

The Effect of Covid -19 on the Profitability: Evidence from Commercial Banks in Sri Lanka

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Abstract

This study aimed to evaluate the financial performance of the banking sector during the COVID-19 pandemic. We analyze the pre- and post-COVID situation and evaluate the impact of the situation. The sample of this study includes annual reports of 15 banks currently operating in Sri Lanka under the Central Bank of Sri Lanka. This research used secondary data, data taken from financial reports, and annual reports issued by companies. The independent variable is banking profitability measured using Return on Equity, depending on variables consisting of nonperforming loan ratio, loan-to-deposit ratio, liquid asset ratio, interest rate, debt-to-equity ratio, and capital adequacy ratio. Qualitative descriptive panel data analyses were used to analyze the information in the reports to analyze the pandemic's impact on banking performance. The formulation of the regression model is used to analyze the data. Covid 19 hit the banking sector in a critical way in every country. Researchers gathered pre- and post-COVID situations data through commercial banks' annual reports to investigate during covid and post covid situations. The results show significant differences between the commercial banks' profitability measures at various stages of the pandemic. Important variables that impact banks' financial success include interest rate fluctuations, client behavior changes, government actions, and the effectiveness of risk management plans. The study's conclusions are beneficial not only to the banking sector but also to stakeholders, regulators, and policymakers who are developing plans to strengthen financial institutions' ability to withstand unexpected events in the future. In the end, the research hopes to add to the conversation on how global health crises and financial stability interact by offering practical advice for overcoming obstacles and promoting long-term development in the banking industry.

Keywords: Financial Performance, Profitability, Covid-19, Financial Ratios