

ABSTRACT

Regional Development Banks (BPD) in Indonesia, owned by local governments, take a significant role in promoting regional economic growth. However, this role is considered to be suboptimal to date, despite the initiation of development policies such as BPD Regional Champion in 2010 and The BPD Transformation Program in 2015. BPD continue face several challenges, including weaknesses in governance and risk management, limited access to capital, inadequate information technology and human resources, a low proportion of productive loans, and limited products and financial services.

To address these challenges, The Financial Services Authority (OJK) has issued The 2024 - 2027 BPD Strengthening Roadmap, which one of the objectives is the enhancement of BPD's fee based income. This policy is interesting for further research, especially there are inconsistent findings of previous studies on the impact of fee based income/revenue diversification on bank risk. This study analyzed the relationship between non-interest operating income, credit growth, CAR, ROA, LDR, assets, and inflation with the credit risk of BPD measured by NPL. This analysis conducted over two different periods: the pre pandemic period and the Covid-19 pandemic period. The significant economic pressure caused by the Covid-19 pandemic makes this period relevant for illustrating the relationship between the research variables during crisis, despite the presence of stimulus policy issued by the government/regulator.

This study reveals that non-interest operating income, credit growth, CAR and ROA have a negative significant impact on NPL during the pre pandemic period, while inflation has a positive relationship with NPL. During the pandemic period, CAR and assets were found to have a significant negative relationship with NPL. These findings suggest that policies aimed at increasing fee-based income for strengthening BPD's capital base and ultimately help in mitigating bank risk remain relevant.

Keywords: *non interest income, credit risk, Covid-19 pandemic*