

Monetary, Credit, and Supervisory Policies of the Banking System

approved on Dey 20, 1390 (January 10, 2012)

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- The decision on annual provisional profit rate of term investment deposits and general and special Certificates of Deposit (CDs) will be taken on banks' discretion.

Note: 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.

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 CBI is authorized to issue participation papers and other types of Islamic Sukuk for monetary policy purposes up to the ceiling approved by the Governor. The amount of the issue, the maturity, and the provisional profit rates of these papers will be decided by the Governor of CBI.

Article 5- The provisional profit rate of participation papers issued by public and private corporations and municipalities is determined tantamount to the expected profit accrued from the investment projects and will be paid on a quarterly basis. The maximum provisional profit rate on these papers is set at 20 percent per annum. These papers can be repurchased by agent banks prior to maturity. The rate applied for the repurchase of these papers is 18 percent per annum up to one year after the issuance date. Thereafter (repurchase at more than one year after issuance date), 0.5 percentage point penalty rate is applied to the provisional rate for repurchase by agent banks. The issuing institutions are obligated to calculate the profit rate of the projects and finalize the profit payment to paper holders.

Note 1: The participation papers can be transacted at secondary markets in banks and the Stock Exchange.

Note 2: A maximum amount of 10 percent of the value of participation papers placement in the market will be deposited with the agent bank for paper buy-backs. This amount should be mobilized out of issuer's internal resources.

Article 6- A ceiling of Rls. 70 trillion will be applied for participation papers issuance by banks, government agencies, and municipalities (those receiving their issue license from CBI) for 1391 (2012/13). Other agencies which receive their issue license under the Note of Article 4 of the Law on Issuance of Participation Papers (receiving the issue license from Iran's Securities and Exchange Organization) will also be subject to a ceiling of Rls. 70 trillion in 1391 (2012/13). These ceilings for both groups of issuing agencies will be set by the Governor of CBI in the years after 1391 (2012/13).

Note: Ceilings set for participation papers in "Monetary, Credit, and Supervisory Policies of the Banking System in 1390 (2011/12)" shall be subject to regulations of the present Approval as of the approval date.

Article 7- In implementation of Article 83, Note B of Article 97, and Note Q of Article 224 of the 5th Five-Year Development Plan Law, the Central Bank is obliged to prepare the executive guidelines on Sukuk (both in rial and foreign currency) for the financing of public corporations, municipalities, and financial and credit institutions.

Note 1: The rate of Sukuk issued under the license of the CBI shall be set by the CBI, proportionate to the value of the underlying asset and maturity of Sukuk. Repurchase and secondary market transaction of these papers shall be subject to Notes 1 and 2 of Article 5.

Note 2: The rate of Sukuk in the money market, issued under the license of the Securities and Exchange Organization or guaranteed by the credit institutions, shall be set in coordination with the CBI.

Article 8- The reserve requirement ratio of credit institutions (excluding specialized banks) 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

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 9- The non-participatory contract profit rates for bank lending operations are set at 14 percent for credits up to 2 years maturity and 15 percent for credits of longer term maturity. The range of expected profit rates in participatory contracts between credit institutions and their clients is set between 18 and 21 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: Credit institutions are required to allocate a minimum of 20 percent of their non-Gharz-al-hasaneh resources to facilities under non-participatory contracts.

Note 2: The lending rate of facilities extended to the installment sale of housing units is set at 13 percent.

Note 3: 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 4: 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 5: 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 6: The maximum profit rate for facilities by bank and non-bank leasing companies would be the rate for non-participatory Islamic contracts of Article 9. 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 10- 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:

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 11- 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 12- Extension of banking facilities by credit institutions and their subsidiaries including their affiliated leasing companies (except for Bank Maskan 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. 250 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 half-industrial construction technologies, and Rls. 250 million for housing construction projects which use industrial construction technology.

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 13- Gharz-al-hasaneh loans and facilities will be extended within the framework of the Executive Guidelines on the Extension of Gharz-al-hasaneh Facilities by Credit Institutions to meet the emergency requirements of the applicants in need at a maximum of Rls. 20 million for healthcare, Rls. 30 million for the individuals of married couple (Rls. 60 million in total for the couple), and Rls. 100 million for job creation and empowerment of individuals under the patronage of Imam Khomeini Relief Foundation.

Article 14- 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 15- In line with the implementation of the 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.

Chapter IV - Supervisory Policy

Article 16- Per approval of the related board of directors, the credit institutions are allowed to forgo the deferred payment penalties of 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.

Note: The authorities conferred upon the board of directors of credit institutions as referred to in Article 28 of the 1390 (2011/12) Budget Law will be in effect till end-1390 (March 2012).

Article 17- 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 held by the customer in banks scoring.

Note 4: Credit institutions can only extend credit facilities to their subsidiaries (directly-owned or indirectly-owned through direct holdings) after the approval of CBI Credit Commission as well as CBI Governor.

Article 18- 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 Gharzal-hasaneh funds.

Article 19- 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 Iran Mercantile Exchange and OTC companies.

Article 20- 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.

Article 21- Credit institutions shall implement the Anti-Money Laundering (AML) Law, as well as its executive by-law and guidelines. Precise implementation of the stated law and regulations rests upon credit institutions' board of directors.

Others

Article 22- In order to create a digital signature for banks' clients, personnel, and systems till end-Shahrivar 1391 (September 2012), the Central Bank shall fully establish the management system for banks data security (NAMAD) as well as the comprehensive banks clients' identity database. All credit institutions shall implement the executive plans for the issuance of digital signatures, compliance and registration of systems, and registration of institutions clients' and personnel information as per the CBI timetable.

Article 23- The Central Bank shall semiannually submit the progress report of the present guidelines to the MCC.