Introduction to Iranian Banking System
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Banking Relations as Prerequisites for Foreign Investment

Existence of banking relationship between Islamic Republic of Iran and investor’s domicile country (the country from where the investor wishes to transfer proposed funds)

It is essential to have correspondent banking relations to facilitate financial transactions, specially fund transfers for investment purposes, otherwise indirect fund transfer through other means such as exchange houses will be:

✓ High Risky
✓ Costly
Consequences of Sanctions on Banks

✓ Suspension of correspondent banking relationship between Iranian and European Banks

✓ Considerable reduction in bilateral trade

✓ Higher costs of transactions and increase in prices

✓ Substitution of suppliers with those of the countries with better banking relationship

Note: Iranian Banks did not have the opportunity to be rated by international notable credit rating institutions such as Moody's due to the sanctions; however after the implementation date such issue is under review by these institutes.
Elimination of Nuclear-related Sanctions

Prompt after Implementation Day, the following activities by non-U.S. persons are no longer sanctionable:

- Financial and banking transactions with the Central Bank of Iran (CBI) and other specified Iranian, financial institutions

- Transactions involving the Iranian Rials or maintaining funds or accounts outside of Iran denominated in the Iranian Rials

- Providing U.S. bank notes to the Government of Iran

- The purchase, subscription to, or facilitation of the issuance of Iranian sovereign debt, including governmental bonds
Elimination of Nuclear-related Sanctions

- Providing specialized financial messaging services to the CBI and Iranian financial institutions

- The provision of associated services for each of the categories above

- Iran-related Transactions by foreign financial institutions who have branches in the United States, provided that such branches in the United States are not directly or indirectly involved in the transactions. In addition, such transactions may not transit the U.S. financial system

Beginning on Implementation Day, any non-U.S. financial institutions engaging in transactions with Iranian financial institutions (including the CBI) not appearing on the SDN List will not be exposed to sanctions.
Effects of the lifting of the financial and banking-related sanctions:

Beginning on Implementation Day, sanctions on services including financial and banking transactions, with the Government of Iran, the CBI, Iranian financial institutions, and other Iranian persons specified in Attachment 3 to Annex II of the JCPOA, including the provision of loans, transfers, accounts (including the opening and maintenance of correspondent and payable-through accounts at non-U.S. financial institutions), investments, securities, guarantees, foreign exchange (including Iranian Rial-related transactions), letters of credit and commodity futures or options, the provision of specialized financial messaging services.
and facilitation of direct or indirect access thereto, the purchase or acquisition by the GOI of U.S. bank notes, and the purchase, subscription to, or facilitation of the issuance of Iranian sovereign debt, do not apply to non-U.S persons.

United States Government committed to license three categories of activity that would otherwise be prohibited under the ITSR (Iranian Transactions and Sanctions Regulations), provided that relevant transactions do not involve individuals or entities on the SDN List and are otherwise consistent with applicable U.S. laws and regulations:
A Statement of Licensing Policy (SLP) allowing for the case-by-case licensing of the export, re-export, sale, lease, or transfer to Iran of commercial passenger aircraft, spare parts and components for such aircraft, and associated services, all for exclusively commercial passenger aviation.

A general license H (GLH) authorizing U.S.-owned or -controlled foreign entities to engage in certain activity with Iran that is consistent with the JCPOA.

A general license authorizing the importation into the United States of Iranian-origin carpets and foodstuffs, including pistachios and caviar.
A Brief Introduction of Iranian Banking System:

There are 30 banks in Iran divided in 5 categories:

1) **State Owned Commercial Banks**
   1. Bank Melli Iran
   2. Post Bank of Iran
   3. Bank Sepah

2) **State Owned Specialized Banks**
   1. Export Development Bank of Iran
   2. Bank of Industry & Mine
   3. Bank Keshavarzi
   4. Bank Maskan
   5. Cooperative Development Bank
A Brief Introduction of Iranian Banking System:

3) National banks that were privatized
   1-Mellat Bank
   2-Refah Bank
   3-Bank Saderat Iran
   4-Tejarat bank

4) Originally established private banks
   1-Bank Pasargad
   2-Eghtesad Novin Bank
   3-Karafarin Bank
   4-Parsian Bank
   5-Saman Bank
   6-Sarmayeh Bank
   7-Sina Bank
   8-Shahr Bank
   9-Day bank
   10-Ansar Bank
   11-Hekmat Iranian Bank
   12-Gardeshgari bank
   13-Ghavamin Bank
   14-Khavarmianeh Bank
   15-Iran Zamin Bank
   16-Ayandeh bank

5) Gharzalhasaneh (Saving) Banks
   1-Gharzolhasaneh Mehr Iran Bank
   2-Gharzolhasaneh Resalat Bank
In order to enhance the technical knowledge and expertise of the banking system in the field of Anti-Money Laundering (AML) and Combating of the Financing of Terrorism (CFT); Central Bank of Islamic Republic of Iran (CBI) has set up local regulations in accordance with international rules and regulations.

In order to combat Money Laundering a High Council of AML has been formed in Iran with the below structure:
The following acts and resolutions have been passed in Iran in order to fight money laundering:

- Central Bank of Iran Resolution No. 90/41478 dated January 16, 2012
- Central Bank of Iran Resolution No. 274508 dated February 6, 2012
Specifically to fight against money laundering, a 7-member High Council of Anti-Money Laundering has been formed in Iran comprised of:

- Minister of Economic Affairs & Finance
- Governor of Central Bank of Iran
- Minister of Interior
- Minister of Commerce
- Minister of Intelligence
- Minister of Justice
- Minister of Foreign Affairs

All banks in Iran are obliged to immediately report any kind of suspicious activity to the Central Bank of Iran and Financial Intelligence Unit (FIU) at the Iranian Ministry of Economic Affairs & Finance
Iranian banks as major players in the country’s economy are subject to extensive regulations in terms of:

- Financial Transparency
- Capital requirements and structure
- Retaining provision for doubtful debts
- Exposure and related party facilities
- Ratio of shareholder’s equity to fixed assets
Low Trade Finance Risk

Risk of Trade Finance is particularly low in Iran due to:

**Risk Assessment of Trade Finance Business by Iranian banks**

**Strict Due Diligence of Trade Finance Business by Iranian banks**
- trading partners or counterparties of our customer
- nature of the goods traded (No dual use goods)
- country or countries of origin of the goods

**Observance to UCP 600, URC, URDG and other ICC rules and regulations**

**Sanctions Screening & Background check – installation of specialized software**
Low Trade Finance Risk

Risk of Trade Finance is particularly low in Iran due to:

**Strong AML regulations imposed by Central Bank of Iran**

**Avoidance of High Risk Correspondent Banking**

**Strong Monitoring & Surveillance**

**FATF and CFT regulations have been recently approved by the Iranian parliament and the by-laws and related procedures are presently under preparations for implementation**
To protect banks’ reputation and integrity of banking system by reducing the likelihood of banks becoming a vehicle for or a victim of financial crime, KYC procedure is considered of high importance in Iranian banks.
Essential Elements of KYC:

**Customer acceptance policy determined**

**Customer identification defined as per local regulations**  
Initial and Full Identification

**Ongoing monitoring of high risk accounts**  
customers are classified according to their level, field and region of activity and as well as risks of the correspondent banks involved in transactions to 3 levels of high, medium and low risk and monitoring occurs accordingly

Note: Depositors will be asked to clarify the source of funds, when they are intending to open account.
Services Rendered by Iranian Banks in Both Local and Foreign Currency:

Account Types

- Gharzalhasaneh Savings Account
- Gharzalhasaneh Current Account
- Term Deposit Accounts (1,3,6,9,12 months)

Gharzalhasaneh savings and current accounts are not entitled to any profit (interest) distribution.

Main International Banking Services:

- Foreign Exchange, Transactions, including inward/outward transfer
- Foreign Currency Accounts
- Letter of Credit
- Handling of Documentary Collections
- Letters of Guarantee
- And other authorized banking services
1-Agency offices of foreign company must be registered in Iran, same as Iranian companies.

2-The company’s articles of association, certificate of incorporation and the notice of establishment and the latest notices of changes in the official gazettes regarding the legal entities.

3-Specific Identification Number for foreign legal Entities, which can be requested via all our branches upon customer's request.

4-Valid passport and Specific Identification Number for persons who are solely or jointly the authorized signatories of the account.
5-Company's Management Structure and List of Board Member and their relevant details

6-All information of parent company in country of its establishment.

7-Board of Director's Resolution for opening account as well as confirming the authorized signatories.

* For any type of account opening, full identification of the customers, based on their identification documents, valid residential permit and work permit are required.
✓ Obtaining investment license (procedure as described on the website of Organization for Investment Economic and Technical Assistance of Iran)

✓ Account opening with one of the licensed banks, regulated by CBI

✓ Transfer of funds from the investor’s account abroad to the Iranian Bank’s designated account in favour of investor’s account in Iran

✓ Utilization of the funds by providing an application to the Bank, who will then report to FIPPA

✓ Conversion of foreign currency to IRR at prevailing rate upon investor’s instructions to the Bank and in order to utilize the funds locally through the Bank or keeping the funds in foreign currency at the bank to use for importation of equipment, machinery, etc. through the same bank.
Note: when applying for registration of importation, the investor should remark that the importation will take place from the importer’s own foreign currency funds.

Note: According to the “Foreign Investment Promotion and Protection Act (FIPPA), the foreign investment and its profits may be transferred in foreign currency or goods and repatriation of the profit out of local sales in addition to the principal amount of investment is allowed in hard currency at prevailing exchange rate.
1-In case approval of the relevant ministry is required for importation, the applicant must submit the P/I to the Ministry to obtain such permission.

2-The applicant must also obtain license for importation by registering on the website of Ministry of Industry, Mine and Trade.

3-Submission of required documents including P/I, Insurance Policy, etc to the Bank and completion of necessary application forms.

4-The Bank will start the process of credit analysis, once the applicant’s due diligence process is completed (one of the criteria considered is lack of overdue debts to the banking system).
Trade finance Procedure in Iran

5-The amount of collaterals and advance payment will be determined by the Bank’s credit committee

6-The applicant pays for the relevant costs of LC opening

7-The LC will be opened once the required foreign currency is allocated by Central Bank of Islamic Republic of Iran (CBI)

Note: FX Allocation by CBI: Importation of Iranian companies is mainly done upon allocation of 100% of the foreign currency by CBI for the customer, which is then purchased from CBI via the opening bank.
In case the importer is willing to expose itself to the associated risks, they may pay for the value of the goods and or services prior to transportation by providing 100 percent of the foreign currency which is allocated by CBI and purchased through the Bank, unless the importer wishes to provide foreign currency from its own sources broad. Current limitation for importation through payment orders is EUR 500,000. Therefore if the total amount of the P/I exceeds above limit, the importer has to use other means such as LC opening.
After completion of steps 1-5 as mentioned in case of LC opening:

1-The applicant will obtain a registration number from the Bank

2-The aforesaid number will be quoted to the seller to be mentioned on shipping documents.

3-The seller will ship the goods based on existing trust and submit the shipping documents to its banker with instructions either for delivery against payment or instruction for acceptance of payment at maturity.
Inspection may be mandatory for certain types of commodities to ensure that the merchandise conforms to the standards and to the buyer’s criteria.

Such inspection may be required to take place prior to shipment or at the destination, by internationally acceptable inspection companies.
Thank you looking forward to your investment in Iran

Assuring you of our full support and assistance