

## **ABSTRACT**

*This study examines the effect of risk management on the profitability of BPR Syariah Al-Mabrur Klaten, as measured by the bank's net profit based on production theory, which consists of revenue and cost components linked to various types of risk. The revenue aspect includes credit risk, assessed through the financial ratio of Non-Performing Financing (NPF), and liquidity risk, assessed through the Financing to Deposit Ratio (FDR). Meanwhile, the cost aspect includes market risk, measured by the Capital Adequacy Ratio (CAR), and operational risk, measured by the Operating Expenses to Operating Income ratio (BOPO).*

*The research method employed is the Autoregressive Distributed Lag (ARDL) model to examine the long-term and short-term effects of each variable. This study uses secondary data collected on a monthly basis from January 2019 to December 2023, resulting in a total of 60 observations. The data were obtained from the official websites of BPRS Al-Mabrur Klaten and the Financial Services Authority..*

*The findings of this study indicate that in the long term, credit risk (NPF), liquidity risk (FDR), and operational risk (BOPO) have a significant effect on the profitability of BPR Syariah Al-Mabrur Klaten, while market risk (CAR) has no significant effect. FDR has a positive influence, whereas NPF and BOPO have a negative influence on profitability. In the short term, NPF, FDR, and BOPO also significantly affect profitability; however, BOPO shows a positive influence, while NPF and FDR have negative effects. These findings highlight the importance of effective risk management in maintaining a balance between revenue and cost to enhance the profitability of Islamic rural banks (BPRS).*

*Keywords: Risk Management, Profitability, BPRSt, ARDL*