CHAPTER VII: CONCLUSION AND SUGGESTIONS
In this chapter, the summary of the chapters is given.

1. The financial system is the linchpin of a modern industry economy. The financial system promotes savings by providing a wide variety of financial assets to the general public. Savings collected from the household sector are pooled together and allocated to various sectors of the economy for raising production levels. If the allocation of credit is socially equitable, it can help to uplift weaker sections of the society and contribute to the speedy development of the backward regions of the country and in a bank-based economy; banks are such engines of growth which when functioning with a tremendous market drive achieve economic democracy and economic freedom for the nation, releasing in its wake a sea of positive changes.

2. The importance of banks in any country lies on how banks efficiently work for the contributions in terms of economic growth and development of a country. If a banking system fails to achieve the define objectives, then the economic growth and development cannot be achieved as per policy objectives of the plans.

3. Iranian banks suffer from a low level of efficiency due to their limitations in effective utilization of their deposits, their inability to terminate excess employees, the absence of competition among their staff, management and among banks in general, collection difficulties and their high cost of collecting their suspect and bad debts.

4. Effectiveness of the banking sector’s contribution to the economic growth and development is broadly determined by its efficiency in the allocation of the mobilized savings amongst competing projects.

The Basel II Framework describes a more comprehensive measure and minimum standard for capital adequacy that national supervisory authorities are now working to implement through domestic rule-making and adoption procedures. Framework is intended to promote a more forward-looking approach to capital
supervision, one that encourages banks to identify the risks they may face, today and in the future and to develop or improve their ability to manage those risks. As a result, it is intended to be more flexible and better able to evolve with advances in markets and risk management practices. The Basel II developed the comprehensive guidelines to promote and enhance market discipline for the banks. The Pillar-1 concerns a number of options for calculating banks’ minimum capital charge for credit, operational and market risk. The Pillar-2 concerns the supervisory review process. The Pillar-3 concerns measures designed to promote enhanced market discipline.

The share of financial services sector in Iran during last five years exponentially increased from 2 percent to 4.5 percent of GDP. The banking system had different structure before Islamic revolution era and after Islamic revolution, Iran adopted the present banking structure to control over the credit flow into the economy.

According to the “usury free banking law” the Iranian banking is based on idea of profit/ loss sharing mechanism like mosharakah mode, partnership or direct investment by the long-term facilities outstanding others are fixed agreed rates transactions like ijarah, or salaf or mark-up and so on. Qard-al-hasanah or interest-free outstanding mode of facilities is through the basic justice aim of the Islamic banking system for helping the needy in the consumption loans.

Based on the country’s general economic policies and priorities set, as well as taking into consideration its monetary situation, central bank of Iran shall formulate the general policy guidelines for credit and provision of banking facilities, for the term of each plan, whether five year or longer, with due regard to economic impact, so as to be submitted, subsequent to adoption by the currency and credit council, together with the bills and development plans to the parliament.

The importance of efficiency in economic literature is tremendous in terms of concept, models, calculation and for framing the economic utilization of scarce resources in the economics. The term efficiency entails how to utilize scarce resources for best possible outputs.

The Islamic Republic of Iran (IRI) is one of the big countries in terms of area and population with rich underground and natural resources such as oil, gas, diverse
mines with 70% of population are high educated youth as a rich human capital in the Middle-East and Persian Gulf region.

Iran has the second largest population after Egypt in the Middle East and North African region\(^1\). Most of its 69.1 million people are young. Larger numbers of increasingly well-educated women seek opportunities to participate at all levels of Iran’s labor market and civil society.

**Chapter IV:**

The Iranian economy is always influenced by various economic, non-economic and foreign policy interventions. In 2006 Iran's GDP (at the official exchange rate) was estimated at US$ 217.9 billion; GDP in terms of purchasing power parity (PPP) was US$ 694.4 billion, or US$ 9,906 per capita. The estimated GDP growth rate was 5 percent. Industry contributed an estimated 45.3 percent, services 43.7 percent, and agriculture 11 percent of GDP\(^2\).

Rich reserves of hydrocarbons as well as other natural resources alongside the country’s geo-strategic position make it a unique economy in the region. According to statistical review of world energy reserves, the country holds the world’s second largest oil reserves after Saudi Arabia, with proven reserves of 137.5 bn bbl in 2006 and produced 4.3 mn barrels of oil per day (b/d) in 2006. The country’s estimated Natural gas reserves are more than 32 trillion cubic meters (second in the world behind Russia). Oil revenue of government plays the major role in the government budget even much more than tax revenue so not only government budget depends upon uncertain and risky oil revenues but also whole economic growth depends on exogenous variable of oil market, and prices which are sensitive to political movements as well.

Major Challenges ahead for Iranian economy are: A double-digit inflation rate, Low productivity growth, High dependency of state revenue on oil revenue, High unemployment, A government sector that is too large, Low share of non-oil exports in total exports, even though this share has grown in recent years, Unstable political movements as well.

\(^1\) Concern table and figure of middle east countries population has been given at appendix number II

situation in the region, and somewhat difficult international relations because of issues related to Iran’s nuclear energy industry. High rate of liquidity growth caused by increases in the foreign reserves of the central bank as a result of increased oil exports and weak sterilization policy.

The privatization program in the Fourth FYDP is likely to be more successful than the one in the Third FYDP because there is a new interpretation of Article 44 of the Constitution. This new reading of Article 44 will likely pave the way for the privatization of state industries such as banking, insurance, and aviation.

The prospects for the Iranian economy are promising. The commitment of the government to fulfill the broad-based reform package in the Fourth FYDP will create conditions more favorable for economic growth. As the world becomes increasingly integrated both economically and financially, economic progress in any single country is not only in that country’s national interest, but also in the collective international interest. This is why it is important that the forces working for reform and liberalization should be engaged constructively. Iran has embarked upon an ambitious program of reform and liberalization, and the country will take advantage of economic globalization to advance its program.

Chapter V:

Before the printing of first bank note by the Bank Shahanshahi (Imperial Bank), a kind of credit card called “Bijak” had been issued by money dealers. It was in fact a receipt of a sum of money taken by money dealers from the owners of Bijak. The credence of the Bijak depended on the creditability of the money dealer who had issued it.

The Central Bank of Iran (CBI) was established in 1960, and given task to handle trade activities and other operations (acting as the treasurer of the government, printing bank notes, enforcing monetary and financial policies and so on). The duties of the central bank included making transactions on behalf of the government, controlling commercial banks, determining supply of money, foreign exchange protective measures (determining the value of hard currencies against rial) and so on.
The post Islamic revolution banking has special structure than pre-Islamic revolution banking. The structure of post-Islamic revolution banking drastically changed due to changing political structure of the country.

In February 1979, the Islamic Revolution had taken place and within a couple of months, the political structure of Iran and constitutional law had been changed from monarchy in favour of Islamic Republic. This drastic change in political structure made obligatory to change in the banking structure according to the Islamic constitutional law and Shariah. In June 1979, all Iranian private banks and insurance companies were nationalized and brought under the government control.

Efficient structure of the banking system to fulfillment of the role of banking system in financial resources allocation to the optimal investment plans with well-organized and design of governance structure to dynamic and automatic operation adoption mechanism to decrease the transaction costs of the system in the institutional environment of Islamic banking and Islamic modes of financial transaction. Most probably partnership contracts or profit-sharing transactions will conduct the high economic growth rates.

Iranian banking system is most government owned system, so governance structure of the system is important specially monitoring of the autonomous organization to surveillance of the system in industry level efficiency and operation by the key financial ratios including capital adequacy ratios, profitability ratio, liquidity ratio, cash flow ratio, deferred loans, non-performing assets and external audit of the financial statements along with standardization of the financial statements according to the Basel committee guideline and international standards for unification of the standards and comparative studies of the system performance will actuate the management of the banks to compete hard and system will go towards the efficient allocation of the resources.

When banks face sound governance mechanisms, they will efficiently mobilize and allocate funds, this lowers the cost of capital to firms, boosts capital formation and stimulates productivity growth. Thus, weak governance of banks reverberates throughout the economy with negative ramifications for economic development. The Islamic concept of corporate governance stresses the three main areas of
accountability, transparency and trustworthiness. But in public banks, governance system still has weakness which executive manager of bank is a member and head of board of directors and other members are in charge of administrative affairs as assistants of head. So he will not be responsible and liable.

On the other hand, the lack of competition among domestic banks, and the absence of foreign banks as potential competitors have meant that Iranian banks have paid little attention to technology and a combination of factors which would have otherwise enhanced their productivity. And also unreasonable interest rates and unjustifiable allocation of resources to economic projects in the present banking system has prevented the banks from doing a good job. In order to activate the banks, some experts underline the need for changes and reforms in some existing laws.

In order to improve the economic conditions, significant steps are being taken to privatize the banking system in relative terms. These actions include the transfer of 49% of the government owned banks' shares to the private sector. The role of the non-banking financial institutions will also be enhanced.

On the other hand certain compulsory disbursement of credit facilities, which have been determined and approved in the framework of annual budgets, have created serious impediments for the banking management to allocate the resources to profitable economic projects. The fact is that the government has used the banking system to drive ahead its own objectives and schemes. The private sector has so far been afforded a lesser access to the banking resources and facilities. But the share of this type of positive regulations gradually was decreasing recently.

So in the industry level banking business in Iran still under efficient state but many attempts in recent years were made regarding openness of system by permission to private sector to open limited number of banks, and also issuing permission for entering foreign banks to work in the system under regulation of the central bank of Iran. And also privatization policy has taken place by reform of article 43 of constitutional law then recently two big banks are on the privatization process to offer their share to public. Also decreasing trend of government ceiling policies, and more
flexibility denoted more liberty atmosphere. Decreasing trend of share of budgetary facilities in total outstanding facilities by banking system which are fixed in annual budget of government and turn to market mechanism regulation in subsidiary and protection policies by discount to particular industry in lending rate betoken the reform and improvement of system.

The average ratio of commercial banks assets to GDP is about 55 percent while this ratio for stock exchange market assets to GDP is less than one percent which is distinctive of weak role of the stock market in funding the investment plans in capital market. So, financial system is bank-based system in Iran. The banking sector constitutes an immense part of the Iranian financial system. Many of the transactions and activities which taking place in both money and capital markets are carried out by banks. However, an unfavourable macroeconomic atmosphere caused by macroeconomic instability, persistent inflation, severe fiscal imbalances and balance of payment difficulties increases market and credit risk which in turn complicate bank management. This condition is intensified if the Iranian banking system lacking a prudent regulatory environment.

This chapter attempts to descriptively analyze the structure and operation of the banking sector through analysing the aggregate data of whole banking system provided by the central bank of Iran. The descriptive or ratio analysis is implemented by using the SPSS package. An attempt is made to summarise the facts and figures obtained from the Central Bank of Iran and from other sources to give an assessment of significant developments in the system. Then structural changes, institutional arrangements and also governance structure have been discussed and finally challenges on adoption mechanism and institutional coherence in newly established Islamic banking structure and arrangements discussed. In the next part the financial statements, financial reportage regulations, accounting standards, auditing and transparency of statements and also degree of disclosure of financial statements discussed.

By giving a historical overview, the revolutionary trend of banking system of Iran followed by main structural and regulatory changes including nationalization of
system in 1979 after revolution and Islamization of banking regulation by legislation of usury-free banking law in 1984 has been reviewed.

After the success of the Islamic Revolution in 1979, the process of Islamization from an interest-based to a non-interest (Usury free) based banking system went through three distinct stages.

1. **The first stage was the nationalization of the banking system.** It was carried out during the summer of 1979 by the Revolutionary Council. The causes of the nationalization of the banking system were the stipulation of the Islamic Republic's constitutional law and the need to restructure the banking system. The restructuring and reorganization of the banking system was undertaken in order to remove the weaknesses - the possibility of bankruptcy and the risk of capital flight- from the inherited system. As a result, 22 out of 26 commercial banks were merged, while 4 were allowed to continue their operations under government supervision (the bank Melli, Sepah, Saderat and Refah-e Kargaran) the new banks Mellat and Tejarat were formed from the merger of all other commercial banks, and The Post Bank of Iran established in 1995 by enactment of parliament for operating under the ITC ministry direction.

2. The second stage began in 1982 and continued until 1986. At this stage legislation was introduced in order to adopt and implement a clearly conceptualized model of Islamic banking. The law on interest-free banking was passed in August 1983 in parliament and came into effect on 20th March 1984.

The Islamic banking system is an equity-based system in which depositors are treated as if they were shareholders of a bank. Thus, depositors are not guaranteed the nominal value of their deposits or a predetermined rate of return. If the bank makes a profit, then the shareholders (depositors) are entitled to receive a certain proportion of these profits. On the other hand, if the bank incurs a loss the depositors are expected to share in these as well. Hence, from the depositors’ perspective an Islamic bank is in most respects identical to a mutual company or an investment trust. Furthermore, to remain consistent with the shari’ah principles, the bank cannot charge interest on its loans. The bank provides funds for investment without charging a fixed capital
cost. For this purpose, banks use special modes of financing for investment which are based on the concept of profit/loss-sharing.

The concept and evolution of Islamic banking system was itself obviously revealed from the holly “Quran” by prohibition of fix pre-determined “interest” or “usury” at Sharia’h, Islamic law, on economic and banking system. Sunna’h & Hadith also interpreted the basic applications of basic Islamic Law. The Islamic banking system is an equity-based system in which depositors are treated as if they were shareholders of a bank. Thus, depositors are not guaranteed the nominal value of their deposits or a pre-determined rate of return. Islamic banking system, which has been practising in most of the Muslim countries, only some banks operate on the principle of non-usury basis and others, followed financial system, that is based on the Islamic principles.

The basic principle of Islamic banking gives the idea of “Islamic banking” that expected not only to eliminate the interest rate mechanism, but also to contribute to the achievement of the goals and objectives of an Islamic economy in order to provide an indigenous Islamic basis for socio-economic co-operation between the financial and the real sectors of the economy.

The Islamic financial system prohibits interest and replaces it with risk-bearing lending. Whereas, almost all Muslim economists who have written on Islamic banking are in agreement that the cornerstone of such a banking system is profit/loss-sharing.

After the Islamic Revolution in 1979, laws and regulations pertaining to money and banking institutions and monetary policy design and implementation were amended to reflect the priorities and principles as set out in the Constitution of the Islamic Republic of Iran.

At present, CBI is responsible for the design and conduct of monetary policy within the context of government's five year development plan and annual budget. In line with the articles of the constitution, the monetary and credit policies are formulated and implemented in consistent with the MBAI as amended at 1972, the Banks

Post-Islamic Revolution the central bank was implicitly considered to be a quasi-independent institution similar to that of most western banking system.

In the country most popular accounts are “sight account” and “non-sight account”. The sight account is the current “qard-al-hassanah deposit” peer with current account in conventional banking in other countries, withdraw- able on demand whereas non-sight deposits which will call sometimes as “time deposits” or “saving deposits” withdrawal of which usually requires some notice, classified into the short-term deposits, long-term deposits, qard –al-hassanah saving deposits, and other deposits. Indeed, the short-term and long-term deposits are term-investment deposits which are getting to be involved in the bank’s profit/ loss.

During the pre-Islamic revolution (1976-1979), the average percentage share of sight deposits is found 25.87% whereas the non-sight deposits share was 74.13%. During the transition period of Islamic banking (1979-1983), the average percentage share of sight deposits is found 32.88% whereas the non-sight deposit share was 67.11%. During the partial Islamic banking period (1984-1989), the average percentage share of sight deposits is found 38.60% whereas the non-sight deposit share was 61.39%. During the full-fledged period of Islamic banking (1990 -onward), the average percentage share of sight deposits is found 36.96% whereas the non-sight deposit share was 63.03%.

During the partial Islamic banking, it is found that the share of sight deposit was the highest. However, on the other hand in 1976 the sight deposits in actual term were 362 billion rials that increased to 1655.80 billion rial at the end of transition period of Islamic banking. The total amount of sight deposits further increased to 5342.40 billion rials at the end of partial Islamic banking period and at the end of full-fledged

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2This is a loan extended on a goodwill basis (Benevolent deposits), and the debtor is only required to repay the amount borrowed. However, the debtor may, at his or her discretion, pay an extra amount beyond the principal amount of the loan (without promising it) as a token of appreciation to the creditor. In the case that the debtor does not pay an extra amount to the creditor, this transaction is a true interest-free loan.
Islamic banking period, this deposits increased to 455798.10 billion rials. However, the percentage share of sight deposits increased, in actual terms the sight deposits increased in many folds.

During the transition period of (partial) Islamic banking the average share of short-term deposits was 29.48%, the share of long-term deposits was 15.97%, the share of other deposits was 3.73% and the share of qard al-hassanah deposits was 12.36 from total deposits.

Data analysis illustrates, in time trend of percentage share of sight and non-sight deposits a graduate decline in sight deposits after 1984 and a sharp decrease after 2000 by the stabilization and evolutionary fulfilment of Islamic banking regulation and institutional arrangements along with well macroeconomic management.

However, after a rapid increase in short term deposits, they began to decrease around 1989 in favour of long-term deposits and again sharply increased around 1996 simultaneous with sharp decrease of other deposits in 1996, while share of long term deposits is still increasing continuously. Average percentage share of demand deposits, short term deposits, and long term deposits was 34.93, 25.76%, 21.26% respectively and percentage share of qard-al-hasanah deposits was 9.78%.

The correlation coefficient test indicates 0.511 coefficient positive between percentage share of long term deposits in total deposits and their rate of return. The average increases in the consumer price index during 1984-2007 were around 19.67 and the average rate of return on bank Long term deposits was about 11.41 a year. However, depositors still found that banks were the safest place to keep their money. It is evident that the value of money tends to decrease in an inflationary situation. Clearly, if a debtor who has borrowed a certain amount of money repays the same amount plus some profit to his creditor after a period, the creditor suffers the effects of inflation. In other words, depositors suffer in an inflationary situation. This is one of the unresolved issues for Islamic banks because the demand for the loss of value of money is treated as riba. In Iran the rates of return paid on the investment deposits are calculated by the central bank on the basis of the overall profits made by banks.
Therefore, all depositors receive equal rates of return according to their deposits. This applies regardless of the bank in which the depositors hold their funds. The central bank also estimates the nominal ranges of expected profit to guide banks on the asset side of their operations. Consequently, the rates of return to depositors are influenced by regulation rather than actual market information.

In the asset side of banks accounts declared the profit/loss sharing modes of transactions has decreasing trend over the respective period. Among the major reasons, the first is risk-aversion of banks which is related to the uncertainty nature of PLS modes of financing. The decline of the share of PLS modes from 34% at the beginning of Islamic banking in Iran in 1984 to 20 % by the end of 2006 confirms the tendency of banks to turn gradually to less risky modes of financing. Second, the environment of uncertainty in the Iranian economy may be another reason for the low and decreasing trend of PLS modes in the period considered. The figures indicate that financial resources were allocated largely to short term transactions which were usually used for commercial and trading purposes. This appears to be one of the main outcomes of inflation in the Iranian economy.

The principal core of Islamic banking is that, as a mechanism for allocating financial resources, the rate of interest is replaced with the rate of return on real activities. However, if the salient feature of an Islamic banking system is that the rate of return to depositors arises from the rate of return in the real sector of the economy as well as the efficiency of individual banks, this has not so far been reflected in the performance of the banking system.

This may arise from the lack in the ability of commercial banks to evaluate the profitability of projects. This is because the personnel who are best-trained to evaluate projects and monitor them tend to be found in the specialized banks, which involved mostly, and traditionally, in medium and long-term projects. Because of this issue specialized banks were able to attract and train their staff to appraise and monitor the projects.
The average percentage share of mudarabah (profit-sharing) in total loans is 8.9% during period of 1984-2006, with a standard deviation of 3.64% over the period. It has been noticed that the proportion of mudarabah loans has a decreasing trend from 18.5% in 1984 that Iranian banking operations were based on Islamic principles, to 7.7% in 2006. It is probably that banks were reluctant to offer this kind of loan.

The average percentage share of mark-up in total loans is 40.6% with a standard deviation of 8.51%, according to the law on interest free banking mark-up can be used in the short-term in industrial, agricultural and service sectors. Under this contract, the margin of the profit to the seller is agreed between the buyer and the seller in advance.

PLS modes had a decreasing trend over the period. Among the major reasons, the first is risk-aversion of banks which is related to the uncertain nature of PLS modes of financing. The decline of the share of PLS modes from 37% in the beginning of Islamic banking in Iran in 1984 to minimum of 15% in 2002 and finally raise to 20% by the end of 2006 confirms the tendency of banks to turn gradually to less risky modes of financing. Second, the environment of uncertainty in the Iranian economy may be another reason for the low and decreasing trend of PLS modes in the period considered. This was mainly due to the war with Iraq and partly because of government policies such as expropriation and nationalization of large private sector enterprises, particularly after the Revolution and high risk index and less freedom or competitive economic environment regarding weak macroeconomic management and political challenges in region. This could have affected the decision of clients for participation in PLS modes especially in musharakah, i.e. civil and legal partnership modes. In addition, in the period after the Revolution some government regulations, for example price quantity control, import-export policies, exchange rate regulations, etc have motivated the private sector to prefer very short-term trade and commercial projects with quick payoffs. However, the present policy-makers are following a policy that is designed to encourage the private sector to participate more fully in economic activities. As for long-term investment, the lack of expert personnel for the monitoring and evaluation of projects, particularly in commercial banks, could be a
reason for the low share of PLS modes of financing in banking operations. Finally, the possibility of lending excess funds amongst banks with a fixed rate of return may have negatively influenced commercial banks with regard to the decision on the implementation of PLS modes with an unknown rate of return. Instead of involving themselves in PLS investments, commercial banks may offer their excess funds to specialized banks with a fixed rate of return.

Chapter VI:
Technical efficiency on CRS
The overall average technical efficiency under (CRS) levels of Islamic banking operations in I.R.Iran increased significantly from 1995 to 2004. Further, the technical efficiency (VRS) is steadily increasing, while Scale Efficiency and Technical Efficiency (CRS) have been fluctuating during the study period. However, all efficiency scores including TE (CRS), TE (VRS), and SE had improved during the period of research, which can be consistent with the financial development and reform policy on banking sector of country.

Most of the specialized banks at several years were efficient; especially Sanat o-Madan Bank for all ten years was efficient among the operating banks in system. Among commercial banks, Saderat Bank was efficient in recent years (2003 and 04) and in fact the technical efficiency indices for most of the commercial banks are improved during respective period. This improvement trend of efficiency indices are consistent with reform policies that are undertaken by government and central bank in regulation aspect as well as ownership and openness of system which will lead to more competitive atmosphere.

The Keshavarzi bank and Maskan Bank are two specialized banks which are related to agriculture sector and construction & housing sector respectively had decreasing trend of efficiency index. We can explore this result with imbalance and unstable market in both economic sectors in the country along with more government directions for both banks.
**Technical efficiency on VRS**

The status of efficiency index of TE (VRS) during period of research shows the changes in mean TE (VRS) efficiency scores over time. In variable return to scale by taking into account the scale effect of operation factors it has revealed that Melli Bank of Iran as state bank of Iran and biggest commercial bank which handling most government accounts and payments was fully efficient bank and it is interesting to note that again in this model of TE (VRS), Sanat o-Madan bank is efficient bank among specialized banks with smallest scale among the others. The average technical efficiency (in variable return to scale) score for specialized banks were high as compared to commercial banks for year 1996, 97, 98, 99, 2000 and 2001 while for years 2002, 2003 and 2004 in most of the commercial banks TE (VRS) raised. And also most of efficiency indices indicate improving trend during the respective period for commercial banks.

**Scale Efficiency**

*The Sanat o-Madan* bank is scale efficient for all years of respective period, and also Tose e’ Saderat bank was scale efficient bank for all years except 2000. These two specialized banks are smallest banks while their operation is like investment banking and by professional staffs doing PLS (long-term investment) contracts and evaluating the investment plans as well as monitoring the partnership plans. According to outputs of DEA in 2004 only Saderat bank, Refah bank, Sanat o Madan bank, and Tose e’ saderat bank was chosen optimal scale according to scale economy theory and all others were oversized and decreasing return to scale.

Based on the bank specific efficiency scores, Bank Melli Iran appears to be the most efficient in the industry. Melli bank of Iran achieves full technical efficiency (sourced from full pure technical and scale efficiencies) for the entire period under study except for the year 2001 where slight scale inefficiency of about 5% has been recorded. Public bank seems to be highly efficient with regard to its Islamic banking services, as the bank achieved full TE, PTE and SE in all the years except 1998. In 1998, the bank recorded SE of 96 percent but TE and PTE of only 19 percent. Four specialized banks, viz. Sanat o-Madan bank, Keshavarzi bank, Maskan bank and Tosey-saderat bank reported have been found to be pure technically efficient, throughout
the period. However, these four banks record considerable scale inefficiencies. Looking at the overall TE scores, it is found that two domestic banks, viz. MBI and SB achieved full efficiency in some years, especially from 2000 onwards. Similarly, two other specialized banks viz. SOMB and KB gained full efficiency in 2001 and 2002, respectively. SOMB bank achieved full efficiency in all the years except in 1998, not surprisingly, perhaps due to the financial crisis. Full efficiency of BM in 2000 and 2002, appears to indicate taking advantage of the decreased cost from IRS operations in 1999 and 2001. In the case of SB and MBI, a review of SE and PTE scores are indicated – a significantly low of SE score of 7% in 1997 admits a full score of PTE score of PTE for all years except 2002 has been achieved. This appears to be a consistent reflection to the initiation stage of IBS. Having achieved full TE in 1998, 2000 and 2001, it is noted that the PTE and SE of this bank dropped to 68.7% and 87%, respectively in 2005.

The “top ten” among the Iranian banking sector have justified the fact that Iran’s economy is healthy, robust and strong. It is both modern and blends moral tradition. Iran is unique in being “usury-free banking” country, but functioning with the high efficiency of an international –standard corporate financial institution. Iran stands on a firm footing of fiscal and monetary discipline. The central bank of Iran has regulated the policy but the efficient turn out by the individual banks is the major contribution to its strength among the emerging economies of the world. The banking sector is as strong as rock in Iran and will remain so. The present study brings out, the strengths of the banking sector on Iran through the analytical study of the assets and liabilities of the major banking units in the Islamic Republic of Iran.