ANALYSIS THE RELATIONSHIP AND IMPACT OF FINANCIAL PERFORMANCE ON THE RETURN AND RISK OF BANK SHARES

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Abstract - *Previous research or literature is a type of research that is relevant to scientific articles and has the aim of investigating and understanding existing knowledge about the topic being researched. In general, the purpose of previous research or literature is to expand understanding of the topic under study, discover gaps in knowledge, and build a solid foundation for future research. For use in future research, the aim of writing this article is to examine various aspects of analysis relating to the relationship and impact of financial performance on bank stock returns and risks. The results of this literature review are as follows: 1) the relationship between the impact of financial performance on returns; 2) the relationship between the impact of financial performance on bank stock risk*

Keywords: financial performance , return, stock risk

I. INRODUCTION

The banking industry plays an important role in the economy of every country, including Indonesia. Due to their involvement in various economic sectors and their strategic position in the financial system, banking shares are often one of investors' favorite investment options. However, like other financial sectors, banking shares are also susceptible to fluctuations in financial performance, returns and associated risks.

The assessment of the analysis of the relationship and impact of financial performance on bank stock returns and risks allows for several obstacles, including data limitations, due to the sensitive nature of information and complex banking structures, it is often difficult to obtain accurate and complete financial data about all banks, obstacles second is financial performance measurement, to find out how well a bank's financial performance is, it is very important to understand metrics such as ROA (Return on Assets), ROE (Return on Equity), and NIM (Net Interest Margin), as well as how these metrics impact price stock and investment risk and the third obstacle can be risk management, Banks face various types of risk, such as credit, liquidity and market risk, and to analyze how stock risk affects financial performance, a deep understanding of how banks manage these risks is needed.

II. LITERATURE REVIEW

Financial Performance

Financial analysis is a process of evaluating and interpreting company financial data in order to understand the company's financial condition and capability in generating profits and cash flow in the future. The process involves applying various financial analysis techniques, such as financial ratio analysis. (Mulyadi, 2018)

Stock Exchange is a Party that organizes and provides a system and/or means to bring together offers to sell and buy Securities from other Parties with the aim of trading Securities between them (Indonesia, 2011) . Financial performance is an analysis carried out to see the extent to which a company has implemented financial implementation rules properly and correctly (fahmi, 2014)
Good financial performance increases returns and reduces stock risk, while unhealthy financial performance reduces returns and increases stock risk. The following are several factors that influence the relationship between financial performance and stock returns and risks:

Kinerja Keuangan	Imbal Hasil Saham	Risiko Saham
ROA	Positif	Negatif
ROE	Positif	Negatif
NPM	Positif	Negatif
CAR	Positif	Negatif

Figure 1: The relationship between financial performance and bank stock returns and risks

ROA (*Return on Assets*): evaluates the bank's ability to obtain profits from its assets. A high return on assets (ROA) value indicates that the bank has the ability to generate significant profits from its assets, so it is expected to provide investors with high returns. ROE (Return on Equity) is a measure of a bank's ability to generate profits from its equity. A high ROE value indicates that the bank is able to generate large profits from its equity, so it is expected to provide high returns for investors.
A high percentage of net profit from income, also known as NPM (Net Profit Margin), indicates that the bank can generate large profits from its income, so it is expected to provide high returns to investors.
CAR is the bank's capital adequacy ratio to anticipate risks. A high CAR indicates that the bank has adequate capital.

Stock Yield

Investment can mean placing money or funds with the aim of getting additional or certain profits. Return is a return *which* is a reward obtained for investment activities. (Halim, 2018), two types of profits can arise in the form of dividends, namely regular payments given by companies to their shareholders from the profits generated by the company and increases in share prices where investors can sell their shares at a profit if the price rises. Stock returns are a variable that measures the total profit or loss experienced by shareholders due to holding shares during a certain period of time. The data used in calculating stock returns are individual company indices at the beginning of the year and at the end of the year. (Kuntarti, 2011).

Bank Stock Risks

Stock risk is the possibility of investors experiencing losses from their investments in stocks. Several things can cause this loss, such as a decrease in share prices where investors who sell their shares will experience losses if the share price falls, company failure, namely investors can lose their entire investment in company shares if the company goes bankrupt, and economic conditions in the form of an unstable economic situation can causes stock prices to fall, increasing the risk of loss for investors.

According to Halim (2018:57) defines that risk is a deviation from the profit expected by investors (*expected return*) with the value of profits that have occurred (*actual return*). If the deviation is large, the greater the level of risk. Deviations or risks can be calculated using the following formula (Halim, 2018:60):

$$\sigma i = \frac{\sqrt{\sum \frac{n}{i} = [Ri - E(Ri)]^2}}{n}$$

Information:

σ = *Standard deviation.*

Ri = i-th value.

E(Ri) = Expected value.

N = Returns that occurred during the observation period.

III. RESEARCH METHODS

Qualitative methods are used in writing this scientific article. To achieve this goal, someone will carry out literature studies or research in the library which has books about the theories discussed, especially about financial performance analysis. In addition, they will analyze scientific articles from well-known and not-so-well-known journals. Mendeley and Google Scholar are sources of cited academic articles.

Literature reviews should be used in qualitative research consistently with methodological assumptions. To avoid directing the researcher's questions, the meaning should be used inductively. One of the main reasons for conducting qualitative research is that the research is exploratory in nature (Ali & Limakrisna, 2013). (Salsadilla, 2022)

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IV. RESULTS AND DISCUSSION

1. Analysis of the relationship between financial performance and returns

According to (Rusadi and Hermanto, 2017) the main goal of investors in investing is to obtain returns. Apart from stock returns, investors also consider the risks arising from investing in these shares. Therefore, investors need to pay more attention to the company's financial reports and evaluate the company's performance in order to make a decision to invest in the company. In general, the analysis that can be used to analyze stock issuers is analyzing fundamental and technical factors (Devaki, 2017)

This theory is in line with the research title "Factors That Influence Stock Returns (Return On Shares) in Lq 45 Companies" with the results of Earning per Share (EPS) having an effect on stock returns because the prob value is (0.0000) smaller than alpha (a=5%). Return on Assets (ROA) has an effect on stock returns with a prob value of (0.0407) which is smaller than alpha (a=5%). Return on Equity (ROE) has an effect on stock returns with a prob value of (0.0470) which is smaller than alpha (a=5%). The higher the ROA, ROE and EPS values will give a signal to investors that the

company's performance is more effective, thereby increasing the company's attractiveness and interest among investors, and stock returns will increase. (Kuntarti, 2011)
However, this theory is not in line with the research title "The Influence of Financial Performance on Stock Returns in Banking Companies Listed on the Indonesia Stock Exchange (BEI) for the 2017-2021 Period, with negative Quick Ratio results, negative Capital Adequacy Ratio and Net Profit Margin having no significant effect on stock returns. (Akuba et al., 2023)

2. **Analysis of the relationship between financial performance and bank stock risk**
According to Jumingan (2006:240) "financial performance analysis is a process of critically assessing bank finances involving reviewing data, calculating, measuring, interpreting and providing solutions to finances in a certain period". There are those who argue that a company's financial performance increases share prices, but there are also those who argue that companies with good financial performance have low share prices.
Analysis that influences share prices in the capital market is usually shown by EPS, ROE and LDR which significantly influence share prices, while the influence of financial ratios on the financial performance of banking companies shows that CAR, NPL, ROA, ROE, LDR, BOPO, NIM have significant influence.
According to (Fahmi 2012:81) "shares are one of the capital market instruments that are most popular with investors, because they are able to provide an attractive rate of return. Shares are paper that clearly states the nominal value, the name of the company and is followed by the rights and obligations that have been explained to each holder."
The economic crisis that occurred in 2008 was triggered by the bankruptcy of several large companies in the United States which had an impact in Indonesia. Starting from 1) There was a housing credit bubble and the mortgage market (credit given on the basis of collateral in the form of immovable objects) which burst because financial institutions provided mortgage loans to individuals who had high credit risks or were unable to repay the loans. 2) The existence of mortgage loans packaged together and sold as investment packages which causes further problems because when property values fall and the number of defaulting borrowers increases, mortgage securities fall sharply and cause huge losses for investors who own these assets.
Policies that tighten liquidity by regulators also cause the Indonesian economy, which is supported by the banking sector, to face liquidity problems. The decline in banking share prices shows the difficulties that exist in the capital market. Investment decisions in the capital market are becoming important, and fewer investors dare to enter, which has an impact on share prices including banking companies because of the level of investor confidence in future returns.

V. CONCLUSION

In the end, this research shows that financial performance does not always have a significant influence on the returns and risks of bank shares. As a result, financial performance is one of the important factors to consider when analyzing the returns and risks of bank shares. Investors, however, must also consider other factors such as inflation, interest rates, economic conditions, regulations, business strategy, management, asset quality, market sentiment, and political events. All of these factors must be considered thoroughly to find out how they impact the return and risk of bank shares. Investors must pay attention to financial management related to financial performance, risk management and share prices. This is because CAR, NPL, NIM, ROA, and LDR greatly influence the share price movements of banking, manufacturing, etc. companies. on BEI.

Suggestion

The conclusion of this article is that many financial performance variables can still influence whether they have an impact on bank stock returns and risks. Therefore, additional research is needed to identify other variables that may influence this.

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