INTERNAL FACTORS AFFECTING THE PROFITABILITY OF PUBLIC SECTOR BANKS IN SRI LANKA.

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Abstract

A country's population can benefit from superior financial services depending on the development of its banking system. The purpose of this study is to determine the extent to which internal bank factors in Sri Lanka's public sector banks have an impact on their profitability. Operating cost efficiency, bank size, and liquidity are evaluated as internal bank characteristics, and return on assets (ROA) is taken into account as a measure of profitability in this study. For the ten-year period from 2012 to 2021, panel data was gathered from the financial statements of seven public sector banks in Sri Lanka that were published on the government information center (GIC). The variables were calculated using the correlation method, which was then utilized to run the regression model. The Eviews software package will be used to evaluate the study. The empirical findings revealed a negative relationship between liquidity and operating cost effectiveness and public sector banks' profitability in Sri Lanka. The estimation result demonstrates that bank size and capital have a considerable, favorable impact on bank profitability. The findings imply that more policies should be implemented by the government to encourage public sector banks to increase their capital bases. As a result, the banks will be protected in the event of a financial disaster that affects the entire nation. Banks must make investments in effective technologies that will improve their control over operating costs. In order to increase their competitiveness in the market, public sector banks need to expand their efforts in the area of income diversification.

***Keywords**: internal factors, business size, operating cost efficiency, liquidity, profitability.*