

## ABSTRACT

The importance of banking for the economic development of a country need not be over emphasized. A less developed country like Sri Lanka, striving for economic advancement should have to develop its banking system.

In the early post - independence period the commercial banking system in Sri Lanka was dominated by foreign banks which were almost exclusively engaged in the financing of the plantation sector and the import - export trade.

The Bank of Ceylon was established in 1939 under the Bank of Ceylon Ordinance, with a view to catering to the banking requirements of the indigenous population which had little or no access to the foreign banks. With a view to getting Bank of Ceylon to have a greater involvement of economy of the country, the bank was nationalized in 1961. With the introduction of open economic policies soon after 1977 bank had to face severe competition due to opening of foreign banks and locally incorporated commercial banks and development banks.

Despite severe competition the B. O. C. remains as the premier financial institution in Sri Lanka, with a 28.95% market share in total commercial banking assets and 24.62% in advances.

The Sri Lankan economy has experienced a considerable augmentation with the inflow of long term credit from two state banks. As the market leader B. O. C. has played a significant role in the field of credit, injecting funds to the all sectors of the economy. Even the state corporations and organizations have obtained credit from the bank up to Rs. billions.

Although the B. O. C. is the market leader and owns one fourth of market share in advances, after 1990 bank faced problems due to unprecedented increase of non performing advances which caused to provide Rs. 2.5 billion for bad and doubtful debts in the year 2001.

The study has given special attention to this matter and implication of credit management of B. O. C. to the bank itself and to the economy of the country. Recovery of loans and advances is important for the entire credit management process from appraisal stage to recovery managements stage.

Through an analysis of the existing practices of credit management of B. O. C. the writer discussed the weaknesses and their implications to the profitability of the bank. As the B. O. C. is a state owned bank the study has given special attention on the consequences of the government intervention for credit management activities, and steps taken by the government to protect the bank from time to time by issuing government restructuring bonds, covering govt, guaranteed loans.

More weightage has been given to the recovery management and credit appraisal. In the context of recovery management writer has attempted to conceptualize the recovery management process and considered the N. P. A. portfolio of the bank, as a saleable product, under marketing aspect, and formulated strategies accordingly.