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The Role Of Financial Ratios And ESG Disclosure In Driving Banking Profitability: Evidence From Indonesia

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Abstract

The stability of the financial system and the advancement of the nation's economy depend heavily on the profitability of banks. The purpose of this study is to examine the effect of the CAR, leverage, firm size, and the ESG disclosure on the profitability of banks listed on the IDX during 2022–2025. This research takes a quantitative approach with a descriptive research design. The sample was determined using purposive sampling, which after removing outliers resulted in 53 observations, the data were then analyzed using SPSS Version 27. The results indicate that CAR and firm size have a positive and significant effect on profitability. Meanwhile, leverage, measured by the DER, and ESG disclosure have a negative but insignificant effect on profitability. These findings suggest that adequate capital and larger firm size play important roles in improving banks' ability to generate profits. In contrast, leverage and ESG disclosure do not have a statistically significant influence on bank profitability during the observation period. Ultimately, these results highlight that maintaining high capital and growing company size are proven strategies to boost profitability, proving that excess capital is far more than just a regulatory safety net. Instead, it acts as a core driver for financial success. Furthermore, although the leverage and ESG disclosure do show a negative effect, their insignificant impact means banks can still handle their debt and commit to do sustainability without facing severe profit drops.

Keywords: Capital Adequacy Ratio, Leverage, Firm Size, ESG Disclosure, Profitability, Banking

INTRODUCTION

Economic development is an important aspect of improving people's welfare and maintaining a country's long-term economic growth. To achieve this goal, a stable financial system is needed to support economic activities. The financial system facilitates

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transactions, channels funds to productive activities, and helps allocate resources efficiently (World Bank, 2022; Doucouliagos et al., 2021). A well-developed financial sector can also expand access to financial services, improve efficiency, and strengthen the economy's ability to withstand economic shocks (World Bank, 2022).

Within this system, the banking subsector plays an important role by collecting funds from the public through saving accounts, time deposits, and current accounts, then distributing these funds through loans and financing. Given its important role in supporting economic activities, maintaining a sound and profitable banking subsector is essential for promoting investment, facilitating the flow of funds, and supporting sustainable economic growth (Wahyudi et al., 2021). In Indonesia, efforts to strengthen the financial sector are also reflected in the enactment of UU No. 4 of 2023.

Profitability, which measures a bank's ability to make money is one of the most crucial metrics for evaluating bank performance. Because it promotes company growth, fortifies capital, and aids banks in preserving their financial stability (Linggadjaya et al., 2025). Investors and other stakeholders should consider this while evaluating a bank's financial performance. Return on Assets (ROA) is an indicator that illustrates the extent to which its assets contribute to make a profit. A greater ROA shows that a bank is making better use of its resources to turn into a profit. Thus, when assessing the bank's performance that listed on the IDX, it is crucial to comprehend the factors that may affect ROA.

Indonesia's banking subsector profitability showed fluctuations during the 2022-2025 period. In December 2022, the banking industry's ROA reached 2,45% increasing from 1,85% in December 2021, indicating an improvement in profitability following the economic pressures caused by the Covid-19 pandemic (ojk.go,id, 2022). However, earlier in February 2022, ROA had declined to 2,32% from 2,53% in January 2022 (bisnis.com, 2022). In December 2023, the industry's ROA reached 2,78%, while its Capital Adequacy Ratio stood at 27,65%, indicating a relatively strong capital position (ojk.go.id, 2023). Nevertheless, the improvement in Capital Adequacy Ratio did not necessarily mean that profitability would continue to increase.

Data reported by Investor Daily Indonesia (2024) showed that the banking subsector's net profit in January 2024 decreased to IDR 20.88 trillion from IDR 22.06 trillion in January 2023. A similar pattern was observed in early 2025, when ROA declined from 2,69% in December 2024 to 2,34% in January 2025, even though CAR increased from 26,69% to 27,05% over the same period (ojk.go.id, 2025). These data indicate that a strong capital position does not automatically increase the profitability.

Previous studies have examined several factors associated with banking profitability, including Capital Adequacy Ratio, leverage, firm size, and ESG disclosure. The first factor is the CAR, which shows a bank's ability to absorb possible losses through

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the assessment of its capital in relation to risk-weighted assets. In Indonesia, banks are subject to regulatory requirements to maintain minimum CAR levels based on their risk profiles, as regulated under POJK No. 11/POJK.3/2016. A bank's lending operations can be supported and its financial resilience strengthened with adequate capital. However, if the bank's capital isn't handled wisely, having a lot of it doesn't always translate into increased profitability. A positive and statistically significant relationship between CAR and profitability found by Siddique et al. (2021), whereas no significant effect of CAR on profitability was observed in the study conducted by Muhammed et al. (2024).

The leverage, which indicates the degree of company's reliance on borrowed funds and other outside funding sources to operate is the second factor. Leverage can help businesses grow and make more money, but relying too much on it can also raise funding costs and financial hazards (Arhinful & Radhmehr, 2023). The findings of earlier research are inconsistent. The findings of Yadav et al., (2021) indicated that leverage was negatively associated with profitability, with a statistically significant relationship. While Christina et al. (2025) demonstrated a positive significant association between the two variables.

Another factor that may have an impact on a bank's profitability is its size. Bigger banks typically have more resources, a wider network of commercial contacts, and more chances to diversify their operations. These benefits can help them take advantage of economies of scale and increase operational efficiency, both of which can lead to increased profitability (Baumol, 1959 on Yadav et al., 2021). Contrasting findings have been reported in earlier studies, Kamila & Arismutia (2026) demonstrated a positive and statistically significant association on profitability, whereas Kasanah et al. (2022) reported a significant negative relationship.

Sustainability-related business practices are becoming increasingly significant in addition to financial considerations. Growing concerns about climate change, greenhouse gas emissions, and global warming have made investors, governments, and the general public more vigilant about business practices. (Khamisu & Paluri, 2024). As a result, businesses are increasingly expected to take ESG aspects into account in addition to their financial objectives (Alessa et al., 2024). In Indonesia, sustainability practices in the financial services sector are supported by POJK No. 51/POJK.03/2017 and the Indonesia Green Taxonomy 1.0.

ESG disclosure provides information about how the companies manages their environmental impacts, maintain relationships with employees and communities, and implement transparent and responsible governance practices. Such disclosure may strengthen stakeholder confidence, improve companies' reputation, and support long-term business sustainability. However, preparing and implementing sustainability may also require additional resources and costs, which could affect short-term profitability. An

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ESG disclosure index, which compares the amounts of items the company has disclosed with the total number of items that should be disclosed is used to examine ESG disclosure. A positive and statistically significant effect was identified by Pondrinal & Luthan (2026), while Nguyen (2026) reported a statistically significant negative effect.

Although previous studies have investigated CAR, leverage, firm size, and ESG disclosure in relation to profitability, the findings remain inconsistent. While some research indicates negative or statistically insignificant effects, others have reported positive effects. These variations imply that the connections between the chosen independent variables and profitability may vary depending on the research setting, the characteristic of the companies, and the period examined. Therefore, findings from studies involving other industries may not fully explain the profitability of banks.

The 2022-2025 period is particularly relevant because it captures changes in banking profitability following the Covid-19 pandemic. At the same time, the relatively high CAR maintained by Indonesian banks, alongside fluctuations in ROA, raises questions about whether capital adequacy contributes directly to higher profitability. The relationship between leverage and profitability also requires further examination because liabilities serve as an important source of funding for banking operations. Furthermore, the potential benefits of firm size and ESG disclosure remain uncertain because previous studies have produces conflicting results. These issues establish the research gap addressed in this study, the needs to reassess the individual and simultaneous effects of CAR, leverage, firm size, and ESG disclosure on the profitability of banks listed on IDX during the 2022-2025 period.

This study aims to analyze the effects of CAR, leverage, firm size, and ESG disclosure on the profitability of banks listed on the IDX during the 2022-2025 period. Specifically, this study focuses on assessing the influence of each of the four independent variables on profitability, both individually and simultaneously. By examining financial ratios alongside a non-financial sustainability related factors, this study aims to develop a broader perspective on the factors that influencing profitability in the banking subsector. The findings are expected to provide additional empirical evidence for the existing literature and offer useful insights for bank's management and investors in evaluation banking profitability and making financial decisions.

LITERATURE REVIEW

Signalling theory

In 1973, Spence developed the signalling theory to provide an explanation of how parties with more information communicate relevant information to parties with limited information (Tubastuvi et al., 2024). The concept of this theory is closely associated with information asymmetry, whereby unequal access to information exists between two

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parties (Connelly et al., 2025). In the corporate context, management has greater access to information about the company's internal conditions, while external stakeholders have limited access to such information. Therefore, stakeholders can evaluate a company's financial performance, present state, and prospects by using the information provided in sustainability reports and financial statements. In the banking subsector, these disclosures are particularly important because stakeholders cannot directly observe all aspects of a bank's financial condition and operational activities.

This study uses signalling theory to explain how the Capital Adequacy Ratio, leverage, firm size, ESG disclosure, and profitability are related. A bank's capacity to withstand unexpected financial losses and control risks may be indicated by a higher CAR (Hayati et al., 2026). Furthermore, a company's leverage position may be considered by stakeholders when evaluating its financial condition and expected future performance (Mahmoud et al., 2026). A high level of leverage may send a negative signal as it indicates greater financial obligations. This condition can result in increased financial exposure and potentially have unfavorable implications for profitability. Larger firm size may signal greater resources, better access to financing, and stronger operational capacity to support business growth (Nurvitasari & Hartono, 2023; Sartono, 2010 on Ariana et al., 2022). However, transparent ESG disclosure can also be a sign of management's dedication to sustainable long-term operations and ethical business practices (Paramita & Prasetio, 2025).

Profitability

A bank’s effectiveness in making profits through the utilization of its resources can be assessed through its profitability, which is a crucial measure of its financial performance. Investors often consider profitability when making investment decisions, as companies with better profit-generating abilities are generally more attractive to investors (Tubastuvi et al., 2024).

Capital Adequacy Ratio

By serving as a financial intermediary, liquidity provider, and driving economic growth, the banking industry contributes significantly to the economy (Riyanti, 2024). Given these responsibilities, maintaining sufficient capital is essential for banks to ensure financial stability and manage potential risks. In 2023, the Financial Services Authority issued POJK No. 27/2022 to align Indonesia's banking regulations with the international Basel III standards to emphasize the importance of stronger capital requirements to increase financial stability (Riyanti, 2024). CAR serves as a measure for evaluation a bank’s capacity to maintain sufficient capital (Nurwulandari et al., 2022). A bank with a higher CAR is better positioned to withstand potential financial losses and maintain its

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operational activities. It may also strengthen investor confidence because sufficient capital reflects the bank's ability to manage financial risks (Linggadjaya et al., 2025).

Leverage

Companies require sufficient funding to support their operational activities and business expansion. When internal funds are insufficient, debt becomes one of the alternative sources of financing (Kasmir, 2019). Leverage represents a company's reliance on external financing sources rather than relying entirely on its own capital. The use of debt can provide several benefits, including financial flexibility and tax advantages (Arhinful & Radhmehr, 2023). However, leverage can also create financial risks, particularly when companies struggle to meet their debt obligations. Higher debt levels generally lead to greater interest expenses, which may reduce the profits. In more severe situations, the likelihood of financial distress and bankruptcy may be increased by a high level of debts (Arhinful & Radhmehr, 2023).

Firm Size

Another factor that can influence a company's profitability is its size. Bigger company typically have greater operational capabilities, more resources, and better chances to grow. It is because they are frequently perceived as operating under more stable business conditions, these characteristics might make larger company more appealing to investors (Tubastuvi et al., 2024). Firm size may be determined by considering various financial indicators, such as the value of total assets, net sales, and market capitalization ratio (Yadav et al., 2021). Companies with larger asset may benefit from economies of scale, allowing them to improve operational efficiency, reduce costs, and negotiate more effectively with business partners. These advantages may contribute to better financial performance (Le, 2024).

ESG Disclosure

The scope of the company's performance evaluation has evolved over time, with greater attention being given to sustainability aspects in addition to financial statements (Arvidsson & Dumay, 2021). This information conveyed is through ESG disclosure, which encompasses the reporting of a company's practices and policies concerning environmental aspect, social responsibility, and corporate governance. This disclosure allows stakeholders to understand how companies manage their non-financial responsibilities and sustainability practices.

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Research Framework

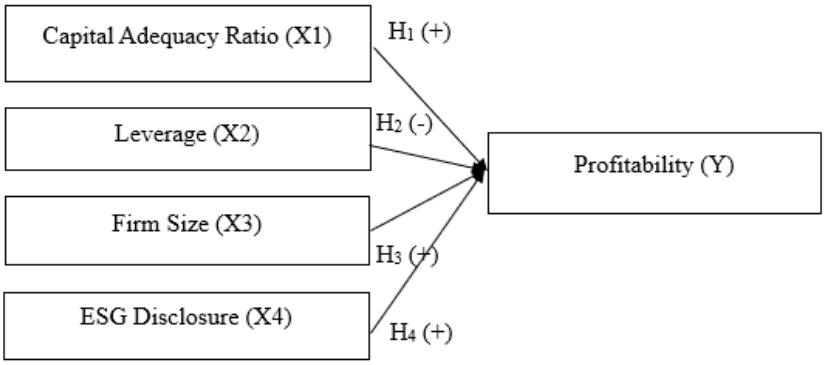


Figure 1. Research Framework

The Effect of Capital Adequacy Ratio on Profitability

The ability of a bank to have adequate capital to cover possible losses and safeguard its operations is reflected in the CAR. Banks that have enough capital are able to control financial risks, uphold public confidence, and encourage company expansion (Sandow et al., 2021). Higher public confidence may encourage customers to place more funds in banks, providing opportunities to increase lending activities and generate income. Therefore, a higher CAR is expected to contribute to greater bank profitability. This is supported by Siddique et al. (2021), who found that higher CAR is associated with greater profitability. The hypothesis is as follows:

H_1: CAR has a positive and significant effect on the profitability of banking companies listed on the IDX during the 2022–2025 period.

The Effect of Leverage on Profitability

A company's use of external financing to fund its assets and carry out operational activities is commonly represented by leverage. Debt financing can provide financial benefits, including tax advantages and additional funding to support business activities. However, greater financial pressure and higher interest expenses may be incurred as a result of excessive debt, it is also creating greater financial risks. If banks are unable to manage their liabilities effectively, higher leverage may reduce their ability to generate profits (Bui et al., 2023). Kamila & Arismutia (2026) found that DER has a negative and significant effect on profitability. The hypothesis is as follows:

H_2: Leverage has a negative and significant effect on the profitability of banking companies listed on the IDX during the 2022–2025 period.

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The Effect of Firm Size on Profitability

Firm size is associated with a company's capacity to obtain and utilize a wider range of resources, which can improve operational efficiency and support business growth (Paramita & Prasetio, 2025). It is commonly measured by the total assets owned by a company. A company's size may provide certain advantages in terms of financial capacity and financing opportunities. Consequently, larger companies are more capable of supporting business expansion and achieving improved financial outcomes (Kamila & Arismutia, 2026). This is supported by Paramita & Prasetio (2025), who found that firm size has a positive and significant effect on profitability. The hypothesis is as follows:

H_3: Firm size has a positive and significant effect on the profitability of banking companies listed on the IDX during the 2022–2025 period.

The Effect of ESG Disclosure on Profitability

ESG disclosure shows a company's accountability and transparency in running its operations. So, ESG disclosure is becoming more and more crucial for encouraging sustainable business practices (Ali et al., 2025). A better company's performance and profitability may result from effective ESG disclosure, which can reduce information gaps, increase stakeholder trust, and strengthen stakeholder relationships (Nguyen, 2026). This positive relationship is supported by Ali et al. (2025), who found that ESG disclosure has a positive and significant effect on profitability. The hypothesis is as follows:

H_4: ESG disclosure has a positive and significant effect on the profitability of banking companies listed on the IDX during the 2022–2025 period.

RESEARCH METHOD

Research Design

The testing of effect between the CAR, leverage, firm size, ESG disclosure and profitability in this study using a quantitative research methodology. Sugiyono (2023) state the quantitative approach is widely acknowledged as scientific, empirical, objective, quantifiable, rational, and systematic, it has long been employed in research and is frequently referred to as the traditional method. The research design used in this study is descriptive. The main goals are to test the hypotheses, ascertain how the independent variable affect the dependent variable, and provide a methodical explanation of the findings. The data used in this study came from the sustainability and annual reports of banks that listed on the IDX between 2022 and 2025.

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Population

Sugiyono (2023) state that a population is a collection of subjects or things with specific characteristics determined by the researcher for analysis. The banking companies listed on the IDX during the 2022-2025 period is a population of this study.

Sampling Technique

A sample is a portion of the population that has been selected for research. Purposive sampling is a non-probability sampling technique in which samples are chosen according to certain criteria that in line with the study's goals is used in this study. The following are the selection criteria for the sample:

1. Banks that listed on the IDX from 2022-2025.
2. Banks that used Indonesian Rupiah on the Financial Statements.
3. Banks that reported profits from 2022-2025 period.
4. Banks that published sustainability report reports from 2022-2025.
5. Banks that applied the GRI Standards, with reference to GRI 1: Foundation 2021 in their ESG disclosure practices.

Operational Variables

Dependent variables

ROA is used to measure the profitability, which is the dependent variable in this study. An indicator of how well a business makes money with its available assets is return on assets (Arifian & Noor, 2022). A greater ROA indicates that the business is more effectively turning its assets into profits. The following formula is used to determine Return on Assets:

$$Return\ on\ Assets = \frac{net\ income}{total\ asset}\ x\ 100\%$$

Independent Variables

Capital Adequacy Ratio

CAR is a metric related to bank capital. This indicator shows if a bank has sufficient capital to handle possible losses. A higher CAR indicates that the business has enough capital to protect itself from unforeseen financial hazards. The following formula is used to determine Capital Adequacy Ratio:

$$Capital\ Adequacy\ Ratio = \frac{total\ capital}{risk\ weighted\ asset}\ x\ 100\%$$

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Leverage

Leverage is a finance strategy in which a business borrows money to expand. The DER is used in this study to measure leverage. The following formula is used to determine Debt-to-Equity Ratio:

$$Debt\ to\ Equity\ Ratio = \frac{total\ liabilites}{total\ equity}\ x\ 100\%$$

Firm Size

Firm size in this study is measured using the Ln of total assets. The Ln is used to fix scaling issues, as total asset values are usually much larger than the other variables. By converting it to a log, the data becomes more balanced and reasonable for the analysis. The formula used to calculate firm size is as follows:

$$Firm\ size = Ln(Total\ asset)$$

ESG disclosure

ESG disclosure is measured using a checklist index of information that companies are expected to disclose. This index is based on the GRI 1: Foundation 2021 standards from the Global Reporting Initiative (GRI). It covers GRI 2, GRI 3, GRI 200, GRI 300, and GRI 400, totalling 117 items. The scoring uses a dummy variable method, in which a value of 1 is assigned to item disclosed by the company, and 0 if it is not disclosed. The formula used to calculate firm size is as follows:

$$ESG\ disclosure = \frac{the\ number\ of\ items\ disclosed\ by\ the\ company}{the\ total\ number\ of\ items\ that\ should\ be\ disclosed}$$

RESULT AND DISCUSSION

16 banking companies were selected based on the sample selection criteria. Over the four years period, from 2022 to 2025, a total 64 observations were obtained. Furthermore, the data were examined to identify potential outliers, which are observation with extreme values that differ significantly from the other data. The examination identified 11 outlier data. Since these outliers could affect the analysis results, they were removed from the dataset. After this process, the final data consisted of 53 observations.

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Descriptive Statistic

Table 1. Result of Descriptive Statistic

	N	*Minimum*	*Maximum*	*Mean*	*Std. deviation*
CAR	53	0,1010	0,3529	0,241798	0,0556476
DER	53	2,0197	9,0770	5,695489	1,6120619
SIZE	53	30,9128	35,5790	33,469801	1,2094637
ESG	53	0,2906	0,9060	0,623774	0,1382247
ROA	53	0,0002	0,0378	0,016713	0,0095461
Valid N (listwise)	53				

Source: Processed by the Author based on the results from SPSS version 27

Based on Table 1, the ROA's min. value of 0,0002, and a max. value of 0,0378. The sample banks make an average net profit of 1,67% of their total assets, according to the mean value of 0,016713. A small variance in ROA across the data is suggested by the standard deviation of 0,0095461, which is less than the mean value. The range of the CAR's minimum and maximum value is from 0,1010 to 0,3529. The average CAR of the banks examined in this study is 24,18%, as shows by the mean value of 0,241798. The Capital Adequacy Ratio varies quite little, as indicated by the standard deviation of 0,0556476, which is lower than the mean.

The DER ranges from 2,0197 to 9,0770. The average of 5,695489 indicates that banks typically have liabilities approximately 5,70 times their total equity. A very small variance in the DER among the data observations is indicated by the standard deviation of 1,6120619, which is lower than the average value. The Ln of total assets is used to measure the variable firm size, which ranges of the minimum and maximum value are from 30,9128 to 35,5790. The average Ln of total assets in this study is 33,469801. Meanwhile, the standard deviation of 1,2094637, which is considerably less than the mean value, indicates relatively low variation in firm size. Lastly, ESG disclosure's minimum and maximum value range from of 0,2906 to 0,9060. The average level of ESG disclosure among banks is 62,38%, as indicated by the mean value of 0,623774. There is comparatively little variation in ESG disclosure across the data observations, as indicated by the standard deviation of 0,1382247, which is less than the mean.

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Normality Test

Table 2. One Sample Kolmogorov-Smirnov Test

		Unstandarized Residual
N		53
Normal Parameters	*Mean*	0,0000000
	Std. Deviation	0,00570671
Most Extreme Differences	*Absolute*	0,067
	Positive	0,067
	Negative	-0,062
Test Statistic		0,067
Asymp. Sig. (2-tailed)		0,200

Source: Processed by the Author based on the results from SPSS version 27

The Asymp. Sig. (2-tailed) value for the normality testing in Table 2 is 0,200, which is greater than the significance level of 0,05. This implies a normal distribution of the data.

Multicollinearity Test

Table 3. Multicollinearity Test

	Unstandarized Coefficients		*Standarized Coefficients*			*Collinearity Statistics*	
	B	*Std. Error*	*Beta*	*t*	*Sig.*	*Tolerance*	*VIF*
(Constant)	-0,176	0,026		-6,723	<0,001		
CAR	0,053	0,017	0,311	3,197	0,002	0,786	1,273
DER	-0,001	0,001	-0,114	-1,123	0,267	0,719	1,391
SIZE	0,006	0,001	0,705	7,404	<0,001	0,821	1,218
ESG	-0,005	0,007	-0,068	-0,720	0,475	0,826	1,211

a. Dependent Variable: ROA

Source: Processed by the Author based on the results from SPSS version 27

CAR, DER, firm size and ESG disclosure have tolerance values over than 0,1 and VIF values below 10. The CAR has a tolerance value of 0,786 and a VIF value of 1,273. The DER has a tolerance value of 0,719 and a VIF value of 1,391. The Firm Size has a tolerance value of 0,821 and a VIF value of 1,218, while the ESG disclosure has a tolerance value of 0,826 and a VIF value of 1,211. These findings suggest that there is no multicollinearity issue in the regression model.

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Heteroscedasticity Test

Table 4. Heteroscedasticy Test (Park Test)

	Unstandarized Coefficients		*Standarized Coefficients*			*Collinearity Statistics*	
	B	*Std. Error*	*Beta*	*t*	*Sig.*	*Tolerance*	*VIF*
(Constant)	1,273	12,585		0,101	0,920		
CAR	15,417	8,043	0,284	1,917	0,061	0,786	1,273
DER	-0,054	0,290	-0,029	-0,186	0,853	0,719	1,391
SIZE	-0,411	0,362	-0,164	-1,135	0,262	0,821	1,218
ESG	-4,726	3,158	-0,216	-1,496	0,141	0,826	1,211

a. Dependent Variable: LNRES

Source: Processed by the Author based on the results from SPSS version 27

The CAR variable has a sig. value of 0,061, which is over than 0,05 according to the results displayed in Table 4. The sig. value for the DER and Firm Size is 0,853 and 0,262. Furthermore, the sig. value of ESG disclosure variable is 0,141. The significant values for each independent variable are higher than the sig. level of 0,05. These findings imply that there are no indications of heteroskedasticity.

Autocorrelation Test

Table 5. Autocorrelation Test

R	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*	*Durbin-Watson*
0,802[a]	0,643	0,613	0,00594	0,735

a. Predictors: (Constant), ESG, CAR, SIZE, DER

b. Dependent Variable: ROA

Source: Processed by the Author based on the results from SPSS version 27

According to Table 5's autocorrelation test findings, the DW value is 0,735. Santoso (2019) states that if the Durbin-Watson value falls between -2 and +2, there is no indication of autocorrelation. Therefore, it can be concluded that the regression model does not contain autocorrelation.

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Multiple Linear Regression

Table 6. Multiple Linear Regresssion

	Unstandarized Coefficients		*Standarized Coefficients*			*Collinearity Statistics*	
	B	*Std. Error*	*Beta*	*t*	*Sig.*	*Tolerance*	*VIF*
(Constant)	-0,176	0,026		-6,723	<0,001		
CAR	0,053	0,017	0,311	3,197	0,002	0,786	1,273
DER	-0,001	0,001	-0,114	-1,123	0,267	0,719	1,391
SIZE	0,006	0,001	0,705	7,404	<0,001	0,821	1,218
ESG	-0,005	0,007	-0,068	-0,720	0,475	0,826	1,211

a. Dependent Variable: ROA

Source: Processed by the Author based on the results from SPSS version 27

The following is the multiple linear regression equation based on the unstandardized coefficients:

$$Y = -0{,}176 + 0{,}053CAR - 0{,}001DER + 0{,}006SIZE - 0{,}005ESG + \varepsilon$$

The regression equation illustrates the relationship between profitability, and CAR, leverage, firm size, and ESG disclosure. When every independent variable is zero, the predicted profitability is represented by the constant value of -0,176. A one unit rise in CAR is linked to a 0,053 increase in profitability. Coefficient of the CAR is 0,053, which shows a positive correlation with profitability. Meanwhile, a negative relationship is indicated by the DER coefficient of -0,001, which means that a one unit increase in the DER is linked to a 0,001 loss in profitability. The coefficient for firm size is 0,006, indicating a positive relationship. A one unit increase in firm size is associated with a 0,006 rise in profitability. Lastly, ESG disclosure has a coefficient of -0,005, indicating a negative relationship. A one unit rise in ESG disclosure is linked to a 0,005 drop in profitability.

Coefficient of Determination Test (Adjusted R^2)

Table 7. Coefficient of Determination Test

R	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*	*Durbin-Watson*
0,802[a]	0,643	0,613	0,00594	0,735

a. Predictors: (Constant), ESG, CAR, SIZE, DER

b. Dependent Variable: ROA

Source: Processed by the Author based on the results from SPSS version 27

Table 7 displays the coefficient of determination test findings, which indicate an adjusted R-square value of 0,613 or 61,3%. This indicates that 61,3% of the changes in profitability can be explained by the independent variable, which include the CAR, DER,

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firm size, and ESG disclosure. However, factors other than the independent variable in this study are 38,7%.

Hypothesis Test (T Test)

Table 8. T Test

	Unstandarized Coefficients		*Standarized Coefficients*			*Collinearity Statistics*	
	B	*Std. Error*	*Beta*	*t*	*Sig.*	*Tolerance*	*VIF*
(Constant)	-0,176	0,026		-6,723	<0,001		
CAR	0,053	0,017	0,311	3,197	0,002	0,786	1,273
DER	-0,001	0,001	-0,114	-1,123	0,267	0,719	1,391
SIZE	0,006	0,001	0,705	7,404	<0,001	0,821	1,218
ESG	-0,005	0,007	-0,068	-0,720	0,475	0,826	1,211

a. Dependent Variable: ROA

Source: Processed by the Author based on the results from SPSS version 27

The result of the T-test on Table 8 is based on 53 observations of banks that listed on the IDX between 2022 and 2025. According to the result, the CAR is below the 0,05 significance level with a t-value of 3,197 and a sig. value of 0,002. With a regression coefficient of 0,053, profitability (ROA) is positively and significantly impacted by CAR. This implies that a rise in profitability is correlated with an increase in CAR. Therefore, H_1 which claims that CAR positively and significantly affects profitability is accepted. Furthermore, the DER has a sig. value of 0,267, which is over than 0,05, and a t-value of -1,123. With a regression coefficient of -0,001, its impact on profitability is negative but not statistically significant. This implies that, although this effect is not statistically significant, a rise in the DER typically results in a fall in ROA. As a result, H_2 which claims that the DER negatively and significantly affects profitability is rejected.

The firm size is below the 0,05 sig. level, with a t-value of 7,404 and a significance value of less than 0,001. The regression coefficient of 0,006 indicates that profitability has been significantly and positively impacted. Larger company are therefore typically more profitable. As a result, H_3 which claims that firm size positively and significantly affects profitability is accepted. Lastly, the ESG disclosure has a significance value of 0,475, which is greater than 0,05, and a t-value of -0,720. A negative but not statistically significant impact on profitability is indicated by the regression coefficient of -0,005. This implies that, although this effect is not statistically significant, a rise in ESG disclosure often results in a fall in ROA. As a result, H_4 which claims that ESG disclosure positively and significantly affects profitability is rejected.

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Simultaneous Test (F-Test)

Table 9. F-Test

	Sum of Squares	*df*	*Mean Square*	*F*	*Sig.*
Regression	0,003	4	0,001	21,578	<0,001[b]
Residual	0,002	48	0,000		
Total	0,005	52			

a. Dependent Variable: ROA

b. Predictors: (Constant), ESG, CAR, SIZE, DER

Source: Processed by the Author based on the results from SPSS version 27

The significant value is less than 0,001, which is below the 0,05 significance level, according to the F-test results displayed in Table 9. This implies that profitability (ROA) is significantly impacted by the CAR, DER, firm size, and ESG disclosure in simultaneously.

DISCUSSION

1. The Effect of Capital Adequacy Ratio on Profitability

The CAR has a coefficient of 0,053 based on the t-test results, suggesting a positive relationship with profitability. Accordingly, if all other factors stay the same, a one unit rise in the CAR is linked to a 0,053 increase in profitability. Furthermore, the significant value was 0,002, below the significance level of 0,05. This implies that profitability is positively and significantly impacted by the CAR. As a result, H_1 which claims that profitability is positively and significantly impacted by the CAR is accepted. The findings are consistent with signalling theory, which postulates that financial information such as the CAR, can convey positive signals to the general public. A bank has sufficient capital to cover possible financial risks if its CAR is higher. The public's trust in the bank's capacity to uphold financial stability can also be increased by having enough capital. Customers may be encouraged to deposit funds with the bank as a result and increasing the business's profits. These funds have the potential to increase the bank's profitability if they are properly managed.

Similar results have also been reported in prior studies. Nurhalizah et al. (2025), Jigeer & Koroleva (2023), and Siddique et al. (2021) found that the CAR has a positive and significant effect on ROA. However, the results differ from those studies of Shetty et al. (2026), Nurwulandari et al. (2022), and Muhammed et al. (2024) which found that the CAR does not have a significant effect on ROA.

2. The Effect of Leverage on Profitability

With a coefficient value of -0,001, the DER has a negative relationship with profitability. This indicates that a one unit increase in the DER is linked to a 0,001 drop in

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profitability. Nevertheless, the significance level of 0,05 is not met by the significance value of 0,267. This implies that there is no statistically significant effect of the DER on profitability. As a result, H_2 which claims that the DER negatively and significantly affects profitability is rejected.

The relationship's negative direction is align with signalling theory, which contends that a high debt load might convey negative signals to external parties regarding a company's financial status and capacity to fulfill its obligations. Higher debt levels might raise financial risk since they show a larger reliance on borrowed money than equity. This is due to the fact that increased interest costs and liabilities have the potential to lower business profits and profitability. The non-significant result, however, raises the possibility that this relationship may differ in the banking industry because of its unique business characteristics. Banks receive funds from the public and distribute them as loans. As a results, banks may have comparatively large debt levels because customer deposits are displayed as liabilities. Therefore, a high DER does not always indicate a poor financial conditions. Higher debt doesn't always result in a major decline in profitability as long as banks efficiently manage the money they receive and use it for lending activities.

Similar results have also been reported in prior studies. Endri et al. (2021) found that DER has an insignificant effect on ROA. However, it differs from the findings of Kamila & Arismutia (2026) and Yadav et al. (2021), who found that DER has a negative and significant effect on ROA.

3. The Effect of Firm Size on Profitability

With a positive coefficient of 0,006, the firm size which is determined by taking the natural logarithm of total assets has a positive relationship with profitability. This indicates that a one unit increase in firm size is linked to a 0,006 rise in profitability. Furthermore, the significance value is below the 0,05 significance level, at less than 0.001. Thus, H_3 which claims that profitability is positively and significantly impacted by firm size is accepted. This finding is consistent with signalling theory. The larger companies may provide positive signals to investors because they typically have more resources and easier access to funding. These benefits enable companies to grow and perform better. Companies are more likely to turn a profit and boost their profitability when assets are managed well.

Similar results have also been reported in prior studies by Paramita & Prasetio (2025), Priharta & Gani (2024), and Kamila & Arismutia (2026), which found that firm size has a positive and significant effect on ROA. However, this finding differs from the studies conducted by Nurvitasari & Hartono (2023), which found that firm size has an insignificant effect on ROA and Kasanah et al. (2022), which found that firm size has a negative significant effect on ROA.

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4. The Effect of ESG Disclosure on Profitability

The ESG disclosure variable which was measured using the ESG disclosure index obtained a coefficient value of -0,005, demonstrated a negative relationship with profitability. This means that a one unit increase in ESG disclosure is linked to a 0,005 drop in profitability. Furthermore, the significant value is 0,475, above the significance level of 0,05. As a result, profitability is negatively but not significantly affected by ESG disclosure. So, H_4 which proposed that ESG disclosure positively and significantly affects profitability is rejected. This result contradicts the signalling theory, which suggests that ESG disclosure can serve as a positive signal to external parties by demonstrating a company's commitment to environmental responsibility, social welfare, and good corporate governance. Transparent ESG disclosure is expected to increase investor and stakeholder confidence, improve corporate reputation, and provide long-term value. However, the negative and insignificant results indicate that greater ESG disclosure does not necessarily lead to higher profitability. The negative effect is because ESG activities require considerable costs and resources. Companies need to allocate funds for social programs, employee welfare, improvements in corporate governance, and the preparation of sustainability reports. These expenses may increase operational costs and potentially reduce company profits. This explanation is supported by Risal et al. (2024), who found that ESG disclosure had a negative and significant effect on Return on Assets among 52 companies listed on the IDX, partly due to the costs associated with ESG implementation.

Similar results have also been reported in prior studies by Ataya & Wijaya (2026) and Rosdiawaty et al. (2026), which found that ESG disclosure had no significant effect on Return on Assets. This suggests that ESG disclosure does not always result in improved profitability, particularly because its implementation requires additional costs and resources. However, this findings differ from Ali et al. (2025), who found a positive and significant effect of ESG disclosure on Return on Assets.

CONCLUSION

Based on the results of the data analysis using SPSS version 27, this study comes to the conclusion that the CAR positively and significantly affects profitability. This implies that banks can control financial risks and preserve public trust with greater capital adequacy. Profitability is negatively but not significantly impacted by leverage that measured by the DER. Furthermore, profitability is positively and significantly impacted by firm size, indicating that larger banks can attain greater profitability by using more resources and engaging in a wider range of commercial operations. In contrast, ESG disclosure has a negative and not statistically significant effect on profitability. This

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suggests the higher ESG disclosure does not necessarily lead to changes in profitability during the observation period.

This study has several limitations, it only examines four independent variables, banking companies listed on the IDX, and the 2022-2025 observation period. In addition, SPSS version 27 was used for data analysis, although panel data regression methods may be considered. Therefore, future researchers are encourage to include additional variable independent or moderation, expand the sample and observation period, and consider using panel data regression methods.

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