The Supervisory-Policy Package of the Banking System in 1389 (2010/11)

Chapter I- Definitions

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

1. Package: the Supervisory-Policy Package of the banking system in 1389 (2010/11)
2. Central Bank: Central Bank of the Islamic Republic of Iran (CBI)
3. Credit institutions: public and private banks, non-bank credit institutions which received an operation license from the Central Bank, and other credit institutions that were established by law
4. Investment deposit: short-term deposits (including special deposits) and long-term investment deposits

Chapter II- Monetary Policy

Article 2- Provisional annual profit rates of banking deposits during the investment period of the year 1389 (2010/11) will be made according to the following table:

Provisional Deposit Rate of Investment Deposits with Credit Institutions during 1389 (2010/11)

Type of deposit	Provisional deposit rate (percent)
Short-term investment (one month to less than 3 months)	6.0
Short-term investment (more than 3 months and less than 6 months)	8.0
Short-term investment (more than 6 months and less than one year)	11.0
One-year investment	14.0
Two-year investment	14.5
Three-year investment	15.0
Four-year investment	16.0
Five-year investment	17.0

Note 1: Provisional profit rate of deposits in free special economic zones will be the same as in the mainland.

Note 2: The opening of the dual-purpose accounts (connected accounts) for customers, for instance the connected term investment account and the checking account for the purpose of depositing cash into checking account when customers' checks are submitted to credit institutions, and extension of loan and credit on Profit and Loss Sharing (PLS) basis with installment repayments are not allowed.

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 statement and the approval of the Central Bank.

Note 4: Provisional profit rate of general Certificates of Deposit (CDs) of at least one year maturity is payable at a maximum of one percentage point higher than the provisional profit rate of deposits with the same maturity upon presentation of feasibility reports and approval of the Central Bank. The rate of repurchase prior to maturity by the issuing bank will be at the usual provisional deposit rate. The issuing bank should annul the Certificate of Deposit in case it is repurchased prior to maturity.

Note 5: Provisional profit rate of special Certificates of Deposit is payable at a maximum of 2.5 percentage points higher than the provisional profit rate of deposits with the same maturity upon presentation of feasibility reports and approval of the Central Bank. The repurchase of special purpose CDs before the maturity date is not allowed by credit institutions.

Note 6: Central Bank can penalize credit institutions that violate CBI approved provisional deposit rates. The penalty would be one to five percentage points increase on legal reserve requirements for one or a number of deposits for a maximum 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 reserve requirement ratio of credit institutions (excluding specialized banks) in 1389 (2010/11) is determined as in the following table. The reserve requirement ratio of public specialized banks remains the same as before.

Reserve Requirement Ratio of Various Deposits in 1389 (2010/11)

Type of deposit	Reserve requirement ratio (percent)
Gharz-al-hasaneh savings	10.0
Demand 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: The excess reserve of credit institutions, after lowering the different reserve requirements of credit institutions, will be used in priority order for the purpose of credit institutions' debt payment to the CBI, loan for working capital of productive units and incomplete projects, investment for productive units, interbank loans, and Mehr Housing Project.

Article 5- The profit rate of transaction contracts with a maturity of two years and less is determined at 12 percent and for more than two years, at 14 percent. The provisional profit rate of PLS contracts is set according to the Law for Usury Free Banking and the ratios set in the contract. Meanwhile, the profit rate of the installment sale of facilities allocated to the housing sector will be 12 percent.

Note 1: Credit institutions are allowed to extend loan and credit on debt purchase contracts provided that the related claims realistically reflect the unit's sales of goods and services. Debt purchase contracts with any productive unit is restricted to a maximum of 35 percent of unit total sale for the year before the contract, based on the unit's approved financial statements, with a maximum profit rate of 16 percent.

Note 2: Extension of banking facilities at a lower lending rate is conditioned on the payment of subsidies by the government and realization of the project objectives according to the government priorities.

Note 3: 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 and educational and health expenditures at a maximum of Rls. 30 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;

D. Loans for removal of obsolete cars and purchase of pick-ups and taxis at a maximum of Rls. 100 million;

Note 4: In extending facilities to customers, credit institutions have to be assured that the principal and the expected profit of the loan will be recovered when the loan installments come due.

Note 5: In line with the implementation of the monetary policy and to mop up excess liquidity, repurchase of debt by the CBI and credit institutions from one another prior to maturity is permissible.

Article 6- The CBI is authorized to issue participation papers in 1389 (2010/11) up to the ceiling approved by the Governor. Public corporations and municipalities are also authorized to issue participation papers in this year, in the framework of relevant rules and regulations, up to Rls. 50 trillion.

A. The provisional profit rate of CBI's participation papers will be determined up to 2 percentage points higher than the provisional profit rate of other deposits.

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 maximum provisional profit rate of these papers is one percentage point higher than that of other deposits. The rate of repurchase of these papers prior to maturity shall be 0.5 percentage point lower than the provisional profit rate.

C. The ceiling for the participation papers of the non-public sector and corporations that are granted an operation license by the Securities and Exchange Organization is set at Rls. 40 trillion.

Note: Credit institutions and corporations in which credit institutions have direct or indirect roles in their management are prohibited from purchasing corporations' and municipalities' participation papers in the primary market. Credit institutions' and municipalities' purchasing of Central Bank participation papers in the primary market is permissible.

D. A minimum of 15 percent of the mobilized funds from the sales of participation papers shall be held by the agent bank as precautionary reserve for likely repurchase.

Chapter III - Credit Policy

Article 7- Credit institutions are allowed to allocate up to 20 percent of the increase in the outstanding deposits (after the deduction of legal obligations) to different economic sectors without observing the sectoral allocation ratios. However, the remaining 80 percent of the increase should be lent out according to the following percentages:

Sector	Share in change in the outstanding facilities (percent)
Water and agriculture	25
Manufacturing and mining	37
Construction and housing	20
Services and trade	10
Export	8

Note: The executive agencies in coordination with the President Deputy for Strategic Planning and Control, and the CBI are encouraged to use the incentive instruments at their disposal, such as administered funds or interest subsidy payments, in realization of sectoral allocation of credit institutions' facilities.

Article 8- 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 the consent of the CBI as collateral.

Article 9- 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 10- Banks' facilities to the housing sector and the Gharz-al-hasaneh facilities will be governed by a regulation and guideline which will be dispatched to credit institutions after the approval of the CBI Governor.

Article 11- Not later than three months after dispatching of this Package, the CBI will prepare and communicate to credit institutions the regulations and guidelines governing the mechanisms for the allocation of total Gharz-al-hasaneh deposits (after deduction of legal obligations) to Gharz-al-hasaneh facilities, instruments for mobilization of short-term financing for private and public commercial banks, and the instruments for long-term mobilization of funds for the specialized banks.

Chapter IV - Supervisory Policy

Article 12- For proper implementation of the current monetary policy and credit policy and the attainment of their targets, CBI is obligated to set up an appropriate organization for the execution of effective and efficient supervision over the credit institutions. In this connection, the following measures need to be undertaken:

1. Use of credit facilities in the approved and supervised sector and project;
2. Allocation and disbursement of banks' facilities tantamount to project progress and its size;
3. Prevention of use of banks' facilities for speculation purposes and activities;
4. Risk prevention and mitigation, and reduction of arrears and overdue credits (doubtful assets) through expansion of customers' database, customers' rating, and receipt of tax settlement from banks' credit customers;
5. The development of fair competitive environment and the prevention of banking and credit overexposure;
6. Higher financial transparency and IT in the banking system;
7. Prevention of purchase and sale of banks' loans;
8. Divestment of non-bank activities of credit institutions such as ownership of large managerial shares of listed companies;
9. The establishment of IT system for paperless transaction of participation papers and electronic CDs, interbank fund payments and banks' check clearance;
10. The penalty of credit institutions overdraft facilities on CBI resources at 34 percent.

Article 13- The Board of Directors of credit institutions are authorized to waive the 6 percent penalties of customers with overdue loan payments, at once and over the duration of the loan of the customers if they paid and settled their total overdue loans.

Article 14- The CBI should set up a database for non-compliant customers of banks who are deprived from banking services, and list the specific restrictions imposed on them, and share this information with credit institutions. Credit institutions are accordingly obligated to update their list of non-compliant customers.

Article 15- Public banks are obligated to sell the share holdings of their subsidiary companies and their foreclosed assets and provide a timeline for this purpose to the Ministry of Economic Affairs and Finance and the CBI, within three months after release of the Package. The CBI is authorized to impose and use its incentive/penalty instruments for swift execution of this Article. The CBI is also obligated to divest its unnecessary activity holdings within the currently available regulatory framework.

> **Note:** Extension of facilities to subsidiary companies of credit institutions is allowed upon receipt of the CBI permit and in observance of the pertinent regulations.

Article 16- The maximum level of banks' service fee, commissions, and charges are set according to CBI released tables. Credit institutions can improve the quality of their services and reduce the level of charges up to 50 percent of the set values for the competitive purposes. CBI will review and reduce the banks' fees on electronic services to encourage electronic banking.

> **Note:** Credit institutions will use 1388 fee charges until the new table is released to them by the CBI.

Article 17- The expansion of Iranian banking system abroad through establishment of representative offices, branches, or independent subsidiaries by one bank or collectively by a group of banks or in collaboration with creditworthy foreign banks and entities, can be followed after the consent of the CBI within the framework of current laws and regulations. The CBI will issue the guidelines for the implementation of this Article within a month.

Article 18- The total of banks' facilities and obligations to each connected beneficiary should not exceed 15 percent of the base capital of each credit institution. Banks' facilities and obligations beyond that ceiling can only be approved after the consent of the CBI.

> **Note 1:** Credit institutions are obligated to make the arrangements within the next six months so that the total of each bank's facilities and obligations to each connected beneficiary as legal person will not exceed ten times of their paid up capital and for each connected beneficiary as natural person will not exceed Rls. 30 billion. The extension of facilities beyond the above ceiling is subject to prior approval of the CBI.

Note 2: The banks' working capital facilities to natural and legal persons should not exceed 50 percent of total sale of the related person on its audited and approved financial statement. For the first year activity of newly established units, the above 50 percent will be calculated based on "sale projection" of the unit.

Note 3: For facility extension and obligation acceptance of credit institutions beyond and above the said ceilings, credit institutions can utilize syndicated loans and facilities mechanism provided that each syndicate member's facilities and obligations do not exceed these ceilings.

Note 4: 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.

Note 5: All credit facilities under this Article above Rls. 8 billion for natural persons and Rls. 16 billion for legal persons can only be contracted after the review of audited financial statements and tax settlement certificate.

Chapter V – E-banking and Payment System

Article 19- For the enhancement and development of e-banking as prescribed by the CBI, credit institutions should adopt appropriate measures in 1389 to implement the following:

A. Completion of communication network system;

B. Establishment of support network system;

C. Implementation and operationalization of core banking;

D. Establishment of paperless clearing house;

E. Development and offering of innovative financial instruments;

F. Preparation and execution of e-banking guidelines;

G. Establishment and completion of credit institutions' database and the dispatch of the required online and real time information to the CBI.

Credit institutions are accordingly obligated to make the prescribed guidelines fully operational in the first half of 1389, regarding the national identification number, postal zip code, unique code, and the special coding of legal persons and foreign entities.

Chapter VI - Other Provisions

Article 20- Central Bank takes measures to insure small-value deposits in cooperation with the Ministry of Economic Affairs and Finance.

Article 21- Credit institutions are obligated to execute fully and completely within the prescribed time framework in 1389, the regulations on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT).