

Iranian Bank Survey

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the **darien analytics** survey
FINANCIAL MARKET ANALYSIS

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Iranian banks face uncertain future over the medium term, but opportunities exist for individual banks to shine



The partial lifting of economic sanctions against Iran presents Iranian banks with opportunities to become stronger, bigger, and more effective at promoting domestic economic growth. But the challenges that they will face over the next few years are vast.

In the following report, **darien analytics** considers the medium-term prospects for Iranian banks.

Left: The lifting of economic sanctions will lead to improved living conditions for all sectors of society. ©Mansoreh/Shutterstock.com

Cover: Interior detail from the Ali Qapu palace in Isfahan. ©Anton Ivanov/Shutterstock.com

Years of exclusion from the global financial system has left most Iranian banks with unsophisticated management controls and IT systems, accounting and auditing practices that are inconsistent and lax (particularly in respect of recognising non-performing loans), and a lack of size that will constrain their ability to meet the demands that will be put on them as Iran's economy develops and grows.

More broadly, the increase in domestic liquidity which is expected to follow the unblocking of tens of billions of dollars held overseas, when combined with the increased demand for credit that is being spurred by lower interest rates and by the government's own economic stimulus package, will likely lead to a big increase in non-performing loans over the medium term.

Rather than a banking boom, Iran could be facing a major banking crisis three or four years from now.

The role played by the Central Bank of Iran (CBI) will be the decisive factor in determining whether the Iranian banking system will overcome the challenges it is facing and develop into a profitable and well managed sector that is able to meet the changing needs of its clients, and stimulate economic growth in the economy as a whole.

Of course, individual bankers and particular institutions will also play their part, but experience shows that without strong and enlightened intervention from the Central Bank, sustained reform and development across the banking system as a whole will be a forlorn hope. Fortunately, observers are generally impressed with the level of competence within the Central

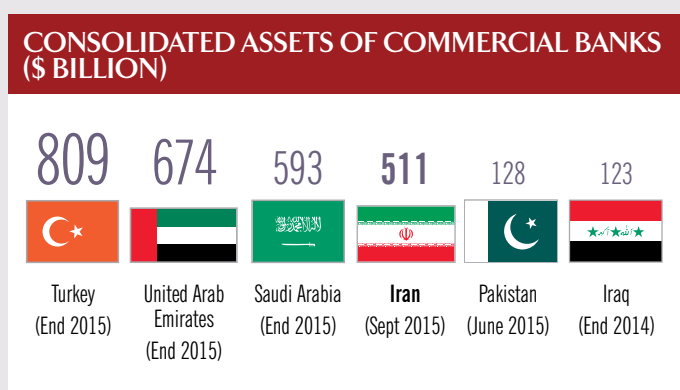
Bank, although there are doubts over how much independence it will enjoy.

IRANIAN BANKS ARE SMALL AND NEED TO GROW

There are about 30 banks in Iran, with four accounting for nearly half of all loans and deposits. (See page 5). State-owned Bank Melli and private sector Bank Mellat have assets a little in excess of \$50 billion and another eight have assets of more than \$10 billion. Two banks have equity in excess of \$3 billion – state-owned Bank Saderat and private sector Bank Melli – and another six have equity in excess of \$1 billion.

Iranian banks are small in relation to the size of their economy and in relation to regional peers. The biggest GCC banks have assets in excess of \$100 billion and more than \$10 billion in equity. The biggest Turkish banks have also have assets

LARGE REGIONAL BANKS			
Bank	Country	Assets (\$ million)	Date of financial statement
Qatar National Bank	Qatar	146,640	End 2015
Emirates NBD	UAE	110,689	End 2015
National Commercial Bank	Saudi Arabia	100,606	End 2014
Turkiye Is Bankasi	Turkey	94,612	End 2015
Bank Melli	Iran	51,706	March 2015
Habib Bank	Pakistan	18,318	End 2014
Rasheed Bank	Iraq	18,234	End 2013
Afghanistan Intl. Bank	Afghanistan	962	End 2014



IRANIAN BANKS: MARKET SHARE BY TYPE OF BANK				
	Commercial banks (\$ billion)	Specialised banks (\$ billion)	Private banks and non-bank credit institutions (\$ billion)	Total system (\$ billion)
Claims on public sector	9.8	12.0	15.0	36.7
Claims on non-public sector	33.7	56.3	130.2	220.2
Foreign assets	10.3	14.3	51.4	76.0
Assets	83.7	97.4	330.1	510.9
Deposits from non-public sector	50.3	29.1	201.3	280.8
Deposits from public sector	4.4	4.4	1.0	9.8
Capital account	3.4	4.4	15.9	23.8
Market Share: % of total (figures may not add exactly to 100% due to rounding)				
Claims on public sector	26.6	32.6	40.8	100.0
Claims on non-public sector	15.3	25.6	59.1	100.0
Foreign assets	13.5	18.8	67.6	100.0
Assets	16.4	19.1	64.6	100.0
Deposits from non-public sector	17.9	10.4	71.7	100.0
Deposits from public sector	44.7	44.7	10.6	100.0
Capital account	14.4	18.7	66.9	100.0

of around \$100 billion and equity of about \$10 billion.

Several factors make assessment of Iranian banks' performance difficult: reporting is inconsistent and significant restatements of prior year figures are common; non-performing loans are frequently understated; and recent currency devaluations hamper the construction of multi-year comparisons. (The official exchange rate collapsed from around IR12,500 to the dollar to around IR25,000 to the dollar in mid-2013, and has fallen in value by another 20% since early 2014. At the same time, the unofficial rate has swung to and fro around the official rate in response to particular events.) Even calculations based on local currency reporting are affected by such large changes in the exchange rate.

However, figures for Iranian years 1393 and 1392 (March 2015 and March 2014) show reasonable levels of profitability and efficiency. One would generally want to see returns on average assets of between 1–2% in a reasonably well-performing banking system and many Iranian banks achieve this. Iranian banks' cost/income ratios ('efficiency') vary greatly, but many are around 40%–55%, which is entirely acceptable. Returns on equity are often high, though this is sometimes driven by capital levels that, on an un-weighted basis, are rather low.

Among the larger private sector banks, Pasargad, Eqtesadovin, and Karafarin show strong profitability and efficiency ratios and Pasargad and Karafarin also show strong capital ratios. Among the smaller private sector banks, Middle East bank – one of the newer entrants – shows strong performance but lacks scale.

REFORM OF THE LARGER BANKS IS A KEY TASK FOR THE IRANIAN FINANCIAL SECTOR

It is generally good policy for central banks to push weaker banks to merge with or be acquired by stronger banks. Typically they effect this by raising minimum capital requirements. But in the case of Iran, such a measure could be a distraction from the more important task of strengthening and growing the larger banks.

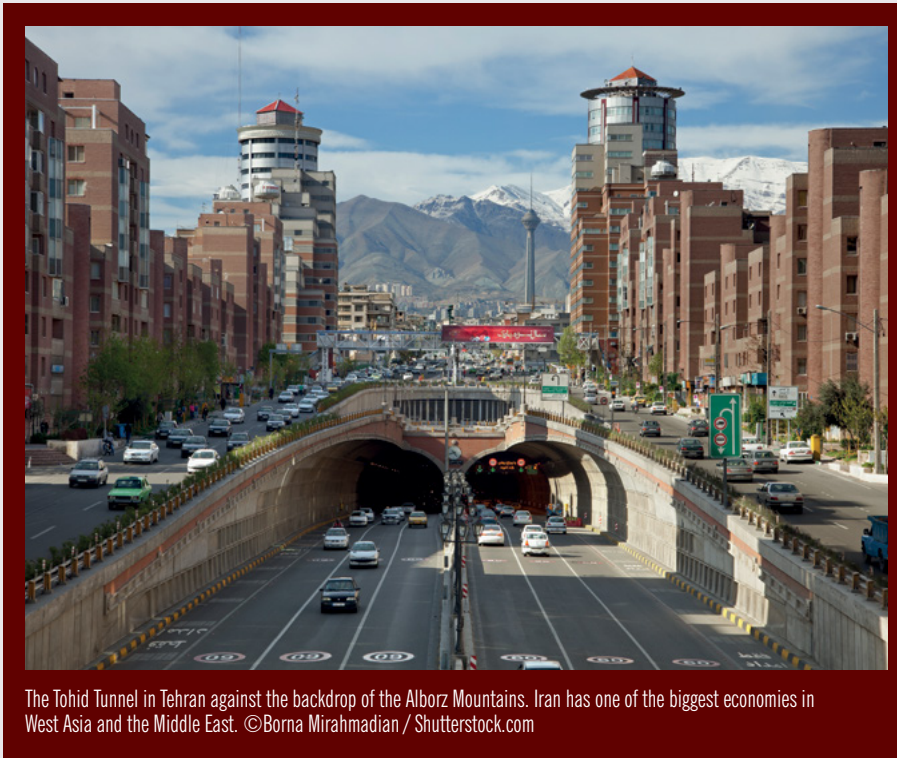
Reform of the larger banks is the key micro-prudential task facing the Iranian financial sector in the years ahead. Forcing the larger banks to integrate small, weaker banks could drain their resources while providing few benefits of scale. (A better course of action would be to put the small banks up for sale to foreign institutions seeking to enter the Iranian market, though that is unlikely to be politically possible for some time.)

If Iran is to develop a vibrant banking system, attention must be given to

strengthening the large state-owned banks. The recent experience of Egypt and Iraq shows that it is unrealistic to expect middle ranking private sector banks to expand at a rate that is fast enough to enable them to become market leaders and eclipse the large state-owned banks. There is no room for ideology here: whatever misgivings one has about the role of state-owned banks in society, the fact is that Saderat and Melli will continue to be major players in the Iranian banking system for many years to come. They cannot be wished away; they will have to be reformed.

In Egypt, National Bank of Egypt remains the dominant player 12 years after the Central Bank of Egypt began its banking reform programme, and in the case of Iraq, private sector banks have made little impact on the dominant position of Rashid and Rafidain. The same can be said for the banking system in Algeria, although in both Iraq and Algeria, the failure of private sector banks to take market share is due in part to the significant role of state-owned companies in the economy and government policy of forcing such state-owned companies to deal with state-owned banks.

The central bank should encourage mergers between some of the larger private sector banks to enable the creation of institutions with a size that will be able to handle large domestic and regional



The Tohid Tunnel in Tehran against the backdrop of the Alborz Mountains. Iran has one of the biggest economies in West Asia and the Middle East. ©Borna Mirahmadian / Shutterstock.com

financing requirements and compete with large banks in the Middle East and Turkey. At the same time, some of the smaller banks, which have little chance of making an impact on the financial system, should be encouraged to merge to create strong middle-ranking banks.

THE AVAILABILITY OF CREDIT WILL INCREASE SIGNIFICANTLY

Turning to a macro-prudential perspective, there are several factors that will lead to a significant increase in bank credit in the short and medium term.

First, the repatriation of funds that have been blocked or frozen in recent years may amount to about \$30 billion. ‘Blocked’ funds typically refer to the proceeds oil sales that are held in overseas bank accounts in the country that bought the oil. Under the sanctions regime, these funds could be used to buy non-sanctioned goods in the same country (for example, India), but since the value of oil exports greatly exceeded the value of desired and eligible imports, a surplus remained. Those surpluses can now be repatriated to Iran. ‘Frozen’ funds refer to those that have been subject to sanctions: some of these funds will now be released.

Thirty billion dollars is equivalent to 14% of private sector credit extended by banks at the end of September 2015. Clearly not all of this will flow through the banking system and be transformed into credit (much of it is expected to remain in government and central bank accounts), but even if only a portion is intermediated into credit, banks’ lending resources will be significantly increased.

Second, interest rates are coming down, making borrowing more attractive to bank customers. In February, bankers agreed with the Central Bank’s Money and Credit Council to reduce the interest rate on one year deposits by 2% to 18%. Rates had previously been reduced by 2% to 20% in May 2015. Lending interest rates were to be cut by 2% to 22% in February. (The three month deposit rate remains unchanged at 10%.)

These reductions in long term interest rates have been prompted by the dramatic fall in inflation, from around 45% in 2013 to around 12% today. Yet real interest rates remain high, so further cuts in interest rates should be expected.

Third, the central bank has been reducing banks’ reserve requirements. It announced in November that its previous deposit reserve requirement of 13% would be reduced to a range between 10% and 13%, with the better managed banks receiving the full reduction. Money placed with the CBI as reserve requirements totalled \$31.3 billion in September 2015. If this reflected a reserve requirement of 13%, and if reserve requirements were reduced by an average of 2% for the banking system as a whole, then \$4.8 billion would be liberated on the banks’ balance sheet and could be used to extend credit.

Fourth, the government’s economic stimulus plan encourages consumer borrowing as a way of boosting consumption. For example, in the first half of November, the government eased restrictions on credit card issuance and the provision of retail mortgages, and introduced a scheme to facilitate purchases of local cars. (The car-

buying scheme was so successful that it was suspended, at the request of the central bank, after 110,000 cars were bought.)

Putting these four factors together, it is reasonable to expect a significant increase in bank credit in the next two years. When rapid increases in bank credit happen at this stage in a banking system’s development they invariably lead to asset quality crises. The upgrading of underwriting ability (including the hiring and training of new credit analysts) always lags the growth of credit, and this problem is compounded by weak underwriting ability to begin with.

THE LEVEL OF NON-PERFORMING LOANS IS HIGH, AND WILL BECOME HIGHER

Non-performing loans (NPLs) account for about 12% of bank loans, according to government officials, speaking in February. That is very high, although not surprising given the level of development of the Iranian banking system and the pressure that the economy has been under from the sanctions regime. However, it is generally accepted that Iranian banks do not recognise the full extent of their non-performing loans, so a true figure is likely to be higher than 12%. Add to that the likelihood that loan losses will increase as a result of rapid credit expansion in the next one or two years, and some Iranian banks could be seeing NPL ratios of over 20% in the medium term.

Given generally low capital ratios, it is reasonable to assume that several Iranian banks will become technically insolvent, although it is equally reasonable to assume that the Central Bank will exercise forbearance and allow such banks to continue operations despite breaching regulatory requirements.

The one bright spot in this scenario is that improved government liquidity will likely enable the government to regularise its non-performing exposures to the banking system. There are already reports that it is planning to swap some non-performing facilities with bonds that could be tradable and usable as collateral. However, the size of such a debt restructuring is unknown.

Over the medium term, the monetary environment in Iran will present many challenges to the banking system, but individual banks will have the opportunity to distinguish themselves through strict accounting, strong transparency and disclosure, careful expansion, and clear strategic vision. Darien Analytics looks forward to following these developments – both at a systemic level and at the level of individual banks – in the months ahead. ■

Profile of the Iranian banking system

IRANIAN BANKING SYSTEM: KEY FINANCIAL INDICATORS, 2012–2015*

\$ Billion	Shahrivar 1394 September 2015	IR Billion	Shahrivar 1394 Sept-15	Esfand 1393 March-15	Esfand 1392 March-14	Esfand 1391 March-13	Esfand 1390 March-12
Deposits with the Central Bank	\$32.5	Deposits with the Central Bank	974.2	889.7	793.0	604.2	453.6
Claims on public sector	\$36.7	Claims on public sector	1,100.6	1,040.3	759.6	596.1	419.6
Claims on non-public sector	\$220.2	Claims on non-public sector	6,603.9	6,309.1	5,408.2	4,139.0	3,516.8
Foreign assets	\$76.0	Foreign assets	2,279.1	1,909.1	2,042.7	987.3	969.0
Assets	\$510.9	Assets	15,323.2	14,062.4	12,043.1	8,153.9	6,559.0
Claims on the Central Bank	\$26.9	Claims on the Central Bank	806.0	858.0	602.6	488.3	418.3
Deposits from non-public sector	\$280.8	Deposits from non-public sector	8,421.1	7,472.2	6,061.4	4,276.8	3,279.3
Deposits from public sector	\$9.8	Deposits from public sector	295.1	377.7	314.4	139.5	107.5
Capital account	\$23.8	Capital account	714.8	692.0	728.3	507.8	400.5

* Includes non-bank financial institutions.

The Iranian banking system comprises nearly 30 banks, the majority of which are privately owned. In addition to those listed by the CBI's banking supervision department, there are some credit institutions that fall outside the CBI's supervision but which are included in the CBI's statistical coverage of banking activity.

The combined assets of Iranian banks totalled \$511 billion at the end of September 2015. By way of comparison, Saudi Arabia's commercial banks had combined assets of \$593 billion at the end of 2015, and the UAE's had assets of \$ 674 billion (although the UAE figure is boosted by offshore banks that are not supposed to transact with the local community). The Turkish banking system is the biggest in the region, with assets of \$809 billion at the end of 2015.

Private sector banks account for about two thirds of the Iranian banking system's assets, and about the same proportion of private sector credit and private sector loans.

For more details, please refer to the individual tables on pages 2-5 of this report.



The combined assets of Iranian banks totalled \$511 billion at the end of September 2015.

Credit extended by Iranian banks to the private sector and government sector is equivalent to about 60% of Iran's gross domestic product (the figure is approximate because the timing of the GDP figures and of the credit figures are not aligned). This is more than in Saudi Arabia and about the same proportion as in Turkey.

One has to be careful with these credit/GDP figures: Saudi Arabia has a nascent bond market which can sometimes offer companies an alternative to bank financing (so the lower percentage in Saudi implies a more efficient credit market rather than one that is less efficient). On the other hand, Saudi banks have material amounts

of loans to overseas clients (while Iranian banks do not) implying that the Saudi figure is overstated when compared with that of Iran.

However, in broad terms, Iran's credit to GDP percentage implies that Iranian banks are reasonably efficient at getting credit into the local economy, when compared to the other two large regional economies.

The two big state-owned banks, Saderat and Mellat, and the two recently-privatised big banks, Mellat and Tejarat, account for 48% of deposits, 45% of private sector loans and 44% of the capital of the banks listed on pages 6-7. Although this list omits some institutions, it accounts for the vast majority of banking assets and liabilities in Iran. (See Appendix 2 on page 8.)

Bank Sepah, another state-owned bank is a significant player: the third largest bank when ranked by equity, even if somewhat lower down the ranking when considered in terms of assets, loans and deposits.

After Mellat and Tejarat, Pasargad and Parsian are the two biggest private sector banks with market shares of loans and deposits ranging from 4% to 6% (although Pasargad is much larger in terms of equity). ■

Iranian banks: recent financial results 2014-2015/1392-1393

	RANKED BY EQUITY SIZE			BALANCE SHEET INDICATORS (IR BILLION UNLESS OTHERWISE STATED)					
	Western year-end	Iranian year	\$=IR (at year-end)	Equity (\$million)	Assets (\$million)	Equity	Assets	Claims on Central Bank	Claims on banks and credit institutions
1 Bank Sadarat	20/3/2015	1393	27,995	3,397	39,238	95,099	1,098,471	138,618	48,123
	20/3/2014	1392	25,100	2,966	33,290	74,452	835,567	86,583	19,229
2 Bank Mellī	20/3/2015	1393	27,995	3,287	51,706	92,029	1,447,505	158,309	71,512
	20/3/2014	1392	25,100	3,374	50,085	84,675	1,257,137	132,748	56,697
3 Bank Sepah	20/3/2015	1393	27,995	2,854	22,006	79,884	616,047	58,752	22,978
	20/3/2014	1392	25,100	3,185	22,403	79,949	562,311	49,432	34,029
4 Bank Mellat	20/3/2015	1393	27,995	2,719	51,794	76,124	1,449,984	160,215	105,003
	20/3/2014	1392	25,100	2,822	54,994	70,825	1,380,358	108,834	145,656
5 Pasargard Bank	20/3/2015	1393	27,995	2,412	15,869	67,528	444,244	45,538	72,962
	20/3/2014	1392	25,100	2,091	15,031	52,485	377,270	35,840	72,868
6 Bank Tejarat	20/3/2015	1393	27,995	2,193	33,788	61,405	945,893	83,445	52,000
	20/3/2014	1392	25,100	2,579	34,176	64,734	857,817	99,494	65,541
7 Bank Meskan	20/3/2015	1393	27,995	-	-	-	-	-	-
	20/3/2014	1392	25,100	2,052	37,770	51,507	948,022	29,981	25,875
8 Export Development Bank	20/3/2015	1393	27,995	1,512	4,442	42,323	124,343	3,295	23,105
	20/3/2014	1392	25,100	1,706	5,323	42,828	133,595	3,363	25,187
9 Bank Parsian	20/3/2015	1393	27,995	993	19,726	27,789	552,224	58,144	79,742
	20/3/2014	1392	25,100	1,169	18,536	29,342	465,257	38,831	81,130
10 Bank Eqtesadnovin	20/3/2015	1393	27,995	676	12,160	18,937	340,410	35,258	21,912
	20/3/2014	1392	25,100	757	11,672	19,003	292,968	27,763	37,680
11 Mehr Economic Bank	20/3/2015	1393	27,995	596	15,296	16,676	428,211	20,269	21,605
	20/3/2014	1392	25,100	632	14,234	15,874	357,274	20,269	22,021
12 Bank Karafarin	20/3/2015	1393	27,995	532	4,003	14,885	112,073	10,658	15,919
	20/3/2014	1392	25,100	547	3,994	13,734	100,258	10,645	15,317
13 Sina Bank	20/3/2015	1393	27,995	499	5,322	13,964	149,000	16,482	24,491
	20/3/2014	1392	25,100	474	4,900	11,890	122,980	10,524	28,311
14 Ansar Bank	20/3/2015	1393	27,995	455	7,446	12,745	208,451	20,466	16,738
	20/3/2014	1392	25,100	398	6,887	9,994	172,869	18,947	20,010
15 Samaan Bank	20/3/2015	1393	27,995	386	8,149	10,801	228,118	28,605	40,077
	20/3/2014	1392	25,100	404	7,977	10,132	200,226	23,319	50,024
16 Future Bank	20/3/2015	1393	27,995	284	12,841	7,961	359,472	27,907	5,204
	20/3/2014	1392	25,100	367	10,336	9,208	259,442	20,088	8,173
17 Day Bank	20/3/2015	1393	27,995	284	4,181	7,958	117,039	11,053	18,558
	20/3/2014	1392	25,100	265	3,128	6,659	78,512	11,147	28,887
18 Askariye Credit Inst.	20/3/2015	1393	27,995	275	2,338	7,699	65,442	4,850	2,300
	20/3/2014	1392	25,100	163	1,678	4,100	42,125	3,303	3,271
19 Bank Ghavamīn	20/3/2015	1393	27,995	224	16,181	6,277	452,987	52,143	2,907
	20/3/2014	1392	25,100	247	13,456	6,208	337,754	29,326	8,365
20 Bank Shahr	20/3/2015	1393	27,995	-	-	-	-	-	-
	20/3/2014	1392	25,100	232	5,219	5,826	131,003	14,374	17,016
21 Bank Sarmayeh	20/3/2015	1393	27,995	193	4,979	5,402	139,384	8,870	10,556
	20/3/2014	1392	25,100	269	4,884	6,753	122,595	9,327	9,178
22 Middle East Bank	20/3/2015	1393	27,995	181	1,096	5,081	30,691	2,989	1,224
	20/3/2014	1392	25,100	193	847	4,833	21,263	2,013	1,574
23 Bank Hikmat Iran	20/3/2015	1393	27,995	166	725	4,661	20,302	1,655	4,928
	20/3/2014	1392	25,100	182	549	4,566	13,769	1,071	1,195
24 Bank Gardeshgari	20/3/2015	1393	27,995	147	2,655	4,110	74,320	8,487	3,044
	20/3/2014	1392	25,100	179	1,778	4,497	44,638	4,804	2,626
25 Iran Zamin Bank	20/3/2015	1393	27,995	120	2,813	3,359	78,746	6,506	657
	20/3/2014	1392	25,100	181	1,580	4,545	39,656	3,837	164
26 Post Bank	20/3/2015	1393	27,995	77	1,625	2,169	45,483	5,063	2,140
	20/3/2014	1392	25,100	139	1,431	3,488	35,910	4,090	1,629

The statistics below must be read in conjunction with the Appendices on page 8.

		INCOME STATEMENT (IR BILLION)				FINANCIAL RATIOS (%)					
Total loans	Total deposits	Operating income	Operating expenses	Provisions	Net profit/loss	Equity/assets	Loans/deposits	Equity/loans	Net profit/average assets	Net profit/average equity	Operating expenses/operating income
622,939	814,077	42,815	27,717	6,912	7,361	8.66	76.52	15.27	0.76	8.68	64.74
481,980	637,022	35,446	23,618	3,753	6,655	8.91	75.66	15.45	0.85	8.63	66.63
838,096	1,054,825	-	-	-	12,967	6.36	79.45	10.98	0.96	14.68	-
710,155	904,612	-	-	-	-25,514	6.74	78.50	11.92	-	-	-
327,856	345,862	18,234	18,525	-	115	12.97	94.79	24.37	0.02	0.14	101.59
318,767	278,835	14,716	14,129	-	587	14.22	114.32	25.08	0.13	1.38	96.01
984,968	933,432	51,201	27,063	4,960	18,303	5.25	105.52	7.73	1.29	24.91	52.86
927,777	919,692	55,655	26,604	11,156	16,792	5.13	100.88	7.63	1.31	26.23	47.80
275,119	348,674	21,564	4,682	2,929	12,643	15.20	78.90	24.55	3.08	21.07	21.71
219,191	298,942	21,315	3,573	870	15,669	13.91	73.32	23.94	4.51	30.72	16.76
610,648	707,272	26,113	19,205	864	4,920	6.49	86.34	10.06	0.55	7.80	73.55
519,309	627,899	32,456	15,275	8,642	4,130	7.55	82.71	12.47	0.56	7.98	47.06
-	-	-	-	-	-	-	-	-	-	-	-
819,070	277,764	-	-	-	-29	5.43	294.88	6.29	0.00	-0.06	-
79,572	40,068	-	-	-	1,198	34.04	198.59	53.19	0.93	2.81	-
87,133	44,019	-	-	-	115	32.06	197.94	49.15	0.10	0.33	-
325,768	413,600	8,830	4,951	2,903	975	5.03	78.76	8.53	0.19	3.41	56.07
284,158	354,580	16,012	4,108	5,064	5,358	6.31	80.14	10.33	1.28	19.86	25.66
247,115	292,356	10,544	4,035	2,580	3,677	5.56	84.53	7.66	1.16	19.38	38.27
194,692	247,446	10,057	3,296	754	5,396	6.49	78.68	9.76	2.08	29.79	32.77
277,961	404,392	7,452	4,322	1,538	1,592	3.89	68.74	6.00	0.41	9.78	58.00
225,481	323,883	6,331	3,343	2,437	550	4.44	69.62	7.04	0.31	6.93	52.80
69,313	82,592	6,288	1,451	521	3,702	13.28	83.92	21.48	3.49	25.87	23.08
58,281	70,898	5,416	1,129	337	3,381	13.70	82.20	23.57	3.82	26.53	20.85
84,702	126,489	5,566	2,427	569	2,351	9.37	66.96	16.49	1.73	18.19	43.60
63,204	93,945	7,359	1,821	391	4,838	9.67	67.28	18.81	4.45	46.99	24.75
146,034	168,342	9,188	4,780	808	3,255	6.11	86.75	8.73	1.71	28.63	52.02
116,428	142,131	7,012	3,663	409	2,601	5.78	81.92	8.58	1.77	30.00	52.24
122,396	179,493	5,731	3,129	1,591	1,011	4.73	68.19	8.82	0.47	9.66	54.60
103,095	158,152	5,382	2,390	770	2,043	5.06	65.19	9.83	1.23	21.40	44.41
209,736	216,454	3,634	3,522	1,230	-1,119	2.21	96.90	3.80	-0.36	-13.04	96.92
148,035	200,715	4,176	2,530	438	1,208	-	-	-	-	-	-
58,924	85,935	5,890	2,004	1,487	2,398	6.80	68.57	13.51	2.45	32.81	34.02
23,559	65,944	2,765	1,151	171	1,352	8.48	35.73	28.27	2.11	20.44	41.63
41,893	52,133	3,061	1,231	523	1,307	11.76	80.36	18.38	2.43	22.15	40.22
25,774	37,060	2,043	902	138	1,004	9.73	69.55	15.91	3.09	30.90	44.15
376,098	423,357	10,052	4,457	4,668	927	1.39	88.84	1.67	0.23	14.85	44.34
254,653	315,086	6,428	3,235	1,508	1,600	1.84	80.82	2.44	0.53	15.63	50.33
-	-	-	-	-	-	-	-	-	-	-	-
51,909	93,209	3,510	1,917	593	1,000	4.45	55.69	11.22	-	-	54.62
95,650	71,033	1,356	1,215	84	57	3.88	134.66	5.65	0.04	0.94	89.60
84,776	73,635	3,016	1,027	601	1,351	5.51	115.13	7.97	1.31	21.91	34.05
20,751	23,347	1,507	397	149	849	16.56	88.88	24.49	3.27	17.13	26.34
12,709	14,424	1,259	220	159	820	22.73	88.11	38.03	6.11	17.75	17.47
7,243	14,597	1,096	649	49	399	22.96	49.62	64.35	2.34	8.65	59.22
5,393	8,502	951	463	47	442	33.16	63.43	84.67	3.80	9.72	48.69
14,992	67,524	1,498	1,021	327	151	5.53	22.20	27.41	0.25	3.51	68.16
5,792	37,965	1,882	612	583	687	10.07	15.26	77.64	2.12	17.94	32.52
16,160	51,462	1,069	1,483	372	-786	4.27	31.40	20.79	-1.33	-19.89	138.73
8,030	27,454	1,417	1,163	107	-22	11.46	29.25	56.60	-0.08	-0.63	82.07
29,451	36,352	1,365	2,233	425	-1,293	4.77	81.02	7.36	-3.18	-45.71	163.59
21,360	26,971	1,812	1,652	109	51	9.71	79.20	16.33	0.17	2.32	91.17

Appendices

APPENDIX 1: INTERPRETING THE FINANCIAL STATEMENTS OF IRANIAN BANKS

The balance sheets of Iranian banks present few problems for the analyst but the profit and loss statements are a minefield.

Loans, or their equivalents, are easy to identify, as are the various types of deposits that Iranian banks offer.

One item to watch on the balance sheet is 'saayir hisaabha-ye dar yafté'. These refer to letters of credit and similar facilities where the bank has extended credit on behalf of client and will seek reimbursement once the facility has been called. These facilities, which are usually not significant, are not included under loans in our analysis.

As for the profit and loss statement, the first point to note is that, in common with many Shari'ah-compliant banks, Iranian banks often do not include money paid to depositors (which is "interest expense" for conventional banks) alongside income received from credit facilities and credit-like instruments (which has "interest income" for conventional banks). Instead, Iranian banks often include these payments to depositors under "Expenses".

This is not a difficult point – one just has to keep an eye out for where payments to depositors are placed in the profit and loss statement and re-state it when necessary. In our analysis, we always restate Iranian banks' income so that payments to depositors are included in the calculation of operating income. (The reasons why Shari'ah-complaint banks treat payments to depositors in the way they do lies beyond the scope of this analysis: but it is fairly standard practice for Shari'ah-compliant banks.)

Strictly speaking, Iranian banks (like other Shari'ah-compliant banks) do not pay or receive interest since this is banned under the Shari'ah. In theory, they receive returns on co-investments made with their depositors funds, and they pass an agreed portion of these returns to the depositors' and keep a portion for themselves. In practice, receipts from credit facilities and payments to depositors are equivalent to conventional interest.

More troublesome is the treatment of operating expenses. After stating their operating profits, Iranian banks have an item for administrative and general expenses. But many then also include other expense items that should be placed within the calculation of operating income: for example, 'hazinéha-ye maali' and 'hazinéha kar mazd'. Nearly all banks have an item of 'other expenses' ('saayir hazinéha) which comprise both irregular payments to certain types of depositors (in the form of 'prizes'

rather than regular interest payments) and foreign exchange fees.

In our analysis we have restated Iranian banks' profit and loss statements so that all three items mentioned above are included in the calculation of operating income. The figure we give for 'operating expenses' is the item 'hazinéha-ye idari o umoomi'.

The figure we give for net profit is therefore calculated as follows: operating income (restated as explained above), minus operating expenses, minus provisions for doubtful debts, minus taxes ('maalíyat').

Reporting by some banks – particularly those that are state-owned – is sometimes less detailed than that of others. This applies in particular to provisions for non-performing loans. As a result, in our summary of Iranian banks' financial statements, we have sometimes left an item blank.

More broadly, considerable care has to be taken when looking at individual numbers in isolation. Restatements of prior year figures are often significant (even in the absence of any fundamental balance sheet reorganisation) and figures in an annual report may differ from those disclosed to the stock exchange.

In the table on pages 6-7 of this report, figures for Iranian year 1392 are taken from the financial statements for 1393, and figures for 1391 (not shown, but used to calculate ratios based on average assets and average equity) are taken from financial statements for 1392.

APPENDIX 2: THE STRUCTURE OF THE IRANIAN BANKING MARKET

The banking table on pages 6-7 of this report includes figures for 18 of the 19 non-government owned banks listed by the Central Bank of Iran's Supervision Department (Refah Bank is omitted because recent figures were not available), and all three of the government owned banks: Melli, Sepah and Post. It includes two of the five specialised government banks: Export Development Bank and Bank Maskan ('Housing Bank'). 1393 or 1392 figures were not available for the other three specialised government banks: Bank of Industry and Mine, Bank Keshavarzi ('Agricultural Bank') and the Co-operative Development Bank.

The banking table also includes Bank Ayandé ("Future Bank" – note that this is not the Bahraini bank with the same name), Askariye Credit Institution and Mehr Economic Bank.

Although the banking table omits a few licensed institutions, it represents the

vast majority of regulated banking activity in Iran.

A consideration of the post JCPOA sanctions regime lies beyond the scope of this report and nothing in this report should be construed as a recommendation to do business, or not to do business, with any particular bank or with the Iranian banking system as a whole. Readers should note that some banks listed on pages 6-7 remain subject to EU sanctions and that many financial institutions and many types of financial transactions continue to be subject to US sanctions.

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