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ENHANCING BANKING FUTURE PERFORMANCE: REVALUATION AND BOOK-TO-MARKET RATIO

Maria Magdalena[1*], Heriyadi[2], Helma Malini[3], Anwar Azazi[4], Uray Ndaru Mustika[5]
Faculty of Economics and Business, Universitas Tanjungpura, Pontianak[1,2,3,4,5]
E-mail: mriamgdlen16@gmail.com[1]*

Abstract: The banking sector played a crucial role in global economic stability, supporting financial and investment activities. Prior to making funding decisions within the banking sector, investors required reliable information disclosure. The assessment of book value and asset management were strategic steps that provided a precise representation of the company's fundamental value, compared to volatile market value. This research aimed to investigate how the book-to-market ratio mediated the relationship between asset revaluation, return on assets, debt equity ratio, and future financial performance (ROE). Employing quantitative approach with multiple regression analysis using EViews 13. Path analysis was utilized to examine the mediation effect. This research conducted an unbalanced panel analysis consisting of 80 observations from 30 Indonesian banks listed on the Indonesia Stock Exchange from 2014 to 2022 that fulfilled the sampling criteria. Data is derived from annual financial reports and selected through purposive sampling criteria focused on the presence of asset revaluation. The finding of this research indicated that asset revaluation negatively affects the book-to-market ratio when ROA has a positive relationship. ROA and book-to-market ratio positively affect debt equity ratio. Then, ROA has a significant positive impact on banking future performance, while DER has a significant negative relationship. Conversely, the book-to-market ratio proven can mediate the relationship between return on assets and debt equity ratio.

Keywords: *Asset Revaluation, Book-to-Market Ratio, Debt Equity Ratio, Future Performance, Return on Assets.*

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1. Introduction

Indonesia's banking industry significantly contributes to the stability of the national economy and serves as a pillar for the financial and investment sectors. In the Financial Services Authority (OJK) Report as of February 2024, it was recorded that banking assets in Indonesia grew 6.9% yoy to Rp 11,708 trillion, increasing their capacity to carry out their role in maintaining the stability of the national financial system. However, the banking sector challenges, such as market volatility, affect investor perceptions (Huber et al., 2021).

Attracting and retaining investors is very important for companies. Investors provide the necessary capital for growth and development. Fan et al. (2023) conducted research demonstrating the potential to reduce agency costs and enhance investment efficiency by

aligning managerial incentives with shareholder interests. Lei & Luo (2023) argue that adequate corporate disclosure is essential to reduce information asymmetry and build investor trust. Investors need concrete evidence to forecast banking future performance.

Ridwan et al. (2022) stated that financial performance is represented by a company's return on equity. This ratio is the primary benchmark in assessing banking performance, indicating the effectiveness of management in utilizing equity to generate profits for shareholders. Kasbar et al. (2023) discovered that despite a rise in agency conflict, this could improve corporate governance quality, ultimately leading to an increase of financial performance. While strong and favorable ratios, such as ROE, play an essential role in representing a bank's financial performance, it is also important to consider the impact of the composition of internal funding capital.

Leverage, as measured by the Debt-to-Equity Ratio, is an essential element in a company's capital structure that influences financial performance (Ridwan et al., 2022). Leverage reflects how much a company uses debt compared to equity (Febrianti et al., 2024). Ji et al. (2024) discovered that elevated financial leverage could increase agency costs due to potential conflicts that arise between debt holders and equity holders. Companies relying on external funding must carefully manage credit risks to maintain financial stability while recognizing the role of asset management in mitigate financial risks.

In order to maximize operational value and efficiency, firms must implement effective asset management. Profitability is defined as the contrast between the earnings generated from its assets and the costs associated with its liabilities (Malini, 2020). Return on assets is a metric to determine a company's efficiency in using its assets to create profits (Yulianingsih et al., 2024). Profitability mitigates agency issues that arise from managerial investment decisions and emphasizes that enhanced profitability metrics can diminish the effects of agency problem, thereby enhancing return forecasting (J. Chen et al., 2023).

Asset revaluation involves adjusting fixed assets, reflect the current market values rather than historical costs. Asset revaluation provides a precise representation of financial statements, thereby diminishing information asymmetry and mitigating conflicts (Ridwan et al., 2022). Vengesai (2023) describes that a company's asset structure, especially investment in physical assets, significantly correlates with the debt ratio.

The Book-to-Market (B/M) ratio compares a company's recorded equity value with its market value. Ho et al. (2022) found that B/M ratio captures market perceptions of asset value relative to book value, which may impact a company's capital structure. On the other hand, there is a research gap arising from a contradiction in the role of the B/M Ratio in mediating the relationship between asset management and leverage. According to Gutiérrez-Ponce (2024), profitability negatively affects leverage. Conversely, asset revaluation positively influences leverage, enabling the company to secure additional external funding by increasing its book value (Diantimala & Sofyani, 2020).

As outlined in the previous section, several studies have explored various factors predicting future financial performance. This research focuses on the Indonesian banking sector to identify crucial factors that may impact future financial performance. This research provides an in-depth analysis of the impact of capital structure and asset revaluation on investor trust, employing empirical data and contemporary literature. This research aims to enhance the current discourse by offering a comprehensive analysis of the impact of asset revaluation and capital structure on future performance. By addressing these crucial challenges, the study explains how companies can optimize their financial strategies to attract and retain investors to ensure sustainable growth in the banking sector.

2. Research Method

Agency theory refers to an economic concept that emphasizes the ideal contractual arrangement to regulate the interaction between a principal and an agent (Jensen & Meckling, 1976). Agency conflicts arise from misaligned interests among shareholders, managers, and debt holders, leading to inefficiencies and increased monitoring costs (Jiang, 2023). These conflicts are frequently associated with operational decisions, such as project selection. Debt can alleviate this conflict by offering a mechanism for liquidation during periods of low cash flow. However, it also diminishes free cash flow, compelling management to consider advantages and disadvantages of leveraging.

In order to mitigate agency problems, companies provide positive signals to investors to strengthen their trust. Clear and accurate information about asset management policies, leverage strategies, and risk management can reduce uncertainty and improve investor perceptions of company performance. As a result, companies must commit to building a solid reputation and maintaining effective communications with investors. This commitment increases investor trust and effectively addresses emerging agency problems. This strategy also enhances the transparency of financial reporting, which is crucial for improving accountability from the investor's viewpoint.

Diantimala & Sofyani (2020) argue that asset revaluation enhances the significance of financial statements by offering a more precise representation of asset value, potentially impacting the book-to-market ratio. On the other hand, Hussain et al. (2022) found that asset revaluation can adversely affect financial metrics, depending on the context and implementation.

H1: Asset revaluation has a positive effect on book-to-market ratio.

Suroso (2022) reveals that an increased ratio of net income to total assets (ROA) correlates with elevated dividend distributions, which impacts the book-to-market ratio. This is because higher dividends indicate the company's improved profitability and stability, which enhances investor's favorable perception of the company's (B/M) value. Higher ROA signifies the company's proficiency in deriving profits from its assets, reflecting its capacity to convert investments into net income (Irdawati et al., 2023). The net income generated increases shareholder's equity, thereby increasing the proportion of the company's book value.

H2: Return on assets has a positive effect on book-to-market ratio.

Ayu et al. (2023) show a significant change in the post-asset revaluation of DER, indicating the impact of the revaluation on the company's leverage. Cho et al. (2021) have discovered that companies often reassess the value of their assets to enhance their borrowing capacity, strengthen their financial standing, or lower the costs associated with debt contracts.

H3: Asset revaluation has a positive effect on leverage (DER)

Gutiérrez-Ponce (2024) have discovered that profitability associated with lower level of leverage in SMEs. This is related to how profit-making companies generate sufficient internal funds, reducing the need for external funding and lowering their debt levels. An increase in a company's ROA leads to a rise in retained earnings, as the profits generated are reinvested back into the retained earnings. With adequate retained earnings as a funding source, the company will reduce its reliance on debt financing (Colline, 2022).

H4: Return on asset has a negative effect on leverage (DER)

Ma et al. (2023) demonstrate that organizations with a high (B/M) ratio are inclined to elevate their leverage, which improves the organization's capacity to obtain additional loans with more favorable terms. Conversely, high (B/M) companies exhibit a degree of stability in their market performance. Choi et al. (2021) suggest this stability encourages companies to operate with lower debt levels, as they are less pressured to leverage their capital structure to increase profits.

H5: Book-to-market ratio has a negative effect on leverage (DER)

In the sugar sector, Hussain et al. (2022) reported negative impacts of asset revaluations on financial performance, indicating potential financial weakness in certain contexts. In contrast, Kayakus et al. (2023) research uses machine learning techniques to predict ROE and finds that factors related to asset revaluation have a significant effect on ROE.

H6: Asset revaluation has a positive effect on future financial performance (ROEt+1)

Research from Rizka (2022) discovered that investors can use return on assets to forecast the inverse correlation between profitability and stock returns, indicating company performance in non-financial firms. Previously, Spitsin et al. (2020) investigated the influence of ROA on company performance within manufacturing industry in Russia, concluding that ROA is a critical predictor of corporate performance.

H7: Profitability (ROA) has a positive effect on future financial performance (ROEt+1)

Kayakus et al. (2023) research using machine learning techniques highlights the significant impact of leverage on ROE, emphasizing its role as a predictor of equity performance under specific analytical approaches. Zhou et al. (2021) stated that utilization of financial leverage of on-financial listed firm in China adversely affects their performance, aligning with the fundamentals of agency cost theory.

H8: Leverage (DER) has a negative effect on future financial performance (ROEt+1)

Hussain et al. (2022) found that companies that revalued assets tend to experience changes in their leverage dynamics, especially during periods of economic volatility. The study conducted by Diantimala & Sofyani (2020) demonstrates that asset revaluation has a substantial impact on firm value and can lead to an increase in the B/M ratio, indicating that the company is more valuable than its market value. Consequently, this enhances the company's ability to secure more loans with more advantageous conditions (Ma et al., 2023).

H9: Book-to-market ratio mediate relationship between asset revaluation and leverage (DER)

Research conducted by Colline (2022) suggests that firms experiencing higher Return on Assets generally maintain a lower level of debt. In addition, Lim et al. (2024) discovered that firms with high profitability frequently had greater stock return. This signifies that the higher profitability generate more retained earning which affect the company's book value. Furthermore, research by Ma et al. (2023) confirms that firms with high B/M ratio typically show a tendency to increase their debt level.

H10: Book-to-market ratio mediate relationship between profitability (ROA) and leverage (DER)

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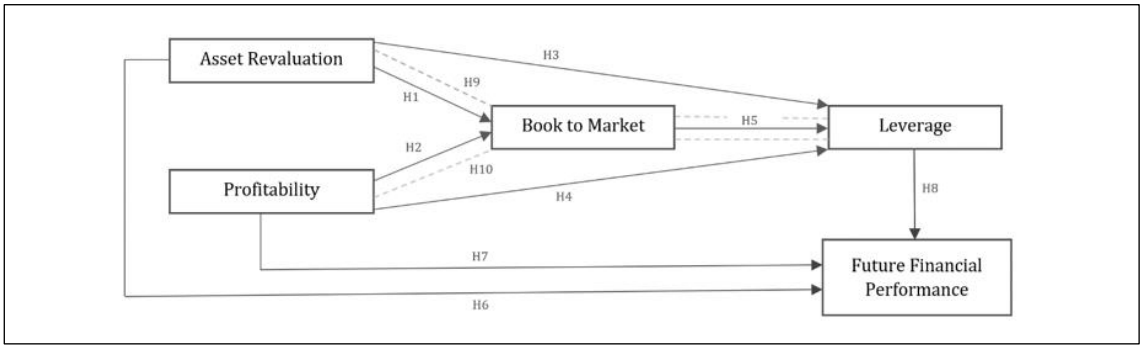

Figure 1. Conceptual Framework

This research using quantitative approach with descriptive analysis to test the relationship between asset revaluation, return on asset (ROA), book-to-market ratio (B/M), leverage (DER) and return on equity in the next period (ROEt+1). Secondary data was obtained from financial reports from the company's official website and (finance.yahoo.com). The population of this study is all banks listed on IDX during the period 2014-2022. This research performs unbalanced panel analysis with 80 observations from 30 Indonesian banks listed on Indonesia Stock Exchange from 2014 to 2022 that fulfilled sampling criteria. The sample is selected purposively with criteria:

Table 1. Sample Selection

No	Sample Criteria	Quantity
1	Number of bank financial reports on the IDX for the period 2014–2022	391
2	Financial reports without asset revaluation in the period 2014–2022	(282)
3	Financial reports without surplus asset revaluation in the same period	(15)
4	Financial reports with negative return on assets (ROA) in the same period.	(10)
5	Financial reports with negative return on equity (ROE) in the same period.	(4)
	Total Observation	80

Research variable formulations are derived from (Ridwan et al., 2022). This research uses E-views 13 software as a tool to conduct multiple regression analysis to test the role of book-to-market ratio (B/M) in mediating the relationship between asset revaluation and return on asset (ROA) on leverage to see the impact on return on equity in the next period (ROEt+1), and also path analysis (sobel test) to examine the mediation effect. The model equation formula used as follows:

$$B/M^t = a + \beta_1 AR^t + \beta_2 ROA^t + \varepsilon_1 \quad \text{(1)}$$

$$LEV^t = a + \beta_1 AR^t + \beta_2 ROA^t + \beta_3 BTM^t + \varepsilon_2 \quad \text{(2)}$$

$$ROE^{t+1} = a + \beta_1 AR^t + \beta_2 ROA^t + \beta_3 LEV^t + \varepsilon_3 \quad \text{(3)}$$

Where :
a = Constant;
AR^t = Asset Revaluation at year t;
ROA^t = Return on Asset at year t;
B/M^t = Book to Market Ratio at year t;
LEV^t = Debt Equity Ratio at year t;
ROE^{t+1} = Return on Equity at year t+1;
ε_1 = Error term.

The regression model's results will be examined by analyzing the regression coefficients of each equation to assess the impact of the independent factors on the dependent variable. The initial equation delineates the influence of asset revaluation (ARt) and return on assets (ROAt) on the book-to-market ratio (B/Mt). The second equation examines the debt equity ratio (LEVt), influenced by asset revaluation (ARt), return on assets (ROAt), and the book-to-market ratio (B/Mt). The third equation represents the predicted return on equity (ROEt+1) in the following year based on the historical performance of asset revaluation (ARt), return on assets (ROAt), and debt equity ratio (LEVt).

The regression coefficients signify the extent of change in the dependent variable predicted by a one-unit change in the independent variable, provided that other variables remain constant. This analysis employs statistical significance testing with a p-value <0.05. The relationship's direction is indicated by the coefficient's sign: a positive coefficient signifies that an increase in the independent variable correlates with an increase in the dependent variable, whereas a negative coefficient denotes the contrary, meaning an increase in the independent variable correlates with a decrease in the dependent variable.

Sobel test is a statistical method employed to assess the mediation effect inside a model that includes a mediator variable (Cui et al., 2024). This assessment measures the indirect effect by calculating the standard error of the product of two coefficients: the influence of the independent variable on the mediator and the influence of the mediator on the result. A Sobel test p-value under 0.05 signifies a statistically significant mediation effect. The Sobel test assesses the impact of a company's asset management on the book-to-market ratio, which subsequently indicates the company's capacity to attain an improved target debt-to-equity (DER) ratio. This is significant as it relies on market valuations that are subject to fluctuation and impacted by external variables beyond the company's control, potentially leading to instability. This study examines the mediating role of (B/M) to determine if the impact of asset management on DER is direct or mediated by changes in book value as indicated by the book-to-market ratio.

Table 2. Research Variables

Type of Variable	Proxy	Measurement
Dependent		
Leverage	Debt Equity Ratio	$\frac{The\ difference\ between\ total\ assets\ and\ total\ general\ equity}{Market\ value\ of\ common\ equity\ at\ the\ beginning\ of\ year\ t+1}$
Banking Future Performance	Return on Equity t+1	$\frac{Operating\ income\ in\ year\ t+1}{The\ equity\ at\ the\ beginning\ of\ year\ t+1}$
Independent		
Asset Revaluation	Asset Revaluation	$\frac{Surplus\ asset\ revaluation\ divided\ by\ FA\ before\ revaluation\ in\ year\ t}{Market\ value\ of\ common\ \ equity\ at\ the\ beginning\ of\ year\ t+1}$
Profitability	Return on Assets	$\frac{\%\ Return\ on\ asset\ in\ year\ t}{Market\ value\ of\ common\ equity\ at\ the\ beginning\ of\ year\ t+1}$
Intervening		
Book-to-Market	Book-to-Market	$\frac{Book\ value\ of\ common\ equity\ of\ year\ t}{Market\ value\ of\ common\ equity\ at\ the\ end\ of\ year\ t}$

3. Results and Discussion

Descriptive Analysis

This research analyzes the relationship between AR, ROA and DER by using (B/M) as a mediator to be linked to future banking performance. The total data sample is 80 observations consisting of 30 banks listed in IDX during 2014-2022 that meet the sample selection. Descriptive statistics present comprehensive overviews by offering a detailed understanding of the data set (Paganelli et al., 2020). The descriptive table analysis indicates that the average data ranges from 0.000000000267 to 0.502184.

Table 3. Descriptive Analysis

	X1_AR	X2_ROA	Y1_DER	Y2_F_ROE	Z_(B/M)
Mean	2.39E-08	2.67E-10	0.502184	0.106720	0.249625
Maximum	8.85E-07	4.73E-09	6.567780	0.273100	3.985648
Minimum	1.74E-17	6.12E-14	0.000336	0.002200	3.55E-05
Std. Dev.	1.09E-07	7.07E-10	1.170606	0.067634	0.733859
Observations	80	80	80	80	80

Model Selection

In order to determine the most suitable model in this unbalanced panel research, three distinct tests were performed to evaluate and compare CEM (Common Effect Model), FEM (Fixed Effect Model), and REM (Random Effect Model). This model selection process aims to identify the most appropriate regression model. The specification test results for the first sub-structural regression indicate that the appropriate model for this sub-structural component is REM. For the second and third sub-structural analysis, the optimal model is the Fixed Effect Model (FEM).

Table 4. Regression Model Selection

No.	Regression Model Test	Cross Section		
		Substructural 1	Substructural 2	Substructural 3
1	Chow Test	0.0000*	0.0000*	0.0000*
2	Hausman Test	0.8392	0.0067*	0.0000*
3	Lagrange Multiplier (LM)	0.0064*	0.0004*	0.0000*

Note: *) sig. 5%

Classical Assumption

Classical assumption in this research consisting normality test, multicollinearity test and heteroscedasticity test. Based on the residual normality test, probability value consisting 0.6188; 0.6187 > 0.05, indicating that the data in substructural 2 and 3 is normally distributed. The multicollinearity test reveals that all independent variables have VIF values < 10, indicating an absence of multicollinearity and acceptable independence among the variables. The Prob. Chi Square White Test are 0.1380; 0.1751 > 0.05 means there is no homoscedasticity problem.

Table 5. Classical Assumption

No	Classical Assumption	Substructural 2	Substructural 3
1	Normality	Prob. 0.618807	Prob. 168729
2	Multicollinearity	3.03; 5.66; 2.97	2.93; 5.33; 3.43
3	Heteroscedasticity	Prob. 0.1380	Prob. 0.1751

Hypothesis Testing

Hypothesis testing is a statistical technique employed to ascertain whether sufficient evidence exists to reject a null hypothesis in support of an alternative hypothesis (Lu & Li, 2023). The process involves generating statistic test from sample data and comparing it to a critical value or utilizing a p-value to evaluate significance. The hypothesis can be confirmed when the p-value is below 5%, underscoring the importance of the relationship between the variables and suggesting that the observed effect is unlikely due to random variation.

Table 6. Hypothesis Testing using REM Model on Book-to-Market

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	13.44962	1.690432	7.956318	0.0000
LOG(X1_AR)	-0.134685	0.066200	-2.034512	0.0453
LOG(X2_ROA)	0.843276	0.096410	8.746735	0.0000
R-squared	0.602647	F-statistic		58.39116
Adjusted R-squared	0.592326	Prob.(F-statistic)		0.000000

Based on Table 5, the probability value for AR is 0.0453 < 0.05, and the coefficient is -0.134685. This suggests that AR has significant negative effects on (B/M), **rejecting H1**. The negative impact of asset revaluation on the book-to-market ratio (B/M) is related to the possibility of an increase in book value after revaluation which is often inseparable from market value fluctuations. As a result, when book value increases, market value can increase faster (Kim, 2023). Thus, resulting a decrease in the (B/M) ratio that will suggest agency conflict between management and stakeholder. Financial statements appearance may be maintained for reputation, even if this against with the owner's long-term goals of enhancing firm value.

The probability value for ROA is 0.0000 < 0.05, and the coefficient is 0.843276. This suggests that ROA has a substantial positive impact on (B/M), **accepting H2**. High profitability, as indicated ROA, typically correlates with a higher book value of a company. Profitability has a significant and positive effect on firm value (Arai & Hirota, 2023). An increase in ROA suggests that a company is efficiently converting its assets into profits (Irdawati et al., 2023). The profit performs to improve shareholder's equity, which enhances the overall book value of the company. This indicate that profitability can mitigate agency difficulties by raising a firm's potential return from a rise in asset book value.

Table 7. Hypothesis Testing using FEM Model on Debt Equity Ratio

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14.66043	1.254122	11.68979	0.0000
LOG(X1_AR)	-0.023494	0.030990	-0.758124	0.4522
LOG(X2_ROA)	0.681556	0.068295	9.979632	0.0000
LOG(Z_B/M)	0.176968	0.058759	3.011770	0.0042
R-squared	0.967642	F-statistic		43.92245
Adjusted R-squared	0.945612	Prob.(F-Statistic)		0.000000

The probability value for AR is 0.4522 > 0.05 with a coefficient of -0.023494. These findings suggest insufficient evidence to demonstrate that AR has a negative effect on debt

equity ratio, **rejecting H3**. Asset revaluation represents an adjustment to the recorded value of an asset, which affect firm's equity (Kim, 2023). Asset revaluation increases equity marginally, making its impact on the proportion of debt equity ratio (DER) is generally insignificant.

The probability value for ROA is 0.0000 < 0.05, and the coefficient is 0.681556. This suggests that ROA has a significant positive influence on DER, **rejecting H4**. Studies have shown that a higher ROA can lead to an increase in firm value (Asni & Agustia, 2022). This encourages companies to secure loans, thus increasing the DER. ROA enhances the firm's ability to secure external funding. However, this can lead to agency conflict if funding implementation not align with the owner's objective.

Based on Table 6, the coefficient of 0.176968 and the probability value of 0.0042 < 0.05, suggest that (B/M) has a substantial positive effect on DER, **rejecting H5**. Higher book-to-market ratio, indicates market considers equity to be undervalued, potentially decrease in leverage. This ratio adjustment can influence a company's financial tactics, to secure loans (Ma et al., 2023). Higher book value enhances the company's creditworthiness and borrowing capacity, motivated by management's objective to optimize expansion. However, this leads to financial risks that might contradictive with stakeholder preferences.

Table 8. Hypothesis Testing using FEM Model on Future ROE

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.70125	1.672274	6.399219	0.0000
LOG(X1_AR)	-0.020107	0.020774	-0.967896	0.3381
LOG(X2_ROA)	0.599231	0.081569	7.346301	0.0000
LOG(Y1_DER)	-0.483758	0.090345	-5.354580	0.0000
R-squared	0.923180	F-statistic		17.65067
Adjusted R-squared	0.870877	Prob(F-statistic)		0.000000

Probability value for AR is 0.3381 > 0.05 with coefficient -0.020107, it indicates that there is not enough evidence to show AR has a significant negative impact on future ROE, **rejecting H6.** Asset revaluation may enhance accounting metrics such as total assets and equity (Cho et al., 2021). Nevertheless, it does not necessarily improve corporate performance that relies on external factors such as operational efficiency, market conditions, and strategic decisions. Therefore, the financial impact of revaluation is limited compared to other key performance drivers.

The probability value for ROA is 0.0000 < 0.05, with a coefficient of 0.599231, indicating that ROA has a strong positive effect on future ROE, **accepting H7**. Return on assets represents a crucial indicator of a company's operational efficiency and profitability that can influence firm performance (Guluma, 2021). This efficiency can mitigate agency problems by demonstrating management's capacity and commitment to enhancing shareholder value, hence potentially lowering monitoring costs.

Based on Table 7, the probability value for DER is 0.0042 < 0.05, and the coefficient is -0.483758, indicating that DER having a negative influence on future ROE, **accepting H8**. Financial leverage in Tokyo Stock Exchange-listed firms has a negative impact on their performance (Arhinful & Radmehr, 2023), supporting the agency cost theory. High DER indicates greater reliance on debt financing, which can increase financial risk. Additionally,

excessive leverage can lead to increased monitoring from stakeholder, resulting in higher agency costs which ultimately also reduces company performance.

Table 8. Path Analysis (Sobel Test)

Items	Sobel Test Statistic	Probability Value
Asset Revaluation → Book-to-Market Ratio → Future ROE	-1.6858965	0.09181574
Return on Assets → Book-to-Market Ratio → Future ROE	2.84767435	0.004404

Probability value for asset revaluation → book-to-market ratio → future ROE is 0.09181574 > 0.05, it indicates that there is not enough evidence to show book-to-market ratio can mediate relationship between Asset revaluation and future ROE, **rejecting H9**. An upward asset revaluation increases both asset and equity values (Diantimala & Sofyani, 2020). However, the book-to-market (B/M) ratio is ineffective in mediating this connection because it fails to account for the entire impact of higher depreciation and market perceptions, which frequently differ from operational improvements. As a result, the (B/M) ratio fails to appropriately reflect how asset revaluation affects future ROE.

From Table 8, the probability value for return on assets → book-to-market ratio → future ROE is 0.004404 < 0.05, it indicates that book-to-market ratio can mediate relationship between ROA and future ROE, **accepting H10**. The book-to-market (B/M) ratio can mediate the relationship between ROA and future ROE by reflecting how efficiently the market values a company's asset utilization. High ROA demonstrates effective asset management (Wang et al., 2024). Nevertheless, a high B/M ratio may indicate undervaluation, affecting market perception and future performance despite operational effectiveness. This demonstrates that B/M serves as an overview through which market expectations influence the impact of ROA on banking future performance. Robust book value indicates a substantial asset foundation. An increase in ROA, indicating enhanced assets utilization, this can lead to a corresponding increase in book value. The increase of book value can enhance financial performance by facilitating improved access to funding sources and reducing the cost of capital. An elevated book value can diminish agency costs by enhancing shareholder trust in management's capacity to make profits

4. Conclusion

This research aims to investigate asset revaluation, return on assets (ROA), and debt equity ratio (DER) with future banking performance (Future ROE), using the book-to-market (B/M) ratio as a mediator. The banking sector was selected as the research focus due to its solid reputation among capital market participant and its success in dominating the Indonesia Stock Exchange. This research is designed to present relevant and valuable information for stakeholders in evaluating the financial prospects of the banking industry. This research aims to contribute to the existing literature by addressing identified research gaps, thereby offering valuable insights for stakeholders in evaluating the prospects of the banking industry.

The findings of this study demonstrate that asset revaluation negatively affects the book-to-market ratio, but ROA has a positive relationship. In the second substructure, asset revaluation has an insignificant negative effect on DER. However, both ROA and the (B/M) ratio have positively influenced DER. In the third substructure, asset revaluation shows an insignificant negative correlation with future performance. In contrast, ROA has a significant positive effect, while DER negatively affects future banking performance. This research also shows that the B/M ratio cannot mediate the relationship between asset revaluation and DER.

Nevertheless, this study proves that the (B/M) mediates the relationship between ROA and the proportion of debt to equity.

However, this research still needs to be improved, particularly concerning the limited number of observations, as only a small number of companies perform asset revaluation, because it depending on each company policies. Future research should focus on further investigation of the study population, utilizing cross-country studies or shifting the industry emphasis to sectors with higher proportion of fixed asset utilization, such as real estate or manufacturing. Moreover, incorporating control variables like firm size and liquidity enhances the validity and reliability of the research outcomes.

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