

PERFORMANCE IN EUROPEAN BANKING SECTOR BASED ON A COMPARATIVE ANALYSIS OF NON- PERFORMING LOANS AND NET INTEREST INCOME

Author **Adela SOCOL**

"1 Decembrie 1918" University of Alba Iulia , adela.socol@uab.ro [ORCID: 0000-0002-9774-2494](https://orcid.org/0000-0002-9774-2494)

Author **Oana Raluca IVAN**

"1 Decembrie 1918" University of Alba Iulia , raluca.ivan@uab.ro [ORCID: 0000-0002-8019-3601](https://orcid.org/0000-0002-8019-3601)

Author **Dan Ioan TOPOR**

"1 Decembrie 1918" University of Alba Iulia , dan.topor@uab.ro [ORCID: 0000-0002-9092-1449](https://orcid.org/0000-0002-9092-1449)

Author **Attila TAMAS**

"1 Decembrie 1918" University of Alba Iulia , attila.tamas@uab.ro [ORCID: 0000-0003-0950-1859](https://orcid.org/0000-0003-0950-1859)

Author **Nina SINIȚÎN**

Doctoral School of Accounting, "1 Decembrie 1918" University of Alba Iulia , nina.sinitin@uab.ro [ORCID: 0000-0002-1217-5049](https://orcid.org/0000-0002-1217-5049)

Abstract:

After the financial crisis of 2008, bank profitability became a crucial subject for investors, whose expectations were particularly affected by banks' asset quality and various legal and regulatory issues. In the context of the 2020-2021 COVID-19 pandemic, aspects of bank profitability worsened. For example, data from the European Central Bank indicates euro area banks' ROE fell from 5.3% in 2019 to 1.3% in 2020. We developed a study based on a panel database for 19 European Union countries over the period 2008-2020. The ordinary least squares method using stationarity was employed to determine whether return on equity is influenced by asset quality, operational costs or level of interest. The variables used in our analysis are non-performing loans, loan loss provision ratio and net interest income. Results demonstrate the impact of the variables on banking performance measured through return on equity.

Keywords: banking performance, ROE, non-performing loans, loan loss provision ratio, net interest income

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