

Volume 18, Issue 2
June 2020

ISSN 1731-8297, e-ISSN 6969-9696
<http://osap.wpia.uni.opole.pl>

ORIGINAL ARTICLE
received 2020-03-31
accepted 2020-05-20



Structural and functional differences between state-owned and private banks in Iran

Różnice strukturalne i funkcjonalne między państwowymi i prywatnymi bankami w Iranie

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Citation: Jaffari, Amin. Sohrabi Abad, Zahra. Ghazinezhad, Zahra. 2020. Structural and functional differences between state-owned and private banks in Iran. *Opolskie Studia Administracyjno-Prawne* 18(2): 51–74. DOI://10.25167/osap.2180

Abstrakt: Banki jako instytucje finansowe pełnią rolę pośredników finansowych. Banki wpływają na oszczędności, inwestycje, produkcję, zatrudnienie i wzrost w gospodarce narodowej. Banki państwowe i prywatne pełnią podobną rolę i funkcję, a rządzące nimi zasady i przepisy nie różnią się bardzo. Irańska ustawa o bankowości bez lichwy została przyjęta w czasie, gdy w systemie bankowym kraju nie było prywatnego banku, a wszystkie ustawy i regulacje dotyczące operacji bankowych zostały podporządkowane państwowej wizji działalności bankowej. Stąd pytanie brzmi, czy banki prywatne podążają drogą rządowego systemu bankowego. Pomimo podobieństw banki te podlegają czasem różnym zasadom i regulacjom dotyczącym zakładania, prowadzenia i rozwiązywania. Ta różnica strukturalna doprowadziła do różnicy funkcjonalnej i często różnicowała sposób przyciągania i alokacji zasobów a także sprawiała, że system bankowości prywatnej nieco zrównoważył niedociągnięcia rządowego systemu bankowego.

Słowa kluczowe: rozwiązanie banku, banki prywatne i publiczne, utworzenie banku, wyposażenie i alokacja zasobów, wydajność

Abstract: Banks, as financial institutions, play the role of financial intermediaries: savings, investments, production, employment and growth in the national economy are affected by operations of banks. State-owned and private banks have a relatively similar role and function and the rules and regulations governing them are not very different, because the non-usury banking act was adopted at a time when there was no private bank in the banking system of the country and all acts and regulations governing banking operations were approved by the government's banking vision. At the moment, banks are moving within the same legal atmosphere. Hence, the question is whether private banks are taking the path that the government banking system has taken. Despite the similarities, these banks are sometimes subject to different rules and regulations in terms of how to establish, operate and dissolve. This structural difference has led to a functional difference and has often differentiated the ways in which resources are attracted and allocated and made the private banking system somewhat offset the deficiencies of the government banking system.

Keywords: bank dissolution, private and public banks, establishment of a bank, equipping and allocating resources, efficiency

Introduction

In recent years, Iranian banking system has undergone major changes, the most important of which is the acceptance and establishment of private banks alongside state-owned ones in the banking industry of the country. The banking industry is considered to be the most important economic sector in any country (Issa Zadeh & Shaeri, 1391). Banks are the most important instruments for policy making and financial control of each government, since they are considered to be the main pillars of financial markets as an intermediary of monetary resources alongside stock exchange and insurance. The role of banks in Iran due to the existing economic problems, the lack of proper growth of capital markets, the fragility of Iran's industries and trade in the global market is much more significant.

Banks can help maintain economic balance and stability by providing timely allocation of resources and facilities. Banks, both state-owned and private, have the same function (banking operations) and are set up in the form of a public joint-stock company with their registered shares and are regarded as business enterprises. Banks seem to be subject to Commercial Code from the time they are established to their dissolution, like other joint-stock companies, but because of the importance of banks and the nature of their operations, they are quite distinct from other business enterprises. Therefore, Commercial Code only comes into play in the silence of a set of banking acts, regulations, and banking directives.

A general overview shows that the legal and regulatory resources applying to state-owned and private banks, include the Monetary and Banking Act, the Act on Non-usury Banking Operation (Interest), the Bill on Managing Bank Affairs, the Act on the Establishment of Non-state-owned Banks, the Act on

Regulating Non-aligned Monetary Market, Approvals and Circulars of Money and Credit Council. These banks are often subject to the same rules and regulations. In fact, private banks are not literally private at the moment because they are bound to comply with government decisions and do not have the right to violate the rules that are regulated for state-owned banks, for example, their rate of interest is determined by the central bank, and despite the mandatory rules, structural and functional differences of these banks have been considered less obvious. As the bank's interest rate is profitable, in the private banking system, the mandatory rate of interest also leads to fewer resources coming to private banks. As a result, the non-official market will be more active.

In the discussion of the differences between state-owned and private banks, the state-owned and private banking systems are considered more in terms of efficiency and with a managerial and economic perspective. With the approval and establishment of private banks in the country in 1379 (2000), it was expected that the economic trend of the country would improve. Therefore, considering whether the enactment of the non-usury banking act at the time when the private bank did not exist in the banking system has led private banks to operate in a non-governmental manner, but in accordance with the government banking system or not, is very important. These banks appear to be distinct in some cases, such as formation, activity and dissolution, which results in structural and functional differences in the performance of both state-owned and private banks. Therefore, the question posed by the authors is whether newly-established private banks alongside experienced state-owned banks have the same positions at all stages of their establishment, operation, dissolution and bankruptcy or not, or whether there are differences at the stage of establishment, such as the supply of equity and capital, as well as in terms of workforce, and these comparisons can be made at the stage of activity as well as at the dissolution stage of the banks. In fact, looking at whether there is fundamentally a structural difference between the banks in question or not and whether it can lead to a functional difference, if any, is an issue that we have embarked on answering in this article.

We are also going to give an answer to the aforementioned questions by comparing the necessary conditions and regulations at the stage of establishment, operation and dissolution of newly-established private banks and state-owned banks, which for many years now have monopolized the banking industry.

I. The establishment and formation of Iranian banks

From the economic point of view, from the perspective of microeconomic discussions, a bank is merely an economic actor involved in monetary-financial activities. From the legal point of view, one can also discuss banking law in

two broad categories: one branch is the banking system structure that examines the structure and organization of the bank as a public joint stock corporation, including the selection of the CEO and the board of directors, and it deals with relevant issues. Another field is the functioning of the banking system, which the bank, both state-owned and private, acts as a large machine with various inputs for equipping resources and outputs, which means resource allocation (Jafari, 1396).

All banks in the country work under supervision and with central bank's license after their establishment. State-owned banks are established according to acts, such as the act on the Establishment of a National Bank, and their articles of association are approved by the Islamic Consultative Assembly. The formation of these banks, their goals, the scope of their powers and duties are determined by the act and the articles of association; however, the establishment of a private bank starts with the initial authorization of the Central Bank.¹ The initial approval of the central bank with the establishment of the bank is issued solely for the purpose of filing a record file and the acceptance of shares by the Central Bank, which does not mean the establishment of a bank. In fact, the main registration license is the final agreement with the establishment of the bank, which the central bank issues to register the bank at the corporate registration authority, and the receipt of it means the establishment of the bank. However, this does not end with the registration license because the registration license cannot be used to establish a branch, and for the establishment of the branches, it is necessary to obtain an activity license, which is the authorization to start activities and is issued by the central bank.

The central bank will issue a license for the establishment of banks in accordance with the terms and conditions.² Also, the license to establish a bank in Iran will only be possible as a public joint-stock corporation with registered

¹ Article 1 of the Articles of Association on the establishment of the Private Bank – Definitions of the terms and phrases are as follows:

One – Non-state-owned Bank: A bank authorized by the Act to establish non-state-owned banks approved in 1379 and Article 98 of the Act of the Third Economic, Social and Cultural Program of the Islamic Republic of Iran, with the ownership and management of domestic non-state actors, with the permission of the Central Bank of the Islamic Republic of Iran is established and can run all authorized banking operations in accordance with the monetary and banking act of 1351, the non-usury banking operations act and its articles of association.

² Article 1 of the Articles of Association on the Establishment of the Private Bank – Definitions of the terms and phrases mentioned are as follows:

Six – Primary License: The initial approval of the central bank to establish the Bank, which is issued solely for the purpose of filing a record file and subscription by the Central Bank. Seven – Registration License: The final agreement with the establishment of a bank that the central bank issues for registration of the bank in the corporate registration authority. Eight – Activity license: A license to start a bank activity that is issued by the central bank.

stock.³ All natural and legal persons who have all the conditions declared by the Central Bank can submit their application to the Central Bank in addition to the draft article of association and other necessary documents in order to obtain the permission to establish a private bank.⁴ Since the bank's articles of association require approval of the central bank, any changes to it must be notified to the central bank.

Legal entities that have effective shares and participation in the state-owned bank will not be allowed to participate in the establishment of non-state-owned banks.⁵ The establishment applicants and private bank shareholders must also be responsible for providing and completing the bank's capital in case of inadequate capital or potential losses.⁶ Board members also should have banking skills and expertise. In addition, none of the board members of a private bank is allowed to join another bank unless the central bank issues the permission.⁷

Legal members asking for membership of private banks should submit their balance sheets and all documents for their last three years to the central bank. Each private bank should provide the minimum capital determined by the central bank. Moreover, any banking activities such as foreign exchange activities is subject to central bank's authorization. It should be noted that no state-owned institution has the right to own more than one percent of the shares of a private bank unless authorized by the central bank. The point is that the bank's shares are available on the stock exchange. The purpose of a bank should not be merely to fund its shareholders or individuals and groups. The bank's capital should not be provided from the facilities received from banks

³ Article 2 of the Articles of Association on the Establishment of the Private Bank – Formation of the Bank is possible only as a public joint-stock corporation and with registered stocks.

⁴ Article 3 of the Articles of Association on the Establishment of the Private Bank – the internal natural and legal persons who have the terms and conditions stipulated in this declaration may submit their application, together with the draft of the articles of association and other documents specified in the relevant instructions, to the central bank for obtaining permission to establish a non-state-owned bank.

Note – The central bank will decide, depending on the needs of the country and taking into account the conditions of the applicants to accept the application or issue a permit.

⁵ Article 5 of the articles of Association on the Establishment of a Private Bank: Legal entities in which part of their capital belongs to the State and state-owned companies or public institutions or are directly or indirectly under the management of a public sector or public institutions, shall not be shareholders in non-state banks.

⁶ Article of the Articles of Association on the Establishment of the Private Bank: The applicants for establishment and the shareholders of the bank shall have the ability to provide and complete the capital in case the capital was insufficient or there were potential losses.

⁷ Article of the articles of Association on the Establishment of the Private Bank: Members of the board of directors, the managing director and his deputy, as well as the members of the bank's managing personnel, cannot participate in any other bank or credit institution except with the permission of the central bank.

and credit institutions, in addition, if the central bank determines that the documents provided by the applicants are false or that they do not meet the bank's establishment requirements, it can withdraw the license. The Central Bank will comply the previous resolutions of the Monetary and Credit Council on monetary and credit policies and other regulations approved for state-owned banks and non-bank credit institutions with the status of non-state-owned banks and will communicate this to them if required. Private banks of Iran currently include Eghtesad Novin Bank, Parsian Bank, Karafarin Bank, Saman Bank, Pasargad Bank, Sarmayeh Bank, Sina Bank, TAT Bank, Shahr Bank, Bank Day, Ansar Bank, Tejarat Bank, Refah Bank, Bank Saderat Iran, Mellat Bank, Hekmat Iranian Bank and Tourism Bank.

Since the article of association of each company represents its legal personality, the subject of its activities, its scope and authority from the beginning, therefore, we will further examine the legal nature and differences existing in the articles of association of the state-owned and private banks in terms of the rules of establishment and human structure.

1- Establishment regulations

State-owned and private banks are subject to different rules of establishment, which are essential to consider for establishment in terms of legal personality of these two banks and in the sphere of initial capital.

1-1- Legal Personality

Under Article 4 of the Public Audit Code,⁸ a state-owned corporation is a corporation which is established with the permission of the law and more than 50% of its capital belongs to the state.

In accordance with Article 4 of the Civil Services Management Act and note 1⁹ and 2¹⁰ of this Article, a state-owned company is a company governed by law for the purpose of performing part of the state's activities under the general policies of the forty-fourth (44) principle of the Constitution, declared

⁸ Article 4 of the Public Audit Code of the State – A state-owned corporation is a definite organizational unit which is established by law as a company or established either by law or by the competent national court or confiscated and recognized as a state-owned corporation, and more than 50% of its assets are owned by the government. Any commercial enterprise that is created by state-owned companies' investment is considered a state-owned enterprise, as long as 50% of its shares are owned by state-owned companies.

⁹ Note 1 of Article 4, of the Civil Service Management Act – The formation of state-owned companies under each of the above mentioned categories is permissible only with the approval of the Islamic Consultative Assembly, and the conversion of companies (whose shares of state-owned companies are less than fifty percent) to state-owned companies is prohibited by increasing the capital.

¹⁰ Note 2, Article 4 of the Civil Services Management Act – Companies that are nationalized or confiscated by law or a competent court, and are recognized as state corporations, are considered as state enterprises.

by Supreme leader as one of the duties of the government, and more than 50% of its capital and shares belong to the government. Any business enterprise that is individually or jointly created through the investment of ministries, state institutions and state-owned companies, as more than 50% of their shares are owned by the above-mentioned organizational entities, is a state-owned enterprise.

Therefore, any business enterprise created with the capital of a state-owned corporation is considered to be a state-owned company if more than 50% of its shares belong to a state-owned corporation, so banks whose 50% shares belong to the State are considered state-owned corporation, and the investment of these banks and their participation in other institutions or projects and units such as housing investment projects and the like does not exclude them from being state-owned.

Given the above conditions, banks that are established according to the Act on Establishment of non-state-owned banks and with a central bank license, as well as banks with more than 50% of their shares belonging to public and non-state-owned institutions, are private banks. For example, Sina Bank, the former financial and credit institute of Bonyad and its affiliated corporation, the Ansar Bank, which was formerly Ansarol Mojahedin Interest-free Fund, formerly affiliated to the Islamic Revolutionary Guard Corps cooperative foundation, and Hekmat Iraninan Bank affiliated to the Islamic Republic of Iran Army Cooperative foundation, the Bank of Ghavamini, which is affiliated with Law Enforcement Force of the Islamic Republic of Iran, and the Shahr bank belonging to the municipality, are all private banks.

1-2- Initial capital

To establish any private bank, the minimum capital required by the central bank must be provided. With reference to clause d of Article 32 of the monetary and banking act of the country,¹¹ the Central Bank may, with the approval of the Councils of Ministers, increase the minimum capital referred to in paragraph B of this Article, which is 20 million Tomans.¹² It seems that the minimum capital of state-owned banks considering the purpose of establishment of a state-owned bank and according to the articles for association of a state-owned banks are different. In the case of private banks, there is a fixed benchmark, meaning that the minimum of the capital has been considered, but no such minimum has been predicted in the case of state-owned banks.

¹¹ Article 32 of the Monetary and Banking Act of the Country – The Central Bank of Iran, may, with the approval of the ministry, increase the minimum capital referred to in paragraph (B) in respect of all banks or banks whose activities are in special fields.

¹² Article 32 of the Monetary and Banking Act – The minimum capital of Iranian banks, is two hundred million Rials, which must be fully committed and at least fifty percent of it have to be paid, and be deposited into the Central Bank of Iran before submission of the establishment application.

Of course, it should be added that each year capital increase of a state-owned bank is expected in the budget bill.

1-3- Public Offering

In accordance with the articles of association of private banks, their shares may be transferred to others through the stock exchange, but may not be purchased by non-bank legal entities, that are partially owned by the State or by state-owned companies or managed by the public sector.¹³ However, there is only one shareholder in the state-owned bank, which is usually the State and state-owned banks' shares are not offered in stock market except in the privatization process.

Therefore, it can be argued that the state bank has no stock certificate (Piroozfar, 1379) because, as a result of non-subscription, we will not need to have a stock certificate. However, the private bank has the stock certificate and in fact the commitment to subscribe takes place only if the written document is signed which is considered to be a stock certificate commitment note in the Commercial Code of Iran. A stock certificate commitment note is prepared by the founders and provided to the bank and the items specified by the code must be written in it. Although both types of banks are public joint-stock corporations and according to the commercial code of Iran, it is possible for a joint stock company to subscribe, but the state-owned banks, the founder of which is only the State, do not need subscription.

As noted above, the stock certificate commitment note is provided by the founders and is made available to the bank, and certain items must be written on it, this sheet of paper is signed by the subscriber or his deputy, thus if there is no subscription in the state-owned bank, thereafter there will be no stock certificate, but in the private bank as there is subscription, so a stock certificate is also available. The reason why the state-owned bank has no stock certificate is that the reason for having stock certificate is the shareholder's confidence in his shareholding and if the only shareholder of the state-owned bank is the State, then there is no need for the State to be confident and the other reason is the transfer of shares, which is also ruled out in the state-owned bank.

1-4- Articles of association of the Bank Melli Iran

One of the other differences between the state-owned and non-state-owned banks can be seen in the articles of association of Bank Melli Iran as a state-owned bank that can act in accordance with Article 23¹⁴ of the said law in

¹³ Article 14 of the Articles of Association on the Establishment of the Private Bank – The capital of the non-state-owned bank shall not be provided from the facilities of any bank, whether state-owned or non-state-owned, or credit institutions.

¹⁴ Article 23 of the articles of association of the Bank Melli Iran: The Supreme Council is entitled to request information from the Director General on the matters of the Bank which it considers

order to collect its debts; in fact, if customers do not pay their debts to the bank on time or do not arrange to settle their debts, the bank can collect all its debts through their bank account. In this regard, it should be noted that two different views can be envisioned: a group can hold the view that this special feature of collecting debts is specific to the Bank Melli Iran, which is not extended to other state-owned banks. But another group believe that this particular feature relates to state-owned banks because the Bank Melli Iran does not have a specific feature that we can only differentiate about this bank. If we support the second opinion, then we will see another difference between state-owned and private banks: in fact, if private banks cannot collect their debts through customers' accounts, it is possible for state-owned banks.

2- Human structure

To enter into the discussion on banks' work force or the human structure of banks, and the difference in this structure in private and state-owned banks, we should refer to the Commercial Code of Iran as well as the employment regulations of the banks, which will be discussed further.

2-1- Board of Directors

In private banks, in accordance with Article 107 of the Commercial Code,¹⁵ the Board of Directors, is elected by the General Assembly of shareholders and from among themselves. Shareholders of private banks should be made up of natural individuals with Iranian citizenship or legal entities with 75% ownership of their assets to Iranian natural individuals.

In state-owned banks, the bank's total capital belongs to the State, so there are not many shareholders to be elected from among the board members, but its general assembly is composed of several ministers, whose respective ministries are, in principle, considered to be representing the government's shareholder (Piroozfar, 1385).

Article 57 of Directive No. 92/117708 dated 1392/04/24 (Sample articles of association of commercial non-state-owned Banks) states that "most of the members of the board of directors lack executive positions in the bank and cannot have any management, expert, consultancy, etc., position except for membership in committees mentioned in Article 80" and Note 1 of Article 81 of the same directive states that "the chairman of the board of directors cannot be elected from among the executive members of the board of directors and have the executive responsibility in the bank."

necessary for the performance of its duties, in addition, it may, at any time, arrange advisory boards from persons whom it chooses and ask for their comments.

¹⁵ Article 107 of the Commercial Code – A company shall be governed by a board of directors elected by the shareholders of the company, and partially or generally disposed by them. The number of members of the board of directors in public joint stock corporations should not be less than five.

Therefore, the CEO cannot be the chairman of the board in private banks at the same time. However, state-owned banks do not stipulate such a ban in their articles of association, so the CEO could be the chairman of the board. State-owned and non-state-owned banks have similar decision-making and implementing bodies. Both have general assemblies, councils, board of directors and the managing board. What looks different in private banks seems to be the greater independence of the board of directors and the managing board. As stated above, there is no legal prohibition for the state-owned banks preventing the CEO from being simultaneously the chairman of the board, which is contrary to international banking standards (Jafari, 1396), when a person is appointed the CEO and chairman of the board of directors, he has the right to make decisions and implement them and he can be influential in the decision-making of the board of directors. In private banks, the articles of association do not allow the CEO to be the chair of the board of directors at the same time, since he can only hold one position. This separation guarantees the control of any type of activity that merely benefits the CEO (Jafari, 1396).

2-2- Employment regulations

Another difference is about the employment regulations in banks. The recruitment process in the state-owned bank is based on the "Employment bylaw of the State-owned Banking System", enacted in 1379 (2000), which is drafted in 50 articles, but non-state-owned banks operate on the basis of their domestic laws, which are usually approved by the General Assembly. Employees of state-owned banks are subject to the Civil Services Management Act, but private banks' employees are subject to the Labor Code (Piroozfar, 1380).

In addition, it appears that state-owned banks can determine certain conditions, in accordance with their internal regulations and resolutions of the General Assembly. Also, in the employment bylaw of the state-owned banking system, with regard to items such as Articles 11-15-21-26-27-29 of the bylaw, some responsibilities have been assigned to the board of directors of state-owned banks, for example, in accordance with Article 29 of this bylaw,¹⁶ the state-owned bank may, in appropriate cases, grant its permanent staff facilities to satisfy essential needs and housing, the payment method for which shall be approved by the Board of Directors, or – in accordance with Article 27¹⁷ –

¹⁶ Article 29 of the Employment Bylaw of the State-owned Banking System may, as far as possible, grant its permanent staff interest-free (Qarzolhasane) facilities to satisfy the necessary needs and housing. The method of payment for the facility shall be approved by the Board of Directors of the Bank.

¹⁷ Article 27 of the Employment Bylaw of the State-owned Banking System - the Bank is obliged to insure all its employees in respect of death for any cause and maim or permanent disability (partial or complete).

Note – The rules concerning the manner and scope of insurance of the above Article are approved by the Board of Directors of the bank.

the Board of Directors is responsible for approving the rules and procedures for insuring state-owned bank employees. Considering the above, which is the responsibility of the board of directors of each bank to formulate and approve a set of rules and regulations, it is possible that the resolutions of the members of the board of directors of the banks are different, that is, on the same issue each state-owned bank will act in its own way.

State-owned banks, the shareholder of which is the state, are controlled by the government with the mechanisms of the state system, such as the salaries and benefits of a coordinated government system, the recruitment and management of human resources in the form of governmental acts, the creation of various types of commissions in the bank like the transactions commission, the commission on purchases and fixed assets in a state-owned manner and in accordance with the codified laws of the state system and the smallest work must be done by bureaucratic procedure. While in private banks, whose board of directors is elected by the Assembly and is itself a shareholder, and the CEO, elected by the shareholders, makes the selection more effective and achievable.

II. The performance and the way in which the banks operate

In the non-usury banking system (the banking system of Iran), the distribution of resources of banks, both state-owned and non-state-owned, is carried out through Islamic contracts. These agreements provide the procedures by which banks can set up and provide the necessary facilities for the customers in the framework of contracts and transactions. In order to distribute this facility, banks must provide the necessary financial resources in the first place.

In fact, the banking system, like the human heart, has inputs and outputs, and the capital must also be circulated in the same way as blood in that organ, which may disrupt the functioning of the banks if it stops. The input of this system is the monetary or capital resources provided by depositors. These resources should not enter more than the standard amount at the heart of a bank, but should always be in flow and go outside the bank through the allocation of resources. Therefore, banks are continuously equipping and allocating their resources.

The allocation of one bank to another can vary depending on the policy-making of the managers and their goals, so the three main components of banks are the equipping, allocation and management of banks (Jafari, 1396).

The action of banks in collecting deposits and using them in economic activities leads to transfer of the capital from a non-active group (depositors) to another group operating in employment; this activity of banks, referred to as equipping resources, is among the banking activities which are of high importance (Vatanpour, 1387).

1- Equipping resources;

Banks may, in accordance with Article 3 of the second chapter of the non-usury banking operations act,¹⁸ carry out operations for the purpose of equipping monetary resources under any of the categories of interest-free deposits (current and savings) and investment deposits (short-term and long-term). Accounts which are opened under the aforementioned titles, the repayment of initial amount is also guaranteed by the banks, and the same amount will be returned to the depositor upon request.

In order to attract these resources and to better operate in the area of equipping resources, banks can apply discounts or exemptions in some cases, such as discounts or exemption from fees, facilities or other banking services (Mirbahari, 1381). In this regard, the creativity of private banks in the sphere of banking services and attracting customers is richer than that of state-owned banks. Moreover, they are less likely to face barriers such as bureaucratic conflicts and regulatory rules in comparison with state-owned banks and have more freedom to equip their resources. On the other hand, state-owned banks do not feel the need to conduct advertising and provide new banking services to attract more customers due to public confidence (Gholizadeh & Kakdori, 1387).

It should be noted that the belief that the act on non-usury banking operations, which states how to arrange resources equipment and allocation, has provided the same methods for equipping banks' resources that it can be concluded that there should be no difference in the methods to equip resources between the two types of banks. Yet, it should be said that in practice this is not the case, because state-owned and private banks have access to inputs which, although they are not described in separation, such as an interest-free deposit and capital deposit, in practice cause entry of resources to the bank. For example, in accordance with Article 76 of the Public Audit Act,¹⁹ all executive agencies and state-owned companies must open all their bank accounts with the permission

¹⁸ Article 3 of the Non-usury Banking Operations Act – Banks may, under any of the following titles, accept a deposit:

- A. Interest-free (Qarzolhasaneh) deposits: 1 – Current. 2 – Savings.
- B. Long-term investment deposits.

¹⁹ Article 76 of the Public Audit Act - The Department of the treasury or its representative in the cities at the Central Bank of Islamic Republic of Iran and other state-owned banks that have the Central Bank representative will open bank accounts up to the required number for related payments for ministries and governmental institutions and state owned companies (with the exception of banks and insurance companies and credit institutions) and their subsidiaries in the capital and the counties, as the case may be. The use of such accounts in the case of ministries and governmental institutions will be done by the joint signature of the comptroller or authorized official on its behalf and at least one of the other authorized officials introduced to the treasury department or treasury representative in the province, and all payments will be made exclusively through authorized accounts. The use of bank accounts of state-owned enterprises will be possible with the joint signature of the authorities mentioned in their articles of association and comptroller of the company or authorized official on its behalf.

of the department of treasury of the province and in state-owned banks. One of those examples is the ministry of justice fund that a state-owned bank should be in the account of the Melli Bank Iran, in addition to the facilities and aids granted by the central bank to banks that such facilities and aids are granted to state-owned banks more than the amount paid to private banks.

Another influential factor that plays an effective role in equipping banks' resources is the deposit interest rate. In order to attract depositors, there is a higher rate of interest in private banks than state-owned banks. After a mandatory reduction in interest rates for depositors, private banks turned into preferential rates more than state-owned banks. Preferential profit is a surplus on the declared amount of the central bank's profit and the bank's original contract with the depositor. In fact, the bank, in a private agreement with its depositor, pledges to pay, in addition to the legal profit, a surplus amount. The preferential profit rate in private banks has grown by 5%. However, the central bank has so far not officially recognized this type of profit by banks.

In order to provide resources, banks are looking to find the most appropriate way to get more resources into the bank, and banks must take strategies to attract customers and their loyalty and understand customers' needs and what the customer wants so that the bank can attract more resources. Although the services offered by banks are relatively uniform, bank managers have to find a way to achieve this. Relation-oriented marketing is one of these strategies, which means that the customer's strategy is attracting, maintaining and improving relationships with customers. One of the differences that can be said about a private and state-owned bank is extracted from research conducted in Isfahan in the year 87 (Gholizadeh & Kakduri, 2008), the results of this study indicate that trust is the most important factor in attracting customers to a state-owned bank, and the best performance of a state-owned bank has been building trust.

In the private bank, the most influential factor in attracting customers and, consequently, better equipping resources, is conflict management in this type of bank. In addition, the performance of the private bank in this regard should not be overlooked. In explaining the conflict management criterion, we can say that the surface conflict is described as a disagreement between the parties that can be perceived or apparent. When conflict increases in a relationship, the mutual trust and the tendency to create and maintain a long-term relationship is reduced, but conflict management itself is defined as a surface control over the disagreement in working relationships. The bank's ability to manage conflicts is critical to maintaining buyers. In examining this difference, it can be said that the customer's attraction and deposit receiving of state-owned and private banks are not consistent with the generalization of this issue, since the demands and expectations of customers of each of these banks vary somewhat. Finally, it should be pointed out that although these results are only for typical

banks and cannot be generalized to all state-owned and private banks in Iran, it seems that it cannot be denied that the method that private and state-owned banks use for customer attraction is different (Jafari & Bababeik, 1389).

2- Budget

The budget of state-owned banks is approved by the Islamic Consultative Assembly, but such a budget does not exist for private bank. The budget can put the state-owned bank in a safe zone because private banks have nothing but their initial capital and the deposits that customers place in the bank are in debt and must be returned and as a result, the private bank is always struggling to balance its inputs and outputs, but in the state-owned bank, even if this equilibrium is eliminated, it can use its budget, which puts the state-owned bank in a more secure position considering the existence of the budget (Hashmati Molai, 1385).

In addition, according to the monetary and banking institute, the total income of the eight state-owned banks along with the central bank in the budget year of 1397 (2018) is 845 200 billion Rials, which according to these statistics and the comparison of the budget of the year 1396 (2017) shows a more than 9.5% growth of the state-owned banks' revenue through the budget, which means that the security margin mentioned will also be increased more than before and will strengthen the gap between the two types of private and state-owned banks (Tabnak, 1396).

3- Allocation of resources

In the third chapter of the non-usury Banking Act, the allocation of resources to state-owned and private banks is generally divided into four groups, namely, interest-free (Qarzul Hassaneh), a partnership that is governed by an agreement such as Mudaraba, civil partnership, legal partnership, direct investment, farmletting, exchanges, such as installment sales, hire-purchase, forward purchase or short sale, purchase of debt; in the end, such obligations as Julaah, issued warranties, and issuing a credit.

The first motive behind the establishment of a private bank is often to make profit, because private individuals who always seek to make profit conduct business. This motive creates a different approach to allocation of resources. For these banks, the first category (Qarzolhassaneh) in the way of allocation, such as a marriage loan is not that attractive. In fact, if they are not obliged, they will give their facilities in more interest-bearing forms, such as partnerships and exchanges for those applying for the facility. In contrast, this trend exists in allocating resources to state-owned banks because state-owned banks are one of the tools to implement government policies and are usually formed for the purpose of developing and co-operating in a particular sector and industry,

such as the industry, agriculture and housing bank. The facilities in these banks are more likely to be allocated to their goals, and profit is not considered as it is in a private bank.

One of the government's policies to help vulnerable people is to grant bank facilities which is assigned to the state-owned banks more than private banks (the same). Each year, these banks are required to allocate part of their facilities to mandatory facilities, which is a banking source. Another kind of mandatory facilities is a facility that is provided by the government to the banks for a specified purpose. Such as lending to the Imam Khomeini Relief Committee, education, etc. Where the facilities should be paid from bank resources, it is a form of imposed allocation which reduces the liquidity of state-owned banks. (Mirbahari, 1390)

Private banks are more likely to use a trading contract with a predetermined interest rate and partnership agreements with floating interest rates. The basis of Islamic banking is based on partnership agreements, but private banks have surpassed the use of trading contracts in comparison with state-owned banks; that private banks are more in favor of trading contracts and less willing to use partnership contracts results from the purpose of their foundation, contrary to the specific purpose of establishing a state-owned bank, for example agricultural or housing, and the allocation of their resources as a tool for the implementation of government policies (Akbarzadeh, 1394).

Another difference in the field of allocation is the different application of the interest rate. Considering that the risk level varies between state-owned and private banks and depositors also take into account the issue of risk and take lower risk at the cost of excluding part of the return, but if the interest between the private bank and the state-owned bank is to be unified, the issue of competition between state-owned and private banks will be somewhat diminished. In 1397 (2018), the interest rate on the short-term deposits of most active banks in the country was 7% and the Saman Bank with a profit rate of 10%, the Middle East Bank with a 15% interest rate, and Iran Zamin Bank with a profit rate of 20.7% pay the most interest on short-term deposits. Also, in one-year deposits, the major interest rates of banks are 17%, and Mehr Eqtesad Bank, with a 23.3% interest, pays the most. At 3-year deposits, the major interest rate of banks is 19% and Mehr Eqtesad Bank, with payment of 22.1%, pays the most profits to its customers. In the case of five-year deposits, the major interest rates of banks are 20% and the Mehr Eqtesad Bank, paying 23.3%, pays more interests. With the mandatory uniformization and reduction of the rate of interest by the central bank, private banks have turned to preferential profits to equip more resources (Nematzadeh & Seyed Al-Mosavi, 1388).

4- The Association of non-state-owned banks and non-bank credit institutions

The Iranian association of non-state-owned banks and non-banking credit institutions “is a nonprofit institution consisting of banks and non-state-owned credit institutions authorized by the central bank to operate, which are admitted as a member into association and have independent legal personality” (articles of association of Iranian association of non-state-owned banks and non-banking credit institutions).

Obviously, the stronger this association as a self-organized institution gets, the more restricted the central bank becomes in its supervisory areas. The decisions and suggestions of this union have a guiding role regarding the actions and policies of the central bank and do not give rise to any obligation for the central bank. However, due to the increase in the number of members of the association, which includes about 19 banks and private financial and credit institutions, this association, on behalf of its members, can be used as a tool for advising and affecting the central bank’s procedures and instructions. But the existence of this association among private banks and credit institutions has contributed to better coordination, uniformity in banking operations, cooperation between members of the association, making efforts to improve the quality of service and attracting customers, establishment of new banking methods and the possibility of expressing opinions and requests of the members through a specific channel.

5- Efficiency

Among the other differences between the private and state-owned banks that distinguish them, is the efficiency of these two types of banks (Soleimani Amiri, Abbaszadeh & Ahadi doulatsara, 1389). The results of the research that evaluates the efficiency of state-owned and non-state-owned banks and compares them show that the efficiency indicators of state-owned banks are far lower than those of private banks. One of the reasons for this is the governmental nature of the state-owned bank, and the conditions which govern the bank make the bank face the phenomenon of organizational irregularity. This organizational irregularity will make the state-owned resource consumer become the waster of those resources. Also, the transparency level in these banks is lower than in the private bank, because the State and the Finance Ministry are shareholders of the Audit Institute of the country. The “organizational irregularity” is the lack of clarity and ambiguity in the client and the target market of the state-owned bank and ambiguity in the goals and mission of the bank and the involvement of these banks in non-specialized matters, such as building and the presence of unnecessary people and many branches that closing them is difficult, the monetary and financial instability of the government, and the subsequent change of the top executives of the bank and compliance with the government’s imposed

policies, one example of which is to allocate part of its resources to the Relief Committee and the like.

The presence of unnecessary people also means the individualistic approach. When they do not want to make a person leave the bank, they define a new organizational position while there is no need at all. With these explanations, we realize that because of the lack of these reasons in the private bank and the lack of or less existence of institutional irregularity, we can see better performance (Delkhah, Moshabaki, Danayifar & Khodad Hosseini, 1390).

In discussing economic efficiency, we can use the result of another economic survey, which reviews the efficiency of the state-owned and private banks over the past four consecutive years between 4 private banks and 10 state-owned banks; the result of this research first shows us what the concept of economic efficiency is. In fact, efficiency in the general sense is defined in this research. Also, in this general sense, the degree and quality of reaching a set of goals is desirable. In this research, by using the data and surveys carried out, the economic efficiency of private banks against the state-owned banks is confirmed.

III. Dissolution of banks

Banks, like any other legal personality, can be dissolved one day. Article 39 of the Monetary and Banking Act²⁰ stipulates the cases in which the Bank withdraws the authorization to establish a bank or transfer it to the central bank upon request by the competent authorities of the bank or if the bank has not started its operation within one year from the date when the authorization to establish the operation is notified, or if the bank stops its activity for more than a week without a reasonable excuse, or if the power of payment is endangered or denied. For example, one of the shareholders of Saderat Bank claimed the dissolution of a large stock exchange bank from the head of the Shahid Beheshti Judiciary Complex due to the disappearance of at least half of the capital, inclusive of legal damages, under Article 141 of the Commercial Code, which follows the organization of two assemblies with the agenda of increasing the capital.

²⁰ Article 39 of the Monetary and Banking Act of the Country: In the following cases, with the initiative of the Central Bank of Iran Governor and confirmation of the Council of Money and Credit Council, and the approval of a committee composed of the Prime Minister and Minister of Finance and the Minister of Economy and the Minister of Justice, managing bank affairs will be assigned to the Central Bank of Iran or the establishment license of the bank will be withdrawn: A. If the competent authorities of the bank ask for it; B. If the bank does not start the operation within one year from the date of notification of the establishment license; C. If the bank, without reasonable excuse, discontinues its activity for a period of more than one week; D. If the bank acts in violation of this act and regulations based on it and the articles of association of the Central Bank of Iran; E) if the banking payment power is endangered or denied.

1- Bankruptcy

According to Article 412 of the Commercial Code,²¹ the bankruptcy of a businessman or a trading company is “being unable to pay the debts he is liable to.” The bankruptcy declaration authority is the trading company, the owner of the debts, or the competent judicial authority. Although according to the Commercial Code, all credit institutions as well as trading companies are subject to this code, some laws and regulations, in particular, address the issue of bankruptcy of banks and credit institutions. All banks, both state-owned and private, are subject to the monetary and banking act, and the bankruptcy acts are the same for private and state-owned institutions. In the monetary and banking act of the country, approved on 1351/04/18, there is a specific chapter on the bankruptcy of banks, which in Article 41 refers to the Central Bank’s comment upon the court’s request.²² However, there is no specific definition of bankruptcy in the act, and therefore it can be deduced that the rules contained in the Commercial Code also cover bankruptcy detection authority. This is set forth in Article 103 of the Bylaw on the Establishment and Management of Non-Governmental Monetary and Credit Institutions.²³

One of the other key rules of bankruptcy in the banking system of the country is the double urgency interpretive plan on Article 39 of the monetary and banking law of the country, which was approved by the Islamic Consultative Assembly in 1394 under the title “The act on the addendum of a note to Article 41 of the monetary and banking act of the country.” This act was passed through the Islamic Consultative Assembly in the light of failure to extend some provisions of the monetary and banking act of the country, including Articles 39, 40 and 41, to non-bank credit institutions in the chapter on procedures for dissolution and bankruptcy of banks chapter. By virtue of this act, the aforesaid articles, with the exception of paragraph D of Article 41, include all non-bank credit institutions which, with the Bank’s discretion, engage in banking operations, with the exception of state and non-state-owned development and support funds such as the Agricultural Production Support Fund, within the scope of

²¹ The bankruptcy of a businessman or a trading company is being unable to pay the debts he is liable to. The order of bankruptcy of a businessman who is unable to pay his debts while dying, can be issued one year after his death.

²² Article 41 of the Monetary and Banking Act of the Country – If bankruptcy of a bank is announced, the court will consider the opinion of the Central Bank of Iran before making any decision. The Central Bank of Iran must notify the court in writing within a month of the date of receipt of the court’s request.

²³ Article 103 of the Bylaw on the Establishment and Management of Non-Governmental Financial and Credit Institutions – In the event of a bankruptcy of the credit institution, its liquidation is carried out under the supervision of the Central Bank and in accordance with the monetary and banking act of the country, the rules for bankruptcy in the Commercial Code and the rules of the Deposit Guarantee Fund.

the present articles of association. With regard to the above, it can be said that the acts of the country with the referral of bankruptcy of financial institutions to the law of commerce, did not actually distinguish between the definition of bankruptcy in financial institutions and other enterprises. The only key point in this regard is the legislator's special attention to the status of the central bank as the regulator of the banking sector, in a way that requires the court to consider the central bank's comment before issuing an award. Also, according to various articles of the monetary and banking act, the Central Bank plays the key role in the process of dissolution and bankruptcy of financial institutions. This does not automatically reflect the attention of the legislator to the different considerations of bankruptcy of banks and other commercial companies, because in the case of other enterprises, the court will be the only reference involved in the issuance process. In addition to the aforementioned, in the bill on amendments to the monetary and banking act that was submitted to the Islamic Consultative Assembly, Articles 91 to 112 and those in Chapter 6 deal with bankruptcy of banks and non-bank financial institutions (Aziziyan Gilan, 1392).

As stated, from the theoretical point of view, there is a probability of bankruptcy of banks. However, the issue of bankruptcy in banks differs from other enterprises and is a negative phenomenon with many effects and economic consequences. Practically there is a tendency for the government and the central bank to support banks which are unable to pay their debts before their bankruptcy. Nevertheless, unplanned profits that are paid, claims that are not collected, surplus properties that are not sold, paper assets, resources that do not meet the demands and standards that are not met are all serious challenges that the Iranian banking system, including private banks and the state-owned ones, is struggling with and which increase the probability of bankruptcy of banks, especially private banks, due to paying high rates of interest to attract resources and gain a larger market share. This is because the most serious challenge for banks is a devastating competition over paying interest of deposits to their customers that has made the price of money more expensive in the official market and increased interest rates of banking facilities. The competition has posed a big problem to the Central Bank and individual banks which inevitably pay more interest in order to get rid of debts and losses. This tendency to pay more interest is lower in state-owned banks, though. On the other hand, each year in the annual budget of the country, huge sums of money in the current budget of the country are considered for the current operating costs of state-owned enterprises; in fact, the bankruptcy of state-owned companies, including state-owned banks, especially with regard to the reliance on oil revenues is less probable. (National Conference on Modern Research in Management, Economics and Humanities, 1396)

2- Merger

In completing the dissolution issue, it should also refer to the category of bank mergers; since one of the means of distinguishing between the state-owned and private banks is the ability to merge. Merger is an accepted matter in the banking system of the country, although it seems impossible in practice. The Bill on Managing Bank Affairs stipulates that the General Assembly of the bank may proceed with the merger of banks, and the aggregate amount of the merged banks will constitute the capital of the new bank and all the assets and liabilities will be transferred to the new bank. But the problem with merging state-owned banks is that they do not have the same mechanism, especially in developing banks such as Housing, Industry and Agriculture. To merge, the receiving bank must have the capacity and potential of the merged bank's obligations. But it is very difficult or impossible to merge banks such as agriculture and housing that do not have the same mechanism. Concerning the merger of private banks, they seem to be capable of accepting and uniting with each other due to the fact that these banks operate in similar ways in practice (Tabatabaeejad, 1349).

Conclusion

In recent years, the banking system of Iran has undergone major changes, the most important of which is the establishment and creation of private banks alongside state-owned banks in the banking industry of the country. This study aims to compare the necessary conditions and regulations at the start-up stage of new private banks and experienced state-owned banks that have monopolized the banking industry in the past few years. In addition, it evaluates the performance and dissolution and bankruptcy of private and state-owned banks. In the formation and establishment of banks in terms of the supply of equity and initial capital, and on the terms of the board of directors and CEO, we saw differences between these two types of banks. Also, the two types of bank operate differently regarding their activities. In addition, based on the findings, the performance of these two banks in the dissolution phase, which includes dissolution, bankruptcy and merger, differs only in the merger phase and is similar in two parts.

As stated, the existing structural differences result in a functional difference, and make a change in how the resources of these banks are equipped and allocated. Each private and state-owned banking system has strengths and weaknesses, while complementing one another. In the current economic status, private and state-owned banks sometimes play a different role, making it difficult to eliminate one of the two banking systems. The state-owned bank is one of the most important tools of the government to implement its financial policies in the capital market, and it is not possible to remove this tool. On the

other hand, these banks are more popular with people due to the support of the Central Bank and its governmental nature, and so far private banks have not been able to compete with the state-owned counterparts. But the lack of solutions for intra-organizational problems, management structures, borrowing from the Central Bank and the lack of diversification in the provided services have led to the excellence of private banks and the success of these banks in attracting domestic and foreign capital. Also, private banks respond more quickly to new needs of domestic and international markets due to differences in the management and training structure, as well as diversity in services provided.

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