

Profitability and Market Performance of Listed Banks in Indonesia

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Abstract

Prior studies found that most revenues of Asian banking industry, including Indonesia, come from interest as compared to fee although the 1997 Asian financial crisis pushed the Asian financial industry into non-traditional activities that resulted in the fee-based income. This study was conducted to analyze the effect of net interest margin and net non-interest margin on market performance of 43 banking companies listed on Indonesia Stock Exchange in 2016. Net interest margin and net noninterest margin were used to measure banking profitability while average stock price after the publication date of financial statements was used to measure market performance. The results of this study showed that both net interest margin and net non-interest margin have a significant positive effect on market performance. Furthermore, the effect of net interest margin is greater than the effect of net non-interest margin on the market performance. This result may be explained by the fact that investors of Indonesian banking industry are still more focused on interest-based income rather than fee-based income in making investment decision as most of the revenues of listed Banks in Indonesia are derived from interest.

Keywords: *fee-based income, interest-based income, market performance, net interest margin, net non-interest margin, profitability, stock price*