

The Impact of COVID-19 on Banks' Financial Performance: Understanding the Changes in Financial Ratios

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Abstract : This paper studies how the financial performance of North American and global banks has changed after the COVID-19 crisis by comparing the banks' financial ratios of the first and second quarters of 2020 to the first and second quarters of 2019. The results confirm that the profitability and efficiency ratios of North American banks have significantly declined in 2020 after the outbreak of COVID-19. On the other hand, the real effects of the COVID-19 crisis became more evident in the second quarter for global banks, with a significant decrease in profitability and efficiency (ATO) ratio despite no significant changes in the first quarter. Finally, the paper performs a regression analysis of whether the number of confirmed COVID-19 cases has a significant effect on the observed changes in the financial ratios. The results show that the number of COVID-19 cases is a significant determinant of the observed changes in the profitability, efficiency and Tier 1 capital ratios of banks in the first quarter of 2020. The higher number of confirmed cases in the banks' home country leads to a deterioration in these specific ratios. Similar results hold in the second quarter as well, and the number of COVID-19 cases start to have an impact on a wider range of risk ratios, including EM, TLE and CAPSTAR, in the second quarter of 2020, indicating an increase in risk levels due to the COVID-19 crisis.

Keywords : COVID-19, bank performance, financial ratios, risk level, efficiency, profitability

Conference Title : ICABE 2025 : International Conference on Accounting, Business and Economics

Conference Location : Prague, Czechia

Conference Dates : March 10-11, 2025