

ABSTRACT

This study contributes to a deeper understanding of the role of corporate governance and risk management in improving financial performance within the financial sector, particularly among BPR BKKs in Central Java Province. The main objective of this research is to analyze the effects of corporate governance, compliance level, and risk management on financial performance, as well as to evaluate the mediating role of risk management. Corporate governance is proxied by the number of directors and commissioners, compliance is measured through Non-Performing Loan (NPL) corrections, and risk management is assessed through the NPL ratio.

The study uses data from all BPR BKKs in Central Java during the period 2019–2023, with a sample of 33 out of 34 institutions. The analysis methods employed include multiple linear regression and the Sobel test to assess mediation effects.

The results indicate that corporate governance, as represented by the number of directors and commissioners, has a significant positive effect on financial performance, highlighting the importance of strategic oversight and direction in driving profitability. Conversely, risk management (NPL) has a significant negative effect on financial performance, emphasizing the critical need for effective risk control. Meanwhile, the compliance level does not directly affect financial performance, suggesting that its impact may be indirect or channeled through other mechanisms.

Furthermore, the number of directors shows a significant negative relationship with the level of risk (NPL), indicating that a larger board may contribute to more conservative risk management practices. However, the size of the board of commissioners and the compliance level do not have a direct effect on risk management. In addition, risk management does not significantly mediate the relationship between corporate governance or compliance and financial performance, implying that these influences may be direct or mediated through other variables not examined in this study.

Keywords: *Corporate Governance, Risk Management, NPL, Compliance, Financial Performance, ROA*

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