**The impact of Covid-19 on the Euro Area banks’ balance sheets**

**Abstract**

In line with most studies, Agoraki *et al* (2022) found that at the euro area aggregate banking level the Covid-19 pandemic did not seem to have impacted negatively the industry’s performance. This follow-up study explores their suggestion that at a disaggregated level, however, banks’ performance may have been characterized by divergencies regarding bank-specific factors, idiosyncrasies related to different exposures of their portfolios to the business cycle and weaknesses stemming from underlying structural vulnerabilities. This paper explores the performance of 16 major euro area banking groups using return on assets as a metric. Banks are separated into clusters using unsupervised learning techniques based on banks’ performance. This research contributes to the empirical literature on the determinants of banks’ performance by highlighting the importance of banks’ heterogeneity, notably differential effects of banks’ asset quality, solvency, business model and degree of concentration in the industry. In addition, it shows that not all banks have the same magnitude of economic exposure of their return on assets to the business cycle; inflation in the euro area matters only for a subset of them. Importantly, the study sheds some light on the possible reasons for the mixed results in the literature regarding the role of non-interest income, the T1 capital ratio and inflation. Finally, no significant effects of the Covid-19 variables on banks’ return on assets is found during the first seven quarters of the pandemic.