FINANCE

Moderating Role of Dividend Policy on the Nexus Between AIL, NPL, and Stock Returns in the Indonesian Financial Sector

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ABSTRACT

Purpose: This study examines the influence of Allowance for Impairment Losses (AIL), profitability, and Non-Performing Loans (NPL) on stock returns, with dividend policy serving as a moderating variable, in the Indonesian financial sector following the implementation of PSAK 71.

Method: This quantitative research utilizes panel data regression, analyzing data from the financial sector firms listed on the Indonesia Stock Exchange for the period 2020–2024, resulting in 115 data points. Secondary data were obtained from annual reports and financial statements. Model selection, based on the Chow, Hausman, and LM tests, revealed that the fixed effects model was the most suitable. Moderated Regression Analysis (MRA) was applied to assess the moderating role of dividend policy.

Result: The findings indicate that AIL significantly influences stock returns, suggesting that investors take credit risk provisioning under the expected credit loss model. In contrast, profitability and NPL do not have a significant effect on stock returns. Additionally, dividend policy moderates the relationship between AIL and stock returns, but does not affect the relationship between profitability or NPL and stock returns.

Practical Implications for Economic Growth and Development: These results offer insights for managers, regulators, and investors, highlighting that transparent AIL reporting can enhance investor confidence, strengthen financial stability, and promote efficient capital allocation. Furthermore, a deeper understanding of credit risk contributes to the resilience of the financial sector, fostering sustainable economic growth.

Originality/Value: This study contributes to the literature by incorporating dividend policy as a moderating variable within the PSAK 71 framework and providing broader evidence from the Indonesian financial sector.

Keywords: *AIL, Dividend Policy, NPL, Profitability, Stock Return*

INTRODUCTION

According to Law Number 4 of 2023, the capital market is a regulated component of the financial system that facilitates the issuance and trading of securities, as well as investment management. It plays a crucial role in financial intermediation by linking parties with surplus funds to those in need of capital, enabling companies to secure long-term financing while offering investors opportunities that align with their risk–return preferences (Kusumaningrum et al., 2021). Investor objectives in the capital market are centered on generating returns, which include capital gains (or losses) and dividends. These returns, whether realized or expected, are significantly influenced by stock price fluctuations driven by company performance and external factors (Tandelilin, 2017). From 2020 to 2024, volatility in the financial sector presented challenges for investors in their pursuit of optimal returns, as illustrated in the table below.

Table 1. Average Closing Share Prices in the Indonesian Financial Sector

Year	Average Closing Share Price (IDR)
2019	2,198
2020	2,028
2021	2,169
2022	2,511
2023	2,746
2024	2,451

Source: www.idx.co.id (2025)

Based on the average share price data for the 2019–2024 period, there are noticeable year-on-year fluctuations. From 2019 to 2020, the average share price decreased from 2,198 to 2,028, reflecting weak market performance amid heightened economic uncertainty. In contrast, from 2021 to 2023, the average share price demonstrated a significant upward trend, rising from 2,169 in 2021 to 2,746 in 2023, aligned with improving economic conditions and increased investor confidence. However, in 2024, the average share price declined to 2,451, signaling market pressure due to external factors and adjustments in company performance. These fluctuations indicate that share price movements are strongly influenced by economic dynamics and investor sentiment.

The decline in stock prices in 2020, particularly in the banking sector, was impacted by the implementation of Financial Accounting Standards (PSAK) No. 71 on Financial Instruments (López-Espinosa et al., 2021). PSAK 71, which resulted from the adoption of IFRS 9, replaced PSAK 55 and became effective on January 1, 2020 (IAI, 2018). This change in accounting standards significantly affected the recognition and measurement of financial instruments, particularly through the Allowance for Impairment Losses (AIL). AIL represents management's estimate of potential losses from debtors' inability to meet their obligations amid uncertainty in future cash flows. Under PSAK 71, AIL is calculated using the forward-looking Expected Credit Loss (ECL) approach, replacing the Loss Incurred Method in PSAK 55 (Dendy, 2019). The adoption of the ECL model led to a substantial initial increase in AIL, which in turn raised reserve expenses, reduced bank profitability, and weakened financial performance. These changes affected investor perceptions and contributed to the decline in banking stock prices in 2020 (Citrahayu et al., 2025).

Table 2. Allowance for Impairment Losses (AIL) by Banks

Bank	2019 (%)	2020 (%)	2021 (%)	2022 (%)	2023 (%)	Average (%)	Remarks
BRI	4.32	6.90	8.42	8.17	6.75	6.91	Special Attention
Mandiri	3.39	7.16	6.68	5.51	3.90	5.33	Special Attention
BNI	1.60	4.10	3.30	1.90	6.78	3.54	Special Attention

Bank	2019 (%)	2020 (%)	2021 (%)	2022 (%)	2023 (%)	Average (%)	Remarks
BTN	2.34	5.17	5.32	5.29	4.78	4.58	Special Attention

Source: Compiled by the authors (2025)

Table 2 presents changes in Allowance for Impairment Losses (AIL) across the banking sector during the 2020–2023 period, reflecting the sector's adjustment in managing credit risk amid economic uncertainty and the implementation of PSAK 71. A significant increase in AIL indicates rising credit risk, which can suppress bank profits, thereby lowering investor expectations and negatively impacting stock returns. Conversely, a decrease in AIL generally encourages an increase in stock returns (Gao et al., 2022). Within the framework of signalling theory, a notable increase in AIL serves as a negative signal, suggesting a deterioration in the quality of bank assets and a rise in potential credit risk in the future (López-Espinosa et al., 2021).

Profitability serves as a key measure of a company's ability to generate earnings through efficient resource allocation, providing a positive signal to potential investors regarding the firm's future viability (Oktaviani et al., 2024; Tanggo & Taqwa, 2020). A significant body of research suggests a positive correlation between profitability and stock returns, as earnings are a critical component for investors assessing potential returns (Puspita, 2025; Hermuningsih et al., 2022). However, other studies have produced divergent findings, suggesting that profitability does not always have a direct impact on stock returns (Putri & Hastut, 2021; Tahmat & Nainggolan, 2018). Similarly, NPL represent the proportion of loans that fail to generate the expected income, indicating the quality of an institution's assets and its exposure to credit risk (Khairi et al., 2021). An increase in NPL suggests a decline in operational efficiency and risk management, which may erode investor confidence and adversely affect stock market performance. Moreover, the adoption of PSAK 71 is linked to a rise in NPL, further escalating perceived risk and contributing to fluctuations in stock returns (Sinaga et al., 2023).

Previous studies examining the effect of Allowance for Impairment Losses (AIL) on stock returns have yielded mixed results. Gao et al. (2022) and López-Espinosa et al. (2021) found that an increase in AIL negatively impacts stock returns by reducing investor confidence and stock purchasing power. Similarly, Idris et al. (2025) demonstrated that the implementation of IFRS 9, particularly through the Expected Credit Loss (ECL) approach, influences market responses to stock price changes. In contrast, Thin (2016) reported different findings, suggesting that AIL does not affect stock returns, as it is not considered a major factor in investment decision-making. These conflicting results create opportunities for further research. Therefore, this study extends the work of López-Espinosa et al. (2021) by incorporating profitability and Non-Performing Loans (NPL) as independent variables, alongside dividend policy as a moderating variable. These variables were selected for their relevance to stock returns in the financial sector, which is characterized by high levels of credit and financing risk.

This study explores the role of dividend policy as a moderating factor that may influence the relationship between AIL, profitability, NPL, and stock returns. Dividend policy is a key indicator of a company's financial health and future earnings potential, and it can amplify market responses to financial outcomes (Harakeh et al., 2019). According to signaling theory, consistent dividend payments enhance investor confidence in a firm's long-term prospects (Connelly et al., 2011). Agency theory suggests that dividend policy serves as a mechanism to mitigate conflicts of interest between corporate management and shareholders (Kong et al., 2024). Existing research presents mixed conclusions regarding the impact of dividend policy on stock returns. Some studies indicate a positive effect (Utami & Murwaningsari, 2017), while others report no statistically significant influence (Hermuningsih et al., 2022). These findings underscore the importance of further empirical investigation into the role of dividend policy as a moderating variable.

The significance of this research arises from the fact that, following the implementation of PSAK 71, many financial sector companies experienced an increase in AIL and changes in NPL ratios, which directly impacted profits and financial stability. However, the market's response to these changes has not demonstrated a consistent pattern. Investors often face challenges in interpreting whether the rise in AIL and NPL reflects a temporary increase in risk or a sustained decline in performance, which in turn influences investment decisions and stock return movements. Additionally, differences in dividend policies among companies may either strengthen or weaken market reactions to these changes, yet the role of dividend policy has rarely been tested empirically, especially in the context of the Indonesian financial sector.

Hypotheses Development

Allowance for Impairment Losses and Stock Return

Allowance for Impairment Losses (AIL) is a crucial component of banking financial statements, reflecting a company's credit risk and asset quality (IAI, 2018). An increase in AIL signifies a rise in expected losses on financial assets, particularly non-performing loans, which could potentially reduce profits and lower expectations for future cash flows (Rahayu, 2021). In the context of capital markets, information regarding changes in AIL is of particular concern to investors, as it can influence the assessment of risk and investment return prospects (Firmansyah et al., 2023). According to Spence's (1973) signaling theory, the information conveyed in financial statements serves as a key indicator for investors, helping them evaluate a company's financial health and make informed investment decisions. A high Non-Performing Loan (NPL) ratio is generally seen as an unfavorable signal, indicating an elevated level of credit risk. As a result, investors may show decreased interest in purchasing the company's stock, potentially leading to a decline in share prices and, consequently, a reduction in investor returns (Rahayu, 2021).

H1: Allowance for Impairment Losses (AIL) affects stock returns

Profitability and Stock Return

Profitability is a key indicator that reflects a company's ability to generate net income through the efficient utilization of resources in its operations (Wulanningsih & Agustin, 2020). An increase in profitability signals strong financial performance, which in turn enhances the company's appeal to potential investors (Viyanis et al., 2023). According to Howe's (1997) signaling theory, the profit information conveyed by management acts as a positive signal to the market, suggesting the prospects and sustainability of the company's business. This signal influences investors' expectations regarding potential returns, thus driving market responses, which are often reflected in price fluctuations. Therefore, profitability plays a significant role in affecting stock returns.

H2: Profitability affects stock returns

Non-Performing Loan and Stock Return

Non-Performing Loans (NPL) refer to loans with low repayment quality, arising when borrowers (debtors) fail to meet their payment obligations, including both principal and interest, by the agreed-upon date (Khairi et al., 2021). According to the signaling theory proposed by Spence (1973), a high NPL ratio is perceived by the market as a negative signal, as it indicates increased credit risk and poor corporate asset management. This scenario can undermine investor confidence in the company's operational effectiveness and future prospects, which in turn may negatively affect the valuation of its shares. In contrast, a low NPL ratio sends a positive signal, suggesting the company's competence in managing credit risk effectively. This can enhance investor sentiment and potentially lead to an improvement in stock performance (Anisa & Suryandari, 2021).

H3: Non-Performing Loan (NPL) affects stock returns

Dividend Policy, AIL, and Stock Return

A company's dividend policy is an administrative decision that determines the proportion of earnings allocated to shareholders versus the portion retained for ongoing operations and future capital expenditures (IAI, 2018). According to agency theory, dividend distribution can help mitigate conflicts between management and shareholders by reducing free funds that might otherwise be used for management's personal interests, thereby increasing investor confidence (Jensen & Meckling, 1976). In the context of signaling theory, an increase in Accounts in Lieu (AIL) is generally perceived by the market as a negative signal, as it suggests higher credit risk and a potential decline in financial performance, which may lead to a decrease in share prices and returns. However, consistent and steady dividend disbursements can serve as a positive signal to investors, indicating the organization's ability to generate cash and sustain financial performance. This positive signal may counterbalance any adverse investor sentiment related to increased net working capital (NWC), suggesting that dividend policy could either amplify or mitigate the impact of NWC on equity returns.

H4: Dividend policy moderates the effect of AIL on stock returns

Dividend Policy, Profitability, and Stock Return

Profitability serves as a crucial metric for assessing financial health, reflecting an entity's capacity to generate sustained earnings (Yuliati, 2025). Investors place significant importance on profitability data, as it outlines the potential returns from equity investments (Tandelilin, 2017). Elevated profitability signals a strong financial position and an optimistic outlook for the company, which typically leads to increased investor interest, resulting in upward adjustments in its market valuation. In contrast, diminished profitability can undermine investor confidence, signaling inefficiencies in operations (Latief, 2019). The market often responds to such declines with a drop in stock values and lower investment returns. The relationship between profitability and stock returns aligns with signaling theory, as proposed by Howe (1997), which suggests that profit disclosures serve as a basis for investors' decision-making.

From the perspective of agency theory, dividend policy is viewed as a mechanism to manage potential conflicts between corporate management (agents) and shareholders (principals) (Jensen & Meckling, 1976). Companies with higher profitability are more susceptible to agency conflicts, as management may have the discretion to allocate profits for personal gain or less advantageous projects (Azzam & Hemawan, 2025). In this context, dividend policy acts as a tool to limit the financial resources available to management by distributing profits to shareholders. Increased dividend payouts signal that profits are being directed toward shareholder interests, thereby building investor trust (Utami & Murwaningsari, 2017). Consequently, a positive relationship between a company's profitability and stock returns is strengthened when substantial dividend policies are implemented.

H5: Dividend policy moderates the effect of profitability on stock returns

Dividend Policy, NPL, and Stock Return

Signal Theory, as proposed by Spence (1973), asserts that the stability or increase in dividend policy serves to reassure the market regarding the strength of a company's profits and cash flow. In contrast, a high Non-Performing Loan (NPL) ratio indicates heightened credit risk and declining asset quality, which can erode investor confidence and negatively impact stock returns (Anisa & Suryandari, 2021). Under such conditions, a robust dividend policy can mitigate negative market perceptions by signaling that the company is still capable of maintaining its financial performance and providing returns to shareholders. From the

perspective of agency theory, an increase in NPL could prompt management to withhold profits, thereby exacerbating agency conflicts and suppressing stock returns. Dividend distribution serves as a control mechanism that limits the discretionary use of funds by management and reinforces the company's commitment to its shareholders (Jensen & Meckling, 1976). Consequently, dividend policy can alleviate the negative impact of NPL and moderate its influence on stock returns.

H6: Dividend policy moderates the effect of NPL on stock returns

Figure 1. Research Framework
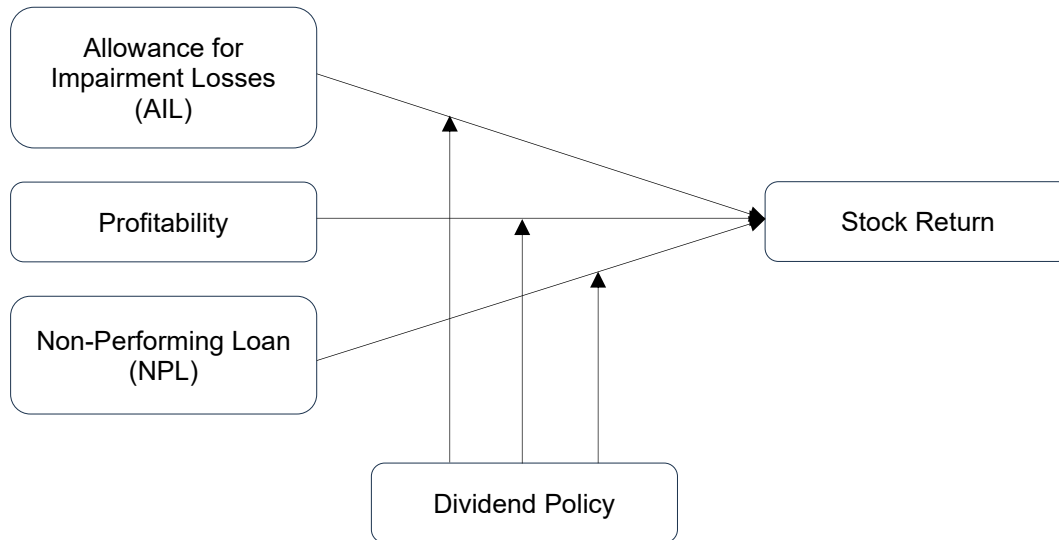
Source: Developed by the authors (2025)

METHOD

This study employs a quantitative research approach, utilizing secondary data derived from the annual financial statements of publicly listed companies in the financial sector on the Indonesia Stock Exchange (IDX) from 2020 to 2024. The population consists of all companies in the financial sector, with a subset selected through purposive sampling based on the following criteria: companies that published their financial reports on the IDX during the specified period, those that consistently distributed dividends between 2020 and 2024, and those that provided relevant data on the research variables in their financial disclosures. After applying these criteria, a total of 115 data samples were identified for analysis using EViews 12. The dependent variable in this study is stock return, while the independent variables include Allowance for Impairment Losses (AIL), profitability as measured by Return on Assets (ROA), and Non-Performing Loan (NPL). Dividend policy (DPR) is incorporated as a moderating variable in the analytical framework.

Table 3. Operational Variables

Variable	Code	Formula	Reference
Stock Return	SR	$(Pit - Pit - 1)/Pit - 1$ x 100%	(Murti & Widyastuti, 2023)
Allowance for Impairment Losses	AIL	Total Allowance for Impairment Losses/ Total Asset x 100%	(Nisa et al., 2025)

Variable	Code	Formula	Reference
Profitability	ROA	Net Income/ Total Asset x 100%	(Firmansyah et al., 2023)
Non-Performing Loan	NPL	Non Performing Loan/ Total Loan x 100%	(Ikhsan & Jumono, 2022)
Dividend Policy	DP	Dividend Per Share/ Earning per Share x 100%	Aulia et al., (2025)

Source: Compiled by the authors (2025)

This study employs panel data regression using the Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM). The model selection is based on the results of the Chow, Hausman, and Lagrange Multiplier (LM) tests, conducted at a 5% significance level (Ghozali & Ratmono, 2017). In the Chow test, a p-value < 0.05 indicates the preference for FEM, while a p-value ≥ 0.05 suggests CEM. In the Hausman test, a p-value < 0.05 favors FEM, whereas a p-value ≥ 0.05 supports REM. In the LM test, a p-value < 0.05 indicates REM, and a p-value ≥ 0.05 suggests CEM. If both the Chow and Hausman tests favor FEM, the LM test is not necessary. The moderating effect is examined using Moderated Regression Analysis (MRA), with the regression equation as follows:

$$Y = \alpha + \beta_1 \text{AIL} + \beta_2 \text{ROA} + \beta_3 \text{NPL} + \beta_4 \text{DP} + \beta_5 \text{AIL} \times \text{DP} + \beta_6 \text{ROA} \times \text{DP} + \beta_7 \text{NPL} \times \text{DP} + e_{it}$$

e_{it} represents the residual or error term, i corresponds to the finance firm under study, while t indicates the year of observation.

RESULT AND DISCUSSION

Descriptive Statistics

Table 4 presents the results of descriptive statistical testing, revealing that the mean values of Stock Return, AIL, Profitability, NPL, and Dividend Policy are smaller than their respective standard deviations. This indicates that the data are not clustered around the mean, suggesting a high level of variability or dispersion in the values for these variables.

Table 4. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Standard Deviation	Observations
SR	-0.515530	1.465170	0.045597	0.311787	115
AIL	0.001040	2.450000	0.051299	0.226968	115
ROA	0.000680	2.392940	0.047019	0.221662	115
NPL	0.000420	0.055780	0.021562	0.011385	115
DP	-3.301030	0.982943	0.593644	0.790899	115

Source: Processed data (2025)

Table 4 presents the descriptive statistics for 115 observations, with stock returns as the dependent variable. Stock returns range from −0.515530 to 1.465170, with a mean of 0.045597, suggesting a general upward trend, and a standard deviation of 0.311787, indicating relatively stable variability. The AIL variable ranges from 0.001040 to 2.450000, with an average of 0.051299, suggesting generally low and manageable credit risk, and a standard deviation of 0.226968, indicating moderate variation. Profitability (ROA) ranges from −0.000680 to 2.392940, with a mean of 0.047019 and a standard deviation of 0.221662, indicating modest and relatively stable profitability differences across firms. The NPL variable

has a minimum of 0.000420 and a maximum of 0.055780, with an average of 0.021562, suggesting low non-performing loans, and a standard deviation of 0.011385, reflecting consistency across firms. Finally, dividend policy (DPR) ranges from −3.301030 to 0.982943, with a mean of 0.593644, implying that firms distribute approximately 59.53% of profits as dividends. The standard deviation of 0.790899 indicates substantial variation in dividend policies across firms.

Model Selection Test

Chow Test

When choosing between the Fixed Effect Model (FEM) and the Common Effect Model (CEM), the Chow test is employed. The probability value obtained from the test, displayed in the cross-section Chi-square, determines the appropriate model. If the probability value is greater than 0.05, CEM is deemed the appropriate model. Conversely, if the probability value is less than 0.05, FEM is considered the most suitable model for the study.

Table 5. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.921307	(22.9)	0.5683
Cross-section Chi-square	2.335776	22	0.3818

Source: Processed data (2025)

Table 5 shows that the calculated Chi-square significance value is 0.3818, which is greater than the threshold of 0.05. Therefore, CEM is the most appropriate model for this study. Subsequently, the Hausman test was conducted as part of the model selection process.

Hausman Test

To determine whether the Fixed Effect Model (FEM) or the Random Effect Model (REM) is more suitable, the Hausman test is applied. The model choice is based on the probability value provided in the summary test section under the cross-section random row. If the probability value is greater than 0.05, REM is considered the better model. However, if the probability value is less than 0.05, FEM is deemed more appropriate for the study.

Table 6. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.645179	2	0.7243

Source: Processed data (2025)

Table 6 presents the results of the Hausman test, which yields a probability value of 0.7243. Since the probability value is greater than 0.05, REM is considered more appropriate than FEM for this study. To finalize the model selection, the Lagrange Multiplier (LM) test is necessary, as the previous two model selection tests have produced differing results.

Lagrange Multiplier (LM) Test

The Lagrange Multiplier (LM) test, conducted using the Breusch-Pagan approach, was used to determine whether the Random Effect Model (REM) or the Common Effect Model (CEM) was more appropriate. The conclusion was based on the probability significance value: if the value was greater than 0.05, CEM was considered the better model. Conversely, if the

probability value was less than 0.05, the REM model was deemed more suitable for representing the panel data.

Table 7. Lagrange Multiplier (LM) Test

	Test Hypothesis		
	Cross-section	**Time**	**Both**
Breusch-Pagan	0.143879	0.146841	0.290720
	(0.7045)	(0.7016)	(0.5898)

Source: Processed data (2025)

Table 7 shows the test results with a probability value of 0.7045, which is greater than 0.05, indicating that H0 is accepted. Therefore, CEM is the most appropriate model for this study.

Multicollinearity Test

In testing the panel data model, the results indicate that the Common Effect Model (CEM) is the most suitable model for this study. Additionally, classical assumption testing was performed using multicollinearity and heteroscedasticity tests, as the data used is panel data. Since panel data accounts for time-series and cross-sectional variations, normality and autocorrelation tests were not deemed necessary (Ulrich & Forstmeier, 2021). The following presents the results of the multicollinearity test.

Table 8. Multicollinearity Test

	AIL	ROA	NPL
AIL	1.00000	-0.02279	0.14425
ROA	-0.022789	1.00000	-0.19507
NPL	0.14426	-0.19507	1.00000

Source: Processed data (2025)

According to the findings presented in Table 8, the correlation coefficients among the variables are below the threshold of 0.85, indicating that the dataset does not exhibit multicollinearity concerns (Ghozali & Ratmono, 2017).

Heteroscedasticity Test

The results of the heteroscedasticity test presented in Table 9 show that the data is free from heteroscedasticity, as indicated by a probability value greater than 0.05 (Ghozali & Ratmono, 2017). This suggests that the variance of the errors is constant across observations, supporting the reliability of the model.

Table 9. Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.057100	0.013231	4.315686	0.0000
AIL	-0.005307	0.018357	-0.289088	0.7731
ROA	-0.017074	0.019357	-0.882039	0.3797
NPL	0.519269	0.527396	0.984591	0.3270
DP	0.003148	0.013231	1.403929	0.1632

Source: Processed data (2025)

Hypotheses Testing

The results of the analysis indicate a significant relationship between stock returns and AIL, as reflected by a coefficient of -4.281185 and a probability value of 0.0391. Since this probability is below the standard significance threshold of 0.05, the hypothesis suggesting AIL's influence on stock returns is supported. In contrast, the variable Return on Assets (ROA) shows no significant effect on stock returns. This is confirmed by a coefficient of 0.076888 and a probability of 0.9167, which exceeds the 0.05 significance level, leading to the rejection of the second hypothesis. Similarly, the third hypothesis, regarding the impact of Non-Performing Loans (NPL) on stock returns, is also rejected, as evidenced by a coefficient of -0.716342 and a probability of 0.8289, both exceeding the 0.05 threshold. Therefore, the third hypothesis is not supported by the data.

Table 10. Direct Effect Test Result

Hypothesis	Coefficient	Std. Error	t-Statistic	Prob.	Conclusion
AIL → SR	-4.281185	2.049151	-2.089248	0.0391	Accepted
ROA → SR	0.076888	0.733105	0.104880	0.9167	Rejected
NPL → SR	-0.716342	3.307232	-0.216599	0.8289	Rejected

Source: Processed data (2025)

The findings indicate that the interaction between Allowance for Impairment Losses (AIL) and dividend policy results in a regression coefficient of 6.937710, with a probability value of 0.0380. Since this probability is below the 0.05 threshold, it confirms that dividend policy acts as a moderating factor in the relationship between AIL and stock returns. As a result, the fourth hypothesis is supported. In contrast, the analysis of dividend policy's moderating effect on the relationship between profitability (ROA) and stock returns yielded a coefficient of 0.152415 and a probability of 0.9440. This probability exceeds the 0.05 significance level, suggesting that dividend policy does not moderate the effect of ROA on stock returns, leading to the rejection of the fifth hypothesis. Furthermore, the examination of the interaction between Non-Performing Loans (NPL) and dividend policy revealed a coefficient of 1.157135 and a probability value of 0.7575, both surpassing the 0.05 significance threshold. Therefore, it is concluded that dividend policy does not influence the relationship between NPL and stock returns, resulting in the rejection of the sixth hypothesis.

Table 11. Moderated Regression Analysis

Hypothesis	Coefficient	Std. Error	t-Statistic	Prob.	Conclusion
AIL*DP → SR	6.937710	3.302711	2.100611	0.0380	Accepted
ROA*DP → SR	0.152415	2.164470	0.070417	0.9440	Rejected
NPL*DP → SR	1.157135	3.738653	0.309506	0.7575	Rejected

Source: Processed data (2025)

Discussion

The findings of this research reveal that Allowance for Impairment Losses (AIL) significantly influences stock returns. Companies establish AIL to anticipate potential losses on financial assets, reflecting prudence in managing credit risk, particularly after PSAK 71's implementation which requires earlier and more transparent risk recognition. A higher AIL is generally seen negatively by investors as it signals increased credit risk, while a lower AIL can indicate financial stability, thus strengthening investor confidence and positively influencing stock prices and returns. These findings align with Gao et al. (2022), who show that increases in AIL trigger market reactions due to expectations of higher risk and weaker future performance. Similarly, López-Espinosa et al. (2021) find that larger provisions reduce earnings and future cash flow expectations, affecting investor assessments and stock returns.

Thin (2016) suggests that AIL's impact on stock returns depends on investor interpretation, indicating that AIL can serve as an important investment signal under certain conditions.

The analysis also shows that profitability, measured by Return on Assets (ROA), does not significantly impact stock returns, suggesting that profitability is not a central criterion for investors in the financial sector during the research period. While higher ROA reflects efficient asset utilization and stable financial conditions, profitability does not always influence stock returns as investors tend to anticipate profit levels based on past performance. From a signaling theory perspective, profit information may be a weak signal as it mainly reflects short-term accounting outcomes and does not fully capture risk or future prospects. This finding aligns with Kurnia & Saadah (2022) and Pamula (2021) who argue that ROA does not significantly affect stock returns as the market has already priced in such information. In contrast, Daryanto & Meiliawati (2022) show that profitability can influence stock returns when seen as a strong indicator of sustainable performance. Thus, the relationship between ROA and stock returns depends on investor perceptions and the industry context.

The results also indicate that Non-Performing Loans (NPL) do not significantly influence stock returns, suggesting that fluctuations in NPL are not viewed as strong signals by investors, especially when they remain within regulatory limits. NPL is commonly seen as a reflection of deteriorating credit quality which can suppress income and increase loss reserves, thereby negatively affecting stock returns. However, the study finds that as long as NPL stays within acceptable regulatory limits, investors view these fluctuations as manageable risks. This aligns with Tahmat & Nainggolan (2018) who report that NPL does not affect stock returns when credit quality remains healthy. In contrast, Daryanto & Meiliawati (2022) show that NPL can influence stock returns during periods of economic uncertainty. Thus, NPL does not always affect stock returns when its level remains within a normal and acceptable range.

The empirical results also suggest that dividend policy moderates the relationship between AIL and stock returns. A company's dividend policy determines whether profits are distributed to shareholders or retained for growth and is closely related to AIL. An increase in AIL can reduce distributable profits, while effective AIL management supports dividend payments. From a market perspective, high AIL accompanied by declining dividends signals higher risk and may reduce stock returns. Conversely, stable dividends despite credit risk indicate strong risk management and financial stability. This aligns with agency theory which suggests that dividends help reduce conflicts between managers and shareholders, and signaling theory which indicates that maintaining dividend stability amid rising AIL conveys a positive long-term outlook and mitigates negative risk perceptions. Previous studies such as those by Gao et al. (2022) and López-Espinosa et al. (2021) show that AIL impacts stock returns through its effect on earnings and risk perception. Additionally, Arramdhani & Cahyono (2020) confirm that a high dividend policy increases investor confidence and elicits a positive market response. Consequently, dividend policy significantly impacts the degree to which NPL affects stock returns as consistent dividend distributions can attenuate the adverse effects of elevated NPL on stock returns.

The evidence also suggests that dividend policy does not effectively moderate the relationship between profitability and stock returns. Dividend payments depend on a firm's profitability as profits are the primary source of dividends. While firms with higher profits have greater capacity to distribute dividends, declining profits often lead to profit retention to maintain financial stability. However, empirical evidence shows that dividend policy does not always strengthen the relationship between profitability and stock returns as dividend practices are predictable and not the sole basis for investor evaluation. From agency theory, managers consider factors like growth prospects, cash availability, and risk, which may limit dividend increases despite higher profits. Signaling theory suggests that high profits without changes in dividend policy provide weak signals to the market, having limited impact on stock returns. This aligns with the findings of Krismandari & Amanah (2020) who argue that dividend policy does not provide additional insights into profitability when assessing stock returns. In contrast, Utami & Murwaningsari (2017) argue that dividends can serve as a reliable indicator of a company's ability to generate and distribute earnings.

The findings also indicate that dividend policy does not moderate the impact of NPL on stock returns. Dividend policy represents a company's decision on the fraction of net earnings to be distributed to shareholders, typically influenced by the firm's financial standing and associated risks. An increase in NPL signals deteriorating asset quality due to declining credit performance, prompting companies to retain earnings and reduce dividend payouts to preserve financial stability. When NPL are low and asset quality is maintained, companies have more room to distribute dividends. However, dividend policy does not always change the impact of NPL on stock returns as NPL remains a fundamental indicator of credit risk for investors that cannot be compensated by high dividend distributions alone. Agency theory suggests that dividend payments do not guarantee that management has optimally managed credit risk, so dividends are insufficient to alter investors' perceptions of risk associated with NPL. Investors tend to focus more on NPL as a measure of operational risk and bank performance stability. This view is in line with Hermuningsih et al. (2022) who state that investors prioritize credit risk and performance stability over dividend policy when making investment decisions. However, Arramdhani & Cahyono (2020) emphasize that dividend distribution can increase investor confidence because it reflects profit realization in the form of cash flow. Thus, the role of dividend policy in the relationship between NPL and stock returns depends on how investors prioritize credit risk over cash flow signals indicated through dividends.

CONCLUSION

This study investigates the impact of Allowance for Impairment Losses (AIL), profitability as proxied by Return on Assets (ROA), and Non-Performing Loans (NPL) on stock returns, along with the moderating role of dividend policy in financial sector companies listed on the Indonesia Stock Exchange. The findings reveal that AIL significantly affects stock returns, as changes in reserve levels are regarded as pertinent information by investors. In contrast, ROA and NPL do not have a significant impact on stock returns, as such information is typically anticipated by the market or remains within regulatory limits which do not influence investor perceptions. Dividend policy moderates the relationship between AIL and stock returns by providing an additional signal regarding the company's risk and future prospects. However, dividend policy does not moderate the effects of ROA or NPL on stock returns as dividend distributions tend to be stable and are not considered key indicators of profitability or credit risk. Future research could expand by incorporating additional variables such as leverage, liquidity, and corporate governance to provide a more comprehensive and robust understanding across various financial conditions and governance structures.

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