

IMPACT OF FINANCIAL CRISIS ON BANKING SECTOR PERFORMANCE

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Abstract

Financial crisis is a situation in which the supply of money is outpaced by the demand for money. This means liquidity is quickly evaporated because available money is withdrawn from banks. The view that a financial institution has a culture or business model that affects its sensitivity to crises implies that the performance of a financial institution in one crisis should predict its performance in another crisis (Fahlenbrach, Prilmeier and Stulz, 2012). Banks that relied more on short-term funding, had more leverage, and grew more are more likely to be banks that performed poorly in both crises. The organization which are operated in banking sector can be adapt recapitalization, mergers and acquisitions, privatization of state controlled banks as a shield for those impacts (Sufian, et al, 2010).

The purpose of doing this research is to assess impact of financial crisis on banking sector performance and to explain actions that can be taken to cover of those impacts. Data is collected through the audited financial statements of the 20 banks within 5 years and also analyzed the data using regression and correlation analysis. Final outcome of this research is adding knowledge to bank entities to get an idea about how they can preserve their performance within crisis period and provide more actions that can be taken to cover impacts if it adversely affect to the banks.

Key words: Financial crisis, Bank performance