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EVALUATING ISLAMIC BANK PERFORMANCE PRE- AND POST-MERGER USING EVA

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Abstract: The merger of three state-owned Islamic banks under Himbara—BRIS, BNIS, and BSM—into Bank Syariah Indonesia (BSI) in 2021 represents a pivotal development in the consolidation and strengthening of Indonesia’s Islamic banking industry. This study aims to evaluate and compare the financial performance of Islamic banks in Indonesia before and after the merger by employing the Economic Value Added (EVA) method, which incorporates the Weighted Average Cost of Capital (WACC) to provide a more accurate assessment of value creation. The research period spans from 2018 to 2023, covering three years prior to the merger (2018–2020) and three years following the merger (2021–2023). The findings reveal that EVA values remained negative throughout the entire observation period. However, there was a slight improvement in negative EVA values prior to the merger, whereas a further deterioration was observed in the post-merger period. These results suggest that the merger has not yet led to an enhancement in financial value creation, and they highlight the need for a critical reassessment of BSI’s financial strategies moving forward.

Keywords: Islamic Banking, Merger, Financial Performance, Economic Value Added (EVA), Bank Syariah Indonesia

INTRODUCTION

The Islamic banking industry in Indonesia has experienced rapid growth, particularly following the merger of three state-owned Islamic banks in 2021 into a single entity: Bank Syariah Indonesia (BSI). This strategic move aimed to enhance the competitiveness of Islamic banking both nationally and internationally. However, questions remain as to whether the merger has truly led to improved financial performance. To address this, an appropriate method of performance evaluation is required—one of which is Economic Value Added (EVA), a metric that assesses the value created after accounting for the cost of capital.

Prior to the merger, the individual Islamic banks—namely Bank Syariah Mandiri (BSM), BNI Syariah (BNIS), and BRI Syariah (BRIS)—exhibited varying degrees of financial performance in terms of profitability, operational efficiency, and asset growth. Although they demonstrated positive growth trends, these banks faced challenges such as limited scale, niche market segmentation, and relatively low penetration compared to conventional banking. The merger, initiated by the Ministry of State-Owned Enterprises and the Financial Services Authority (OJK), was intended to serve as a turning point in transforming the Islamic banking sector through synergy, operational efficiency, and strengthened capital and technological infrastructure.

Following the merger, BSI was expected to deliver improved financial performance and generate greater value for stakeholders. Therefore, it is important to objectively evaluate financial performance before and after the merger. This evaluation not only seeks to assess the merger’s impact on value creation but also to determine the extent to which the strategic objectives of the consolidation have been achieved.
Previous research related to bank performance evaluation has been conducted before, such as Al-Shubiri, F. N. (2013); Appiah, K. O., Chizema, A., & Arthur, J. (2020); Rahman, A., & Rahim, R. A. (2010) which resulted in increased efficiency and optimal capital costs. However, on the other hand, research Stewart, G. B. (1991)Yulianto, A., & Handoko, B. (2021) that integration is not yet optimal and results are not yet clear regarding bank performance evaluation.

Using the Economic Value Added (EVA) approach, this study aims to examine whether there has been a significant improvement in performance post-merger and to what extent the newly merged bank has been able to generate higher economic value compared to the pre-merger period.

LITERATURE REVIEW

Islamic Banks and Merger in Indonesia

Islamic banks are financial institutions that operate based on Islamic Sharia principles, such as the prohibition of riba (interest), gharar (uncertainty), and maisir (gambling). In Indonesia, the merger of three state-owned Islamic banks—Bank Syariah Mandiri (BSM), BNI Syariah (BNIS), and BRI Syariah (BRIS)—resulted in the establishment of a new entity, Bank Syariah Indonesia (BSI), on February 1, 2021. This merger was expected to enhance operational efficiency, expand business scale, and strengthen global competitiveness.

Financial Performance Theory

Financial performance reflects a company's level of success in managing its resources efficiently and effectively to generate profits. Traditional indicators such as Return on Assets (ROA) and Return on Equity (ROE) are commonly used; however, they do not account for the cost of capital. Therefore, Economic Value Added (EVA) is considered a more appropriate measure, as it evaluates whether a company truly creates economic value for its shareholders.

Economic Value Added (EVA)

EVA is a financial performance indicator that measures the economic value added by a company after accounting for the cost of capital. The formula for EVA is:.

$$EVA = NOPAT - (WACC \times \text{Capital Employed})$$

With:

NOPAT (Net Operating Profit After Tax)
WACC (Weighted Average Cost of Capital)
Capital Employed = Total Assets – Non-interest-bearing Current Liabilities

A positive EVA value indicates that the company is generating profit above its cost of capital, while a negative EVA value suggests that the company has not yet created economic value.

Previous Studies

Several previous studies have shown that mergers can have a significant impact on a bank’s financial performance. For example:

Sari (2019) reported an improvement in bank efficiency following a merger.
Nugroho (2021) found that EVA is more sensitive to changes in the cost of capital compared to other financial ratios.

This study builds upon earlier research by focusing specifically on Islamic banks in Indonesia, using EVA as the primary analytical approach.

Conceptual Framework

The conceptual framework of this study is based on the relationship between mergers, financial performance, and economic value added. Mergers are expected to enhance economies of scale and operational efficiency, which are ultimately reflected in improved EVA.

RESEARCH METHOD

Type and Source of Data

The type of data used in this study is secondary quantitative data obtained from the annual reports and audited financial statements of BRIS, BSM, and BNIS (for the period 2018–2020), as well as BSI (for the period 2021–2023).

Population and Research Sample

The population of this study consists of all Islamic banks in Indonesia. The sample was selected purposively, comprising the three Islamic banks involved in the merger and the resulting merged entity (BSI). The observation period includes six years: three years before the merger and three years after the merger.

Data Collection Technique

Data were collected through documentation of official financial reports published on the respective banks' websites and the website of the Financial Services Authority (OJK).

Data Analysis Technique

EVA Calculation Steps:

1. Calculate NOPAT based on the income statement
2. Estimate WACC using the capital structure and cost of capital
3. Determine capital employed from the statement of financial position
4. Calculate annual EVA

RESULT AND DISCUSSION

NOPAT

Table 1. NOPAT of Islamic Banks in Indonesia (2018-2023)

Year	Bank	Profit Before Tax (IDR Billion)	Tax Expense (IDR Billion)	NOPAT (IDR Billion)
2018	BRIS	143,32	35,53	107,79
2018	BSM	605,61	196,76	408,85
2018	BNIS	150,15	45,47	104,68
2019	BRIS	167,47	46,29	121,18
2019	BSM	676,90	215,00	461,90
2019	BNIS	169,85	49,63	120,22
2020	BRIS	306,01	57,93	248,08
2020	BSM	742,13	238,14	503,99
2020	BNIS	229,77	70,61	159,16
2021	BSI	3.030,36	852,00	2.178,36
2022	BSI	4.998,00	1.350,00	3.648,00
2023	BSI	7.176,00	1.470,00	5.706,00

WACC

WACC (Weighted Average Cost of Capital) is the average rate of return that a company is expected to pay to all of its capital providers, including debt holders and equity investors. It reflects the overall cost of financing the company's assets.

Table 2. WACC of Islamic Banks in Indonesia (2018-2023)

Year	BSM (%)	BRIS (%)	BNIS (%)	BSI (%)
2018	5,18	2,73	2,87	—
2019	4,90	2,11	2,70	—
2020	4,14	1,98	2,14	—
2021	—	—	—	3,37
2022	—	—	—	3,79
2023	—	—	—	4,21

Capital Employed

Table 3. Capital Employed of Islamic Banks in Indonesia (2018-2023)

Year	Bank	Total Assets (Rp Trillion)	Total Liabilities (Rp Trillion)	Capital Employed (Rp Trillion)
2018	BRIS	36.99	33.15	3.84
2018	BSM	98.35	87.54	10.81
2018	BNIS	34.89	31.65	3.24

Year	Bank	Total Assets (Rp Trillion)	Total Liabilities (Rp Trillion)	Capital Employed (Rp Trillion)
2019	BRIS	43.19	39.23	3.96
2019	BSM	112.01	98.95	13.06
2019	BNIS	40.25	36.59	3.66
2020	BRIS	57.23	51.80	5.43
2020	BSM	112.33	96.88	15.45
2020	BNIS	50.81	44.66	6.15
2021	BSI	265.00	232.00	33.00
2022	BSI	305.73	272.22	33.51
2023	BSI	353.62	314.88	38.74

EVA

Table 4. EVA of Islamic Banks in Indonesia (2018-2023)

Year	BSM	BRIS	BNIS	Consolidation of 3 Banks	BSI
2018	-3092738	-512683	-493816	-4192097	
2019	-2974971	-447031	-445944	-4034172	
2020	-2582040	-473512	-292451	-3631583	
2021					-3799616
2022					-4689821
2023					-5726690

Trend of Economic Value Added (EVA) in Islamic Banks (2018–2020)

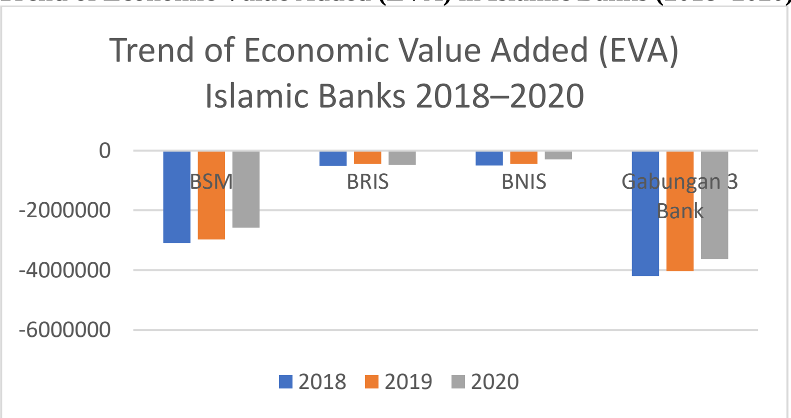

Figure 1. Trend of Economic Value Added (EVA) in Islamic Banks (2018–2020)

During the period of 2018 to 2020, the three Islamic banks in Indonesia—Bank Syariah Mandiri (BSM), BRI Syariah (BRIS), and BNI Syariah (BNIS)—consistently recorded negative Economic Value Added (EVA). This indicates that these banks were unable to generate returns above their respective cost of capital, thereby failing to create economic value for shareholders.

In 2018, the combined EVA stood at approximately –Rp4.19 trillion, followed by –Rp4.03 trillion in 2019, and –Rp3.63 trillion in 2020. Despite a slight upward trend, the EVA figures remained in the negative zone throughout the pre-merger period.

Several factors contributed to this pattern:

1. The Weighted Average Cost of Capital (WACC), although relatively low (ranging from 2–5%), still exceeded the actual return on invested capital.

2. The banks had significant capital employed, but their Net Operating Profit After Tax (NOPAT) was not sufficient to cover the cost of capital.
3. The fragmented nature of the three separate entities likely led to inefficiencies in resource allocation and operational management.

This trend reflects the systemic challenge faced by Islamic banks in Indonesia prior to their consolidation into Bank Syariah Indonesia (BSI), particularly in managing capital productively to deliver positive economic returns.

Trend of Economic Value Added (EVA) of Bank Syariah Indonesia (2021–2023)

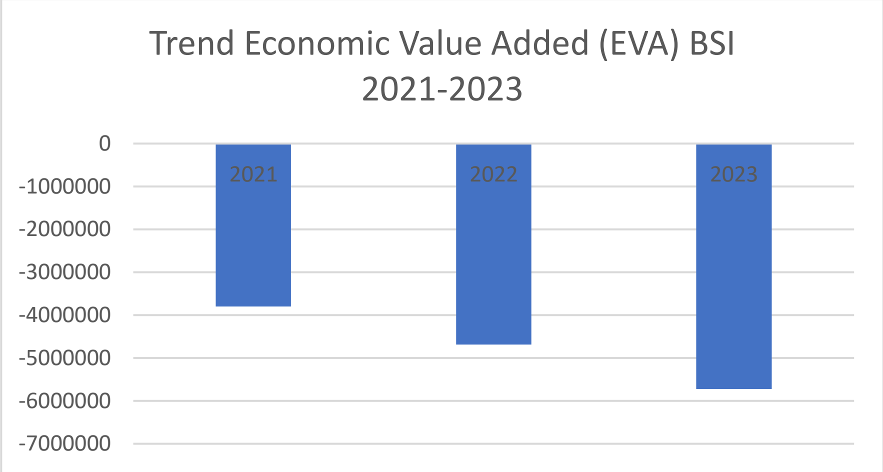

Figure 2. Trend of Economic Value Added (EVA) BSI (2021-2023)

Following the merger in early 2021, Bank Syariah Indonesia (BSI) emerged as the largest Islamic bank in Indonesia. Despite the increase in net income and asset base over the period 2021 to 2023, BSI continued to record negative EVA values:

- 2021: –Rp3.80 trillion
- 2022: –Rp4.69 trillion
- 2023: –Rp5.73 trillion

This persistent negative EVA trend suggests that BSI, while growing in terms of profitability and market share, has not yet generated returns that exceed its cost of capital. The main contributing factors include:

A substantial increase in capital employed (due to asset and equity growth), which has significantly raised the capital charge (WACC × Capital Employed).

Although net operating profit after tax (NOPAT) increased, it remained insufficient to cover the rising capital cost.

The bank still faces integration challenges, particularly in aligning systems, organizational culture, and risk management practices post-merger.

CONCLUSION

Following the merger of BRIS, BSM, and BNIS into Bank Syariah Indonesia (BSI) in early 2021, the financial performance of the newly established entity was further examined using the Economic Value Added (EVA) method. The analysis revealed that despite consistent growth in BSI's net profit over the period 2021–2023, the EVA remained persistently negative.

In 2021, BSI recorded a negative EVA of IDR 3.80 trillion. This value worsened in 2022 to IDR 4.69 trillion and further declined to IDR 5.73 trillion in 2023. These results suggest that the bank's increased operational returns were insufficient to offset the rising capital costs associated with its growing asset and equity base.

The increasing capital charge—calculated as WACC multiplied by capital employed—reflects a significant rise in the cost of maintaining and funding the bank's operations. Although BSI demonstrated an upward trend in profitability, the substantial growth in capital employed, paired with a relatively stable or slightly rising WACC, led to a widening gap between the bank's returns and its cost of capital.

In conclusion, while BSI shows strong growth potential and improved financial scale, the negative EVA indicates that it has not yet achieved economic value creation. Strategic improvements in capital efficiency, cost management, and revenue diversification are necessary to shift EVA into the positive territory in the coming years.

Alternative Perspectives

1. **Managerial Perspective**

The merger has indeed expanded the business scale and improved administrative efficiency. However, integration challenges—including system alignment, corporate culture harmonization, and risk management—continue to impose performance burdens in the short term.

The negative EVA indicator reflects the need to enhance capital productivity and post-merger operational efficiency.

2. **Investor Perspective**

A negative EVA implies that no economic value has yet been added for shareholders.
Although accounting profits have increased, rational investors recognize that capital costs have not been fully covered.

Nonetheless, the upward trend in net income and market share suggests promising long-term potential.

3. **Industry and Regulatory Perspective**

The merger signals the government's commitment to strengthening the Islamic banking sector.
EVA serves as an important indicator for regulators to evaluate whether Islamic banks are truly efficient and value-generating entities.

4. **Socio-Economic Perspective**

Islamic banks deliver non-financial value by promoting financial inclusion, supporting MSME financing, and facilitating zakat and waqf instruments.

While EVA may be economically negative, the bank's social impact and commitment to community-oriented values remain key differentiators.

Table 5. General Conclusion

Aspect	Before the Merger	After the Merger
EVA	Negative and significant	Still negative, but profit trend is increasing
Capital Structure	Fragmented	Centralized and larger
Operational Efficiency	Low, due to three separate entities	Starting to improve, but not yet optimal
Economic Return	Did not exceed cost of capital	Still lagging behind the cost of capital
Strategic Direction	Not yet integrated	Stronger vision and better alignment with globalization

Strategic Recommendations

1. Focus on Efficiency: Reduce operational expenses and optimize the utilization of productive assets.
2. Improve Capital Structure: Lower the proportion of expensive capital sources (e.g., short-term customer deposits).
3. Increase NOPAT: Boost income through higher margin-based financing and expansion of fee-based services.

4. Risk Management and Digitalization: Leverage technology to minimize risk and expand customer outreach through digital channels.

Suggestions for Future Research

1. Extended Observation Period

To obtain a more comprehensive picture, future studies are advised to use a longer observation period (e.g., 5–10 years before and after the merger) in order to capture long-term trends and structural impacts that may not be immediately visible in the short term.

2. Combination with Other Methods

Combining EVA with other methods such as Market Value Added (MVA), CAMELS ratios, or Data Envelopment Analysis (DEA) could provide a broader understanding of bank efficiency, profitability, and market value creation.

3. Additional Qualitative Approach

Future research should consider incorporating a qualitative approach, such as interviews with management or regulators, to explore in depth the challenges of post-merger integration and internal strategies for improving financial performance.

4. Comparison with Conventional Banks

It would be interesting to compare the financial performance of BSI with large conventional banks that did not undergo a merger during the same period, to determine whether the merger was a dominant factor in performance changes.

5. Risk and Technology Analysis

It is recommended to include an analysis of the impact of digitalization and risk management on economic value creation post-merger, as these aspects are crucial in the context of modern banking.

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