asbn
The 3rd ASEAN School of Business Network International Conference 2026
www.aseansbn.org August 6-7, 2026 Pathum Thani, Thailand

Determinants of Bank Profitability Pre and Post Merger: A Case Study of Bank Syariah Indonesia (BSI)

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ABSTRACT

This study aims to investigate the effect of the merger on the financial performance of Bank Syariah Indonesia (BSI). This study uses Return on Assets (ROA) as the dependent variable, while the Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), and Financing to Deposit Ratio (FDR) are used as independent variables. The research method uses a quantitative approach with a Difference-in-Difference model to compare conditions before and after the merger and to determine the effect of explanatory variables on the dependent variable. The data used are secondary data from BSI's monthly financial reports for the pre-merger period 2018–2020 and the post-merger period 2021–2025. The results show that in the pre-merger period, the NPF and FDR variables significantly influenced ROA, while in the post-merger period, only the CAR variable influenced ROA. This research is expected to serve as a reference for regulators, academics, and the banking industry in formulating consolidation strategies for the Islamic financial sector.

Keywords: Merger, Bank, Financial performance.

DOI: https://doi.org/10.64458/asbnic.v3.183

Introduction

The Islamic banking industry in Indonesia has experienced significant growth over the past two decades. As the country with the largest Muslim population in the world, Indonesia has significant potential for the development of the Islamic economy and finance. However, the national Islamic banking market share remains relatively low compared to conventional banking. This is due to low economies of scale, limited capital, and low competitiveness of Islamic banks.

To strengthen the structure of the national Islamic banking industry, the government, through the Ministry of State-Owned Enterprises, merged three state-owned Islamic banks—Bank Syariah Mandiri, BNI Syariah, and BRI Syariah—into Bank Syariah Indonesia (BSI) in 2021. This merger policy is expected to improve operational efficiency, strengthen capital, expand service networks, and enhance the competitiveness of Indonesian Islamic banks globally. However, the impact of mergers on company performance requires long-term analysis because integration such as technology, structure and culture is not easy (Rahmi et al., 2025).

In theory, mergers can produce synergies that have a positive impact on company profitability. These synergies can take the form of cost efficiency, increasing economies of scale, strengthening capital, and improving asset quality. In the context of sharia banking, mergers are also expected to increase financing capabilities, strengthen risk management and increase industrial stability. However, several empirical studies show different results regarding the impact of mergers on banking financial performance. Some studies find that mergers can increase bank profitability and efficiency, while other studies show that mergers do not always have a positive impact due to integration costs, organizational conflicts and operational adjustments.

Bank financial performance is generally measured using Return on Assets (ROA) which reflects the bank's ability to generate profits from the total assets owned. Apart from that, internal factors such as Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), and Financing to Deposit Ratio (FDR) also influence the level of bank profitability. CAR shows the bank's ability to maintain sufficient capital to cover the risk of loss. The higher the CAR, the better the bank's ability to maintain financial stability. NPF reflects the level of problematic financing which can reduce bank profitability. Meanwhile, FDR demonstrated the bank's ability to channel third party funds into productive financing.

This research uses the Difference in Difference (DiD) method to measure the impact of the merger on BSI's financial performance. This approach was chosen because it is able to identify changes in performance before and after the merger by comparing groups of data before and after the merger. Research on the impact of mergers using the DiD approach has never been carried out in Indonesia, so this is something new that can be offered in this research. Generally, research comparing two different periods of financial performance uses a two-average difference test, while the influence of one variable on another variable only uses regression. With the DiD model, the influence of an event by comparing before and after the event occurs can be detected and analyzed.

Based on this description, it is important to carry out this research to find out whether the merger of Bank Syariah Indonesia is really able to improve the financial performance of national sharia banks. Specifically, this research analyzes the influence of CAR, NPF, and FDR on ROA before and after the merger with the research subject Bank Syariah Indonesia.

Literature Review

The Effect of CAR on ROA

Capital Adequacy Ratio (CAR) is a capital adequacy ratio that shows a bank's ability to provide capital to cover the risk of losses from its operational activities. The higher the CAR, the stronger the bank's ability to absorb risk and maintain financial stability. In the banking industry, capital adequacy is an important factor because banks with strong capital have greater flexibility to expand financing, increase operational efficiency, and strengthen investor and customer confidence. This condition can ultimately increase bank profitability as measured through Return on Assets (ROA).

Return on Assets (ROA) is a profitability indicator that shows the company's ability to generate profits from the total assets owned. In the banking context, ROA is used to assess management's effectiveness in managing productive assets to generate profits. The relationship between CAR and ROA is based on signaling theory and banking intermediation theory, where high levels of capital provide a positive signal regarding the bank's financial health and increase the bank's ability to distribute credit optimally. The higher the capital adequacy ratio, the higher the bank's profitability.

Theoretically, a banking merger can strengthen the capital structure of the merged company thereby increasing CAR. Increasing CAR allows banks to have better capacity to deal with credit operational risks and credit risks, so that intermediation activities can run more effectively and generate higher profits. Therefore, CAR is estimated to have a positive influence on ROA in merged banks. Several international and empirical studies support this positive relationship. Research by Purnomo, et al., (2022) and Muslimin & Hannase (2023) found that the Capital Adequacy Ratio has a significant effect on Return on Assets because good capital management increases the bank's chances of making a profit.

Apart from that, other studies also show that optimal capital adequacy helps improve bank financial stability and performance. Other research in the banking sector also shows that CAR has a positive and significant effect on ROA because adequate capital increases the bank's ability to generate income from the assets it owns. In Islamic banking, CAR has a dual role as a regulatory buffer and profitability stabilizer and plays a significant role in profitability (Rahmawati & Pratiwi, 2025). Based on this description, it can be concluded that the higher the Capital Adequacy Ratio (CAR), the better the bank's ability to generate profits through the use of its assets, so CAR is estimated to have a positive effect on ROA in research on the effect of mergers on bank financial performance.

H_1. *Capital Adequacy Ratio (CAR) has a positive effect on Return on Assets (ROA).*

The influence of NPF on ROA

Non-Performing Financing (NPF) is a ratio used to measure the level of problematic financing in Islamic banks. NPF reflects the bank's ability to manage financing risks arising from customers' inability to fulfill their obligations. The higher the NPF level, the greater the risk of loss that the bank must bear due to increased non-performing financing. This condition can reduce bank income and reduce operational efficiency, resulting in a decrease in profitability as measured through Return on Assets (ROA).

Return on Assets shows the bank's ability to generate profits from all assets owned. In the banking industry, ROA is an important indicator for assessing management effectiveness in managing productive assets. The relationship between NPF and ROA is based on risk management theory and banking intermediation theory, which states that increasing financing risk will hinder the bank's ability to earn profits. When non-performing financing increases, banks must create larger reserves for impairment losses, so that net profit decreases and results in a decrease in ROA.

In the context of banking mergers, the merger of several banks is expected to improve the quality of financing through improving the risk monitoring system, operational efficiency and strengthening corporate governance (Simatupang et al., 2026). Mergers can produce synergies in risk management so that the NPF level decreases. Reducing the NPF will improve the quality of productive assets and increase the bank's ability to generate profits, so that ROA increases. Therefore, NPF is expected to have a negative influence on ROA in merged banks.

Several international and empirical studies support this relationship. Research on Islamic Commercial Banks in Indonesia shows that NPF is an indicator of financing risk which can reduce bank profitability because increasing problematic financing has an impact on reducing company profits. Nurafina, (2026) explains that increasing NPF has an influence on ROA because high financing risk causes reduced bank effectiveness in managing productive assets. Apart from that, other studies also show that NPF has a negative effect on bank profitability (Mutmainnah & Wirman 2022; Karisma, et al., 2020). Based on this description, it can be concluded that the higher the Non-Performing Financing (NPF), the lower the Return on Assets (ROA) because the increasing risk of problematic financing will hamper the bank's ability to generate profits.

H_2. *Non Performing Financing (NPF) has a positive effect on Return on Assets (ROA).*

The influence of FDR on ROA

Financing to Deposit Ratio (FDR) is a ratio used to measure the ability of Islamic banks to channel third party funds in the form of financing. This ratio shows the level of effectiveness of the bank's intermediation function, namely how funds collected from the public can be channeled back to generate profits. The higher the FDR value, the greater the proportion of funds channeled as productive financing, thereby potentially increasing bank income. However, if the FDR is too high, the bank will face liquidity risks which will impact the company's financial stability.

Return on Assets (ROA) is a profitability indicator used to measure a bank's ability to generate profits through the utilization of total assets owned. The relationship between FDR and ROA is based on

banking intermediation theory, which explains that banks obtain the main profits from the activity of distributing funds to customers. Therefore, the more optimal the distribution of financing by a bank, the greater the opportunity for the bank to increase ROA.

In the context of banking mergers, the merger of several banks is expected to increase fund collection capacity and expand financing distribution. Mergers can also create operational efficiency and strengthen the liquidity structure so that the bank's intermediation function becomes more optimal. With the increasing effectiveness of financing distribution after the merger, FDR is estimated to have a positive influence on ROA because productive financing will increase bank income and profitability.

Several studies support the relationship between FDR and ROA. Sulistyorini, et al., (2024) found that FDR has a positive and significant influence on ROA in Islamic banks in Indonesia because the effectiveness of financing distribution can increase bank profitability. In addition, research by Muslimin & Hannase (20 23) found that FDR has a positive influence on ROA because high financing activity increases bank income from productive assets. Other research on the performance of Indonesian sharia banks also explains that optimizing the Financing to Deposit Ratio can increase intermediation efficiency and support increased bank profitability (Munadiati, et al., 2025).

Based on this description, it can be hypothesized that the Financing to Deposit Ratio (FDR) is expected to have a positive effect on Return on Assets (ROA), because the more effective the bank is in channeling funds to the productive financing sector, the greater the bank's ability to generate profits after the merger process.

H_3. Financing Deposit Ratio (FDR) has a positive effect on Return on Assets (ROA).

Method

This research uses a quantitative approach with the Difference in Difference (DiD) method at Bank Syariah Indonesia (BSI) in the period before the merger 2018-2020 and after the merger 2021 to 2025. The DiD approach is able to identify the influence of an event on a condition (Wooldridge, 2019). The data used are financial reports with monthly data from the three banks before the merger, namely Bank Syariah Mandiri, BNI Syariah and BRI Syariah. Meanwhile, the period after the merger uses monthly financial data from Bank Syariah Indonesia.

The variable used is ROA as the dependent variable to measure bank profitability, namely the ratio of net profit and total assets. Meanwhile, the independent variables include (1) CAR Capital Adequacy Ratio which is measured using risk-weighted capital and assets, (2) NPF (Non Performing Financing), and (3) FDR (Financing to Deposit Ratio) as a measure of intermediation ability which is the ratio between financing compared to third parties. The asset value in this study is a control variable. Meanwhile, to differentiate the time period before and after the merger, this research uses a dummy variable before the merger = 0 and after the merger 1. Before the regression is carried out, all variables are winsorized 1% to ensure the data does not have extreme outliers. The regression equation for the DiD equation is as follows:

$$ROA_t = CAR_t + NPF_t + FDR_t + Assets_t + CAR_t xMerger + NPF_t xMerger + FDR_t xMerger + \varepsilon$$

Where: ROA (Return on Assets), NPF (Non Performing Financing), FDR (Financing Deposit Ratio), Post (post merger), and ε is the error term.

Results

Descriptive Data

Table 1 presents monthly descriptive data for research variables which include maximum, minimum, standard deviation and average values. From this table it is known that the minimum value of CAR is 1.1 and the maximum value is 2.45. With a standard deviation of 0.45, it shows that the distribution of the CAR variable data is relatively low and not too spread out. CAR has a minimum and maximum range of

15.5 and 26 respectively with a standard deviation of 3.74. The average value of 21.50 indicates that the data distribution tends to be close to the maximum value.

In general, the NPF is relatively small with a minimum value of 1.98 and a maximum value of 3.7. This indicates that the level of risk of bad credit is relatively low, but banks must remain alert to the possibility of increasing NPF risk. The average value of 2.79 indicates that BSI is facing a bad credit problem of under 3 percent of all credit disbursed in various forms of distribution of funds, including mudharabah, musyarokah and regular credit to customers.

The minimum and maximum values of FDR are 71.5 and 81.20, respectively. These figures show the ratio of credit distribution compared to deposits by bank customers. The greater this ratio, the better, which means the bank is effectively utilizing customer funds to be distributed in the form of credit to third parties. However, if the ratio of customer funds to bank equity is higher, the riskier the bank's operations will be because the availability of liquidity will become smaller. Therefore, banks on the other hand must increase their equity to maintain liquidity to be able to meet short-term obligations whenever customers take deposits.

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Return on Assets (ROA)	96	1.72	0.45	1.10	2.45
Capital Adequacy Ratio (CAR)	96	21.50	3.74	15.50	26.00
Non Perform Financing (NPF)	96	2.79	0.54	1.98	3.70
Financing to Deposit Ratio (FDR)	96	77.51	2.52	71.50	81.20
Assets (Ln)	96	26.41	0.20	26.07	26.78

The values in this table are in presentation except assets which are in Ln.

Separate Testing between Before and After The Merger

Table 2 shows the regression results of the influence of CAR, NPF, and FDR on ROA before and after the merger separately. Testing was carried out by grouping data before the merger, namely 2018 to 2020 and after the merger, 2021 to 2025.

Table 2. Results of statistical tests on the influence of CAR, NPF, and FDR on profitability (ROA) before and after the merger

	Pre-merger	Post merger
VARIABLES	ROA	ROA
CAR	-0.0957	-0.00979
	(0.0908)	(0.0118)
NPF	-0.941***	-1.167***
	(0.0271)	(0.0476)
FDR	0.00814	0.0413***
	(0.0237)	(0.0105)
Assets	-0.358	-1.097***
	(0.908)	(0.247)
Constant	14.84	30.98***
	(21.64)	(5.563)
Observations	36	60
R-squared	0.967	0.981
Robust standard errors in parentheses		
*** p<0.01, ** p<0.05, * p<0.1		

Based on the regression results in the period before and after the merger, there are changes in the influence of independent variables on Return on Assets (ROA) as an indicator of bank financial performance. These results show that the merger provides changes to the financial structure, operational efficiency, and the company's ability to generate profitability.In the period before the merger, the Capital

Adequacy Ratio (CAR) variable had a coefficient of -0.0957 but was not significant. This shows that before the merger, the increase in capital resulting from the merger of three banks into one had not been able to directly increase bank profitability. This condition may occur because the three Islamic banks participating in the merger are still facing several problems such as limited efficiency, business scale and relatively high operational costs. This can also mean that additional capital cannot be utilized optimally to generate profits. These results support a study conducted by Muawanah & Imronudin (2021) which states that CAR is positively correlated with profitability.

The Non-Performing Financing (NPF) variable before the merger has a coefficient of -0.941 and is significant at a level of less than 1%. These results indicate that an increase in non-performing financing significantly reduces ROA. Every 1% increase in NPF will reduce bank profitability by 0.941%. These statistical results support the findings by Sari (2023) which states that NPF has a negative effect on ROA. These findings indicate that before the merger, financing risk was the main factor that could suppress the financial performance of the banks participating in the merger. The high level of problematic financing causes the cost of providing for losses to increase so that bank profits decrease.

Furthermore, the Financing to Deposit Ratio (FDR) before the merger had a positive coefficient of 0.00814 but was not significant. This shows that the distribution of financing has not had a real impact on increasing ROA. Even though banking has an intermediation function, the effectiveness of financing distribution is not optimal enough to generate profits.The assets variable before the merger has a negative coefficient of -0.358 and is not significant. This condition shows that the increase in assets has not been able to increase bank profitability. This indicates that assets before the merger have not had a positive impact on profitability and have not demonstrated efficiency in managing assets in a productive manner.

In contrast to the period before the merger, the regression results after the merger show quite significant changes. In contrast to before the merger, the influence of CAR on the bank's ability after the merger to generate profitability is very weak. This shows that the merger was not successful in strengthening the bank's capital structure so that capital could not be used more effectively to increase profitability. The NPF variable after the merger has a negative coefficient of -1.167 and is significant at an alpha of less than 1%. As before the merger, these results show that after the merger problematic financing has indeed become the dominant factor that negatively influences bank profitability. This indicates that there has been no significant improvement in risk management and financing quality after the merger process so that NPF is still the main problem that reduces BSI's profitability. These findings are consistent with studies conducted by Zulkarnain, et al. (2024) that NPF is negatively related to profitability.

FDR after the merger has a positive coefficient of 0.0413 with a high level of significance. This shows that the increase in financing distribution has been fully able to increase company profits. This condition can be influenced by the bank's prudent strategy in maintaining liquidity after the merger. Meanwhile, the assets variable after the merger has a positive coefficient of -1,097 and is significant at the 1% level. These results indicate that after the merger, the increase in assets can significantly increase ROA. With a larger business scale, the merged bank succeeded in utilizing assets more efficiently to generate profits.

Testing with DiD

Table 3. Results of statistical tests on the influence of CAR, NPF and FDR on ROA using All Data and the DiD model

	Model 1 (All Data)	**Model 2 (DiD)**
VARIABLES	ROA	ROA
CAR	-0.00979	
	(0.0118)	
NPF	-1.167***	
	(0.0476)	
FDR	0.0413***	
	(0.0105)	
CAR*Merger		0.0434**
		(0.0207)
NPF*Merger		-0.0142
		(0.0101)
FDR*Merger		0.0554
		(0.0345)
Asset	-1.097***	-0.139
	(0.247)	(0.127)
Constant	30.98***	1.280***
	(5.563)	(0.0229)
Observations	96	96
R-squared	0.981	0.961
Robust standard errors in parentheses		
*** p<0.01, ** p<0.05, * p<0.1		

In Model 1, information was obtained that all independent variables showed a significant influence on ROA except CAR. This shows that the participating banks before the merger were quite capable of producing financial performance independently. Without carrying out a merger, the NPF, FDR and Assets variables are able to explain a significant relationship to bank profitability. However, there appears to be an anomaly in two variables, namely CAR and Assets, where the influence of these two variables is negative. This indicates that the bank is not yet fully able to manage its assets productively so that it has a negative impact on achieving bank profitability.

Based on the results of statistical testing using the Difference in Difference (DiD) method in Model 2, an overview of changes in the influence of financial variables on Return on Assets (ROA) after the merger was obtained. The regression model in the DiD column shows an R-squared value of 0.961, which means that the independent variables in the research are able to explain 96.1% of the variation in ROA, while the rest is influenced by other factors outside the model.

The Difference in Difference results show that the CAR variable has a coefficient of 0.0434 and is significant at the 5% level. These findings show that after the merger, an increase in the Capital Adequacy Ratio (CAR) has a positive and significant influence on ROA. This means that the merger succeeded in strengthening the bank's capital structure so that the bank's ability to generate profits increased. This theme is in line with a study by Hidayat (2021) which states that CAR has an influence on bank financial performance. Better capital adequacy allows banks to increase financing expansion, strengthen risk management, and improve operational efficiency. Thus, the merger is proven to create positive synergies in the capital aspect which has a direct impact on bank profitability.

The NPF variable which is proxied through NPF*Merger has a coefficient of -0.0142 with a significance level that is not significant. The negative coefficient indicates that an increase in non-performing financing tends to reduce ROA, but this effect is not strong enough statistically. These results

indicate that after the merger, the risk of problematic financing is more controlled so that it is no longer the main factor influencing bank profitability. Improvements to the risk monitoring system, integration of financing management, and improvement in asset quality post-merger are thought to be the causes of the weakening of the negative impact of NPF on ROA.

The FDR variable proxied via FDR*Merger has a positive coefficient of 0.0554 but is not statistically significant. These results indicate that increasing financing distribution after a merger tends to increase bank profitability, but the effect is not strong enough to have a significant influence on ROA. This could happen because of the possibility of a bank's prudent strategy in maintaining liquidity and financing quality during the merger integration process and in the years after the merger.

Meanwhile, the Assets variable has a negative coefficient of -0.139 and is not significant. These results indicate that the increase in assets after the merger has not been able to fully increase bank profitability directly. Even though the merger resulted in a larger scale of assets, BSI is still consolidating their productive assets so that a longer operational adjustment and integration process is required.

Overall, the Difference in Difference (DiD) results show that the merger had a positive impact on the bank's financial performance, especially through strengthening capital (CAR), which was proven to significantly increase ROA. Meanwhile, the NPF, FDR and Assets variables have not shown a significant influence on post-merger profitability, although the direction of the relationship between these variables is still in accordance with banking financial theory.

Discussion

The findings indicate that the merger of Bank Syariah Indonesia changed the configuration of the internal factors associated with profitability rather than producing uniform improvement across all financial indicators. The period-specific regressions describe the relationships between financial variables and profitability within the pre- and post-merger periods, whereas the interaction model evaluates whether these relationships changed following consolidation. Overall, the results suggest selective merger-related synergy, particularly through the capital channel.

Capital adequacy did not independently explain profitability in the separate pre- and post-merger estimations. This implies that maintaining a strong capital position does not automatically generate higher returns because capital primarily functions as a risk-absorption buffer. However, the positive merger interaction shows that the relationship between capital adequacy and profitability became stronger after consolidation. The merger may have improved BSI's ability to transform capital into economic value through greater financing capacity, stronger risk-bearing ability, broader market access, and increased stakeholder confidence. This result is consistent with Purnomo et al. (2022) and Muslimin and Hannase (2023), who argue that adequate capital supports profitability when accompanied by effective capital allocation and operational management.

Non-performing financing remained negatively associated with profitability in both periods. This confirms that financing quality is a fundamental determinant of Islamic bank performance regardless of organizational structure. Problematic financing reduces income, increases impairment provisions, limits the recycling of funds into new financing, and raises monitoring and recovery costs. The result supports Mutmainnah and Wirman (2022) and Zulkarnain et al. (2024). However, the merger interaction does not show a statistically distinguishable change in the effect of non-performing financing. Therefore, the findings are insufficient to conclude that the merger eliminated or materially reduced financing risk. BSI must continue strengthening customer screening, portfolio diversification, financing monitoring, and early restructuring mechanisms.

The financing-to-deposit ratio became positively associated with profitability in the post-merger period. A broader customer base, larger distribution network, and consolidated funding capacity may have enabled BSI to channel collected funds more productively. This finding is consistent with Sulistyorini et al. (2024) and Munadiati et al. (2025), who emphasize the contribution of effective

financing distribution to Islamic bank profitability. Nevertheless, the merger interaction is not sufficiently strong to establish that this change was caused exclusively by consolidation.

The asset result demonstrates that organizational expansion does not automatically lead to higher returns. The negative association between asset size and profitability after the merger may reflect integration costs, overlapping systems, harmonization of procedures, and the time required to redirect assets toward more productive uses. A larger asset base can reduce return on assets when profit growth does not immediately match organizational expansion. This interpretation supports Rahmi et al. (2025), who argue that merger benefits may emerge gradually because technological, structural, and cultural integration requires time.

Overall, the merger's most convincing contribution was the strengthened role of capital adequacy, while financing risk remained a persistent constraint. The intermediation function appeared more productive after the merger, but the evidence is insufficient to attribute this development solely to consolidation. Similarly, asset growth had not yet produced a clear profitability benefit. These findings show that mergers create the capacity for synergy, but its realization depends on capital allocation, financing quality, operational efficiency, and managerial execution.

Conclusion

This research was conducted to investigate the effect of mergers on the financial performance of Bank Syariah Indonesia (BSI). This research uses Return on Assets (ROA) as the dependent variable, while Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), and Financing to Deposit Ratio (FDR) are used as independent variables. The research method uses a quantitative approach with the Difference in Difference model to compare conditions before and after the merger, how the explanatory variables influence the dependent variable. The data used is secondary data from BSI's monthly financial reports for the period before the merger 2018–2020, and the period after the merger 2021–2025.

The research results show that in the pre-merger period, the NPF and FDR variables had a significant effect on ROA, while in the post-merger period, only the CAR variable had an effect on ROA. It is hoped that this research can become a reference for regulators, academics and the banking industry in formulating consolidation strategies for the sharia financial sector. This study concludes that mergers have a positive impact on bank financial performance, especially through strengthening capital (CAR). Apart from that, mergers are also able to reduce the negative impact of problematic financing (NPF) risks on bank profitability. Policy implications can take the form of suggestions or recommendations for (i) the government: as material for evaluating sharia banking merger policies; (iii) bank management: becomes the basis for strategic decision making; (iii) theoretical: becomes reference material for merger theory with a focus on Islamic banks.

Recommendations

Policy implications can take the form of suggestions or recommendations for (i) the government: as material for evaluating sharia banking merger policies; (iii) bank management: becomes the basis for strategic decision making; and (iii) theoretical: becomes reference for merger theory with a focus on Islamic banks.

Acknowledgements or Notes

This research is under the funding of Pusat Pengembangan Manajemen (The Centre for Management Development) Faculty of Business and Economics Universitas Islam Indonesia.

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