Monetary, Credit, and Supervisory Policies of the Banking System in 1390 (2011/12)

Chapter I- Definitions

Article 1- The words and phrases of this Approval are defined as follows:

1. Central Bank: Central Bank of the Islamic Republic of Iran (CBI)
2. Credit institutions: public and private banks, and non-bank credit institutions which received an operation license from the Central Bank, and other credit institutions that were established by law
3. Term investment deposits: short-term and long-term investment deposits
4. Subsidiaries: Subsidiaries are (corporate) companies in which the credit institution has a member in the board of directors or has more than 20 percent of ownership (shares). The companies in which credit institutions have assigned a member in the board for sound operation of participatory contracts as a condition for credit approval and as an instrument for creditworthiness of company (credit collateral) are exempted from this clause.

Chapter II- Monetary Policy

Article 2- Maximum provisional annual profit rates of banking deposits during the investment period of the year 1390 (2011/12) will be made according to the following table:

Maximum Provisional Deposit Rate of Investment Deposits with Credit Institutions during 1390 (2011/12)

Type of deposit	Provisional deposit rate (percent)
Investment (three months to less than six months)	6.0
Investment (six months to less than nine months)	8.0
Investment (nine months to less than one year)	10.0
One-year investment	12.5
Two-year investment	13.0
Three-year investment	14.0
Four-year investment	14.5
Five-year investment	15.0

Note 1: The profit rate of all investment deposits is calculated and paid based on the simple rate formula.

Note 2: If the depositor calls the deposit prior to maturity date of the deposit contract, the credit institution will apply a profit rate of half a percentage point lower than the corresponding deposit contract which matches the time of deposit withdrawal.

Note 3: Credit institutions are obliged to set and finalize the provisional deposit rates under Islamic contracts at the end of the period based on credit institutions' profit and audited financial statements and the approval of the Central Bank. The Central Bank is required to submit the relevant report to the Money and Credit Council (MCC).

Note 4: Provisional profit rate of deposits in free special economic zones will be the same as in the mainland.

Note 5: In case of violations by credits institutions of the approved provisional profit rates for bank deposits, in addition to regular disciplinary measures, CBI can raise the legal deposit ratio for one specific or a number of contracts of the violating institutions up to 10 percentage points and for a maximum period of one year.

Article 3- Credit institutions' commission may vary according to various investment deposits (short-term and long-term) and must not exceed 2.5 percent. Credit institutions' board of directors should set the commission for investment deposits at the beginning of the year through media accordingly.

Article 4- The provisional profit rate of participation papers issued by public and private corporations and municipalities is determined tantamount to the expected profit of the investment projects and will be paid out on a quarterly basis. The maximum allowable provisional profit rate for these papers is one percentage point above the corresponding bank deposits (Table of Article 2 of this Regulatory Guideline). Banks can only guarantee the quarterly profit payments and the principal payment and maturity. Banks cannot redeem these papers before the maturity. However, paper holders can purchase and sell these papers in TSE and OTC before the maturity date of the papers. The issuing institutions are obligated to calculate the profit rate of the projects and finalize the profit payment to paper holders.

Note: The participation papers which are issued by public and private companies under TSE regulation, if carrying credit institutions' guarantees, would be subjected to this article.

Article 5- The reserve requirement ratio of credit institutions (excluding specialized banks) in 1390 (2011/12) is determined as in the following table. The reserve requirement ratio of public specialized banks remains the same as before.

The Reserve Requirement Ratio of Various Deposits in 1390 (2011/12)

Type of deposit	Reserve requirement ratio (percent)
Gharz-al-hasaneh savings	10.0
Demand deposits, cash deposits, letters of credit (LCs), bank guarantees, and others	17.0
Short-term investment	15.5
One-year investment	15.0
Two- and three-year investment	11.0
Four-year investment	10.0
Five-year investment	10.0

Note: All active institutions in the unofficial money market which are engaged in deposit taking operations are obliged, with CBI recognizance, to surrender legal deposit in line with this Article and based on CBI regulation on Gharz-al-hasaneh funds.

Article 6- The non-participatory contract profit rates for bank lending operations are set at 11 percent for credits up to 2 years maturity and 14 percent for credits of longer term maturity. In line with paragraphs 1 and 2 of Article 20 of the Law for Usury (Interest) Free Banking, the range of expected profit rates in participatory contracts between credit institutions and their clients is set between 14 and 17 percent. However, the profit rates of participatory contracts should be finalized at the completion of projects and on the basis of actual advancement of the project. Banks should not use installment participation schemes as a legitimate contract in their lending operations.

Note 1: The lending rate of housing sector under Mehr Housing Program is set at 11 percent under Islamic contracts for the construction period of the new projects and 12 percent for installment sale after the completion of projects.

Note 2: The formula for the calculation of profit in non-participatory contracts of banks lending like the one for provisional profit of deposits, is the same as has been under Circular No. MB/1521 dated Tir 18, 1386 (July 9, 2007). Under this formula, the calculation of profit for banks lending under non-participatory contracts and provisional profit of participatory contracts will be simple and not compound.

Note 3: In cases of clients' advance-to-due-date payment of non-participatory (contracts) credit facilities, credit institutions and leasing companies have to reduce the principal and profit of loans at least by 90 percent of profit segment for the period from the time of debt settlement until debt due date. For housing loans in each advance-to-due-date payment, credit institutions can only charge Rls. 5 thousand as service charge and profit of the installment should be returned to loan customers.

Note 4: The maximum profit rate for facilities by bank and non-bank leasing companies would be the rate for non-participatory Islamic contracts of Article 6. These institutions are not allowed to charge higher rates as service charge or final rate or in any other form.

Chapter III- Credit Policy

Article 7- In their lending operations, credit institutions should give the priority to employment generation and productive activities. Moreover, it is advised that credit institutions in sectoral allocation of the increase in their outstanding loans observe the following ratios in 1390 (2011/12):

Sector	Share in change in the outstanding facilities (percent)
Water and agriculture	20
Manufacturing and mining	37
Construction and housing	25
Exports and trade infrastructures	10
Trade, services and miscellaneous	8
Total	**100**

Note 1: At least 90 percent of specialized banks' loans and facilities should be allocated to the sectors specific of those banks.

Note 2: The individual institutions that observe the sectoral schedule will benefit from reduced reserve requirement and other incentives of CBI in tandem with the observance of sectoral targets, based on CBI recognizance.

Note 3: Government-sponsored entities, in collaboration with President Deputy for Strategic Planning and Control and in cooperation with the CBI, utilize government budget incentive structure and instruments like administered account facilities and government profit subsidies to attain the sectoral targets.

Article 8- Credit institutions can extend loan and credit to their customers in line with the Law for Usury Free Banking and after deducing applicants' due diligence and receiving sufficient guarantees. These loans and credits shall be used for the following purposes:

A. Purchase of essential goods and services such as first-hand consumer durables from local producers, educational expenditures, housing deposit, and other basic needs at a maximum of Rls. 40 million;

B. Loans and credit facilities for housing repair at a maximum of Rls. 50 million;

C. Auto loans at a maximum of Rls. 70 million, not exceeding 80 percent of the value of the car;

D. Loans and facilities for the purchase of new pick-ups and taxis replacing the obsolete ones, up to Rls. 100 million, not exceeding 80 percent of the value of the new car.

Article 9- Extension of banking facilities by credit institutions and their subsidiaries including their affiliated leasing companies (except for Housing Bank and special cases as approved by the MCC and Housing Council) is strictly prohibited, both the site and the superstructure.

Note 1: The maximum lending facility of Bank Maskan for housing purchase under saving for housing scheme for individual depositors is set at Rls. 200 million. The criteria for these facilities are proposed by Bank Maskan and approved by the CBI.

Note 2: The maximum lending facility under Mehr Housing Program for housing construction activities is set at Rls. 200 million for each housing unit. This ceiling can be raised to Rls. 220 million for housing construction projects which use advanced industrial construction technologies.

Note 3: Mehr Housing facilities can only be extended to housing construction activities which are carried out under Mehr Housing Program. Other housing construction activities are not allowed to utilize these preferential measures.

Article 10- Public banks are obligated and private banks are allowed to extend facilities to public procurement enterprises and entities for the purchase and procurement of subsidized goods and market regulation, only after issuance of guarantees by the President Deputy for Strategic Planning and Control and consent of the CBI as collateral.

Article 11- In line with the implementation of the Targeted Subsidy Reform Act, the executive agencies in charge of economic sectors are encouraged to allocate and blend their administered funds with financial resources of credit institutions within an operational contract framework to facilitate credit extension to new technology projects, projects linked to water and energy consumption reform, the working capital of companies, the incomplete projects, and the renewable energy projects.

Article 12- Gharz-al-hasaneh facilities can only be paid under Gharz-al-hasaneh loan regulations for urgent cases of healthcare, marriage, employment generation, and family enabling programs of Imam Khomeini Relief Foundation. The maximum loan for each individual case of the abovementioned is Rls. 20 million for health purposes, Rls. 50 million for marriage (Rls. 25 million each spouse) and Rls. 70 million under family enabling plan of Imam Khomeini Relief Foundation.

Note 1: Credit institutions that are planning for Gharz-al-hasaneh deposit taking and loan extension must establish a specific fund with CBI approval and in line with CBI regulation within three months of this circular. Gharz-al-hasaneh deposits after adjustment for legal reserve requirement and liquidity management should be allotted to Gharz-al-hasaneh loans. After the deadline of three months, credit institutions which have not adopted the required measures should not engage in Gharz-al-hasaneh operations and must transfer the remaining balances of their Gharz-al-hasaneh deposit accounts to legitimate funds and credit institutions. During the transitional period, credit institutions should not use their Gharz-al-hasaneh balances for non-Gharz-al-hasaneh purposes. Credit institutions are not allowed to open up Gharz-al-hasaneh branches before the adoption of Gharz-al-hasaneh regulations.

Note 2: Credit institutions' arrangements for Gharz-al-hasaneh lottery and Gharz-al-hasaneh prize structures will be regulated and supervised by CBI. The CBI regulations on this issue will be circulated within 2 months' time.

Article 13- To facilitate credit institutions resource mobilization activities over the short term, establish appropriate liquidity management in the banking system, and reduce banks' indebtedness to CBI, it is deemed essential that all kinds of money transactions between credit institutions and the credit institutions and CBI be made operational through interbank money market in accordance with Joaleh contracts with maximum applicable profit rate of banks non-participatory Islamic contracts' rate and in line with CBI regulations.

Chapter IV- Supervisory Policy

Article 14- Per approval of the related Board of Directors, the credit institutions are allowed to forgo the delayed payment penalties of their loan customers up to the maximum level as derived from subtraction of lending profit rate from the delayed rate after maturity as they are reflected in the loan contract between the credit institution and the customers. In cases where the arrears are rescheduled and amortized again, the penalty write-off is actually made effective when the rescheduled loans are completely settled. However, if loan customers default again on rescheduled loans, the penalty forgiveness is made null and void.

Article 15- The total of credit institutions' facilities and obligations to each connected beneficiary for productive and non-productive units should not exceed 15 and 5 percent of the base capital of each credit institution, respectively. Facilities and obligations beyond that ceiling can only be approved after the consent of the CBI.

Note 1: In their loan activities, credit institutions are obligated to make arrangements so that the total outstanding loans and obligations of credit institutions to any single loan taker do not surpass 10 times the paid up capital for legal persons and 30 times of capital for natural persons. Any loan and acceptance of obligation by credit institutions beyond these limits should have the CBI license.

Note 2: In the extension of loans and facilities to corporate sector for working capital purposes, credit institutions should observe the maximum limit of 60 percent of the periodic sales of the corporations as reflected in company's audited statements for the three years prior to loan approval. For new companies and the newly developed projects, the said limit is set on the sales forecast of the company. This limit does not apply to company's export contracts which will be dealt with by credit institutions management on a per contract base.

Note 3: Credit institutions should have a scoring methodology for the assessment of creditworthiness of their loan customers and in their scoring assignment give proper weight to their customers' tax compliance. In the scoring of corporate customers, credit institutions not only have to give weight to customers' tax compliance, but also to receive and assess the financial statements of any specific client. For the extension of any loan and facility beyond Rls. 10 billion, credit institutions are obligated to receive and assess customers' financial statements. Any certificate in profit of (credit institutions) loan customers' claims on government should count as asset hold by the customer in banks scoring.

Note 4: Extension of loans and facilities by credit institutions to their own subsidiaries (direct and indirect) is strictly prohibited.

Article 16- Within 6 months of this circular, credit institutions are obligated to liquidate and sell their excess real assets and the acquired assets of themselves and their subsidiaries (those in which they have direct or indirect ownership), in accordance with credit institutions investment guideline as has been approved in 1386 (2007/08) by MCC and circulated among institutions.

Article 17- All corporations, credit institutions, firms, organizations, and funds, which engage in monetary, credit, and banking activities, are authorized to do so in accordance with CBI regulations and after receiving their licenses from the CBI. Moreover, the CBI is the oversight authority for credit unions, credit institutions, leasing companies, money exchanges, and Gharz-al-hasaneh funds.

Article 18- In their loans and facilities extension and in the provision of other banking services, credit institutions can, based on transparency, solvency, and liquidity measures, give priority to TSE listed companies, companies listed on Tehran Mercantile Exchange and OTC companies.

Article 19- Credit institutions are obligated to provide the CBI with the list of names of their current, due and overdue loan takers. Based on their inflow of information, CBI has to set up a current and up-to-date information (data) bank of (credit institutions) customers and adopt penalty measures for customers on arrears and provide these records to credit institutions.

Chapter V- Payment System and Electronic Banking

Article 20- The CBI will utilize the basic electronic infrastructure facilities of the Ministry of Commerce in order to shape, by end-Khordad 1390 (June 21, 2011), the comprehensive digital identities for banks clients and systems and facilitate the operational framework for digital signature in the banking system. All credit institutions are obligated to design their own operational and executive framework for the issuance of certificates of digital signature, adaptation and registration of their systems and provision of their clients' and staff's information in line with CBI schedule.

Article 21- For rationalization and better use of banks card reader terminals and for a better oversight of CBI, as approved by CBI Governor, a network of electronic card payment facilities will be established. Banks are obligated to outsource the card payment services in the points of sale and other card services to licensed payment service provider (PSP) companies by end-1390 (March 19, 2012).

Others

Article 22- The CBI should provide a quarterly report to MCC on the performance of current measures.

Article 23- In line with Article 98 of 5th Development Plan Law, CBI should prepare and circulate among credit institutions, the guidelines and regulations on debt purchase instrument.

Article 24- The current measures are executable after 15 days from the date of issuance.

Issuance of Participation Papers by the Central Bank in 1390 (2011/12)

The Central Bank of the Islamic Republic of Iran (CBI) is authorized to issue participation papers up to the ceiling approved by the CBI Governor. Public corporations and municipalities are also authorized to issue participation papers up to the ceiling approved in the general Budget Law of the country in 1390 (2011/12).

A. The provisional profit rate, ceiling, and maturity of CBI participation papers shall be set at the discretion of the CBI Governor.

B. The provisional profit rate of participation papers issued by public and private corporations and municipalities shall be equal to the profit accrued from the investment projects, and it will be payable every three months on a daily basis. The provisional profit rate of these papers will be determined up to one percentage point higher than the provisional profit rate of corresponding bank deposits (subject of the Table under Article 2 of Monetary, Credit, and Supervisory Policies of the Banking System in 1390 (2011/12)). Agent banks can only guarantee the quarterly profit payments and the principal payments and maturity. Banks cannot redeem these papers before the maturity. However, paper holders can purchase and sell these papers on the TSE or OTC before the maturity date of the papers. The issuing institutions are obligated to calculate the profit rate of the projects and finalize the profit payment to paper holders.

   Note: The profit of participation papers issued by public and private corporations under the TSE, if carrying credit institutions' guarantee, would be subjected to this Article.

C. Public corporations, municipalities, and credit institutions that are licensed by the CBI (excluding institutions specified in the Budget Law) are authorized to issue participation papers up to Rls. 50 trillion.

D. Public and private corporations and municipalities are authorized to purchase and sell participation papers that may not be redeemed by credit institutions before maturity on the TSE or OTC, in the framework of relevant rules and regulations. The ceiling for participation papers issued by the non-public sector and corporations licensed by the Securities and Exchange Organization will be set at Rls. 100 trillion.

E. Purchase of participation papers by credit institutions and their subsidiaries is strictly prohibited.