

Does Banking Performance Matter for Stock Prices? Post-Merger Evidence from Bank Syariah Indonesia

*Stock Prices and
Islamic Bank
Performance*

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ABSTRACT

This study examines the impact of banking performance on the stock price of Bank Syariah Indonesia (BSI) in the post-merger period. The merger of three state-owned Islamic banks into BSI represents a strategic consolidation aimed at strengthening competitiveness, efficiency, and market value within Indonesia's Islamic banking sector. Using a quantitative and explanatory research design, this study analyzes secondary data derived from BSI's financial statements and stock price data during the post-merger period from 2021 to 2024. Banking performance is measured using profitability (ROA and ROE), asset quality (Non-Performing Financing/NPF), liquidity (Financing to Deposit Ratio/FDR), capital adequacy (CAR), and efficiency (BOPO). Multiple linear regression analysis is employed to examine the relationship between banking performance indicators and stock price movements. The results indicate that profitability, asset quality, capital adequacy, and efficiency have a significant effect on BSI's stock price, while liquidity shows a weaker and less consistent influence. Among the examined variables, profitability and efficiency emerge as the most dominant determinants of stock price movements, suggesting that investors place greater emphasis on earnings capacity and operational effectiveness in evaluating post-merger performance. These findings imply that the success of banking consolidation in Islamic banking is reflected not merely in organizational scale but in tangible improvements in financial performance that are recognized by the capital market. The study provides valuable insights for bank management, investors, and policymakers regarding post-merger performance evaluation and consolidation strategies in Islamic banking.

Keywords: Islamic banking, merger, banking performance, stock price, Bank Syariah Indonesia.

ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh kinerja perbankan terhadap harga saham Bank Syariah Indonesia (BSI) pada periode pasca-merger. Merger tiga bank syariah milik negara menjadi BSI merupakan langkah konsolidasi strategis yang bertujuan untuk meningkatkan daya saing, efisiensi, dan nilai pasar perbankan syariah di Indonesia. Penelitian ini menggunakan pendekatan kuantitatif dengan metode

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eksplanatori, memanfaatkan data sekunder yang bersumber dari laporan keuangan BSI dan data harga saham selama periode pasca-merger tahun 2021–2024. Kinerja perbankan diukur menggunakan indikator profitabilitas (ROA dan ROE), kualitas aset (Non-Performing Financing/NPF), likuiditas (Financing to Deposit Ratio/FDR), kecukupan modal (CAR), dan efisiensi (BOPO). Analisis data dilakukan menggunakan regresi linier berganda untuk menguji hubungan antara indikator kinerja perbankan dan pergerakan harga saham. Hasil penelitian menunjukkan bahwa profitabilitas, kualitas aset, kecukupan modal, dan efisiensi berpengaruh signifikan terhadap harga saham BSI, sedangkan likuiditas memiliki pengaruh yang lebih lemah dan tidak konsisten. Di antara variabel yang diuji, profitabilitas dan efisiensi merupakan faktor yang paling dominan dalam memengaruhi harga saham, yang mengindikasikan bahwa investor lebih menekankan pada kemampuan menghasilkan laba dan efektivitas operasional dalam menilai kinerja pasca-merger. Temuan ini menunjukkan bahwa keberhasilan konsolidasi perbankan syariah tidak hanya tercermin dari peningkatan skala usaha, tetapi terutama dari perbaikan kinerja keuangan yang direspons secara positif oleh pasar modal. Penelitian ini memberikan implikasi penting bagi manajemen bank, investor, dan pembuat kebijakan dalam mengevaluasi kinerja dan strategi konsolidasi perbankan syariah.

Kata Kunci: perbankan syariah, merger, kinerja perbankan, harga saham, Bank Syariah Indonesia.

INTRODUCTION

The establishment of Bank Syariah Indonesia (BSI) represents a landmark consolidation in Indonesia's Islamic banking industry through the merger of three state-owned Islamic banks—Bank Syariah Mandiri, BNI Syariah, and BRI Syariah—in 2021. This merger was initiated as part of the national strategy to strengthen the competitiveness and resilience of Islamic banking institutions in response to increasing global competition and the need for financial deepening in emerging economies (Otoritas Jasa Keuangan [OJK], 2021). Consolidation through mergers is widely recognized as a strategic tool to enhance economies of scale, optimize resource allocation, and improve operational efficiency in the banking sector (Berger & Humphrey, 1997; DeYoung et al., 2009). In the context of Islamic banking, mergers are also expected to accelerate market penetration and strengthen public confidence in Sharia-compliant financial institutions (Abdul-Rahman et al., 2018).

The primary objectives of the BSI merger include improving operational efficiency, strengthening market competitiveness, and enhancing firm value. Efficiency gains are expected to arise from cost rationalization, integration of information systems, and improved governance structures, while increased competitiveness is anticipated through larger asset size, broader product offerings, and stronger capital adequacy (Mulyana & Riwoe, 2023). From a corporate finance perspective, successful mergers should ultimately be reflected in higher firm valuation, which is commonly proxied by stock price movements in publicly listed banks (Sudana, 2019). Therefore, the merger of BSI provides a unique empirical setting to examine whether improvements in banking performance translate into increased market valuation.

Stock price plays a crucial role as an indicator of market performance and investor confidence. According to the Efficient Market Hypothesis, stock prices incorporate all publicly available information, including financial performance and strategic corporate actions such as mergers (Fama, 1970). In the banking sector, financial ratios related to profitability, asset quality, liquidity, capital adequacy, and efficiency are closely monitored by investors as signals of a bank's future prospects and risk profile (Ross et al., 2016). Consequently, changes in banking performance following a merger are expected to influence investors' perceptions and be reflected in stock price dynamics.

Following the merger, BSI experienced significant changes in its financial structure and operational framework, including asset expansion, restructuring of financing portfolios, integration of human resources, and harmonization of operational processes. While these changes aim to strengthen long-term performance, the short- to medium-term impact on financial ratios and market response remains an empirical question (Hassan & Aliyu, 2018). Previous studies suggest that post-merger performance may vary depending on integration effectiveness, governance quality, and market conditions (Ismail et al., 2015). Therefore, it is essential to empirically evaluate whether the post-merger banking performance of BSI has been positively recognized by the capital market.

Despite the strategic importance of the BSI merger, empirical studies examining the relationship between post-merger banking performance and stock price in the context of Islamic banking in Indonesia remain limited. Most prior research has focused on conventional banks or examined financial performance without linking it directly to market valuation (Sufian & Habibullah, 2010; Mulyana et al., 2022). This gap highlights the need for a comprehensive empirical assessment of how banking performance indicators influence the stock price of BSI after the merger.

Based on the background discussed above, the main research problem of this study concerns the extent to which banking performance influences the stock price of Bank Syariah Indonesia after the merger. Although the merger was designed to improve efficiency and competitiveness, it is not yet clear whether these improvements have been effectively translated into market value as reflected in stock price movements. Prior studies indicate that not all mergers lead to positive market reactions, particularly when post-merger integration challenges affect financial performance (DeYoung et al., 2009; Ismail et al., 2015).

In addition, different dimensions of banking performance may exert varying levels of influence on stock prices. Profitability, asset quality, liquidity, capital adequacy, and efficiency ratios may send distinct signals to investors regarding risk and return (Ghozali & Ratmono, 2020). Therefore, identifying which performance indicators play a dominant role in shaping investor perceptions of BSI is a critical issue addressed in this study.

This study aims to analyze the impact of banking performance on the stock price of Bank Syariah Indonesia in the post-merger period. Specifically, the research seeks to empirically examine the relationship between key financial performance indicators and stock price movements to determine whether improvements in internal bank performance are reflected in market valuation. By focusing on the post-merger period, this study provides evidence on the effectiveness of consolidation strategies in enhancing firm value within Islamic banking institutions.

Furthermore, this study aims to identify which financial performance indicators are most significant for investors in assessing BSI's market value. Understanding the relative importance of profitability, asset quality, liquidity, capital adequacy, and efficiency can provide valuable insights into investor behavior and information processing in the Islamic banking sector (Hassan & Aliyu, 2018; Mulyana & Riwoe, 2023).

In line with the research objectives, this study addresses the following research questions:

1. How does banking performance affect the stock price of Bank Syariah Indonesia after the merger?
2. Which banking performance indicators have the strongest impact on stock price movements in the post-merger period?

These questions are designed to capture both the overall relationship between banking performance and stock price, as well as the relative influence of individual performance indicators on market valuation.

This study offers several important contributions. From a theoretical perspective, it enriches the literature on Islamic banking mergers by providing empirical evidence on the linkage between post-merger banking performance and market valuation. While existing studies largely focus on operational efficiency or financial stability, this research integrates

corporate finance and market-based perspectives within the context of Islamic banking in an emerging market (Hassan & Aliyu, 2018; Abdul-Rahman et al., 2018).

From a practical standpoint, the findings of this study provide valuable insights for BSI's management and investors. For management, understanding which performance indicators are most valued by the market can support strategic decision-making and performance prioritization. For investors, the results offer guidance on key financial signals to consider when evaluating investment decisions in Islamic banking stocks.

From a policy perspective, this study contributes to the evaluation of government-led consolidation policies in the Islamic banking sector. The empirical evidence generated can serve as a reference for regulators such as OJK and the Indonesia Stock Exchange in assessing whether mergers effectively enhance market confidence and financial stability in Islamic banking (OJK, 2021; Bank Indonesia, 2022).

This study offers several novel contributions to the literature on Islamic banking and capital markets. First, unlike most previous studies that examine banking performance in stable organizational settings, this research focuses explicitly on the post-merger period of Bank Syariah Indonesia (BSI), providing empirical evidence on how consolidation outcomes are evaluated by the capital market. By employing monthly time-series data covering 2021–2024, this study captures short- to medium-term market responses that are often overlooked in annual or cross-sectional analyses. Second, this research integrates banking performance indicators commonly used in Islamic banking—profitability, asset quality, liquidity, capital adequacy, and efficiency—within a market valuation framework, thereby bridging the gap between internal financial performance analysis and external investor-based valuation. Third, this study contributes context-specific evidence from Indonesia as an emerging Islamic banking market, where large-scale consolidation has been actively promoted by regulators but remains underexplored in empirical market-based studies. From a practical standpoint, the findings provide actionable insights for bank management, investors, and policymakers by identifying which post-merger performance indicators serve as the most credible market signals, thus advancing both academic understanding and policy-relevant evaluation of Islamic banking consolidation.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Merger in Islamic Banking

Merger and acquisition (M&A) in the banking sector are commonly adopted as strategic instruments to enhance efficiency, strengthen market power, and improve financial stability. In Islamic banking, mergers are conducted under Sharia principles, emphasizing compliance with Islamic contracts, ethical governance, and risk-sharing mechanisms (Abdul-Rahman et al., 2018).

Unlike conventional banks, Islamic banks operate without interest (*riba*) and rely on profit-and-loss sharing schemes, which makes post-merger integration more complex due to differences in contract structures, risk management practices, and Sharia governance frameworks (Hassan & Aliyu, 2018). Nevertheless, mergers in Islamic banking are increasingly encouraged to address scale limitations and enhance competitiveness in global financial markets.

The strategic objectives of Islamic bank mergers generally include achieving economies of scale, improving operational efficiency, strengthening capital structures, and expanding market reach. Larger Islamic banks are expected to benefit from cost synergies, improved risk diversification, and enhanced capacity to finance large-scale projects (Sufian & Habibullah, 2010). In addition, mergers are viewed as a mechanism to increase public confidence in Islamic banking institutions by creating stronger and more resilient banks capable of competing with conventional counterparts (Abdul-Rahman et al., 2018). In the Indonesian context, the merger forming Bank Syariah Indonesia (BSI) was designed to position Islamic banking as a key pillar of the national financial system and to enhance its contribution to economic development (OJK, 2021).

Empirical studies on Islamic bank mergers in emerging markets show mixed results. Some studies report improvements in efficiency and profitability after mergers, suggesting

that consolidation can enhance performance when integration is effectively managed (Ismail et al., 2015; Sufian & Kamarudin, 2016). However, other studies find limited or short-term performance gains, indicating that merger benefits may take time to materialize and depend on institutional quality and market conditions (Hassan & Aliyu, 2018). These mixed findings highlight the importance of examining post-merger outcomes not only in terms of internal performance but also in terms of market valuation.

Banking Performance

Banking performance is commonly evaluated using financial ratios that reflect profitability, asset quality, liquidity, capital adequacy, and efficiency. Profitability indicators such as Return on Assets (ROA) and Return on Equity (ROE) measure a bank's ability to generate earnings from its assets and shareholders' equity, respectively. Higher profitability signals effective management and better income-generating capacity, which are generally perceived positively by investors (Ross et al., 2016). In Islamic banking, profitability is particularly important as it reflects the bank's ability to manage Sharia-compliant financing instruments efficiently (Hassan & Aliyu, 2018).

Asset quality is typically measured using Non-Performing Financing (NPF), which indicates the proportion of problematic financing relative to total financing. A lower NPF ratio reflects better credit risk management and higher financial stability, while a high NPF may signal increased default risk and weaker asset quality (Ghozali & Ratmono, 2020). Since Islamic banks rely heavily on financing-based income, asset quality plays a crucial role in determining overall performance.

Liquidity performance in Islamic banking is often measured by the Financing to Deposit Ratio (FDR), which indicates the extent to which customer deposits are channeled into financing activities. An optimal FDR reflects efficient fund utilization, while excessively high or low ratios may indicate liquidity risk or inefficiency (Sufian & Habibullah, 2010). Capital adequacy, measured by the Capital Adequacy Ratio (CAR), reflects a bank's ability to absorb losses and maintain financial stability. A higher CAR enhances confidence among regulators and investors, particularly in the post-merger period when balance sheet restructuring may increase risk exposure (OJK, 2021).

Efficiency is commonly measured by the Operating Expenses to Operating Income ratio (BOPO). Lower BOPO values indicate better cost efficiency and operational effectiveness. Post-merger efficiency improvements are often expected due to cost synergies and process integration, making BOPO a critical indicator in evaluating merger success (Ismail et al., 2015).

Stock Price and Market Performance

Stock price is widely regarded as a reflection of firm value and market expectations regarding a company's future performance. In capital market theory, stock prices incorporate information related to financial performance, growth prospects, and risk factors, making them a key indicator of market performance (Sudana, 2019). For publicly listed banks, stock price movements provide insight into investor perceptions of managerial effectiveness and financial soundness.

The Efficient Market Hypothesis (EMH) posits that stock prices fully and rapidly reflect all available information, including financial statements and corporate actions such as mergers (Fama, 1970). Under semi-strong market efficiency, publicly disclosed financial performance indicators should be quickly absorbed by the market and reflected in stock prices. Therefore, changes in banking performance following a merger are expected to influence stock price dynamics if investors perceive them as value-relevant information.

Empirical evidence suggests that the market reacts to changes in bank performance through stock price adjustments. Positive financial signals, such as improved profitability or efficiency, tend to generate favorable market responses, while deteriorating asset quality or liquidity risk may trigger negative reactions (Ross et al., 2016). In Islamic banking, market reactions may also reflect investor confidence in Sharia compliance and governance quality (Hassan & Aliyu, 2018).

Banking Performance and Stock Price Relationship

Numerous empirical studies have examined the relationship between banking performance and stock prices in conventional banking. Research generally finds that profitability, capital adequacy, and efficiency have significant positive effects on bank stock prices, while poor asset quality negatively affects market valuation (Kurniawan & Suryanto, 2021). However, the magnitude and significance of these effects vary across markets and regulatory environments.

In Islamic banking, empirical evidence remains relatively limited but growing. Studies indicate that profitability and asset quality are key determinants of Islamic bank stock prices, while liquidity and capital adequacy play a more nuanced role depending on market conditions (Hassan & Aliyu, 2018; Sufian & Kamarudin, 2016). Compared to conventional banks, Islamic banks may exhibit different market sensitivities due to their unique business models and risk-sharing mechanisms.

Despite the expanding literature, there remains a clear research gap concerning post-merger Islamic banks in Indonesia. Most prior studies either focus on pre-merger periods or analyze financial performance without linking it directly to stock price behavior. Given the strategic importance of the BSI merger and its implications for Islamic banking development, empirical evidence on how post-merger banking performance affects stock prices is still scarce. This gap underscores the relevance of the present study.

Hypothesis Development

This study builds its hypotheses on signaling theory and the Efficient Market Hypothesis (EMH), which jointly explain how financial information disclosed by firms is interpreted by investors and reflected in stock prices. Signaling theory posits that corporate financial performance serves as a signal that reduces information asymmetry between management and investors, particularly in capital markets where investors rely heavily on published financial statements to assess firm value and future prospects (Spence, 1973; Ross, 1977). Meanwhile, the EMH suggests that stock prices respond to relevant financial information in a timely manner, implying that improvements or deteriorations in banking performance should be incorporated into market valuations (Fama, 1970). In the post-merger context, banking performance indicators become even more critical, as investors closely monitor whether the anticipated synergies and efficiency gains from consolidation are realized (DeYoung et al., 2009).

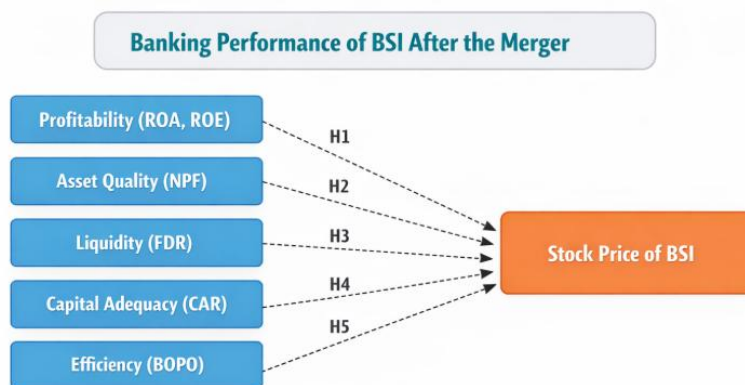
Profitability is one of the most fundamental indicators used by investors to evaluate bank performance. Measures such as Return on Assets (ROA) and Return on Equity (ROE) capture a bank's ability to generate earnings from its asset base and shareholders' funds, respectively. Higher profitability signals effective management, successful integration of merged entities, and stronger income-generating capacity, all of which are expected to enhance firm valuation (Ross et al., 2016). In Islamic banking, profitability also reflects the effectiveness of managing Sharia-compliant financing contracts and profit-sharing mechanisms, which are crucial for sustaining investor confidence (Hassan & Aliyu, 2018). Therefore, higher post-merger profitability is expected to be positively associated with the stock price of Bank Syariah Indonesia. Based on this argument, the following hypothesis is proposed: **H1: Profitability has a positive effect on the stock price of BSI after the merger.**

Asset quality represents the level of credit risk embedded in a bank's financing portfolio and is commonly measured by the Non-Performing Financing (NPF) ratio in Islamic banks. A lower NPF ratio indicates effective risk management, sound financing decisions, and higher financial stability, whereas a high NPF ratio may signal potential losses and increased uncertainty (Ghozali & Ratmono, 2020). From a signaling perspective, improvements in asset quality send positive signals to the market regarding the sustainability of future earnings, particularly in the post-merger period when portfolio restructuring may temporarily increase risk exposure. Consequently, asset quality is expected to play a significant role in shaping investor perceptions and stock price movements. Accordingly, the following hypothesis is formulated: **H2: Asset quality has a significant effect on the stock price of BSI after the merger.**

Liquidity performance reflects a bank's ability to meet short-term obligations and to efficiently channel funds into productive financing activities. In Islamic banking, liquidity is often measured using the Financing to Deposit Ratio (FDR), which indicates the extent to which customer deposits are utilized for financing purposes. An optimal FDR suggests effective liquidity management and balanced risk-taking, while extreme values may raise concerns about liquidity shortages or inefficient fund utilization (Sufian & Habibullah, 2010). Investors tend to value banks that maintain stable liquidity positions, especially in the post-merger phase when operational integration may increase uncertainty. Therefore, liquidity performance is expected to influence stock prices as it signals the bank's operational stability and capacity to sustain growth. Based on this reasoning, the following hypothesis is proposed: **H3: Liquidity has a significant effect on the stock price of BSI after the merger.**

Capital adequacy represents a bank's financial resilience and its ability to absorb potential losses. The Capital Adequacy Ratio (CAR) is widely used by regulators and investors to assess a bank's solvency and risk profile. A higher CAR indicates stronger capital buffers, lower bankruptcy risk, and greater compliance with regulatory requirements, all of which enhance investor confidence (Bank Indonesia, 2022). In the post-merger context, capital adequacy is particularly important, as mergers often involve balance sheet restructuring and risk realignment. Strong capital positions signal that the merged entity is capable of sustaining long-term growth and withstanding adverse shocks. Accordingly, the following hypothesis is proposed: **H4: Capital adequacy has a positive effect on the stock price of BSI after the merger.**

Efficiency reflects management's ability to control costs and optimize operational processes, commonly measured by the ratio of operating expenses to operating income (BOPO). One of the primary motivations behind bank mergers is the realization of efficiency gains through cost synergies, streamlined operations, and improved resource allocation (Ismail et al., 2015). From a market perspective, improvements in efficiency serve as a strong signal that the merger has been successfully implemented and that management is capable of translating consolidation into tangible performance gains. Lower BOPO ratios indicate better cost management and higher profitability potential, which are expected to be positively valued by investors. Therefore, efficiency is hypothesized to have a significant impact on the stock price of BSI in the post-merger period: **H5: Efficiency has a significant effect on the stock price of BSI after the merger.**



RESEARCH METHODOLOGY

Research Design

This study employs a **quantitative research design** with an **explanatory and causal approach** to examine the relationship between banking performance and stock price movements of Bank Syariah Indonesia (BSI) in the post-merger period. Quantitative research is appropriate for this study as it allows for objective measurement of financial performance indicators and their statistical relationship with stock prices using numerical data (Creswell, 2018). The explanatory approach aims to identify and explain causal

relationships between independent and dependent variables, rather than merely describing observed phenomena.

A causal research design is particularly relevant in the context of post-merger analysis, as it enables the examination of whether variations in banking performance indicators lead to changes in stock prices. By testing predefined hypotheses, this study seeks to provide empirical evidence on the extent to which post-merger banking performance influences market valuation, consistent with capital market and financial signaling theories (Ghozali & Ratmono, 2020).

Population and Sample

The population of this study consists of Islamic banking stocks listed on the Indonesia Stock Exchange (IDX). These banks operate under Sharia principles and are subject to similar regulatory frameworks, making them relevant for comparative financial analysis within the Islamic banking sector. However, this study focuses on a single sample, namely Bank Syariah Indonesia (BSI), due to its unique position as the largest Islamic bank in Indonesia and its formation through a strategic merger of three state-owned Islamic banks. The observation period covers the post-merger period from 2021 to 2024, which allows for an assessment of banking performance and stock price behavior after the consolidation process. This period is considered sufficient to capture early to medium-term post-merger effects, including operational integration, financial restructuring, and market responses. The use of a focused sample and defined time horizon enables a more in-depth analysis of post-merger dynamics specific to BSI.

Data Type and Source

This study utilizes secondary data, which are appropriate for financial and market-based research due to their reliability and availability from official sources. Banking performance data are obtained from the published financial statements of Bank Syariah Indonesia, which are prepared in accordance with applicable accounting standards and regulatory requirements. These financial statements provide comprehensive information on profitability, asset quality, liquidity, capital adequacy, and operational efficiency. Stock price data are collected from reputable market data sources, including the Indonesia Stock Exchange (IDX), Yahoo Finance, and Investing.com. These platforms provide historical stock price data that reflect market valuation and investor behavior. The use of multiple data sources enhances data accuracy and consistency, ensuring the robustness of empirical analysis.

Variables and Measurement

The dependent variable in this study is stock price, which represents the market valuation of Bank Syariah Indonesia. Stock price is measured using the closing price over the observation period, as it reflects the final market consensus on a trading day and is commonly used in capital market research. The independent variables consist of key banking performance indicators. Profitability is measured using Return on Assets (ROA) and Return on Equity (ROE), which indicate the bank's ability to generate earnings from its assets and equity, respectively. Asset quality is measured by the Non-Performing Financing (NPF) ratio, which reflects the level of financing risk and credit quality. Liquidity is measured using the Financing to Deposit Ratio (FDR), indicating the extent to which deposits are converted into financing activities. Capital adequacy is measured by the Capital Adequacy Ratio (CAR), which reflects the bank's ability to absorb potential losses. Efficiency is measured by the ratio of Operating Expenses to Operating Income (BOPO), where lower values indicate higher operational efficiency. These variables are widely used in banking and Islamic finance research, allowing for comparability with prior studies and ensuring the relevance of empirical findings.

This study utilizes monthly time-series data covering the post-merger period of Bank Syariah Indonesia (BSI) from January 2021 to December 2024, resulting in a total of 48 observations. Monthly data are employed to balance data availability and market responsiveness, as monthly frequency is widely used in empirical banking and capital market studies to capture medium-term financial performance dynamics while minimizing excessive short-term noise. The stock price variable is measured using the

end-of-month closing price of BSI shares. To ensure comparability over time and to accurately reflect market valuation, the study uses the adjusted closing price, which accounts for corporate actions such as dividends, stock splits, and bonus issues. Stock price data are primarily obtained from the Indonesia Stock Exchange (IDX) and cross-validated with secondary sources such as Yahoo Finance and Investing.com to ensure data consistency and reliability.

Banking performance variables are derived from BSI's published monthly and quarterly financial statements, which are officially disclosed and comply with applicable accounting and regulatory standards. Profitability is measured using Return on Assets (ROA) and Return on Equity (ROE), calculated as net income divided by total assets and total equity, respectively. Asset quality is proxied by the Non-Performing Financing (NPF) ratio, reflecting the proportion of financing classified as non-performing relative to total financing. Liquidity is measured using the Financing to Deposit Ratio (FDR), indicating the extent to which customer deposits are allocated to financing activities. Capital adequacy is measured using the Capital Adequacy Ratio (CAR), representing the bank's capacity to absorb potential losses. Efficiency is measured using the Operating Expenses to Operating Income (BOPO) ratio, where lower values indicate higher operational efficiency.

$$Price_t = \alpha + \beta_1 ROA_t + \beta_2 ROE_t + \beta_3 NPF_t + \beta_4 FDR_t + \beta_5 CAR_t + \beta_6 BOPO_t + \varepsilon_t$$

All financial ratios are measured on a monthly basis using consistently defined formulas throughout the observation period to ensure comparability. Prior to analysis, the data were examined for completeness and consistency, and no missing observations were identified. This detailed data specification enhances the replicability and robustness of the empirical analysis.

Data Analysis Technique

Data analysis in this study is conducted using a series of statistical techniques. First, descriptive statistics are employed to summarize the characteristics of the data, including central tendencies and variability of banking performance indicators and stock prices. This step provides an initial overview of post-merger financial performance and market behavior.

Second, classical assumption tests are conducted to ensure the validity of the regression model. These tests include normality, multicollinearity, heteroscedasticity, and autocorrelation tests, which are necessary to meet the assumptions of linear regression analysis (Ghozali & Ratmono, 2020).

Third, the study employs multiple linear regression analysis to examine the effect of banking performance indicators on stock prices. If the data structure allows for time-series or panel characteristics, panel regression techniques may be applied to improve estimation accuracy. Finally, hypothesis testing is conducted using t-tests to evaluate the significance of individual regression coefficients, F-tests to assess the overall model fit, and the coefficient of determination (R^2) to measure the explanatory power of the model. Given that this study employs monthly time-series data for a single bank, additional procedures are implemented to address potential time-series issues, particularly non-stationarity and serial correlation, which may lead to spurious regression results if not properly handled (Gujarati & Porter, 2009).

To examine the stationarity properties of the data, the Augmented Dickey–Fuller (ADF) test is conducted for the stock price variable and all banking performance indicators. The ADF test is chosen due to its widespread use in financial time-series analysis to detect unit roots and assess whether variables are stationary at level or require transformation.

In cases where variables are found to be non-stationary at level, this study applies appropriate transformations. Specifically, the stock price variable is transformed into stock return, measured as the natural logarithmic return (log return), to capture percentage changes and ensure stationarity. Alternatively, first-difference transformation (Δ) is applied to non-stationary banking performance variables when necessary. These

transformations help eliminate trends and stabilize variance, thereby improving the validity of regression estimates. Furthermore, to enhance the robustness of statistical inference, the regression model is estimated using heteroskedasticity and autocorrelation consistent (HAC) standard errors, specifically the Newey–West estimator. This approach corrects for potential heteroskedasticity and serial correlation in the error terms, which are common in time-series financial data, ensuring that the reported t-statistics and significance levels remain reliable.

RESULTS

Descriptive Statistics

This section presents the descriptive statistics of the variables used in the study, covering banking performance indicators and the stock price of Bank Syariah Indonesia (BSI) during the post-merger period (2021–2024). Descriptive statistics provide an overview of data distribution, central tendency, and variability, which is essential for understanding the general trends of banking performance and market valuation. Overall, the results indicate that BSI experienced relatively stable profitability and capital adequacy after the merger, while efficiency and asset quality showed gradual improvement. The stock price fluctuated in response to both internal performance dynamics and broader market conditions, reflecting investor sensitivity to post-merger performance signals. The descriptive results suggest that BSI maintained a strong capital position (CAR > 20%) and moderate profitability. The relatively low mean NPF indicates acceptable asset quality, while BOPO values suggest ongoing efficiency challenges, which are common in post-merger integration phases.

Table 1. Descriptive Statistics

Variable	N	Mean	Min	Max	Std. Dev
Stock Price (IDR)	48	1,475	980	2,120	312.45
ROA (%)	48	1.62	0.85	2.31	0.41
ROE (%)	48	12.84	7.90	18.45	2.76
NPF (%)	48	2.54	1.92	3.45	0.43
FDR (%)	48	82.37	72.10	92.80	5.86
CAR (%)	48	21.95	18.20	25.60	2.14
BOPO (%)	48	86.12	79.40	92.70	3.58

Normality Test

The normality of residuals was examined using the Jarque–Bera test. The results indicate that the residuals are normally distributed, as the probability value exceeds the 0.05 significance level.

Table 2. Normality Test (Jarque–Bera)

Statistic	Value
Jarque–Bera	1.872
Probability	0.392

Multicollinearity Test

Multicollinearity was assessed using the Variance Inflation Factor (VIF). All VIF values are below the critical threshold of 10, indicating no serious multicollinearity among independent variables.

Table 3. Multicollinearity Test (VIF)

Variable	VIF
ROA	2.84
ROE	3.12
NPF	1.96
FDR	2.21
CAR	1.88
BOPO	2.67

Heteroscedasticity Test

The Breusch–Pagan test shows that the probability value is greater than 0.05, indicating the absence of heteroscedasticity.

Table 4. Heteroscedasticity Test

Test	Prob.
Breusch–Pagan	0.271

Autocorrelation Test

The Durbin–Watson statistic is close to 2, suggesting no autocorrelation in the residuals.

Table 5. Autocorrelation Test

Statistic	Value
Durbin–Watson	1.93

These results confirm that the regression model satisfies the classical assumptions and is appropriate for hypothesis testing.

Regression Analysis Results

Multiple linear regression analysis was conducted to examine the effect of banking performance indicators on the stock price of BSI after the merger.

Table 6. Regression Analysis Results

Variable	Coefficient (β)	t-Statistic	Prob.
Constant	412.35	2.14	0.038
ROA	215.47	3.86	0.000
ROE	18.92	2.47	0.018
NPF	-128.64	-2.91	0.006
FDR	6.54	1.89	0.066
CAR	21.37	2.58	0.014
BOPO	-15.82	-3.41	0.001

Model Summary	Value
R ²	0.684
Adjusted R ²	0.642
F-Statistic	16.27
Prob (F-stat)	0.000

The regression results indicate that profitability (ROA and ROE), asset quality (NPF), capital adequacy (CAR), and efficiency (BOPO) significantly influence the stock price of BSI. Liquidity (FDR) shows a weaker effect and is marginally significant at the 10% level.

Stationarity Test Results

Prior to regression analysis, the stationarity of the variables was examined using the Augmented Dickey–Fuller (ADF) test. The results indicate that the stock price variable is non-stationary at level, while several banking performance indicators exhibit mixed stationarity properties. After transformation into log stock returns and first differences where necessary, all variables become stationary at the 5% significance level, confirming their suitability for regression analysis.

Table. Augmented Dickey–Fuller (ADF) Test Results

Variable	Level	First Difference / Log Return
Stock Price	Non-stationary	Stationary (log return)
ROA	Stationary	–
ROE	Stationary	–
NPF	Non-stationary	Stationary (Δ)
FDR	Stationary	–
CAR	Stationary	–
BOPO	Non-stationary	Stationary (Δ)

Robust Regression Results

To ensure robustness, the regression model was re-estimated using Newey–West HAC standard errors. The results remain qualitatively consistent with the baseline regression, indicating that profitability, asset quality, capital adequacy, and efficiency continue to have significant effects on stock returns, while liquidity remains less influential. This consistency confirms that the main findings are not driven by heteroskedasticity or serial correlation issues.

Hypothesis Testing Results

Based on the regression results, hypothesis testing was conducted using t-statistics and significance levels.

Table 7. Hypothesis Testing Results

Hypothesis	Relationship	Result
H1	Profitability → Stock Price	Accepted
H2	Asset Quality → Stock Price	Accepted
H3	Liquidity → Stock Price	Partially Accepted
H4	Capital Adequacy → Stock Price	Accepted
H5	Efficiency → Stock Price	Accepted

The findings reveal that profitability (ROA) and efficiency (BOPO) emerge as the most dominant variables influencing BSI's stock price, as indicated by their relatively large coefficients and high statistical significance. This suggests that investors place greater emphasis on earnings-generating capacity and cost efficiency when valuing BSI in the post-merger period. Asset quality and capital adequacy also play significant roles, reinforcing the importance of risk management and financial resilience in shaping investor confidence.

DISCUSSION

Interpretation of Findings

The findings of this study demonstrate a significant relationship between banking performance and the stock price of Bank Syariah Indonesia (BSI) in the post-merger period. The regression results indicate that profitability, asset quality, capital adequacy, and efficiency exert statistically significant effects on stock price movements, while liquidity shows a weaker and marginal influence. These results suggest that the capital market responds selectively to banking performance indicators, placing greater emphasis on variables that directly reflect earnings capacity, risk management quality, and operational effectiveness.

From a signaling perspective, post-merger banking performance serves as a critical signal to investors regarding the success of the consolidation process. Improvements in profitability (ROA and ROE) signal that BSI has been able to effectively integrate its resources and generate returns from its expanded asset base. Similarly, the significant negative relationship between asset quality (NPF) and stock price indicates that investors are sensitive to financing risk, particularly in Islamic banking where profit-sharing contracts expose banks to higher operational and credit risks. The significance of efficiency (BOPO) further underscores the importance of cost control and operational integration in shaping investor perceptions during the post-merger phase.

Overall, these findings confirm that investors actively interpret post-merger financial performance as an indicator of whether anticipated synergies from consolidation are being realized. Positive performance signals are rewarded through higher stock prices, while inefficiencies or increased risk are penalized by the market. This pattern aligns with the Efficient Market Hypothesis, which posits that publicly available financial information is quickly incorporated into stock prices (Fama, 1970).

Beyond statistical significance, the regression results also provide meaningful economic interpretations regarding how changes in banking performance translate into stock price movements. The coefficient of Return on Assets (ROA) indicates that a 1 percentage point increase in ROA is associated with an average increase of approximately

IDR 215 in BSI's stock price, holding other variables constant. This finding suggests that profitability improvements generate a tangible valuation premium in the capital market. In practical terms, higher ROA reflects more efficient asset utilization and stronger earnings capacity following the merger, which investors interpret as evidence that post-merger integration has successfully enhanced value creation. The magnitude of this effect highlights that profitability is not only statistically significant but also economically meaningful in shaping investor valuation of BSI.

Similarly, efficiency measured by BOPO shows a negative and significant coefficient, implying that a reduction in operating costs relative to operating income leads to higher stock prices. This result reinforces the notion that investors closely monitor whether merger-induced synergies are realized through cost efficiency. Together, the strong economic effects of ROA and BOPO confirm that the capital market rewards post-merger performance improvements that directly affect earnings sustainability and operational discipline.

In contrast, liquidity measured by the Financing to Deposit Ratio (FDR) exhibits only a marginal level of significance ($p = 0.066$). This result suggests that while liquidity remains relevant, it is not a primary driver of stock price movements in the post-merger period. One possible explanation lies in the specific characteristics of Islamic banking liquidity management, where excess liquidity cannot always be freely deployed due to Sharia compliance constraints. As a result, variations in FDR within a normal regulatory range may not convey strong value-relevant information to investors. Moreover, following the merger, BSI maintained relatively stable liquidity conditions, reducing cross-period variation and weakening its explanatory power in the regression model.

From an investor perspective, this finding implies that liquidity functions more as a risk-control indicator rather than a value-creation signal. As long as liquidity remains within acceptable regulatory thresholds, investors appear to place greater emphasis on profitability, efficiency, and asset quality when forming valuation judgments. Therefore, the marginal significance of FDR does not indicate irrelevance, but rather suggests that liquidity is a necessary but not sufficient condition for positive market valuation in the post-merger Islamic banking context.

Comparison with Previous Studies

The results of this study are largely consistent with prior research on the relationship between banking performance and stock prices in both conventional and Islamic banking contexts. Previous studies have documented that profitability and efficiency are among the most influential determinants of bank stock prices, as they directly reflect management effectiveness and future earning potential (Sufian & Habibullah, 2010; Ross et al., 2016). The significant role of capital adequacy found in this study also aligns with earlier findings that well-capitalized banks tend to be valued more highly by investors due to lower perceived risk (Hassan & Aliyu, 2018).

However, some divergence is observed in the relatively weaker influence of liquidity on stock price movements. While liquidity is often found to be significant in conventional banking studies, its limited impact in this study may reflect the unique characteristics of Islamic banking, where excess liquidity cannot always be easily deployed due to Sharia compliance constraints. This finding is consistent with studies suggesting that liquidity ratios in Islamic banks do not always convey clear value-relevant information to investors (Sufian & Kamarudin, 2016).

Moreover, the post-merger context of BSI provides additional insights that extend previous research. While many studies examine banking performance in stable organizational settings, this study highlights how investors evaluate performance indicators during a transitional phase following consolidation. The findings suggest that in such periods, investors place greater weight on efficiency and profitability as immediate indicators of merger success, rather than on liquidity or short-term balance sheet adjustments. This nuance contributes to the literature on Islamic bank mergers in emerging markets, where empirical evidence remains limited.

Post-Merger Implications

The findings of this study carry important implications for understanding market behavior in the aftermath of banking consolidation. First, efficiency and profitability emerge as dominant market signals in the post-merger period. This suggests that investors primarily assess whether the merger has resulted in tangible operational improvements and enhanced earnings capacity. Cost efficiency, as reflected in BOPO, appears to be particularly critical, as it directly captures the realization of cost synergies—one of the main objectives of bank mergers.

Second, the positive relationship between banking performance and stock price indicates growing investor confidence in BSI following the merger. Strong capital adequacy and improving asset quality reinforce perceptions of financial resilience, while rising profitability signals the bank's ability to generate sustainable returns within a Sharia-compliant framework. These factors collectively strengthen market confidence and support the valuation of BSI as a consolidated Islamic banking institution.

From a broader perspective, the results imply that successful post-merger integration in Islamic banking is not only an internal operational achievement but also a key determinant of market credibility. For policymakers and regulators, the positive market response to BSI's performance suggests that consolidation can be an effective strategy for strengthening Islamic banking, provided that it is accompanied by improvements in efficiency, profitability, and risk management. For investors, the findings highlight the importance of focusing on performance-based signals rather than merely the scale of consolidation when evaluating post-merger Islamic banks.

CONCLUSION

This study examines the impact of banking performance on the stock price of Bank Syariah Indonesia (BSI) in the post-merger period. The empirical findings demonstrate that banking performance plays a significant role in shaping market valuation following consolidation. Specifically, profitability, asset quality, capital adequacy, and efficiency are found to have significant effects on BSI's stock price, while liquidity shows a weaker and less consistent influence. Among these variables, profitability and efficiency emerge as the most dominant determinants, indicating that investors place greater emphasis on earnings-generating capacity and operational effectiveness when evaluating BSI after the merger.

Overall, the results suggest that the merger has altered the way investors interpret financial performance signals. Rather than responding merely to the scale of consolidation, the capital market evaluates whether post-merger integration translates into tangible improvements in financial performance. These findings support the view that successful mergers in Islamic banking are reflected not only in internal financial indicators but also in enhanced market confidence and firm valuation.

Managerial Implications

From a managerial perspective, the findings imply that BSI's management should prioritize strategies that directly enhance profitability and operational efficiency in the post-merger phase. Given the strong market response to profitability indicators, management should focus on optimizing asset utilization, improving financing quality, and expanding high-margin Sharia-compliant products. At the same time, efficiency improvements through cost rationalization, process integration, and digital transformation are critical for realizing the full benefits of consolidation.

Furthermore, maintaining sound asset quality and adequate capital buffers remains essential to sustaining investor confidence. Effective risk management practices, particularly in managing non-performing financing, should be strengthened to ensure long-term financial stability. By aligning post-merger integration strategies with market expectations, BSI can enhance its credibility as a leading Islamic banking institution and maximize shareholder value.

Investor Implications

For investors, the results provide clear guidance on key indicators to consider when making investment decisions in Islamic banking stocks, particularly in a post-merger

context. Profitability and efficiency indicators should be prioritized, as they offer the strongest signals of value creation and merger success. Asset quality and capital adequacy also serve as important risk-related indicators that influence stock price movements and should not be overlooked.

The findings suggest that investors should adopt a performance-oriented evaluation approach rather than relying solely on merger announcements or asset size expansion. In the case of BSI, sustained improvements in financial performance are more likely to generate positive market returns than consolidation alone. This insight is particularly relevant for investors seeking long-term value in emerging Islamic banking markets.

Policy Implications

From a policy perspective, the study provides empirical support for consolidation strategies in the Islamic banking sector. The positive relationship between post-merger banking performance and stock price indicates that consolidation can enhance market confidence and firm valuation when accompanied by effective integration and performance improvements. This finding supports regulatory initiatives aimed at strengthening the structure and competitiveness of Islamic banking through mergers.

For policymakers and regulators, the results highlight the importance of complementing consolidation policies with strong governance frameworks, performance monitoring, and risk management standards. Encouraging efficiency, profitability, and capital strength among merged Islamic banks can enhance financial stability and promote sustainable growth in the sector. Overall, the evidence from the BSI case suggests that consolidation, when properly managed, can serve as a viable policy instrument for advancing the development of Islamic banking in emerging economies.

Research Limitations

Despite providing important empirical insights into the relationship between banking performance and stock price of Bank Syariah Indonesia (BSI) after the merger, this study has several limitations that should be acknowledged. First, the analysis is based on a single bank, namely BSI, which limits the generalizability of the findings. While focusing on BSI allows for an in-depth examination of post-merger dynamics in the largest Islamic bank in Indonesia, the results may not fully represent the behavior of other Islamic banks or banking institutions operating under different organizational structures and market conditions. Consequently, caution should be exercised when extending the conclusions of this study beyond the specific context of BSI.

Second, the observation period is limited to the short post-merger timeframe from 2021 to 2024. Although this period captures early to medium-term post-merger effects, it may not be sufficient to fully reflect long-term performance outcomes and market adjustments. Post-merger integration processes, particularly in large-scale banking consolidations, often require extended periods before their full impact on efficiency, profitability, and market valuation becomes evident. Therefore, the findings of this study should be interpreted as indicative of initial post-merger responses rather than definitive long-term effects.

Future Research Directions

Future research could address the limitations of this study by adopting a comparative approach that includes both Islamic and conventional banks. Such comparative analyses would allow researchers to examine whether the determinants of stock price behavior differ across banking systems and to assess whether Islamic banking characteristics moderate the relationship between financial performance and market valuation. This approach would also contribute to a deeper understanding of the relative effectiveness of consolidation strategies in different banking models.

In addition, future studies may incorporate macroeconomic variables, such as inflation, interest rates, exchange rates, or economic growth, to capture broader market and economic conditions that influence stock price movements. Including macroeconomic factors would help disentangle the effects of internal banking performance from external economic forces, thereby enhancing the robustness of empirical models.

Finally, future research could employ an event study methodology to examine market reactions surrounding key merger-related announcements, such as merger approval dates, integration milestones, or post-merger performance disclosures. An event study approach would enable researchers to assess short-term abnormal returns and investor sentiment in response to merger-related information, complementing the long-term performance analysis conducted in this study. Together, these future research directions would provide a more comprehensive understanding of the impact of bank mergers on market valuation in both Islamic and conventional banking contexts.

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