1.7610 < 1.802 \leq 2.239$, indicating no autocorrelation in the study. This study uses multiple linear regression analysis, as it consists of one dependent variable and several independent variables. Multiple regression analysis is defined as a statistical method for testing the relationship between one dependent variable and more than one independent variable (Ghozali, 2021). The independent variables in this study are liquidity (X_1), solvency (X_2), and profitability (X_3), while financial performance (Y) is the dependent variable. The following are the statistical results obtained.

Table 4. Multiple Linear Regression Test Results

| Model | Unstandardized Coefficients | | Standardized Coefficients | | Sig | Collinearity Statistics | |
|------------|-----------------------------|------------|---------------------------|--------|-------|-------------------------|-------|
| | B | Std. Error | Beta | t | | Tolerance | VIF |
| (Constant) | -0.272 | 0.298 | | -.912 | 0.364 | | |
| CR | -1.374 | 0.221 | -0.268 | -6.230 | 0.000 | 0.707 | 1.414 |
| DER | 0.843 | 0.088 | 0.371 | 9.613 | 0.000 | 0.877 | 1.140 |
| ROA | 4.383 | 0.180 | 1.076 | 24.329 | 0.000 | 0.668 | 1.498 |

Source: Research Data, 2026

The linear regression equation in this study is as follows:

$$\text{ROE} = (-272) + (-1.374) + 0.843 + 4.383 + \epsilon \dots\dots\dots(1)$$

The results of multiple linear regression show a constant of -0.272, which means that without the influence of liquidity, solvency, and profitability, ROE tends to decrease by 0.272 units. Liquidity (CR) has a coefficient of -1.374, indicating that an excessive increase in current assets is actually associated with a decline in performance because funds are not being used productively. Conversely, solvency (DER) has positive coefficient of 0.843, indicating that managed debt usage can still support improved performance. Profitability (ROA) is the strongest factor with a coefficient of 4.383, confirming that the effectiveness of assets in generating profits plays a major role in driving ROE growth.

The t-test results show that liquidity (CR) has a negative impact on financial performance (ROE), as demonstrated by a t-value of -6.230 with a significance value of $0.000 < 0.05$. This finding indicates that an increase in liquidity tends to decrease ROE. Meanwhile, solvency (DER) has a positive and significant effect on ROE, with a t-value of 9.613 and a significance level of $0.000 < 0.05$, indicating that optimal use of debt can improve financial performance. In addition, profitability (ROA) also has a positive and significant effect on ROE, as indicated by a t-value of 24.329 with a significance of $0.000 < 0.05$, thus confirming that a firm's capability to generate earnings from its assets represents a key factor in strengthening financial performance. Adjusted R Square value of 0.833, meaning that the percentage of influence of liquidity, solvency, and profitability together on financial performance is 83.3%, with the remaining 16.7% influenced by other variables outside the scope of this study.

The findings of the study indicate that liquidity has a negative and significant impact on the financial performance of banks listed on the Indonesia Stock Exchange during the 2020-2024 period. These findings indicate that an increase in liquidity levels, as measured by the current ratio, is actually followed by a decline in financial performance. This condition can be explained by the banking environment during the COVID-19 pandemic and post-pandemic recovery period, where banks tended to maintain high liquidity due to uncertainty and risk considerations (Kompas, 2022). However, in the recovery phase and amid digital transformation, excess liquidity that was not optimally channeled into productive lending reduced asset efficiency and profitability. This reflects an accumulation of current assets that are not managed productively, thereby limiting their contribution to profit generation (Brealey et al., 2020). Excessively high liquidity can reduce asset utilization efficiency and have a negative impact on financial performance.

The negative impact of liquidity on ROE indicates that the company has not been able to optimize its current assets for income-generating activities. Funds stored in cash, accounts receivable, or other current assets tend to have low rates of return compared to if they were allocated to productive investments. This is in line with financial management theory, which states that excessive liquidity can lead to idle funds and reduce company profitability (Brigham & Houston, 2022). The results of this study are consistent with the findings of (Purbaningrum & Lestari, 2022; Soraya et al., 2025) which state that liquidity has a negative and significant effect on ROE, especially in financial sector companies. The negative correlation between liquidity and financial performance indicates that an excessive proportion of current assets

may reflect the placement of funds in instruments with relatively low rates of return. This situation leads to less productive capital utilization, thereby reducing the company's ability to generate profits and impacting profitability (Eltweri et al., 2024).

From the perspective of agency theory (Jensen & Meckling, 1976), excessively high liquidity levels may reflect management behavior that tends to be overly cautious in order to maintain financial security, in contrast to shareholders whose goal is to maximize company value. The accumulation of funds in current assets can be an indication of a conflict of interest between managers and owners. Managers choose policies that reduce personal risk but sacrifice potential returns. Therefore, liquidity needs to be managed at an optimal level so that the interests of management and shareholders remain aligned and are able to drive sustainable financial performance improvement.

The findings indicate that solvency contributes positively and significantly to the financial performance of banks listed on the Indonesia Stock Exchange during the period 2020-2024. These findings indicate that an increase in a company's ability to manage its capital structure, as reflected in the Debt to Equity Ratio (DER), is followed by an improvement in financial performance. This condition reflects the role of solvency, as measured by the Debt to Equity Ratio (DER), in supporting bank operations during the COVID-19 pandemic and post-pandemic recovery period. During this period, accommodative monetary policy, relatively low interest rates, and credit restructuring programs provided space for banks to manage their capital structure more effectively in expanding credit distribution. In the digital transformation era, the efficient management of funding sources also supported business expansion and revenue growth. A healthy level of solvency reflects the effectiveness of funding strategies in driving company growth and profitability.

The positive impact of solvency on ROE shows that companies are able to utilize loan funds as a source of productive financing. Efficient use of debt can increase business capacity, increase credit distribution volume, and expand business activities that generate income. This is in line with financial management theory, which states that controlled leverage can create a leverage effect that increases the potential return to shareholders (Brigham & Houston, 2022). The results of this study are in line with research conducted by (Nikmah et al., 2022; Purbaningrum & Lestari, 2022), which states that solvency has a positive effect on financial performance. Optimal debt utilization demonstrates a firm's capability in managing financial risk and maximize growth opportunities, thereby increasing profitability (Kusumadewi et al., 2023).

From the perspective of agency theory (Jensen & Meckling, 1976), the use of debt can be used as a control mechanism for management. The obligation to pay interest and principal encourages managers to be more disciplined in managing cash flow and making more efficient investment decisions, thereby reducing the potential for opportunistic behavior. Thus, managing solvency at an optimal level not only improves financial performance but also helps align the interests of management and shareholders, which can support sustainable increase in company value.

The findings show that profitability has a positive and significant effect on financial performance (ROE) of banks listed on the Indonesia Stock Exchange during 2020-2024. This relationship can be understood in the context of the Indonesian banking sector during the COVID-19 pandemic and post-pandemic recovery. In the

early period (2020–2021), banks faced pressure on asset quality and implemented credit restructuring, which temporarily suppressed profitability. However, in the recovery phase, supported by economic stabilization, low interest rate conditions, and accelerated digital transformation, banks gradually improved efficiency, credit management, and income diversification, leading to stronger profitability. This indicates that higher ROA reflects more effective utilization of assets in generating income, which ultimately strengthens ROE. In addition, improved profitability during the recovery period also reflects the banking sector's ability to adapt through digital banking expansion and better cost efficiency. These findings imply that banks should continuously enhance operational efficiency and optimize digital-based financial services to sustain profitability. For investors, profitability should be used as a key indicator of post-pandemic recovery performance, while for regulators, the results highlight the importance of maintaining a stable financial environment that supports efficient credit distribution and sustainable bank profitability.

The positive impact of profitability on ROE shows that the profits generated by a company reflect the success of its management in carrying out operational functions, controlling costs, and implementing appropriate business strategies. A high ROA indicates that the company's productive assets are working optimally to generate income, thereby boosting investor confidence and strengthening the company's overall financial position. Profitability can be defined as a company's ability to generate profits. The higher a company's profitability, the better its financial performance (Komara & Riana, 2024). These findings are in line with research by (Febriani et al., 2024; Herlina et al., 2024) which states that profitability has a positive effect on financial performance. This reinforces the view that optimal profits are a reflection of management's success in running the company's operational activities. In addition, high profitability also reflects the company's ability to maintain competitiveness amid the increasingly competitive and digitized dynamics of the banking industry.

According to agency theory (Jensen & Meckling, 1976), high profitability indicates that management, as agents, are able to effectively carry out the mandate of shareholders. Increased profits reduce the potential for conflicts of interest because management's goals are aligned with those of owners, namely to maximize company value. Thus, profitability is not only an indicator of operational success, but also reflects the quality of governance and the effectiveness of managerial decision-making in supporting long-term financial performance. In terms of practical implications, banks should optimize solvency (DER) at a safe but productive level to support credit expansion, improve asset efficiency through digital banking, and strengthen risk management following the credit restructuring period. For investors, liquidity, solvency, and profitability should be assessed jointly as integrated indicators of sustainable financial performance rather than in isolation. Meanwhile, regulators should ensure that the management of bank liquidity and capital structure continues to support productive credit growth while maintaining financial stability.

CONCLUSIONS

This study demonstrates that liquidity, solvency, and profitability play distinct roles in shaping the financial performance of banking companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Liquidity is observed to have a negative

effect, indicating that excessive current assets can lead to inefficient use of funds, particularly during periods of economic uncertainty such as the COVID-19 pandemic and the subsequent recovery phase. In contrast, solvency shows a positive influence, suggesting that the effective use of debt can support business expansion and improve performance. Profitability emerges as the most dominant factor, reflecting that the ability of banks to utilize assets efficiently is essential in generating returns for shareholders. Overall, financial performance is closely related to internal banking decisions, especially in terms of asset allocation, funding structure, and operational efficiency.

This study also offers several practical implications for relevant stakeholders. For bank management, maintaining an optimal level of liquidity, directing funds toward productive assets, and managing capital structure efficiently are crucial steps to improve performance. For investors, a comprehensive evaluation of liquidity, solvency, and profitability is necessary, as each indicator represents different dimensions of a bank's financial condition. For regulators, the results highlight the importance of policies that not only ensure financial system stability but also promote efficient fund allocation and support ongoing digital transformation in the banking sector. This study is limited by the use of selected financial ratios and a specific sample of banking companies listed on the Indonesia Stock Exchange, which may not fully represent all aspects of financial performance. Future research is encouraged to include additional variables, alternative measurement approaches, or broader sector coverage to provide deeper insights.

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