

BANKING AND FINANCE



**Text Book of**  
**BANKING**  
**AND FINANCE**

**Dr. N.K. Sharma**



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**DR. N.K. SHARMA**



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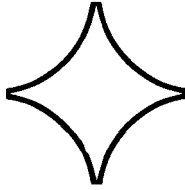
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## **PREFACE**

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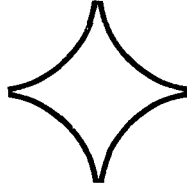
The study of money and banking is very much useful in modern business and commerce because modern trade, commerce and industry's problems have become so complex that decision maker's personal experience is no longer adequate to provide an appropriate solution. It has, therefore, become essential for persons associated with decision making to possess at least a working knowledge of the relevant tools of analysis. The purpose of this book is to provide in one volume, the various money and banking concepts which are deemed to constitute the subject matter of this book. This book is intended to explain in non-technical language, the money and banking concepts, tools of analysis, their relevance in business decision making and also the influences of banking environment on business and commerce decisions. The scope of money and banking is still in a state of flux and it may remain so in a computer based dynamic economy with modern outlook of management.

It gives me great pleasure to place this book before the students, learned teachers, professionals and business executives. This book has been designed especially for the students of B.Com., B.A., BBA, M.Com., M.A., MBA, etc., of various Indian Universities.

I shall be thankful to the readers and teachers for pointing out discrepancies and errors in the text, which I hope to rectify further improvement of this book, will be highly appreciated.

**Author**

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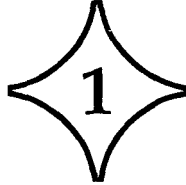
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**CHAPTER**



# **INTRODUCTION**

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The British East India Company established "The Hindustan Bank" in Kolkata and Mumbai in 1770 and later in 1785 established other banks. In early nineteenth century three Presidency Banks, *i.e.*, Bank of Bengal, Bank of Bombay and Bank of Madras were established. The first important event in the history of banking in India took place in 1919 when the Presidency Banks were amalgamated and Imperial Bank of India was set up. Banking Companies (Inspection Ordinance) was passed in January 1946, and in February 1946, Banking Companies (Restriction of Branches) Act was passed. In 1949, the Banking Companies Act was passed which was later amended to read as Banking Regulation Act.

On 19 July, 1969 an ordinance was issued by the central government acquiring ownership and control of 14 major banks in our country. This was done to bring commercial banks into the mainstream of economic development with definite social obligations and objectives. Two major aspects of nationalization were: (1) rapid branch expansion and (2) channelling of credit according to plan priorities. Later, on 5 April 1980, six more commercial banks were nationalised. After the submission of recommendations of the Committee headed by Chairman Shri M. Narasimham, a comprehensive reform of the banking system was