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Financial perfomance as a determinant of bank reputation: An empirical study from bank in ASEAN

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ABSTRACT

This study aims to analyze the relationship between financial performance indicators and bank reputation. An em-pirical approach is implemented using a sample of publicly listed banks, with financial data obtained from their an-nual reports. The analysis method used is statistical regression to test the effect of various financial performance indicators on bank reputation. The findings of the study indicate that both ROA and NPL do not have a significant effect on bank reputation. In contrast, NIM and BOPO show a positive relationship, meaning that profitability and operational efficiency can improve bank reputation. Moreover, DAR has a positive effect on bank reputation, indi-cating that higher leverage can reflect growth potential. However, DER has a negative effect on bank reputation, indicating that higher debt levels relative to equity can reduce stakeholder trust. In addition, LDR also has a negative effect on reputation, highlighting concerns related to liquidity risk. These findings provide important insights for banking institutions, indicating that effective financial performance management can strengthen their reputation and competitiveness in the market. This study contributes to the literature by employing Cumulative Abnormal Return (CAR) as a dynamic, market-based proxy for bank reputation, which is an approach that is relatively underutilized in ASEAN banking research. By capturing investor reactions to financial disclosures, this method offers a more responsive and nuanced measure of reputation than traditional indicators such as market value or brand perception.

Keywords: ASEAN, Bank, Financial performance, Reputation
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1. Introduction

A key strategic step for banks in ensuring long-term sustainability is the management of reputation, which is a major asset that can significantly influence organizational outcomes (Fiordelisi et al., 2013; Gupta et al., 2023; Miklaszewska et al., 2020; Olmo et al., 2021; Tun & Hoang, 2023). Specifically in banking, the consequences of reputation include customer trust and loyalty (Butt et al., 2022). In the financial sector, bank reputation is crucial for building external trust, which can be strengthened by treating employees, shareholders, and the broader community responsibly (Sroufe & Gopalakrishna-Remani, 2019). In the long run, bank reputation serves as a resource to maintain long-term relationships

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with customers (Miklaszewska et al., 2020), provide strong operational stability (Fiordelisi et al., 2014), and improve financial performance (Dell'Atti et al., 2017).

As one of the key indicators of organizational health, financial performance provides an indirect measure of a bank's reputation (de Koning, 2018). Banks with strong financial performance that is transparent and accurate are more likely to gain the trust of customers and investors; customers tend to choose banks they trust to safeguard their funds, while investors are more willing to invest in banks with a positive image and high credibility (Ramos & Casado-Molina, 2021). In the Indonesian context, bank reputation has become increasingly important in recent years, driven by the growth of digital banking and intensifying market competition. Large banks with strong reputations, such as Bank Mandiri, Bank Rakyat Indonesia (BRI), and Bank Negara Indonesia (BNI), are often preferred by customers because they are perceived as more stable and trustworthy (Nisa & Nawasiah, 2020). Conversely, poor financial performance or a lack of transparency can undermine customer trust (Ciaponi et al., 2021; Lodhia & Mitchell, 2022) and lead to a significant decline in market value. For example, Mandas et al. (2024) report an average decrease of 20 percent in market value under such conditions.

Cumulative Abnormal Return (CAR) serves as a dynamic proxy for bank reputation because it reflects how investors respond to financial disclosures and other significant corporate events. A positive CAR indicates stronger investor confidence and perception of credibility, whereas a negative CAR suggests reputational concerns and declining trust among stakeholders. This market-based approach captures short-term reputational shifts more effectively than traditional metrics. According to Fiordelisi et al. (2013) banks with higher transparency and financial stability tend to exhibit more favorable CAR, especially in response to sustainability or performance-related announcements. Further supported by Fiordelisi et al. (2014) CAR has been recognized as a reliable tool for measuring reputational risk in the banking sector, as it reflects market perceptions of operational and governance quality.

Case examples such as the internal fraud at Bank Negara Indonesia (BNI) in 2002, the trading scandal at Société Générale in Singapore in 2008, and the credit card fraud at Maybank Malaysia in 2007 underscore the importance of managing reputational risks. Such incidents often trigger negative abnormal returns, indicating immediate declines in market confidence. While affected banks may take steps to recover their image, the long-term effects, such as diminished customer loyalty and withdrawal of major investors, are often still felt (Sharma & Joshi, 2022).

As a strategic asset, reputation is built by the company through consistent performance and transparency to gain the trust of customers and investors. Therefore, it can be concluded that declining reputation from poor corporate practices can lead to reduced customer loyalty and investor withdrawal, as reputations often built on the basis of confidence in the bank's ability to manage financial resources and risks well.

Previous studies have widely emphasized the role of Corporate Social Responsibility (CSR) as a critical driver of bank reputation, with a subsequent effect on financial performance (Dell'Atti et al., 2017; Sumarta et al., 2021). Similarly, Corporate Governance (CG) has been identified as another major factor influencing reputation, as transparent governance practices often signal accountability and reliability (Aggarwal & Saxena, 2022; Zaby & Pohl, 2019). However, these studies tend to focus on non-financial qualitative factors as the primary reputation drivers, leaving a theoretical and empirical gap regarding the direct effect of core financial performance metrics on reputation.

This study addresses the gap by proposing that financial performance itself by measuring through indicators that serve as a key determinant of reputation, such as profitability, solvency, and liquidity. Specifically, reputation is assessed using Cumulative Abnormal Return (CAR), a market-based metric that reflects investor perception of the bank's credibility and performance following financial

disclosures. Prior studies have underutilized CAR in the context of ASEAN banking, despite its potential to capture dynamic reputational changes based on real-time market reactions. Accordingly, this study contributes by shifting the focus from external perception drivers like CSR and CG toward the intrinsic financial performance of banks as a reputational signal, as reflected in CAR. It aims to empirically test how variations in financial indicators translate into changes in perceived reputation, helping to close the gap in literature that has traditionally separated financial metrics from reputational outcomes.

Sroufe & Gopalakrishna-Remani (2019) show that transparency in financial reporting can influence corporate reputation, as companies that openly disclose information about risks and financial performance tend to be viewed more positively and considered more trustworthy by stakeholders (Tuwei et al., 2024). Similarly, de Koning (2018) emphasizes the link between financial indicators and corporate reputation, noting that strong financial performance can enhance a firm's reputation in the market, although external factors such as economic and market conditions also play an important role. Miklaszewska et al. (2020) further demonstrate that during periods of economic crisis, companies that maintain stable financial performance are more likely to preserve or even improve their reputation. Overall, these studies highlight the importance of combining strong financial performance, transparent reporting, and attention to external conditions in shaping and sustaining corporate reputation.

Therefore, further studies are needed to explicitly examine how financial performance influences bank reputation, rather than solely positioning it as an indicator. Establishing this causal relationship is essential to strengthen the understanding that improvements in which financial performance can lead to improved reputational outcomes, Several previous studies (Miklaszewska et al., 2020; Nițescu & Cristea, 2020) emphasize that achieving optimal performance is not only essential for operational success, but also plays a strategic role in strengthening the bank's reputation and maintaining sustainable relationships with customers and other key stakeholders. By using panel data from banks in ASEAN, this study allows for an in-depth analysis of the influence of financial performance across time and across banks on reputation management. Therefore, this research aims to examine how key financial performance indicators affect bank reputation in the ASEAN region.

While various studies (Miklaszewska et al., 2020; Ramos & Casado-Molina, 2021) have explored the role of financial performance on corporate reputation, most of these rely on static measures like market value or CSR disclosures. However, little attention has been given to using Cumulative Abnormal Return (CAR) as a dynamic proxy for bank reputation, especially within the ASEAN context. This presents a research gap where traditional proxies may not fully capture real-time investor sentiment. Therefore, this study aims to examine the extent to which key financial indicators such as profitability, solvency, and liquidity affect bank reputation, using CAR as a reputational measure. This approach offers a more market-responsive perspective compared to conventional reputation metrics.

2. Theoretical Framework and Hypothesis Development

According to signaling theory, financial performance can serve as a signal conveyed by management to external stakeholders. Banks use financial statements to communicate information about their quality and reliability to investors, customers, and regulators. The effectiveness of this signal significantly influences the bank's reputation, which subsequently related with financial performance. Research by Abughniem et al. (2019) found that strong financial indicators, such as return on assets and equity, act as positive signals that increase investor confidence and strengthen institutional reputation in the banking sector. Furthermore, signaling theory is particularly relevant in the context of asset quality and its effect on bank value. Gathara et al. (2023) show that banks that maintain high-quality assets signal strong financial health, which can enhance their reputation among stakeholders.

Bank reputation represents a vital intangible asset influenced by stakeholders' perceptions of financial credibility, stability, and performance. Among the most important indicators of financial health is profitability, which signals operational efficiency and the bank's ability to generate sustainable earnings. According to Fiordelisi & Mare (2013), profitability not only reflects a bank's internal strengths, but also serves as a signal to the market that ensures stakeholder trust. In line with this, Fajari & Sunarto (2017) found that higher profitability is associated with more timely and transparent financial reporting, which positively affects external perceptions of corporate integrity and performance. Given that Cumulative Abnormal Return (CAR) captures investor reactions to financial disclosures, it is reasonable to assume that profitability can influence reputation as perceived through CAR. Banks that report consistently strong profits are likely to generate positive abnormal returns around disclosure periods, indicating improved market-based reputation

The implications of reputation extend to long-term stakeholder relationships. In line with signaling theory, financial performance serves as a signal conveyed by management through financial disclosure, reflecting the bank's stability and reliability. Transparent and accurate financial reporting can strengthen stakeholders' perceptions and enhance the bank's reputation. Empirical evidence supports that reputation is a dynamic construct shaped by stakeholder expectations and organizational signals (Zaby & Pohl, 2019). Therefore, stronger financial performance is likely to improve bank reputation.

Previous studies also indicate that bank characteristics, particularly profitability, play an important role in shaping organizational outcomes (Kassem & Sakr, 2018). Profitability reflects the bank's ability to generate returns, which can serve as a positive signal to stakeholders and contribute to maintaining a favorable reputation. Moreover, profitability can support innovation in banking products and services, which further strengthens the bank's reputation (Atukunda et al., 2024; Fiordelisi et al., 2013). Based on signal theory and prior empirical findings, this study proposes that financial performance has a positive effect on bank reputation.

H_1: Profitability reports have a significant positive influence on bank reputation

Solvency reflects a bank's ability to meet its long-term financial obligations and is often perceived as a measure of financial reliability. Stakeholders interpret strong solvency as a sign that the bank can withstand financial shocks, thus enhancing trust and reputation. Research by (Sharma & Joshi, 2022; Zhao et al., 2021) demonstrates that banks with robust solvency ratios tend to foster greater customer and investor loyalty. Additionally, Ben Abdallah & Bahloul (2025) confirm that solvency has a significantly positive effect on ROA, suggesting that long-term financial health positively effects perceived value and reputation. When reputation is proxied through CAR, solvency may drive positive investor reactions during disclosure windows

H_2: Solvency report have a significant positive influence on bank reputation.

Liquidity indicates a bank's capacity to fulfill short-term obligations and is a critical determinant of operational reliability. Banks with higher liquidity are better positioned to manage sudden withdrawals, maintain credit operations, and assure stakeholders of financial flexibility. Kayani et al. (2021) and Zheng et al. (2023) found that large, liquid banks tend to experience reputational benefits, including stronger market confidence and easier access to funding. Empirical evidence from Ben Abdallah & Bahloul (2025) also supports the positive effect of liquidity on financial performance, which is a core component of market perception and reputation. Since CAR reflects real-time investor sentiment, improved liquidity can translate to favorable abnormal returns around financial announcements (Hassan et al., 2023).

H_3: Liquidity report have a significant positive influence on bank reputation.

3. Methodology

This study includes data from commercial banks operating in six ASEAN countries Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam, covering the period from 2018 to 2023. The dependent variable, bank reputation, is proxied by the Cumulative Abnormal Return (CAR), reflecting investor responses to annual audited financial statement disclosures. The use of CAR as a proxy for reputation is grounded in both regulatory and empirical justifications. In the Indonesian context, OJK Regulation No. 18/POJK.03/2016 defines reputational risk as the decline of public trust in a financial institution, indicating that reputation is inherently tied to public perception and market reaction. CAR captures these market perceptions by isolating the abnormal returns attributable to specific events in this case, the publication of audited financial statements.

Following event study methodology, CAR is calculated using a [-3, +3] event window, meaning stock price movements are observed three days before and after the release of the annual report. This time frame is commonly utilized in financial studies to capture the short-term investor sentiment toward firm disclosures (Rahayu & Wardana, 2021). Stock prices are used as a real-time proxy of investor sentiment, and any abnormal deviation from expected returns during the event window is interpreted as the market's judgment of the bank's credibility and transparency core aspects of institutional reputation.

While several prior studies have used other indicators to measure corporate reputation such as brand value, CSR indices, or customer perception surveys (Pejić Bach et al., 2020), in the context of mobile banking and service quality, such measures are often subjective and less responsive towards short-term information flow. In this study, bank reputation is proxied by Cumulative Abnormal Return (CAR), as it reflects investor reactions and market perceptions toward financial performance. CAR provides a market-based, dynamic, and objective measure of how the market evaluates bank credibility and reliability, particularly for publicly listed banks (Fiordelisi et al., 2013; Nisa & Nawasiah, 2020).

Table 1. Variables descriptions

Variable	Description	Sources
	Dependent Variables (Bank Reputation)	
CAR	Cumulative Abnormal Return, the difference between actual returns and expected returns based on a market model over a specific period	Thomson Reuters
	Independent Variables (Financial Performance)	
ROA	Return on Assets, measures how effectively a bank's assets generate profits	Thomson Reuters
NIM	Net Interest Margin, measures the difference between interest income earned and interest paid relative to earning assets	Thomson Reuters
BOPO	Bank Operating Expenses to Operating Income, a ratio measuring operational efficiency of the bank	Thomson Reuters
DAR	Debt to Assets Ratio, measures the proportion of a bank's assets financed by debt	Thomson Reuters
DER	Debt to Equity Ratio, measures the proportion of debt used to finance the bank's operations compared to equity	Thomson Reuters
NPL	Non-Performing Loans, the percentage of loans that do not generate income due to being unpaid on time	Thomson Reuters
LDR	Loan to Deposit Ratio, the ratio of loans to deposits, indicating the bank's liquidity	Thomson Reuters
	Control Variables	
GDP	Gross Domestic Product, the total value of goods and services produced by a country within a specific period	World Bank
INF	Inflation, the annual rate of inflation in a country	World Bank
HR	The available or employed workforce in the economy	World Bank

Control variables in the model include macroeconomic indicators such as GDP growth, inflation rate, and labor force participation, all sourced from the World Bank Open Data. These variables help control for external conditions that might influence investor reactions and bank performance. All variable descriptions are provided in Table 1.

4. Results

Descriptive statistics are presented in Table 2 to provide an overview of the characteristics of the research variables used in this study. This includes information on the distribution of data, central tendencies, and variability of both independent and control variables, as well as the dependent variable.

Table 2. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
CAR	317	0.196	0.047	0.118	0.438
DAR	318	0.078	0.050	0.002	0.263
DER	318	0.659	0.496	0.009	2.941
NIM	318	0.011	0.015	-0.190	0.037
BOPO	318	0.718	0.557	0.295	2.628
NPL	318	0.032	0.022	0.003	0.148
LDR	318	0.900	0.159	0.492	1.524
ROA	318	0.860	1.688	-2.157	3.059
GDP	318	3.167	4.006	-9.518	9.691
INF	318	2.742	3.158	-3.069	13.478
LABOR	318	3.137	0.502	2.307	4.758

Table 2 shows the descriptive statistics of the variables used in the study. The average Cumulative Abnormal Return (CAR) is 19.6 percent, indicating typically positive market reactions and relatively strong investor confidence following the disclosure of audited financial statements. The Debt to Asset Ratio (DAR) averages 7.8 percent, suggesting that banks are not heavily dependent on debt financing, while the Debt-to-Equity Ratio (DER) of 65.9 percent reflects a moderate leverage structure dominated by equity financing.

For profitability and efficiency indicators, the Net Interest Margin (NIM) averages 1.1 percent, with some banks experiencing negative values, indicating occasional inefficiencies in interest management. The BOPO ratio averages 71.8 percent, but with variations, implying differences in cost efficiency across banks, with some institutions facing very high operating costs. The Non-Performing Loan (NPL) ratio averages 3.2 percent, suggesting that overall credit risk is relatively well-controlled. The Loan to Deposit Ratio (LDR) averages 90 percent, indicating relatively aggressive lending behavior that may enhance profitability but also increases liquidity risk. Return on Assets (ROA) averages 0.86 percent, with wide variation ranging from significant losses to moderate profits, reflecting differences in bank performance across the sample.

For macroeconomic variables, GDP growth averages 3.17 percent and inflation 2.74 percent, both showing variation across countries, reflecting differing economic conditions in ASEAN economies.

To ensure the reliability of the regression analysis, it is necessary to evaluate whether the residuals are normally distributed, as this assumption underpins the reliability of parameter estimation and hypothesis testing in classical linear regression models. One of the most commonly used statistical tools

for testing normality is the Shapiro-Wilk test, which is particularly powerful for detecting departures from normality in small to moderate-sized samples.

The Shapiro-Wilk test showed a W-statistic of 0.917, accompanied by a V value of 18.650, and a Z-score of 6.886, with an associated p-value (Prob > z) of 0.000. A p-value below the standard significance limit of 0.05 indicates that the null hypothesis of normality is rejected. This result suggests that the distribution of the residuals significantly deviates from normality. Essentially, there is strong statistical evidence that the residuals are not normally distributed, which may affect the validity of inference whenever unaddressed.

Accordingly, caution is needed in interpreting the regression results. While non-normality does not bias the estimated coefficient, it compromises the reliability of standard errors, confidence intervals, and hypothesis tests derived from the model. Therefore, to enhance the validity of further analysis, reliable regression techniques, bootstrapping, or transformations of the dependent variable were considered to mitigate the effect of this violation. This diagnostic step underscores the importance of not only fitting the model but also critically evaluating its underlying assumptions.

Table 3. Result test regression (reliability)

CAR	Coef.	Std.Error.	t-value	p-value	95% Conf.	Interval	Sig
LDR	-0.172	0.046	-4.30	0.001	-0.252	-0.092	***
DAR	0.766	0.246	3.11	0.003	0.272	1.263	***
DER	-0.069	0.025	-2.79	0.007	-0.118	-0.019	***
NIM	1.346	0.255	5.29	0.000	0.835	1.857	***
BOPO	0.036	0.013	3.58	0.001	0.016	0.056	***
NPL	-0.169	0.162	-1.04	0.302	-0.493	0.156	
ROA	-0.001	0.001	-1.86	0.068	-0.002	0.000	*
GDP	0.001	0.002	-1.33	0.194	-0.001	0.000	
INF	0.001	0.000	1.83	0.073	0.000	0.001	*
LABOR	-0.011	0.006	-1.88	0.065	-0.023	0.001	*
Constant	0.337	0.040	8.34	0.021	0.256	0.418	***
Mean dependent var		0.196	SD dependent var		0.047		
R-squared		0.392	Number of obs		317		
F-test		15.637	Prob > F		0.000		
Akaike crit. (AIC)		-1606.482	Bayesian crit. (BIC)		-1568.893		

**** p<.01, ** p<.05, * p<.1*

To understand the determinants of a bank's market-based reputation, proxied by Cumulative Abnormal Return (CAR), a robust regression analysis was employed using both internal financial performance indicators and external macroeconomic control variables. The results, as summarized in Table 3, reveal several statistically significant relationships between the explanatory variables and CAR, indicating how different financial and economic dimensions influence market perceptions of banks.

Among the internal financial indicators, Net Interest Margin (NIM) emerges as the most influencing factor, with a highly significant positive coefficient of 1.346 ($p < 0.01$). This suggests that banks with higher interest margins reflecting profitability from lending activities tend to experience greater abnormal returns around financial disclosure events, enhancing their perceived reputation.

Likewise, Operating Efficiency (BOPO) shows a positive and significant coefficient of 0.036 ($p < 0.01$), indicating that banks with better cost efficiency tend to generate stronger market responses. This finding aligns with the logic that operationally efficient banks are viewed more favorably by investors.

The Debt to Asset Ratio (DAR) also exerts a significant positive effect on CAR, with a coefficient of 0.766 ($p = 0.003$). This indicates that a higher proportion of assets financed through debt within reasonable levels is interpreted by the market as a sign of growth leverage or confidence in future returns. In contrast, Debt to Equity Ratio (DER) has a negative and significant coefficient of -0.069 ($p = 0.007$), suggesting that excessive reliance on debt relative to equity may raise concerns about financial risk, thus diminishing perceived credibility and reputation.

Loan to Deposit Ratio (LDR) carries a strong and negative coefficient of -0.172 ($p < 0.01$), indicating that aggressive credit distribution relative to deposits may alarm investors due to potential liquidity risk, hence lowering market-based reputation. This underscores the importance of maintaining prudent liquidity management to preserve investor trust. On the other hand, Non-Performing Loans (NPL) and Return on Assets (ROA) are found to be statistically insignificant at conventional levels. NPL shows a negative but insignificant effect ($p = 0.302$), implying that although higher credit risk may harm reputation, the current variation in NPL among banks is not sufficient to trigger distinct market reactions. ROA, while traditionally a key performance metric, displays a marginally negative coefficient of -0.001 with a p-value of 0.068, suggesting a weak or non-linear relationship with CAR.

Among macroeconomic controls, inflation and labor force both exhibit weak significance at the 10 percent level. Inflation has a positive coefficient (0.001, $p = 0.073$), indicating that banks might be perceived more favorably during inflationary environments possibly due to increased interest income. Conversely, the labor force variable shows a negative coefficient (-0.011, $p = 0.065$), hinting at a complex relationship where changes in labor market size may inversely affect banking performance or investor perception. GDP, however, remains insignificant, suggesting that aggregate economic growth did not significantly influence CAR during the observed period.

The model explains approximately 39.2 percent of the variation in CAR (R-squared = 0.392), with an overall F-statistic of 15.637 ($p < 0.01$), indicating strong joint significance of the included predictors. The Akaike and Bayesian Information Criteria (AIC and BIC) values also suggest that the model fits the data well. In summary, the findings highlight that profitability (as measured by NIM), operating efficiency, capital structure, and liquidity management are key internal drivers of bank reputation as viewed by the market. Meanwhile, credit risk and macroeconomic factors play more nuanced or indirect roles, underlining the complexity of how financial disclosures shape reputational outcomes in ASEAN banking contexts.

5. Discussion

Profitability to Bank Reputation

The use of Cumulative Abnormal Return (CAR) as a proxy for bank reputation in this study allows the analysis to capture short-term market responses to financial performance disclosures. CAR measures deviations from expected returns, providing insight into how investor sentiment and perceived reputation evolve in response to internal and external events related to the bank. This dynamic measurement is in line with the objective of understanding market-based perceptions of banking reputation, which may not be fully reflected by traditional static indicators such as market share or market value. Research conducted by Dogra et al. (2021), CAR is a reliable metric for evaluating banking stock movements in response to sustainability-related news, capturing both short-term and long-term investor reactions during a specific event window. This supports its validity as a responsive proxy for reputation shifts in the banking sector.

Profitability reports have a significant positive influence on bank reputation (Atukunda et al., 2024; Kassem & Sakr, 2018; Yahya et al., 2017). Through the Net Interest Margin (NIM) and Operating Costs to Operating Income (BOPO) proxies, the results show a significant positive relationship with bank reputation. High NIM illustrates the bank's ability to generate profit from its primary activity, which increases reputation because it shows efficiency in its operations (Silaban, 2017).

The regression results show a positive and statistically significant coefficient for BOPO, indicating that higher BOPO is associated with higher CAR values. However, this finding appears to contradict the theoretical expectation, since BOPO is an inverse measure of efficiency, the higher the BOPO, the more inefficient the bank's operations. This discrepancy may suggest that in the context of the sampled banks, investors do not always penalize high operating costs, particularly if those costs are associated with growth, restructuring, or other strategic investments. Alternatively, the positive CAR reaction might reflect investor anticipation of future improvements or acceptance of temporary inefficiencies during expansion phases. Given the nature of BOPO as a cost-efficiency metric, this result warrants further examination and perhaps a segmented analysis to distinguish between different cost structures across banks. The interpretation of BOPO's influence on reputation must be approached cautiously, as high BOPO is typically not a sign of favorable performance in banking operations.

Although profitability is widely acknowledged as a determinant of financial health and a key driver of stakeholder trust, the results of this study reveal a more nuanced reality when examining its relationship with bank reputation. Among the proxies utilized, Return on Assets (ROA) a conventional measure of a bank's ability to generate income relative to its total assets does not exhibit a statistically significant effect on bank reputation as measured by Cumulative Abnormal Return (CAR). This finding suggests that while ROA remains a critical internal performance metric, its influence may be less visible or less salient in the eyes of external market participants, particularly in environments where reputational judgments are driven more by perceived efficiency and earnings quality than by general profitability ratios. As Murtiningrum & Wahyuningsih (2024) note, ROA is inherently retrospective and accounting-based, and thus may fail to capture the more dynamic or strategic dimensions of performance that shape stakeholder perception in real-time. In contrast, Net Interest Margin (NIM) and Operating Expenses to Operating Income (BOPO) both of which show strong and statistically significant relationships with reputation appear to be more powerful signals of a bank's operational effectiveness and financial discipline. NIM directly reflects a bank's core intermediation performance, while BOPO, albeit inversely interpreted, reveals how well a bank controls its internal costs relative to its income-generating capacity. These indicators may resonate more clearly with investors and the market, as they reflect management quality, risk pricing, and cost control all of which are highly reputationally sensitive factors. Therefore, the lack of significance in ROA does not undermine the role of profitability per se but rather illustrates the selective visibility of certain profitability dimensions over others in shaping market-based reputational outcomes. It highlights the importance of moving beyond aggregate accounting figures toward more granular and operationally relevant metrics when evaluating the reputational implications of financial performance.

Solvency to Bank Reputation

Solvency, as a structural pillar of financial health, plays a decisive role in shaping how banks are perceived by external stakeholders. Empirical evidence consistently affirms its reputational relevance, with previous studies highlighting a positive link between solvency disclosures and public trust (Sharma & Joshi, 2022; Sumarta et al., 2021; Zhao et al., 2021). In this study, solvency is proxied through three variables Debt to Asset Ratio (DAR), Debt to Equity Ratio (DER), and Non-Performing Loans (NPL) each capturing distinct dimensions of financial leverage and credit quality.

The regression results identify DAR as having a statistically significant positive effect on bank reputation, as measured by Cumulative Abnormal Return (CAR). This outcome suggests that banks with higher DAR indicating a greater proportion of assets financed by debt are not necessarily penalized by the market. On the contrary, such leverage is interpreted as a signal of assertive capital utilization and potential for accelerated growth, particularly in contexts where debt is strategically deployed to expand productive operations (Kurniawati, 2021). Investors may perceive this capital structure as indicative of institutional confidence and scalability, thereby enhancing reputational standing.

In contrast, DER exhibits a significant negative relationship with CAR, implying that when debt levels rise disproportionately relative to equity, stakeholder confidence diminishes. Unlike DAR, which may suggest asset-based funding efficiency, DER exposes the fragility of equity buffers, raising red flags about a bank's resilience in times of financial distress. This divergence in directional influence underscores the asymmetric reputational implications of solvency indicators: while moderate leverage aligned with asset growth is rewarded, overdependence on debt relative to owned capital is viewed with skepticism.

The third proxy, Non-Performing Loans (NPL), does not show a statistically significant influence on reputation within this model. Although NPL is traditionally viewed as a measure of asset quality, the absence of significance here suggests that market perceptions of credit risk are already embedded or offset by other performance variables. Alternatively, investors may interpret NPL fluctuations as part of normal credit cycles, especially in diversified banking environments, diluting its effect as an independent reputational driver.

Collectively, the findings reveal that solvency exerts a multidimensional influence on bank reputation, where the nature and context of leverage matter as much as its magnitude. While DAR may reflect strategic debt allocation linked to expansion, DER exposes structural imbalances that can erode investor confidence. The lack of significance for NPL further illustrates that not all aspects of solvency translate equally into reputational effects, particularly when mediated through market-based indicators like CAR. This underscores the importance of a nuanced interpretation of solvency metrics, where reputational outcomes are shaped not only by financial ratios but also by how they are perceived in relation to institutional strategy and market expectations.

Liquidity to Bank Reputation

Liquidity management constitutes a pivotal dimension of a bank's operational and reputational standing, with direct implications for stakeholder trust and market valuation. Within this framework, the Loan to Deposit Ratio (LDR) functions as a core indicator, quantifying the extent to which banks convert deposit liabilities into lending activities. While traditionally perceived as a measure of credit efficiency and profitability, LDR also conveys critical signals to the market regarding a bank's prudence in liquidity allocation.

The empirical findings of this study reveal a statistically significant negative association between LDR and Cumulative Abnormal Return (CAR), underscoring the reputational risks associated with elevated liquidity exposure. A high LDR, while indicative of aggressive credit deployment, simultaneously suggests a constrained liquidity buffer, raising investor concerns over the institution's ability to absorb exogenous financial shocks or meet unforeseen cash demands. In this context, the market interprets excessive LDR values not as evidence of operational dynamism but rather as a potential compromise in financial resilience.

This interpretation aligns with contemporary theories of reputational, wherein external stakeholders, including investors and depositors, evaluate institutions not solely on performance metrics but on the perceived sustainability of their financial practices. The negative market response captured through CAR further substantiates the premise that liquidity management, when perceived as imbalanced or overly leveraged, detracts from reputational credibility rather than enhances it. The findings are further corroborated by (Hassan et al., 2023; Kayani et al., 2021), who emphasize the reputational sensitivity of liquidity indicators, particularly under conditions of heightened market scrutiny. Moreover, within the signaling theory paradigm, LDR assumes the role of a dual-faceted signal: while a moderate level may indicate effective intermediation, an excessively high ratio is interpreted as a latent indicator of risk exposure. The market's negative response to elevated LDR levels, as reflected in CAR movements, illustrates the nuanced calculus stakeholders apply in interpreting liquidity metrics not merely as static indicators, but as forward-looking reflections of institutional strategy and resilience.

Thus, liquidity's reputational implications are not unidirectional; they are contingent on strategic calibration. Institutions that maintain disciplined liquidity thresholds project a signal of controlled risk appetite and operational foresight, which the market tends to reward. Conversely, banks exhibiting signs of overextension in their credit-to-deposit ratios invite reputational penalties, not because of underperformance per se, but due to perceived vulnerabilities embedded in their balance sheet architecture.

6. Conclusion

The results of this study indicate that profitability, solvency, and liquidity variables collectively influence bank reputation, although their effects vary across indicators. In terms of profitability, ROA does not show a significant effect on bank reputation, while NIM and BOPO have a significant positive influence, indicating that efficiency-based performance is more strongly reflected in reputation formation. For solvency, the findings show mixed results. DAR has a significant positive effect on bank reputation, suggesting that a higher proportion of debt relative to assets may be perceived as a signal of growth potential when managed effectively. Conversely, DER has a significant negative effect, indicating that excessive lever-age relative to equity reduces stakeholder trust. Meanwhile, NPL does not show a significant effect on bank reputation. Regarding liquidity, LDR shows a significant negative effect on bank reputation, indicating that higher lending intensity relative to deposits may increase perceived liquidity risk and reduce stakeholder confidence.

This study highlights the importance of balanced financial management in maintaining and improving bank reputation. Banks are advised to optimize operational efficiency and interest margin performance while maintaining a prudent capital structure to avoid excessive financial risk. In addition, liquidity management needs to be carefully controlled to ensure financial stability and sustain stakeholder trust. Future research is recommended to expand the analysis by incorporating non-financial factors such as corporate governance, corporate social responsibility, and digital banking transformation, in order to provide a more comprehensive understanding of the determinants of bank reputation.

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